300th since 1717

Corporate Report 2017

Year ended March 31, 2017

ONO PHARMACEUTICAL CO.,LTD.

ONO's Mission

Contents

Cover photo:
Folding screen painting of Fushimiya which later developed into ONO – an auspicious crane is shown flying in front of the busy shop, bringing good fortune.
(Mid-19th century)

Corporate Philosophy

Dedicated to Man's Fight against Disease and Pain

Our Vision

Be passionate challengers

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.

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

Dedicated to Man's Fight against Disease and Pain - ONO PHARMACEUTICAL's corporate philosophy is engraved on the stone monument at the Minase Research Institute, built in 1968. ONO will remain firm to our corporate philosophy and dedicate ourselves to developing pharmaceutical products that benefit health and healthcare.

■ Editorial Policy
ONO PHARMACEUTICAL (ONO) publishes this report as a corporate 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, 2016 through March 31, 2017
✻ The report is based on activities in FY2016, 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 2017 are also covered.

■ Reference Guidelines
Sustainability Reporting Guidelines Version 4 by Global Reporting Initiative (GRI) ISO 26000
Environmental Reporting Guidelines 2012 by the Ministry of the Environment of Japan
Environmental Accounting Guidelines 2005 by the Ministry of the Environment of Japan

■ Publication Date
August 2017

■ 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.

ONO's 300-year History

Dedicated to Man's Fight against Disease and Pain

Ever since ONO was first founded in 1717, we have dedicated ourselves to developing and marketing pharmaceutical products throughout our 300-year history. Upholding our corporate philosophy, "Dedicated to Man's Fight against Disease and Pain", ONO will always meet the challenges that face us and become the world's leading pharmaceutical company in the quality of pharmaceutical products that we offer.

Our History

ONO originally began an apothecary. We then switched to a modern business management model and became a pharmaceutical manufacturer.

In 1717, during the mid-Edo Period in feudal Japan, ONO started up as an apothecary under the trade name of Fushimiya.
In 1947, ONO transformed from a pharmaceutical wholesaler to a pharmaceutical manufacturer. ONO PHARMACEUTICAL CO., LTD. was established, with the two operational functions of marketing and manufacturing.

Apothecary started by Ichibei Fushimiya, which developed into ONO PHARMACEUTICAL. (Illustration from a guidebook of Osaka, 1867)

In the 1960s, the Japanese Government introduced a universal health insurance system. After an encounter with Professor Sune K. Bergström, who later received the Nobel Prize in Physiology or Medicine, ONO made a world-first commercial success in the total synthesis of prostaglandin (PG). To become a world player in the development of prescription medicines, ONO reinforced the R&D framework and established the core facility for drug discovery, the Central Research Institute (the current Minase Research Institute).

- •1968 Completion of the Central Research Institute (the current Minase Research Institute)
- •1968 Adoption of the Corporate Philosophy

ONO succeeded in the development and marketing of the world's first PG formulation. ONO began to focus effort on the discovery of new breakthrough drugs.

Five years after the success in the total synthesis of prostaglandin (PG), ONO obtained the world's first manufacturing and marketing approval of PG formulation and launched product in the following year. ONO attracted global attention because of our world-first success despite starting with an unstable substance but producing a new drug.
ONO constructed a manufacturing plant rare at the time, equipped with modern facilities. With improved and expanded production functions, ONO embarked on a period of rapid growth.

- •1975 Completion of the Fujiyama Plant

ONO developed and launched a succession of world-first breakthrough drugs. We also pursued the strengthening of our corporate structure.

While strengthening our research structure through the completion of the Minase Research Institute and the opening of the Fukui Research Institute responsible for safety assessment, ONO has achieved the discovery of a succession of world-first breakthrough drugs since the 1970s.
Starting up a new center to integrate production and sales, we proceeded to improve the quality control of pharmaceuticals and to create a stable supply system. ONO's first overseas operation, the London Office was opened, allowing us to step out onto the global stage.

