

CORPORATE
REPORT
2020



Be passionate challengers

Year ended March 31, 2020





Corporate Philosophy

Dedicated to Man's Fight against Disease and Pain

Our Vision

Be passionate challengers

Our Values

ONO aims to be a world-changing team

The greater the challenge, the more passionately ONO will rise to meet it

ONO acts with dignity and pride

Our Vision is to strive with the utmost effort and strong determination to meet the challenge of combining our individual competencies to deliver new, innovative drugs to patients. We will continue being the most passionate champion in the fight against disease and pain, together with patients, their families, and healthcare providers.



Contents

Profile	01	ONO's Mission
	05	ONO's History Timeline
	07	At a Glance
Vision	09	Top Message
Highlights	15	Financial/Non-Financial Highlights 2019/4-2020/3
	17	Calendar of Events FY2019
	19	Status of Development Pipeline
ONO's Value Creation	21	ONO's Value Creation Process
	23	About ONO's Materiality
	27	Investment Policy from a Medium- and Long-term Perspective
	29	Four Growth Strategies
		Game-changing R&D Maximizing Product Value Globalizing Business Strengthening Corporate Infrastructure
ESG Performance	39	Environment Feature 01 Towards the "Realization of a decarbonized society"
	45	Society Feature 02 Promoting "Health and Productivity Management" that produces vitality in the company
	53	Governance Feature 03 Response to risks based on ERM
Data Section	67	Financial Review
	69	Consolidated Financial Summary
	71	Details of Revenue
	72	Consolidated Financial Statement
	76	GRI Standards Content Index
	78	Corporate Information / Stock Information

Editorial Policy

ONO PHARMACEUTICAL (ONO) publishes this report as an integrated report that, in addition to financial information, provides a broad range of non-financial information including corporate social responsibility (CSR) activity information. This report contains financial results and other financial data, and

non-financial information on corporate governance, and environmental and social awareness, serving as a communication tool to ensure that ONO's stakeholders can understand our current status and direction.

Coverage of this Report

- Scope of Coverage: This report covers the activities of ONO. Some pages also include the activities of the whole Group or group companies.

- Period of Coverage: April 1, 2019 through March 31, 2020

* The report is based on activities in FY2019, the period for the financial reports, however, considering the importance of providing the most up-to-date information, some activities conducted in and after April 2020 are also covered.

Reference Guidelines

ONO refers to the International Integrated Reporting Framework issued by the International Integrated Reporting Council (IIRC), Guidance for Integrated Corporate Disclosure and Company-Investor Dialogue for Collaborative Value Creation compiled by the Ministry of Economy, Trade and Industry of Japan, ISO 26000, Environmental Reporting Guidelines 2018 by the Ministry of the Environment of Japan, and the Final Report on Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

This report has been prepared in accordance with the GRI Standards: Core option.

Publication Date: September 2020

Disclaimer Regarding Forward-Looking Statements

This report includes forward-looking statements regarding the ONO Group's business. All the forward-looking statements are based on forecast analysis using the information available at the time of preparation of this report. Actual financial results may therefore differ from the current business outlook due to market and industry conditions, and risks and uncertainties associated with general economic conditions at home and abroad.

This report also includes information that provides details of pharmaceutical products, including compounds under development. Please note, however, that this information is not intended for advertising purposes or for giving medical advice.

Information on ONO's Sustainability Initiatives

ONO discloses its initiatives in a variety of media, including this report and its website. Please refer to the website for further details on initiatives presented in this report.

▶ <https://ono-csr.disclosure.site/en/>

External ESG Assessment of ONO PHARMACEUTICAL

ONO included in premier indices for socially responsible investment (SRI)

FTSE4Good Index Series



Created by FTSE Russell to measure the performance of companies demonstrating strong ESG practices

FTSE Blossom Japan Index



Created by FTSE Russell, designed as an industry neutral benchmark that reflects the performance of Japanese companies demonstrating strong ESG practices

MSCI Japan ESG Select Leaders Index



Designed to target companies that have relatively high ESG performance

Recognition of ONO's environmental performance



2019 CDP Climate Change A List

Global accreditation by international environmental NGO CDP to name the world's top-rate businesses leading on environmental performance in climate change



2019 Environment Minister's Award for Global Warming Prevention Activity

ONO received this award for its attainment of continuous activities, including practice and dissemination of activities to prevent global warming

Recognition of ONO's environmental and safety & health performance



2020 Health & Productivity Stock

2020 Certified Health & Productivity Management Outstanding Organization Recognition Program "White 500"



ONO recognized as a company engaging in strategic health and productivity management program efforts for maintaining its employees' health from a management perspective

ONO's History Timeline

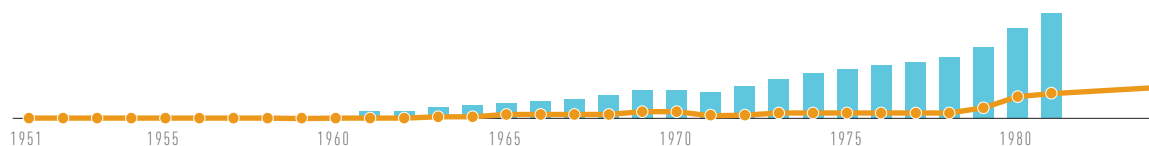
A 300-Plus-Year History of Full Commitment to the Pharmaceutical Business

Since our foundation in 1717, we have made progress for more than 300 years in our commitment to relieving pain of patients and focus on their health improvement.

“We believe there are new drugs that only we can develop.”

We still continue to unite our efforts in meeting the challenge of discovering our own innovative drugs.

* Only for FY1989 (ended on March 31, 1990), the financial results are for four months from December 1, 1989 to March 31, 1990.



Foundation

1717

Ichibei Fushimiya I founded the apothecary “Fushimiya Ichibei Shoten” in Doshomachi, Osaka.



Illustration of the Fushimiya Ichibei shop
Source: Osaka guidebook “Naniwa Hitori Annai,” 1867

1934

Ichibei Ono VIII changed the name of the business from Fushimiya Ichibei, which had been used since its foundation, to Ono Ichibei Shoten (Ono-Ichi) and reorganized operations to modernize management.



Ichibei Ono VIII

1947

Ono Pharmaceutical Co., Ltd. was established to grow into a pharmaceutical manufacturer dedicated to developing ethical pharmaceuticals.



(Original headquarters building and surrounding Doshomachi 2-chome area)

Shift in Marketing from OTC Drugs to Prescription Drugs

1960's

Transformed to a prescription drug manufacturer

Tackling Impossible Challenge: The Road to Launching PG Drugs on the Market

After the World War II, ONO made a full-fledged entry into the OTC drug market. With the economy fluctuating and a universal health insurance system introduced in 1961, however, the OTC drug market environment became increasingly severe. Under such circumstances, prostaglandins (PGs) came to ONO's knowledge through the special lecture of Professor Sune K. Bergström of Sweden's Lund University in 1965, when ONO was still a small company with 20 researchers. With little development experience of prescription drugs. However, ONO started research on the then unidentified compounds.

No method for the chemical synthesis of PGs had yet been established, and the only method available was biosynthesis, requiring a considerable amount of effort to produce even small quantities. Following the success by Professor Elias J. Corey of the US's Harvard University in total chemical synthesis of PGs, ONO immediately sent its researchers to the professor to have them learn about the method. Finally, in 1968, ONO succeeded in the total chemical synthesis of PGs on a commercial basis for the first time in the world.

1968

World's First

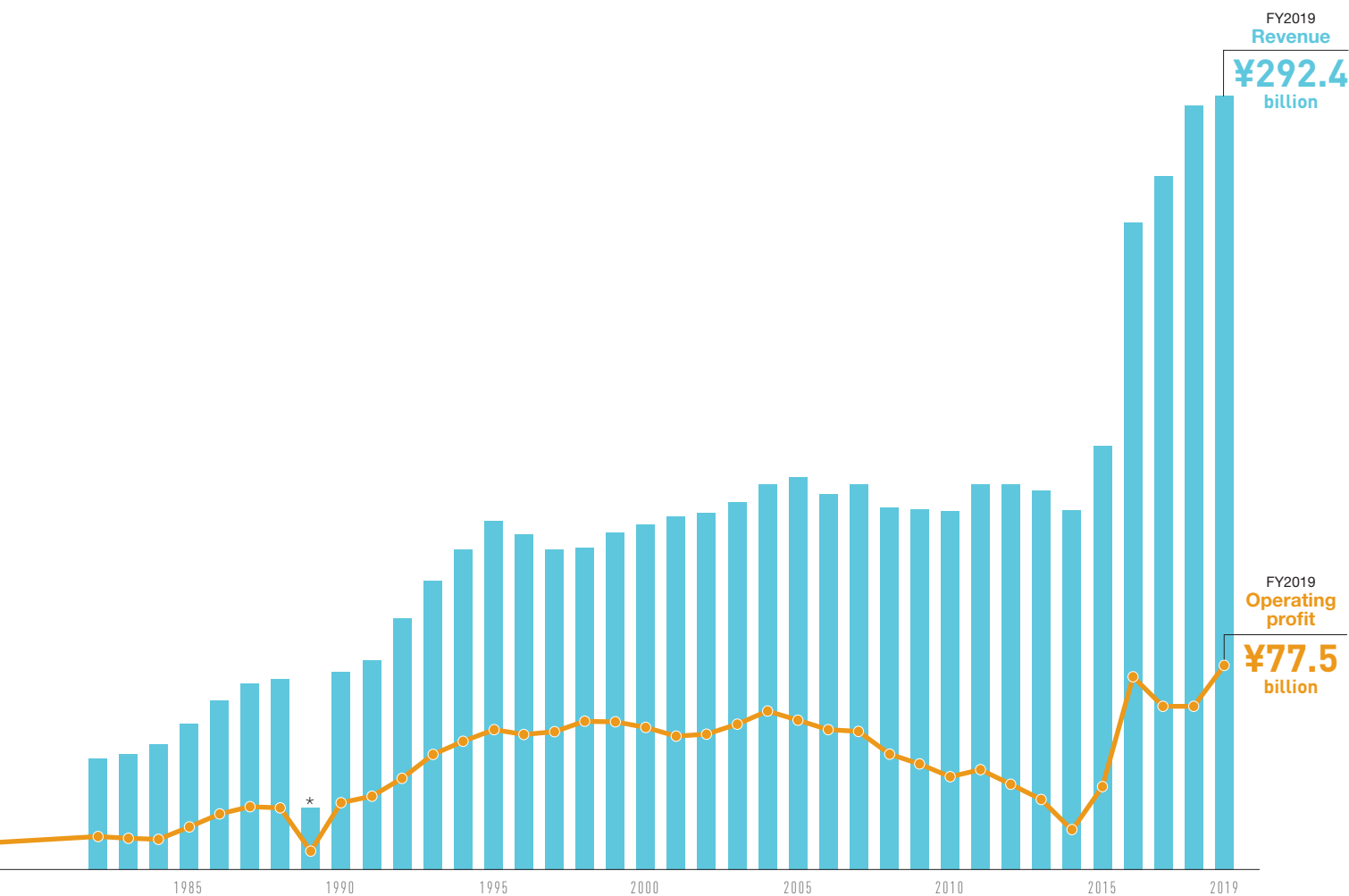
Became the world's first company to succeed in the total chemical synthesis of prostaglandins

“To put it exaggeratedly, I feel like Columbus sailing on the Santa Maria westward across the Atlantic Ocean in search of the New World.”

Excerpted from Yuzo Ono's remarks at the first PG Study Meeting



Yuzo Ono standing with his back against the stone monument on which ONO's corporate philosophy is engraved



Strengthening Licensing Activities

Entering Oncology Domain

1970's to 1980's

Successfully developed and launched new innovative drugs on the market



1990's

Strengthened licensing activities, promoting global open innovation

2010's

Made a full-fledged entry into the oncology domain

2014 World's First

Launched anti-PD-1 antibody OPDIVO for the first time in the world



A Game-Changing Approach: 20 Years of OPDIVO Research

The cancer immunotherapy OPDIVO, drug launched on the market in 2014, was developed from globally innovative drug discovery based on ONO's 20-year research collaboration with the Honjo laboratory of Kyoto University.

In 1992, PD-1 was discovered at Kyoto University but its functions had long been unknown. It was in 2002, 10 years after the identification of PD-1, that the researchers found it plays a role in cancer immune evasion mechanism.

At first, however, healthcare professionals were suspicious and did not quickly accept the unprecedented concept of treating cancer by boosting the immune system. Nevertheless, the researchers persistently kept persuading healthcare professionals, believing in the potential of anti-PD-1 antibody. Their efforts led to understanding and cooperation from healthcare professionals, who started reporting cases one by one where the drug worked significantly effectively.

In July 2014, when 22 years passed since the discovery of PD-1, ONO obtained marketing approval for OPDIVO for the first time in the world and in September of the same year launched the drug on the market. OPDIVO offers a new treatment option to healthcare professionals as well as patients for which traditional treatments have little therapeutic effect.

At a Glance

An R&D-based Pharmaceutical Company Specializing in Prescription Drug Development

Continuing Vigorous Investment in Drug Development



R&D costs
(FY2019)

¥66.5 billion

R&D cost-to-revenue ratio
(FY2019)

22.7%

R&D Abilities Combining In-house Drug Discovery and Open Innovation



Number of patents held
(As of end of July 2020)

126 patents

Number of research
collaboration projects
(As of end of March 2020)

278 projects

Expanding Development Pipeline and Continuously Marketing New Drugs



Number of clinical
trials conducted
(As of end of March 2020)

78 trials

Number of new products
launched/additional
indications approved
(FY2015 to FY2019)

22 products

Stable Financial Base That Supports Investment for Growth



Revenue
(FY2019)

¥292.4 billion

Operating income
to revenue ratio
(FY2019)

26.5%

To realize our corporate philosophy “Dedicated to Man’s Fight against Disease and Pain,” we focus our finite management resources on drug discovery and development, creating innovative drugs, typified by the cancer immunotherapy OPDIVO.

Main Products

ONCOLOGY

- OPDIVO Intravenous Infusion for the Treatment of Malignant Tumors
- KYPROLIS for Intravenous Injection for the Treatment of Malignant Tumors
- EMEND Capsules / PROEMEND for Intravenous Injection for the Treatment of Chemotherapy-induced Nausea and Vomiting
- DEMSER Capsule for the Improvement of Status of Catecholamine Excess Secretion in Pheochromocytoma
- BRAFTOVI Capsule and MEKTOVI Tablet for the Treatment of Malignant Tumors
- VELEXBRU Tablets for the Treatment of Malignant Tumors

DIABETES

- GLACTIV Tablets for the Treatment of Type 2 Diabetes
- FORXIGA Tablets for the Treatment of Diabetes

CARDIOVASCULAR DISEASE

- ONOACT for Intravenous Infusion for the Treatment of Tachyarrhythmia
- OPALMON Tablets for the Treatment of Peripheral Circulatory Disorder
- CORALAN Tablets for the Treatment of Chronic Heart Failure

IMMUNE SYSTEM DISEASE

- ORENCIA for Subcutaneous Injection for the Treatment of Rheumatoid Arthritis

RESPIRATORY DISEASE

- ONON Capsules and ONON Dry Syrup for the Treatment of Bronchial Asthma and Allergic Rhinitis

NEUROLOGICAL DISEASE

- RIVASTACH Patch for the Treatment of Alzheimer’s Disease

Others

- PARSABIV Intravenous Infusion for Dialysis for the Treatment of Secondary Hyperparathyroidism in Patients on Hemodialysis
- STAYBLA Tablets for the Treatment of Overactive Bladder (OAB)
- RECALBON Tablets for the Treatment of Osteoporosis

Top Message

Discovering Innovative Drugs to Accomplish Our Social Mission, We Steadily Pursue Growth Strategies to Increase Our Corporate Value



G. Sagara

Gyo Sagara

President, Representative Director, and CEO

Corporate and Management Philosophies

We will continue being challengers to overcome the fight against disease.

“Dedicated to Man’s Fight against Disease and Pain.” This is ONO PHARMACEUTICAL’s corporate philosophy. This spirit of enterprise, which we have continuously upheld since our foundation in 1717, is engraved on the stone monument at the Minase Research Institute, built in 1968. With more than 300 years passing since ONO’s foundation, human society and life have changed considerably but people’s desire to stay healthy and our mission of delivering innovative drugs to patients around the world have been and will be unchanged. Our corporate philosophy represents our enthusiasm condensedly and serves as a basis on which all employees work.

In 2014, when we started to take fully-fledged steps to become a Global Specialty Pharma by competing in the global arena, our

corporate philosophy took concrete forms and there grew a trend to reflect it on each employee’s behavior. Our workforce diversifying through overseas expansion, we faced the need to provide signposts for employees to work toward common goals. In response to this tendency, we incorporated Our Vision “Be Passionate Challengers” and Values in a mission statement in 2014. We have since been working to hold workshops regularly for all employees to deepen understanding of Our Vision and Values, so that, if demotivated, they can go back to the mission statement to make appropriate decisions. I myself call it to mind from time to time to drive myself to pursue my mission as president.

Influence of Novel Coronavirus Infectious Disease (COVID-19)

Even in unprecedented circumstances, we continue business activities to accomplish our social mission as a life science company.

Looking at the situation that society is in now, “Man’s Fight against Disease and Pain” is going on worldwide due to the novel coronavirus infectious disease (COVID-19). We would like to express our heartfelt sympathy to all those who have been affected by the pandemic. We would also like to wish them a speedy recovery.

Even under these circumstances, the primary social mission for us to accomplish as a life science company is to ensure the stable supply of drugs. Fortunately, our sources of raw materials are mainly located in regions without explosive outbreak of virus, and we have confirmed that there is no problem with the procurement of materials in the year ahead. In addition, drug production also continues in full operation at two plants in Japan (Fujiyama Plant and Yamaguchi Plant). Our plants are in less densely populated areas and employees drive to work there, facing lower risk of infection. We ensure that infection prevention measures are in place within the plants to secure stable supply while keeping employees safe and healthy.

Meanwhile, research and development (R&D) projects that can be easily resumed have been suspended and employees engaged in them have shifted to telework to prevent the spread of infection. Since it takes 10 years or more to complete drug R&D projects due to their nature, we expect that we can make up for months of delay by gradually returning to normal operations, depending on the status of control of the infection. We are also hoping to contribute to R&D of anti-COVID-19

drugs. In June 2020, we started clinical trials with FOIPAN (generic name: camostat mesilate), an oral protease inhibitor we manufacture and market for the treatment of chronic pancreatitis and other conditions, because several basic research papers suggest that the drug may be effective against the COVID-19 infection. In addition, we are providing clinical research products at the request of medical and research institutions inside and outside Japan, to work for development as a company that owns drugs with potential to treat coronavirus.

Regarding information dissemination activities to healthcare professionals, we have temporarily refrained entirely from visiting medical institutions. In the meantime, we have reaped a harvest of findings about the benefits and limitations of digital technology with widespread of remote meeting and teleconferencing. Taking advantage of this experience in addition to two years of development and use of AI-based MR support tools, we will further promote use of digital technology in information dissemination activities.

In this connection, the earnings forecast for FY2020 expects a slight decrease in revenue due to the negative impact of refrained activities and decreased hospital visits if we have to continue to refrain from visiting medical institutions. With decreased business activities leading to reduced spending, however, the impact on operating profit is estimated to be insignificant. If it becomes necessary to revise the earnings forecast, we will disclose it promptly.

Business Environment Awareness and Medium- and Long-Term Challenges

In an increasingly difficult management environment, we understand it is important to further expand the development pipeline and promote overseas expansion.

The environment surrounding the pharmaceutical industry remains tough. In developed countries, healthcare cost reduction measures including NHI drug price reduction are inevitably further promoted with populations aging and birthrates dropping, as well as with social security spending cuts due to weak financial conditions. In addition, more fierce development competition between pharmaceutical companies have shifted targets with unmet medical needs for drug discovery and development to more complicated diseases. As a result, drug discovery has become increasingly more difficult, and prolonged development periods and increased R&D costs have become challenges that pharmaceutical companies commonly have to address.

As a longer-term challenge to address, we also have to protect ourselves against patent-cliff risks associated with patent expiration of our biggest growth driver OPDIVO. Currently, the anticancer drug makes up more than 50% of the ONO PHARMACEUTICAL GROUP's revenue. However, until 2031, when OPDIVO reaches patent expiration, we must discover new drugs that will subsequently drive growth. As it is unlikely to discover only one new drug as highly profitable as OPDIVO, we assume that it is necessary to continually develop new drugs. Another medium- and long-term challenge we are aware of is to reinforce overseas business expansion. The domestic

prescription medicine market size is currently valued at 10 trillion yen but the market is not expected to expand in the future with the population aging and birthrate dropping as well as with the financial base weakening. The importance of overseas markets is therefore increasing for us. We aim to establish itself as a Global Specialty Pharma with original and innovative new drugs in competing in the global arena. In South Korea and Taiwan, we have already started selling our products. We are also proceeding with developing our own sales organizations in the US and Europe, striving to expand revenue sources into overseas markets.



Business Models

We strongly promote open innovation based on our unique drug discovery “Compound-Orient” approach.

ONO PHARMACEUTICAL is made unique among many pharmaceutical companies in the world by its own drug discovery approach called “Compound-Orient.” Since successful total chemical synthesis of bioactive lipid prostaglandins (PGs) in 1968, we have successfully launched many PG-related products on the market. The Compound-Orient is a drug discovery approach focusing on unique bioactivity and unique target compounds to find diseases against which drug candidates are most potentially effective. It has the potential to lead to discovering original and innovative new drugs that only ONO can create. Thanks to this drug discovery approach, we have successfully discovered a cancer immunotherapy drug with innovative mechanism of action, with focus on the potential of PD-1 of which physiological function was long unknown. However, the approach is highly risky and it is difficult to keep on discovering innovative drugs in-house alone with innovation in medical technology progressing so rapidly.

We therefore concentrate on open innovation. We have worked on R&D in collaboration with research institutes including

universities for 60 years since before the words “open innovation” started to become widely used. Currently, we continue to vigorously pursue collaborations in various forms: research collaborations with world top-class researchers, drug discovery alliances with biopharmaceutical companies with advanced technologies, in-licensing of new drug candidate compounds of high value in corporate strategy and efficiency, provision of research grants to academia through Ono Pharma Foundation.

In addition, we established Ono Venture Investment Fund I, L.P. (July 2020), a venture capital fund that invests in early stage biopharma startups, and the subsidiary Ono Venture Investment, Inc. (May 2020), which manages that fund, in the US for the purpose of in-licensing of or forming partnerships for drug targets and cutting-edge technologies. Using good judgement cultivated through more than 60 years of experience in open innovation, we will also enter into capital tie-ups with promising biopharmaceutical companies to further enhance our competitiveness in drug discovery and R&D.

Growth Strategies

We pursue four growth strategies to achieve sustained growth.

To become a Global Specialty Pharma, we pursue four growth strategies: “Maximizing Product Value,” “Game-changing R&D,” “Globalizing Business,” and “Strengthening Corporate Infrastructure” (see pp. 29-38).

The strategies have made progress in the past year. For Maximizing Product Value, we received approval of OPDIVO for two additional indications in February 2020, resulting in 9 cancer indications. In particular, one additional indication is esophageal cancer, which makes the drug the first immune checkpoint inhibitor in the world to be approved for the disease. We also received approval of ORENCIA for S.C. Injection and ORENCIA for I.V. Infusion to include the description of prevention of structural damage of joints in current indication of rheumatoid arthritis. In addition, we received supplemental approval of KYPROLIS for Intravenous Injection for additional dosage and administration for treatment of relapsed or refractory multiple myeloma. This approval allows the drug to be administered once-weekly leading to superior convenience, in addition to

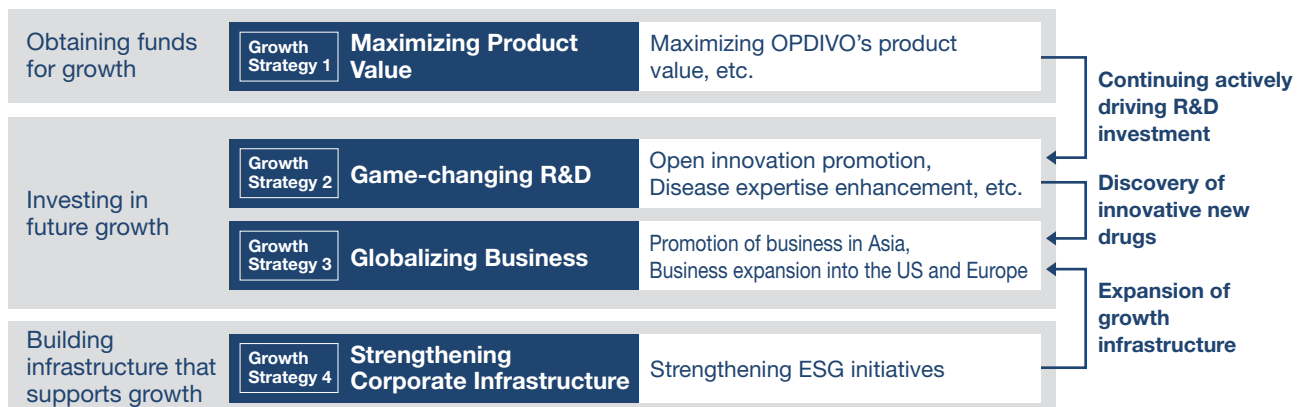
conventional twice-weekly administration.

For Game-changing R&D, we have identified the oncology, immunology, neurology, and specialty domains with high medical needs as our priority areas of research, focusing management resources into these areas to enhance disease expertise in each. As described above, we have established a corporate venture capital in the US, which is expected to lead to further strengthening of our open innovation and earlier acquisition of new technologies.

For Globalizing Business, we transferred the functions of the Global Clinical Development Division from Japan to our US subsidiary in April 2019. We have completed organizational improvements that enable us to conduct clinical trials and approval application work in the US and Europe.

For Strengthening Corporate Infrastructure, we put enterprise risk management (ERM) in place in FY2019, establishing an entire risk management system, under which we identify risks and decide how to respond to them (see pp. 53-54 and 63-64).

● Four Growth Strategies towards Accomplishing Growth Scenario



Strategic Investments for Growth

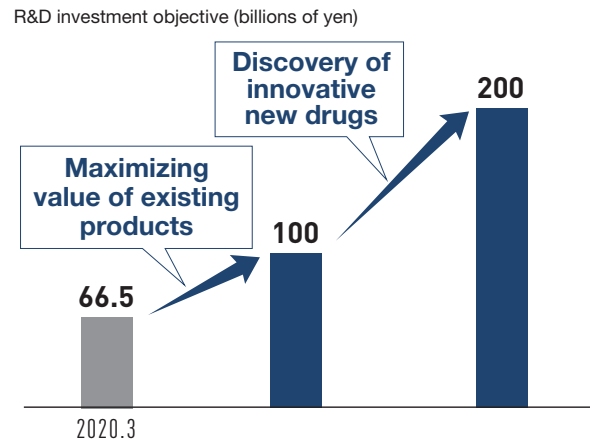
We focus on investing in creating new innovations and human resources development.

Strategic investments are essential to building piles of future growth. We believe it important to focus our finite management resources on drug discovery and development as an R&D-based pharmaceutical company specializing in new drug development. Our focus of investment is on creating new innovations and developing human resources.

We have pursued quality, not scale, in drug discovery. However, we need a certain scale to secure quality so that we can

compete and survive in the fiercely competitive global marketplace in the future. Currently, developing a new drug in Japan costs about 20 billion yen but it takes 10 times that amount, or about 200 billion yen, to develop globally. Even if we created an excellent new drug candidate compound, we would have no other choice but to earn royalties from licensing out it, without enough funding and know-how to conduct clinical trials globally. Given these circumstances, we aim to increase its

● R&D Investment Policy



annual R&D expenditure from the current 70 billion yen, to 100 billion yen initially, and eventually to 200 billion yen, the highest level in Japan. In order to invest that much in R&D, of course, we need to increase sales. However, we expect it is possible to increase the R&D expenditure to 100 billion yen by maximizing the value of existing products, especially OPDIVO.

Regarding human resources, we put considerable effort on the development and acquisition of global human resources. We have started with posting young employees of the research

department to joint research and drug discovery alliance partners in Europe and the US. Currently, we are trying out similar programs in the development, clinical trials and marketing departments. We have also acquired many talents through mid-career professional recruitment. Considering that highly qualified workers are more mobile, we focus particularly on developing our younger employees. We strive to create an attractive work environment that can retain them as long as possible.

Toward Increasing Corporate Value

We believe it important to provide value through business activities to continue being a company that is valued and needed by society.

I would like to clarify again what values ONO aims to offer as a member of society.

We believe that our corporate value lies in continuously creating drugs that can cure diseases that have been incurable so far. And our mission is to consequently bring health and smiles to people. The negative aspects of pharmaceuticals, such as drug cost increase that is putting pressure on health insurance finances, have often gotten much attention. However, creation of good medicines might help increase people's healthy life expectancy and the number of people who can work well into older age, leading to the productivity of the country and in turn the increased tax revenue to reduce the financial burden of social security.

In addition to offering value through our core business as a pharmaceutical company, we believe it also important to carefully listen to diverse stakeholders and contribute to solving issues facing society and creating sustainable society. For this,

we continue to strengthen our environmental, social and governance (ESG) initiatives. In FY2018, considering changes in the external environment and the demands of society, we defined important corporate social responsibility (CSR) issues (materiality) to be addressed. We also analyzed how the materiality is related to the sustainable development goals (SDGs), and chose SDGs that we should particularly contribute to achieving.

To pursue the initiatives, we have clarified vision. We have also set specific goals and extracted issues through information collection and analysis to collaborate internally and externally. In addition, we have focused on enhancing external ESG evaluations and our activities to date have been steadily bearing fruit. Through these activities, we will continue being "a company that is valued and needed by society." I believe this is nothing but enhancing ONO's corporate value.

ESG Initiatives

We strengthen environmental, social and governance initiatives.

In relation to activities to address most pressing environmental challenges facing the world, we established a medium- and long-term environmental vision called “ECO VISION 2050” in June 2019, in which we set a goal of becoming an environmental leading company in the pharmaceutical industry by 2050. We have defined three important items as “Realization of a decarbonized society,” “Realization of a water recycling society,” and “Realization of a resource recycling society,” and have set up specific medium- and long-term targets for each, starting activities to achieve them. In particular, regarding realization of a decarbonized society, we have set a high target of reducing greenhouse gas emissions (scopes 1 and 2) by 55% in 2030 compared to FY2017 and to zero in 2050 (see pp. 39-40). This target has been approved by the Science Based Targets initiative (SBTi) as science-based, categorized as the strictest “1.5°C target.” To achieve the target, we have developed a highly feasible roadmap to advance our efforts. We



also expressed our support to the Task Force on Climate-related Financial Disclosures (TCFD) in October 2019 and are committed to proper information disclosure based on the TCFD’s recommendations.

Regarding issues facing society, we focus on efforts to improve access to healthcare, in which we are deeply involved as a pharmaceutical company. As part of such efforts, we promote R&D of drugs for pediatric patients, as well as patients with rare diseases and intractable diseases for which medical needs are still unmet. We also participate in the Global Health Innovative Technology Fund (GHIT). As a unique initiative, we implement the ONO Switch Project, which donates to healthcare NPOs and NGOs amounts equivalent to reduction in overtime payment through our reform of working practices (see pp. 51-52). In addition, we work on health management to ensure that our diverse employees can work vigorously to their fullest extent (see pp. 45-46).

Strengthening corporate governance is also a critical issue in earning the confidence of society. Since the implementation of a Corporate Officer system in 2011 to ensure legal compliance as well as management transparency and soundness, we have made effort to enhance our effective governance system to separate management supervision from execution. We have made steady progress in this effort. In 2018, we increased the number of outside directors by one to three, and in June 2020, we appointed its first female external director. We continue to be committed to developing a more effective governance system considering the business environment surrounding our business results and us.

Relationships with Stakeholders

To grow sustainably in the future, we will continue to meet the expectations of all stakeholders.

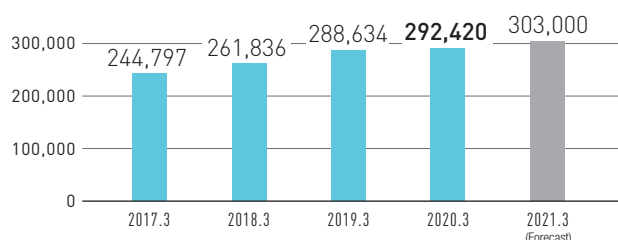
Companies work with various stakeholders in pursuing business activities. To attain sustained growth toward becoming a Global Specialty Pharma, we have to build and continue strengthening relationships with all stakeholders through business activities respecting their interests and dialogues with them. We therefore adhere to the policy of disclosing necessary information accurately, fairly, impartially, and promptly to all stakeholders. We consider the redistribution of profits to shareholders as a vital management policy. In terms of dividend payout, we will prioritize stable dividend distribution while making appropriate distribution of our profits in line with our business performance. We will flexibly consider and carry out the purchase of treasury shares, as usual, keeping future demand for funds in mind, for the purpose of redistributing more profit to shareholders, raising capital efficiency or tightening the supply-demand balance in the stock market.

The road to become a Global Specialty Pharma is not easy. I believe that passion is the key to achieving this goal. For example, when a biopharmaceutical company with an excellent compound choose a partner to out-license the compound, the company must examine the development, marketing and funding abilities of the partner candidate. However, whether the candidate will agree to enter into alliance depends on the level of passion the company shows. As Our Vision in the mission statement states “Be passionate challengers,” passion drives to overcome difficulties. If the company sets the right goals with passion, people, money, and compounds will come together with the company. With this truth in mind, we at ONO PHARMACEUTICAL will continue being passionate challengers in Man’s Fight against Disease and Pain. We highly appreciate your continued and most generous support and cooperation in these endeavors.

Financial/Non-Financial Highlights 2019/4-2020/3

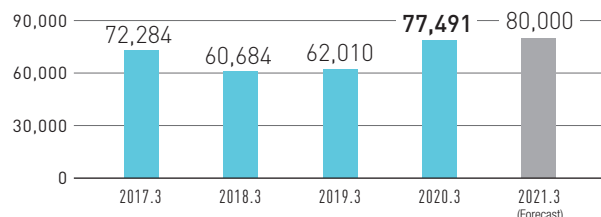
Financial Information

Revenue (Millions of Yen)



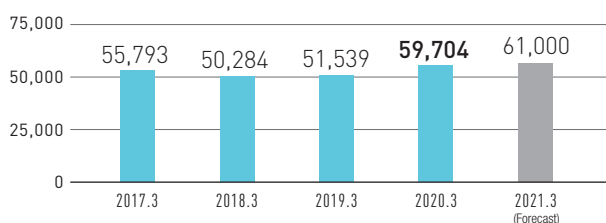
Increased by 1.3% year-on-year due to increased royalty revenue and expanded sales of new key products offsetting the negative impact of the OPDIVO price revision in Japan and increased competition with competitors.

Operating profit (Millions of Yen)



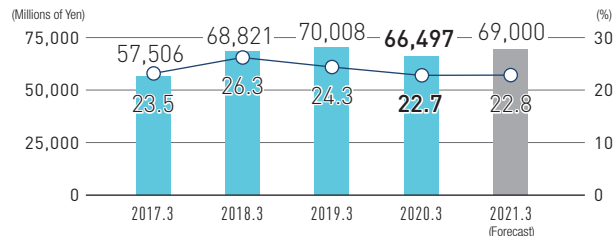
Increased by 25.0% year-on-year due to increased revenue, together with decreased sales costs and R&D costs as well as decreased operating activity expenses because of the novel coronavirus infectious disease (COVID-19).

Profit for the year attributable to owners of the parent company (Millions of Yen)



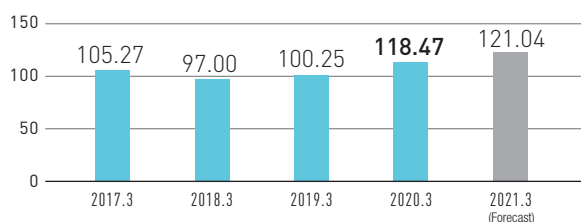
Net financial income decreased from the previous year but the profit before tax increased by 15.8% compared to the previous year due to increased operating profit.

R&D costs / Ratio to revenue (Millions of Yen / %)

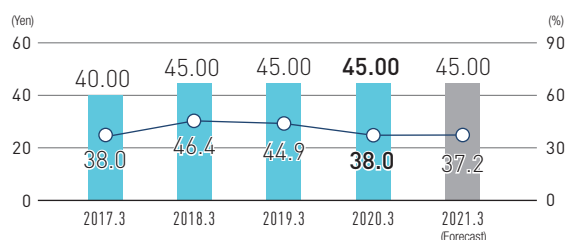


Decreased by 5.0% year-on-year due to decreased clinical trial expenses because of reevaluation of clinical study plans and discontinuation of some clinical studies, as well as decreased license fees for drug discovery alliance.

Basic earnings per share (Yen)



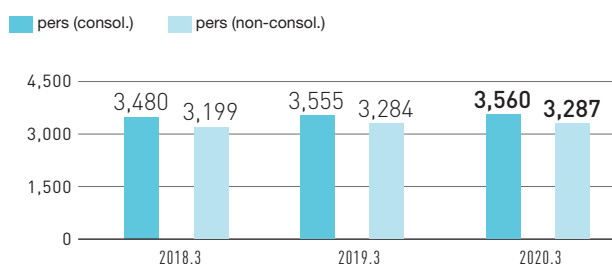
Dividend per share / Consolidated payout ratio (Yen / %)



ONO considers the redistribution of profits to shareholders as a vital management policy. ONO will prioritize stable dividend distribution, making appropriate distribution of its profits in line with its business performance.

Non-Financial Information

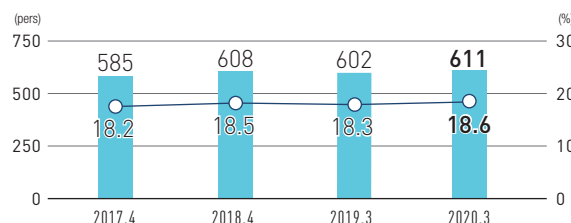
Number of employees



We recruit not only new graduates but also midcareer workers and others with a variety of different backgrounds to strengthen our corporate infrastructure.

▶ Human Resources and Human Rights, p. 47

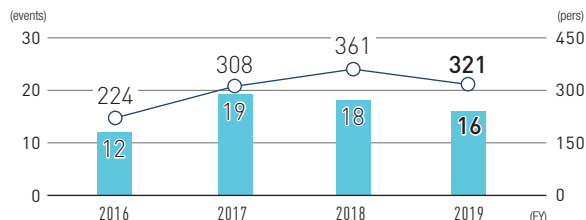
Number of female employees / Ratio of female to male workforce



As part of diversity promotion initiatives, we have made efforts to promote women's participation and advancement in the workplace, and female employees have increased in number across all divisions since 2011.

▶ Human Resources and Human Rights, p. 47

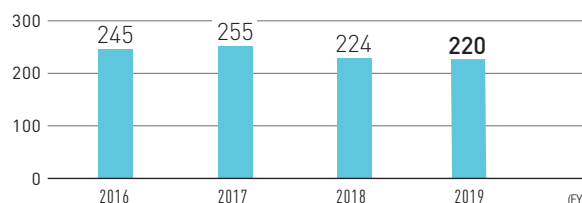
Participation record for "Relay For Life" as part of CSR activities



Since FY2014, we have continuously participated in "Relay For Life," a charity event aimed at supporting cancer patients and their families and making cancer controllable and surmountable through community action against cancer.

▶ Corporate Social Responsibility (CSR) Activities, p. 50

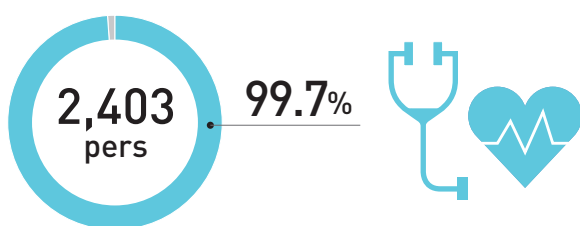
Meetings with institutional investors (personal interviews/phone conferences)



We disseminate information based on the policy of pursuing accuracy, fairness, impartiality, and promptness. We actively hold personal interviews and phone conferences with investors inside and outside Japan.

▶ Information Disclosure, p. 58

Comprehensive medical examination rate (FY2019)

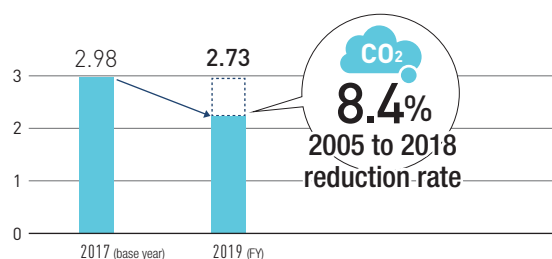


We take a top-down approach to actively maintaining and enhancing the health of employees and their families. We have a support system in place for disease prevention, early detection, and treatment.

▶ Promotion of Health and Productivity Management, p. 45

Eligibility: Insured employees age 35 and over, and their dependent spouses

CO₂ emissions (10 thousand tons-CO₂)



In accordance with our environmental policy, we set and work to achieve numerical targets.

▶ Environment, p. 39

Calendar of Events FY2019

R&D Topics

▶ June

- ONO entered into exclusive license agreement with Rafael Pharmaceuticals on the cancer metabolism inhibitor ONO-7912 (CPI-613) / Devimistat and other related compounds

▶ July

- ONO and Forty Seven signed a license agreement related to the anti-CD47 antibody ONO-7913 / Magrolimab

▶ November

- ONO launched Coralan® Tablets, a HCN channel blocker, for the treatment of chronic heart failure



- ONO received supplemental approval of the proteasome inhibitor KYPROLIS® for Intravenous Injection in Japan for additional dosage and administration for a Kd once-weekly regimen in relapsed or refractory multiple myeloma

2019

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ESG Topics

▶ April to June

- After action program of Great East Japan Earthquake reconstruction assistance activity “Operation Slimmer and Healthier in Fukushima” conducted



▶ June

- Medium- and long-term environmental vision for 2050, named “Environment Challenging ONO Vision (ECO VISION 2050)” established
- ONO’s greenhouse gas reduction target approved by the international initiative “Science Based Targets initiative (SBTi)”



DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

- Donating teeth-brushing packs and toothbrushes to the elementary schools, kindergartens and nursery centers during the Dental and Oral Health Week

▶ July 2019 to February 2020

- Giving a series of five lessons on the theme of dementia by visiting schools (July, September, December, January and February)

▶ July

- Holding an CSR procurement briefing

▶ September

- Participating in the “Relay For Life” action to fight cancer



R&D

▶ February

- ONO received approval of the anticancer drug OPDIVO (Nivolumab) in Japan for additional indications of unresectable advanced or recurrent esophageal cancer, and MSI-high unresectable advanced or recurrent colorectal cancer
- BMSKK and ONO received approval of the selective T-cell co-stimulation modulator ORENCIA for I.V. Infusion, ORENCIA Syringe for S.C. Injection and ORENCIA Auto-injector for S.C. Injection for a partial change in approved items of the manufacturing and marketing approval in Japan, to include the description of prevention of structural damage of joints in current indication of rheumatoid arthritis

▶ March

- ONO received manufacturing and marketing approval in Japan for the BTK inhibitor VELEXBRU Tablets for treatment of recurrent or refractory primary central nervous system lymphoma
- ONO entered into a new research and option agreement with Numab

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2020

● Environment ● Society ● Governance

▶ October

- ONO supported recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)



▶ November

- Adding additional organizations to the donation destination list of “ONO SWITCH Project” (Future Code and People’s Hope Japan)
- ONO received “Platinum Kurumin” certification as a company supporting childcare

▶ January

- ONO selected as a “Climate Change A List” Company in CDP 2019 for two consecutive years



▶ October to November

- Science lessons given by the Minase Research institute in October and first by Joto Plant in November on the theme of drugs by visiting schools



▶ December

- ONO received 2019 Environment Minister’s Award for Global Warming Prevention Activity in the “Implementation and Dissemination of Countermeasures” category
- Raising for Osaka Marathon charity
- Local subsidiaries joined activities contributing to the local communities

▶ February

- ONO received a certificate of the Whistleblowing Compliance Management System (WCMS)

▶ March

- ONO first selected as a “2020 Health & Productivity Stock”
- Holding an ESG investor meeting



Status of Development Pipeline (As of July 24, 2020)

Main Status of Development Pipelines (Oncology)

Product Name or Development Code (Generic Name)	Mechanism of Action, etc.	Target Disease	Development Stage				Area	In-house / In-license
			I	II	III	Filed		
OPDIVO Intravenous Infusion (Nivolumab)	Anti-PD-1 antibody	Gastro-esophageal junction cancer and esophageal cancer	→				JP-KR-TW	In-house (Co-development with Bristol-Myers Squibb)
		Small cell lung cancer	→				JP-KR-TW	
		Hepatocellular carcinoma	→				JP-KR	
		Glioblastoma	→				JP	
		Urothelial carcinoma	→				JP	
		Ovarian cancer	→				JP-KR-TW	
		Bladder cancer	→				JP-KR-TW	
		Prostate cancer	→				JP-KR-TW	
		Solid tumors (Cervix carcinoma, Uterine body cancer, Soft tissue sarcoma)	→				JP	
		Central nervous system lymphoma, Primary testicular lymphoma	→				JP	
		Pancreatic cancer	→				JP-KR-TW	
		Biliary tract cancer	→				JP	
		Virus positive / negative solid carcinoma	→				JP-KR-TW	
VELEXBRU Tablet (Tirabrutinib)	Bruton's tyrosine kinase (BTK) inhibitor	Primary macroglobulinemia, Lymphoplasmacytic lymphoma	→				JP	In-house
YERVOY Injection* (Ipilimumab)	Anti-CTLA-4 antibody	Colorectal cancer (MSI-H)	→				JP	Co-development with Bristol-Myers Squibb
		Non-small cell lung cancer	→				JP	
			→				KR-TW	
		Small cell lung cancer	→				JP-KR-TW	
		Head and neck cancer	→				JP-KR-TW	
		Gastric cancer	→				JP-KR-TW	
		Malignant pleural mesothelioma	→				JP	
		Esophageal cancer	→				JP-KR-TW	
		Urothelial carcinoma	→				JP-KR-TW	
		Hepatocellular carcinoma	→				JP-KR-TW	
Virus positive / negative solid carcinoma	→				JP-KR-TW			
ONO-7643 (Anamorelin)	Ghrelin mimetic	Cancer cachexia	→				JP	Helsinn Healthcare
BRAFTOVI Capsule (Encorafenib)	BRAF inhibitor	Colorectal cancer	→				JP	Pfizer
		Melanoma	→				KR	
MEKTOVI Tablet (Binimetinib)	MEK inhibitor	Colorectal cancer	→				JP	Pfizer
			→				KR	
		Melanoma	→				KR	

Product Name or Development Code (Generic Name)	Mechanism of Action, etc.	Target Disease	Development Stage				Area	In-house / In-license
			I	II	III	Filed		
ONO-7701* (Linrodostat)	IDO1 inhibitor	Bladder cancer					JP·KR·TW	Co-development with Bristol-Myers Squibb
ONO-7912 (Devimistat)	Cancer metabolism inhibitor	Pancreatic cancer					KR	Rafael Pharmaceuticals
		Acute myeloid leukemia					JP	
ONO-4687* (Cabiralizumab)	Anti-CSF-1R antibody	Pancreatic cancer					JP·KR·TW	Co-development with Bristol-Myers Squibb
ONO-4686*	Anti-TIGIT antibody	Solid tumor					JP	Co-development with Bristol-Myers Squibb
ONO-4482* (Relatlimab)	Anti-LAG-3 antibody	Melanoma					JP	Co-development with Bristol-Myers Squibb
ONO-7807*	Anti-TIM-3 antibody	Solid tumor					JP	Co-development with Bristol-Myers Squibb
ONO-4578*	PG receptor (EP4) antagonist	Solid tumor					JP	In-house
ONO-4483* (Lirilumab)	Anti-KIR antibody	Solid tumor					JP	Co-development with Bristol-Myers Squibb
ONO-7475	Axl / Mer inhibitor	Solid tumor*					JP	In-house
		Acute leukemia					US	
ONO-7911* (Bempegaldesleukin)	PEGylated IL-2	Solid tumor					JP	Co-development with Bristol-Myers Squibb
ONO-7913 (Magrolimab)	Anti-CD47 antibody	Solid tumor					JP	Gilead Sciences

*: Combination with OPDIVO

Main Status of Development Pipelines (Other than Oncology)

Product Name or Development Code (Generic Name)	Mechanism of Action, etc.	Target Disease	Development Stage				Area	In-house / In-license
			I	II	III	Filed		
ONO-5704 / SI-613	Hyaluronic acid-NSAID	Osteoarthritis					JP	Seikagaku
		Enthesopathy					JP	
ORENCIA SC (Abatacept)	T-cell activation inhibitor	Polymyositis / Dermatomyositis					JP	Co-development with Bristol-Myers Squibb
ONOACT for Intravenous Infusion (Landiolol hydrochloride)	Short-acting selective β_1 blocker	Tachyarrhythmia in low cardiac function for pediatric use					JP	In-house
VELEXBRU Tablet (Tirabrutinib)	Bruton's tyrosine kinase (BTK) inhibitor	Pemphigus					JP	In-house
ONO-7269	FXIa inhibitor	Cerebral infarction					JP	In-house
ONO-4685	PD-1 \times CD3 Bispecific antibody	Autoimmune disease					JP	In-house
ONO-2808	S1P5 receptor agonist	Neurodegenerative disease					EU	In-house
ONO-7684	FXIa inhibitor	Thrombosis					EU	In-house
ONO-2910	Schwann cell differentiation promoter	Peripheral neuropathy					JP	In-house
FOIPAN Tablet (Camostat mesilate)	Protease enzyme inhibitor	Novel coronavirus infectious disease (COVID-19)					JP	In-house

ONO's Value Creation Process

Be a Global Specialty Pharma, competing with original and innovative new drugs

Issues and Awareness of Business Environment

Issues Facing Healthcare

- Complex and advanced healthcare needs
- Aging population
- Improvement in access to healthcare

Issues Facing Society

- Harmonious coexistence of society and businesses
- Mutual prosperity of employees and businesses
- Diversity enhancement

Business Environment

- Progression of healthcare cost reduction measures around the world
- Tighter regulatory controls stemming from fundamental review of the NHI drug pricing system in Japan
- Increasing complexity of target diseases for drug discovery
- Decreased success rates of drug discovery
- Prolonged period/rising costs of new drug development



in the global arena

- Globally increasing competition
- Increasing opportunity to achieve drug discovery innovations
- Expansion into global market



Obtaining funds for growth

Investing in future growth

Building infrastructure that supports growth



Output



Securing stable earnings through drug discovery and addition of indications



Provision of a more stable supply by construction of Yamaguchi Plant



Expansion of development pipeline through in-house drug discovery and licensing activities



Turnover rate, new employee retention rate

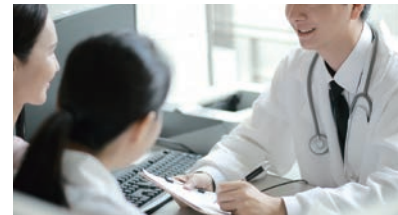


Improvement of access to healthcare



Reduction of environmental impact

Values ONO offers



To the frontline of healthcare

- Discovery of pharmaceutical products that bring true benefit to patients
- Stable supply of high-quality pharmaceutical products
- Information collecting/provision for proper drug usage



To society

- Contribution to economic development
- Contribution to the creation of a sustainable society



To shareholders and investors

- Stable return on investment through sustained growth
- Fair information disclosure



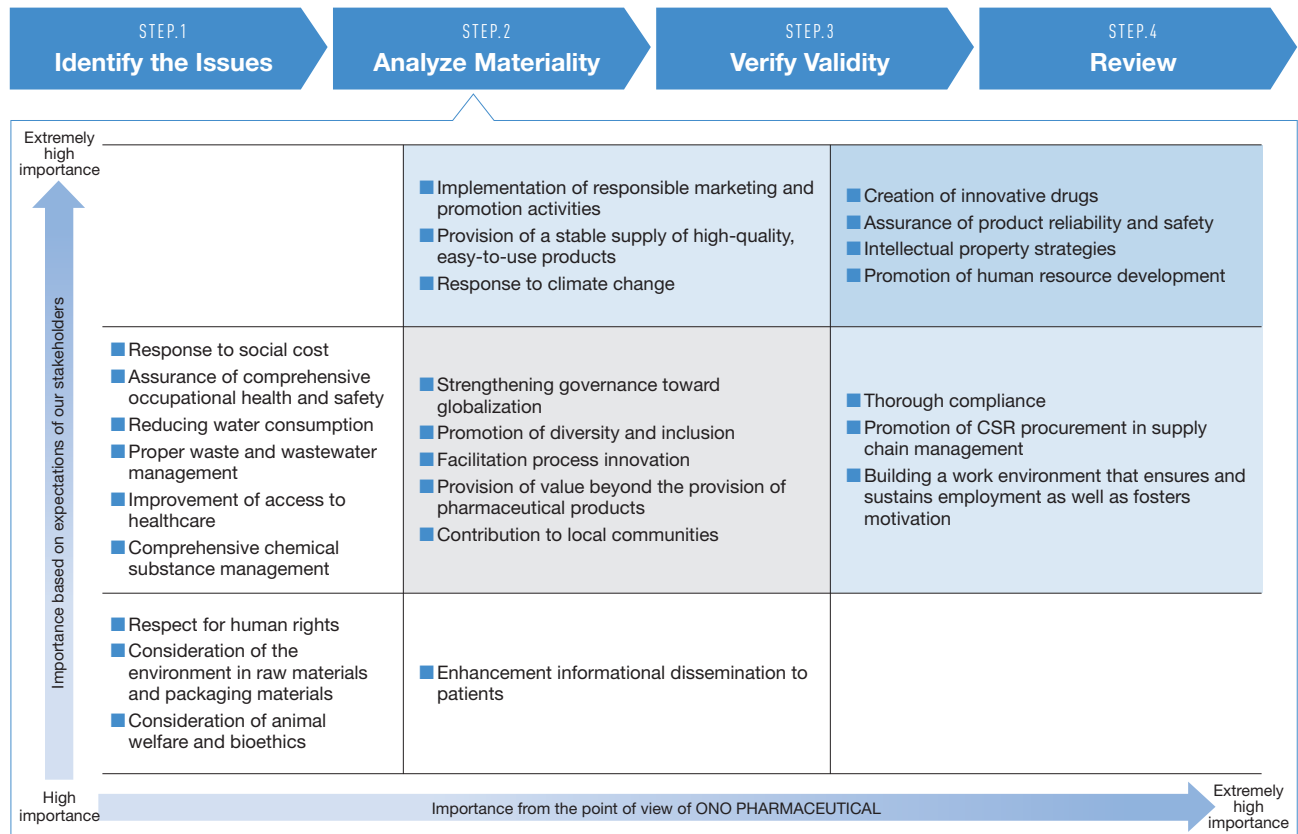
To employees

- Provision of opportunities for personal growth
- Creating an environment where employees work with peace of mind

About ONO's Materiality

In FY2018, we redefined our materiality (important CSR issues) to clarify CSR themes which we should emphasize. ONO actively engages in CSR according to the new materiality that we have established.