- •1982 Opening of the London Office in the UK.
- •1985 Completion of the Fukui Research Institute for Safety Assessment
- •1987 Completion of the new building for the Minase Research Institute (renamed from the Central Research Institute).
- •1988 Completion of the Central Distribution Center

Timeline of ONO's New Drug Development

1974 World-first PROSTARMON F for Injection for induction of labor

1976 World-first PROSTARMON E Tablets, Oral Drug for induction of labor

1978 World-first FOY for Injection for acute pancreatitis

1979 World-first PROSTANDIN for Injection for peripheral circulatory disorders

1984 World-first PREGLANDIN Pessary for therapeutic abortion in mid-pregnancy

1985 World-first FOIPAN Tablets for chronic pancreatitis

1987 Japan-first RONOK Capsules for gastric ulcers

1987 PROSTANDIN 500 for Injection for intra-operative blood pressure regulation

1988 World-first CATACLOT for Injection for post-operative cerebral vaspospasm after subarachnoid hemorrhage surgery

1988 OPALMON Tablets for thromboangiitis obliterans

1717 Foundation year → **1960s** → **1970s** → **1980s**

Global Specialty Pharma

2017
300th
Anniversary of
Foundation

As a manufacturer of novel drugs ONO successfully increased sales and focused on conducting clinical development overseas.

On the strength of many in-house discoveries of original and innovative products including the core PG items, ONO increased sales and developed into a manufacturer of novel drugs.
ONO extended product lineup through the launch of products such as the drug for the treatment of bronchial asthma, preparing the financial basis for further growth and engaging in the establishment of a foothold to promote clinical development overseas.

- •1990 Opening of the Seattle Office in the U.S.A.
- •1993 Opening of the Fukui Research Institute for Chemical Process Research
- •1994 Opening of the Seoul Office in South Korea
- •1996 Completion of the new research building of the Minase Research Institute
- •1998 Overseas companies established in the U.S.A. and the UK. (Constructive closure of the existing local offices)

1992 World-first KINEDAK Tablets for diabetic peripheral neuropathy

1992 VEGA Tablets for bronchial asthma

1995 World-first ONON Capsules for bronchial asthma

1997 PROSTANDIN Ointment for decubitus/cutaneous ulcer

ONO strengthened licensing activities. Drug discovery became ONO's new challenge for the future.

After 2002, ONO faced a very difficult period in the wake of several discontinuations in the development of in-house discovered compounds. However, ONO addressed the situation by focusing on strengthening licensing activities aimed at acquiring candidate compounds and thereby produced successive new drug launches. With far-sighted vision for future drug discovery, ONO opened a new research institute in Tsukuba city to serve as a center for genome drug discovery. Allied with academic and other research institutions, ONO became engaged in leading-edge pharmaceutical research, untethered by conventional perceptions and adopting new challenges to produce new drugs.

- •2003 Completion of the Tsukuba Research Institute

2000 ONON Dry Syrup for bronchial asthma (of pediatric patients)

2002 World-first ELASPOL for Injection for acute lung injury associated with systemic inflammatory response syndrome

2002 ONOACT for Intravenous Infusion for intra- or post-operative tachyarrhythmia

2007 In-license STAYBLA Tablets for overactive bladder (OAB)

2009 In-license RECALBON Tablets osteoporosis

2009 In-license GLACTIV Tablets for type-2 diabetes

2009 In-license EMEND Capsules for chemotherapy-induced nausea and vomiting

ONO entered full-scale into the oncology domain.We are driving forward the reinforcement of our corporate infrastructure through HR development, improvement of CSR activities and other efforts.

ONO entered full-scale into the oncology domain, specifying cancer and its supporting treatments as a strategic area among our areas of drug discovery research. We stepped up our efforts in Open Innovation with the aim of discovering innovative drugs.
We are putting our effort into CSR activities and are engaged in reinforcing our corporate infrastructure so that we can contribute to the sustainable development of society and continue being a company that society needs.

- •2013 Establishment of ONO PHARMA KOREA CO., LTD. in South Korea
  Constructive closure of the Seoul Office
- •2014 Establishment of ONO PHARMA TAIWAN CO., LTD. in Taiwan
- •2014 Adoption of the Mission Statement
- •2016 Completion of the Third Building of the Minase Research Institute

2011 In-license RIVASTACH Patch for Alzheimer's disease

2011 In-license PROEMEND Intravenous Injection for chemotherapy-induced nausea vomiting

2013 In-license ORENCIA for Subcutaneous Injection for rheumatoid arthritis

2014 In-license FORXIGA Tablets for type 2 diabetes

2014 World-first OPDIVO Intravenous Infusion for malignant tumors

2016 In-license KYPROLIS Intravenous Infusion for malignant tumors

2017 In-license PARSABIV Intravenous Injection for dialysis for secondary hyperparathyroidism

1990s 2000s 2010s

View from the Top

**ONO has had a history of challenge over the past 300 years.
We have faced and overcome challenging times with our strong spirit of challenge.
We will continue steadily and solidly to conquer every future challenge that we encounter, step by step.**

Gyo Sagara
President, Representative Director, and CEO

Q1 In 2017, ONO celebrates the 300th anniversary of its founding. As you look back, how do you view our 300-year history? Looking forward, could you tell us what your vision is for the future?