Process of Determining Materiality



The process of determining materiality are provided in detail on ONO's CSR website. <https://ono-csr.disclosure.site/en/themes/123#929>

Materiality and Relevant Sustainable Development Goals (SDGs)

Sustainable Development Goals (SDGs) are composed of 17 goals adopted by the United Nations in 2015 to address the challenges faced by the international community. Each materiality item and the relevant SDGs are as shown in the table below: We report and manage the progress of each materiality target each year at the Management Meeting.

Materiality	Relevant SDGs
Creation of innovative drugs	3, 9, 17
Intellectual property strategies	3, 17
Promotion of human resource development	4, 5, 9
Assurance of product reliability and safety	16
Implementation of responsible marketing and promotion activities	12, 16, 17
Provision of a stable supply of high-quality, easy-to-use products	12, 17
Building a work environment that ensures and sustains employment as well as fosters motivation	4, 5, 8
Response to climate change	3, 7, 9, 13, 17
Promotion of CSR procurement in supply chain management	8, 12, 16, 17
Thorough Compliance	16

Our Contribution to the SDGs

Priority: High



Materiality Targets and Progress

Medium- to long-term targets	Plan and KPI for Fiscal 2019	Progress results in Fiscal 2019	Targets for Fiscal 2020
Creation of innovative drugs			
Contribute to the health of people all over the world by satisfying unmet needs through the discovery and manufacture of innovative pharmaceutical products	①Speed the drug discovery process and shorten each phase of research and development	Please refer to the page listed below for details of our R&D initiatives and their progress. · Game-changing R&D (pp. 29-32) · R&D Topics (pp. 17-18) · Status of Development Pipeline (pp. 19-20)	①Speed up the drug discovery process and shorten each phase of research and development. ②Use open innovation to expand the development pipeline focusing on key areas of research including cancer, immune diseases, central nervous system diseases and specialty domains. Please refer to "Game-changing R&D" (pp. 29-32) for details of our R&D initiatives.
	②Use open innovation to expand the development pipeline focusing on key areas of research including cancer, immune diseases, central nervous system diseases and specialty domains		
Intellectual property strategies			
In addition to uncovering company-internal intellectual property, strengthen product lifecycle management from the standpoint of maximizing intellectual property value Consider proactive utilization of intellectual property in order to improve healthcare access	①Spread awareness of the crucial nature of intellectual property, and hold talks and exchanges of views in every department in order to create opportunities to uncover company-internal intellectual property	The department in charge of intellectual property conducted awareness-raising sessions on intellectual property within relevant departments and held more than 10 discussions.	①Spread awareness of the crucial nature of intellectual property by holding talks and exchanges of views in each department to uncover new company-internal intellectual property, with the aim of continuing to develop innovative pharmaceutical products while respecting others' patents. KPI ✓ Hold talks and exchanges of views at least 10 times a year. ✓ There are no cases where we have infringed on others' intellectual property rights. ②Consider and formulate specific lifecycle management plans for all products and compounds under development, including plans to improve drug formulation, from the perspective of intellectual property. ③Engage in external information exchange to build a foundation for intellectual property utilization in order to improve healthcare access. KPI ✓ Collect information from relevant institutions (such as the World Intellectual Property Organization). ✓ Consider the expectations of stakeholders for enhancing access to pharmaceutical products and possible measures we can take, and establish a policy to respond to their expectations.
	②Establish specific lifecycle management strategies for each compound in order to maximize product value	We updated the lifecycle management strategies for compounds under development from the perspective of intellectual property strategies.	
	③Engage in external information exchange to build a foundation for intellectual property utilization in order to improve access to healthcare	We engaged in continuous information exchange with the World Intellectual Property Organization.	
		We updated and disclosed our approach to intellectual property rights and patents in countries with difficulties ensuring healthcare access.	
Promotion of human resource development			
Develop human resources able to actively participate on the world stage so that each and every employee can take their own initiative in their duties and carrier and take action as passionate challengers to deliver better pharmaceutical products to patients.	①Engage in activities to raise awareness about our mission statement. KPI ✓ Prepare and conduct awareness raising efforts at four overseas sites and for all employees in Japan who are mid-career employees	· We conducted awareness-raising efforts at all four overseas sites. · Awareness-raising efforts for mid-career employees in Japan: Conducted at a 100% level (54 persons) · We held employee training programs at medical institutions and lectures delivered by patients to deepen their understanding of medical needs.	①Continue to engage in activities to raise awareness about our mission statement. KPI ✓ Rate of employees who are highly aware that the company's mission statement is their principle for taking action: At least 50% ②Conduct cross-sectional training for seven ranks of employees, from new employees to managers, in order to develop human resources that behave according to the behavioral characteristics required of each rank, with the aim of facilitating changes in their behavior. KPI ✓ Rate of behavior change recognized in the evaluation made by their superiors after the training: At least 80% ③Develop human resources that can act independently by expanding elective training in which employees can choose to participate, and enhancing support for self-improvement of employees. Ono also nurtures a climate of growth where employees are stimulated by learning from each other. KPI ✓ Attendance rate for self-improvement programs: At least 33% ④Develop human resources and build an organization able to adapt to harsh environmental changes worldwide. KPI ✓ In the global skills assessment (BISA test) after the global development programs, 80% of the attendees reach at least 700 points (a level that allows for overseas assignment). ✓ Rate of behavior change recognized in the evaluation made by their superiors after the future management candidate training: At least 80%
	②Conduct cross-sectional training for seven ranks of employees, from new employees to managers, in order to develop human resources that behave according to the behavioral characteristics required of each rank, with the aim of facilitating changes in their behavior. KPI ✓ 100% acceptance rate.	· Attendance rate: 100% · Total No. of attendees: 603 persons	
	③Develop independent human resources by expanding elective training that employees can choose to participate in and enhance support for self-improvement by employees. Ono also nurtures a climate of growth where employees stimulate learning in one another. KPI ✓ At least 20% for the participation rate in self-improvement programs	Participation rate: 27.8% (910 persons / 3,272 persons)	
	④Develop human resources and build an organization able to adapt to harsh environmental changes worldwide. KPI ✓ Provide global development programs that include language education and future management candidate training	· No. of attendees for the global development programs: 87 persons · No. of attendees for the future management candidate training: 69 persons	

Medium- to long-term targets	Plan and KPI for Fiscal 2019	Progress results in Fiscal 2019	Targets for Fiscal 2020
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Assurance of product reliability and safety

Raise awareness in each and every employee about the importance of the reliability and safety of products by properly promoting quality management and safety management operations.	Accurately and reliability execute quality management and safety management operations.		
	<p>① Identify and eliminate the causes of problems as well as prevent recurrence in addition to strengthening Corrective and Preventative Actions (CAPA) that measure potential factors that cause those problems.</p> <p>KPI ✓ Reduce the number of incidents and recurrence of problems in quality management and safety management operations compared to fiscal 2018.</p> <p>② Conduct internal training.</p> <p>KPI ✓ Conduct training at least once a year with a 100% attendance rate as follows:</p> <ul style="list-style-type: none"> Quality management training: CMC-Production Division and Quality Assurance Department; Safety Management Training: other programs to be undertaken by implementing departments in addition to employees companywide. 	<ul style="list-style-type: none"> Safety management operations: The incidence of deviation from safety standards that should be improved fell below the in-house limit of 0.01% (also decreased compared to fiscal 2018). Quality assurance operations: The incidence of deviation from quality standards at each production site fell below the predetermined limit. There was a case where the incidence of deviation exceeded the in-house limit of 0.01% and which required the consideration of a response, including possibly improving the drug formulation of the relevant product. However, the deviation was so slight as to have no impact on safety, and the necessary measures have been taken. <p>All of the target employees participated the internal training. (Attendance rate: 100%)</p>	<p>① Keep the rate of incidents in safety management operations below a certain level.</p> <p>KPI ✓ The compliance rate for reporting to regulatory authorities within the prescribed period is at least 99.9%.</p> <p>② Keep the rate of incidents and recurrence of problems in quality management operations below a certain level.</p> <p>KPI ✓ Zero product recall ✓ The quality claim rate is below 0.01%.</p> <p>③ Conduct internal training. Quality management training: CMC-Production Division and Quality Assurance Department Safety management training: Other programs to be undertaken by implementing departments in addition to employees companywide</p>

Implementation of responsible marketing and promotion activities

Engage in activities that properly disseminate information in accordance with the guidelines for activities to disseminate marketing information about pharmaceutical products.	<p>① Use materials reviewed and approved by the department auditing activities to disseminate marketing information for promotional purposes.</p> <p>KPI ✓ Achieve a 100% usage rate of reviewed and approved materials</p>	We achieved a 100% usage rate of reviewed and approved materials.	<p>Implement the following initiatives, with the aim of reducing the number of significant compliance violations* to zero.</p> <p>* Compliance violations that have a great impact on sales and profits</p> <p>KPI ✓ No. of significant compliance violations: Zero</p> <p>① Conduct internal training for all employees involved in sales activities so that they act in compliance with the guidelines for activities to disseminate marketing information.</p> <p>KPI ✓ Four times a year</p> <p>② At company-hosted lectures, request that presenters provide information appropriately in keeping with internal company rules that conform to the guidelines, and check slides in advance.</p> <p>KPI ✓ Rate for prior confirmation of slides: 100%</p> <p>③ The director of each sales office conducts an assessment to check whether the following activities are appropriately conducted at the time of accompanying his/her office members.</p> <ol style="list-style-type: none"> Activities to disseminate information at the time of interview Check slides used at company-hosted lectures in advance <p>If the activities are inadequate, clarify the reasons for such activities and consider countermeasures against them. Then report the countermeasures to the Head Office for discussion.</p> <p>KPI ✓ Conduct an assessment once a month.</p>
	<p>② At company-hosted lectures, request that presenters provide information appropriately in keeping with company-internal rules that conform to guidelines.</p> <p>KPI ✓ Acceptance rate: 100%.</p>	The acceptance rate was 100%. (The rate for prior confirmation of slides was 61%.)	
	<p>③ Conduct internal training for all employees involved in sales activities.</p> <p>KPI ✓ Four times a year</p>	The training was conducted six times a year.	

Provision of a stable supply of high-quality, easy-to-use products

Create product designs able to ensure reliable quality and establish a stable supply system.	Actively use frameworks to rapidly extract on-site medical demand as well as treatment needs to employ the medical needs that we discover in new products and product modifications.	<ul style="list-style-type: none"> We incorporated medical needs obtained from medical sites into product designs for four products. For advice on medical needs, we collected views from 10 institutions with which we signed an advisory agreement. 	<p>① Continue to incorporate on-site medical demand as well as treatment needs into product improvements and new products.</p> <p>KPI ✓ Departments in charge conduct on-site investigations at medical sites to identify medical needs.: At least 24 times ✓ Aim to improve packaging materials to be newly designed for at least four products.</p> <p>② Supply products to the market in a stable manner.</p> <p>KPI ✓ Reset and ensure proper inventory levels according to product characteristics.</p>
Understand new medical needs and expand product designs.			

Medium- to long-term targets	Plan and KPI for Fiscal 2019	Progress results in Fiscal 2019	Targets for Fiscal 2020
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Building a work environment that ensures and sustains employment as well as fosters motivation

<p>Instill pride in all of our employees about working in the pharmaceutical industry, help employees reach their full potential in diverse situations, and further establish a workplace environment where everyone can actively participate to aid in ensuring and sustaining employment.</p>	<p>①Work to promote diversity and improve work-life balance as well as build a workplace environment in which diverse human resources can actively participate with motivation by establishing and operating human resource policies as well as other programs.</p> <p>KPI</p> <ul style="list-style-type: none"> ✓ Acquire the Platinum Kurumin Certification ✓ Improve employee use of annual paid leave 	<ul style="list-style-type: none"> · We acquired the Platinum Kurumin Certification. · The rate of employee use of annual paid leave increased from 57.5% in fiscal 2018 to 65.0% in fiscal 2019. 	<p>①Work to promote diversity and improve work-life balance as well as build a workplace environment in which diverse human resources can actively participate with motivation by establishing and operating human resource policies as well as other programs.</p> <p>KPI</p> <ul style="list-style-type: none"> ✓ Rate of employee use of annual paid leave: 70.0% in fiscal 2020 (65.0% in fiscal 2019) ✓ Return-to-work rate after child-care leave: 100% ✓ Maintain a low turnover rate (below 3%). ✓ Reduce average overtime work hours by promoting reform of working practices, including setting an interval (a certain amount of rest) between working hours. (13.6 hours/month in 2019 → 13.0 hours/month in 2020) <p>②Promote awareness of and engage in health management initiatives.</p> <p>KPI</p> <ul style="list-style-type: none"> ✓ Earn inclusion in the Health & Productivity Stock for two consecutive years. ✓ Increase labor productivity by improving presenteeism. Productivity loss per employee per month: Fiscal 2019 (33,120 yen) Fiscal 2020 target: 5% reduction (31,450 yen) ✓ Improve the health age of employees by increasing their degree of health. Difference between health age and actual age (Aged 35 or older; average): Fiscal 2020 target: - 2.0 years (Fiscal 2019: - 1.5 years) ✓ Reduce the smoking rate. [Target of the entire Ono Group] Fiscal 2020 target: 17.0% (Fiscal 2019: 18.2%) ✓ Maintain a low occupational accident frequency rate (0.3%). Fiscal 2020 target: 0.10% (Fiscal 2019: 0.15%) ✓ Rate of employees who realize that they are working with motivation, leveraging their diversity: At least 50% (Targets ① and ②)
	<p>②Promote awareness and engage in health management initiatives.</p> <p>KPI</p> <ul style="list-style-type: none"> ✓ Consistently earn recognition as a Certified Health & Productivity Management Outstanding Organization (Health and Productivity Management 500) ✓ Encourage employees to stop smoking during work hours as well as achieve at least a 95% rate of employees undergoing physical examinations and stress checks 	<ul style="list-style-type: none"> · We were selected for inclusion in the 2020 Health & Productivity Stock for the first time and continued to be recognized as a Certified Health & Productivity Management Outstanding Organization (White 500). · We implemented a non-smoking policy during work hours. · Rate of employees undergoing physical examinations: 99.7% · Rate of employees undergoing stress checks: 99.8% 	

Response to climate change

<p>Reduce CO₂ emissions by 55% by 2030 (compared to FY2017 figures)</p>	<p>Establish goals that integrate scientific knowledge, and undertake CO₂ emissions reductions toward meeting those goals</p> <p>KPI</p> <ul style="list-style-type: none"> ✓ Obtain approval of the SBT target set ✓ A 4% reduction in CO₂ emissions compared to the previous year 	<ul style="list-style-type: none"> · We obtained approval of the SBT target set. · We achieved a 4% reduction in CO₂ emissions compared to the previous fiscal year (Scope 1 and 2). (8.4% reduction relative to FY2017) 	<p>①Continue to work to reduce GHG emissions.</p> <p>KPI</p> <ul style="list-style-type: none"> ✓ A reduction of 12.6% compared to fiscal 2017 (Scope 1 and 2) <p>②Increase the usage rate of renewable energy.</p> <p>KPI</p> <ul style="list-style-type: none"> ✓ Increase the usage rate by 12.6% compared to fiscal 2017. <p>③Announce our participation in RE100 (an international initiative that aims for 100% usage of renewable energy in business operations by 2050).</p>
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Promotion of CSR procurement in supply chain management

<p>Promote CSR activities together with our suppliers to build a sound and robust (resilient) supply chain.</p>	<p>Conduct surveys for our business partners about CSR procurement.</p> <p>KPI</p> <ul style="list-style-type: none"> ✓ Conduct surveys of business partners that make up 70% of purchases 	<p>We conducted surveys of our business partners that make up 86% of purchases.</p>	<p>①Improve initiatives for CSR procurement in the companies that were subject to the survey conducted in the previous fiscal year.</p> <p>KPI</p> <ul style="list-style-type: none"> ✓ Increase the overall average score of all companies subject to the survey in fiscal 2020, compared to fiscal 2019. <p>②Support the companies that have not met our standards to improve their initiatives.</p> <p>KPI</p> <ul style="list-style-type: none"> ✓ Increase the overall score of each company subject to the survey in fiscal 2020, compared to fiscal 2019.
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Thorough Compliance

<p>Improve awareness about organizational compliance and strengthen auditing systems in an effort to eliminate any regulatory or compliance violations.</p>	<p>①Conduct compliance training.</p> <p>KPI</p> <ul style="list-style-type: none"> ✓ Achieve a 100% attendance rate of all employees 	<p>We achieved 100% of the target. (All employees participated in the training.)</p>	<p>Implement the following initiatives with the aim of maintaining no occurrence of significant compliance violations*.</p> <p>* Compliance violations that have a great impact on sales and profits</p> <p>① · Conduct all department leader training based on the legislation covering prevention of power harassment.</p> <ul style="list-style-type: none"> · Conduct an employee awareness survey on compliance and harassment to incorporate survey results on the formation of measures by each department. · Conduct sales department training (rules, guidelines, code of conduct). · Conduct e-learning training (twice a year). · Distribute an email magazine on compliance. <p>②Hold a compliance meeting in which members of company management participate every quarter to work through the companywide compliance PDCA cycle.</p> <p>KPI</p> <ul style="list-style-type: none"> ✓ No. of significant compliance violations: Zero ✓ Training attendance rate: 100%
	<p>②Work through the companywide compliance PDCA cycle with a compliance committee in which members of company management participate.</p> <p>KPI</p> <ul style="list-style-type: none"> ✓ At least four times a year 	<p>We held four compliance meetings.</p>	
		<p>We acquired the whistleblowing compliance management system certification (self-declaration of conformity registration system) administered by the Japan Institute of Business Law.</p>	

Investment Policy from a Medium- and Long-term

We work to increase profit by making vigorous growth investments that will conduce to raising shareholder value in medium to long term. We also return profits to shareholders in a well-balanced manner to maintain our shareholders' equity at appropriate levels.

Growth Investment (R&D Investment)

As a pharmaceutical company dedicated to drug development, we aim to identify and develop innovative and breakthrough pharmaceutical products while actively investing in R&D to further expand our development pipeline.

Specifically, we have vigorously been pursuing various forms of collaborations that may lead to drug discovery research, including research collaborations with research institutes including universities, as well as drug discovery alliances with biopharmaceutical companies with world-leading technologies. In the end of FY2019, we conducted 182 and 96 joint research projects in Japan and abroad, respectively. We will continue to

increase collaboration.

We also strengthen licensing activities to actively acquire attractive compounds even in early development stage (preclinical phase and phase I), as well as compounds in late development stage that are expected to go on the market in several years.

In addition, Ono Venture Investment Fund I, L.P., established in July 2020, invests directly in drug discovery startups in their seed stage. Other than drug discovery, it will also vigorously invest in healthcare and digital fields globally.

Track Record of Licensing (In-licensing) Activities since 2010 (As of July 24, 2020)

Month and Year of Agreement	Product Name or Development Code (Generic Name)	Indication	Development Stage (Japan)	Partner
Sep. 2010	KYPROLIS for Intravenous Injection (Carfilzomib)	Multiple myeloma	Market launch	Onyx Pharmaceuticals (acquired by Amgen)
Sep. 2011	CORALAN Tablet (Ivabradine hydrochloride)	Chronic heart failure	Market launch	Servier
	PARSABIV Intravenous Injection for Dialysis (Etelcalcetide hydrochloride)	Secondary hyperparathyroidism	Market launch	KAI Pharmaceuticals (acquired by Amgen)
	ORENCIA for Intravenous Injection, ORENCIA SC (Abatacept)	Rheumatoid arthritis, Juvenile idiopathic arthritis	Market launch	Bristol-Myers Squibb
Apr. 2013	ONGENTYS (Opicapone)	Parkinson's disease	Approved	Bial
Oct. 2013	DEMSEER Capsule (Metyrosine)	Status of catecholamine excess secretion in pheochromocytoma	Market launch	Valeant Pharmaceuticals International (renamed to Bausch Health)
Dec. 2013	FORXIGA Tablet (Dapagliflozin)	Type 2 diabetes, Type 1 diabetes	Market launch	AstraZeneca
		Heart failure	Filed	
Jul. 2014	YERVOY Injection (Ipilimumab)	Melanoma, Renal cell carcinoma	Market launch	Bristol-Myers Squibb
	ONO-4483 (Lirilumab)	Solid tumor	I	
	ONO-4482 (Relatlimab)	Melanoma	I/II	
	ONO-4686	Solid tumor	I/II	
	ONO-4687 (Cabiralizumab)	Pancreatic cancer	II	
	ONO-7701 (Linrodostat)	Bladder cancer	III	
	ONO-7807	Solid tumor	I/II	
	ONO-7911 (Bempegaldesleukin)	Solid tumor Melanoma, Renal cell carcinoma	I -	
May 2017	MEKTOVI Tablet (Binimetinib), BRAFTOVI Capsule (Encorafenib)	Melanoma	Market launch	Array BioPharma (acquired by Pfizer)
		Colorectal cancer	Filed	
Aug. 2017	ONO-5704 / SI-613	Osteoarthritis	Filed	Seikagaku
		Enthesopathy	II	
Jun. 2019	ONO-7912 (Devimistat)	Pancreatic cancer	I	Rafael Pharmaceuticals
Jul. 2019	ONO-7913 (Magrolimab)	Solid tumor	I	Forty Seven (acquired by Gilead Sciences)

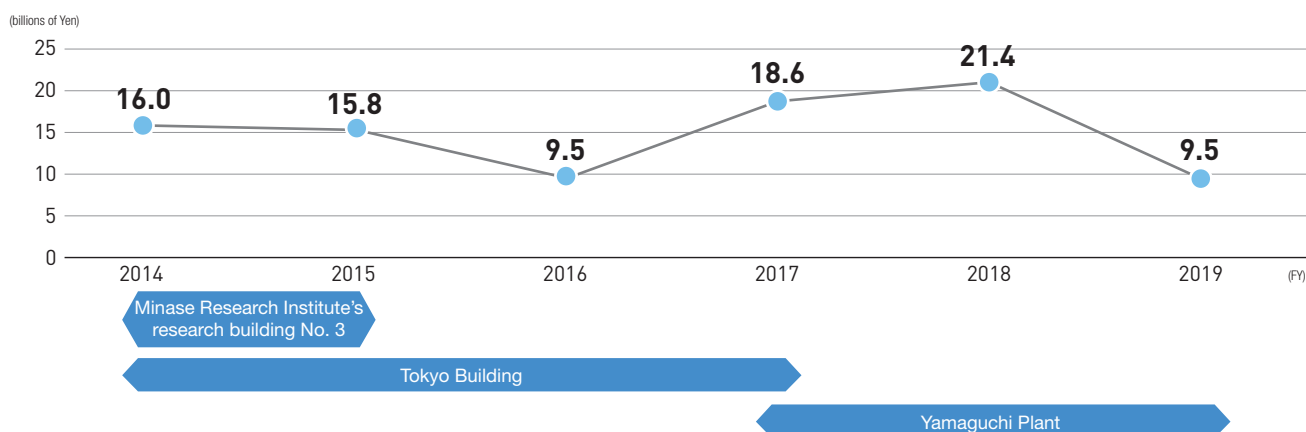
Perspective

Investment in Plant and Equipment

We vigorously make necessary P&E investment to keep drug discovery activities up to date and production activities safe and efficient from a medium- and long-term perspective. In February 2016, we added research building No. 3 to the Minase Research Institute for integration of our compound synthesis and analysis functions that had been separated in the Minase and Fukui Research Institutes, in order to strengthen cooperation and promote R&D from exploration of breakthrough drug seeds

through to clinical research. In March 2018, we built and moved from our former aging Tokyo Building to a new one to accommodate our increased workforce. In July 2019, we constructed a new plant in Yamaguchi to respond to business expansion and to mitigate the risk of major disaster from the business continuity perspective. This new plant started operation in March 2020.

Investment in Plant and Equipment (Consolidated)



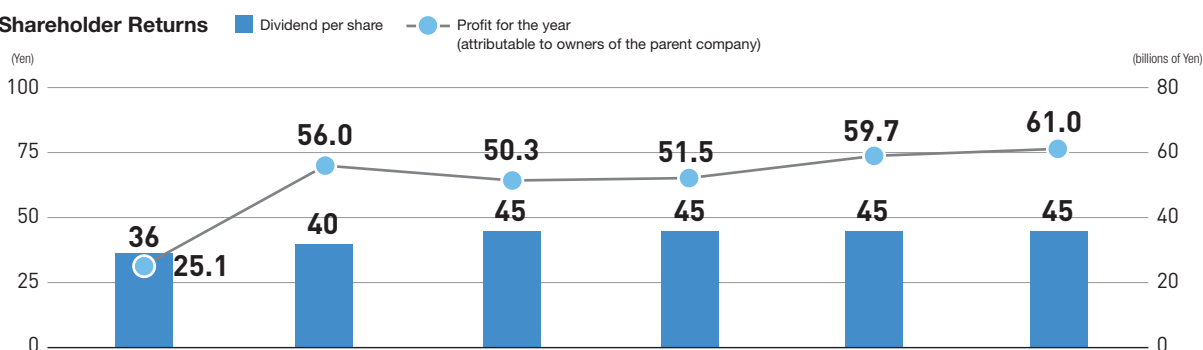
Shareholder Returns

In terms of shareholder returns, we balance dividend payouts and share buybacks well.

In terms of dividend payouts, we prioritize stable dividend distribution in value terms, making appropriate distribution of our profits in line with our business performance for each fiscal year.

In terms of share buybacks, we flexibly consider and carry out the purchase, keeping future demand for funds in mind, for the purpose of redistributing more profit to shareholders, raising capital efficiency or tightening the supply-demand balance in the stock market.

Movement in Shareholder Returns



	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020 (forecast)
Total dividends	¥19.1 billion	¥21.2 billion	¥23.1 billion	¥23.1 billion	¥23.1 billion	
Dividend payout ratio	76.4%	38.0%	46.4%	44.9%	38.0%	37.2%
Share buybacks	–	–	¥38.8 billion	–	¥29.6 billion	
Ratio of payouts and buyouts to net profit	76.4%	38.0%	123.1%	44.9%	87.2%	

*The company conducted a stock split of common stocks at a ratio of 1:5 with an effective date of April 1, 2016. (Note that the dividend per share for FY2015 is translated on a post-stock split basis.)

Four Growth Strategies

Game-changing R&D



Based on our unique drug discovery “Compound-Orient” approach, we have identified the therapeutic areas with high medical needs as our priority areas of research to develop new drugs that will provide new treatment options with innovation to the frontline of healthcare. For this, we will strengthen and enhance research and drug discovery alliance with world-leading universities, research institutes, and biopharmaceutical companies in specific research areas. We will also drive forward activities in areas with great medical needs, by in-licensing innovative compounds and acquiring novel technologies.

Our Mission in Research and Development

Deliver our contribution to society by developing drugs that truly benefit patients

Open innovation

ONO's new drug discovery seeds

In-licensing promising new drug candidate compounds from around the world

Discovering compounds with unique pharmacological action



Disease Expertise Enhancement

Focusing on the four therapeutic areas with high unmet medical needs as priority areas of research

Oncology

Immunology

Neurology

Specialty

ONO's unique drug discovery “Compound-Orient” approach

Finding diseases against which the properties of compounds are most potentially effective

Creating unique and innovative new drugs

Drug Discovery Strategy

Based on the drug discovery “Compound-Orient” approach focusing on characteristic bioactive lipids and unique drug targets to generate innovative new drug candidate compounds, we enhance knowledge and expertise of diseases in each of the oncology, immunology, neurology, and specialty research domains with high medical needs by focusing our resources on these domains as priority areas. To reinforce our competitiveness in drug discovery in each domain, we performed structural reform in April 2019 by adding the Research Centers of Immunology, Neurology, and Specialty Products to the already-existing Oncology Research Center. Each organization accumulates knowledge and expertise of diseases in each of the priority areas to properly understand medical needs, working toward developing breakthrough pharmaceutical products with medical impacts.

While we vigorously promote open innovation globally to adopt world-leading technologies, information, and networks, we not only pursue small molecule drug discovery on which we have focused, but also tackle the challenge of providing new treatment options with innovation to the healthcare frontline by using modalities including antibodies, nucleic acids, cells and viruses.

A Research Capability Combining Knowledge with Technology

The development of innovative new drugs is driven by the spirit of challenge and the motivation of individual scientists and their ability to think creatively responding to change. We set high and achievable targets with clear outcomes, in order to enhance motivation and creative thinking among our researchers. ONO's research organization is based on project teams where members converge from different fields, bringing cutting-edge expertise from contrasting backgrounds. The interaction within the teams stimulates and mutually enhances our research achievements. Each project team actively promotes open innovation with the aim of discovering innovative drugs with top-class researchers all over the world.

We conduct drug discovery research through coordination of the efforts of three laboratories, the Minase Research Institute, the Fukui Research Institute and the Tsukuba Research Institute, and work to strengthen our research capability to further accelerate, and raise success rates of, drug discovery. In April 2019, a Translational Research Laboratory was newly established in the Research Project Management to bridge between basic and clinical research for the promotion of research.

In the Minase Research Institute's research building No. 3, our center for invention and medicinal chemistry, integration of our compound synthesis and analysis functions has further matured, and thereby driving R&D forward by building capability with consistency in chemistry research, from exploration of breakthrough drug seeds through to clinical researches. This has led to strengthening combination of knowledge and technology among researchers and among teams.

A Drug Discovery System in Each of the Four Priority Areas

Oncology	Research Center of Oncology	As a pioneer in cancer immunotherapy, the Center works toward discovering innovative drugs for cancer patients with our experience, and technology and knowhow, nurtured through R&D of the immune checkpoint inhibitor OPDIVO. The Center are pursuing the original and unique drug seeds and new drug modalities not only through the “Open innovation” with academia and biotech companies in the world with cutting edge technologies and but also promoting translational research.
Immunology	Research Center of Immunology	Based on the long-year experience of immunology research which has helped create OPDIVO, the Center, the successor to the Research Center of Immunology established in April 2016, strives to keep research capabilities with a primary focus on biopharmaceutical development in immunology, working toward drug discovery in both areas of cancer immunotherapy and autoimmune therapy. The Center is operated in accordance with the policy of advancing unique research with strong awareness of serendipity and insight not to miss it.
Neurology	Research Center of Neurology	The Center focuses on not only neurons as major components of the nervous system, but also glial cells which maintain and support the environments necessary for survival and multiple functions of neurons. Through our intensive analysis of patient-derived tissues and iPS cells, the Center is dedicated to discovering innovative drugs to provide disease-modifying therapies, as well as symptomatic treatments, to patients with neurodegenerative diseases, which are becoming serious problems in the aging society, and those with mental disorders or chronic pain, which are still largely detrimental to society.
Specialty	Research Center of Specialty Products	The Center works toward discovery of clinically valuable pharmaceutical products for diseases for which treatment is high in unmet needs, free from the disease field. For this, it is important that the Center accurately determine real healthcare needs of patients, healthcare providers and society in general and come up with drug discoveries with the understanding of pathogenesis. Also based on ONO's unique compound-orient approach, the Center proceeds with drug discovery.

Strengthening competitiveness in drug discovery by accumulating and using knowledge and expertise of diseases in each domain.

Four Growth Strategies

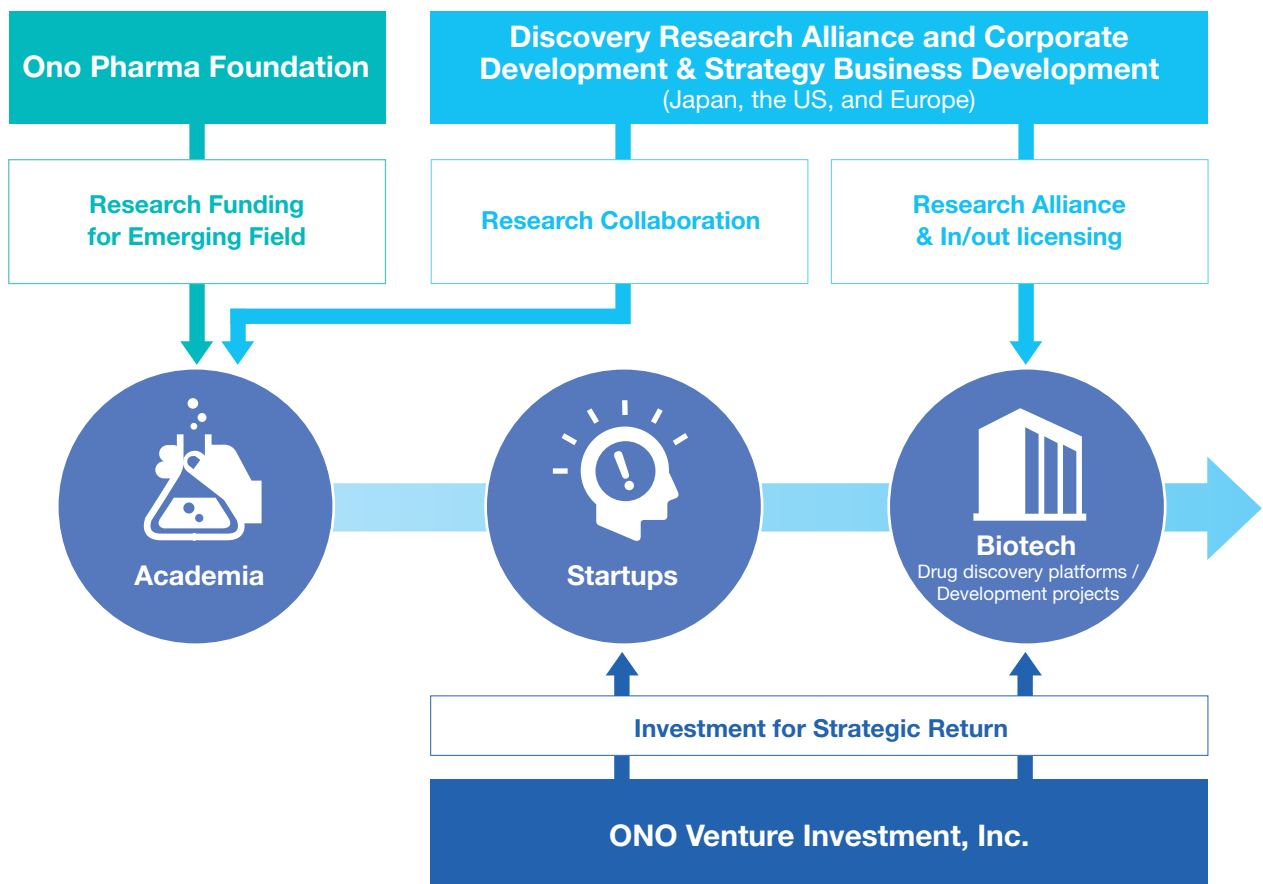
Open Innovation

ONO has discovered new drug discovery seeds and developed breakthrough new drugs initiated through collaboration with research institutes including universities since before the words “open innovation” started to become widely used. With Discovery Research Alliance and Corporate Development & Strategy Business Development taking the lead, we continue to pursue drug discovery collaborations and vigorous compound licensing activities with world top-class researchers and biopharmaceutical companies mainly in the priority areas of research. We also pursue collaboration activities with speed to collect cutting-edge scientific information and proceed with drug discovery based thereon ahead of the competition as fast as possible. We post employees with extensive experience in discovery research to our overseas subsidiaries in the US and UK, and they visit world top-class researchers and biopharmaceutical companies in the US and Europe to launch alliances. Through the Ono Pharma Foundation, which was established in

2017, we provide grants for research activities in academia with an eye toward the future. We select research grant winners every year and subsidize attractive basic research projects that may bring about innovations in the future. This has led even to grant winners developing a social network in the field of frontier sciences.

To strengthen and accelerate these activities to realize a more strategically wide range of open innovation, we established a subsidiary in the US named Ono Venture Investment, Inc. This company manages Ono Venture Investment Fund I, L.P. (established in July 2020), a venture capital fund in the US, and make investments focused on early stage biopharma startups for the purpose of strategic investment in drug targets and cutting-edge technologies to discover innovative drugs. By adding to open innovation the new framework of capital alliances with and investments in biopharmaceutical companies, we strive to be more competitive in drug discovery and R&D.

Overview: Open Innovation



Development Policy

We are committed to promoting clinical development with speed to deliver new drugs that meet medical needs as soon as possible, for the benefit of people suffering from disease throughout the world.

Our development pipeline currently includes OPDIVO, as well as new drug candidate compounds including antibody drugs, which we are working to develop to achieve expedited market launch. Among others, we work toward clinical development in the oncology domain, in which unmet medical needs are high, positioning it as an important strategic area.

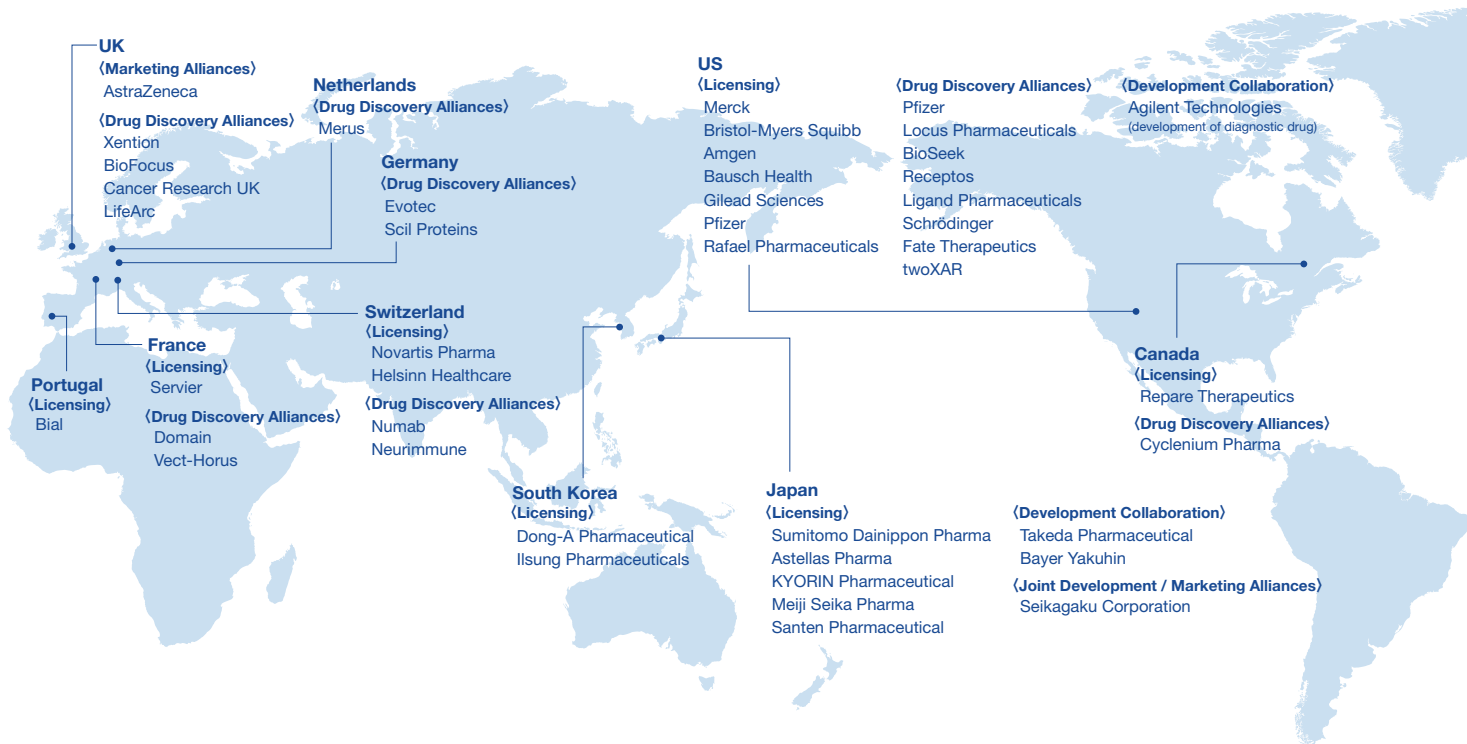
In April 2019, we transferred the functions of the Global Clinical Development Division from Japan to our US subsidiary ONO PHARMA USA, INC. We will pursue organizational improvements that enable us to conduct clinical trials in the US and Europe and apply for approval with the regulators.

Vigorous Activities for Licensing Initiatives

We continue to forge ahead with licensing activities to take in new drug candidates with the aim of introducing compounds attractive for diseases with high therapeutic need, and compounds that have high value in terms of corporate strategy and efficiency, while taking into consideration the development pipeline and existing products. Our aim is to expand the development pipeline to provide a continuous stream of new market launches. In the oncology domain, we take advantage of our strength with OPDIVO in acquiring product candidate compounds in a wide range of areas such as molecular target drugs including antitumor drugs and cell therapies.

Meanwhile, we are working in anticipation of our own overseas marketing in the US and Europe. We also have departments in charge of licensing activities keenly out-licensing discovered compounds to our partners upon examining optimum measures to deliver our new in-house developed drugs to patients worldwide as quickly as possible, in light of proposed indication and market size.

Our Partners inside and outside Japan (As of July 24, 2020)



〈Main Achievements in FY2019〉

- June 2019 ONO entered into exclusive license agreement with Rafael Pharmaceuticals on the cancer metabolism inhibitor ONO-7912 (CPI-613) / Devimistat and other related compounds
- July 2019 ONO and Forty Seven signed a license agreement related to the anti-CD47 antibody ONO-7913 / Magrolimab
- March 2020 ONO entered into a new research and option agreement with Numab

Maximizing Product Value



We actively pursue R&D activities to achieve expedited market launch and additional indication approval. We also develop a strategy formation that constantly ensures competitive advantage by adjusting with agility to environmental changes in each stage of the product life cycle, thereby to achieve peak sales in the shortest period from launch and to maximize the potential of every product we offer.

Development Activities

- Maximizing OPDIVO's product value
(Adding indicated tumors, adding treatment lines, developing combination therapies, searching for biomarkers)

Achieving Expedited Market Launch and Additional Indication Approval

Marketing Activities

- Developing a strategy formation that constantly ensures competitive advantage
- Understanding potential medical needs toward development of narrative-based medicine (NBM)

Achieving Peak Sales in the Shortest Period from Launch

Information Dissemination & Collection Activities

- Using a sales force automation (SFA) system and AI to bring efficiency to MR activities
- Prompt and appropriate provision of medical and scientific information
- Strengthening community-based activities

Enhancing Product Value and Contributing to the Frontline of Healthcare

Stable Supply of High-Quality Drugs and Drug Reliability Assurance

- Having a quality assurance system in place that is compliant with global regulations
- Upgrading of risk management systems at manufacturing centers
- Strengthening production systems
- Initiatives for proper use of pharmaceuticals Etc.

Maximizing OPDIVO's Product Value

To maximize OPDIVO's product value, we work with its partner Bristol-Myers Squibb (US) with focus on four perspectives.

Adding indicated tumors	We are working on development to obtain additional approval for more than 20 indications for cancers, including the 9 cancers for which the drug has already been approved for in Japan.
Adding treatment lines	We move ahead with clinical trials to enable OPDIVO's use at earlier stages from third- to second- to first-line drug treatment.
Developing combination therapies	Searching for combinations of boosting its therapeutic effects by combining OPDIVO with other drugs or treatments.
Searching for biomarkers	We advance the search for optimal biomarkers that will predict patients who are more likely to be expected to exhibit the therapeutic effects of OPDIVO.

Marketing Activities to Enhance Product Value

The Sales & Marketing Division has the Oncology Business Unit, the Primary Care Business Unit, and their respective medical representatives (MRs) develop a strategy formation based on market research that constantly ensures competitive advantage by adjusting with agility to environmental changes in each stage of the product life cycle to maximize the potential of every product we offer.

In addition, we make every effort to collect patient opinions through meetings with healthcare professionals to understand potential healthcare needs toward development of narrative based medicine (NBM), which is based on the actual clinical experiences in patients. Based on needs obtained through these efforts, we will conduct future information dissemination activities to enhance product value.

Developing a More Efficient Sales System

Our information-sharing framework enables our MRs to share across the company the valuable information they gather from the frontline of healthcare. We also continually pursue brining efficiency to MR activities by using the FAQ system and AI. In the primary care domain, we work with a medical case zone-based marketing system that allow for closer community-based area activities, as well as team management encouraging inter-domain communication. In the oncology domain, we divide MRs into two teams—one with focus on lung and renal cell cancers and the other with focus on gastrointestinal and hematologic cancers to strengthen their expertise and improve the quality and quantity of information that they will provide to healthcare professionals.

Prompt and Appropriate Provision of Medical and Scientific Information

One role of drug manufacturers is to relay up-to-date information as quickly as possible about daily advances in healthcare to the frontline of healthcare and to provide opportunities for information exchange. We actively provide information by organizing symposiums and seminars in conjunction with academic conferences held in Japan and through workshops and lectures in regional areas. In addition, we put effort into disseminating up-to-date drug information through operating several websites for medical professionals. In FY2019, we continued to hold web-based seminars and product presentations in line with various needs, including more than 130 live webinars, to relay up-to-date drug information to the frontline of healthcare.

Our Medical Affairs Department works to attain a high level of expertise and academic knowledge in oncology and primary care domains to assess and collect medical and scientific needs of healthcare professionals through meeting with experts or attending at advisory board meetings. In response to request from healthcare professionals, we provide such evidence-based medical and scientific information with transparency to contribute to the healthcare frontline.

Enhancing Product Value Through Drug Reliability Assurance Activities

We develop a risk management plan and collect and manage safety (adverse reaction) information for each pharmaceutical. We assess collected data and information and if necessary, revise the cautions on package inserts and make announcements about proper use. As safety information has been drastically increasing inside and outside Japan after market launch of anticancer drugs, we assess such information based on opinions from external medical experts to promote the proper use of the drugs, e.g., by disseminating it through promotional materials, conference presentations, and medical journals. In addition, the Corporate Regulatory Compliance Safety and Quality Assurance Division, containing a section responsible for data, also uses and utilizes medical databases to analyze pharmaceutical product profiles and safety information for proper use.

Initiatives to Ensure Stable Supply of High-Quality Drugs

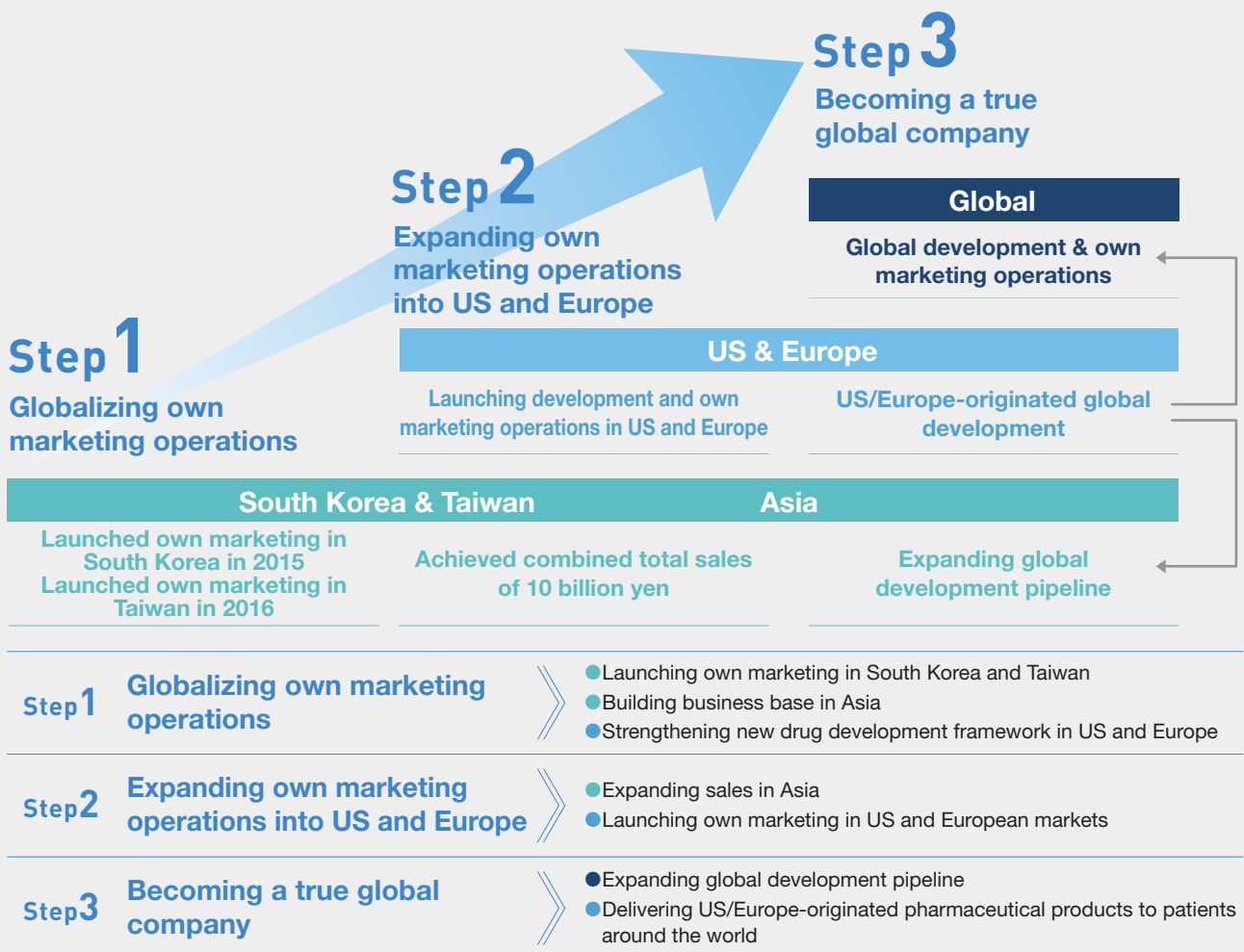
Stable supply of high-quality drugs is essential to maximizing product value. We ensure that all drugs are produced, whether in-house or through outsourcing, under appropriate quality assurance system. We take various measures to stably supply high-quality drugs, including strengthening the quality system in accordance with ICH Q10 Pharmaceutical Quality System, and upgrading of risk management systems at our manufacturing centers.

In addition to strengthening our production capabilities aimed at future business expansion, a new plant has been constructed in Yamaguchi Prefecture to mitigate the risk of major disaster from the business continuity perspective. The new plant is now in operation, starting in the spring of 2020.

Globalizing Business



To supply the world with new drugs, we are reinforcing overseas business expansion in anticipation of our own overseas marketing of specialty products for which marketing activities can be carried out with small staff. In South Korea and Taiwan, we have already set up wholly owned subsidiaries and have started selling products. We are also working to improve and strengthen our development and other systems, with a view to future marketing through our own sales organizations in US and Europe.



Promotion of Business in Asia

As a beachhead to expand revenue sources into overseas markets, we have been reinforcing overseas business expansion starting in Asia. We established wholly owned subsidiaries, ONO PHARMA KOREA CO., LTD. in South Korea in 2013 and ONO PHARMA TAIWAN CO., LTD. in Taiwan in 2014. The subsidiaries have since launched their own marketing and have demonstrated steady progress.

We have obtained approval for OPDIVO for additional indications not only in Japan but also in the rest of the world. The drug has been approved for 8 and 10 types of cancer in South Korea and in Taiwan respectively (as of June 2020). To significantly contribute to advancement in cancer therapy in South Korea and Taiwan, we also put efforts into safety measures by, e.g., rolling out scientific activities countrywide with Japanese and Western doctors appointed as lecturers to promote proper drug use. In addition, we conduct information dissemination activities not only on a countrywide level but also on a small-scale, locally-focused level to bring a fresh sensitivity to both markets as part of efforts to become the market leader in oncology in Asia.

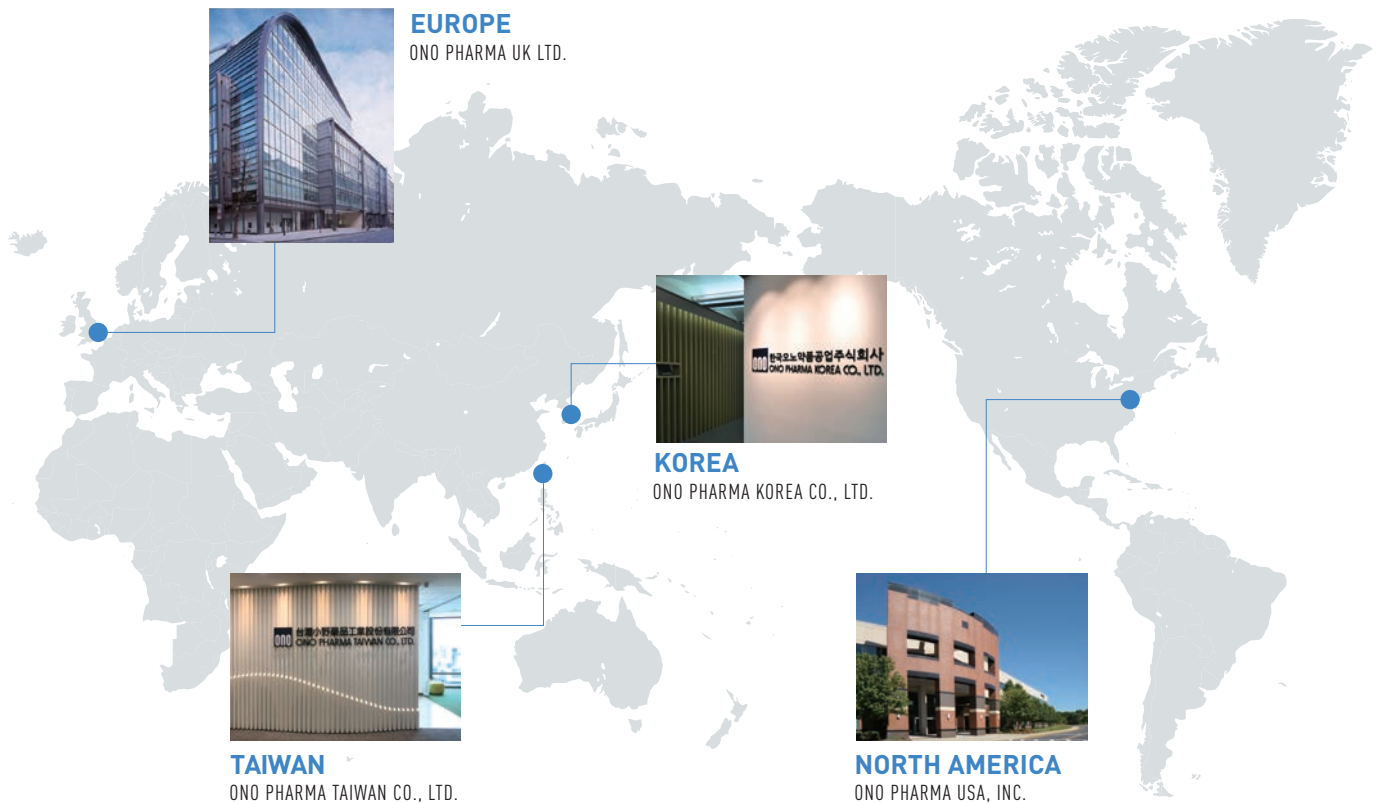
We have also established a division within our Corporate Development & Strategy that is in charge of planning operations in South Korea and Taiwan and expansion into other Asian markets. In close cooperation with the locally incorporated subsidiaries, the division investigates issues and develop overseas business strategies.

Business Expansion into the US and Europe

We have established our own sales organization in South Korea and Taiwan and have pursued out-licensing of new drug candidates developed in-house to deliver them to healthcare settings in other overseas regions. Currently, however, we are in preparatory stages to sell our drugs on our own, also in the US and Europe, the world's largest markets. We are setting up local centers for clinical development and building a structure that ensures that we can perform clinical development and apply for approval by ourselves. In April 2019, we transferred the functions of the Global Clinical Development Division from Japan to our US subsidiary ONO PHARMA USA, INC. We will pursue organizational improvements that enable us to also, in addition to early-stage clinical trials, conduct late-stage clinical trials in the US and Europe and conduct application for approval through consultation with the regulators.

As a first step in business development in the US and Europe, we intend to market in-house developed products in the specialty domain that does not require a large-scale sales organization. We will sell such new drugs with efficacy and safety expected superior to those of the competition, and which can increase our presence there. Among our current pipelines, we consider, as global development pipelines, compounds under development to treat hematologic cancer or neurological disease, so that we can deliver new drugs to patients worldwide.

We continue upgrading our drug development infrastructure in Japan, the rest of Asia, the US, and Europe to strengthen and speed up our global development system.

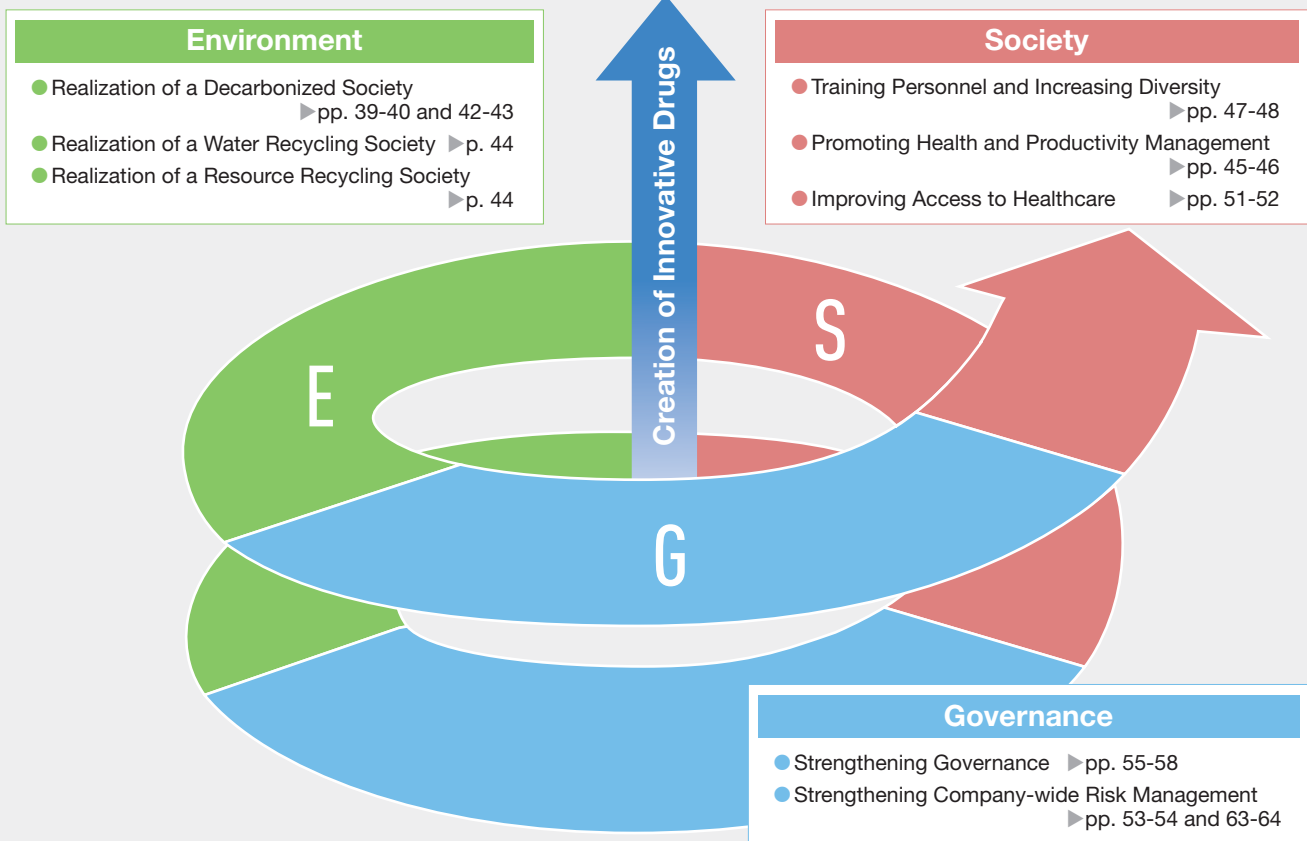


Strengthening Corporate Infrastructure



ONO continues to strengthen its corporate infrastructure to increase corporate value and realize sustained growth. We are also training personnel who can respond to various environmental changes while leading globalization and increasing diversity and we are strengthening activities for Environment, Society and Governance to fulfill our social responsibilities to all stakeholders.

Global Specialty Pharma



Strengthening ESG Initiatives

One of major triggers that led ONO to focus on ESG is the release of anticancer drug OPDIVO in 2014. While the concept of ESG has spread around the world, ONO produced an innovative new drug, OPDIVO, that we could deliver to patients globally and it became increasingly important to evolve as a company that could be admired from global standards. Consequently, we established our mission statement, developed a system whereby diverse employees and organizations can engage in business while being aware of the mission statement, created an environment where diverse personnel can enjoy working, and strengthened the training of personnel.

We also consider that it is important to listen to the voices of diverse stakeholders and contribute to resolving social issues and achieving a sustainable society, and we are continuously strengthening activities towards ESG. In FY2018, based on external environmental changes and societal demands, ONO identified priority issues (materiality) for engaging in CSR management and specified SDGs to which ONO should particularly contribute to achieving. We believe we can achieve sustainable growth for ONO and society by steadily performing PDCA of materiality and responding to the expectations of stakeholders.

Use of External Evaluation

Increasing external evaluation is one of our policies for engaging in activities for ESG. From various evaluations, we have narrowed down 8 targets and engaged in activities by establishing goals for each target. As a result, steady progress has been seen as shown in the following table.

External ESG Evaluation

External Evaluation	FY2017	FY2018	FY2019
CDP	Climate Change: A- Water: B	Climate Change: A Water: B	Climate Change: A Water: A-
FTSE	Score: 2.8/5.0	Selected Score: 3.2/5.0	Selected Score: 3.4/5.0
MSCI	Score: BBB	Score: BBB	Selected Score: A
DJSI	Score: 16/100	Score: 19/100	Score: 60/100
Toyo Keizai CSR Ranking	Rank: 254/1413 companies	Rank: 180/1501 companies	Rank: 121/1593 companies
Nikkei Smart Work survey	—	3.5 stars ★★★★☆	4.0 stars ★★★★☆
Nikkei SDGs	—	—	4.5 stars ★★★★☆
Survey on Health and Productivity Management	Top 60~70% /1239 companies	White 500	2020 Health & Productivity Stock White 500

History of ONO's Efforts towards ESG

	2013	2014	2015	2016	2017	2018	2019	2020	
		● Established mission statement.			● Participated in the UN Global Compact.		● Identified materiality.		
E			● Introduced a solar panel system (Minase Research Institute).		● Introduced a solar panel system (New Tokyo Building).	● Started purchasing green electricity.	● Established a mid- and long-term environmental vision. ● Established mid- and long-term goals (obtained approval of SBTI). ● Agreed proposal of TCFD.	● Joined RE100.	
S		● Started "Operation Slimmer and Healthier" (every year). ● Started classes on the theme of dementia through visits (every year). ● Participated in "Relay for Life" (every year).	● Newly established day-care facility and babysitter support program.	● Introduced flexible working time systems.	● Introduced full-scale telecommuting systems. ● Introduced a support program for employees with cancer. ● Newly established leave to encourage childcare participation.		● Started efforts for health and productivity management. ● Started ONO SWITCH project. ● Participated in Global Health Innovative Technology Fund.	● Introduced an hourly paid leave system.	
G			● Established Executive Appointment Meeting. ● Established Executive Compensation Meeting. ● Introduced stock option system. ● Appointed the first woman Corporate Auditor in ONO.		● Expanded delegation of authorities to Corporate Officers. (Reviewed standards for discussion.)			● Obtained certification for a whistle-blowing system. ● Appointed the first woman Director in ONO.	
				Evaluation of Board of Directors' Effectiveness (every year)					
	Outside Directors: 2					Outside Directors: 3			

Environment

Feature 01

Towards the “Realization of a decarbonized society”

We have witnessed the increasing impact of global warming, and battling this threat has become one of our most important collective challenges in the international society. Resolving environmental issues is essential for creating a better society and for ONO's company activities. We set “Realization of a decarbonized society” as one of the major environmental activities and we are addressing the company-wide reduction of greenhouse gas emission volume that is emitted in association with business activities.

Medium- and long-term targets through back-casting based on ONO's ideal situation in 2050

The Paris Agreement from COP 21 sets out a global action plan to limit global warming to less than 2°C compared to temperatures before the Industrial Revolution, with the target, for all intents and purposes, of decreasing human-generated greenhouse gases substantially to zero. In this social context, ONO ascertains its ideal situation in 2050 and considers what is necessary for us today by back-casting, and we established our medium- and long-term vision towards 2050, ECO VISION 2050, based on our Global Environment Policy. We set “Realization of a decarbonized society” as one of the major items and established the goal to “Reduction of greenhouse gas emission (Scope 1 + Scope 2) to zero by 2050.” This target has been approved by the international initiative “Science Based Targets initiative (SBTi)” as a target for the reduction of greenhouse gas emission volume based on a scientific foundation and it is categorized as the strictest “1.5°C target.”

Roadmap for achievement of the targets based on the investigations and advice of specialists

Only 7 companies in Japan are categorized as having the “1.5°C target” of SBTi (as of March 2020). In order to achieve this challenging target, ONO participated in the “Fiscal 2019 Model Project for Supporting Development of CO₂ Emission Reduction Plans to Achieve SBT” (hosted by the Ministry of the Environment) and created a highly possible greenhouse gas emission volume reduction roadmap in consideration of future new technologies based on the investigations and advice of specialists.

In order to promote the “creation of a healthy and sound society” through the discovery and development of innovative pharmaceutical products in the future, 2050, we aim to become an “environmental leader in the pharmaceutical industry” and address the realization of a decarbonized society.



Roadmap for Achieving the ECO VISION 2050 (Greenhouse gas)

	Medium- and Long-term Targets		2019 Targets
	2030 (milestone)	2050 (Ultimate goal)	
Greenhouse gas emissions ONO's emissions (Scopes 1+2)	FY2017 comparison 55% reduction	0	FY2017 comparison 8.4% or more reduction
Renewable energy usage rate Renewable energy usage / Overall electricity consumption	55% or more	100%	8.4% or more

Major Activities

Promoting Energy Conservation

- Updating current facilities to energy saving facilities (updating lighting from fluorescent lamps to LEDs, updating heat source equipment to module-type heat pump chillers)
- Adopting Top Runner Equipment at renewal of equipment
- Reviewing equipment operation hours
- Conducting Cool Biz and Warm Biz



Module-type heat pump chillers (Minase Research Institute)

Incorporating Renewable Energy

- Introduction and operation of solar power system: HQ building (FY2003), Minase Research Institute (FY2015), New Tokyo Building (FY2017)
- Use of hydropower-derived electricity: Minase Research Institute (since FY2019)
- Purchase of green electricity certificate (since FY2018) and the J-Credit Scheme (since FY2019)



Solar panels (Minase Research Institute)

Renewable energy utilization rate:

Achieved FY2019 target, **“8.4% or more”**

Fuel-Related Initiatives

- Completed fuel switch from heavy oil and kerosene to utility gas and natural gas

Power Load Leveling

- Implementing a peak shift from daytime electricity use with a cogeneration system (CGS) in addition to a nighttime heat storage system
- Modifying the production method of heating water for air conditioning (switching from air-cooled chillers to steam boilers)
- Introducing a large-capacity electricity storage system (NAS battery system) at Yamaguchi Plant



Large-capacity electricity storage system (Yamaguchi Plant)

Energy Management

- Development of the energy management system, in view of introducing a comprehensive FEMS (factory energy management system) and BEMS (building energy management system)

Joined an international initiative, RE100

In June 2020, ONO joined an international initiative, RE100, aiming to source 100% of the renewable electricity consumed in its business activities. Joining the RE100 initiative is an important step for us to achieve our medium- and long-term targets. We will further strengthen our efforts as an ONO group to procure and expand the use of renewable energy.



What is RE100?

The RE100 is an international initiative operated by The Climate Group, an international environmental NGO promoting climate change countermeasures; it encourages companies to disclose and manage environmental impact information. It consists of companies aiming to procure the electricity for their business operations with 100% renewable energy.

Environment

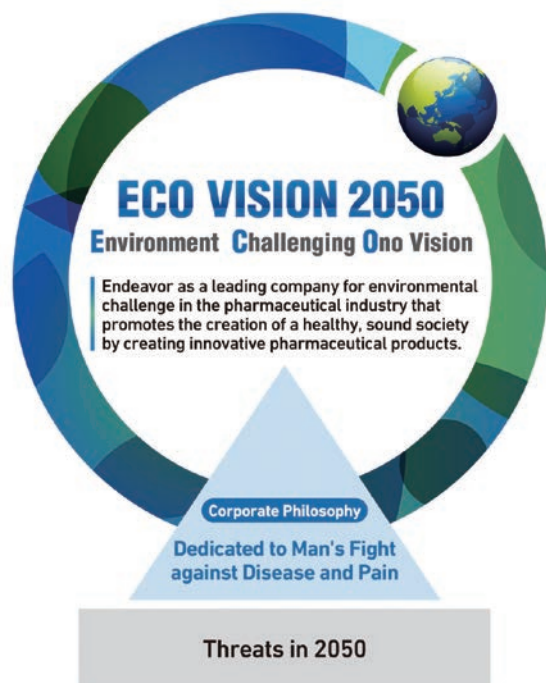
Global Environment Policy/Environmental Vision

ONO has established the Global Environment Policy for our environmental activities and formulated our medium- and long-term environmental vision towards 2050, Environment Challenging Ono Vision (ECO VISION 2050) based on the Policy. We recognize our corporate social responsibility towards the environment and engage in activities by prioritizing the environment in all business areas and by contributing to the realization of an abundant global environment.

Global Environment Policy

1. Recognizing corporate social responsibility for the environment, we conduct environmentally friendly activities at entire stages of product research, development, procurement, production, distribution, sales, use, and disposal.
2. We comply with environmental laws and agreements in each country and region, and our voluntary standards.
3. Under the environmental management system, we set goals and action plans, monitor regularly, and disclose necessary information.
4. We actively introduce the latest science and technology to reduce environmental impacts.
5. To conserve the natural environment and biodiversity, we pursue efficient use of resources and energy, efficient use of water and appropriate wastewater management, reduction of waste, promotion of recycling, and prevention of pollution.
6. We communicate with internal and external stakeholders and produce eco-friendly products in cooperation.
7. We build all employees' environmentally sensitive minds through education to promote environmentally friendly initiatives.

Environmental Vision



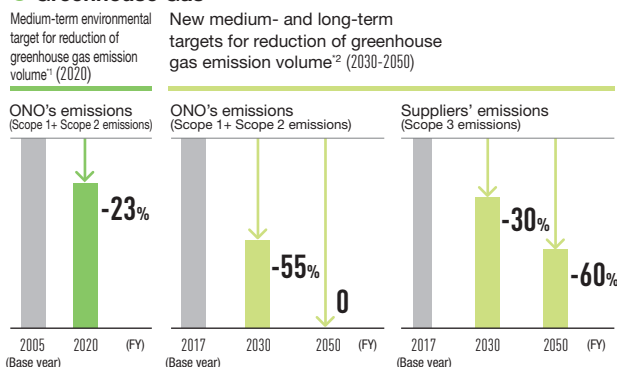
Promotion of Environmental Management

ONO has appointed the Member of the Board of Directors in charge of the Environment as the person responsible for environmental issues. The Member of the Board of Directors in charge of the Environment assumes the role of Chairperson of the Environment Committee consisting of committee members from each department and those who examine climate change issues quarterly or more often. Each of the production and research sites with environmentally major impact has a subcommittee. Each production site makes continuous efforts to reduce environmental burden under an ISO 14000-compliant environmental management system in place. The Member of the Board of Directors in charge of the Environment also assumes the role of Chairperson of the CSR Committee and a member of Management Meeting. Activity results of the Environment Committee were placed on the agenda at the CSR Committee meeting and Management Meeting and they were reported and discussed semi-annually or more often. The review results by the CSR Committee and Management Meeting are reported annually or more often at the Board of Directors meeting by the Member of the Board of Directors in charge of the Environment and shared with all directors.

Medium- and Long-term Targets

In order to achieve "ECO VISION 2050," we have defined three important items as "Realization of a decarbonized society," "Realization of a water recycling society," and "Realization of a resource recycling society," and have set up specific medium- and long-term targets related to greenhouse gases, water consumption, and waste.

Greenhouse Gas



*1 Greenhouse gases derived from energy emitted by production and research sites in Japan are subject to this target.
*2 ONO's new medium- and long-term targets for reduction of greenhouse gas emission volume (Scope 1 + Scope 2 emissions) have been approved by the international initiative "Science Based Targets initiative (SBTi)" as targets based on a scientific foundation and they are categorized as the strictest "1.5°C target."

Water Consumption

Reduce water resource consumption (water intake) by 15% per production volume unit in FY2030 (compared to FY2017).

Waste

1. Maintain final disposal of industrial waste at 1% or less every year (*).
* ONO's ZERO Emission standard is defined so that the ratio of non-recycling (landfill and simple incineration) shall be 1% or less of the total amount.
2. Reduce industrial waste emissions by 15% per production volume unit in FY2030 (compared to FY2017).
3. Promote reductions in the environmental burden in business activities.

Disclosure of Climate Change-Related Information

(Disclosed based on TCFD)

ONO has expressed its support for the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). The TCFD is a task force established by the Financial Stability Board (FSB) with the aims of understanding and disclosing the financial impact of climate change and publishing recommendations on methods of information disclosure in June 2017. Based on the recommendations, ONO will evaluate and manage climate-related risks and opportunities and promote appropriate information disclosure.

Governance

In FY2019, ONO established a TCFD Review Working Group with the Member of the Board of Directors in charge of the Environment as the person responsible and conducted the identification and evaluation of climate change risks and opportunities as well as several reviews and discussions of measures. The Working Group includes persons responsible for major relevant departments (finance, management planning, and public relations) and persons responsible for the Company-wide Risk Management Committee as its members and thereby they provide links with management on climate-related issues.

Strategy

<Analysis/Evaluation of Risks/Opportunities Associated with Climate Change>

ONO has analyzed and assessed the risks and opportunities associated with climate change in reference to 1.5°C scenario and 4°C scenario. As a result of the analyses, there were no risks that ONO considers to be financially serious in both scenarios. We continue to check global society trends and focus on the impact of risks and opportunities that have a comparatively large financial impact.

Management of Risks and Opportunities

Concerning identification of risks and opportunities, we analyze occurrence time, probability, and scope of impact, evaluate details of measures, and other items for each risk and opportunity, and then comprehensively determine their priorities. Risks and opportunities that have a major impact on our business, high probability, and high cost performance of measures are given priority for identification and are managed by the Environment Committee. Concerning flooding and other disaster risks, measures are examined by the Company-wide Risk Management Committee and proposed to and determined by the Management Meeting. Based on the measures approved by the Management Meeting, persons responsible from plants and research sites, etc. engage in implementing the measures and managing them in a comprehensive manner. The impacts of risks and opportunities are revised every year and their management conditions are reported at the CSR Committee and Management Meeting.

Risks Associated with Climate Change

Factor		Value chain	Risk and impact		Financial impact*	Management approach
Society aiming to achieve 1.5°C of global warming	Regulatory risks	ONO	Increase in burden of carbon tax	Regulations related to climate change may be reinforced and the burden of the carbon tax on greenhouse gas emissions may increase.	¥1.9 billion	Achievement of greenhouse gas emission reduction targets (Scope 1 + Scope 2 emissions) in accordance with the target of 1.5°C; implementation of the energy saving and renewable energy investment plan for achieving said target.
		Suppliers	Shift of carbon tax to procurement price	Regulations related to climate change may be reinforced, the burden of the carbon tax on greenhouse gas emissions of suppliers may increase and it may be shifted to ONO's procurement price, and therefore costs may increase.	¥0.6 billion	Achievement of greenhouse gas emission reduction targets (Scope 3 emissions); reinforcement of engagement of suppliers for achievement of said target.
If the temperature increases by 4°C	Risks due to physical repercussions	ONO, Contract companies, Suppliers	Risk of floods (acute)	Risk of damage from unexpected typhoons, etc., such as flooding, may become greater and it may cause the suspension of operation due to damage to manufacturing equipment and may cause a decrease in income due to damage to storage facilities.	¥4.6 billion	Introduction of emergency power unit to major sites and their regular maintenance; integration of climate change-related risks to ERM; ensuring cooperation system with customers; and securing multiple suppliers.
			Risk of water shortage (chronic)	Due to the long-term depletion of water resources, operations may be suspended because of water usage restrictions and it may cause a decrease in income.	¥2.1 billion	Reinforcement of management of water-related risks in the entire supply chain (taking into account the impact from water shortage due to climate change in the selection process of customers; securing multiple suppliers).

Opportunities Associated with Climate Change

Factor		Value chain	Opportunity and impact		Financial impact*	Management approach
Society aiming to achieve 1.5°C of global warming	Opportunities arising from an efficient use of resources	ONO	High-efficiency pharmaceutical process	Introduction of high-efficiency pharmaceutical process (green sustainable chemistry, etc.) technology may create opportunities for raw material cost reduction, etc.	¥2.3 billion	Setting indices and developing systems related to the efficient use of resources.
If the temperature increases by 4°C	Opportunities arising from business	Customers	Preventive and therapeutic products	If disease trends change due to global warming, demand for existing drugs for said diseases (melanoma due to destruction of the ozone layer from the impact of global warming and other diseases) may increase or development and sale of new drugs may have a positive impact on income.	¥0.5 billion	Additional indications for existing pharmaceuticals, enhancement of new compound library, use of partnerships, etc.
Society aiming to achieve 1.5°C of global warming	Opportunities arising from reputation	Investors, Customers, Recruiting market	Improvement of corporate value	Our activities related to climate change are expected to contribute to acquiring the trust of customers, retaining employees, increasing evaluation in the recruiting market, improving the evaluation of ESG investors, and creating other corporate value.	(Contribution to creating corporate value)	Appropriate publication of results of activities conducted.

* Financial impact: The maximum amount of money during the period of 2020 to 2030 at 1.5°C or at 4°C

Indices and Targets

In order to reduce identified risks, we established a road map to achieve targets for the reduction of greenhouse gas emission volume based on our new medium- and long-term environmental vision and are examining measures and costs necessary for achieving the targets. Targets for a single fiscal year are established towards the achievement of medium- and long-term targets and we are assessing the results of the targets (progress) (in FY2019, emissions were reduced by 8.4% from FY2017). In FY2019, we engaged in activities under the medium-term environmental targets for reduction of greenhouse gas emission volume (FY2020 target) and new medium- and long-term targets for reduction of greenhouse gas emission volume. In addition, greenhouse gas emission volume in our value chain (Scope 3 emissions) is classified into 15 categories in accordance with the Guidelines of the Ministry of the Environment and has been calculated for our business sites in Japan since FY2014. Concerning water risks, we analyze the risks annually. We have also secured sufficient inventory and other measures in accordance with BCP as one of the company-wide risks and we will examine the establishment of a mutual complement system, securing multiple suppliers, and other measures.

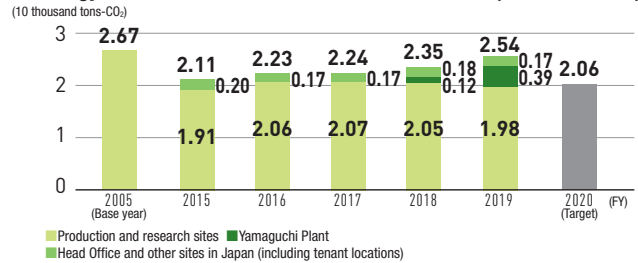
▶ Greenhouse Gas Emissions in ONO's Corporate Value Chain (Scope 3 Emissions)
<https://ono-csr.disclosure.site/en/themes/107#966>

Progress towards a Decarbonized Society

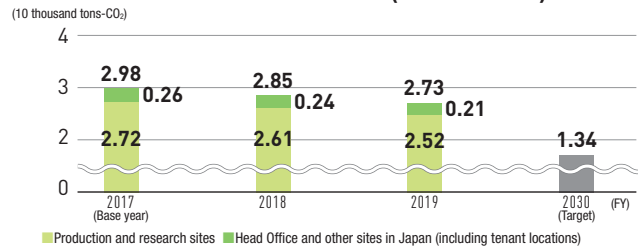
In FY2019, greenhouse gas emission volume from our production and research sites, which are the medium-term environmental target for reduction of greenhouse gas emission volume, were 23.7 thousand tons by location-basis*, and decreased by 11.2% from that in FY2005. The emissions increased by 9.2% from 21.7 thousand tons in the previous year. This is due to the start-up of operation at Yamaguchi Plant, which was newly established in FY2018. When the increase from the start-up of Yamaguchi Plant is deducted, it decreased by 25.8% from FY2005 and it achieved the target. Concerning the results of the newly established new medium- and long-term target for reduction of greenhouse gas emission volume, in Scope 1 + Scope 2 emissions, it was 27.3 thousand tons and reduced by 4.2% from 28.5 thousand tons in the previous fiscal year (reduced by 8.4% from FY2017). Concerning the medium-term environmental target for reduction of greenhouse gas emission volume, we achieved the target in FY2019. Therefore, we will accelerate our activities for emission reduction in order to achieve new medium- and long-term targets for reduction of greenhouse gas emission volume from the following fiscal year.

* Location-basis: FPMMAJ progress management factor
 Fiscal year 2010 and before: Adjusted carbon emission factor of the "carbon emission factors for electricity consumption (receiving end)" presented by Keidanren
 Fiscal years 2011 and 2012: Factors which were carbon emission factors on the generating end in cases where the earthquake disaster did not occur were converted into the receiving end, they were presented by Keidanren in FY2011: 0.927 t-C/10 thousand kWh (3.4 t-CO₂/10 thousand kWh)
 Fiscal year 2013 and after: Carbon emission factor target for FY2020 that the Federation of Electric Power Companies of Japan published before the Great East Japan Earthquake: 0.900 t-C/10 thousand kWh (3.3 t-CO₂/10 thousand kWh)

Energy-derived Greenhouse Gas Emission Volume (Location-basis)

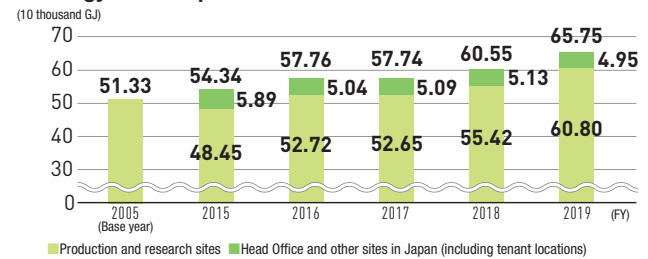


Greenhouse Gas Emission Volume (Market-basis*)



* Market-basis CO₂ emission volumes are calculated based on emissions coefficients published by each electric power company.
 GHG emissions were managed on a location-basis in and before FY2016 and on both location and market-basis in and after FY2017.

Energy Consumption



* Sites where greenhouse gas emission data and energy consumption data were collected: Fujiyama Plant, Joto Plant, Yamaguchi Plant (Added from FY2018), Minase Research Institute, Fukui Research Institute, Tsukuba Research Institute, Head Office, sales offices and other offices, etc.

Details on risks/opportunities regarding Climate Change, as well as CO₂ emissions are included in CDP climate change. These can be confirmed at the CDP website (CDP ID required).

▶ CDP website
<https://www.cdp.net/en/saml/new>

External Evaluation of Activities Related to Climate Change

In FY2019, we were selected by the CDP of Britain for inclusion in its "A List," the highest evaluation rating for two consecutive years under the climate change survey it administers. We received the 2019 Environment Minister's Award for Global Warming Prevention Activity in the "Implementation and Dissemination of Countermeasures" category from the Ministry of the Environment for its attainment of continuous activities, including practice and dissemination of activities to prevent global warming. In addition, we were introduced to the energy saving case collection created by the Kansai Bureau of Economy, Trade and Industry as a specified business showing successful results in energy saving from diversified perspectives.



Activities Towards Achievement of a Water and Resource Recycling Society

Towards Creating a Water Recycling Society —

The availability of high-quality fresh water is one of the important factors for us in conducting business activities. We are making efforts for achieving a water recycling society by establishing medium- and long-term targets (see p. 41) so as to mitigate the load on limited water resources. As for water risks and opportunities, the Environmental Committee leads and conducts surveys, and identifies/analyzes/evaluates the possible risks and opportunities that are considered to have impact on business.

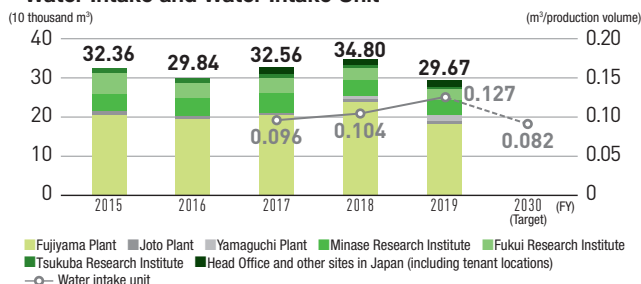
Risk evaluation at important sites that use large volumes of water is conducted using the WRI AQUEDUCT risk assessment tool of the World Resource Institute. As of the end of FY2019, none of our company's important sites operate or conduct water intake in areas categorized as being "extremely high risk" for water stress. We continue to operate in areas where it is possible to use good quality fresh water as needed for business operations, and our business activities are therefore not affected. In FY2019, the evaluation of ONO increased from B in FY2018 to A minus by the water security survey conducted by CDP of Britain.

▶ Analysis and Evaluation of Water-related Risk and Opportunity
<https://ono-csr.disclosure.site/en/themes/107#967>

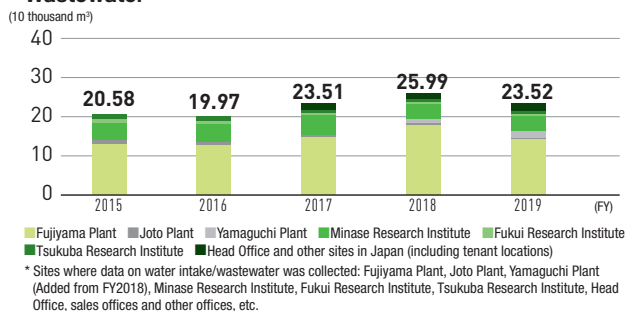
Progress towards a Realization of a Water Recycling Society

Water intake volume in FY2019 was 296.7 thousand m³. The result of medium- and long-term targets increased by 32.3% from FY2017 in production volume unit. This was due to a decrease in the number of boxes produced, which is used as a denominator for calculation. In FY2019, we engaged in a reduction of water intake volume of approx. 51.3 thousand m³ by optimizing the number of cooling towers for production equipment in operation in Yamaguchi Plant. In addition, Fukui Research Institute introduced water reuse equipment to control water intake.

Water Intake and Water Intake Unit



Wastewater



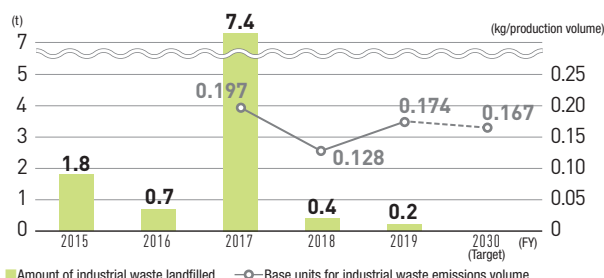
Towards Realization of a Resource Recycling Society —

ONO established three medium- and long-term targets (see p. 41) and is engaging in the realization of a resource recycling society. We are striving to recycle industrial waste and reduce landfill volume for final disposal, such as using thermal recycling by authorized heat recovery facilities and choosing final waste disposal sites that utilize the material recycling system. The production and research sites have achieved "Zero Emissions" and commit to continue the status. We are endeavoring to reduce the amount of waste generated by sorting waste appropriately based on our waste management regulations and waste sorting rules as we move forward with companywide efforts to reduce the amount of industrial waste emissions. In addition, we employed a 3R perspective in product packaging, changed packaging materials, and have taken other measures, and thereby are reducing environmental load.

Progressing towards a Resource Recycling Society —

The final disposal volume of industrial waste in FY2019 was 0.05% to the medium- and long-term targets and we achieved Zero Emissions. In addition, production volume unit of industrial waste emission volume decreased by 11.7% from FY2017. This was due to waste reduction activities, including thorough waste separation. In terms of business activities, packaging materials of some products were changed from plastics to papers and thereby the environmental burden after disposal was reduced. Products with the new packaging materials will be sold from FY2020.

Amount of Industrial Waste Landfilled and Emission Volume Units



* Sites where data on amount of waste landfilled was collected: Fujiyama Plant, Joto Plant, Yamaguchi Plant (Added from FY2018), Minase Research Institute, Fukui Research Institute, Tsukuba Research Institute
 * Amount of industrial waste landfilled in FY2017 included emission volume associated with renovation of Joto Plant (5.8 tons).
 * Emission volume units in FY2017 was calculated excluding emission volume associated with renovation of Joto Plant.

TOPICS

Reduction of Plastic Usage of Injection Packaging Box

We succeeded in changing trays (compartments) of the injection packaging boxes from plastic to paper. This resulted in decreases in plastic use volume of 4,800 kg in a year (prospect) and a reduction in volume (by 48% per box).
 (Package before change) (Package after change)



▶ Details of our environmental activities and environmental data are introduced on our CSR website.

<https://ono-csr.disclosure.site/en/>

Feature 02

Promoting “Health and Productivity Management” that produces vitality in the company

For ONO to contribute to society by creating and developing innovative pharmaceuticals, it is essential that all employees are mentally and physically healthy, that our worksite is a place where individual abilities can be fulfilled to their utmost, and that the lives of employees and their families are satisfying. ONO has organized the “Health Up Committee” along with the Representative Director’s health declaration and it is engaging in the promotion of “Health and Productivity Management” in a systematic way with our company, labor union, industrial health staff members, and health insurance society as a single team.



Establishing a cross-sectional operation system mainly through the Health UP Committee

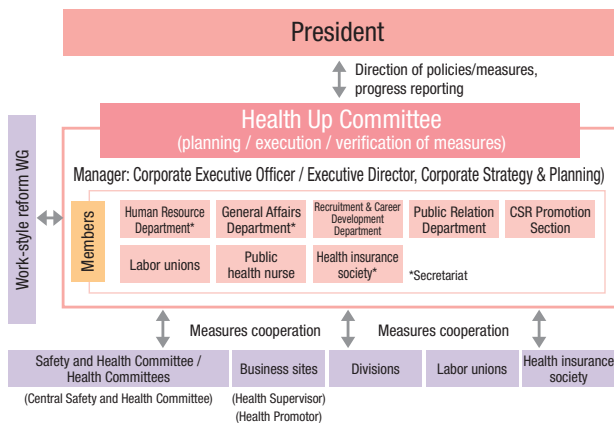
The Health UP Committee is an organization to help the entire company operate in a strategic way to maintain and improve employee health. Under the Chairperson, the Corporate Executive Officer (Executive Director, Corporate Strategy & Planning), the Committee consists of the Human Resource Department and occupational health staff that are in charge of health management, as well as the General Affairs Department, Recruitment & Career Development Department, Public Relation Department, CSR Promotion Section, Labor unions, and Health insurance society, and it is operated cross-sectionally.

The Health UP Committee is promoting more systematic activities and development of the workplace environment with initiatives such as, “Passive smoking prevention,” “Lifestyle-related diseases and cancer measures,” “Mental health measures,” and “Development of a self-care environment.”

To do so it requires cooperation from each safety and health committee at liaison meetings with major workplaces (Central Safety and Health Committee) for measures based on the Health UP Committee policy and working closely with health supervisors, health promoters of worksites and the work-style reform working group.

In April 2020 ONO established the Health Promotion Section an exclusive department for health management formed to develop more focused activities.

Operation Organizational Chart



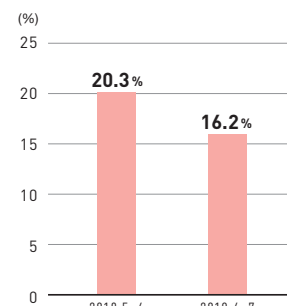
Continuously spiral-up activities by establishing and taking measures based on effect measurement

ONO engages in activities for the operation of “Health and Productivity Management” with an emphasis on effect measurement using performance indicators. For example, in the evaluation of passive smoking measures, we confirmed decreases in smoking rates and decreases in total annual medical expenses related to smokers, as a result of activities to increase awareness, environmental development, and support of smoking cessation that started in FY2018, and the entire smoking-free sites that started in April 2019. In addition, in order to measure the impact of “Health and Productivity Management” operations, we confirmed the amount of losses in labor productivity due to presenteeism (a situation where employees cannot perform at their true capability due to a mental or physical disorder even if they come to work) (FY2019: 33,000 yen/person/month). We validate effects from “Health and Productivity Management” activities as mentioned above and conduct a cycle to establish and implement new measures by the Health UP Committee.