A1 I consider the 300th anniversary as one milestone. My vision is to turn ONO into what can be called a Global Specialty Pharma.

ONO traces its origin to 1717 when the first Ichibei Fushimiya established an apothecary in Doshomachi, Osaka, and the company celebrates 300 years of business foundation in 2017. In 1947, we became established as a corporation, and therefore 2017 is also a 70-year milestone. Since our establishment in 1717, ONO has upheld the corporate philosophy "Dedicated to Man's Fight against Disease and Pain," and we remain fully committed to the pharmaceutical business we engage in. We unite our efforts in meeting our challenge to create innovative drugs for delivery to patients worldwide. In the 1960s, we faced a management crisis in our struggle to switch from being an OTC drug maker to a prescription medicine manufacturer. In the 2000s our R&D efforts stalled and we had to discontinue the development of our drug discovery seeds one after another. In our three centuries of history, we faced many highly challenging times. However, upholding our corporate philosophy, we have overcome these challenges.

I do not view the 300-year celebration as an endpoint. This is a new beginning for ONO. My vision is for ONO to be an R&D-based global pharmaceutical company specializing in specific domains, priding ourselves in the original and innovative new drugs we offer and in competing in the global arena as a Global Specialty Pharma company. I intend to maximize ONO's strength in pushing us forward.

2017 is a milestone. It is the start of a fresh vision for the future, a vision we will achieve by surmounting our challenges.

Q2 What do you think of the environment surrounding ONO and the pharmaceutical industry at large?

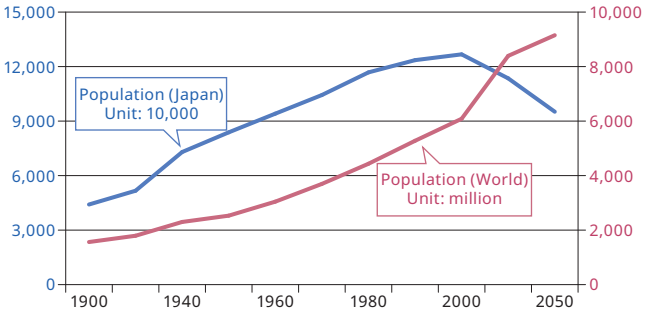
A2 The speed of change is accelerating. We need to be quick and agile in our response.

The outlook for the global economy is looking increasingly uncertain. Despite some recovery being seen in the U.S.A. and elsewhere, Brexit and geopolitical risks are casting shadows. In Japan, economic conditions are hard to predict. The pharmaceutical industry is faced with a decrease in the success rate of drug discovery and an increase in R&D costs. In Japan, a country addressing the urgent challenge of reducing social security costs with the population aging and the birthrate declining, the business environment is ever toughening for pharmaceutical companies with the introduction of healthcare cost reduction measures, including the National Health Insurance drug price cuts and generics use promotion measures. In addition to the fundamental review of the NHI drug pricing system, moves are stepping up towards introducing cost benefit assessment in healthcare.

Meanwhile, the pharmaceutical and medical devices sector is positioned as one of the linchpins in Japan's growth strategy. Whereas population is declining in Japan, globally, developed nations are aging and emerging economies are undergoing population growth, generating further unmet medical needs. This would mean that the global pharmaceutical market is set to continue its growth path.

In such a context, the pharmaceutical sector will undergo intensifying competition on a global basis. For ONO to achieve sustained growth and realize our vision, we must remain being a company that keeps creating innovation and generating value for society.

The speed at which the environment is changing around industry and businesses in Japan and worldwide is accelerating as never seen before. Beyond our 300 years, if ONO intends to survive as a successful company, we must react quickly and agilely to all the changes that challenge our operations.



(Source: IMF and National Institute of Population and Social Security Research, 2015)

View from the Top

Q3 Tell us about ONO's business model.

A3 ONO specializes in prescription medicines and focuses management resources into drug discovery.

ONO is an R&D-based pharmaceutical company specializing in prescription medicines. We focus our management resources on our drug discovery effort. In order to achieve sustainable growth, we believe in holding tight our finite management resources and focus on developing new drugs. Not only do we take up the challenge of discovering and developing our own innovative drugs, we also in-license promising new candidate compounds from around the world. This is ONO's business model.