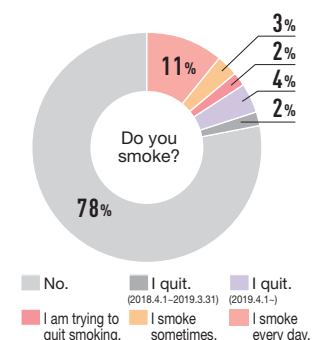
Furthermore, ONO engages in activities not only for itself, but also in consideration of the soundness of customers and community and of creating a healthy environment, for example, by developing the “ONO SWITCH Project” where part of the overtime allowances that were reduced by the work-style reform is donated to healthcare NPOs and NGOs (FY2018: 7.74 million yen; FY2019: 9.51 million yen), promotion of CSR procurement, development of activities to disseminate “Health and Productivity Management” by the Osaka Prefectural government, and more.

Results of Internal Investigation of Smoking

Smoking rates
(Source: Questionnaire in 2018 and 2019)



Results of the “Survey on Attitude (regarding smoking) for the Health and Productivity Management Activities” (May and June 2019)



Major Activities

Passive Smoking Prevention

- All sites smoking-free on the premises of the company (since April 2019)
- Activities to raise awareness by conducting internal questionnaires, displaying original posters, etc.
- Supporting employees trying to quit smoking by granting subsidies to see a doctor at a smoking cessation clinic, providing online programs for smoking cessation, etc.



Lifestyle-related Diseases and Cancer Measures

- Requiring employees to receive an annual health checkup (Employees over 35 years old and their dependent spouses can optionally undergo a complete medical checkup instead of a statutory health checkup)
- Established contract facilities for complete medical checkups in prefectures throughout Japan
- Supporting the cost of screening tests for each type of cancer
- After the medical checkup, occupational health staff may recommend that employees visit a medical institution, provide health guidance, recommend to participate in specific health instructions, etc.

Medical examination rate

99.7% (FY2019)

Mental Health Measures

- ONO has provided internal training on mental health and conducted individual consultations by occupational health staff
- Stress checks for all employees once a year
- Established an external free consulting service counter and developed a system where employees can consult with experts via phone or e-mail in addition to face-to-face consultation

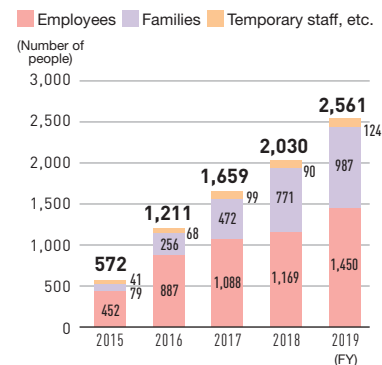
Rate of employees undergoing stress checks

99.8% (FY2019)

Development of Self-care Environment

- Operating a portal site where employees can check the results of their complete medical checkup and regular health checkups
- Established “Health Management Sites” that compile information from the stress-check system and health consultation counters
- Providing health-care application software for lifestyle correction and improvement
- Conducting a walking campaign every year for health improvement and reconstruction support for the Kumamoto Earthquakes (FY2019: Purchased 4.3 tons of new rice from affected farmers)
- Conducting an annual session to measure body composition, blood vessel age, bone density, and more at major workplaces
- Distributing health age notifications that are calculated based on the health checkup results and show the difference between health age and actual age ([Average of people over 35 years old] FY2018: -1.4 years; FY2019: -1.5 years)

Number of Participants in Walking Campaign



Recognized under the 2020 Health & Productivity Stock

Recognized for ONO’s activities towards Health and Productivity Management, ONO was recognized for the first time under the 2020 Health & Productivity Stock, selected jointly by the Ministry of Economy, Trade and Industry (METI) and the Tokyo Stock Exchange, as a listed company considering employee health management from the perspective of business management and engaging in the activities in a strategic manner. In addition, ONO has also been recognized for two consecutive years as an “Health & Productivity Management Outstanding Organization 2020 - White 500 (large enterprise category),” promoted jointly by the METI and Nippon Kenko Kaigi.



* “Health and Productivity Management” is a registered trademark of Nonprofit Organization KenkoKaigi

Human Resources and Human Rights

Concept of Human Resource Development —

We aim to develop human resources who become source for us to grow to be a global R&D oriented pharmaceutical enterprise as well as act in an ethical manner with a strong sense of responsibility as a member of a pharmaceutical enterprise involved in pharmaceutical products, which are closely related to the lives of people.

Desired characteristics of Ono Employees are those who:

- are motivated, proactive, self-disciplined, independent and make confident choices
- are innovative, aspirational and persistent
- can work collaboratively in a global team environment
- have a strong sense of ownership for, and take pride in their roles
- always has a positive attitude and seeks opportunities for professional growth
- act in an ethical, honest and trustworthy manner

Provision of Growth Opportunities —

We organize a wide range of training programs to provide employees with growth opportunities. For example, collective training is given in each phase of their career growth, we have introduced company-wide joint training for new employees along with all divisions, departmental introductory training, and annual training for young employees. We also organize training programs to cultivate global human resources who can work actively under any circumstances, and send employees to overseas affiliates.

For management staff, we provide training focusing on management skills required for their respective roles and managerial positions and for the growth of the organization, and we continuously enhance the training programs. After the training, the direct supervisor of participants assesses the

effects of the training. In FY2019, 79.3% of supervisors answered that “the behavior of my subordinates changed after the training.” Furthermore, to develop individuals with our desired attributes, i.e., “those who are self-disciplined, independent and make confident choices,” we work to expand voluntary training programs in which employees can choose to participate according to the interests and skills they want to develop. Also, to encourage the self-development of employees, we have introduced a subsidy program for employees who take classes for self-enrichment.

In addition, to provide growth opportunities for our employees, mainly medical representatives (MRs), we conduct on-site training at medical institutions and patient associations’ lecture meetings. This training enables our staff to listen firsthand to the opinions of patients and medical professionals and deeply understand the needs of those working at the medical frontlines. Thus, by providing broad-ranging opportunities to learn, we provide opportunities for growth through mutual stimulation.

Respect for Human Rights —

In every area of our business activities, ONO understands and respects the human rights of each individual in terms of the diversity of values, personalities, and characteristics and will act accordingly. In upholding this principle, we prohibit any discrimination or harassment in and outside the Company due to race, nationality, ethnicity, gender, age, colour, religion, belief or philosophy, sexual orientation or gender identity, academic background, disability or illness, or any other attribute.

ONO supports the 10 principles of the United Nations Global Compact and pursues human rights initiatives in compliance with international standards, including the Universal Declaration of Human Rights, the ILO’s Declaration on Fundamental Principles and Rights at Work, and other standards. We also engage in human rights due diligence to prevent and reduce adverse effects on human rights. In June 2020, we established these policies as the ONO Pharmaceutical Human Rights Global Policy. For details, please see our website.

Summary of Common Education and Training Programs for All Divisions in FY2019

Position		Activities to disseminate the mission statement	Training programs for future top management candidates	Global human resource development	Training by hierarchy	Self-development training	Other
Management staff	Corporate Officers	Workshop for deep understanding our mission statement On-site training at medical institutions Patient associations’ lecture meetings / Virtual Reality (VR) patient experience	Training selected employees	Special training program for global business Speaking skill of English training program	Manager training	Correspondence courses / Online foreign language conversation / Support for qualification tests Elective and voluntary training	Diversity management training Career planning training Coaching training
	Manager		Training selected employees		Training for new managers		
	Manager class		Training selected employees		Training for new core employees Training for individual contributors promoted to the highest level Training for general employees promoted to higher grades		
General employees	Manager candidate		Training selected employees		Training for individual contributors promoted to the highest level Training for general employees promoted to higher grades		
	Mid-level employee		Fifth-year employee training Third-year employee training				
	Newly hired employee		Follow-up training for newly hired employees Orientation for newly hired employees				

Promotion of Diversity and Inclusion

At ONO, we make continuous efforts to promote diversity in our workplaces. For the purpose of responding promptly and flexibly to environmental changes and increasing corporate value, we believe that it is important to enhance the diversity of our corporate members' attributes, set of values and behavior, while recognizing their individualities. In order to recognize the importance of diversity and to proactively incorporate diversity into our human resources strategies, we provide Diversity Management Training to all managers. In addition, we are promoting an increase in understanding by including content with the aim of increasing "Diversity & Inclusion" in the training provided based on the employees' years of service to the company and the job position. As well as striving to share information on know-how and activities for increasing diversity by participating in cross-industry study meetings and seminars.

Activities to Promote Female Employee Participation in the Workplace

A priority in this area is our recognition of the need for systems whereby female employees specifically can realize their full potential. As a result of our efforts to proactively hire female employees and discourage female employees from quitting after major life events, the number of female employees has been steadily increasing, and the employment rate of female employees as of March 2020 rose by 4.3% compared that as of March 2013. Other initiatives to create an environment in which female employees can play more active roles include the introduction of programs aimed at improving diversity and inclusion embedded within management staff training and seniority-/hierarchy- based training.

We have participated in the "Diversity Western Japan Study Group," which is operated voluntarily by about 60 companies

from western Japan and other parts of the country since 2015 to share information on know-how and initiatives focused on the improvement of diversity through participation in seminars held beyond the boundaries of companies and other activities.

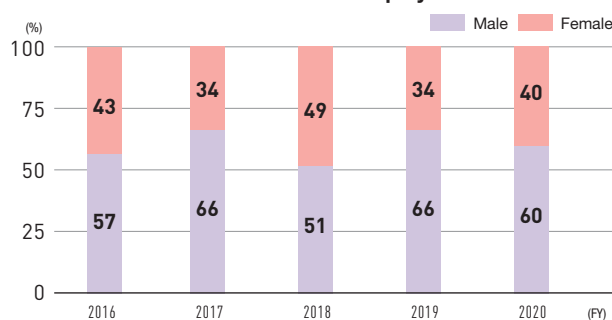
We continuously work to increase the number of female employees and build a system that helps women develop their career in line with our five-year action plan (from April 1, 2016 to March 31, 2021) formulated in response to the Japanese government's enactment in FY2015 of a law to promote women's roles in the workplace (Act on Promotion of Women's Participation and Advancement in the Workplace).

Effort Made for Promoting Active Participations of Persons with Disabilities and Employing Mid-career Persons

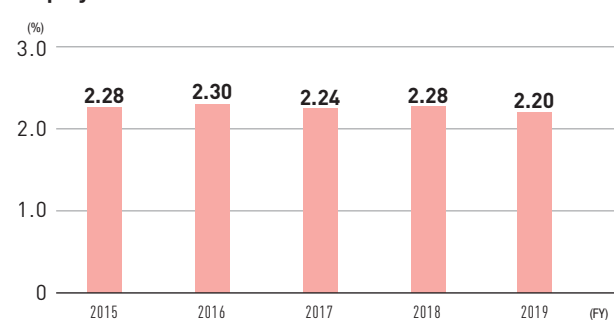
As part of its commitment to improving diversity, ONO has been actively recruiting persons with disabilities, who account for an employment rate of 2.20% as of March 31, 2020. This exceeds the legally stipulated rate. Approximately 50 employees with disabilities are currently playing an active role in their respective divisions.

We have also been expanding mid-career employment to quickly obtain human resources with the skills, knowledge, and experiences that are needed immediately. Especially since FY2014, when we started to actively promote such employment in consideration of changes in the business environment, the number of mid-career employees has been increasing substantially in broad range of jobs such as MRs, development personnel, staff in the safety information management department, and administration staff. A total of about 20 new employees joined ONO in FY2019. Many mid-career employees are working to play their respective parts using their experience and expertise.

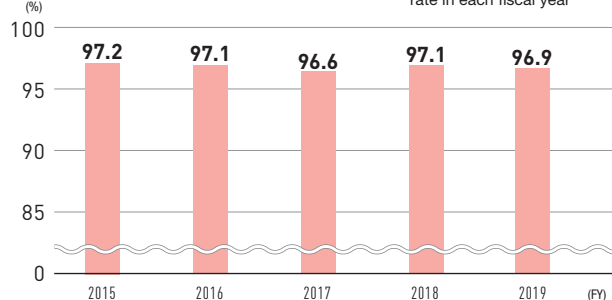
The Male-to-female Ratio of New Employees



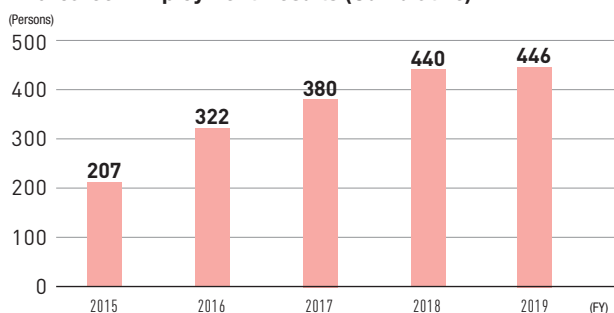
Employment Rate of Persons with Disabilities



Retention Rate of Female Employees * Retention rate: 100- turnover rate in each fiscal year



Mid-career Employment Results (Cumulative)



Cultivation of Employee-friendly Workplaces/ Safety and Health

ONO is moving ahead to create workplaces where employees can work with a sense of security. We are continuously committed to the development of support systems and working conditions that help employees work in various styles, as well as the improvement of their work-life balance, so that each and every person in our diverse workforce can bring energy to their work and demonstrate their full potential.

Promotion of the Review of Working Styles —

ONO reviews working styles with the purpose of increasing productivity by balancing improvements in operational efficiency with the creation of an attractive work environment. We appoint a promotion committee member in each department to involve the whole company in the activities, and the members work to raise awareness and encourage employees to improve operational efficiency and take paid holidays. We have also improved the system by making use of IT and introduced a flexible time system and telecommuting system. Through the use of these systems, we achieved such positive results in FY2019 as a 14.5% reduction in overtime work hours compared to FY2014, the year before the system was put in place, as well as a 24.7% increase in the rate of paid holidays taken.

Childcare Support Activities —

ONO recognize that one of the issues that companies should address is to support child-rearing families throughout society and to create an environment where children can be born and raised. In 2005, we formulated an action plan based on the “Act on Advancement of Measures to Support Raising Next-Generation Children” established by the Japanese government, and are working to support work-life balance. After April 2017, we introduced a new childcare support system, “Encouraging Leave for Childcare Participation,” and as a way to promote understanding of the workplace among male employees who take childcare leave, child-rearing is a life event for both men and women. We are also promoting the creation of an environment where men can actively participate in childcare. In November 2019, we received a special certification mark (Platinum Kurumin*) for its support for balancing work and childcare and creating a work environment.



*Kurumin Certification: A certification by the Minister of Health, Labour and Welfare for childcare support company.

Programs to Enhance Worker-friendliness —

ONO has in place various systems aimed at creating a pleasant working environment in addition to the programs required by law. We have listened to the voices of employees and developed systems that meet their actual needs. When introducing a program for which legal standards are specified, we set up the program in a way to exceed the standards. Thus, we continuously work to develop support systems so that employees have many options for working styles. We also prepare and post a booklet on our intranet that summarizes the systems to inform employees about the contents and how to use them.

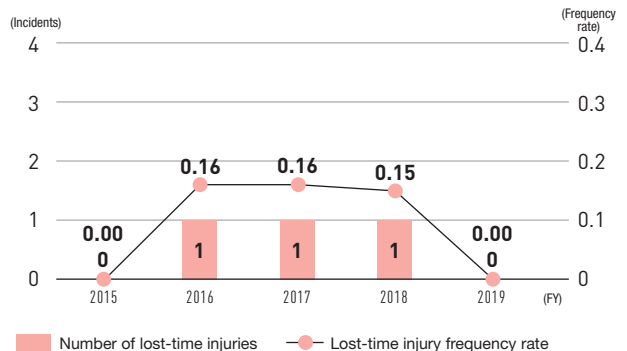
List of Support Systems

Systems that exceed the standards specified by labor related laws	Childcare leave, Shortened work hours for childcare, Nursing care leave
Legally required systems	Shortened work hours for nursing care, Family care leave
Systems that promote flexible working styles	Flexible working hours, Telecommuting system, Hourly-basis annual leave
Various leave and subsidy systems (extract)	Accumulated holidays, Holidays to encourage employees to take part in child-raising, Maternity protection leave, Support of employee volunteer activities, Subsidies for day-care centers and baby-sitting, Subsidies for sick child care
Other systems	Support for Employees with Cancer, Use of company cars to pick up and drop off children, Day-care Center Concierge (day-care center enrollment support system), Consideration of working sites in relation to marriage and spousal job relocation, Re-employment for employees who have quit ONO, Non-regular re-employment

Commitment to Safety and Health —

For safety and health, ONO holds regular meetings with the safety and health committee to identify issues and continuously improve the work environment. Our production sites and research institutes conduct safety and health inspections, share the problems identified during inspections in the committee, and make proposals for improvement to disseminate information and take relevant actions. The inspections are carried out in all ONO workplaces every year to check the items including measures and equipment for the prevention of fires and other disasters, safe handling of machinery, the level of safety in daily work, transport work, and the level of neatness, tidiness, and cleanliness in workplaces. At the ONO Head Office and other company sites where a Health Committee is established, the Committee discusses various issues to maintain employee health based on the results of workplace environmental measurements. In addition, the Central Safety and Health Committee is held to provide opportunities for sharing information and exchanging opinions between all Safety and Health Committees and Health Committees of each business and considering policies and measures that contribute to sanitation as a whole company.

Number of Lost-time Injuries and Lost-time Injury Frequency Rate



Scope of data collection: Employees at all worksites in Japan (excluding business vehicle accidents before FY2016)
Lost-time injury frequency rate=(number of lost-time injuries / total number of actual working hours) × 1,000,000

Social Contribution Activities

We recognize and engage in social contribution activities as initiatives for the sustainable development of society, under ONO's Global Policy on Social Contribution Activities.

▶ Ono's global policy for social contribution activities
<https://ono-csr.disclosure.site/en/themes/115#982>

Efforts for Advancement of Medicine and Pharmacy

We are making efforts to meet unmet medical needs and contribute to advancement of medicine and pharmacy. In 1988, the ONO Medical Research Foundation was established with donations from ONO. The Foundation provides grants for research activities in the field of lipid metabolism disorders and also aims to promote research and treatment in that field through various projects and thereby contribute to the health and welfare of the public. The Foundation has provided research grants and scholarships every year since its establishment and gave an Osamu Hayaishi Memorial Award to one researcher, research grants to 12 researchers, and scholarships (for researchers under 40 years old) to 16 researchers respectively in FY2019.

In addition, we have supported the Japanese Biochemical Society's Osamu Hayaishi Memorial Scholarship for Study Abroad, which assists researchers who are willing to research biochemistry-related life sciences in general in studying abroad, from FY2017, and we made a decision to support eight researchers in October 2019 as scholarship winners in FY2020. In addition, through the Ono Pharmaceutical Foundation's research grants to overseas researchers, we contribute to promoting research and the foundation of innovation.

Efforts for Supporting Patients and Their Families

We conduct the following health-related activities to provide a wide range of support for people such as patients and the families of patients.

- Transmitting Information through the Website
 - For Patients and Families: Explaining the symptoms and treatment of familiar diseases and everyday practices for health.
 - ONO ONCOLOGY: ONO provides a website where you can learn about diseases and treatment in oncology and the concept of cancer immunity.
 - Dementia Treatment Connected by Smiles and Heart: ONO operates a website that considers dementia with people involved in dementia treatment and nursing care.
 - Released a short movie to increase dementia awareness: "Grandma's World."
 - Providing free smartphone applications aimed at supporting patients with lifestyle diseases.
- Cooperation in holding seminars for citizens on diseases
- Participation in Relay for Life (since FY2014): Participating in activities to support patients with cancer and their families, to face cancer as an entire community, and to control cancer.
- Implementation of "Communication & Link Exhibition": Introducing the paintings, calligraphy, and other works created by patients with dementia on the website.
- Supporting member of Solaputi Kids' Camp (since FY2014): ONO supports this camp with medical care where children with serious illnesses can pursue their dreams.

Efforts toward an Education for the Children's Health

We are continuously engaging in activities to support the development of children, who will be responsible for the future.

Implementation of "Healthy Body Campaign" (since FY2014)	A reconstruction assistance activity from the Great East Japan Earthquake to contribute to reducing one of the social issues in affected areas, childhood obesity, by cooperating with top athletes and medical specialists on lifestyle-related illnesses.
Classes focusing on dementia by visiting schools (since FY2014)	Classes for junior- and senior-high school students with medical specialists as lecturers to consider dementia as a familiar disease and to acquire appropriate knowledge.
Science classes focusing on medicine (Minase Research Institute: Since FY2015; Joto Plant: Since FY2019)	Science classes provided by ONO researchers to increase interest in studying science among 6th grade elementary school students in the town of the Minase Research Institute and the neighboring Joto Plant.
Donation of toothbrushes (Minase Research Institute: Since FY2014; Joto Plant: Since FY2018)	ONO donates toothbrush sets to children in elementary schools, kindergartens, and nursery schools in the town of the Minase Research Institute and children in the elementary school neighboring the Joto Plant for Tooth and Mouth Health Week, from June 4 to 10.
Sponsoring the performance Kokoro no Gekijo (Theatre of the Heart), hosted by the Shiki Theatre Company / Butai Geijutsu (Performing Arts) Center (since FY2017)	Activities to invite children to the theater with the aim of sharing the importance of life and the heart to consider a person with children through performing arts.
Sponsoring "Kodomo Hon no Mori Nakanoshima (The Nakanoshima Children's Book Forest)" (since FY2017)	Activities aimed at encouraging children to develop rich creativity through books, arts, and culture.



Healthy Body Campaign



Science classes focusing on medicine



▶ For more details on Social Contribution Activities, see ONO's CSR website.
<https://ono-csr.disclosure.site/en/themes/115>

Efforts Made for Improving Access to Healthcare

Even today as we see remarkable developments in the medical field, there are many diseases against which no effective treatment exists. Also, in low- and lower middle-income countries, there are many people who have difficulty receiving necessary medical care due to various reasons such as inadequate medical infrastructure and poverty. Under the corporate philosophy “Dedicated to Man’s Fight against Disease and Pain,” we aim to improve access to healthcare by pursuing the following goals: the development of innovative pharmaceutical products, improvement of medical infrastructure, and establishment of partnerships with outside parties. We currently sell our pharmaceutical products ourselves in Japan, South Korea, and Taiwan; in Asia, including Japan, we will make efforts for improving access to healthcare including the treatment of rare diseases. In regions other than Asia, we will make efforts to provide pharmaceuticals with the help of our partner companies. We will also work on supporting medium- and long-term activities to strengthen medical systems by means such as medical education and the development of medical infrastructure through partnerships with NPOs and the Global Health Innovative Technology Fund.

▶ Our policies on intellectual property rights and on patents in countries with limited access to healthcare are introduced on our CSR website.

<https://ono-csr.disclosure.site/en/themes/124#907>

The Direction of our Efforts

- Promotion of research and development for measures against diseases for which patients’ medical needs are not yet met, rare diseases, and intractable diseases
- Local medical education, training of medical personnel, improvement of medical supplies in countries and regions where medical infrastructure is not fully developed
- Strengthening the medical system through partnerships with external parties

Working on the Creation of Pharmaceuticals

We are developing pharmaceuticals and providing pharmaceuticals through drug discovery and licensing activities for rare diseases for which the number of patients is small and therefore it is difficult to develop therapeutic agents. In addition, we consider pharmaceuticals that are appropriately assessed for children should be used for child patients and we engage in obtaining additional approval for indications for child patients. For drug discovery and research for intractable diseases, we are engaging in activities to provide new options for treatment in industry-academia cooperation. Together with Keio University, Kochi University, the National Institute of Biomedical Innovation, Health and Nutrition, Mitsubishi Tanabe Pharma Corporation,

Efforts Made against Rare Diseases

Product name	Indication	Date designated as an orphan drug	Status
OPDIVO intravenous infusion	Unresectable melanoma	2013.06.17	Approved
	Relapsed or refractory classical Hodgkin lymphoma	2016.03.16	Approved
	Unresectable advanced or metastatic malignant pleural mesothelioma	2017.12.01	Approved
DEMSER Capsules	Improvement of status of catecholamine excess secretion in patients with pheochromocytoma	2015.05.25	Approved
KYPROLIS for intravenous infusion	Relapsed or refractory multiple myeloma	2015.08.20	Approved
ONOACT for intravenous infusion	Refractory and urgent fatal arrhythmia (ventricular fibrillation and hemodynamically unstable ventricular tachycardia)	2016.08.24	Approved
MEKTOVI Tablets	Unresectable melanoma with a BRAF mutation	2018.03.30	Approved
BRAFTOVI Capsules	Unresectable melanoma with a BRAF mutation	2018.03.30	Approved
VELEXBRU Tablets	Primary central nervous system lymphoma (PCNSL)	2019.08.20	Approved
	Waldenstrom macroglobulinemia (WM) and lymphoplasmacytic lymphoma (LPL)	2019.11.19	Approved

Efforts to Obtain Approval for Pediatric Use

Product name	Indication	Status
ONON Dry Syrup	Bronchial asthma and allergic rhinitis	Approved
EMEND Capsules	Digestive symptoms (nausea, vomiting) resulting from the administration of antineoplastic agents (cisplatin, etc.) (including the delayed phase)	Approved
PROEMEND for intravenous injection	Digestive symptoms (nausea, vomiting) resulting from the administration of antineoplastic agents (cisplatin, etc.) (including the delayed phase)	Approved
ORENCIA for intravenous infusion	Active polyarticular juvenile idiopathic arthritis	Approved
ONOACT for intravenous infusion	Tachyarrhythmia in low cardiac function	Under Development

and Daiichi Sankyo Co., Ltd., we established the Immune-mediated Inflammatory Diseases Consortium for Drug Development for the purpose of drug development research targeting intractable immuno-inflammatory diseases in May 2018. It is expected that the achievements of this consortium will lead to the creation of next-generation pharmaceuticals with high utility against intractable immunoinflammatory diseases and also enable the provision of new treatment options for patients and healthcare professionals.

Participation in the Global Health Innovative Technology Fund

We became a member company of the Global Health Innovative Technology Fund (GHIT Fund) in 2018. The GHIT Fund is an international, non-profit organization that invests in the development of new drugs against various diseases such as malaria and tuberculosis, other less marketable drugs against neglected tropical diseases and other minor diseases, vaccines, and diagnostic agents, and is funded by the Japanese government, the Bill & Melinda Gates Foundation, the Wellcome Trust, and private enterprises in Japan and overseas. In order to reduce the health disparities between developed countries and low- and middle-income countries, the therapeutic agents, vaccines, and diagnostic agents developed through the GHIT Fund's investments are priced according to the "No Gain, No Loss" principle. We understand the efforts and policy, and we contribute to the funding of the GHIT Fund. Through participation in the GHIT Fund, we will strengthen the establishment of partnerships aiming to improve access to healthcare in low- and middle-income countries.

ONO SWITCH Project

As an effort made to promote both Work Style Reform and activities to contribute to society, we started ONO SWITCH Project in August 2018. This effort is an effort to make donations to NPOs/NGOs related to medical care using the money saved through the reduction of overtime work through the promotion of Work Style Reform, aiming to further promote the embodiment of the corporate philosophy "Dedicated to Man's Fight against Disease and Pain" by contributing to the promotion of working style reform and healthcare and people's health around the world.

The project was named by abbreviating **S**ave the **W**orld by our work style **I**mprovement and **C**Hange (meaning saving the world through improvement and reform of our ways of working). The project name also expresses switching work methods to new ones, switching the funds obtained through working style reform to donation, and switching on the process of reexamining how to work.

In this project, we will work on improving access to healthcare products and improving medical infrastructure through partnerships with outside parties.



Example of Projects Donated to by ONO: A scene at a training session on primary life-saving measures in Cambodia

Recipients of ONO SWITCH Project (FY2019) We donated to the following NPOs based on responses to questionnaires targeting all our employees.

Partner	Description of efforts made	Area of operation
Vaccines for the World's Children Japan Committee	(1) To donate combined diphtheria/pertussis/tetanus (DPT) vaccines (for 50,000 persons) and hepatitis B vaccines (for 8,000 persons). (2) To donate coolers for vaccines leading to support for medium- and long-term vaccine supplies.	Bhutan
Japan Heart	(1) Continuing support for the education of students aiming to become healthcare personnel since FY2018. (2) Donated CBCs*1 (automatic blood cell counters) so that accurate examination results were able to obtain from patients with dengue fever, etc. (3) To use practice models and provide lessons on cardiopulmonary resuscitation and delivery assistance for community members and staff members.	Cambodia
Future Code*2	(1) To donate PCR testing equipment for detection of novel coronavirus or X-ray equipment to new hospitals. (2) To provide medical examinations and hygiene education, including handwashing, etc., at orphanages.	Bangladesh
People's Hope Japan*2	(1) To support training and skill monitoring for midwives. (2) To support training and skill monitoring for assistant midwives.	Myanmar

*1 CBC: It refers to an automatic blood cell counter or automatic hemocytometer that measures red blood cells, white blood cells, blood platelets, etc. *2 These activities will start in FY2020.

▶ Details of ONO SWITCH Project are introduced on ONO's CSR website.
<https://ono-csr.disclosure.site/en/themes/124#909>

Feature 03

Response to risks based on ERM

Business activities involve environmental issues, natural disasters, violation of laws, and various other risks in addition to the risks unique to pharmaceutical companies. ONO introduced Enterprise Risk Management (ERM) in FY2019 so that we can make optimal decisions and provide responses from a company-wide perspective. We are improving our cross-sectional ability to manage risks by identifying them and establishing countermeasures primarily through the Risk Management Office, which was established in April 2019.

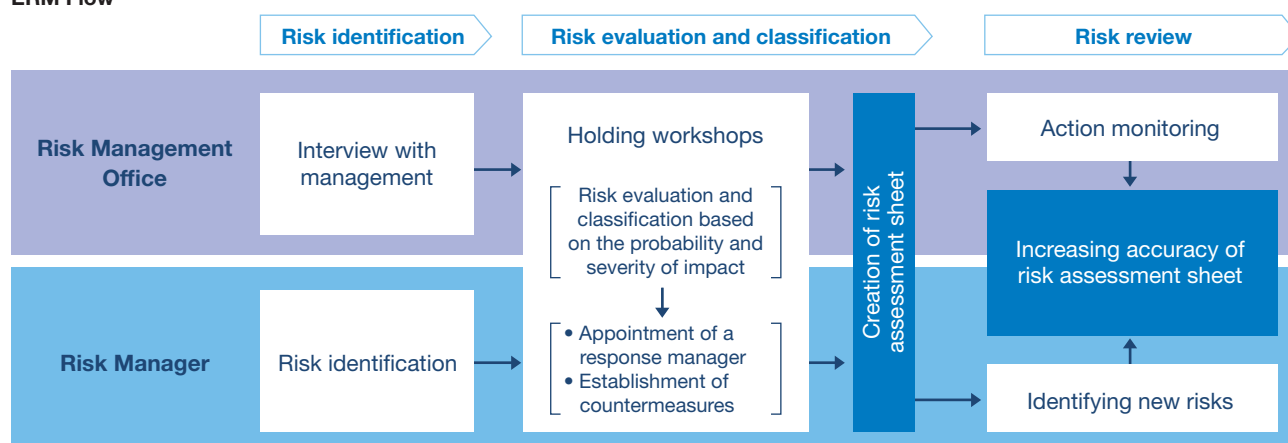
Management and persons in charge identify risks and the risks are evaluated and classified by workshop

In the first step to promote ERM, we identified risks related to our company. First, the Risk Management Office interviewed management and identified risks that the management considered to be important. Next, the Risk Management Office appointed several risk managers (persons in charge with the initiative to conduct risk management activities in each division) from each division and evaluated and classified risks in the form of workshops. Risks that were considered by management and risks collected by each risk manager were discussed along with possible scenarios in the workshop. They evaluated the probability of said risks across 7 levels and the severity of impact when a risk occurs across 5 levels, arrived at a risk index, and classified each risk as Significant, High, Medium, and Low. The response manager and countermeasures for each risk were also determined. The Risk Management Office adjusted duplications and deviations in standards and compiled said risks and countermeasures in a Risk Assessment Sheet after obtaining confirmation by each division.

Establishing the ERM system and periodic monitoring of response conditions

The response manager is designated to identify risks and assumes responsibilities for countermeasures. In particular, concerning risks that should be handled intensively, we established a system to select them as Serious Risks at the Management Meeting, allocate resources on a preferential basis, and take actions and conduct monitoring company-wide. Furthermore, concerning complex risks requiring urgent and company-wide actions, such as massive natural disasters and novel coronavirus infectious disease (COVID-19), possible risk scenarios will be developed, a system will be arranged by identifying an overall picture, and then issues will be resolved. The Risk Management Office takes the initiative and monitors actions against these serious risks and actions taken by each department. In addition, the Risk Management Office periodically adds new risks and reviews the risk index in association with environmental changes in cooperation with risk managers. Through these activities, ONO continues to increase the accuracy of the risk assessment sheet and strives to reduce risks.

ERM Flow



Major Risks and Countermeasures (extract)

There are 18 major risks that ONO indicated in the Securities Report in FY2019. Among others, the following six items were judged to have particularly high impact and risk. We also identified risks unique to ONO and new risks in addition to the aforementioned risks.

Risk factors	Risk outline	Countermeasures
Development of new products	<ul style="list-style-type: none"> Long-term and significant investment in research and development did not result in the release of inventive new drugs and development was abandoned. 	<ul style="list-style-type: none"> Strengthening a system to engage in our drug discovery by focusing on research fields. Adopting the world's most advanced technologies and knowledge and promoting open innovation to increase the speed of new drug development and the probability of success.
Changes in market environment	<ul style="list-style-type: none"> Decreases in product competitiveness due to sales conditions of competing products and generic products. 	<ul style="list-style-type: none"> Maximize product value by conducting proactive research and development activities, prompt cooperation between departments throughout the company, and strengthening functions to foster human resources. Review of strategy that can always ensure competitive superiority for each product stage and protecting resources to achieve it.
Compliance	<ul style="list-style-type: none"> Decreases in trust if our Group and contractors cause a critical violation of laws. Restriction of business activities due to amendment of laws and regulations, etc. and investment in countermeasures. 	<ul style="list-style-type: none"> Development and practice of the compliance system based on the ONO PHARMACEUTICAL Code of Conduct. Establishment of the compliance promotion system. Thorough compliance with laws and regulations related to business activities.
Product quality control	<ul style="list-style-type: none"> In the event of serious quality problems or concern over the safety and security of products based on new scientific knowledge, the brand value of the product may decrease and the trust in entire our group may be damaged. 	<ul style="list-style-type: none"> Establishment and continued improvement of the quality control system based on the original quality control manual. Development of the system to promptly respond to cases that concern product quality, efficacy, and safety.
Acquiring and fostering human resources	<ul style="list-style-type: none"> Stagnation of business activities if diverse and excellent human resources cannot be acquired and fostered in the medium- and long-term. 	<ul style="list-style-type: none"> Development of a support system and work environment where multiple workstyles are allowed. Implementation of the training system based on individual growth and capability. Promotion of women's participation and advancement, promotion of the activities of people with disabilities, and promotion of employing mid-career individuals.
Natural disasters and accidents in association with large-scale earthquakes and climate change	<ul style="list-style-type: none"> Stagnation of business activities due to natural disaster in association with large-scale earthquakes and climate change, explosions and fire accidents at production plants, information and control system troubles, problems at raw materials suppliers, functional failure of society's infrastructure such as electricity, water, etc., environmental pollution by hazardous substances, terrorism, political turmoil, riot, etc. 	<ul style="list-style-type: none"> Establishment of disaster measures and business continuity plan (BCP) for production plants and major business bases. Actions for climate change risks based on the proposal of TCFD. Strengthening ability to handle emergency situations by development of the 2 bases system, introduction of the Safety Confirmation System, and conducting periodic disaster-drills.

▶ Part of the major risks identified in the Securities Report are extracted and indicated in the above table. For more details, please see the following Securities Report (only in Japanese) and CSR website.

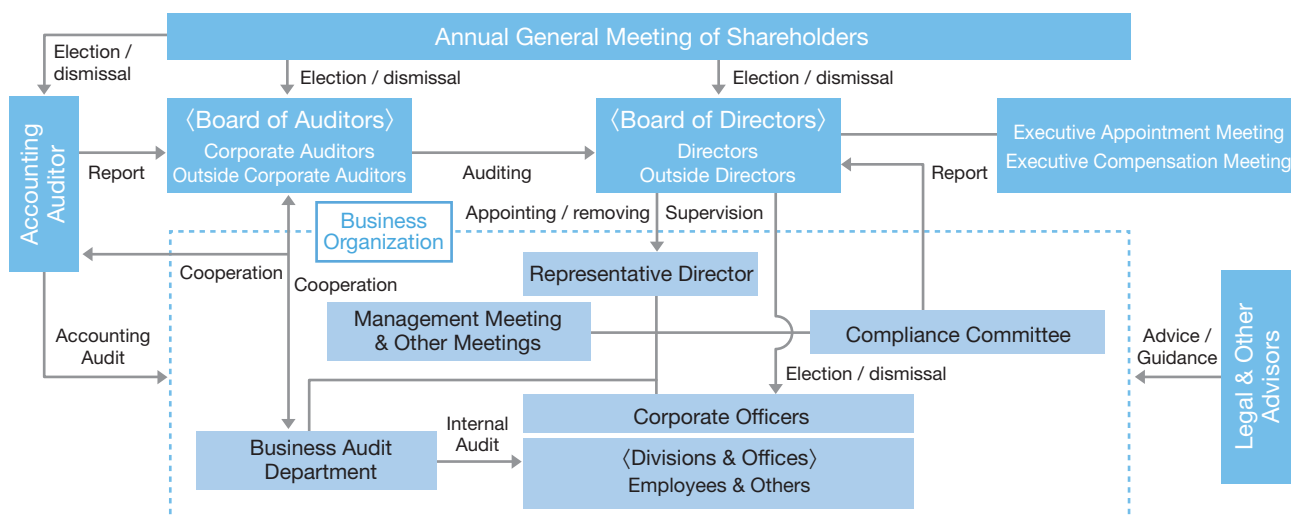
https://www.ono.co.jp/jpnw/ir/pdf/y_houkoku/ns_ver4_200619.pdf

Corporate Governance

Corporate Governance Structure

As part of our endeavors to strengthen corporate governance, ONO has adopted an organizational framework with a Corporate Auditor (or Board of Corporate Auditors) whose task is to focus on enhancing the functions of the Board of Directors and the Board of Corporate Auditors. ONO has established the Executive Appointment Meeting and the Executive Compensation Meeting, both of which are comprised mainly of Outside Directors in order to ensure independence and objectivity with regard to the appointment and remuneration of the Executive Members.

Regarding business execution, we have adopted a corporate officer system to improve management efficiency and speed up decision-making. On the other hand, depending on the importance and contents of the management issues, important matters related to business execution are deliberated and determined by the Management Meeting and other meetings chaired by the responsible Members of the Board of Directors or Corporate Officers. Thus we strive to achieve optimal business operations by ensuring effective working of mutually supervisory functions.



Board of Directors

As for board members, we select the candidates taking into consideration the balance and diversity of their knowledge, experience, and proficiency, so that the Board of Directors as a whole can make technical and comprehensive management decisions. The term of office for each director is limited to one year. This serves to clarify their responsibility, and it allows the board to respond flexibly to changes in the management environment.

The board system is determined in a way that is optimally suited to enforcing management transparency, enhancing corporate governance and making decisions promptly and accurately. Currently, the board consists of eight members, including three outside directors. The board holds meetings every month in principle to deliberate and make decisions on important management issues and to assess how each board member is conducting his or her duties. In addition, the board places great weight on the opinions of the auditors, and also incorporates the perspectives of legal, financial and accounting experts, as well as gender perspectives, into its deliberations.

Board of Auditors

To maintain a strong auditing function, the Board of Auditors comprises two independent outside auditors along with two full-time auditors who have expert knowledge on our business operations and who are highly skilled in collecting auditing information. These full-time and outside auditors work together to achieve high auditing efficiency.

The Board of Auditors holds meetings regularly. Working with the internal auditing department (Business Audit Department) to enforce auditing efficiency, the Board of Corporate Auditors

endeavors to improve its functions of the management oversight by enhancing the effectiveness of audits in cooperation with the accounting auditor.

Executive Appointment Meeting

The Executive Appointment Meeting comprises the company president who serves as the chairperson, one internal director and three external directors. It is charged with deliberating our company's approach to corporate governance, including ensuring transparency and objectivity in the nomination of members of senior management, as well as candidate board members and auditors. Its duties also include formulation of plans for succession for the chief executive officer (president/CEO) and other senior management. Executive appointments, requiring consultation by the Board of Directors, are decided after being placed on its agenda upon deliberative review by the Executive Appointment Meeting.

Executive Compensation Meeting

The Executive Compensation Meeting comprises the company president who serves as the chairperson and three external directors. Its duties include ensuring transparency and objectivity in determining the amount and calculation of remuneration for each individual board member. It also deliberates the appropriateness of the remuneration system for board members and our ongoing approach to maintaining the system. Executive remuneration, etc., requiring consultation by the Board of Directors, is decided after being placed on its agenda upon deliberative review by the Executive Compensation Meeting.

Evaluation of the Effectiveness of the Board of Directors

ONO conducts self-evaluations on the composition, operation and other matters of the Board of Directors once a year with the aim of improving the effectiveness of the Board of Directors as a whole.

Results of analysis and evaluation of the effectiveness of the Board of Directors as a whole conducted in FY2019 are summarized as follows:

(1) Method of evaluation

ONO conducted a questionnaire survey of all Members of the Board of Directors and all Audit & Supervisory Board Members (excluding Outside Corporate Auditors who resigned due to illness) requiring respondents to provide their names in the answer sheets, as well as one-on-one interviews with them, after explaining the purpose of the evaluation of the effectiveness at a meeting of the Board of Directors. Based on the answers and opinions gained from the survey and interviews, the Board of Directors conducted analysis and self-assessments of its effectiveness and discussed challenges to tackle as well.

Contents of the questionnaire and interviews

- Size and composition of the Board of Directors
- Operation of the Board of Directors
- Roles and responsibilities of the Board of Directors

(2) Summary of results of analysis and self-evaluation of the effectiveness

- The Board of Directors makes important management decisions in an expeditious and appropriate manner, and the system that allows appropriate supervision of business execution has been ensured.
- Measures have been taken on an ongoing basis to improve the operation of the Board of Directors, including a review of matters for deliberation at the Board of Directors in light of the management environment and the situation of the Company.
- Members of the Board of Directors and Audit & Supervisory Board Members, including Outside Directors and Outside Audit & Supervisory Board Members, are freely expressing their opinions from their own perspectives, based on the common understanding of the corporate philosophy and the management issues of the Company.

Based on the results above, ONO concluded that the effectiveness of the Board of Directors of the Company has been ensured.

(3) Initiatives towards the improvement of the effectiveness

Amid the drastically changing environment surrounding the Company, the Board of Directors of the Company will further improve its effectiveness by enhancing discussions on the direction of management from a medium- and long-term perspective.

Executive Remuneration

〈Policy on Determining Remuneration〉

The remuneration of Members of the Board Directors, excluding Outside Directors, consists of fixed remuneration, bonuses, and stock-based remuneration-type stock options, while the remuneration of Outside Directors and Audit & Supervisory Board Members consist of fixed remuneration only.

Fixed part of the remuneration of Members of the Board of Directors, excluding Outside Directors, is set at an appropriate level by taking into account the business scale of the Company, duties and weight of responsibility of individual Members of the Board of Directors, consistency with the treatment of employees and other factors, while also referring to the executive remuneration database of a major consulting firm. The amount of bonus to be paid and the number of stock-based remuneration-type stock options to be granted are determined by taking into account the management indicators, such as sales and operating profit that reflect financial performance, as well as the degree of achievement of qualitative activity indicators, including contributions to an increase in corporate value over the long term.

Outside Directors and Audit & Supervisory Board Members only receive fixed remuneration in light of their responsibilities and independence from business execution. The level of remuneration of Outside Directors/Outside Audit & Supervisory Board Members is set by also referring to the executive remuneration database of a major consulting firm so that the Company can invite suitable persons with ample experience and extensive knowledge from a wide-ranging group of people.

〈Procedures for Determining Remuneration〉

The remuneration of individual Members of the Board of Directors is discussed and determined by the Board of Directors based on the above policy and within the amounts approved at the Ordinary General Shareholders' Meeting after deliberation by the Executive Compensation Meeting.

The remuneration of Audit & Supervisory Board Members is determined within the maximum amount approved at the Ordinary General Shareholders' Meeting through discussion among Audit & Supervisory Board Members.

Executive Remuneration for FY2019 (Results)

Executive category	Number of executives to receive remuneration	Fixed remuneration	Bonuses	Stock options	Total amount of remuneration
Members of the Board of Directors, excluding Outside Directors	5	¥221 million	¥81 million	¥27 million	¥328 million
Outside Directors	3	¥40 million	—	—	¥40 million
Audit & Supervisory Board Members, excluding Outside Audit & Supervisory Board Members	2	¥56 million	—	—	¥56 million
Outside Audit & Supervisory Board Members	2	¥22 million	—	—	¥22 million
Total	12	¥338 million	¥81 million	¥27 million	¥446 million

Outside Directors / Outside Auditors

The outside directors attended all meetings of the Board of Directors held in FY2019. From an independent and objective standpoint, they oversee our business operations and take part in our decision-making process. They are involved in the process of making important decisions such as nomination of officers and executive compensation, help to ensure the transparency and objectivity and enhance the functions of the board by serving as members of the Executive Appointment Meeting and the Executive Compensation Meeting. In FY2019 the Executive Appointment Meeting was held 3 times and the Executive Compensation Meeting was held twice, and all meetings were attended by the outside director.

The outside auditors (excluding auditors who resigned due to illness) attended all meetings of the Board of Directors and the Board of Auditors held in FY2019. As experts in law and corporate accounting, the outside auditors carry out the audits from an independent and objective standpoint to ensure that our management remains sound and strong.

Outside officers provide useful advice and suggestions for our business management based on their abundant experience and profound knowledge.

There is no special interest relationship between these outside officers and ONO such as personal relationships, capital relationships, and business relationships, based on which we

believe there is no risk of conflict of interest with general shareholders.

Training Policy for Directors and Audit & Supervisory Board Members

ONO appoints candidates for Member of the Board of Directors and Audit & Supervisory Board Member, including those for Outside Directors and for Outside Audit & Supervisory Board Member, from those who are considered capable of fulfilling their expected roles and responsibilities. The Members of the Board of Directors and Audit & Supervisory Board Members newly appointed from within our company then attend outside seminars, in order to deepen their understanding of the roles and responsibilities of Members of the Board of Directors and Audit & Supervisory Board Members. Conversely, for Outside Directors and for Outside Audit & Supervisory Board Members, we provide training, with consideration of their background, to deepen their understanding of the business of the Company and industry trends. ONO also offers and arranges opportunities for training necessary for individual Members of the Board of Directors and Audit & Supervisory Board Members after their appointment, and bears the cost of such training.

Expected Roles of Outside Directors and Outside Auditors

	Name	Expected roles	Attendance at meetings (Results in the fiscal year that ended in March 2020)
Outside Director	Jun Kurihara	With broad knowledge and abundant experience gained from research inside and outside Japan and as one of the leading researchers in fields related to politics, the economy, and society, Mr. Kurihara has fulfilled important roles as an outside director by providing appropriate supervision to our company management from an independent standpoint as well as useful advice and suggestions. We expect that he will contribute to maintaining and improving sound management and appropriate operation by being involved in the management of our company as an outside director.	Meeting of Board of Directors: 13 times / 13 times Executive Appointment Meeting: 3 times / 3 times Executive Compensation Meeting: 2 times / 2 times
	Masao Nomura	Mr. Nomura has abundant experience and advanced knowledge as he has served as a management executive over the years and he has fulfilled important roles as an outside director by providing appropriate supervision of our company management from an independent standpoint as well as useful advice and suggestions. We expect that Mr. Nomura will continue to be involved in our company management as an outside director and thereby contribute to increasing our company value.	Meeting of Board of Directors: 13 times / 13 times Executive Appointment Meeting: 3 times / 3 times Executive Compensation Meeting: 2 times / 2 times
	Akiko Okuno	Ms. Okuno has extensive academic knowledge as a university professor specializing in business administration. We expect her to provide us with valuable advice and suggestions based on her knowledge of specialized fields, such as women's labor and personnel evaluation systems. We believe that she will contribute to the enhancement of corporate values by becoming involved in our management as an outside director in the future.	(Appointed June 2020)
Outside Auditor	Yasuo Hishiyama	With abundant experience and advanced knowledge of corporate legal affairs as an attorney-at-law, Mr. Hishiyama has fulfilled important roles as an outside auditor by providing appropriate supervision of the operations of our company directors from an expert and independent standpoint as well as findings and suggestions if needed. We expect that he will contribute to maintaining and improving sound management and appropriate operation by being involved in the management of our company as an outside auditor.	Meeting of Board of Directors: 13 times / 13 times Meeting of Board of Auditors: 14 times / 14 times
	Akiko Tanabe	With abundant experience and considerable knowledge of accounting as a certified public accountant, we expect Ms. Tanabe to provide us with supervision of the operations of our company directors from an expert and independent standpoint as well as findings and suggestions as required. We expect that she will contribute to maintaining and improving sound management and appropriate operation by being involved in the management of our company as an outside auditor.	(Appointed June 2020)

Internal Control System

ONO has laid out our operational system in compliance with the internal control system set out at the board of directors meeting. We also strive to ensure compliance and detect internal control problems at an early stage through auditing by the Internal Auditing Department (Business Audit Department) and we thereby maintain and improve the appropriateness of organizational management. Furthermore, we have established compliance notification and consultation windows in and outside the company to increase the self-cleansing function of the organization and to reduce reputation risks due to notification outside the company. The development and operation status of the internal control system is reported periodically to the board of directors meeting with the aim of constantly improving organizational operation.

Concerning antisocial forces or organizations that may threaten social order or security, we communicate our firm stance to fight against them throughout our organization.

Operational Management Structure

For the improved efficiency and accuracy of our decision making and business operations, we hold Management Meetings and other meetings attended by the president, board members, corporate officers in charge of each division, and managers of relevant departments. At these meetings, we take a multifaceted approach to addressing important management issues, including those that are to be deliberated on at board meetings. We also aim to maintain and improve management efficiency and make quicker decisions by introducing a corporate officer system and promoting transfer of authority.

Auditors are obliged to attend Management Meetings and inspect their minutes, as these meetings are also subject to auditing.

Corporate Governance Code

ONO has been following all principles indicated in the Corporate Governance Code stipulated by the Tokyo Stock Exchange. In consideration of the intent of the Corporate Governance Code, we are committed to improving the efficiency, soundness and transparency, etc. of the management, and promoting our system more suitable for our business operations, through the evaluation on the effectiveness of the annual meeting of the Board of Directors.

▶ For more details on our company's corporate governance, please refer to the following Corporate Governance Report.

https://www.ono.co.jp/eng/investor/pdf/c_governanc/c_governanc_20200625.pdf

Information Disclosure

As specified in our Codes of Conduct, we strive to establish transparent corporate management and recognize the importance of taking various opportunities to disclose information on our business activities in a timely and appropriate manner. We actively conduct investor relations (IR) activities based on a policy of pursuing accuracy, promptness, fairness, and impartiality.

We disclose financial results and other timely disclosure information on our website and at the same time through TDnet, the timely disclosure network of the Tokyo Stock Exchange. Information that is not subject to the timely disclosure rules is also disclosed swiftly through our website and by other means. For securities analysts and institutional investors, we actively hold individual meetings and phone conferences in addition to a financial results briefing or a conference call at the time of each quarterly statement, having held 220 meetings in total in FY 2019. We also participate diligently in investor conferences sponsored by security firms and the like in order to facilitate individual investors' understanding of our business activities and management strategy.

Our website contains an IR library that provides useful current and past data, including development progress updates, as well as financial highlights for the last five years. Also, we endeavor to convey our corporate information to a wider range of people in an easy-to-understand manner by issuing business reports (shareholder newsletters) and integrated reports. We will disclose the information more accurately and promptly.

Management (as of June 18, 2020)



Gyo Sagara

President, Representative Director, and Chief Executive Officer

Number of the Company's shares held 54,000

April 1983	Joined the Company
April 2006	Executive Director, General Administration and Senior Director, Corporate Management
June 2006	Member of the Board of Directors
April 2007	Executive Director, Corporate Management
November 2007	Executive Director, Sales and Marketing
December 2007	Managing Member of the Board of Directors
February 2008	Member of the Board of Directors, Vice President
April 2008	Executive Director, Corporate Management
September 2008	President & CEO (to date)



Hiroshi Awata

Member of the Board of Directors, Vice President
Executive Officer
Tokyo Branch Head

Number of the Company's shares held 32,900

April 1983	Joined the Company
May 2008	Executive Director, Clinical Development and Senior Director, Clinical Development Planning
June 2008	Member of the Board of Directors
June 2009	Managing Member of the Board of Directors
June 2010	Senior Managing Member of the Board of Directors
June 2011	Member of the Board of Directors, Senior Executive Officer
October 2011	Executive Director, Clinical Development and Senior Director, Clinical Development Management
May 2012	Executive Director, Clinical Development
June 2012	Member of the Board of Directors, Vice President Executive Officer (to date)
October 2014	Executive Director, Clinical Development and Senior Director, Clinical Development Planning
April 2015	Executive Director, Clinical Development
October 2018	Tokyo Branch Head (to date)



Isao Ono

Member of the Board of Directors, Executive Officer
Director, Corporate Research

Number of the Company's shares held 1,510,275

April 1981	Joined the Company
February 1986	Member of the Board of Directors
May 1990	Deputy Executive Director, Production
June 1992	Senior Director, Human Resources Development and Assistant Director of Tokyo Branch Office
August 1995	Director, CI
September 2005	Director, Environmental Management
June 2011	Member of the Board of Directors, Corporate Officer
April 2014	Director, Corporate Research (to date)
June 2015	Member of the Board of Directors, Executive Officer (to date)



Toshihiro Tsujinaka

Member of the Board of Directors, Executive Officer
Executive Director, Corporate Strategy & Planning and Senior Director, Business Design

Number of the Company's shares held 8,300

April 1988	Joined the Company
June 2004	Director, Koshinetsu Branch Sales Division
July 2006	Director, Tokyo Branch 2 Sales Division
November 2007	Senior Director, Sales Operations
August 2008	Senior Director, Marketing Strategy Planning
April 2009	Senior Director, Sales Operations
October 2012	Director, Sendai Branch Sales Division
October 2013	Director, Nagoya Branch Sales Division
October 2015	Senior Director, Oncology Planning & Promotion
April 2016	Division Director, Oncology Business Division
June 2016	Corporate Officer
October 2018	Executive Director, Corporate Strategy & Planning
June 2019	Executive Officer
October 2018	Executive Director, Corporate Strategy & Planning and Senior Director, Business Design (to date)
June 2020	Member of the Board of Directors, Executive Officer (to date)



Toichi Takino

Member of the Board of Directors, Executive Officer
Executive Director, Discovery & Research

Number of the Company's shares held 11,000

April 1995	Joined the Company
April 2006	Senior Director, International Business
April 2008	Senior Director, Business Development
May 2008	Senior Director, Global Business Development & Licensing
July 2009	Vice President, ONO PHARMA USA, INC.
June 2011	Corporate Officer
April 2012	Executive Director, Corporate Development & Strategy
October 2018	Executive Director, Discovery and Research Division
April 2019	Executive Director, Discovery & Research (to date)
June 2019	Executive Officer
June 2020	Member of the Board of Directors, Executive Officer (to date)



Jun Kurihara

Member of the Board of Directors, Outside Director

Number of the Company's shares held 0

April 1983	Joined Mitsubishi Research Institute, Inc.
April 1995	Joined FUJITSU RESEARCH INSTITUTE
April 2003	Senior Fellow, Harvard University, John F. Kennedy School of Government
April 2006	Visiting Professor, School of Policy Studies, Kwansai Gakuin University (to date)
April 2007	Liaison Officer, Research Institute of Economy, Trade and Industry
April 2009	Research Director, The Canon Institute for Global Studies (to date)
June 2013	Member of the Board of Directors, Outside Director (to date)

[Status or important concurrent holding of positions]

Research Director, The Canon Institute for Global Studies
Visiting Professor, School of Policy Studies, Kwansai Gakuin University



Masao Nomura

Member of the Board of Directors, Outside Director

Number of the Company's shares held 5,000

March 1972	Joined Iwatani Corporation
June 2007	Director, Executive Officer, Iwatani Corporation
April 2009	Executive Director, Executive Officer, Iwatani Corporation
April 2010	Senior Executive Director, Executive Officer, Iwatani Corporation
June 2012	President, Representative Director, Executive Officer, Iwatani Corporation
April 2017	Director, Senior Adviser to the Board, Executive Officer, Iwatani Corporation
June 2017	Senior Adviser to the Board, Iwatani Corporation (to date)
June 2018	Member of the Board of Directors, Outside Director (to date)
June 2019	Outside Director, Keihanshin Building Co., Ltd. (to date)

[Status or important concurrent holding of positions]

Senior Adviser to the Board, Iwatani Corporation
Outside Director, Keihanshin Building Co., Ltd.



Akiko Okuno

Member of the Board of Directors, Outside Director

Number of the Company's shares held 0

April 2002	Associate Professor, Faculty of Economics, Osaka University of Economics and Law
April 2004	Associate Professor, Faculty of Business Administration, Tezukayama University
April 2010	Professor, Faculty of Business Administration, Tezukayama University
April 2012	Professor, Faculty of Business Administration, KONAN UNIVERSITY (to date)
June 2020	Member of the Board of Directors, Outside Director (to date)

[Status or important concurrent holding of positions]

Professor, Faculty of Business Administration, KONAN UNIVERSITY



Katsuyoshi Nishimura

Audit & Supervisory Board Member

Number of the Company's shares held 10,900

April 1977	Joined the Company
April 2003	Senior Director, Research Management and General Affairs
October 2005	Deputy Executive Director, Discovery & Research and Senior Director, Research Management and General Affairs
April 2006	Deputy Executive Director, Sales and Marketing and Senior Director, Sales Operations
June 2007	Senior Director, Sales Operations
November 2007	Director, Business Audit Department
June 2010	Senior Director, Research Management and General Affairs
June 2011	Full-time Audit & Supervisory Board Member (to date)



Shinji Fujiyoshi

Audit & Supervisory Board Member

Number of the Company's shares held 21,900

April 1980	Joined the Company
May 2006	Director, Tokyo Metropolitan Marketing and Tokyo Branch Office I
February 2008	Director, Marketing Headquarters
June 2008	Director
November 2008	Director, Tokyo Branch Office I
January 2009	Director, Fukuoka Branch Office
March 2010	Director, Marketing Headquarters
June 2010	Managing Director
June 2011	Director and Executive Officer
April 2015	Management, Marketing Headquarters
June 2015	Full-time Audit & Supervisory Board Member (to date)



Yasuo Hishiyama

Outside Audit & Supervisory Board Member

Number of the Company's shares held 0

April 1999	Appointed as a judge (served at Sendai District Court, Saitama District Court and Osaka Family Court)
April 2006	Registered as an attorney at law (Dai-ichi Tokyo Bar Association)
April 2006	Joined TANABE & PARTNERS (to date)
January 2010	Member or appraisal committee (Land Lease Non-Contentious Cases) at Tokyo District Court (to date)
June 2016	Outside Audit & Supervisory Board Member (to date)

[Status or important concurrent holding of positions]

Partner Attorney at Law, TANABE & PARTNERS
Member or appraisal committee (Land Lease Non-Contentious Cases) at Tokyo District Court



Akiko Tanabe

Outside Audit & Supervisory Board Member

Number of the Company's shares held 0

October 1993	Joined Century Audit Corporation (Present: Ernst & Young ShinNihon LLC)
May 1997	Registered as Certified Public Accountant
January 2012	Established Akiko Tanabe CPA office (to date)
June 2015	Outside Director, OIE SANGYO CO., LTD. (to date)
July 2019	Partner of Midosuji Audit Corporation (to date)
April 2020	Provisional Outside Audit & Supervisory Board Member
June 2020	Outside Audit & Supervisory Board Member (to date)

[Status or important concurrent holding of positions]

Representative, Akiko Tanabe CPA office
Outside Director, OIE SANGYO CO., LTD.
Partner of Midosuji Audit Corporation

Messages from Outside Directors (Independent Executives)



(From left to right) Jun Kurihara, Akiko Okuno, Masao Nomura

I will encourage the further growth of ONO through the use of cutting-edge technologies.

Jun Kurihara

Currently the world is terrified of the novel coronavirus. It is a challenging period where contributions of healthcare personnel are being tested and it is an opportunity to reconsider our significance. For these reasons, and with the wish that ONO becomes a company with the potential to become well renowned with high growth, I constantly observe governance from a perspective of stakeholders, including shareholders, and strive to give constructive advice, sometimes with a strict eye. While flows of people, objects, and money are being disrupted under the current crisis, information is flowing around the world with the virus. In particular, advanced technology information related to medical care is being shared and accumulated widely without interruption among first-class management executives and researchers to overcome this crisis. These advanced technologies have a significant

impact on the future of companies. In particular, digital transformation (DX) using information and communication technology (ICT), including artificial intelligence (AI), will activate internal resources as well as connect external resources seamlessly and increase company efficiency. Striving to exchange opinions with first-class researchers concerning AI and DX, I would like to cooperate with ONO's excellent employees and promote DX so that ONO can step out into the world more than ever.

As the saying goes, "the best advice is the hardest to take," one of the duties of an Outside Director is to state constructive advice with the belief that it is "good" for the company even if it is uncomfortable. With my modest experience, I will address further increasing the quality of governance along with other Outside Directors.

I believe that the practice of corporate philosophy will result in an increase in corporate value.

Masao Nomura

Two years have elapsed since I assumed the role of Outside Director of ONO as an independent executive in June 2018. In this fiscal year, I attended all meetings of the Board of Directors during the term and I participated in management with an outside perspective.

Strengthening corporate governance has become more and more important to achieve sustainable growth for the company, expand corporate value, and steadily fulfill our corporate social responsibility. ONO's Board of Directors makes fair and highly transparent management judgments through vigorous question and answer sessions and opinion sharing and it is in this way that top management members sincerely and proactively address the enhancement of governance.

Global expansion of the novel coronavirus infection has imposed a major issue on human beings: overcoming a new virus. At the same time, it has had a great impact on the global supply chain and increased uncertainty about the future economy.

Under these circumstances, I believe the role of ONO is very important where ONO aims to become a research and development-type global pharmaceutical company with the lofty corporate philosophy: "Dedicated to Man's Fight against Disease and Pain." It is important to continue trying to implement steady investment related to future research and development as well as human resource training and other business plans based on medium- and long-term strategies. I would like to participate in management with a belief that addressing all disease and pain and resolving them one by one will result in increasing our corporate value.

I will make the best use of my experience as a business manager, proactively contribute to transparent and fair business management that is trusted by and satisfies customers, society, employees, shareholders, investors, and all other stakeholders, and thereby support a variety of activities to increase our social significance.

I will also strive to create a foundation to support company development, such as the promotion of women's activities.

Akiko Okuno

Currently, companies are required to act as members of society in addition to pursuing profits. As I have assumed the role of Outside Director of ONO, I feel great responsibility to get involved in the management of decision making as an outside eye in the company. I also have a strong awareness of the significance of my role as a female director. The percentage of female employees of ONO who have taken childcare leave was 100% in FY2019. That of male employees of ONO was 14%. These percentages are significantly higher than the average. ONO has obtained Kurumin Certification* as a company supporting childcare four times since 2018 and in 2019, it obtained Platinum Kurumin Certification, which is a high standard of Kurumin Certification. According to these results, ONO's support in enabling employees' work-life balance has been positive. However, support for work-life balance and the promotion of activities that require

assuming important roles in the organization are different. Japanese society has shifted from support for work-life balance to the promotion of the active participation of women. In this regard, ONO may have room to reform and this is where I can make a contribution.

Speaking of diversity, in many cases, the emphasis is on women in Japan; however, there are multiple axes of diversity, such as nationality, culture, existence of disability, LGBT, and more. Furthermore, companies are required to engage in activities related to environmental measures, CSR, and employee health. These activities will not directly result in an increase in profits. However, they will become a foundation for supporting the company indirectly or in the long term through the employment, use, and training of excellent human resources. I would like to contribute to the further development of ONO, a company with a more than 300-year history.

*Kurumin Certification: A certification by the Minister of Health, Labour and Welfare for childcare support company.

Risk Management

We work to identify potential major risks to prevent them from occurring, and we have a structure in place to ensure that appropriate actions are taken in case of their occurrence.

In addition, we establish a company-wide risk management system with President, Representative Director as the chief risk management officer and Executive Director, Corporate Strategy & Planning (Member of the Board of Directors, Executive Officer) as the risk management director in charge. In this way, we tackle issues related to risk management, recognizing them as important management strategic issues.

Establishment of the Enterprise Risk Management (ERM) System

We started preparations for the introduction of Enterprise Risk Management (ERM) in FY2018 and introduced it in FY2019, aiming for total, rather than partial, optimization of risk management.

For implementation, we have appointed a Chief Risk Management Officer (President, Representative Director, and Chief Executive Officer) and a Head Risk Management Officer (Member of the Board of Directors, Executive Officer / Executive Director, Corporate Strategy & Planning) and newly established the "Risk Management Office." We also established the "Risk Management Regulations" in order to promote ERM.

〈Basic Policy on ERM〉

- (1) With the aim of ensuring stable business continuity and achieving our business objectives, we develop and implement an enterprise risk management system to minimize losses to our company and its stakeholders including customers, while fulfilling our accountability to society.
- (2) Each division assesses its risks and those in divisions under its jurisdiction, using the risk assessment sheet, and autonomously promotes risk management.
- (3) We identify the most important and urgent risks that could have a considerable impact on business management as material risks, and promote company-wide risk management activities.
- (4) In the event a risk materializes, we will take measures to minimize the damage and ensure prompt recovery in order to solve problems as quickly as possible.

〈ERM Promotion System〉

- (1) Basic Approach
 1. The Heads of each division supervises the risk management of the entire division through the division's Risk Management Promotion Meeting.
 2. Division Managers conduct daily risk management as risk owners.
 3. Every quarter, Risk Management Office monitors the risk management status of each division from the viewpoint of ERM.

The results of monitoring are shared and examined for issues at the Company-Wide Risk Management Committee (Chairperson: Director, Risk Management Office) held twice a year. The monitoring results are also reported to the Management Committee (Composed of directors, executive officers, division managers, etc.) and the Board of Directors.

(2) Risk Management Promotion Meeting

The Risk Management Promotion Meeting in each division assesses the risks of their division and extracts issues using the risk assessment sheet, and develops prevention measures for identified risks according to their materiality and urgency, as well as risk response plans. Thus, each division autonomously promotes risk management by considering, developing and implementing appropriate risk measures. The risk assessment sheet covers a wide range of risks, not only business risks, but also risks related to the environment, major disasters, human rights, pharmaceutical affairs laws and regulations, and bribery, etc.

(3) Response to Material Risks

The Management Meeting identify important and urgent risks as "material risks" every fiscal year, and consider, develop and implement measures to control the identified risks, while monitoring the identified risks on a company-wide scale.

In the event a risk arises, we will take action in accordance with the response plan to minimize the damage and ensure prompt recovery, thereby solving problems as quickly as possible.

(4) Crisis Management

In the event a material risk arises and crisis management becomes necessary, the President will appropriately establish an Emergency Response Committee to take measures to minimize damage and facilitate speedy recovery.

(5) Risk Management Education

We provide education on risk management for all employees to raise their awareness and sensitivity toward risks. In FY2019, we conducted e-learning training to help employees acquire basic knowledge about risks, risk assessment, and ERM, and learn about our company's ERM system. In addition, we started to provide workshop-type training for directors and leaders. We continue to promote education on various kinds of risk management.

ONO Group's Risk Management

To promote risk management activities across the Group, we provide our subsidiaries with guidance and advice on risk management, while respecting their autonomy. We provide such guidance and advice through various opportunities including regular meetings where we receive reports from subsidiaries regarding their business operations and discuss important matters. We are currently working to expand our ERM system to our subsidiaries in Japan and overseas by the end of FY2020 to further enhance the risk management of the entire Group.

ONO Pharmaceutical's Risk Management System



- Grasp the status of handling by each division
- Consider additional necessary measures in the future
- Extract new risks
- Formulate a serious risk response plan and propose it to the Management Meeting
- Report the results of dealing with serious risk at the Management Meeting

Division's Risk Management Promotion Meeting



Business Continuity Plan (BCP)

According to the instructions of the Emergency Response Committee chaired by the President, Representative Director, we have organized the BCP Management Headquarters and established a system designed to minimize the impact of an emergency on mission-critical operations even in the case where an emergency occurs such as a natural disaster or serious accident, so that we can continue business activities or recover promptly and resume them if they are suspended. The BCM Committee, which is chaired by Executive Director, Corporate Strategy & Planning (Member of the Board of Directors, Executive Officer) and in charge of business continuity management (BCM), and the Management Office have been formed to maintain and strengthen our abilities to respond to crisis and continue our business operations, and promote relevant management activities during normal times. We have installed systems prepared for disasters such as emergency generators and duplicate power service in our head office building, the Tokyo Building, and all of our plants and research institutions, and we also have introduced seismic isolation systems to prepare for earthquakes in our head office building, the Tokyo Building, Minase Research Institute, and Yamaguchi Plant. As we have transferred some of the Osaka Head Office's functions to the Tokyo Building, the development of our two-base system prevents us from having to stop our business activities and improves our ability to continue our business operations.

▶ BCP System
<https://ono-csr.disclosure.site/en/themes/102#922>

TOPICS

Actions against the Novel Coronavirus Infectious Disease (COVID-19)

In order to achieve our social mission as a life-related pharmaceutical company, we have been maintaining stable supply of drugs in cooperation with relevant companies and customers. Therefore, the production and supply system of ONO's drugs has had no problems for the moment. In addition, to contribute to research and development of therapeutic products, etc., we started clinical trials using oral protease inhibitors, camostat mesilate, and we have also provided agents for clinical research at the request of medical institutions and research institutions in and outside Japan.

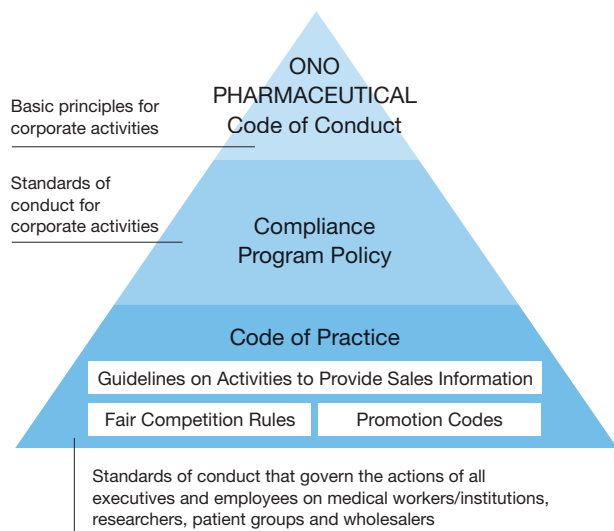
In addition, with the aim of preventing the expansion of infections, we have refrained from visiting medical institutions; however, we are now transferring to a system where we can provide information to healthcare personnel and collect drug safety information even under a telework environment. In June 2020 and after, we started marketing activities step by step from areas and medical institutions that have a small impact and we are engaging in information provision activities by using new means, such as planning interviews using websites or planning remote lectures, etc.

Compliance

ONO PHARMACEUTICAL'S Compliance System

Being aware of responsibilities as a pharmaceutical company dealing in pharmaceuticals upon which human lives depend, ONO PHARMACEUTICAL has the ONO PHARMACEUTICAL Code of Conduct to ensure that it acts in compliance with laws and regulations and that it meets high ethical standards. Our compliance system consists of the ONO PHARMACEUTICAL Code of Conduct as basic guidelines for corporate activities, the Compliance Program Policy as a behavioral standard for its activities, and the Code of Practice based on pharmaceutical industry standards related to promotional activities.

In practicing the compliance system, we are repeatedly informing our employees about ensuring transparency, preventing fraud and corruption, constantly being conscious of domestic and international social conditions.



- ▶ ONO PHARMACEUTICAL Code of Conduct
<https://www.ono.co.jp/eng/about/conduct.html>
- ▶ ONO PHARMACEUTICAL Compliance Program Policy
<https://ono-csr.disclosure.site/en/themes/116#940>
- ▶ ONO PHARMACEUTICAL Code of Practice
<https://ono-csr.disclosure.site/en/themes/116#988>

Compliance Promotion System

To promote compliance, we have appointed a Corporate Compliance Officer and set up a Corporate Committee. The Corporate Committee examines and deliberates on compliance-related issues, plans and promotes relevant training programs, and checks to what extent such compliant related matters are shared and understood within the company in

cooperation with the internal auditing department.

We have internal and external contacts, such as a 24-hour external contact service named the ONO Hotline, which was set up in 2015 for compliance issues as well as a system to ensure that informants can directly report to or consult with top management—that is, the Representative Director, the Corporate Compliance Officer, and the Corporate Auditors. Under this system, compliance violations including harassment can be prevented, appropriate work environment can be ensured, and necessary measures can be taken to minimize any loss of credibility in the event of a compliance violation. We ensure that the matters including informant's name, reported content, and his/her privacy are strictly kept confidential to other than those involved in the survey, and support anonymous reporting. In addition, we will never bring detriment to such an informant solely because of use of the system. This system has been certified as a Whistleblowing Compliance Management System (WCMS) (a system for self-declaration of conformity).

In particular, with regard to prevention of harassment, not only do we provide training courses for management staff every year, but we also include harassment and other issues in the sessions conducted by external lecturers, thereby enhancing awareness of compliance.

We provide guidance to companies in creating systems and rules to prevent the occurrence of noncompliance, and we strongly urge our affiliates and suppliers to do the same. We also continue enhancing the system to make the contacts available in the entire group so that employees can report or consult without hesitation.

▶ Reporting and Consultation System

<https://ono-csr.disclosure.site/en/themes/101#918>

Ethical Considerations

ONO always gives consideration to ethical treatment in various stages of research and development.

We conduct research using human specimens (blood, tissue, cells, genes, etc.) after strict deliberations on ethical and scientific acceptability. To this end, we have established internal ethical codes based on the basic guidelines specified by the Japanese government and set up the Ethics Committee for Medical and Health research Involving Human Subjects composed of internal and external members as an advisory board.

To ensure that the lives of the animals are respected and proper consideration is made to animal welfare in research using laboratory animals, we have established the Institutional Animal Care and Use Committee that reviews whether all animal experimental protocols are prepared based on the principles of the 3Rs—Replacement (active use of alternative methods of experiment), Reduction (reducing the number of animals used), and Refinement (alleviation of pain)—in advance. The Committee also implements self-inspections and assessments of the animal experiment processes and ONO obtained certification for these activities from a third party, the Center for Accreditation of Laboratory Animal Care and Use (CALAC) of the Japan Health Sciences Foundation (JHSF).

Clinical trials, which are essential for verifying the safety and

efficacy of investigational compounds, must be performed with respect for the rights of trial subjects. Clinical trials are closely monitored for patients' safety and are stringently conducted under high ethical standards. We are committed to evaluating the real value of investigational compounds by steadily applying essential and complete testing procedures that comply with the Act on Securing Quality, Efficacy and Safety of Pharmaceuticals, Medical Devices of Japan (Pharmaceutical and Medical Device Act) and other related legislation, as well as the global standards based on the spirit of the Declaration of Helsinki.

In the past, inadequate safety monitoring performance for pharmaceuticals caused many drug disasters. We periodically carry out education on drug-induced toxicity for all employees so that we will not forget the patients' pain, the misery of drug disasters, and the magnitude of corporate responsibility.

- ▶ Considerations to ensure the human rights of research subjects

https://www.ono.co.jp/eng/rd/human_rights.html

- ▶ Ethical considerations in the use of animals

https://www.ono.co.jp/eng/rd/animal_ethics.html

Fair and Transparent Business Activities

In order to conduct fair and transparent business activities, we have established a training month for providing e-learning and training in each division every year to provide education thoroughly to all employees concerning the prevention of fraud and corruption.

We aim to contribute to healthcare all around the world and people's health through continuous R&D activities and the stable supply of new drugs. To this end, we need to engage in collaborative activities—for example, providing support for patient groups—and cooperate with research and medical institutions to help patients overcome disease and pain. To enhance the fairness and transparency of such collaborations and cooperation, it is important to ensure transparent relationships with our partners. We therefore disclose information on the costs of our assistance to medical institutions and patient groups in accordance with our transparency guidelines, which are formulated in line with the relevant guidelines of the Japan Pharmaceutical Manufacturers Association (JPMA).

Regarding tax compliance, ONO has established the ONO PHARMACEUTICAL Global Tax Policy and is striving to engage in rigorous activities under the responsibility of the Member of the Board of Directors, Executive Officer / Executive Director of Corporate Strategy & Planning who is the Corporate Compliance Officer.

While compliance with laws related to fraud and corruption is attracting increasing attention on a global scale, we established ONO PHARMACEUTICAL Global Anti-Bribery and Corruption Policy and the Regulations on Bribery Prevention in 2017 to clarify our bribery prevention system in a written form, and work to operate them in a strict manner. Furthermore, we support Transparency International's Business Principles for Countering Bribery, an international anti-bribery standard. No facilitation

payment defined the Global Policy was exercised in FY2019. To ensure that publicly funded research is conducted in compliance with the relevant guidelines established by the Japanese government, we have formulated the Action Guidelines for Publicly Funded Research and the Regulations on Publicly Funded Research, and apply them for even more appropriate use and management of public research funds.

- ▶ Engagement to Achieve Transparency in Relationships with Medical Institutions, etc. (only in Japanese)

<https://www.ono.co.jp/jpnw/about/torikumi.html>

- ▶ Engagement to Achieve Transparency in Relationships with Patient Groups (only in Japanese)

<https://www.ono.co.jp/jpnw/about/kanjya.html>

- ▶ Operation and Management System of Public Research Fund

<https://www.ono.co.jp/eng/rd/management.html>

- ▶ ONO PHARMACEUTICAL Global Tax Policy

<https://ono-csr.disclosure.site/en/themes/116#991>

- ▶ ONO PHARMACEUTICAL Global Anti-Bribery and Corruption Policy

<https://ono-csr.disclosure.site/en/themes/116#941>

Proper Procurement Activities

ONO considers that establishing a sound network with all our suppliers in the supply chain is important for achieving the development of a sustainable society. We are promoting CSR Procurement under our "Basic Policy for Procurement Activities," which serves as a fundamental approach to procurement for all employees involved in procurement activities, and the "CSR Procurement Guidelines," which lists all of the items for which we seek cooperation from each of our suppliers.

In order to objectively and continually grasp the CSR-related circumstances of the most important suppliers in our supply chain, ONO has used the CSR evaluation system of EcoVadis. Use of the evaluation system enables us to obtain highly reliable information regarding supplier CSR management at least once a year, and to recommend appropriate corrective action to our suppliers. According to an assessment in FY2019, there were no companies with high CSR risks. We also hold instructional conferences for our suppliers regarding CSR in procurement in order to help them understand our ideas on procurement CSR and to strengthen our partnerships.

ONO will further develop the cooperation system through CSR procurement and aim to increase the company value of both ONO and its suppliers.

- ▶ Basic Policy for Procurement Activities and CSR Procurement Guidelines

<https://ono-csr.disclosure.site/en/themes/116#943>

Financial Review

Results for Fiscal Year Ended March 31, 2020

(billions of Yen)

	2017.3	2018.3	2019.3	2020.3	Change rate: Mar. 2019/Mar. 2020
Revenue	244.8	261.8	288.6	292.4	+1.3%
Operating profit	72.3	60.7	62.0	77.5	+25.0%
Profit for the year (attributable to owners of the parent company)	55.8	50.3	51.5	59.7	+15.8%

Revenue

Revenue increased by ¥3.8 billion (1.3%) from the previous consolidated fiscal year to ¥292.4 billion.

- Despite the expanded use of OPDIVO Intravenous Infusion for malignant tumors for the treatment of renal cell carcinoma etc., its sales were affected by the revision of the National Health Insurance (NHI) drug price reduction in November 2018 and intensifying competition with competitors' products, resulting in sales of ¥87.3 billion, a decrease of ¥3.3 billion (3.6%) year-on-year.
- Sales of our key new products: GLACTIV Tablets for type-2 diabetes decreased by 3.1% year-on-year to ¥26.1 billion, ORENCIA for rheumatoid arthritis increased by 13.8% year-on-year to ¥19.8 billion, FORXIGA Tablets for diabetes increased by 24.7% year-on-year to ¥18.1 billion, the combined sales of EMEND Capsules and PROEMEND for Intravenous Injection for chemotherapy induced nausea and vomiting increased by 1.0% year-on-year to ¥10.7 billion, RIVASTACH Patch for Alzheimer's disease decreased by 4.2% year-on-year to ¥8.5 billion, PARSABIV Intravenous Injection for Dialysis for secondary hyperparathyroidism in patients on hemodialysis increased by 23.6% year-on-year to ¥7.1 billion, and KYPROLIS for Intravenous Injection for multiple myeloma increased by 21.9% year-on-year to ¥6.0 billion.
- Sales of the main long-term listed products were affected by the new generics use promotion measures. OPALMON Tablets for peripheral circulatory disorder decreased by 19.5% year-on-year to ¥8.3 billion, and RECALBON Tablets for osteoporosis decreased by 35.4% year-on-year to ¥4.7 billion respectively.
- Royalty and other revenue increased by ¥7.1 billion (8.9%) year-on-year to ¥86.8 billion, mainly due to increase of the royalty from Bristol-Myers Squibb (BMS) and Merck.

Profit and Loss

Operating profit for the current consolidated fiscal year totaled ¥77.5 billion, an increase by ¥15.5 billion (25.0%) from the previous consolidated fiscal year.

- Cost of sales decreased by ¥4.8 billion (5.7%) year-on-year to ¥79.1 billion. This was mainly due to the absence of the one-time cost burden during the period under review, which was incurred in the previous fiscal year, as it was necessary to receive a stable supply of ingredients for OPDIVO.
- Research and development costs decreased by ¥3.5 billion (5.0%) year-on-year to ¥66.5 billion mainly due to decrease in clinical trial costs caused by the revision of clinical trial plans and the discontinuation of some clinical trials etc., as well as due to decrease in license fees associated with drug discovery.
- Selling, general, and administrative expenses (except for research and development costs) decreased by ¥2.4 billion (3.4%) year-on-year to ¥67.7 billion mainly due to delayed launches of new products expected in the fiscal year ended March 31, 2020, and the decrease in operating expenses caused by cancellation or postponement of academic lectures and refraining from visiting medical institutions by MRs due to the novel coronavirus infectious disease (COVID-19).

	2019.3	2020.3	Year-to-year comparison
Cost of sales	83.8	79.1	-5.7%
R&D costs	70.0	66.5	-5.0%
Selling, general, and administrative expenses	70.0	67.7	-3.4%

Profit of the current fiscal year (attributable to owners of the parent company) increased by ¥8.2 billion (15.8%) from the previous consolidated fiscal year to ¥59.7 billion in association with increases in profit before tax.

Cash Flows

Cash and cash equivalents at the end of current consolidated fiscal year increased by ¥9 billion (15.0%) to ¥69 billion, from those at the end of previous consolidated fiscal year of ¥60 billion, thanks to cash flow from operations activities, which ended in a positive balance of ¥74.2 billion despite cash flow from investment activities, which ended in a negative balance of ¥10.2 billion, and cash flow from financial activities, which ended in a negative balance of ¥54.7 billion.

〈Cash Flows from Operating Activities〉

Cash flows from operating activities for the current consolidated fiscal year ended in a positive cash flow balance of ¥74.2 billion (The cash flows for the previous consolidated fiscal year ended in a positive balance of ¥66.8 billion). The main factor was profit before tax ended in a positive balance of ¥79.7 billion.

〈Cash Flows from Investing Activities〉

Cash flows from investing activities for the current consolidated fiscal year ended in a negative balance of ¥10.2 billion (The cash flows for the previous consolidated fiscal year ended in a negative balance of ¥49.8 billion). The main factors were proceeds from sales and redemption of investments of ¥31.4 billion, payments into time deposits (net amount) of ¥20.0 billion, purchases of intangible assets of ¥15.0 billion, and purchases of tangible fixed assets of ¥7.5 billion.

〈Cash Flows from Financing Activities〉

Cash flows from financing activities for the current consolidated fiscal year ended in a negative balance of ¥54.7 billion (The cash flows for the previous consolidated fiscal year ended in a negative balance of ¥22.3 billion). The main factors were purchases of treasury shares of ¥29.6 billion, and the dividends paid to owners of the parent company of ¥22.8 billion.

	(billions of Yen)	
	2019.3	2020.3
Cash flows from operating activities	66.8	74.2
Cash flows from investing activities	(49.8)	(10.2)
Cash flows from financing activities	(22.3)	(54.7)
Cash and cash equivalents at the end of the year	60.0	69.0

Investment in Plant and Equipment

Plant and equipment investment during the current consolidated fiscal year totaled ¥9.5 billion. This included investment in enhancement and maintenance of manufacturing facilities (¥4.5 billion), business facilities (¥3.2 billion), and research facilities (¥1.9 billion).

The main investment in plant and equipment during the current consolidated fiscal year was facilities of the plant that started operation in Yamaguchi Prefecture and manufacturing machines and equipment.

Future Outlook

For the next fiscal year, the severe business environment is expected to continue due to the impact of drug price revisions in April 2020 and the intensifying competition for market share with competing products. Although the use of OPDIVO Intravenous Infusion is expected to decrease in the treatment of renal cell carcinoma, head and neck cancer, and gastric cancer due to entry of competing products, and in the second-line treatment of non-small cell lung cancer due to a decrease in the number of new patients using the drug, as we expect the expanded use in the treatment of esophageal cancer and entry into first-line treatment for non-small cell lung cancer, the sales are expected to increase by ¥2.7 billion (3.1%) compared to the current consolidated fiscal year to ¥90.0 billion. In other main new products, sales of FORXIGA Tablets, ORENCIA SC, PARSABIV Intravenous Injection for Dialysis, KYPROLIS for Intravenous Infusion etc. are expected to increase, and several new products are expected to be released. Furthermore, royalty and other revenue is expected to increase by ¥6.2 billion (7.1%) compared to the current consolidated fiscal year to ¥93.0 billion due to continued growth in royalty revenue from Bristol-Myers Squibb Company and Merck & Co., Inc. Therefore, revenue is expected to be ¥303.0 billion, an increase of ¥10.6 billion (3.6%) compared to the current consolidated fiscal year. Cost of sales is expected to be ¥81.5 billion, an increase of ¥2.4 billion (3.1%) compared to the current consolidated fiscal year, mainly due to the start of production at the Yamaguchi Plant in March 2020.

Research and development costs are expected to be ¥69.0 billion, an increase of ¥2.5 billion (3.8%) compared to the current consolidated fiscal year, providing for active investments to achieve sustainable growth, despite delays or suspensions of registrations of subjects for new or continuing clinical trials due to the impact of COVID-19. Selling, general, and administrative expenses (except for research and development costs) are expected to be ¥70.0 billion, an increase of ¥2.3 billion (3.4%) compared to the current consolidated fiscal year, mainly due to temporary increase in operating expenses due to several new products to be launched and additional effects, despite the decrease in operating expenses caused by cancellation or postponement of academic lectures and refraining from visiting medical institutions by MRs due to COVID-19.

Consequently, operating profit is forecasted to be ¥80.0 billion, an increase of ¥2.5 billion (3.2%) compared to the current consolidated fiscal year, and profit attributable to owners of the parent company is forecasted to be ¥61.0 billion, an increase of ¥1.3 billion (2.2%) compared to the current consolidated fiscal year.

	(billions of Yen)	
	2021.3 (Forecast)	Comparison with current fiscal year
Revenue	303.0	+3.6%
Operating profit	80.0	+3.2%
Profit for the year (attributable to owners of the parent company)	61.0	+2.2%

Note: At this time, it is difficult to accurately predict when the COVID-19 pandemic will be under control. Accordingly, the above financial forecasts reflect the effects of continuing to refrain from visiting medical institutions and other activities until the end of June 2020. If the restrictions on the activities continue in the second quarter and thereafter, although revenue is expected to decline slightly due to refraining from activities, restraints on consultations, etc., the impact on operating profit is estimated to be immaterial as expenditures will be controlled due to the decrease in business activities. Going forward, if any revisions to the financial forecasts are necessary, we will promptly announce them.

Consolidated Financial Summary

(Millions of Yen)

Japanese GAAP	2011.3	2012.3	2013.3
Operating Results			
Net sales	135,255	145,779	145,393
Research and development costs	42,938	44,383	45,441
Operating profit	35,201	37,904	31,921
Net income	24,222	24,361	24,120
Financial Position			
Total assets	424,443	436,414	455,573
Net assets	394,573	400,968	423,291
Cash flows from operating activities	29,796	21,635	15,662
Cash flows from investing activities	11,115	(133)	7,170
Cash flows from financing activities	(30,336)	(19,073)	(18,847)
Amount per share			
Net income (Yen)	223.88	229.78	227.51
Net assets (Yen)	3,685.23	3,753.04	3,961.55
Cash dividends (Yen)	180.00	180.00	180.00
Financial indicators			
Equity ratio (%)	92.1	91.2	92.2
ROA (%)	8.8	9.4	7.6
ROE (%)	6.1	6.2	5.9
Payout ratio (%)	80.4	78.3	79.1
Number of employees	2,655	2,754	2,807

IFRS

Operating Results

Revenue
Research and development costs
Operating profit
Profit for the year (attributable to owners of the parent company)

Financial Position

Total assets
Total equity
Cash flows from operating activities
Cash flows from investing activities
Cash flows from financing activities

Amount per share¹

Basic earnings (Yen)
Equity attributable to owners of the parent company (Yen)
Cash dividends (Yen)

Financial indicators

Equity ratio (%)
ROA (%) ²
ROE (%) ³
Payout ratio (%)
Number of employees

(Millions of Yen)

2013.3	2014.3	2015.3	2016.3	2017.3	2018.3	2019.3	2020.3
142,806	143,247	135,775	160,284	244,797	261,836	288,634	292,420
44,746	44,413	41,346	43,369	57,506	68,821	70,008	66,497
29,948	26,429	14,794	30,507	72,284	60,684	62,010	77,491
22,927	20,344	12,976	24,979	55,793	50,284	51,539	59,704
475,261	486,141	524,588	540,450	617,461	609,226	655,056	673,444
442,276	451,724	475,213	476,255	524,211	529,619	562,736	568,022
18,992	28,422	31,579	12,842	74,450	15,727	66,774	74,157
4,365	6,926	(12,756)	13,037	(17,989)	(34,189)	(49,763)	(10,234)
(19,372)	(19,636)	(19,603)	(19,465)	(20,552)	(62,549)	(22,279)	(54,721)
43.25	38.38	24.48	47.13	105.27	97.00	100.25	118.47
826.45	843.93	887.81	889.38	979.42	1,019.97	1,084.08	1,126.95
180.00	180.00	180.00	180.00	40.00	45.00	45.00	45.00
92.2	92.0	89.7	87.2	84.1	86.1	85.1	83.5
7.1	6.1	3.6	6.2	12.9	10.4	10.3	12.0
5.3	4.6	2.8	5.3	11.3	9.6	9.5	10.7
83.2	93.8	147.1	76.4	38.0	46.4	44.9	38.0
2,807	2,858	2,913	3,116	3,290	3,480	3,555	3,560

*1 The company conducted a stock split of common stocks at a ratio of 1:5 with an effective date of April 1, 2016. As for "Basic earnings" and "Equity attributable to owners of the parent company", it is calculated assuming that the stock split was conducted at the beginning of the fiscal year ended March 31, 2013. Also, "Cash dividends" for the fiscal year ended March 31, 2013 to 2016 indicate the amounts before conducting the stock split.