In-House Drug Discovery: Compound-Orient
We have pursued our unique Compound-Orient approach to developing novel drugs by identifying priority areas such as bioactive lipids and enzyme inhibitors, instead of targeting specific disease areas, by collecting a "library" of compounds that act on diverse targets, and by finding drugs that are useful for treatment of diseases from the library. Meanwhile, we are also putting efforts into development of innovative and novel drugs in areas that are new to us, for example, biopharmaceuticals. We have identified the areas of oncology and supportive care in cancer as key strategic areas, and are moving ahead with research in these areas.

In-House Drug Discovery: Open Innovation
We are driving drug discovery in different areas through the adoption of world-leading technologies and knowledge in various fields. In 1968, we became the world's first business enterprise to succeed in the total synthesis of prostaglandins (PGs), a class of bioactive lipid molecules, and have been developing many PG-related drugs since. Then in 2014, we developed the world's first human anti-human PD-1 monoclonal antibody, OPDIVO. We have a successful track record at the cutting edge of drug discovery.
We will continue promoting the industry-academia open innovation strategy to accelerate collaboration with leading research institutions at home and abroad, with the aim of developing creative pharmaceuticals in areas with unmet medical needs and innovative drugs in oncology.

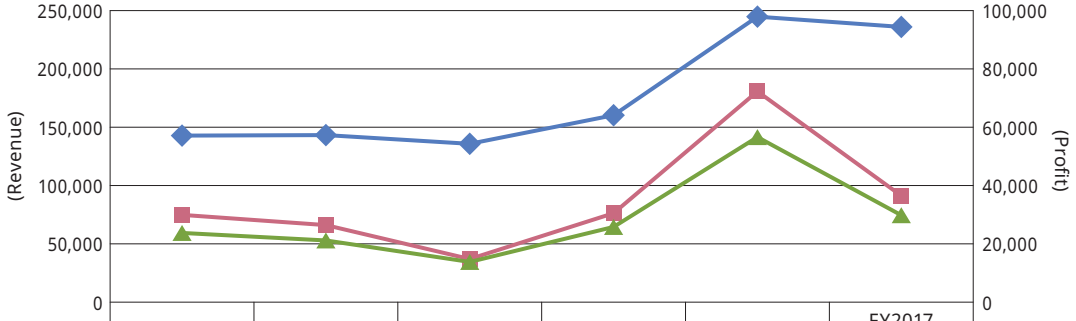
Licensing Activities
We will vigorously pursue in-licensing of new drug candidates for stable expansion of our development pipeline for the future. The disease areas we concentrate on include oncology and supportive care in cancer, diabetes, and niche areas. In these areas, we aim at in-licensing of new drug candidates that have high value in terms of corporate strategy and efficiency.
For global business (excluding Asia) of in-house developed new drug candidates, we adopt a basic strategy of licensing out on a per-developed-compound basis to our partners which have outstanding development and commercialization capacities.

Q4 Tell us about ONO's business results for FY2016 (year ended March 2017).

A4 We achieved massive gains in revenues and profits.

We recorded huge increases in revenues and profits in our consolidated financial results for FY2016, thanks to successes such as the increased sales of the anticancer drug OPDIVO. Compared to FY2015, revenue grew 52.7%, operating profit 136.9% and net profit 123.4% (attributable to owners of the parent company).
The NHI drug price revision in April 2016 and the Japanese government's promotion of generics use impacted the sales of long-term listed products. However, the sales of OPDIVO and new key products were good. In particular, OPDIVO, which acquired additional indication for non-small cell lung cancer (NSCLC) in December 2015, grew hugely in sales. Overseas, OPDIVO obtained additional indication approval and expanded sales. Therefore, royalty and other revenue saw a huge increase of 94.5% year on year.

(IFRS: unit = million yen)



	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017 (forecast)
Revenue	142,806	143,247	135,775	160,284	244,797	236,000
Operating profit	29,948	26,429	14,794	30,507	72,284	36,500
Net profit (attributable to owners of the parent company)	22,927	20,344	12,976	24,979	55,793	29,000

Q5 What is your assessment of the R&D performance in FY2016 (year ended March 2017)

A5 Our active pursuit of R&D resulted successfully in the launch of new drugs and approval of additional indications.