*2 ROA = Profit before tax / Total assets (average of beginning and end of fiscal year)

*3 ROE = Profit for the year attributable to owners of the parent company / Equity attributable to owners of the parent company (average of beginning and end of fiscal year)

Details of Revenue

(Billions of Yen)

	2017.3	2018.3	2019.3	2020.3	2021.3 (Forecast)
Sales of Major Products					
OPDIVO Intravenous Infusion	103.9	90.1	90.6	87.3	90.0
GLACTIV Tablets	29.4	27.4	26.9	26.1	25.0
FORXIGA Tablets	7.8	11.1	14.5	18.1	22.5
ORENCIA for Subcutaneous Injection	11.6	14.1	17.4	19.8	21.5
EMEND Capsules / PROEMEND for Intravenous Injection	9.9	9.9	10.6	10.7	7.0
RIVASTACH Patch	8.9	8.9	8.9	8.5	8.5
PARSABIV Intravenous Infusion	0.2	3.4	5.7	7.1	7.5
KYPROLIS for Intravenous Injection	2.0	5.5	4.9	6.0	6.5
ONOACT for Intravenous Infusion	5.7	5.6	4.6	4.9	6.0
OPALMON Tablets	17.0	14.4	10.4	8.3	5.0
ONON Capsules	6.8	5.5	4.4	3.5	3.0
RECALBON Tablets	11.3	10.9	7.3	4.7	2.0
Products to be newly launched	—	—	—	—	5.0
* Based on ex-manufacturer prices					
Breakdown of Revenue					
Revenue of goods and products	214.3	205.9	208.9	205.6	210.0
Royalty and other revenue	30.5	55.9	79.7	86.8	93.0
Sales Revenue by Region					
Japan	214.0	204.0	207.4	202.9	
Americas	27.3	52.5	72.3	81.5	
Asia	3.1	5.1	7.4	7.5	
Europe	0.4	0.2	1.6	0.5	

Consolidated Financial Statement

Consolidated Statement of Financial Position

(Millions of Yen)

	2019.3	2020.3
Assets		
Current assets:		
Cash and cash equivalents	59,981	69,005
Trade and other receivables	76,285	76,834
Marketable securities	687	614
Other financial assets	10,800	30,800
Inventories	32,821	32,906
Other current assets	14,042	15,063
Total current assets	194,617	225,222
Non-current assets:		
Property, plant, and equipment	108,870	114,628
Intangible assets	63,059	66,436
Investment securities	171,476	137,670
Investments in associates	113	108
Other financial assets	91,672	91,694
Deferred tax assets	21,079	34,817
Other non-current assets	4,171	2,871
Total non-current assets	460,439	448,222
Total assets	655,056	673,444
Liabilities and Equity		
Current liabilities:		
Trade and other payables	36,833	34,439
Borrowings	435	—
Lease liabilities	—	2,188
Other financial liabilities	515	450
Income taxes payable	15,980	20,346
Provisions	17,206	20,721
Other current liabilities	12,181	13,185
Total current liabilities	83,150	91,329
Non-current liabilities:		
Borrowings	1,765	—
Lease liabilities	—	6,173
Other financial liabilities	5	0
Retirement benefit liabilities	5,515	6,048
Deferred tax liabilities	1,053	1,059
Other non-current liabilities	832	813
Total non-current liabilities	9,171	14,093
Total liabilities	92,321	105,422
Equity:		
Share capital	17,358	17,358
Capital reserves	17,202	17,229
Treasury shares	(38,151)	(44,737)
Other components of equity	61,852	48,030
Retained earnings	499,088	524,605
Equity attributable to owners of the parent company	557,350	562,484
Non-controlling interests	5,386	5,538
Total equity	562,736	568,022
Total liabilities and equity	655,056	673,444

Consolidated Statement of Income

(Millions of Yen)

	2019.3	2020.3
Revenue	288,634	292,420
Cost of sales	(83,829)	(79,063)
Gross profit	204,805	213,356
Selling, general, and administrative expenses	(70,033)	(67,679)
Research and development costs	(70,008)	(66,497)
Other income	646	822
Other expenses	(3,400)	(2,512)
Operating profit	62,010	77,491
Finance income	3,282	3,053
Finance costs	(150)	(845)
Share of loss from investments in associates and others	(1)	(4)
Profit before tax	65,141	79,696
Income tax expense	(13,462)	(19,808)
Profit for the year	51,679	59,888
Profit for the year attributable to:		
Owners of the parent company	51,539	59,704
Non-controlling interests	140	184
Profit for the year	51,679	59,888

Earnings per share:

(Yen)

Basic earnings per share	100.25	118.47
Diluted earnings per share	100.24	118.45

Consolidated Statement of Comprehensive Income

(Millions of Yen)

	2019.3	2020.3
Profit for the year	51,679	59,888
Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
Net (loss) gain on financial assets measured at fair value through other comprehensive income	(43)	(1,909)
Remeasurement of defined benefit plans	(890)	(109)
Share of net (loss) gain on financial assets measured at fair value through other comprehensive income of investments in associates	(1)	(4)
Total of items that will not be reclassified to profit or loss	(935)	(2,022)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	78	(219)
Total of items that may be reclassified subsequently to profit or loss	78	(219)
Total other comprehensive (loss) income	(857)	(2,241)
Total comprehensive income for the year	50,821	57,647
Comprehensive income for the year attributable to:		
Owners of the parent company	50,658	57,492
Non-controlling interests	163	155
Total comprehensive income for the year	50,821	57,647

Consolidated Statement of Changes in Equity

(Millions of Yen)

	Equity attributable to owners of the parent company							
	Share capital	Capital reserves	Treasury shares	Other components of equity	Retained earnings	Equity attributable to owners of the parent company	Non-controlling interests	Total equity
Balance at April 1, 2018	17,358	17,175	(38,148)	68,021	459,985	524,390	5,228	529,619
Changes in Accounting Policies					4,127	4,127		4,127
Restated balance	17,358	17,175	(38,148)	68,021	464,112	528,517	5,228	533,746
Profit for the year					51,539	51,539	140	51,679
Other comprehensive income (loss)				(881)		(881)	24	(857)
Total comprehensive income (loss) for the year	—	—	—	(881)	51,539	50,658	163	50,821
Purchase of treasury shares			(3)			(3)		(3)
Cash dividends					(21,850)	(21,850)	(5)	(21,856)
Share-based payments		27				27		27
Transfer from other components of equity to retained earnings				(5,288)	5,288	—		—
Total transactions with the owners	—	27	(3)	(5,288)	(16,562)	(21,826)	(5)	(21,831)
Balance at March 31, 2019	17,358	17,202	(38,151)	61,852	499,088	557,350	5,386	562,736
Profit for the year					59,704	59,704	184	59,888
Other comprehensive income (loss)				(2,212)		(2,212)	(29)	(2,241)
Total comprehensive income (loss) for the year	—	—	—	(2,212)	59,704	57,492	155	57,647
Purchase of treasury shares			(29,586)			(29,586)		(29,586)
Retirement of treasury shares			22,999		(22,999)	—		—
Cash dividends					(22,798)	(22,798)	(3)	(22,801)
Share-based payments		27				27		27
Transfer from other components of equity to retained earnings				(11,610)	11,610	—		—
Total transactions with the owners	—	27	(6,587)	(11,610)	(34,187)	(52,357)	(3)	(52,360)
Balance at March 31, 2020	17,358	17,229	(44,737)	48,030	524,605	562,484	5,538	568,022

Consolidated Statement of Cash Flows

(Millions of Yen)

	2019.3	2020.3
Cash flows from operating activities		
Profit before tax	65,141	79,696
Depreciation and amortization	10,621	14,214
Impairment losses	209	2,816
Interest and dividend income	(3,164)	(2,968)
Interest expense	27	76
(Increase) decrease in inventories	(1,567)	(173)
(Increase) decrease in trade and other receivables	1,251	(793)
Increase (decrease) in trade and other payables	998	1,992
Increase (decrease) in provisions	6,333	3,515
Increase (decrease) in retirement benefit liabilities	378	381
Other	1,854	865
Subtotal	82,081	99,621
Interest received	77	92
Dividends received	3,092	2,878
Interest paid	(27)	(76)
Income taxes paid	(18,449)	(28,357)
Net cash provided by (used in) operating activities	66,774	74,157
Cash flows from investing activities		
Purchases of property, plant, and equipment	(22,303)	(7,475)
Proceeds from sales of property, plant, and equipment	11	424
Purchases of intangible assets	(7,299)	(14,970)
Purchases of investments	(873)	—
Proceeds from sales and redemption of investments	27,123	31,439
Payments into time deposits	(55,800)	(45,800)
Proceeds from withdrawal of time deposits	10,800	25,800
Other	(1,423)	348
Net cash provided by (used in) investing activities	(49,763)	(10,234)
Cash flows from financing activities		
Dividends paid	(21,828)	(22,775)
Dividends paid to non-controlling interests	(5)	(3)
Repayments of long-term borrowings	(361)	—
Repayments of lease liabilities	—	(2,358)
Net increase (decrease) in short-term borrowings	(84)	—
Purchases of treasury shares	(1)	(29,584)
Net cash provided by (used in) financing activities	(22,279)	(54,721)
Net increase (decrease) in cash and cash equivalents	(5,268)	9,202
Cash and cash equivalents at the beginning of the year	65,273	59,981
Effects of exchange rate changes on cash and cash equivalents	(24)	(179)
Cash and cash equivalents at the end of the year	59,981	69,005

GRI Standards Content Index

Number	Title	Pages in this report	Relevant website pages	
General Disclosures				
1. Organizational profile				
102-1	Name of the organization	p. 78	—	
102-2	Activities, brands, products, and services	p. 8		
102-3	Location of headquarters	p. 78		
102-4	Location of operations			
102-5	Ownership and legal form			
102-6	Markets served	p. 8, pp. 17-20		
102-7	Scale of the organization	p. 16, p. 78		ESG Data
102-8	Information on employees and other workers	p. 16, pp. 45-49		Cultivation of Employee-friendly Workplaces/Safety and Health
102-9	Supply chain	p. 66		Proper Procurement Activities
102-11	Precautionary Principle or approach	pp. 53-54, pp. 63-64		Risk Management
102-12	External initiatives	p. 4		ONO's Approach to CSR
102-13	Membership of associations	The Federation of Pharmaceutical Manufacturers' Associations of JAPAN, Japan Pharmaceutical Manufacturers Association, Japan Business Federation, Kansai Pharmaceutical Industries Association, etc.		
2. Strategy				
102-14	Statement from senior decision-maker	pp. 9-14	Top message	
102-15	Key impacts, risks, and opportunities	pp. 9-14, pp. 21-26	Top message, ONO's Approach to CSR	
3. Ethics and integrity				
102-16	Values, principles, standards, and norms of behavior	p. 2, p. 10, pp. 21-22	Policies	
102-17	Mechanisms for advice and concerns about ethics	pp. 65-66	Compliance	
4. Governance				
102-18	Governance structure	pp. 55-58	Corporate Governance, CSR Promotion Structure	
102-19	Delegating authority	p. 58	CSR Promotion Structure	
102-20	Executive-level responsibility for economic, environmental, and social topics	pp. 41-42		
102-22	Composition of the highest governance body and its committees	pp. 55-56	Corporate Governance Report	
102-23	Chair of the highest governance body	p. 55		
102-24	Nominating and selecting the highest governance body			
102-25	Conflicts of interest			—
102-26	Role of highest governance body in setting purpose, values, and strategy	p. 55		
102-27	Collective knowledge of highest governance body			
102-28	Evaluating the highest governance body's performance	p. 56		
102-29	Identifying and managing economic, environmental, and social impacts	pp. 23-26	Materiality (Important CSR Issues), Risk Management	
102-30	Effectiveness of risk management processes	pp. 53-54, pp. 63-64	Risk Management	
102-31	Review of economic, environmental, and social topics	pp. 23-26	CSR Promotion Structure	
102-33	Communicating critical concerns			
102-35	Remuneration policies			
102-36	Process for determining remuneration	p. 56	Corporate Governance Report	
102-37	Stakeholders' involvement in remuneration			
5. Stakeholder engagement				
102-40	List of stakeholder groups	—	Stakeholder engagement	
102-41	Collective bargaining agreements	—	Cultivation of Employee-friendly Workplaces/Safety and Health	
102-42	Identifying and selecting stakeholders	—	Stakeholder engagement	
102-43	Approach to stakeholder engagement	p. 14		
102-44	Key topics and concerns raised	pp. 23-26	Materiality (Important CSR Issues)	
6. Reporting practice				
102-45	Entities included in the consolidated financial statements	p. 4, p. 78	—	
102-46	Defining report content and topic boundaries	p. 4		
102-47	List of material topics	pp. 23-26		
102-49	Changes in reporting	p. 4		
102-50	Reporting period			
102-51	Date of most recent report			August, 2019
102-52	Reporting cycle	Annual		
102-54	Claims of reporting in accordance with the GRI Standards	p. 4	GRI Content Index	
102-55	GRI content index	This content index		
102-56	External assurance	—	Independent Practitioner's Assurance	
Management Approach				
103-1	Explanation of the material topic and its Boundary	pp. 23-26	Materiality (Important CSR Issues)	
103-2	The management approach and its components	pp. 23-26, pp. 55-64		
Economy				
Economic Performance				
201-1	Direct economic value generated and distributed	p. 28, p. 74	—	
201-2	Financial implications and other risks and opportunities due to climate change	pp. 42-43	Global Environment Policy/Environment Challenging Ono Vision (ECO VISION 2050)	
201-3	Defined benefit plan obligations and other retirement plans	—	Securities Report	
201-4	Financial assistance received from government			
Market Presence				
202-1	Ratios of standard entry level wage by gender compared to local minimum wage	—	Cultivation of Employee-friendly Workplaces/Safety and Health	
Anti-corruption				
205-2	Communication and training about anti-corruption policies and procedures	p. 66	Compliance	

Number	Title	Pages in this report	Relevant website pages
■ Environment			
Materials			
301-1	Materials used by weight or volume	—	Global Environment Policy/Environment Challenging Ono Vision (ECO VISION 2050)
Energy			
302-1	Energy consumption within the organization	p. 43	Global Environment Policy/Environment Challenging Ono Vision (ECO VISION 2050), ESG Data
302-4	Reduction of energy consumption		
Water and Effluents			
303-1	Interactions with water as a shared resource	p. 44	Global Environment Policy/Environment Challenging Ono Vision (ECO VISION 2050), CDP Response
303-2	Management of water discharge-related impacts	—	
303-3	Water withdrawal	—	CDP Response
Emissions			
305-1	Direct (Scope 1) GHG emissions	p. 16, p. 41, p. 43	Global Environment Policy/Environment Challenging Ono Vision (ECO VISION 2050), ESG Data
305-2	Energy indirect (Scope 2) GHG emissions		
305-3	Other indirect (Scope 3) GHG emissions	p. 41, p. 43	
305-5	Reduction of GHG emissions	p. 16, p. 41, p. 43	
305-6	Emissions of ozone-depleting substances (ODS)	—	
305-7	Nitrogen oxides (NOx), sulfur oxides (SOx), and other significant air emissions	—	Global Environment Policy/Environment Challenging Ono Vision (ECO VISION 2050), Environmental Efficiency / Environmental Accounting, ESG Data
Effluents and Waste			
306-1	Water discharge by quality and destination	—	Global Environment Policy/Environment Challenging Ono Vision (ECO VISION 2050), ESG Data
306-2	Waste by type and disposal method		
306-4	Transport of hazardous waste		
Environmental Compliance			
307-1	Non-compliance with environmental laws and regulations	—	Global Environment Policy/Environment Challenging Ono Vision (ECO VISION 2050)
Supplier Environmental Assessment			
308-1	New suppliers that were screened using environmental criteria	p. 66	Proper Procurement Activities
308-2	Negative environmental impacts in the supply chain and actions taken		
■ Social			
Employment			
401-1	New employee hires and employee turnover	p. 48	Cultivation of Employee-friendly Workplaces/Safety and Health, ESG Data
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	—	Cultivation of Employee-friendly Workplaces/Safety and Health
Occupational Health and Safety			
403-1	Occupational health and safety management system	p. 49	Cultivation of Employee-friendly Workplaces/Safety and Health
403-2	Hazard identification, risk assessment, and incident investigation	—	Cultivation of Employee-friendly Workplaces/Safety and Health, ESG Data
Training and Education			
404-1	Average hours of training per year per employee	—	Human Resources and Human Rights
404-2	Programs for upgrading employee skills and transition assistance programs	p. 47	
Diversity and Equal Opportunity			
405-1	Diversity of governance bodies and employees	p. 48	Human Resources and Human Rights
Freedom of Association and Collective Bargaining			
407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	p. 66	Proper Procurement Activities
Child Labor			
408-1	Operations and suppliers at significant risk for incidents of child labor	p. 66	Proper Procurement Activities
Forced or Compulsory Labor			
409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labor	p. 66	Proper Procurement Activities
Human Rights Assessment			
412-1	Operations that have been subject to human rights reviews or impact assessments	—	Human Resources and Human Rights
Supplier Social Assessment			
414-1	New suppliers that were screened using social criteria	p. 66	Proper Procurement Activities
414-2	Negative social impacts in the supply chain and actions taken		
Customer Health and Safety			
416-1	Assessment of the health and safety impacts of product and service categories	pp. 33-34	Responsible Promotion Activities
Marketing and Labeling			
417-1	Requirements for product and service information and labeling	pp. 33-34	Responsible Promotion Activities

Information on ONO's Sustainability Initiatives

ONO discloses its initiatives in a variety of media, including this report and its website. Please refer to the website for further details on initiatives presented in this report.

► <https://ono-csr.disclosure.site/en/>

Corporate Information / Stock Information

Profile (as of March 31, 2020)

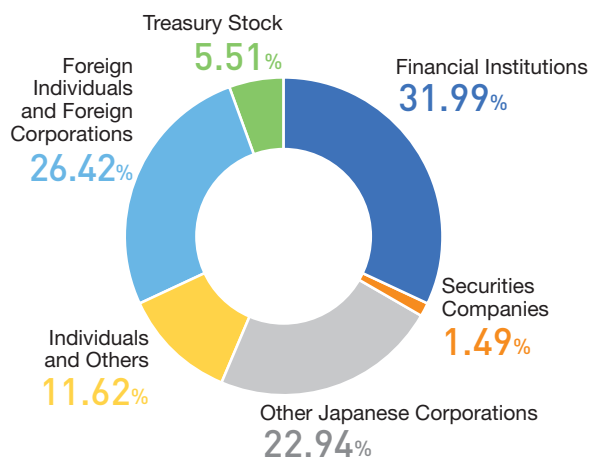
Company Name	ONO PHARMACEUTICAL CO., LTD.
Founded	1717
Date of Incorporation	1947
Paid-in Capital	¥17,358 million
Number of Employees	3,560 (consolidated) 3,287 (unconsolidated)
Total Number of Authorized Shares	1,500,000,000
Number of Shares Issued and Outstanding	528,341,400 (Including 29,158,562 shares of treasury stock)
Number of Shareholders	89,156
Stock Exchange Listing	Tokyo Stock Exchange (Code number: 4528)

Principal Shareholders

Name of shareholders	Number of shares held (Thousands of shares)	Shareholding percentage (%)
The Master Trust Bank of Japan, Ltd. (Trust account)	39,254	7.86
Japan Trustee Services Bank, Ltd. (Trust account)	25,169	5.04
STATE STREET BANK AND TRUST COMPANY 505001	20,598	4.12
Meiji Yasuda Life Insurance Company	18,594	3.72
Ono Scholarship Foundation	16,428	3.29
KAKUMEISOU Co., LTD	16,161	3.23
Japan Trustee Services Bank, Ltd. (Trust account 5)	9,355	1.87
Japan Trustee Services Bank, Ltd. (Trust account 7)	8,679	1.73
MUFG Bank, Ltd.	8,640	1.73
Aioi Nissay Dowa Insurance Co., Ltd.	8,606	1.72

Note: 1. The Company is excluded from the principal shareholders listed in the table above, although the Company holds 29,158,562 shares of treasury stock.
2. The shareholding percentage is calculated by deducting treasury stock (29,158,562 shares).

Shareholders by Category



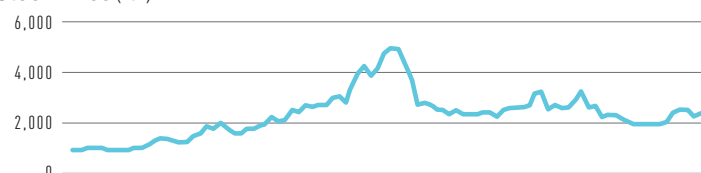
*The ratio by shareholders listed above is rounded down to two decimal places. Therefore, their total do not amount to 100%.

Major Offices (as of March 31, 2020)

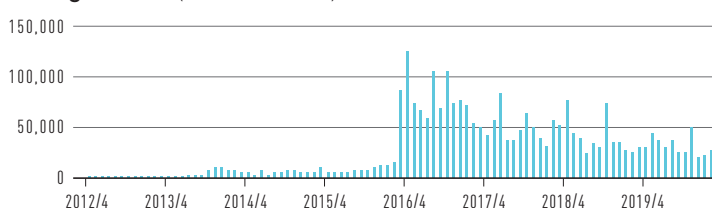
Head Office	8-2, Kyutaromachi 1-chome, Chuo-ku, Osaka 541-8564, Japan Tel: +81-6-6263-5670 Fax: +81-6-6263-2976 (Registered Office) 1-5, Doshomachi 2-chome, Chuo-ku, Osaka, Japan
Tokyo Building	9-11, Nihonbashi-Honcho 4-chome, Chuo-ku, Tokyo 103-0023, Japan
Branches in Japan	Sapporo, Sendai, Yokohama, Nagoya, Kyoto, Hiroshima, Fukuoka, and other branches in major cities
Research Institutes	Minase Research Institute, Osaka, Japan Fukui Research Institute, Fukui, Japan Tsukuba Research Institute, Ibaraki, Japan
Manufacturing Plants	Fujiyama Plant, Shizuoka, Japan Joto Plant, Osaka, Japan Yamaguchi Plant, Yamaguchi, Japan *Joto Plant was changed to Joto Product Development Center on April 1, 2020.
Domestic Subsidiaries	Oriental Pharmaceutical & Synthetic Chemical Co., Ltd. Bee Brand Medico Dental Co., Ltd.
Overseas Subsidiaries	ONO PHARMA USA, INC., New Jersey, USA ONO PHARMA UK LTD., London, UK ONO PHARMA KOREA CO., LTD., Seoul, Korea ONO PHARMA TAIWAN CO., LTD., Taipei City, Taiwan
Related Party	Namicos Corporation

Stock Price and Trading Volumes

Stock Price (Yen)



Trading Volumes (Thousands of shares)



*The company conducted a stock split of common stocks at a ratio of 1:5 with an effective date of April 1, 2016. Note that the stock price is translated on a post-stock split basis.

Consolidated Financial Statements
ONO PHARMACEUTICAL CO., LTD.
and Subsidiaries

Year Ended March 31, 2020

with Independent Auditor's Report

Consolidated Financial Statements

Year Ended March 31, 2020

Contents

Independent Auditor's Report	1
Consolidated Statement of Financial Position.....	4
Consolidated Statement of Income.....	6
Consolidated Statement of Comprehensive Income	7
Consolidated Statement of Changes in Equity	8
Consolidated Statement of Cash Flows.....	9
Notes to Consolidated Financial Statements.....	10

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of ONO PHARMACEUTICAL CO., LTD.:

Opinion

We have audited the consolidated financial statements of ONO PHARMACEUTICAL CO., LTD. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as of March 31, 2020, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, effective April 1, 2019, the consolidated financial statements have been prepared in accordance with the new accounting standard for leases, IFRS 16. Our opinion is not modified in respect of this matter.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Audit & Supervisory Board Members and the Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with IFRSs and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgement. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with IFRSs, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit & Supervisory Board members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Deloitte Touche Tohmatsu LLC

June 18, 2020

Consolidated Statement of Financial Position

Year Ended March 31, 2020

Assets	Notes	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars (Note 2 (5))</i>
		March 31, 2019	March 31, 2020	March 31, 2020
Current assets:				
Cash and cash equivalents	7, 34	¥ 59,981	¥ 69,005	\$ 633,071
Trade and other receivables	8, 34	76,285	76,834	704,903
Marketable securities	9, 34	687	614	5,632
Other financial assets	10, 34	10,800	30,800	282,569
Inventories	12	32,821	32,906	301,888
Other current assets	11, 20	14,042	15,063	138,195
Total current assets		194,617	225,222	2,066,258
Non-current assets:				
Property, plant, and equipment	2, 13, 21	108,870	114,628	1,051,631
Intangible assets	14	63,059	66,436	609,502
Investment securities	9, 34	171,476	137,670	1,263,028
Investments in associates		113	108	987
Other financial assets	10, 34	91,672	91,694	841,225
Deferred tax assets	16	21,079	34,817	319,419
Other non-current assets	11	4,171	2,871	26,340
Total non-current assets		460,439	448,222	4,112,131
Total assets		¥655,056	¥673,444	\$6,178,389

	Notes	Millions of Yen		Thousands of U.S. Dollars (Note 2 (5))
		March 31, 2019	March 31, 2020	March 31, 2020
Liabilities and Equity				
Current liabilities:				
Trade and other payables	17, 34	¥ 36,833	¥ 34,439	\$ 315,951
Borrowings	18, 34	435	-	-
Lease liabilities	2, 21	-	2,188	20,077
Other financial liabilities	19, 34	515	450	4,127
Income taxes payable		15,980	20,346	186,661
Provisions	24	17,206	20,721	190,103
Other current liabilities	22	12,181	13,185	120,961
Total current liabilities		83,150	91,329	837,879
Non-current liabilities:				
Borrowings	18, 34	1,765	-	-
Lease liabilities	2, 21	-	6,173	56,635
Other financial liabilities	19, 34	5	0	3
Retirement benefit liabilities	23	5,515	6,048	55,485
Deferred tax liabilities	16	1,053	1,059	9,717
Other non-current liabilities	22	832	813	7,456
Total non-current liabilities		9,171	14,093	129,296
Total liabilities		92,321	105,422	967,175
Equity:				
Share capital	25	17,358	17,358	159,250
Capital reserves	25	17,202	17,229	158,062
Treasury shares	25	(38,151)	(44,737)	(410,435)
Other components of equity	25	61,852	48,030	440,643
Retained earnings	25	499,088	524,605	4,812,888
Equity attributable to owners of the parent company		557,350	562,484	5,160,407
Non-controlling interests		5,386	5,538	50,806
Total equity		562,736	568,022	5,211,214
Total liabilities and equity		¥655,056	¥673,444	\$6,178,389

Consolidated Statement of Income

Year Ended March 31, 2020

	<i>Notes</i>	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars (Note 2 (5))</i>
		For the year ended March 31, 2019	For the year ended March 31, 2020	For the year ended March 31, 2020
Revenue	6, 27	¥288,634	¥292,420	\$ 2,682,749
Cost of sales		(83,829)	(79,063)	(725,351)
Gross profit		204,805	213,356	1,957,398
Selling, general, and administrative expenses	28	(70,033)	(67,679)	(620,906)
Research and development costs		(70,008)	(66,497)	(610,067)
Other income	30	646	822	7,543
Other expenses	30	(3,400)	(2,512)	(23,042)
Operating profit		62,010	77,491	710,927
Finance income	31	3,282	3,053	28,012
Finance costs	31	(150)	(845)	(7,749)
Share of loss from investments in associates and others	15	(1)	(4)	(35)
Profit before tax		65,141	79,696	731,154
Income tax expense	16	(13,462)	(19,808)	(181,724)
Profit for the year		51,679	59,888	549,431
Profit for the year attributable to:				
Owners of the parent company		51,539	59,704	547,740
Non-controlling interests		140	184	1,691
Profit for the year		¥ 51,679	¥ 59,888	\$ 549,431
Earnings per share:		<i>Yen</i>		<i>U.S. Dollars (Note 2 (5))</i>
Basic earnings per share	33	¥ 100.25	¥ 118.47	\$ 1.09
Diluted earnings per share	33	100.24	118.45	1.09

Consolidated Statement of Comprehensive Income

Year Ended March 31, 2020

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars (Note 2 (5))</i>
Notes	For the year ended March 31, 2019	For the year ended March 31, 2020	For the year ended March 31, 2020
Profit for the year	¥ 51,679	¥ 59,888	\$ 549,431
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Net (loss) gain on financial assets measured at fair value through other comprehensive income	32, 34 (43)	(1,909)	(17,517)
Remeasurement of defined benefit plans	32 (890)	(109)	(1,001)
Share of net (loss) gain on financial assets measured at fair value through other comprehensive income of investments in associates	15, 32 (1)	(4)	(33)
Total of items that will not be reclassified to profit or loss	(935)	(2,022)	(18,552)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	32 78	(219)	(2,008)
Total of items that may be reclassified subsequently to profit or loss	78	(219)	(2,008)
Total other comprehensive (loss) income	(857)	(2,241)	(20,559)
Total comprehensive income for the year	50,821	57,647	528,871
Comprehensive income for the year attributable to:			
Owners of the parent company	50,658	57,492	527,445
Non-controlling interests	163	155	1,426
Total comprehensive income for the year	¥ 50,821	¥ 57,647	\$ 528,871

Consolidated Statement of Changes in Equity

Year Ended March 31, 2020

Millions of Yen

		Equity attributable to owners of the parent company							
Notes	Share capital	Capital reserves	Treasury shares	Other components of equity	Retained earnings	Equity attributable to owners of the parent company	Non-controlling interests	Total equity	
	¥17,358	¥17,175	¥ (38,148)	¥68,021	¥459,985	¥524,390	¥5,228	¥529,619	
					4,127	4,127		4,127	
	17,358	17,175	(38,148)	68,021	464,112	528,517	5,228	533,746	
					51,539	51,539	140	51,679	
				(881)		(881)	24	(857)	
				(881)	51,539	50,658	163	50,821	
			(3)			(3)		(3)	
					(21,850)	(21,850)	(5)	(21,856)	
		27				27		27	
				(5,288)	5,288				
			(3)	(5,288)	(16,562)	(21,826)	(5)	(21,831)	
	17,358	17,202	(38,151)	61,852	499,088	557,350	5,386	562,736	
					59,704	59,704	184	59,888	
				(2,212)		(2,212)	(29)	(2,241)	
				(2,212)	59,704	57,492	155	57,647	
			(29,586)			(29,586)		(29,586)	
			22,999		(22,999)				
		27			(22,798)	(22,798)	(3)	(22,801)	
						27		27	
				(11,610)	11,610				
			(6,587)	(11,610)	(34,187)	(52,357)	(3)	(52,360)	
	¥ 17,358	¥ 17,229	¥ (44,737)	¥ 48,030	¥ 524,605	¥ 562,484	¥ 5,538	¥ 568,022	

Thousands of U.S. Dollars (Note 2 (5))

		Equity attributable to owners of the parent company							
Notes	Share capital	Capital reserves	Treasury shares	Other components of equity	Retained earnings	Equity attributable to owners of the parent company	Non-controlling interests	Total equity	
	\$ 159,250	\$ 157,814	\$ (350,006)	\$ 567,450	\$ 4,578,793	\$ 5,113,301	\$ 49,412	\$ 5,162,712	
					547,740	547,740	1,691	549,431	
				(20,295)		(20,295)	(265)	(20,559)	
				(20,295)	547,740	527,445	1,426	528,871	
			(271,431)			(271,431)		(271,431)	
			211,001		(211,001)				
					(209,155)	(209,155)	(31)	(209,187)	
		248				248		248	
				(106,512)	106,512				
			(60,430)	(106,512)	(313,645)	(480,339)	(31)	(480,370)	
	\$ 159,250	\$ 158,062	\$ (410,435)	\$ 440,643	\$ 4,812,888	\$ 5,160,407	\$ 50,806	\$ 5,211,214	

Consolidated Statement of Cash Flows

Year Ended March 31, 2020

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars (Note 2 (5))</i>
	For the year ended	For the year ended	For the year ended
	Notes	March 31, 2019	March 31, 2020
Cash flows from operating activities			
Profit before tax	¥ 65,141	¥ 79,696	\$ 731,154
Depreciation and amortization	10,621	14,214	130,407
Impairment losses	209	2,816	25,833
Interest and dividend income	(3,164)	(2,968)	(27,232)
Interest expense	27	76	700
(Increase) decrease in inventories	(1,567)	(173)	(1,588)
(Increase) decrease in trade and other receivables	1,251	(793)	(7,276)
Increase (decrease) in trade and other payables	998	1,992	18,276
Increase (decrease) in provisions	6,333	3,515	32,248
Increase (decrease) in retirement benefit liabilities	378	381	3,498
Other	1,854	865	7,934
Subtotal	82,081	99,621	913,954
Interest received	77	92	844
Dividends received	3,092	2,878	26,399
Interest paid	(27)	(76)	(700)
Income taxes paid	(18,449)	(28,357)	(260,160)
Net cash provided by (used in) operating activities	2	66,774	74,157
			680,337
Cash flows from investing activities			
Purchases of property, plant, and equipment	(22,303)	(7,475)	(68,577)
Proceeds from sales of property, plant, and equipment	11	424	3,891
Purchases of intangible assets	(7,299)	(14,970)	(137,339)
Purchases of investments	(873)	-	-
Proceeds from sales and redemption of investments	27,123	31,439	288,430
Payments into time deposits	(55,800)	(45,800)	(420,183)
Proceeds from withdrawal of time deposits	10,800	25,800	236,697
Other	(1,423)	348	3,188
Net cash provided by (used in) investing activities		(49,763)	(10,234)
			(93,892)
Cash flows from financing activities			
Dividends paid	(21,828)	(22,775)	(208,941)
Dividends paid to non-controlling interests	(5)	(3)	(31)
Repayments of long-term borrowings	(361)	-	-
Repayments of lease liabilities	-	(2,358)	(21,637)
Net increase (decrease) in short-term borrowings	(84)	-	-
Purchases of treasury shares	(1)	(29,584)	(271,414)
Net cash provided by (used in) financing activities	2	(22,279)	(54,721)
			(502,024)
Net increase (decrease) in cash and cash equivalents		(5,268)	9,202
Cash and cash equivalents at the beginning of the year		65,273	59,981
Effects of exchange rate changes on cash and cash equivalents		(24)	(179)
Cash and cash equivalents at the end of the year	7	¥ 59,981	¥ 69,005
			\$ 633,071

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

1. Reporting Entity

ONO PHARMACEUTICAL CO., LTD. (the “Company”) is a company incorporated in Japan. The addresses of its registered head office and principal business locations are disclosed on the Company’s website

(URL https://www.ono.co.jp/eng/about/business_locations.html).

The consolidated financial statements of the Company were closed at its year-end of March 31, 2020, and comprise the Company and its subsidiaries (collectively, the “Group”) and equity interests in associates of the Group. The Group manufactures and sells medical and general pharmaceutical products. The business descriptions and principal activities of the Group are described in “6. Segment Information.”

2. Basis of Preparation

(1) Statements of Compliance with International Financial Reporting Standards

Pursuant to the provision of Article 93 of the Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements, the Company qualifies as a “Specified Company of the Designated International Financial Reporting Standards” prescribed in Article 1-2 of the Ordinance, and the consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS).

(2) Basis of Measurement

Except for the financial instruments and others described in “3. Significant Accounting Policies,” the consolidated financial statements are prepared on a historical cost basis.

(3) Functional Currency and Presentation Currency

The consolidated financial statements of the Group are presented in Japanese yen, which is the Company’s functional currency. All financial information presented in Japanese yen has been rounded to the nearest million yen, except where otherwise indicated.

Notes to Consolidated Financial Statements

Year Ended March 31, 2020

(4) Changes in Accounting Policies

The Group has applied IFRS 16 “Leases” (issued in January 2016) from the fiscal year ended March 31, 2020.

On application of IFRS 16, right-of-use assets and lease liabilities were recognized on the date of initial application of IFRS 16 (April 1, 2019) for leases previously classified as operating leases under IAS 17 “Leases.”

In addition, operating lease payments that had been expensed as incurred under the previous accounting standard were recorded as depreciation for right-of-use assets and interest expense on lease liabilities in the consolidated statement of income for the fiscal year ended March 31, 2020, and reclassified from a reduction in cash flows from operating activities to a reduction in cash flows from financing activities in the consolidated statement of cash flows for the same period.

For leases as a lessee, the Group measures right-of-use assets at cost and lease liabilities at the present value of the lease payments that are not paid at the commencement date of the leases in accordance with IFRS 16.

Right-of-use assets are depreciated by using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

Lease payments are allocated to finance costs and repayments of lease liabilities based on the effective interest method. The finance costs are recognized in the consolidated statement of income.

However, the Group has elected not to recognize right-of-use assets and lease liabilities for leases of intangible assets, leases for which the underlying asset is of low value (“low-value leases”), and short-term leases within 12 months. Lease payments associated with low-value leases and short-term leases are recognized as an expense on either a straight-line basis over the lease term or another systematic basis.

In accordance with the transition under IFRS 16, the Group has retrospectively adopted IFRS 16 and recognized the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings for the fiscal year ended March 31, 2020. In transitioning to IFRS 16, the Group has elected the practical expedient provided in paragraph of IFRS 16. C3 and carried forward the assessment of whether contracts contain leases in accordance with IAS 17 and IFRIC 4 “Determining whether an Arrangement contains a Lease.”

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

The Group measures lease liabilities at the present value of the lease payments that are not paid at the date of initial application by discounting them at the lessee's incremental borrowing rate at the date of initial application. The weighted average lessee's incremental borrowing rate applied to lease liabilities recognized in the consolidated statement of financial position at the date of initial application is 0.9%. The Group initially measures the right-of-use assets at the initial measurement amount of the lease liabilities adjusted by the amount of any prepaid or accrued lease payments.

For leases that were classified as finance leases applying IAS 17, the right-of-use assets and the lease liabilities are measured at the carrying amount of the leased assets and lease liabilities at the end of the previous fiscal year.

As a result, as of the beginning of the fiscal year ended March 31, 2020, property, plant, and equipment and lease liabilities each increased by ¥6,245 million (\$57,294 thousand), compared with the amounts under the previous accounting standard. There is no impact on the opening balance of retained earnings at the date of initial application, because the Group measures right-of-use assets at the date of initial application at the amount of lease liabilities measured after adjusting the amount of any prepaid and accrued lease payments.

The following is the reconciliation of operating lease contracts disclosed applying IAS 17 as of March 31, 2019 and lease liabilities recognised in the consolidated statement of financial position at the date of initial application.

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Operating lease contracts disclosed as of March 31, 2019	¥ 499	\$ 4,579
Operating lease contracts discounted using the incremental borrowing rate as of April 1, 2019	499	4,579
Finance lease contracts disclosed as of March 31, 2019	2,200	20,182
Cancelable operating lease contracts	5,757	52,819
Other	(11)	(104)
Total lease liabilities as of April 1, 2019	<u>¥ 8,445</u>	<u>\$ 77,476</u>

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

When applying IFRS 16, the Group used the following practical expedients provided in paragraph IFRS 16. C10:

- A single discount rate is applied to a portfolio of leases with reasonably similar characteristics.
- Leases for which the lease term ends within 12 months of the date of initial application are accounted for in the same manner as short-term leases.
- Initial direct costs are excluded from the measurement of the right-of-use asset at the date of initial application.
- Hindsight is used, such as in determining the lease term, if the contract contains options to extend or terminate the lease.

(5) U.S. Dollar Amounts

The accompanying consolidated financial statements are stated in Japanese yen. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan using the rate of ¥109 to \$1, the approximate rate of exchange at March 31, 2020. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate. Amounts of less than one thousand U.S. dollars have been rounded to the nearest one thousand U.S. dollars in the presentation of the accompanying consolidated financial statements. As a result, the totals in U.S. dollars do not necessarily agree with the sum of the individual amounts.

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

3. Significant Accounting Policies

The significant accounting policies have been applied consistently to all periods presented in the consolidated financial statements, unless otherwise stated.

(1) Basis of Consolidation

① Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it has power over the entity, is exposed to, or has rights to variable returns from its involvement with the entity, and has the ability to affect those returns through its power over the entity.

Even if the Group does not have a majority of voting rights, it concludes that it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally.

Consolidation of a subsidiary begins on the date the Group obtains control over the subsidiary and continues through the date the Group loses control of the subsidiary. Changes in ownership interest in a subsidiary without a loss of control are accounted for as equity transactions, and a difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity as equity attributable to owners of the parent company.

In cases where the accounting policies applied by a subsidiary are different from those applied by the Group, adjustments are made to the subsidiary's financial statements, if necessary.

All intercompany receivables, payables, and transactions of the Group and unrealized profit and loss from intercompany transactions are eliminated in preparing the consolidated financial statements.

The closing date of all subsidiaries is the same as that of the Company.

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

② Associates

An associate refers to an entity over which the Group does not have control but has significant influence over the financial and operating policies of the entity. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but does not have control over those policies.

Investments in associates are initially recognized at cost and accounted for by the equity method of accounting in the consolidated statement of financial position from the date when the Group obtains significant influence until the date the Group loses significant influence. In cases where the accounting policies applied by an associate are different from those applied by the Group, adjustments are made to the associate's financial statements, if necessary.

The closing date of all associates is the same as that of the Company.

③ Business Combinations

Business combinations are accounted for by applying the acquisition method.

The Group measures the consideration for an acquisition as the sum of the consideration transferred in a business combination, the amount of any non-controlling interest and in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquisition. The consideration transferred is measured at fair value at the acquisition date. The non-controlling interest is measured at fair value or based on the appropriate share of the acquiree's identifiable net assets.

The Group recognizes goodwill as any excess of the consideration for acquisition over the net amount of the identifiable assets acquired and the liabilities assumed at the acquisition date. If the net amount of the identifiable assets and liabilities of the acquiree exceeds the consideration for acquisition, the acquirer recognizes the excess amount as profit or loss on the acquisition date.

Acquisition-related costs are recognized in profit or loss as incurred.

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

(2) Foreign Currencies

The consolidated financial statements of the Group are presented in Japanese yen, which is the Company's functional currency. Each entity of the Group applies its own functional currency and measures its transactions using its functional currency.

Foreign currency transactions are translated into the functional currency using spot exchange rates or approximate rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using spot exchange rates as of the closing date. Exchange differences arising from such translations and settlements are recognized in profit or loss. However, exchange differences arising from financial assets measured through other comprehensive income and cash flow hedges are recognized in other comprehensive income.

Assets and liabilities of foreign operations are translated into the presentation currency using spot exchange rates as of the closing date, while income and expenses are translated into the presentation currency at the average exchange rate for the period. The resulting exchange differences are recognized in other comprehensive income. In cases where foreign operations are disposed of, the cumulative amount of translation differences related to the foreign operations is recognized as profit or loss in the period of disposition.

(3) Financial Instruments

① Financial Assets

(i) Initial Recognition and Measurement

Trade receivables, etc., are initially recognized on the date when they are incurred. All other financial assets are initially recognized on the contract date when the Group becomes a party to the contractual provisions of the financial instruments. Financial assets are classified as either financial assets measured at fair value or financial assets measured at amortized cost.

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

All regular-way purchases or sales of financial assets are recognized or derecognized on a settlement date basis. Regular-way purchases or sales refer to purchases or sales of financial assets that require delivery of assets within the timeframe generally established by regulation or convention in the marketplace. At initial recognition, all financial assets, except for those measured at fair value through profit or loss (FVPL), are measured at fair value plus transaction costs that are directly attributable to the financial assets. Transaction costs of financial assets measured through profit or loss are recognized in profit or loss.

(ii) Classification and Subsequent Measurement

(a) Financial Assets Measured at Amortized Cost

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

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

After initial recognition, the carrying amounts of the financial assets measured at amortized cost are calculated using the effective interest method. Amortization using the effective interest method and gains or losses arising in the case of derecognition are recognized in profit or loss.

(b) Debt instruments measured at fair value through other comprehensive income (FVOCI)

Financial assets are classified as debt instruments measured at FVOCI if both of the following conditions are met:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(c) Equity instruments measured at FVOCI

After initial recognition, equity instruments designated to be measured at FVOCI are measured at fair value, and any changes in fair value are included in net gain (loss) on financial assets measured at FVOCI in other components of equity.

When such financial assets are derecognized, the accumulated other comprehensive income is immediately transferred to retained earnings. Meanwhile, dividends from such financial assets are recognized as profit when the shareholder's right to receive payment is established.

(d) Financial assets measured at FVPL

Financial assets, except for financial assets measured at amortized cost, debt instruments measured at FVOCI, and equity instruments measured at FVOCI stated above, are classified as financial assets measured at FVPL.

After initial recognition, financial assets measured at FVPL are measured at fair value, and any changes in fair value are recognized in profit or loss.

(iii) Derecognition of Financial Assets

The Group derecognizes a financial asset when the contractual right to receive cash flows from the asset expires or is transferred, or when it transfers substantially all the risks and rewards of ownership of the asset.

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

(iv) Impairment of Financial Assets

At the end of each fiscal year, the Group evaluates whether the credit risk on financial instruments has increased significantly since initial recognition. With respect to impairment of financial assets measured at amortized cost, the Group recognizes an allowance for expected credit losses on such financial assets. If credit risk on a financial instrument has not increased significantly since initial recognition, the allowance for such financial instrument is measured at an amount equal to the 12-month expected credit losses. If credit risk on a financial instrument has increased significantly since initial recognition, the allowance for such financial instrument is measured at an amount equal to the lifetime expected credit losses. Whether credit risk is significantly increased or not is determined based on the changes in default risk. The assessment of whether or not there is a change in default risk takes into account information that is reasonably available to the Group and supportable as well as past due information. When the credit risk on a financial asset is considered low at the end of the fiscal year, the Group determines that the credit risk on the financial asset has not increased significantly since initial recognition. Expected credit losses are measured based on the discounted present value of the differences between the contractual cash flows and the cash flows expected to be received. However, with regard to trade receivables, etc., the allowance is always measured at an amount equal to the lifetime expected credit losses, regardless of whether or not there has been a significant increase in credit risk since initial recognition. The amount of expected credit losses or reversal is recognized in profit or loss.

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

② Financial Liabilities

(i) Initial Recognition and Subsequent Measurement

The Group holds financial liabilities that are measured at amortized cost. Financial liabilities measured at amortized cost are initially measured at fair value minus directly attributable transaction costs. After initial recognition, the carrying amounts of financial liabilities measured at amortized cost are calculated using the effective interest method. Gains or losses arising from amortization using the effective interest method and derecognition are recognized as profit or loss in the consolidated statement of income.

(ii) Derecognition of Financial Liabilities

Financial liabilities are derecognized when the Group's contractual obligations are discharged, canceled, or expired.

③ Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amounts are presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to offset the recognized amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

④ Derivatives

The Group enters into forward foreign exchange contracts as derivatives to address the risk of foreign exchange rate fluctuations. Forward foreign exchange contracts are initially measured at fair value when the contract is entered into and are subsequently remeasured at their fair value. Changes in fair value of foreign exchange contracts are recognized as profit or loss in the consolidated statement of income. However, gains and losses on hedging instruments relating to the effective portion of cash flow hedges are recognized as other comprehensive income in the consolidated statement of comprehensive income.

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

⑤ Hedge Accounting

The Group designates forward foreign exchange contracts that are derivatives in respect of addressing the risk of foreign exchange rate fluctuation as hedging instruments for cash flow hedges. At the inception of the hedge relationship, the Group documents the relationship between hedging instruments and hedged items in accordance with the strategy for undertaking hedge transactions. In addition, at the inception of the hedge and during the life of the hedge, the Group documents whether the hedging instruments are highly effective in offsetting changes in cash flows of the underlying hedged items attributable to the hedged risk.

Cash flow hedge accounting is as follows:

The effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income and accumulated in other components of equity. The ineffective portion of gains or losses on the hedging instruments is recognized immediately in profit or loss.

Amounts recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss in the same line as the recognized hedged item. However, in cases where the hedged forecast transaction results in the recognition of a non-financial asset or liability, the gains and losses previously recognized in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or liability.

Hedge accounting is discontinued when a hedging instrument expires, is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any gain or loss recognized in other comprehensive income and accumulated in equity remains in equity and is reclassified to profit or loss when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

⑥ Fair Value of Financial Instruments

The fair values of financial instruments traded on active financial markets as of each reporting date are based on quoted prices in the markets or dealer prices. The fair values of financial instruments for which no active markets exist are calculated by using appropriate valuation techniques.

(4) Cash and Cash Equivalents

Cash and cash equivalents are composed of cash on hand, bank deposits drawable at any time, and short-term investments with maturities of three months or less from the acquisition date, which are readily convertible to cash and are subject to insignificant risk of changes in value.

(5) The Standard for Measurement and the Value of Inventories

Inventory costs include raw materials, direct labor, and other direct costs, as well as relevant overhead expenses.

Inventories are measured at the lower of cost or net realizable value. Cost is mainly determined using the weighted-average method. Net realizable value is determined based on the estimated selling price in the ordinary course of business, less estimated costs of completion and costs necessary to make the sale.

(6) Property, Plant, and Equipment (Except for Right-of-Use Assets)

The Group applies the cost model for subsequent measurement of property, plant, and equipment and records them at cost less any accumulated depreciation and accumulated impairment losses.

The cost of property, plant, and equipment comprises costs directly attributable to the acquisition of the assets and initial estimations of asset retirement obligations. Depreciation of an item of property, plant, and equipment commences when the assets are available for use.

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

Property, plant, and equipment are depreciated by the straight-line method over their estimated useful lives. The estimated useful lives of major asset items are as follows:

Buildings and structures:	15 – 50 years
Machinery and vehicles:	4 – 15 years
Tools, furniture, and fixtures:	2 – 20 years

The estimated useful lives and depreciation method, etc., are reviewed at the end of each fiscal year, and any changes are treated as changes in accounting estimates and applied prospectively.

(7) Impairment of Property, Plant, and Equipment

During each fiscal year, the Group determines whether there is any indication of impairment on each asset. If any indication of impairment exists, the recoverable amount of an asset or a cash-generating unit to which the asset belongs is estimated.

The recoverable amount is computed at the higher of the fair value less costs to sell or value in use of the asset or cash-generating unit. If the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount and impairment loss is recognized.

The value in use is computed by discounting the estimated future cash flows to their present value using a pretax discount rate that reflects the time value of money and the risks inherent to the asset, etc. For the calculation of an asset's fair value less costs to sell, an appropriate valuation model is used based on available fair value indices.

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

An impairment loss recognized in prior years is assessed as to whether there is any indication that the impairment loss for an asset or a cash-generating unit may have decreased or may no longer exist. If any such indication exists, the recoverable amount of the asset or cash-generating unit is estimated. In cases where the recoverable amount exceeds the carrying amount of the asset or cash-generating unit, impairment losses are reversed up to the lower of the estimated recoverable amount or the carrying amount, net of accumulated depreciation that would have been determined if no impairment losses had been recognized in prior years.

(8) Intangible Assets

① Intangible Assets Acquired Separately

The Group applies the cost model for measurement of intangible assets and states them at cost less any accumulated amortization and accumulated impairment losses. However, intangible assets with indefinite useful lives acquired separately are stated at cost less any accumulated impairment losses.

Amortization for intangible assets commences when the related assets are available for use. Except for intangible assets with indefinite useful lives or which are not yet available for use, each intangible asset is amortized by the straight-line method over its estimated useful life. The estimated useful lives of major intangible asset items are as follows:

Sales licenses:	8—17 years
Software:	3—8 years

The estimated useful lives used in calculating the amortization of sales licenses are determined by considering the effective period of the patents and others.

The estimated useful lives and amortization method are reviewed at the end of each fiscal year, and any changes are treated as changes in accounting estimates and applied prospectively.

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

② Internally Generated Intangible Assets (Research and Development Costs Internally Generated)

Costs arising from development (or from the development phase of an internal project) shall be recognized as an asset if, and only if, all of the following have been demonstrated:

- (i) the technical feasibility of completing the intangible asset so that it will be available for use or sale
- (ii) the intention to complete the intangible asset and use or sell it
- (iii) the ability to use or sell the intangible asset
- (iv) how the intangible asset will generate probable future economic benefits
- (v) the availability of adequate technical, financial, and other resources to complete the development and to use or sell the intangible asset
- (vi) the ability to measure reliably the expenditure attributable to the intangible asset during its development

Due to the risks and uncertainties relating to the approval and development activity of pharmaceutical drugs, the Group determines that the recognition criteria for capitalization as intangible assets are considered not to have been met unless it obtains marketing approval from the relevant regulatory authorities.

Internally generated development expenses arising before marketing approval has been obtained are expensed under “Research and development costs” as incurred.

③ Impairment of Intangible Assets

Intangible assets with indefinite useful lives or intangible assets not yet available for use are not subject to amortization and are tested for impairment individually or on a cash-generating unit basis at the end of each fiscal year or whenever any indication of impairment exists.

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

Impairment tests are performed by calculating the recoverable amount of each intangible asset and comparing the recoverable amount with its carrying amount. In cases where a recoverable amount of an individual asset cannot be estimated, the recoverable amount of the cash-generating unit to which the asset belongs is estimated.

The recoverable amount of an asset or a cash-generating unit is measured at the higher of its fair value less costs to sell or its value in use. The value in use is computed by discounting the estimated future cash flows to the present value.

The discount rate used is a pretax rate that reflects the time value of money and the risks inherent to the asset using unadjusted estimates of future cash flows.

(9) Leases

For the fiscal year ended March 31, 2019

Leases are classified as finance leases when substantially all the risks and rewards of ownership are transferred to the Group. All other leases are classified as operating leases.

In finance lease transactions, leased assets and lease obligations are carried at the lower of the fair value of the leased property or the present value of the minimum lease payments, each determined at the inception of the lease. Leased assets and lease obligations are presented as property, plant, and equipment and borrowings, respectively, in the consolidated statement of financial position. Leased assets are depreciated using the straight-line method over the shorter of their estimated useful lives or the lease terms. Lease payments are apportioned between the finance costs and the repayments of the lease obligations based on the interest method, and finance costs are recognized as an expense in the consolidated statement of income.

In operating lease transactions, lease payments are recognized as an expense by the straight-line method over the lease terms in the consolidated statement of income. Variable lease payments are recognized as an expense in the period when incurred.

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

Determining whether an arrangement is, or contains, a lease is identified based on the substance of the arrangement in accordance with IFRIC 4, *“Determining Whether an Arrangement Contains a Lease.”*

For the fiscal year ended March 31, 2020

For leases as a lessee, the Group measures right-of-use assets at cost and lease liabilities at the present value of the lease payments that are not paid at the commencement date of the lease in accordance with IFRS 16.

Right-of-use assets are depreciated by using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

Lease payments are allocated to finance costs and repayments of lease liabilities based on the effective interest method. The finance costs are recognized in the consolidated statement of income.

However, the Group has elected not to recognize right-of-use assets and lease liabilities for leases of intangible assets, leases for which the underlying asset is of low value (“low-value leases”), and short-term leases within 12 months. Lease payments associated with low-value leases and short-term leases are recognized as an expense on either a straight-line basis over the lease term or another systematic basis.

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

(10) Employee Benefits

The Group participates in both defined benefit and defined contribution plans as employee retirement benefit plans.

① Defined Benefit Plans

For the Group's defined benefit plans, the cost of providing retirement benefits is measured by the projected unit credit method, with actuarial valuations being carried out at the end of each reporting period. Remeasurements, comprising actuarial gains and losses, the effect of any changes in the asset ceiling, and the return on plan assets (excluding net interest), are recognized through other comprehensive income in the period in which they are incurred and immediately reflected in the consolidated statement of financial position. Remeasurements recognized in other comprehensive income are immediately reclassified to retained earnings and will not be reclassified to profit or loss. Past service costs are recognized in profit or loss in the period in which revisions to the plans occurred. Net interest is calculated by applying the discount rate at the beginning of the reporting period to the net defined benefit liability or asset and presented as "finance income" or "finance costs." Defined benefit expenses are classified into the following components:

- Service costs (current service costs, past service costs, and others)
- Net interest expense or income
- Remeasurements

The retirement benefit assets or liabilities recognized in the consolidated statement of financial position represent the actual surplus or deficit in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of available future economic benefits in the form of refunds from the plan or reductions in future contributions to the plan.

② Defined Contribution Plans

Contributions paid for defined contribution plans are expensed in the period in which the employees provide the related service.

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

(11) Provisions

The Group recognizes provisions when it has a present obligation (legal or constructive) as a result of a past event, it is probable that it will be required to settle the obligation, and a reliable estimate can be made.

Where the time value of money is material, a provision is measured at the present value of estimated expenditures required to settle the obligation. The present value is computed using a pretax discount rate that reflects the time value of money and the risks inherent to the liabilities.

(12) Revenue

Revenue, excluding interest and dividend income, etc., is recognized by applying the following five steps:

Step 1: Identify the contract with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

Notes to Consolidated Financial Statements

Year Ended March 31, 2020

① Sale of Merchandise

For the sale of merchandise, revenue is recognized at the point when it is delivered, since material risks and economic value associated with ownership of the merchandise are transferred to customers at the time of its delivery, and customers acquire control over it, and thereby the Group's performance obligations are considered to be satisfied.

The revenue arising from sale of merchandise is calculated by deducting the amount of rebates and discounts based on the number and amount of sales from the consideration in the sales contract, and the consideration to be refunded to customers and the amounts to be collected on behalf of third parties are recognized as a refund liability. The most likely amount method based on contractual conditions and past results is used to estimate rebates, etc. Revenue is recognized only to the extent that it is highly probable that there will not be a significant reversal of revenue previously recognized.

Consideration related to sale of merchandise is mainly received within one year from the delivery of merchandise to customers. This does not include significant financing components.

② Royalty Revenue, etc.

Royalty revenue is consideration for license contracts, etc., calculated on the basis of revenue, etc., of the other party in the contract, and it is recognized as revenue taking the time of occurrence into consideration.

License revenue is up-front payment and milestone revenue received under license contracts, etc., related to development or rights to develop or sell products, etc., executed between the Group and third parties. For license contracts, etc., when performance obligations are satisfied at a specific point in time, performance obligations under the contract are considered to be satisfied at the time of granting development or selling rights, etc., for up-front payment and milestone revenue, and at this point, the up-front payment and milestone revenue are recognized as revenue. When performance obligations are satisfied over a certain period of time, the consideration is recognized as contract liabilities, and up-front payment and milestone revenue are recognized as revenue over a certain period of time, such as the estimated development period according to the method of measuring the degree of progress regarding satisfaction of the performance obligations determined for each individual contract.

Milestone revenue is recognized as revenue, considering the probability that there will be a significant reversal of revenue previously recognized, from the time that milestones specified in the contract are achieved.

Royalty revenue, etc., are mainly received within one year from the vesting under the contract. This does not include significant financing components.

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

(13) Income Taxes

Income tax expense represents the sum of current tax expense and deferred tax expense.

Current tax expense is measured at the expected amount of a refund or payment of taxes from/to the taxation authorities. The Group's income taxes are calculated using tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Current tax expense is recognized as an expense, except for the taxes attributable to items recognized directly either in other comprehensive income or equity.

Deferred tax expense is calculated based on temporary differences between the carrying amounts of assets and liabilities for accounting purposes and their tax basis as of the closing date. Deferred income tax assets are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences and the carryforward of unused tax credits and tax losses can be utilized. Deferred tax liabilities are principally recognized for all taxable temporary differences.

Deferred tax assets or deferred tax liabilities are not recognized for the following temporary differences:

- Deductible temporary differences associated with investments in subsidiaries and associates where it is probable that the temporary differences will not reverse in the foreseeable future or it is not probable that taxable profits will be available against which the temporary differences can be used.
- Taxable temporary differences associated with investments in subsidiaries and associates where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.
- There are temporary differences arising from the initial recognition of assets and liabilities which occur through transactions that affect neither accounting profit nor taxable profit for tax purposes, except for business combinations.

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

Deferred tax assets and deferred tax liabilities are calculated using tax rates that are estimated for the year in which these assets are realized or these liabilities are settled, based on tax rates that have been enacted or substantively enacted by the closing date.

(14) Treasury Shares

Treasury shares are recognized at cost and deducted from equity. Neither gain nor loss is recognized on the purchase, sale, or retirement of the treasury shares. Any difference between the carrying amount and proceeds on sales is treated as capital reserve.

(15) Earnings per Share

Basic earnings per share are calculated by dividing profit and loss for the year attributable to owners of the parent company by the weighted-average number of ordinary shares outstanding during the year, adjusted by the number of treasury shares for the period. Diluted earnings per share are calculated by adjusting the effects of all dilutive potential ordinary shares.

(16) Share-based Payments

The Company has a share option plan as an incentive plan for the Board of Directors (excluding outside directors). Share options are recognized as expenses over the vesting period and the corresponding amount is recognized as an increase in equity. In addition, the fair value of share options is calculated using the Black-Scholes model at the grant date.

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

4. Significant Accounting Estimates and Critical Judgment Involving Estimations

The Group's consolidated financial statements include management estimates and assumptions for measurements of income and expense, and assets and liabilities. These estimates and assumptions are based on management's best judgment along with historical experience and other various factors that are believed to be reasonable under the circumstances as of the closing date. However, there is a possibility that these estimates and assumptions may differ from actual results in the future due to their nature.

The estimates and underlying assumptions are continually reevaluated by management. The effects of revisions to the accounting estimates and assumptions are recognized in the period of the revision and future periods.

The information related to the judgments and estimates made in the process of applying accounting policies and accounting estimates and assumptions that have a significant effect on the amounts recognized in the Group's consolidated financial statements is as follows:

- Impairment of property, plant, and equipment and intangible assets (Note 13, 14)
- Recoverability of deferred tax assets (Note 3(13), 16)
- Measurement of defined benefit obligations (Note 23)
- Provision for patent royalties (Note 24)
- Potential outflow of future economic benefits of contingent liabilities (Note 39)

5. Standards and Interpretations Issued but Not Yet Applied

The Group has not elected early application of new or revised standards and interpretations that have been issued before the approval date disclosed in "40. Approval of Financial Statements" on March 31, 2020. The effects of the application are not disclosed for matters of little significance.

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

6. Segment Information

(1) Reportable Segments

Based on the Group's corporate philosophy, "Dedicated to Man's Fight against Disease and Pain," in order to fulfill medical needs that have not yet been met, the Group is dedicated to developing innovative new pharmaceutical drugs for patients and focuses its operating resources on a single segment of the pharmaceutical business (research and development, purchasing, manufacturing, and sales). Accordingly, segment information is omitted herein.

(2) Details of Revenue

Details of revenue are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	For the year ended March 31, 2019	For the year ended March 31, 2020	For the year ended March 31, 2020
Revenue of goods and products	¥ 208,947	¥ 205,614	\$ 1,886,369
Royalty and others	79,687	86,805	796,380
Total	<u>¥ 288,634</u>	<u>¥ 292,420</u>	<u>\$ 2,682,749</u>

(3) Revenue by Geographic Area

Details of revenue by geographic area are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	For the year ended March 31, 2019	For the year ended March 31, 2020	For the year ended March 31, 2020
Revenue of goods and products			
Japan	¥ 207,371	¥ 202,866	\$ 1,861,157
Americas	72,298	81,545	748,116
Asia	7,354	7,481	68,630
Europe	1,610	528	4,846
Total	<u>¥ 288,634</u>	<u>¥ 292,420</u>	<u>\$ 2,682,749</u>

Note: Revenue by geographic area is presented on the basis of the place of customers.

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

(4) Major Customers

Details of revenue from major customers are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	For the year ended March 31, 2019	For the year ended March 31, 2020	For the year ended March 31, 2020
Bristol-Myers Squibb Company and the group	¥ 63,442	¥ 66,826	\$ 613,079
MEDIPAL HOLDINGS CORPORATION and the group	45,744	46,295	424,725
SUZUKEN CO., LTD. and the group	45,832	45,828	420,439
Alfresa Holdings Corporation and the group	32,213	31,894	292,601
TOHO HOLDINGS CO., LTD. and the group	31,242	30,637	281,077

7. Cash and Cash Equivalents

Details of cash and cash equivalents are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	March 31, 2019	March 31, 2020	March 31, 2020
(Cash and cash equivalents)			
Cash and deposits	¥ 59,981	¥ 69,005	\$ 633,071
Cash and cash equivalents in the consolidated statement of financial position	¥ 59,981	¥ 69,005	\$ 633,071
Cash and cash equivalents in the consolidated statement of cash flows	¥ 59,981	¥ 69,005	\$ 633,071

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

8. Trade and Other Receivables

Details of trade and other receivables are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	March 31, 2019	March 31, 2020	March 31, 2020
Notes receivable	¥ 2,885	¥ 1,832	\$ 16,811
Trade accounts receivable	67,868	68,962	632,682
Other accounts receivable	5,539	6,045	55,460
Allowance for doubtful accounts	(6)	(5)	(50)
Net	<u>¥ 76,285</u>	<u>¥ 76,834</u>	<u>\$ 704,903</u>

Note: Credit risk management is described in “34. Financial Instruments.”

9. Marketable Securities and Investment Securities

(1) Details

Details of marketable securities and investment securities are as follows:

	Classification	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
		March 31, 2019	March 31, 2020	March 31, 2020
Marketable securities	Financial assets measured at amortized cost	¥ 687	¥ 614	\$ 5,632
	Total	<u>¥ 687</u>	<u>¥ 614</u>	<u>\$ 5,632</u>
Investment securities	Financial assets measured at FVOCI	¥ 166,464	¥ 133,322	\$ 1,223,139
	Financial assets measured at FVPL	464	454	4,169
	Financial assets measured at amortized cost	4,547	3,893	35,719
Total		<u>¥ 171,476</u>	<u>¥ 137,670</u>	<u>\$ 1,263,028</u>

Note: Stocks are designated as financial assets measured at FVOCI because they are held mainly to strengthen business relationships and for the purpose of improving long-term corporate value.

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

(2) Major Holdings of Issues and Fair Value

Major holdings of issues and the fair value of the financial assets measured at FVOCI include the following:

For the fiscal year ended March 31, 2019

Description	<i>Millions of Yen</i>
DAIKIN INDUSTRIES, LTD.	¥ 15,759
SANTEN PHARMACEUTICAL CO., LTD.	15,346
DAIICHI SANKYO COMPANY, LIMITED	14,693
Nissan Chemical Corporation	10,054
NISSIN FOODS HOLDINGS CO., LTD.	9,348
T&D Holdings, Inc.	6,641
YAKULT HONSHA CO., LTD.	6,249
Sumitomo Dainippon Pharma Co., Ltd.	5,879
Astellas Pharma Inc.	5,492
MEIJI Holdings Co., Ltd.	5,443
Nippon Shinyaku Co., Ltd.	4,997
Kurita Water Industries Ltd.	4,100
KIKKOMAN CORPORATION	3,893
Alfresa Holdings Corporation	2,988
SHIMADZU CORPORATION	2,941
SUZUKEN CO., LTD.	2,769
MIURA CO., LTD.	2,670
KISSEI PHARMACEUTICAL CO., LTD.	2,453
KOKUYO CO., LTD.	2,414
HISAMITSU PHARMACEUTICAL CO., INC.	2,282
OBAYASHI CORPORATION	2,166
KYORIN Holdings, Inc.	2,085
Otsuka Holdings Co., Ltd.	2,040
FUJIFILM Holdings Corporation	2,007
MEDIPAL HOLDINGS CORPORATION	1,908
MAEDA CORPORATION	1,743
FUJIMOTO CHEMICALS CO., LTD.	1,718
OKAMURA CORPORATION	1,479
Osaka Gas Co., Ltd.	1,261
Mitsubishi Logistics Corporation	1,253

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

For the fiscal year ended March 31, 2020

Description	<i>Millions of Yen</i>	<i>Thousands of U.S. Dollars</i>
SANTEN PHARMACEUTICAL CO., LTD.	¥ 17,292	\$ 158,638
DAIKIN INDUSTRIES, LTD.	16,002	146,803
NISSIN FOODS HOLDINGS CO., LTD.	11,070	101,560
Nissan Chemical Corporation	7,813	71,679
Astellas Pharma Inc.	5,533	50,765
Nippon Shinyaku Co., Ltd.	5,258	48,235
YAKULT HONSHA CO., LTD.	5,159	47,333
MEIJI Holdings Co., Ltd.	4,649	42,656
MIURA CO., LTD.	4,035	37,019
KIKKOMAN CORPORATION	3,302	30,292
Sumitomo Dainippon Pharma Co., Ltd.	3,014	27,649
T&D Holdings, Inc.	2,993	27,461
Kurita Water Industries Ltd.	2,717	24,927
SHIMADZU CORPORATION	2,615	23,987
KISSEI PHARMACEUTICAL CO., LTD.	2,354	21,592
HISAMITSU PHARMACEUTICAL CO., INC.	2,259	20,729
KOKUYO CO., LTD.	2,247	20,617
FUJIFILM Holdings Corporation	2,168	19,890
KYORIN Holdings, Inc.	2,121	19,459
Otsuka Holdings Co., Ltd.	1,985	18,209
Alfresa Holdings Corporation	1,911	17,528
SUZUKEN CO., LTD.	1,700	15,598
FUJIMOTO CHEMICALS CO., LTD.	1,636	15,011
MEDIPAL HOLDINGS CORPORATION	1,464	13,429
CKD Corporation	1,369	12,560
MAEDA CORPORATION	1,265	11,604
Osaka Gas Co., Ltd.	1,176	10,789
OKAMURA CORPORATION	1,104	10,126
TOPPAN PRINTING CO., LTD.	1,086	9,959
NIPPON DENSETSU KOGYO CO., LTD.	1,054	9,665

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

(3) Dividends Received

Dividends received from the financial assets measured at FVOCI are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	For the year ended March 31, 2019	For the year ended March 31, 2020	For the year ended March 31, 2020
	Stock held at year-end	¥ 2,691	¥ 2,382
Stock disposed of during the year	382	494	4,536
Total	<u>¥ 3,073</u>	<u>¥ 2,876</u>	<u>\$ 26,385</u>

(4) Financial Assets Measured at FVOCI Disposed of During the Year

Fair value at the date of sale of financial assets measured at FVOCI that were disposed of during the year and cumulative (pretax) gains or losses are as follows:

	<i>Millions of Yen</i>				<i>Thousands of U.S. Dollars</i>	
	For the year ended March 31, 2019		For the year ended March 31, 2020		For the year ended March 31, 2020	
	Fair value at the date of sale	Cumulative gains or losses	Fair value at the date of sale	Cumulative gains or losses	Fair value at the date of sale	Cumulative gains or losses
Stock	¥17,444	¥8,799	¥30,741	¥16,871	\$282,028	\$154,784

Notes: 1. The Group sold the investments as a result of a reconsideration of its business relationships.

2. The Group transferred cumulative gains or losses (net of tax) from other components of equity to retained earnings of ¥6,178 million and ¥11,719 million (\$107,513 thousand) for the years ended March 31, 2019 and 2020, respectively.

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

10. Other Financial Assets

Details of other financial assets are as follows:

	Classification	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
		March 31, 2019	March 31, 2020	March 31, 2020
<i>(Current assets)</i>				
Time deposits	Financial assets measured at amortized cost	¥ 10,800	¥ 30,800	\$ 282,569
	Total	<u>¥ 10,800</u>	<u>¥ 30,800</u>	<u>\$ 282,569</u>
<i>(Non-current assets)</i>				
Long-term time deposits	Financial assets measured at amortized cost	¥ 85,000	¥ 85,000	\$ 779,817
Insurance reserve fund	Financial assets measured at FVPL	6,672	6,694	61,408
	Total	<u>¥ 91,672</u>	<u>¥ 91,694</u>	<u>\$ 841,225</u>

11. Other Assets

Details of other current assets and other non-current assets are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	March 31, 2019	March 31, 2020	March 31, 2020
<i>(Other current assets)</i>			
Prepaid expenses	¥ 7,871	¥ 8,094	\$ 74,257
Consumption taxes receivable	0	-	-
Advance payments	1,914	2,735	25,094
Other	4,257	4,234	38,845
	<u>¥ 14,042</u>	<u>¥ 15,063</u>	<u>\$ 138,195</u>
<i>(Other non-current assets)</i>			
Lease deposits	¥ 872	¥ 844	\$ 7,740
Long-term prepaid expenses	1,134	563	5,164
Other	2,165	1,465	13,437
	<u>¥ 4,171</u>	<u>¥ 2,871</u>	<u>\$ 26,340</u>

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

12. Inventories

Details of inventories are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	March 31, 2019	March 31, 2020	March 31, 2020
Merchandise and finished goods	¥ 19,320	¥ 17,248	\$ 158,239
Work in process	4,433	4,536	41,611
Raw materials and supplies	9,069	11,122	102,038
Total	¥ 32,821	¥ 32,906	\$ 301,888

Note: Inventories recognized as an expense for the years ended March 31, 2019 and 2020, amounted to ¥43,579 million and ¥44,721 million (\$410,280 thousand), respectively. In addition, the write-downs of inventories recognized as an expense for the years ended March 31, 2019 and 2020, were ¥131 million and ¥681 million (\$6,249 thousand), respectively.

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

13. Property, Plant, and Equipment

(1) Schedule of Movements

The movements in the cost, accumulated depreciation and accumulated impairment losses, and carrying amount of property, plant, and equipment are as follows:

	<i>Millions of Yen</i>					Total
	Land	Buildings and structures	Machinery and vehicles	Tools, furniture, and fixtures	Construction in progress	
Balance at						
April 1, 2018	¥ 25,003	¥ 93,511	¥ 23,241	¥ 28,266	¥ 6,838	¥ 176,859
Acquisition	3,984	1,919	1,039	1,522	13,928	22,393
Transfer	-	12,879	379	268	(13,525)	-
Sale or disposal	-	(1,395)	(1,087)	(1,805)	(24)	(4,311)
Exchange differences on translation of foreign operations	-	(5)	-	(3)	(0)	(7)
Other	-	-	-	-	(1,115)	(1,115)
Balance at						
March 31, 2019	¥ 28,987	¥106,908	¥ 23,572	¥ 28,249	¥ 6,101	¥ 193,818
Changes in accounting policies	1,869	4,376	-	-	-	6,245
Balance at						
April 1, 2019	¥ 30,856	¥111,284	¥ 23,572	¥ 28,249	¥ 6,101	¥ 200,063
Acquisition	754	1,766	1,191	1,370	4,738	9,819
Transfer	-	1,433	4,499	621	(6,554)	-
Sale or disposal	(599)	(1,841)	(1,418)	(2,114)	(1)	(5,973)
Exchange differences on translation of foreign operations	-	(53)	-	(12)	(0)	(66)
Other	-	-	-	-	(450)	(450)
Balance at						
March 31, 2020	¥ 31,010	¥112,589	¥ 27,845	¥ 28,113	¥ 3,835	¥ 203,393

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

Thousands of U.S. Dollars

	Land	Buildings and structures	Machinery and vehicles	Tools, furniture, and fixtures	Construction in progress	Total
Balance at March 31, 2019	\$ 265,936	\$ 980,810	\$ 216,259	\$ 259,168	\$ 55,976	\$ 1,778,149
Changes in accounting policies	17,150	40,145	-	-	-	57,294
Balance at April 1, 2019	\$ 283,085	\$ 1,020,955	\$ 216,259	\$ 259,168	\$ 55,976	\$1,835,444
Acquisition	6,913	16,202	10,924	12,568	43,472	90,080
Transfer	-	13,151	41,280	5,696	(60,127)	-
Sale or disposal	(5,499)	(16,890)	(13,006)	(19,398)	(5)	(54,799)
Exchange differences on translation of foreign operations	-	(489)	-	(113)	(2)	(604)
Other	-	-	-	-	(4,127)	(4,127)
Balance at March 31, 2020	<u>\$ 284,499</u>	<u>\$1,032,929</u>	<u>\$ 255,457</u>	<u>\$ 257,920</u>	<u>\$ 35,188</u>	<u>\$ 1,865,993</u>

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

Accumulated depreciation and accumulated impairment losses

	<i>Millions of Yen</i>					
	Land	Buildings and structures	Machinery and vehicles	Tools, furniture, and fixtures	Construction in progress	Total
Balance at						
April 1, 2018	¥ (1)	¥ (48,203)	¥ (15,601)	¥ (18,734)	¥ –	¥ (82,538)
Depreciation	(8)	(3,497)	(1,139)	(1,942)	–	(6,587)
Impairment losses	–	(56)	(12)	(2)	(24)	(94)
Sale or disposal	–	1,393	1,059	1,790	24	4,267
Exchange differences on translation of foreign operations	–	2	–	2	–	4
Balance at						
March 31, 2019	¥ (9)	¥ (50,361)	¥ (15,693)	¥ (18,885)	¥ –	¥ (84,948)
Depreciation	(279)	(5,477)	(1,142)	(2,021)	–	(8,920)
Impairment losses	–	(4)	(4)	–	(1)	(9)
Sale or disposal	20	1,567	1,401	2,101	1	5,089
Exchange differences on translation of foreign operations	–	12	–	11	–	22
Balance at						
March 31, 2020	¥ (268)	¥ (54,264)	¥ (15,439)	¥ (18,795)	¥ –	¥ (88,766)

	<i>Thousands of U.S. Dollars</i>					
	Land	Buildings and structures	Machinery and vehicles	Tools, furniture, and fixtures	Construction in progress	Total
Balance at						
March 31, 2019	\$ (83)	\$ (462,025)	\$ (143,972)	\$ (173,258)	\$ –	\$ (779,339)
Depreciation	(2,560)	(50,252)	(10,477)	(18,543)	–	(81,832)
Impairment losses	–	(39)	(40)	–	(5)	(85)
Sale or disposal	187	14,373	12,849	19,275	5	46,688
Exchange differences on translation of foreign operations	–	108	–	97	–	204
Balance at						
March 31, 2020	\$(2,457)	\$ (497,836)	\$ (141,641)	\$ (172,430)	\$ –	\$ (814,363)

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

Carrying amount

<i>Millions of Yen</i>						
	Land	Buildings and structures	Machinery and vehicles	Tools, furniture, and fixtures	Construction in progress	Total
	¥	¥	¥	¥	¥	¥
Balance at April 1, 2018	25,003	45,308	7,640	9,533	6,838	94,321
Balance at March 31, 2019	28,978	56,548	7,879	9,364	6,101	108,870
Balance at March 31, 2020	30,743	58,325	12,406	9,318	3,835	114,628

<i>Thousands of U.S. Dollars</i>						
	Land	Buildings and structures	Machinery and vehicles	Tools, furniture, and fixtures	Construction in progress	Total
Balance at March 31, 2020	\$ 282,042	\$ 535,093	\$ 113,817	\$ 85,491	\$ 35,188	\$ 1,051,631

- Notes: 1. Depreciation of property, plant, and equipment is included in “Cost of sales” “Selling, general, and administrative expenses” and “Research and development costs” in the consolidated statement of income.
2. The amounts of right-of-use assets are included and described in each item of property, plant, and equipment. The carrying amount of each right-of-use asset is described in “21. Lease Transactions.”
3. Commitments related to property, plant, and equipment purchases are described in “38. Commitments for Expenditure.”
4. The Group has applied IFRS 16 “Leases” from the fiscal year ended March 31, 2020 as it is described in "2. Basis of Preparation (4) Changes in Accounting Policies." In accordance with the transition under IFRS 16, the Group has retrospectively adopted IFRS 16 and recognized the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings for the fiscal year ended March 31, 2020. The balance as of the end of the fiscal year ended March 31, 2019 is not restated for the adjustment.

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

(2) Impairment Losses

Property, plant, and equipment are grouped into the smallest cash-generating unit(s) generating largely independent cash inflows.

The Group recognized impairment losses for property, plant, and equipment of ¥94 million and ¥9 million (\$85 thousand) for the years ended March 31, 2019 and 2020, respectively, which are included in “Other expenses” in the consolidated statement of income.

Impairment losses recognized for the years ended March 31, 2019 and 2020, represent reductions in the carrying amounts of assets to be disposed of and idle assets not expected to be used in the future to their recoverable amounts. The recoverable amounts were measured at fair value less costs to sell. The recoverable amounts of assets to be disposed of were considered to be zero.

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

14. Intangible Assets

(1) Schedule of Movements

The movements in the cost, accumulated amortization, and accumulated impairment losses and carrying amount of intangible assets are as follows:

Cost

	<i>Millions of Yen</i>			
	Patents and licenses	Software	Other	Total
Balance at April 1, 2018	¥ 55,683	¥11,945	¥ 2,333	¥ 69,962
Acquisition	9,496	1,009	1,227	11,732
Transfer	-	2,138	(2,138)	-
Disposal	-	(1,021)	(3)	(1,024)
Exchange differences on translation of foreign operations	-	(0)	-	(0)
Other	-	-	(288)	(288)
Balance at March 31, 2019	<u>¥ 65,179</u>	<u>¥14,070</u>	<u>¥ 1,132</u>	<u>¥ 80,381</u>
Acquisition	9,296	867	1,409	11,572
Transfer	-	1,073	(1,073)	-
Disposal	-	(972)	(9)	(981)
Exchange differences on translation of foreign operations	-	(2)	-	(2)
Other	-	-	(156)	(156)
Balance at March 31, 2020	<u>¥ 74,475</u>	<u>¥15,037</u>	<u>¥ 1,302</u>	<u>¥ 90,814</u>

	<i>Thousands of U.S. Dollars</i>			
	Patents and licenses	Software	Other	Total
Balance at March 31, 2019	\$ 597,976	\$129,082	\$ 10,382	\$ 737,441
Acquisition	85,282	7,959	12,925	106,166
Transfer	-	9,843	(9,843)	-
Disposal	-	(8,918)	(83)	(9,001)
Exchange differences on translation of foreign operations	-	(16)	-	(16)
Other	-	-	(1,432)	(1,432)
Balance at March 31, 2020	<u>\$ 683,258</u>	<u>\$137,950</u>	<u>\$ 11,949</u>	<u>\$ 833,157</u>

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

Accumulated amortization and accumulated impairment losses

Millions of Yen

	Patents and licenses	Software	Other	Total
Balance at April 1, 2018	¥ (7,971)	¥ (5,885)	¥ (390)	¥(14,247)
Amortization	(2,721)	(1,306)	(1)	(4,028)
Disposal	-	1,017	0	1,017
Impairment losses	-	(65)	-	(65)
Exchange differences on translation of foreign operations	-	0	-	0
Other	-	-	-	-
Balance at March 31, 2019	<u>¥ (10,692)</u>	<u>¥ (6,239)</u>	<u>¥ (392)</u>	<u>¥(17,322)</u>
Amortization	(3,764)	(1,518)	(1)	(5,283)
Disposal	-	949	1	950
Impairment losses	(2,675)	(50)	-	(2,724)
Exchange differences on translation of foreign operations	-	1	-	1
Other	-	-	-	-
Balance at March 31, 2020	<u>¥(17,130)</u>	<u>¥ (6,856)</u>	<u>¥ (392)</u>	<u>¥(24,378)</u>

Thousands of U.S. Dollars

	Patents and licenses	Software	Other	Total
Balance at March 31, 2019	\$ (98,090)	\$ (57,239)	\$ (3,593)	\$(158,921)
Amortization	(34,532)	(13,924)	(14)	(48,469)
Disposal	-	8,707	10	8,717
Impairment losses	(24,537)	(456)	-	(24,994)
Exchange differences on translation of foreign operations	-	12	-	12
Other	-	-	-	-
Balance at March 31, 2020	<u>\$(157,159)</u>	<u>\$ (62,900)</u>	<u>\$ (3,597)</u>	<u>\$(223,655)</u>

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

Carrying amount

	<i>Millions of Yen</i>			
	Patents and licenses	Software	Other	Total
Balance at April 1, 2018	¥ 47,712	¥ 6,059	¥ 1,943	¥ 55,715
Balance at March 31, 2019	54,488	7,831	740	63,059
Balance at March 31, 2020	57,345	8,181	910	66,436

	<i>Thousands of U.S. Dollars</i>			
	Patents and licenses	Software	Other	Total
Balance at March 31, 2020	\$ 526,099	\$ 75,051	\$ 8,352	\$ 609,502

Notes: 1. Amortization of intangible assets is included in “Cost of sales” “Selling, general, and administrative expenses” and “Research and development costs” in the consolidated statement of income.

2. Among the intangible assets above, intangible assets that are still not available for use amounted to ¥19,162 million and ¥17,269 million (\$158,435 thousand) as of March 31, 2019 and 2020, respectively. These mainly consist of separately acquired in-process research and development costs recorded in “Patents and licenses,” which are still in research and development phases, and accordingly, they are not in a condition available for use until the phase where marketing approvals have been obtained from related authorities and they are finally made into products.

3. Commitments related to intangible asset purchases are described in “38. Commitments for Expenditure.”

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

(2) Individually Significant Intangible Assets

① Details and Carrying Amounts

Details of significant intangible assets and their carrying amounts are as follows:

Item	Details	Millions of Yen		Thousands of U.S. Dollars
		March 31, 2019	March 31, 2020	March 31, 2020
Patents and licenses	In-process research and development costs			
	acquired separately	¥ 18,835	¥ 16,762	\$ 153,782
	Sales licenses	35,653	40,583	372,317

Note: Major items of in-process research and development costs acquired separately and sales licenses consisting of lump-sum payments for introductions to licensors and milestone payments are as follows:

	March 31, 2019	March 31, 2020
In-process research and development costs acquired separately	ONO-7643/Anamorelin	ONO-7643/Anamorelin
	ONO-1162/Ivabradine	ONO-2370/Opicapone
	ONO-2370/Opicapone	ONO-7701 (BMS-986205)
	ONO-7701 (BMS-986205)	/Linrodostat
	ONO-5704/SI-613	ONO-5704/SI-613
	ONO-7705/Selinexor	ONO-7912(CPI-613)/Devimistat
	ONO-7706/KPT-8602	ONO-7913/Magrolimab
Sales licenses	STAYBLA	FORXIGA
	RIVASTACH	KYPROLIS
	FORXIGA	PARSABIV
	KYPROLIS	BRAFTOVI, MEKTOVI
	PARSABIV	CORALAN
	BRAFTOVI, MEKTOVI	

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

② Remaining Amortization Period

The average remaining amortization periods of significant intangible assets are as follows:

Item	Details	March 31, 2019	March 31, 2020
Patents and licenses	Sales licenses (years)	11.3	9.7

(3) Impairment Losses

Intangible assets are grouped into the smallest cash-generating unit(s) generating largely independent cash inflows.

In addition, patents and licenses are grouped separately by cash-generating units based on products and developed goods, which are the smallest group of units generating largely independent cash inflows.

The recoverable amount of an asset is calculated based on value in use measured based on the valuation of risk-adjusted future cash flows discounted at an appropriate rate. Future cash flows are estimated based on business forecasts. There is a possibility that a future event may result in changes in assumptions used in such impairment tests and may affect future operating results of the Group. The Group's discount rate used in calculating value in use is calculated based on the weighted-average cost of capital, and the pretax discount rate used in the calculation of value in use is from 7.5% to 11.8% and from 8.1% to 14.2% for the years ended March 31, 2019 and 2020, respectively.

As a result of impairment testing, the Group recognized impairment losses for intangible assets of ¥65 million and ¥2,724 million (\$24,994 thousand) for the years ended March 31, 2019 and 2020, respectively. Impairment losses on sales licenses were included in "Cost of sales" in the consolidated statement of income and impairment losses on in-process research and development costs were included in "Research and development costs." Impairment losses on software were included in "Other expenses." Impairment losses on patents and licenses were recognized in the year ended March 31, 2020 mainly due to the discontinuation of new drug development.

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

15. Investments in Associates

Aggregate financial information of equity-method investees is summarized as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	For the year ended March 31, 2019	For the year ended March 31, 2020	For the year ended March 31, 2020
Profit from continuing operations attributable to the Group	¥ (1)	¥ (4)	\$ (35)
Other comprehensive income attributable to the Group	(1)	(4)	(33)
Total comprehensive income attributable to the Group	¥ (3)	¥ (7)	\$ (68)

Note: There are no quoted stock prices available for associates.

16. Income Taxes

(1) Deferred Income Taxes

Amounts of deferred tax assets and deferred tax liabilities for each consolidated fiscal year end are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	March 31, 2019	March 31, 2020	March 31, 2020
Deferred tax assets	¥ 21,079	¥ 34,817	\$ 319,419
Deferred tax liabilities	1,053	1,059	9,717
Net	¥ 20,026	¥ 33,758	\$ 309,702

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

Details and movements of deferred tax assets and deferred tax liabilities by major sources are as follows:

For the year ended March 31, 2019

Millions of Yen

	Balance at March 31, 2018	Changes in Accounting Policies	Balance at April 1, 2018	Recognized in profit or loss	Recognized in other comprehensive income	Balance at March 31, 2019
Deferred tax assets						
Accrued bonuses	¥ 1,575	¥ –	¥ 1,575	¥ 163	¥ –	¥ 1,738
Accrued enterprise tax	727	–	727	253	–	980
Expenses for research and development commissions and others	29,576	–	29,576	6,690	–	36,266
Investment securities	–	–	–	29	–	29
Property, plant, and equipment	2,433	–	2,433	(105)	–	2,328
Intangible assets	222	–	222	(178)	–	44
Retirement benefit liabilities	3,141	–	3,141	109	393	3,642
Long-term advances received	1,559	(1,559)	–	–	–	–
Other accounts payable	2,127	(63)	2,064	(333)	–	1,731
Provision for patent royalties	3,324	–	3,324	1,941	–	5,265
Other	4,358	(198)	4,160	696	–	4,857
Total	<u>¥ 49,042</u>	<u>¥ (1,820)</u>	<u>¥ 47,222</u>	<u>¥ 9,265</u>	<u>¥ 393</u>	<u>¥ 56,880</u>
Deferred tax liabilities						
Property, plant, and equipment	¥ (3,665)	¥ –	¥ (3,665)	¥ (370)	¥ –	¥ (4,035)
Intangible assets	(3,695)	–	(3,695)	211	–	(3,484)
Investment securities	(32,505)	–	(32,505)	25	3,145	(29,335)
Total	<u>¥ (39,866)</u>	<u>¥ –</u>	<u>¥ (39,866)</u>	<u>¥ (133)</u>	<u>¥ 3,145</u>	<u>¥ (36,854)</u>
Net	<u>¥ 9,176</u>	<u>¥ (1,820)</u>	<u>¥ 7,357</u>	<u>¥ 9,132</u>	<u>¥ 3,537</u>	<u>¥ 20,026</u>

Note: The changes in accounting policies are due to the recording of deferred tax assets of ¥1,820 million (in the consolidated statement of financial position at the beginning of the year ended March 31, 2019, deferred tax assets decreased by ¥1,820 million, compared with the application of the former accounting standards) as of the beginning of the year ended March 31, 2019 as a result of the application of IFRS 15.

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

For the year ended March 31, 2020

<i>Millions of Yen</i>				
	Balance at April 1, 2019	Recognized in profit or loss	Recognized in other comprehensive income	Balance at March 31, 2020
Deferred tax assets				
Accrued bonuses	¥ 1,738	¥ (7)	¥ –	¥ 1,730
Accrued enterprise tax	980	107	–	1,087
Expenses for research and development commissions and others	36,266	4,841	–	41,107
Investment securities	29	4	–	33
Property, plant, and equipment	2,328	(22)	–	2,306
Intangible assets	44	17	–	61
Retirement benefit liabilities	3,642	115	48	3,806
Other accounts payable	1,731	86	–	1,817
Provision for patent royalties	5,265	1,076	–	6,341
Other	4,857	807	–	5,664
Total	¥ 56,880	¥ 7,024	¥ 48	¥ 63,953
Deferred tax liabilities				
Property, plant, and equipment	¥ (4,035)	¥ (103)	¥ –	¥ (4,138)
Intangible assets	(3,484)	729	–	(2,755)
Investment securities	(29,335)	2	6,031	(23,302)
Other	–	(0)	–	(0)
Total	¥ (36,854)	¥ 628	¥ 6,031	¥ (30,195)
Net	¥ 20,026	¥ 7,652	¥ 6,080	¥ 33,758

<i>Thousands of U.S. Dollars</i>				
	Balance at April 1, 2019	Recognized in profit or loss	Recognized in other comprehensive income	Balance at March 31, 2020
Deferred tax assets				
Accrued bonuses	\$ 15,943	\$ (68)	\$ –	\$ 15,875
Accrued enterprise tax	8,990	984	–	9,974
Expenses for research and development commissions and others	332,717	44,412	–	377,129
Investment securities	269	36	–	306
Property, plant, and equipment	21,353	(197)	–	21,156
Intangible assets	406	157	–	563
Retirement benefit liabilities	33,417	1,056	441	34,914
Other accounts payable	15,885	787	–	16,672
Provision for patent royalties	48,303	9,868	–	58,171
Other	44,556	7,407	–	51,963
Total	\$ 521,839	\$ 64,442	\$ 441	\$ 586,722
Deferred tax liabilities				
Property, plant, and equipment	\$ (37,016)	\$ (946)	\$ –	\$ (37,961)
Intangible assets	(31,965)	6,690	–	(25,275)
Investment securities	(269,132)	15	55,335	(213,782)
Other	–	(2)	–	(2)
Total	\$ (338,112)	\$ 5,757	\$ 55,335	\$ (277,020)
Net	\$ 183,727	\$ 70,199	\$ 55,776	\$ 309,702

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

- Notes: 1. The differences between deferred tax expense and the amount recognized in profit or loss are exchange differences on translation of foreign operations and others.
2. The effective statutory tax rate used to calculate deferred tax assets and deferred tax liabilities as of March 31, 2019 and 2020 in Japan is 30.6%.
3. Taxable temporary differences associated with investments in subsidiaries, for which deferred tax liabilities were not recognized, amounted to ¥2,858 million and ¥3,457 million (\$31,717 thousand) as of March 31, 2019 and 2020, respectively. This is because the Group is able to control the timing of the reversal of the temporary differences, and it is certain that the temporary differences will not reverse in the foreseeable future.

(2) Income Tax Expense

Details of income tax expense are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	For the year ended March 31, 2019	For the year ended March 31, 2020	For the year ended March 31, 2020
Current tax expense	¥ 22,601	¥ 27,492	\$ 252,224
Deferred tax expense	(9,139)	(7,685)	(70,500)
Total	¥ 13,462	¥ 19,808	\$ 181,724

Note: The Group is subject to corporate tax, inhabitant tax, and enterprise tax in Japan, which in the aggregate resulted in an applicable tax rate for current tax expense of approximately 30.6% for the years ended March 31, 2019 and 2020, respectively. Overseas subsidiaries use the income tax rates of the countries in which they are located.

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

(3) Reconciliation of Applicable Tax Rates and Average Actual Tax Rates

Details of the differences between the applicable tax rates and average actual tax rates are as follows:

	For the year ended March 31, 2019	For the year ended March 31, 2020
Applicable tax rates	30.6 %	30.6 %
Permanent non-deductible items	0.5	0.4
Non-taxable dividends	(0.3)	(0.2)
Tax credit for research and other	(11.0)	(6.6)
Other	0.9	0.7
Average actual tax rates	20.7 %	24.9 %

Note: The applicable tax rates used to reconcile the applicable tax rates and average actual tax rates are the Company's effective statutory income tax rates.

17. Trade and Other Payables

Details of trade and other payables are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	March 31, 2019	March 31, 2020	March 31, 2020
Notes payable	¥ 503	¥ 471	\$ 4,322
Trade accounts payable	5,794	5,926	54,367
Other accounts payable	28,846	25,956	238,130
Refund liabilities	1,690	2,085	19,131
Total	¥ 36,833	¥ 34,439	\$ 315,951

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

18. Borrowings

Details of borrowings are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	March 31, 2019	March 31, 2020	March 31, 2020
Current liabilities			
Short-term lease obligations	¥ 435	¥ –	\$ –
Total	<u>¥ 435</u>	<u>¥ –</u>	<u>\$ –</u>
Non-current liabilities			
Long-term lease obligations	¥ 1,765	¥ –	\$ –
Total	<u>¥ 1,765</u>	<u>¥ –</u>	<u>\$ –</u>

19. Other Financial Liabilities

Details of other financial liabilities are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	March 31, 2019	March 31, 2020	March 31, 2020
Current liabilities			
Dividends payable	¥ 114	¥ 114	\$ 1,042
Deposits received	316	309	2,835
Other	86	27	249
Total	<u>¥ 515</u>	<u>¥ 450</u>	<u>\$ 4,127</u>
Non-current liabilities			
Other	¥ 5	¥ 0	\$ 3
Total	<u>¥ 5</u>	<u>¥ 0</u>	<u>\$ 3</u>

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

20. Assets Pledged as Collateral

Assets pledged as collateral are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	<u>March 31, 2019</u>	<u>March 31, 2020</u>	<u>March 31, 2020</u>
Other current assets	<u>¥ 4,000</u>	<u>¥ 4,000</u>	<u>\$ 36,697</u>
Total	<u>¥ 4,000</u>	<u>¥ 4,000</u>	<u>\$ 36,697</u>

Note: These were pledged as collateral for the deferred payment arrangements of customs duties and consumption taxes related to import transactions based on the Customs Act of Japan and the Consumption Tax Act of Japan.

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

21. Leases

March 31, 2019

The comparative information presented for March 31, 2019 is based on IAS 17.

(1) Finance Leases

Lessee

Details of future minimum lease payments under finance lease contracts and their present value are as follows:

	<i>Millions of Yen</i>	<i>Millions of Yen</i>
	Minimum lease payments	Present value of minimum lease payments
	March 31, 2019	March 31, 2019
One year or less	¥ 438	¥ 435
More than one year to five years	1,046	993
More than five years	1,034	772
Total	¥ 2,518	¥ 2,200

Note: Lease transactions classified as finance leases of the Group are buildings and structures, machinery and vehicles, and tools, furniture, and fixtures. These lease contracts do not include renewal options, purchase options, variable lease payments, or escalation clauses, and there are no restrictions, such as additional borrowings and additional lease contract.

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

(2) Operating Leases

Lessee

① Non-cancelable Operating Lease Contracts

Details of future minimum lease payments under non-cancelable operating lease contracts are as follows:

	<i>Millions of Yen</i>	
	March 31, 2019	
One year or less	¥	213
More than one year to five years		286
More than five years		-
Total	¥	499

Note: The Group engages in office rental, etc., classified as operating leases. Certain lease contracts include renewal options. The lease contracts do not include variable lease payments or escalation clauses, and there are no restrictions, such as additional borrowings and additional lease contracts, in the contracts.

② Operating Lease Contracts Recognized as Expenses

Minimum lease payments based on operating lease contracts recognized as expenses are as follows:

	<i>Millions of Yen</i>	
	For the year ended March 31, 2019	
Minimum lease payments	¥	174

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

Lessor

① Non-cancelable Operating Lease Contracts

Details of future minimum lease receipts based on non-cancelable operating lease contracts are as follows:

	<i>Millions of Yen</i>	
	<u>March 31, 2019</u>	
One year or less	¥	19
More than one year to five years		17
More than five years		5
Total	¥	<u>41</u>

Note: The Group engages in land rental, etc., classified as operating leases.

March 31, 2020

(1) Right-of-use assets

Right-of-use assets are included in “Property, plant, and equipment” in the consolidated statement of financial position.

The main areas of leases that the Group has entered into are for offices, parking lots, and cars. Certain lease contracts include renewal options. The lease contracts do not include purchase options, variable lease payments, or escalation clauses. There are no restrictions, such as additional borrowings and additional lease contracts, in the contracts.

Information on leases that the Group has entered into as a lessee is as follows:

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

Millions of Yen

	Land	Buildings and structures	Machinery and vehicles	Tools, furniture, and fixtures	Total
Balance at March 31, 2019	¥ –	¥ 1,202	¥ 802	¥ 57	¥ 2,060
Changes in accounting policies	1,869	4,376	–	–	6,245
Balance at April 1, 2019	1,869	5,577	802	57	8,305
Acquisition	527	1,303	945	–	2,774
Depreciation	(271)	(1,579)	(372)	(21)	(2,243)
Other	(321)	(179)	(2)	–	(502)
Balance at March 31, 2020	¥ 1,804	¥ 5,123	¥ 1,372	¥ 35	¥ 8,334

Thousands of U.S. Dollars

	Land	Buildings and structures	Machinery and vehicles	Tools, furniture, and fixtures	Total
Balance at March 31, 2019	\$ –	\$ 11,024	\$ 7,354	\$ 519	\$ 18,897
Changes in accounting policies	17,150	40,145	–	–	57,294
Balance at April 1, 2019	17,150	51,168	7,354	519	76,192
Acquisition	4,832	11,950	8,669	–	25,452
Depreciation	(2,483)	(14,482)	(3,416)	(195)	(20,575)
Other	(2,948)	(1,638)	(21)	–	(4,607)
Balance at March 31, 2020	\$ 16,551	\$ 46,999	\$ 12,587	\$ 325	\$ 76,461

Note: The balance as of March 31, 2019 is the carrying amount of leased assets under finance leases based on IAS 17.

(2) Lease liabilities

The maturity analysis of lease liabilities of the Group is disclosed in “34. Financial Instruments (4) Liquidity Risk Management.”

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

(3) Amount recognized in profit or loss

The amount recognized in profit or loss is as follows:

	<i>Millions of Yen</i>	<i>Thousands of U.S. Dollars</i>
	<u>For the year ended March 31, 2020</u>	<u>For the year ended March 31, 2020</u>
Depreciation for right-of-use assets	¥ 2,243	\$ 20,575

Note: The interest expenses on lease liabilities are disclosed in “31. Finance Income and Finance Costs.”

(4) Amount recognized in the consolidated statement of cash flows

The amount recognized in the consolidated statement of cash flows is as follows:

	<i>Millions of Yen</i>	<i>Thousands of U.S. Dollars</i>
	<u>For the year ended March 31, 2020</u>	<u>For the year ended March 31, 2020</u>
Total cash outflow for leases	¥ 3,824	\$ 35,080

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

22. Other Liabilities

Details of other current liabilities and other non-current liabilities are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	<u>March 31, 2019</u>	<u>March 31, 2020</u>	<u>March 31, 2020</u>
Other current liabilities			
Accrued consumption taxes	¥ 1,729	¥ 2,629	\$ 24,120
Accrued salary and bonus	5,800	5,753	52,783
Accrued compensated vacation	3,130	3,256	29,873
Accrued expenses	1,505	1,416	12,992
Other	16	130	1,194
Total	<u>¥ 12,181</u>	<u>¥ 13,185</u>	<u>\$ 120,961</u>
Other non-current liabilities			
Compensated long-service benefit obligations	¥ 620	¥ 625	\$ 5,733
Other	212	188	1,724
Total	<u>¥ 832</u>	<u>¥ 813</u>	<u>\$ 7,456</u>

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

23. Retirement Benefits

The Group has defined benefit corporate pension plans and lump-sum payment plans for its defined benefit schemes. Effective October 1, 2004, the Company introduced a new defined benefit corporate pension plan combining the defined benefit corporate pension plan (formerly additional pensions under employees' pension fund plan) and a tax-qualified pension plan, and granted employees the option to select a defined contribution plan for certain lump-sum payment plans. In addition, the Company has set up a retirement benefit trust in order to supplement funding deficits in benefit obligations.

Further, three overseas subsidiaries have defined contribution plans, one overseas subsidiary has a lump-sum payment plan, and two domestic subsidiaries participate in corporate pension fund plans (multiemployer pension plans) in addition to lump-sum payment plans.

The Group calculates the present value of defined benefit obligations and related service costs based on actuarial assumptions. The actuarial assumptions require estimates and judgments on variables, such as discount rates and net interest, etc. With advice obtained from external pension actuaries with respect to the appropriateness of the actuarial assumptions including the variables, the actuarial assumptions are determined based on the best estimates and judgments made by management; however, changes in uncertain future economic conditions may have a material impact on amounts recognized in the consolidated financial statements.

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

(1) Defined Benefit Plans

① Defined Benefit Plan Liabilities and Assets

Details of defined benefit plan liabilities and assets in the consolidated statement of financial position are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	March 31, 2019	March 31, 2020	March 31, 2020
Contributory			
Defined benefit obligations	¥ 49,967	¥ 50,802	\$ 466,073
Fair value of plan assets (including retirement benefit trust)	(45,249)	(45,535)	(417,755)
Subtotal	4,717	5,267	48,318
Non-contributory			
Defined benefit obligations	798	781	7,166
Subtotal	798	781	7,166
Net defined benefit liability	¥ 5,515	¥ 6,048	\$ 55,485
Retirement benefit liabilities stated in the consolidated statement of financial position	¥ 5,515	¥ 6,048	\$ 55,485

② Obligations under Defined Benefit Plans

Movements in the defined benefit obligations are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	For the year ended March 31, 2019	For the year ended March 31, 2020	For the year ended March 31, 2020
Opening balance of defined benefit obligations	¥ 48,105	¥ 50,765	\$ 465,731
Service cost	2,368	2,496	22,902
Interest expense	366	308	2,829
Remeasurements			
Actuarial losses (gains) due to changes in financial assumptions	1,383	(235)	(2,159)
Other	72	40	370
Benefits paid	(1,530)	(1,791)	(16,433)
Closing balance of defined benefit obligations	¥ 50,765	¥ 51,583	\$ 473,240

Notes: 1. The weighted-average payment years for the defined benefit obligations as of March 31, 2019 and 2020, were 18.2 years and 17.1 years, respectively.

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

2. Remeasurements of defined benefit plans are the differences between the actuarial assumptions used for calculation of “Defined benefit liabilities” and actual experience, and the impact of changes in actuarial assumptions.

③ Plan Assets

Movements in the fair value of plan assets are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	For the year ended March 31, 2019	For the year ended March 31, 2020	For the year ended March 31, 2020
Opening balance of fair value of plan assets	¥ 44,249	¥ 45,249	\$ 415,132
Interest income	345	281	2,577
Remeasurements			
Return on plan assets	173	(352)	(3,231)
Contributions from employers	1,526	1,571	14,412
Benefits paid	(1,043)	(1,214)	(11,135)
Closing balance of fair value of plan assets	<u>¥ 45,249</u>	<u>¥ 45,535</u>	<u>\$ 417,755</u>

Note: The Group expected to make contributions of ¥1,570 million (\$14,403 thousand) to the defined benefit corporate pension plans in the year subsequent to March 31, 2020.

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

The fair value of plan assets classified by nature of assets and risks is as follows:

	<i>Millions of Yen</i>						<i>Thousands of U.S. Dollars</i>		
	March 31, 2019			March 31, 2020			March 31, 2020		
	Assets with active market prices	Assets without active market prices	Total	Assets with active market prices	Assets without active market prices	Total	Assets with active market prices	Assets without active market prices	Total
Equity instruments									
Domestic equity instruments	¥ 2,315	¥ -	¥ 2,315	¥ 1,870	¥ -	¥ 1,870	\$ 17,153	\$ -	\$ 17,153
Overseas equity instruments	2,067	-	2,067	1,758	-	1,758	16,124	-	16,124
Debt instruments									
Domestic debt instruments	-	4,033	4,033	-	2,957	2,957	-	27,132	27,132
Overseas debt instruments	-	1,513	1,513	-	1,825	1,825	-	16,739	16,739
General accounts at life insurance companies	-	29,715	29,715	-	30,339	30,339	-	278,343	278,343
Other	-	5,607	5,607	-	6,787	6,787	-	62,263	62,263
Total	¥ 4,382	¥40,868	¥45,249	¥ 3,627	¥41,908	¥45,535	\$33,277	\$ 384,478	\$ 417,755

The Group's operating policy for plan assets is as follows:

The Group's basic policy for plan asset management aims to secure necessary long-term returns within a tolerable risk level in order to ensure future payment of pension benefits stipulated in the terms of defined benefit corporate pension plans and lump-sum payments.

A target rate of return is set aiming to exceed the rate of return necessary for maintaining sound operations of the defined benefit corporate pension plans over the future, specifically higher than the expected rate of return for pension financing.

In order to meet this return target, the asset portfolio is verified by both the Company and the investment management institutions to be in conformity with the basic policy, and, in addition, the composition of the asset portfolio is reviewed as necessary.

The basic policy is subject to change in accordance with changes in the Company's status and systems or operating environment surrounding the Company.

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

④ Profit and Loss on Defined Benefit Plans

Profit and loss on defined benefit plans for each fiscal year recognized in the consolidated statement of income are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	For the year ended March 31, 2019	For the year ended March 31, 2020	For the year ended March 31, 2020
Service costs	¥ 2,368	¥ 2,496	\$ 22,902
Net interest	21	28	252
Expenses recognized in the consolidated statement of income	<u>¥ 2,389</u>	<u>¥ 2,524</u>	<u>\$ 23,154</u>

Note: Among the above expenses, service costs are included in “Cost of sales,” “Selling, general, and administrative expenses,” and “Research and development costs,” and net interest is included in “Finance income” or “Finance costs.”

⑤ Significant Assumptions Used for the Actuarial Valuations

The significant assumptions used for the purposes of the actuarial valuations are as follows:

	March 31, 2019	March 31, 2020
Discount rate (%)	0.6	0.6
Expected rate of salary increase (%)	2.8	2.8
Expected average remaining lives of current pensioners at age 60 at year-end (years)	25.2	25.3
Expected average remaining lives, from age 60, of future pensioners at age 40 at year-end (years)	26.8	26.8

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

⑥ Sensitivity Analysis

The sensitivity analysis represents the effects of changes in significant actuarial assumptions on the present value of the defined benefit obligations. The effects of any changes in assumptions used for measuring defined benefit obligations are as follows:

	Changes in principal assumptions	Millions of Yen				Thousands of U.S. Dollars	
		March 31, 2019		March 31, 2020		March 31, 2020	
		Increase	Decrease	Increase	Decrease	Increase	Decrease
Defined benefit obligations							
	0.5%						
Discount rate	increase/decrease	¥(4,369)	¥ 4,807	¥(4,187)	¥ 4,581	\$ (38,409)	\$42,032
Expected average remaining lives	1 year increase/decrease	953	(987)	990	(1,024)	9,087	(9,396)

Note: The analysis is based on the assumption that other factors remain constant.

(2) Multiemployer Pension Plans

Two domestic consolidated subsidiaries have joined corporate pension funds (multiemployer pension plan). This plan is integrated-type defined benefit plan, and therefore, the amount of pension assets corresponding to the contributions made by each company cannot be determined reasonably. Thus, the amount of the contribution is recognized as postemployment expenses in the same manner as defined contribution plans.

(3) Defined Contribution Plans

The Group recognized ¥3,052 million and ¥3,051 million (\$27,993 thousand) as expenses for defined contribution plans for the years ended March 31, 2019 and 2020, respectively.

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

24. Provisions

(1) Details

Provisions stated in current liabilities are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	March 31, 2019	March 31, 2020	March 31, 2020
Provision for patent royalties	¥ 17,206	¥ 20,721	\$ 190,103

(2) Schedule of Movements

The movements in provisions are as follows:

	Provision for patent royalties	
	<i>Millions of Yen</i>	<i>Thousands of U.S. Dollars</i>
Balance at March 31, 2019	¥ 17,206	\$ 157,856
Added to provisions	3,515	32,247
Balance at March 31, 2020	¥ 20,721	\$ 190,103

Note: Provision for patent royalties is recognized and measured based on estimated royalty payment to third parties. The information required in IAS 37, “Provisions, Contingent Liabilities and Contingent Assets,” is disclosed according to IAS 37. 92., instead of disclosing the respective figures, because such information may have some effects on the results of future discussion, etc.

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

25. Share Capital and Other Equity Items

(1) Share Capital and Capital Reserves

Changes in the number of authorized shares and issued shares, share capital, and capital reserves are as follows:

	<i>Millions of Yen</i>			
	Number of authorized shares (Shares)	Number of issued shares (Shares)	Share capital	Capital reserves
Balance at April 1, 2018	1,500,000,000	543,341,400	¥ 17,358	¥ 17,175
Increase (decrease)	-	-	-	27
Balance at March 31, 2019	1,500,000,000	543,341,400	¥ 17,358	¥ 17,202
Increase (decrease)	-	(15,000,000)	-	27
Balance at March 31, 2020	1,500,000,000	528,341,400	¥ 17,358	¥ 17,229

Thousands of U.S. Dollars

	Share capital	Capital reserves
Balance at March 31, 2019	\$ 159,250	\$ 157,814
Increase (decrease)	-	248
Balance at March 31, 2020	\$ 159,250	\$ 158,062

Notes: 1. All shares issued by the Company are fully paid-up ordinary shares with no par value.

2. Increases and decreases in the number of issued shares for the year ended March 31, 2020 are due to retirement of treasury shares.

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

(2) Treasury Shares

Changes in the number and amount of treasury shares are as follows:

	Number of shares (Shares)	Amount (Millions of Yen)
Balance at April 1, 2018	29,219,787	¥ 38,148
Increase (decrease)	1,073	3
Balance at March 31, 2019	29,220,860	¥ 38,151
Increase (decrease)	1,412	6,587
Balance at March 31, 2020	<u>29,222,272</u>	<u>¥ 44,737</u>

	Amount (Thousands of U.S. Dollars)
Balance at March 31, 2019	\$ 350,006
Increase (decrease)	60,430
Balance at March 31, 2020	<u>\$ 410,435</u>

- Notes: 1. Increases and decreases in the number and amount of treasury shares for the year ended March 31, 2019 are due to purchases of fractional unit shares. Those for the year ended March 31, 2020 are due to purchases under Article 156 of the Companies Act, applied by the reading of terms pursuant to the provisions of Paragraph 3, Article 165 of the Companies Act, retirement of treasury shares, and purchases of fractional unit shares.
2. Treasury shares held by associates as of March 31, 2019 and 2020, are ¥27 million and ¥29 million (\$266 thousand), respectively.

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

(3) Other Components of Equity

Changes in other components of equity are as follows:

	<i>Millions of Yen</i>				Total
	Exchange differences on translation of foreign operations	Net fair value loss on derivatives under hedge accounting	Net gain (loss) on financial assets measured at FVOCI	Remeasurement of defined benefit plans	
Balance at April 1, 2018	¥ 605	¥ -	¥ 67,416	¥ -	¥ 68,021
Increase (decrease)					
Other comprehensive income	78	-	(68)	(890)	(881)
Transfer to retained earnings	-	-	(6,178)	890	(5,288)
Balance at March 31, 2019	¥ 682	¥ -	¥ 61,170	¥ -	¥ 61,852
Increase (decrease)					
Other comprehensive income	(219)	-	(1,884)	(109)	(2,212)
Transfer to retained earnings	-	-	(11,719)	109	(11,610)
Balance at March 31, 2020	¥ 463	¥ -	¥ 47,567	¥ -	¥ 48,030

	<i>Thousands of U.S. Dollars</i>				Total
	Exchange differences on translation of foreign operations	Net fair value loss on derivatives under hedge accounting	Net gain (loss) on financial assets measured at FVOCI	Remeasurement of defined benefit plans	
Balance at March 31, 2019	\$ 6,259	\$ -	\$ 561,190	\$ -	\$ 567,450
Increase (decrease)					
Other comprehensive income	(2,008)	-	(17,286)	(1,001)	(20,295)
Transfer to retained earnings	-	-	(107,513)	1,001	(106,512)
Balance at March 31, 2020	\$ 4,252	\$ -	\$ 436,391	\$ -	\$ 440,643

Notes: 1. Exchange differences on translation of foreign operations are the differences arising from consolidating the financial statements of overseas subsidiaries, which were prepared in foreign currencies.

2. Net fair value loss on derivatives under hedge accounting is the effective portion of fair value change in derivative transactions, which are designated as cash flow hedges and meet their specific criteria.

3. Changes in fair value of financial assets measured through other comprehensive income are valuation differences in fair value of financial assets measured through other comprehensive income.

4. Remeasurement of defined benefit plans is recognized in "Other comprehensive income" when it is incurred and immediately transferred from "Other components of equity" to "Retained earnings."

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

26. Dividends

(1) Dividends Paid

Dividends paid are as follows:

For the year ended March 31, 2019

Date of resolution	Share type	Total dividends (Millions of Yen)	Dividends per share (Yen)	Record date	Effective date
General shareholders' meeting held on June 22, 2018	Ordinary shares	¥ 10,282	¥ 20	March 31, 2018	June 25, 2018
Board of Directors' meeting held on November 1, 2018	Ordinary shares	¥ 11,568	¥ 22.5	September 30, 2018	December 3, 2018

For the year ended March 31, 2020

Date of resolution	Share type	Total dividends (Millions of Yen)	Dividends per share (Yen)	Total dividends (Thousands of U.S. Dollars)	Dividends per share (U.S. Dollars)	Record date	Effective date
General shareholders' meeting held on June 20, 2019	Ordinary shares	¥ 11,568	¥ 22.5	\$ 106,126	\$ 0.21	March 31, 2019	June 21, 2019
Board of Directors' meeting held on October 31, 2019	Ordinary shares	¥ 11,230	¥ 22.5	\$ 103,029	\$ 0.21	September 30, 2019	December 2, 2019

(2) Dividends Whose Effective Date is in the Following Fiscal Year

Dividends whose record date is in the current fiscal year and whose effective date is in the following fiscal year are as follows:

For the year ended March 31, 2019

Date of resolution	Share type	Total dividends (Millions of Yen)	Dividends per share (Yen)	Record date	Effective date
General shareholders' meeting held on June 20, 2019	Ordinary shares	¥ 11,568	¥ 22.5	March 31, 2019	June 21, 2019

For the year ended March 31, 2020

Date of resolution	Share type	Total dividends (Millions of Yen)	Dividends per share (Yen)	Total dividends (Thousands of U.S. Dollars)	Dividends per share (U.S. Dollars)	Record date	Effective date
General shareholders' meeting held on June 18, 2020	Ordinary shares	¥ 11,230	¥ 22.5	\$ 103,029	\$ 0.21	March 31, 2020	June 19, 2020

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

27. Revenue

(1) Disaggregation of revenue

The Group disaggregated revenue by type of goods or services and by geographic area.

① Details of revenue by type of goods or services

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	For the year ended March 31, 2019	For the year ended March 31, 2020	For the year ended March 31, 2020
Revenue of goods and products	¥ 208,947	¥ 205,614	\$ 1,886,369
Royalty and others			
Opdivo Intravenous Infusion	58,504	61,608	565,208
Keytruda® from Merck & Co., Inc.	12,813	19,297	177,041
Others	8,370	5,900	54,131
Sub total	79,687	86,805	796,380
Total	¥ 288,634	¥ 292,420	\$ 2,682,749

② Details of revenue by geographic area

Details of revenue by geographic area are included in “6. Segment Information

(3) Revenue by Geographic Area.”

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

(2) Contract balances

Receivables and contract liabilities from contracts with customers are as follows:

	<i>Millions of Yen</i>			<i>Thousands of U.S. Dollars</i>
	<u>April 1, 2018</u>	<u>March 31, 2019</u>	<u>March 31, 2020</u>	<u>March 31, 2020</u>
Receivables from contracts with customers				
Trade accounts receivable	¥ 70,398	¥ 67,868	¥ 68,962	\$ 632,682
Notes receivable	2,315	2,885	1,832	16,811

Notes: 1. There were no material contract liabilities.

2. Revenue recognized relating to performance obligations satisfied in previous periods were ¥71,715 million and ¥81,329 (\$746,140 thousand) for the years ended March 31, 2019 and 2020, respectively, and mainly represents milestone revenue and royalty revenue.

(3) Transaction price allocated to the remaining performance obligations

There was no transaction price allocated to the remaining performance obligations.

(4) Assets recognized from the costs to obtain or fulfil a contract with a customer

There were no costs to obtain or fulfil a contract with a customer that should be recognized as assets.

28. Selling, General, and Administrative Expenses

Major details of selling, general, and administrative expenses are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	<u>For the year ended March 31, 2019</u>	<u>For the year ended March 31, 2020</u>	<u>For the year ended March 31, 2020</u>
Business planning expenses	¥ 4,814	¥ 3,774	\$ 34,623
Sales promotion expenses	4,719	5,778	53,010
Employee benefit expenses	26,713	26,986	247,578
Depreciation and amortization	2,033	2,483	22,778
Business consignment expenses	10,005	9,086	83,355

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

29. Employee Benefit Expenses

Details of the Group's employee benefit expenses are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	For the year ended March 31, 2019	For the year ended March 31, 2020	For the year ended March 31, 2020
Salary and bonus	¥ 34,935	¥ 35,176	\$ 322,711
Retirement benefit expenses (defined benefit plans)	2,368	2,496	22,902
Retirement benefit expenses (multiemployer pension plans)	20	20	180
Retirement benefit expenses (defined contribution plans)	3,052	3,051	27,993
Legal welfare expenses	1,982	1,948	17,871
Other welfare expenses	1,900	1,572	14,421
Other employee benefit expenses	3,733	3,400	31,192
Total	¥ 47,990	¥ 47,662	\$ 437,270

Notes: 1. Employee benefit expenses are included in “Cost of sales,” “Selling, general, and administrative expenses,” and “Research and development costs” in the consolidated statement of income.

2. The employee benefit expenses above include remuneration of key management personnel. Remuneration of key management personnel is described in “37. Related Parties.”

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

30. Other Income and Other Expenses

Details of other income and other expenses are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	For the year ended March 31, 2019	For the year ended March 31, 2020	For the year ended March 31, 2020
Other income			
Gain on sale of non-current assets	¥ 149	¥ 163	\$ 1,498
Insurance proceeds	270	257	2,356
Subsidy income	–	88	804
Others	227	314	2,884
Total	¥ 646	¥ 822	\$ 7,543
Other expenses			
Impairment losses	¥ 209	¥ 141	\$ 1,295
Loss on disposal of non-current assets	7	29	268
Donations	1,609	1,807	16,579
Litigation costs, etc.	1,502	299	2,745
Others	72	235	2,154
Total	¥ 3,400	¥ 2,512	\$ 23,042

Note: “Litigation costs, etc.” in other expenses include the payment of the settlement with Pfizer for patent-related litigation for the year ended March 31, 2019.

31. Finance Income and Finance Costs

Details of finance income and finance costs are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	For the year ended March 31, 2019	For the year ended March 31, 2020	For the year ended March 31, 2020
(Finance income)			
Interest income			
Financial assets measured at amortized cost	¥ 74	¥ 92	\$ 847
Dividend income			
Financial assets measured at FVPL	18	–	–
Financial assets measured at FVOCI	3,073	2,876	26,385
Exchange gains	25	–	–
Others	93	85	780
Total	¥ 3,282	¥ 3,053	\$ 28,012
(Finance costs)			
Interest expenses			
Financial liabilities measured at amortized cost	¥ 27	¥ 1	\$ 5
Lease liabilities	–	76	695
Losses on marketable securities			
Financial assets measured at FVPL	83	6	53
Net interest on employee benefits	21	28	252
Exchange losses	–	717	6,580
Others	19	18	164
Total	¥ 150	¥ 845	\$ 7,749

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

32. Other Comprehensive Income

Amounts incurred for the current year, reclassification adjustments to profit or loss, and tax effects (including non-controlling interests) for each item of “Other comprehensive income” are as follows:

For the year ended March 31, 2019

	<i>Millions of Yen</i>				
	Amount incurred	Reclassification adjustments	Before tax effects	Tax effects	Net of tax amount
Items that will not be reclassified to profit or loss					
Net (loss) gain on financial assets measured at FVOCI	¥ (59)	¥ –	¥ (59)	¥ 16	¥ (43)
Remeasurement of defined benefit plans	(1,283)	–	(1,283)	393	(890)
Share of net (loss) gain on financial assets measured at FVOCI of associates	(2)	–	(2)	1	(1)
Total	(1,343)	–	(1,343)	409	(935)
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translation of foreign operations	78	–	78	–	78
Net fair value (loss) gain on cash flow hedges	53	(53)	–	–	–
Total	131	(53)	78	–	78
Total other comprehensive income	¥ (1,213)	¥ (53)	¥ (1,266)	¥ 409	¥ (857)

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

For the year ended March 31, 2020

<i>Millions of Yen</i>					
	Amount incurred	Reclassification adjustments	Before tax effects	Tax effects	Net of tax amount
Items that will not be reclassified to profit or loss					
Net (loss) gain on financial assets measured at FVOCI	¥ (2,673)	¥ –	¥ (2,673)	¥ 764	¥ (1,909)
Remeasurement of defined benefit plans	(157)	–	(157)	48	(109)
Share of net (loss) gain on financial assets measured at FVOCI of associates	(5)	–	(5)	2	(4)
Total	<u>(2,836)</u>	<u>–</u>	<u>(2,836)</u>	<u>813</u>	<u>(2,022)</u>
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translation of foreign operations	(219)	–	(219)	–	(219)
Net fair value (loss) gain on cash flow hedges	30	(30)	–	–	–
Total	<u>(188)</u>	<u>(30)</u>	<u>(219)</u>	<u>–</u>	<u>(219)</u>
Total other comprehensive income	<u>¥ (3,024)</u>	<u>¥ (30)</u>	<u>¥ (3,054)</u>	<u>¥ 813</u>	<u>¥ (2,241)</u>

<i>Thousands of U.S. Dollars</i>					
	Amount incurred	Reclassification adjustments	Before tax effects	Tax effects	Net of tax amount
Items that will not be reclassified to profit or loss					
Net (loss) gain on financial assets measured at FVOCI	\$ (24,524)	\$ –	\$ (24,524)	\$ 7,007	\$ (17,517)
Remeasurement of defined benefit plans	(1,442)	–	(1,442)	441	(1,001)
Share of net (loss) gain on financial assets measured at FVOCI of associates	(48)	–	(48)	15	(33)
Total	<u>(26,015)</u>	<u>–</u>	<u>(26,015)</u>	<u>7,463</u>	<u>(18,552)</u>
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translation of foreign operations	(2,008)	–	(2,008)	–	(2,008)
Net fair value (loss) gain on cash flow hedges	278	(278)	–	–	–
Total	<u>(1,729)</u>	<u>(278)</u>	<u>(2,008)</u>	<u>–</u>	<u>(2,008)</u>
Total other comprehensive income	<u>\$ (27,744)</u>	<u>\$ (278)</u>	<u>\$ (28,022)</u>	<u>\$ 7,463</u>	<u>\$ (20,559)</u>

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

33. Earnings per Share

(1) Basic Earnings per Share

① Basic earnings per share are as follows:

	<i>Yen</i>		<i>U.S. Dollars</i>
	For the year ended March 31, 2019	For the year ended March 31, 2020	For the year ended March 31, 2020
Basic earnings per share	¥ 100.25	¥ 118.47	\$ 1.09

② Basis of Calculation of Basic Earnings per Share

The basis of calculation of basic earnings per share is as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	For the year ended March 31, 2019	For the year ended March 31, 2020	For the year ended March 31, 2020
Profit for the year attributable to owners of the parent company	¥ 51,539	¥ 59,704	\$ 547,740
Weighted-average number of ordinary shares outstanding (thousands of shares)	514,121	503,975	

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

(2) Diluted Earnings per Share

① Diluted earnings per share are as follows:

	<i>Yen</i>		<i>U.S. Dollars</i>
	For the year ended March 31, 2019	For the year ended March 31, 2020	For the year ended March 31, 2020
Diluted earnings per share	¥ 100.24	¥ 118.45	\$ 1.09

② Basis of Calculation of Diluted Earnings per Share

The basis of calculation of diluted earnings per share is as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	For the year ended March 31, 2019	For the year ended March 31, 2020	For the year ended March 31, 2020
Profit for the year attributable to owners of the parent company	¥51,539	¥59,704	\$ 547,740
Weighted-average number of ordinary shares outstanding (thousands of shares)	514,121	503,975	
Increased number of ordinary shares under subscription rights to share (thousands of shares)	50	69	
Weighted-average number of diluted ordinary shares outstanding (thousands of shares)	514,171	504,044	

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

34. Financial Instruments

(1) Equity Management

The Group manages its equity in view of maintaining the confidence of investors, creditors, and the market, securing a firm capital base for continued future growth, and implementing strategic investments necessary to maximize corporate value while distributing consistent dividend payments.

The Group's capital management focuses on net debt where cash and cash equivalents are deducted from interest-bearing debt and equity (attributable to owners of the parent company and non-controlling interests). The Group considers methods of capital distribution to shareholders based on an evaluation of the medium-term strategic plan, including business performance, future research and development of new medicines, partnerships with bio-ventures, and additionally the introduction of pipelines to complement research and development risk. This evaluation will exert influence on decision-making regarding the level of dividend payments and the Group's market purchase of treasury shares.

(2) Financial Risk Management

The Group is constantly exposed in its operating activities to various financial risks, including credit, liquidity, market, and others (e.g., foreign exchange and price fluctuation). In order to avoid or mitigate these risks, the Group manages risks according to certain basic policies. The Group policy is not to enter into speculative derivative or equity transactions, but to operate funds primarily through debt instruments such as safe government bonds, etc., while also partially employing financial assets with guaranteed liquidity to meet short-term capital requirements. For derivative transactions, the Group enters into foreign exchange contracts to mitigate the foreign exchange risk associated with settling payments in foreign currencies. Such transactions are controlled by the Accounting Department of the Company.

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

(3) Credit Risk Management

Credit risks are risks that result in financial losses incurred by the Group when a customer goes into default for contractual obligations. When full or partial collection of trade receivables, etc., is considered impossible, or extremely difficult, it is deemed to be a default.

The Group's trade receivables are exposed to the credit risk of its customers. In addition, like other pharmaceutical companies, the Group is exposed to concentrated credit risk from a small number of wholesale companies through which it sells its products. In cases where any of these wholesale companies face financial difficulties, there is a possibility that this may have a severe and disadvantageous influence on the Group's financial performance.

The Group's revenue mainly consists of royalty revenue and sales of products through a small number of wholesalers, and the total revenue from the top five group companies (including the parent company and the group company) accounts for about 76% of "Revenue" in the consolidated statement of income. Trade receivables from the top five group companies as of March 31, 2019 and 2020 were ¥55,140 million and ¥56,591 million (\$519,182 thousand), respectively.

In order to mitigate monetary damage caused by the default of such counterparties, the Group, in principle, determines credit limits and trade terms and conditions based on the credit management policy. In addition, in order to minimize the amount of uncollectable receivables, the Group manages due dates and balances by transaction, and executes continuous credit evaluation by receiving credit updates for its main counterparties from third party rating agencies. With regard to trade receivables, etc., that do not contain significant financing components, the allowance is always measured at an amount equal to the lifetime expected credit losses, regardless of whether or not there has been a significant increase in credit risk since initial recognition, and the Group has never recorded a significant bad debt loss on its trade receivables in the past.

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

The Group is also exposed to issuer credit risk for bonds held to make use of surplus funds and shares held for political purposes. In addition, the Group is exposed to credit risk of the financial institutions that are the counterparties in derivative transactions used to mitigate the foreign exchange risk associated with settling payments in foreign currencies. Because the Group operates funds primarily through secure debt instruments and executes transactions with highly rated financial institutions in order to prevent the emergence of credit risk in advance, credit risk is low.

The carrying amounts of financial assets after impairment presented in the consolidated statement of financial position represent the Group's maximum exposure to financial asset credit risk.

At the end of each fiscal year, the Group evaluates whether the credit risk on financial instruments has increased significantly since the initial recognition, and with respect to impairment of financial assets measured at amortized cost, the Group recognizes an allowance for expected credit losses on such financial assets.

The movements in allowance for doubtful accounts are as follows:

	<i>Millions of Yen</i>	<i>Millions of Yen</i>	<i>Thousands of U.S. Dollars</i>
	For the year ended March 31, 2019	For the year ended March 31, 2020	For the year ended March 31, 2020
Balance at the beginning of the year	¥ 8	¥ 8	\$ 75
Increase	0	—	—
Decrease (utilization)	—	(2)	(17)
Decrease (other)	—	(1)	(8)
Balance at the end of the year	<u>¥ 8</u>	<u>¥ 5</u>	<u>\$ 50</u>

(4) Liquidity Risk Management

The Group is exposed to the liquidity risk of not being able to fulfill its payment obligations at present or in the future due to an inability to source sufficient cash.

The Group, in particular the Accounting Department, maintains appropriate reserves and manages liquidity risk through monitoring of the Group's cash flow forecasts and results. Because the Group has sufficient cash and cash equivalents and other highly liquid assets and secures stable cash inflows from operating activities, this risk is low.

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

Financial liabilities by maturity are as follows:

March 31, 2019

	<i>Millions of Yen</i>			
	Carrying amount	Contractual cash flows	One year or less	More than one year
Trade and other payables	¥ 36,833	¥ 36,833	¥ 36,833	¥ –
Borrowings				
Short-term lease obligations	435	438	438	–
Long-term lease obligations	1,765	2,080	–	2,080
Other financial liabilities	520	520	515	5

March 31, 2020

	<i>Millions of Yen</i>			
	Carrying amount	Contractual cash flows	One year or less	More than one year
Trade and other payables	¥ 34,439	¥ 34,439	¥ 34,439	¥ –
Lease liabilities	8,362	8,744	2,271	6,473
Other financial liabilities	450	450	450	0

	<i>Thousands of U.S. Dollars</i>			
	Carrying amount	Contractual cash flows	One year or less	More than one year
Trade and other payables	\$ 315,951	\$ 315,951	\$ 315,951	\$ –
Lease liabilities	76,712	80,218	20,836	59,383
Other financial liabilities	4,130	4,130	4,127	3

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

(5) Market Risk Management

① Foreign Exchange Risk

1) Foreign Exchange Risk Management

The Group engages in business activities internationally and receives royalties or makes payment of expense in foreign currencies. Therefore, the Group is exposed to risks such as decrease in revenue, increase in cost price and development cost, and foreign exchange losses through fluctuations in foreign exchange rates. This risk primarily arises from currencies such as U.S. dollar, Euro, and British pound. In order to mitigate this risk, the Group enters into hedging instruments for a fixed portion of foreign currency-denominated transactions through forward foreign exchange contracts in accordance with the market risk management policy.

These forward foreign exchange contracts are maturities of one year or less.

2) Details of Forward Foreign Exchange Contracts by Currency

Details of forward foreign exchange contracts by currency are as follows:

	March 31, 2019		March 31, 2020		March 31, 2020
	Contractual amount (Millions of U.S. Dollars)	Fair value (Millions of Yen)	Contractual amount (Millions of U.S. Dollars)	Fair value (Millions of Yen)	Fair value (Thousands of U.S. Dollars)
(Sell)					
U.S. Dollar	\$ 47	¥ (86)	\$ 40	¥ (27)	\$ (249)
- Cash flow hedge included in the above	45	(84)	40	(27)	(249)

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

3) Foreign Exchange Sensitivity Analysis

At the end of each fiscal year, the amount of impact on equity and profit or loss in the case of the yen depreciating by 10% against the U.S. dollar, Euro, and British pound is as follows:

	<i>Millions of Yen</i>				<i>Thousands of U.S. Dollars</i>	
	March 31, 2019		March 31, 2020		March 31, 2020	
	Equity	Profit or (loss)	Equity	Profit or (loss)	Equity	Profit or (loss)
U.S. Dollar	¥ 306	¥(541)	¥ 307	¥ (56)	\$ 2,817	\$ (511)
Euro	-	(36)	-	(11)	-	(100)
British pound	116	(17)	117	(24)	1,071	(222)

Note: The analysis is based on the assumption that other variable factors remain constant.

② Price Fluctuation Risk

The Group is exposed to the risk of share price fluctuations that arise from equity instruments.

These equity instruments are basically held for the purpose of business strategy and not for short-term trading purposes. In addition, the Group periodically reviews the fair value of the instruments and the financial condition of issuers and the like, and takes into account the relationship with that company and reconsiders the composition of holdings in the company as necessary.

In case that the share price of equity instruments held by the Group increases or decreases by 10% at year-end, accumulated other comprehensive income (net-of-tax) would increase or decrease by ¥11,553 million and ¥9,253 million (\$84,886 thousand) as of March 31, 2019 and 2020, respectively, as a result of changes in fair value of the equity instruments designated as financial assets measured at FVOCI.

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

(6) Hedge Accounting

① Hedging instruments

The periods over which the Group hedges cash flow fluctuations by foreign exchange contract are within one year or less.

The carrying amounts (fair value) of the assets of hedging instruments are included in “Other financial assets,” and the carrying amounts (fair value) of the liabilities of hedging instrument are included in “Other financial liabilities.”

March 31, 2019

Type of hedge	Risk classification	Hedging instrument	Notional amount (Millions of U.S. Dollars)	Carrying amount (Fair value)		Change in fair value of the hedging instrument used as the basis for recognizing hedge ineffectiveness Millions of Yen
				Assets (Millions of Yen)	Liabilities (Millions of Yen)	
Cash flow hedge	Foreign currency risk	Forward exchange contract	\$ 45	¥ -	¥ 86	¥ 54

Note: The average foreign exchange rate in foreign exchange contracts is ¥109.10 per U.S. dollar.

March 31, 2020

Type of hedge	Risk classification	Hedging instrument	Notional amount (Millions of U.S. Dollars)	Carrying amount (Fair value)				Change in fair value of the hedging instrument used as the basis for recognizing hedge ineffectiveness	
				Assets (Millions of Yen)	Liabilities (Millions of Yen)	Assets (Thousands of U.S. Dollars)	Liabilities (Thousands of U.S. Dollars)	Millions of Yen	Thousands of U.S. Dollars
Cash flow hedge	Foreign currency risk	Forward exchange contract	\$ 40	¥ -	¥ 27	\$ -	\$ 249	¥ 18	\$ 168

Note: The average foreign exchange rate in foreign exchange contracts is ¥108.15 per U.S. dollar.

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

② Hedged items

March 31, 2019

Type of hedge	Change in value of the hedged item used as the basis for recognizing hedge ineffectiveness	Balance in cash flow hedge reserve for continuing hedges
	Millions of Yen	Millions of Yen
Cash flow hedge	¥ (53)	¥ -

March 31, 2020

Type of hedge	Change in value of the hedged item used as the basis for recognizing hedge ineffectiveness		Balance in cash flow hedge reserve for continuing hedges	
	Millions of Yen	Thousands of U.S. Dollars	Millions of Yen	Thousands of U.S. Dollars
Cash flow hedge	¥ (30)	\$ (278)	¥ -	\$ -

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

- ③ Amounts that affected the consolidated statement of comprehensive income in association with cash flow hedges

For the year ended March 31, 2019

Type of hedge	Risk classification	Hedging instrument	Gains or losses on hedges recognized in other comprehensive income	Amount transferred from cash flow hedge reserve to profit or loss	Line item in profit or loss affected by the transfer
			Millions of Yen	Millions of Yen	
Cash flow hedge	Foreign currency risk	Forward exchange contract	¥ 53	¥ 53	Revenue, etc.

For the year ended March 31, 2020

Type of hedge	Risk classification	Hedging instrument	Gains or losses on hedges recognized in other comprehensive income		Amount transferred from cash flow hedge reserve to profit or loss		Line item in profit or loss affected by the transfer
			Millions of Yen	Thousands of U.S. Dollars	Millions of Yen	Thousands of U.S. Dollars	
Cash flow hedge	Foreign currency risk	Forward exchange contract	¥ 30	\$ 278	¥ 30	\$ 278	Revenue, etc.

Note: The figures represent amounts before tax effect adjustments.

The hedge ineffectiveness is immaterial. Also, there is no cash flow hedge reserve arising from hedging relationships for which hedge accounting is no longer applied.

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

(7) Fair Value of Financial Instruments

① Fair Value Measurements

The methods and assumptions used in measuring the fair values of financial assets and financial liabilities are as follows:

Cash and cash equivalents, trade and other receivables, and trade and other payables

Since these items are settled in a short period of time, the fair values of these items are approximately equivalent to their carrying amounts.

Marketable securities and investment securities

The fair values of marketable securities and investment securities are measured using quoted market prices. The fair values of unlisted shares are measured through rational methods, such as the adjusted net assets method and others.

Other financial assets and other financial liabilities

- Insurance reserve fund

The fair value of the insurance reserve fund is measured based on the surrender value because there are no significant contractual restrictions associated with a refund.

- Forward foreign exchange contracts

The fair values of forward foreign exchange contracts are measured based on quoted market prices for forward foreign exchange contracts under the same terms and conditions as of the closing date.

- Time deposits

The fair values of time deposits are based on discounted future cash flows using an interest rate assumed to be applied if similar contracts were to be newly carried out.

- Others

Since other items are settled in a short period of time, their fair values are approximately equivalent to their carrying amounts.

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

② Fair Value and Carrying Amount

The carrying amounts and fair values of financial assets and liabilities held by the Group by account are as follows. The following table does not include financial assets and liabilities whose carrying amounts and fair values are equivalent.

	<i>Millions of Yen</i>				<i>Thousands of U.S. Dollars</i>	
	March 31, 2019		March 31, 2020		March 31, 2020	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
(Financial assets)						
Financial assets measured at amortized cost						
- Marketable securities and investment securities	¥ 5,234	¥ 5,223	¥ 4,507	¥ 4,591	\$ 41,351	\$ 42,124
- Other financial assets	95,800	95,800	115,800	115,800	1,062,385	1,062,385

③ Fair Value Hierarchy

IFRS 13 *Fair Value Measurement* requires an entity to classify the fair value of financial instruments into Level 1 through Level 3 of the fair value hierarchy based on the observability of the inputs used in the fair value measurements of financial instruments.

The fair value hierarchy is as follows:

Level 1: Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that are available at the measurement date.

Level 2: Inputs are inputs other than quoted market prices included within Level 1 that are observable for assets or liabilities, either directly or indirectly.

Level 3: Inputs are unobservable inputs for assets or liabilities.

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

1) Financial Assets and Financial Liabilities Measured at Fair Value

The fair values of financial assets and financial liabilities measured at fair value in the consolidated statement of financial position, grouped by fair value hierarchy are as follows:

<i>Millions of Yen</i>				
March 31, 2019				
	Level 1	Level 2	Level 3	Total
(Financial assets)				
Financial assets measured at FVPL				
- Marketable securities and investment securities	¥ 350	¥ -	¥ 114	¥ 464
- Other financial assets	-	-	6,672	6,672
Financial assets measured at FVOCI				
- Investment securities	164,187	-	2,277	166,464
Total	¥ 164,537	¥ -	¥ 9,064	¥ 173,601
(Financial liabilities)				
Financial liabilities measured at FVPL				
- Other financial liabilities	¥ -	¥ 86	¥ -	¥ 86
Total	¥ -	¥ 86	¥ -	¥ 86

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

<i>Millions of Yen</i>				
March 31, 2020				
	Level 1	Level 2	Level 3	Total
(Financial assets)				
Financial assets measured at FVPL				
- Marketable securities and investment securities	¥ 311	¥ –	¥ 144	¥ 454
- Other financial assets	–	–	6,694	6,694
Financial assets measured at FVOCI				
- Investment securities	130,850	–	2,472	133,322
Total	¥ 131,161	¥ –	¥ 9,310	¥ 140,470
(Financial liabilities)				
Financial liabilities measured at FVPL				
- Other financial liabilities	¥ –	¥ 27	¥ –	¥ 27
Total	¥ –	¥ 27	¥ –	¥ 27
 <i>Thousands of U.S. Dollars</i>				
March 31, 2020				
	Level 1	Level 2	Level 3	Total
(Financial assets)				
Financial assets measured at FVPL				
- Marketable securities and investment securities	\$ 2,852	\$ –	\$ 1,318	\$ 4,169
- Other financial assets	–	–	61,408	61,408
Financial assets measured at FVOCI				
- Investment securities	1,200,456	–	22,683	1,223,139
Total	\$ 1,203,308	\$ –	\$ 85,409	\$ 1,288,717
(Financial liabilities)				
Financial liabilities measured at FVPL				
- Other financial liabilities	\$ –	\$ 249	\$ –	\$ 249
Total	\$ –	\$ 249	\$ –	\$ 249

Note: For the years ended March 31, 2019 and 2020, the Group has not transferred any financial assets or liabilities between Levels 1, 2, and 3.

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

2) Financial Assets and Financial Liabilities Measured at Amortized Cost

The fair values of financial assets and financial liabilities measured at amortized cost in the consolidated statement of financial position, grouped by fair value hierarchy are as follows:

<i>Millions of Yen</i>				
March 31, 2019				
	Level 1	Level 2	Level 3	Total
(Financial assets)				
Financial assets measured at amortized cost				
- Marketable securities and investment securities	¥ –	¥ 5,223	¥ –	¥ 5,223
- Other financial assets	–	95,800	–	95,800
 <i>Millions of Yen</i>				
March 31, 2020				
	Level 1	Level 2	Level 3	Total
(Financial assets)				
Financial assets measured at amortized cost				
- Marketable securities and investment securities	¥ –	¥ 4,591	¥ –	¥ 4,591
- Other financial assets	–	115,800	–	115,800
 <i>Thousands of U.S. Dollars</i>				
March 31, 2020				
	Level 1	Level 2	Level 3	Total
(Financial assets)				
Financial assets measured at amortized cost				
- Marketable securities and investment securities	\$ –	\$ 42,124	\$ –	\$ 42,124
- Other financial assets	–	1,062,385	–	1,062,385

Note: For the years ended March 31, 2019 and 2020, the Group has not transferred any financial assets or liabilities between Levels 1, 2, and 3.

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

3) Reconciliation of Financial Instruments Measured Using Level 3 Inputs on a Recurring Basis

Movements of the financial assets measured using Level 3 inputs on a recurring basis from the beginning of the year to the end of the year are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	For the year ended March 31, 2019	For the year ended March 31, 2020	For the year ended March 31, 2020
Balance at beginning of the year	¥ 8,922	¥ 9,064	\$ 83,155
Total gains or losses	266	33	303
Profit or loss	83	110	1,010
Other comprehensive income	183	(77)	(706)
Purchase	400	766	7,026
Sale	(18)	-	-
Settlement	(507)	(553)	(5,075)
Balance at end of the year	¥ 9,064	¥ 9,310	\$ 85,409

Notes: 1. Profit or loss included in total gains or losses is related to financial assets measured at FVPL. These gains and losses are included in “Finance income” and “Finance costs,” respectively.

2. Other comprehensive income included in total gains or losses is related to financial assets measured at FVOCI. These gains and losses are included in “Net gain (loss) on financial assets measured at FVOCI.”

3. There are no applicable financial liabilities measured using Level 3 on a recurring basis.

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

35. Share-based Payments

The Company has a share option plan which reflects the Board of Directors' goal of long-term improvement of corporate value to share the consciousness of the profit of the Company with shareholders.

(1) Contractual conditions of share options

	Eligible persons	Number of share options granted (Shares)	Grant date	Exercise period	Settlement method	Vesting conditions
2015 issued	The Company's directors (excluding outside directors)	2,900	July 13, 2015	From July 14, 2015 through July 13, 2055	Settled in equity	None
2016 issued	The Company's directors (excluding outside directors)	13,000	July 14, 2016	From July 15, 2016 through July 14, 2056	Settled in equity	None
2017 issued	The Company's directors (excluding outside directors)	14,500	July 14, 2017	From July 15, 2017 through July 14, 2057	Settled in equity	None
2018 issued	The Company's directors (excluding outside directors)	14,500	July 9, 2018	From July 10, 2018 through July 9, 2058	Settled in equity	None
2019 issued	The Company's directors (excluding outside directors)	20,000	July 5, 2019	From July 6, 2019 through July 5, 2059	Settled in equity	None

Notes: 1. Holders of subscription rights to shares can exercise their share subscription rights only from the day following the date of resignation from their position as director of the Company.

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

2. Although the Company conducted a stock split of common stocks at a ratio of 1:5 with an effective date of April 1, 2016, the effect of this stock split is not reflected in the above table for 2015 issued.

(2) Movement of the number of share options and their weighted-average exercise price

	For the year ended March 31, 2019		For the year ended March 31, 2020		For the year ended March 31, 2020
	Number of share options (Shares)	Weighted- average exercise price (Yen)	Number of share options (Shares)	Weighted- average exercise price (Yen)	Weighted- average exercise price (Dollar)
Outstanding at the beginning of the year	42,000	1	56,500	1	0.01
Granted	14,500	1	20,000	1	0.01
Exercised	–	–	–	–	–
Forfeited	–	–	–	–	–
Outstanding at the end of the year	56,500	1	76,500	1	0.01
Options exercisable, at the end of the year	–	–	–	–	–

Note: The exercise price of unexercised share options was ¥1 (\$0.01) for the year ended March 31, 2020 and the weighted-average remaining life was 37.3 years as of March 31, 2020.

(3) Fair value and fair value measurement method of share options

① Measurement method

Black-Scholes model

② Primary base assumptions and measurement method

	For the year ended March 31, 2019	For the year ended March 31, 2020	For the year ended March 31, 2020
Fair value	¥1,909	¥1,338	\$12
Share price at the grant date	¥2,598.5	¥2,068.5	\$19
Exercise price	¥1	¥1	\$0.01
Expected volatility	31.649%	31.409%	
Option life	20 years	20 years	
Expected dividend yield	¥40	¥45	\$0.41
Risk-free interest rate	0.487%	0.208%	

Note: The expected volatility is estimated based on share prices for the past 20 years.

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

(4) Expenses related to share-based payments

Expenses related to share-based payments are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	For the year ended March 31, 2019	For the year ended March 31, 2020	For the year ended March 31, 2020
Share-based payments	¥ 27	¥ 27	\$ 248

36. Non-cash Transactions

Non-cash transactions (investments and financial transactions that do not involve the use of cash and cash equivalents) are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	For the year ended March 31, 2019	For the year ended March 31, 2020	For the year ended March 31, 2020
Property, plant, and equipment acquired under finance leases	¥ 1,933	¥ -	\$ -
Additions to right-of-use assets	-	2,774	25,452
Total	¥ 1,933	¥ 2,774	\$25,452

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

37. Related Parties

(1) Subsidiaries and Affiliates

Details of the Group's subsidiaries and affiliates are as follows:

Name	Primary business	Location	Proportion of voting rights held by the Group	
			March 31, 2019	March 31, 2020
			(%)	(%)
ONO PHARMA USA, INC.	Pharmaceutical business	New Jersey, United States of America	100.0	100.0
ONO PHARMA UK Ltd.	Pharmaceutical business	London, United Kingdom	100.0	100.0
ONO PHARMA KOREA CO., LTD.	Pharmaceutical business	Seoul, Korea	100.0	100.0
ONO PHARMA TAIWAN CO., LTD.	Pharmaceutical business	Taipei, Taiwan	100.0	100.0
Oriental Pharmaceutical & Synthetic Chemical Co., Ltd.	Pharmaceutical business	Chuo-ku, Osaka City	45.5	45.5
Bee Brand Medico Dental Co., Ltd.	Pharmaceutical business	Higashiyodogawa-ku, Osaka City	80.0 (40.0)	80.0 (40.0)

Notes: 1. The percentage of voting rights in parentheses represents the percentage held indirectly, which is inclusive of the proportion of voting rights held.

2. The Group holds 50% or less of equity in Oriental Pharmaceutical and Synthetic Chemical Co., Ltd., but treats the company as a subsidiary because the Group substantially controls it.

(2) Transactions with Related Parties

There were no significant transactions and balances of receivables and payables between the Group and its related parties.

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

(3) Remuneration of Key Management Personnel

The remuneration of the Group's key management personnel is as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	For the year ended March 31, 2019	For the year ended March 31, 2020	For the year ended March 31, 2020
Fixed remuneration	¥ 257	¥ 260	\$ 2,389
Bonuses	77	81	739
Share-based payments	27	27	248
Total	¥ 361	¥ 368	\$ 3,376

Notes: 1. Remuneration of key management personnel comprises the remuneration for eight people for the year ended March 31, 2020 (eight people for the year ended March 31, 2019), who are key management personnel having authority and responsibility for planning, supervising, and managing business activities of the Group.

2. As for remuneration of key management personnel, remuneration of internal directors consists of fixed remuneration, bonuses and share-based payments, and remuneration of outside directors and auditors consists of only fixed remuneration. The fixed remuneration of internal directors is determined in consideration of factors such as the size of the Group's business, the nature of their duties, scope of responsibility of each management personnel, and consistency in treatment with respect to other employees with a remuneration database from major consulting companies. The bonuses and stock options as share-based payments are determined in consideration of management indicators, such as revenue and operating profit that reflect performance and qualitative indicators such as contributions to enhancement of long-term corporate value. On the other hand, in consideration of factors, such as the nature of their duties and to ensure the independence from the execution of business, the remuneration of outside directors and auditors consists of only fixed remuneration. To determine the level of remuneration of outside directors, the Company refers to a remuneration database from major consulting companies so that the Company can seek suitable persons who have significant experience and broad knowledge.

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

38. Commitments for Expenditure

Payment commitments after the end of each fiscal year date are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	March 31, 2019	March 31, 2020	March 31, 2020
Property, plant, and equipment	¥ 2,013	¥ 1,122	\$ 10,294
Intangible assets	—	109	996
Total	<u>¥ 2,013</u>	<u>¥ 1,231</u>	<u>\$ 11,290</u>

The Group has milestone payments relating to the success of development projects and achievement of specific sales targets. Milestone payments that the Group may potentially pay within three years are ¥18,158 million and ¥11,760 million (\$107,890 thousand) as of March 31, 2019 and 2020, respectively.

These milestone payment amounts are undiscounted and include all such potential payments assuming all projects currently in development are successful and specific sales targets are achievable.

39. Contingent Liabilities

In September 2015, Dana-Farber Cancer Institute in the United States of America filed a suit in the U.S. District Court for Massachusetts against the Company, Bristol-Myers Squibb Company, and Professor Tasuku Honjo for addition of inventors for patent applications on anti-PD-1 antibodies and anti-PD-L1 antibodies that the Company owned.

On May 17, 2019, in the first instance, the Court ruled that Clive Wood, PhD and Dana-Farber Cancer Institute scientist, Gordon Freeman, PhD are coinventors on the patents. On June 21, 2019, Dana-Farber Cancer Institute, that received the rights and interests relating to the invention from Gordon Freeman, PhD, filed a suit in the U.S. District Court for Massachusetts for the right to receive a part of license revenue that the Company and Bristol-Myers Squibb Company received by a settlement or a license agreement as a result of suits for infringement of patents that the Company and Bristol-Myers Squibb Company, as owners of the patent monopoly, filed against their competitors.

The Company was dissatisfied with the decision and appealed. The Group is not able to estimate the impact on its consolidated financial statements at this stage.

Notes to Consolidated Financial Statements
Year Ended March 31, 2020

40. Approval of Consolidated Financial Statements

The consolidated financial statements for the year ended March 31, 2020, were approved by Gyo Sagara, President, Representative Director, and Chief Executive Officer, on June 18, 2020.

41. Significant Subsequent Events

There is no applicable item.