Successful R&D led to the launch of KYPROLIS for Intravenous Injection for the treatment of multiple myeloma, a type of hematological malignancy, and PARSABIV Intravenous Injection for Dialysis for the treatment of secondary hyperparathyroidism in patients on hemodialysis. Hyperparathyroidism is a complication of chronic kidney disease whereby the parathyroid glands overproduce parathyroid hormone and cause pain in bones and joints.
ONO succeeded in extending the indications of OPDIVO to more cancers. We obtained approval in Japan of additional indication to renal cell carcinoma, Hodgkin lymphoma and head and neck cancer. We are pleased that OPDIVO can now be administered to more patients. In December 2016, we submitted application for additional indication for gastric cancer.
Our pipeline includes an increasing number of compounds in late-stage development. ONO-7643, a candidate compound for the treatment of cancer cachexia, is now in Phase III. Phase III trials for OPDIVO have started for its use in treating ovarian cancer. Meanwhile, we have been able to thicken our pipeline by bringing new compounds to the clinical trial stage, namely ONO-7475, an Axl/Mer inhibitor for the treatment of acute leukemia, as well as ONO-7579, a Trk inhibitor, and ONO-4578, an EP4 antagonist, both for the treatment of solid tumor.

View from the Top

Q6 Tell us about your growth strategies.

A6 We will engage in boosting our R&D capability and expanding our overseas business.

If ONO is to sustain our growth trajectory, we must maximize the product value of such drugs as OPDIVO. By doing this, we will achieve dramatic growth in Japan. We will boost our R&D capability so that we can discover innovative new drugs. To expand our overseas business, we intend to engage in the following actions.

• Maximizing Product Value

Through active R&D efforts, company-wide collaboration and enhanced HR training capacity, we will achieve expedited market launch and additional indication approval and peak sales in the shortest period from launch. In addition, we will develop a strategy formation that constantly ensures competitive advantage by adjusting with agility to environmental changes in each stage of the product life cycle. We will thereby maximize the potential of every product we offer.

• Game-changing R&D

Together with drug discovery achieved through Compound-Orient, we will identify priority domains for research such as oncology and focus management resources to enhance our specialism. We will enhance research and drug discovery alliance with external partners so that we can strengthen our highly original pipeline and aim to develop first-in-class drugs. We will drive forward activities in areas with great medical needs, by in-licensing innovative compounds and acquiring technologies.

• Globalizing Business

We want to supply the world with new drugs that we have created. We are reinforcing overseas business expansion in anticipation of our own overseas marketing of specialty products such as anticancer drugs and other specialty medicines. In South Korea and Taiwan, we have set up wholly owned subsidiaries and have started selling our products. We are looking to engage in sales in Europe and America and will make preparations by improving and strengthening our development system.

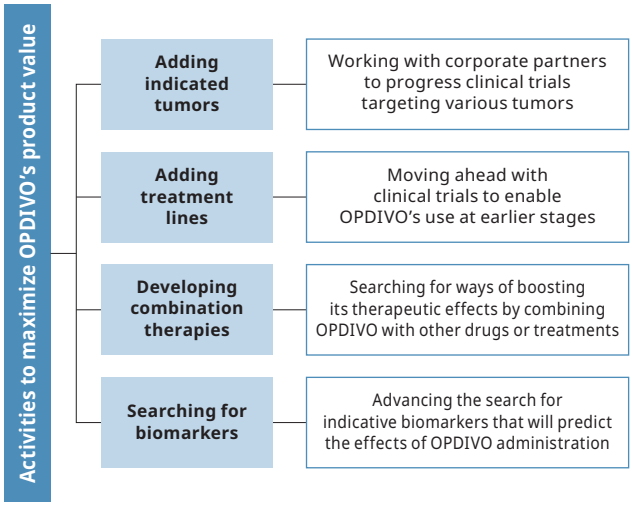
• Strengthening Corporate Infrastructure

We will continue to reinforce our operational infrastructure, which we need to achieve in order to expand our overseas business and to beat off the intense competition with other companies. We need to adapt to diverse changes in our business environment and eliminate competition. For this purpose, we must train human resources and encourage diversity so that we can have a stronger framework for development. We have identified priority areas for CSR activities: corporate governance; innovative pharmaceutical products; human resources and human rights; the environment; fair operating practices; and society. We will fulfil our social responsibility towards all stakeholders through our activities.

Q7 Give us a picture of your outlook beyond FY2017.

A7 Focusing on the anticancer drug OPDIVO, we will maximize product value and attain sustained growth.

Our forecast for FY2017 is a drop in revenue of 3.6%, a fall in operating profit of 49.5% and a decrease in net profit for the year of 47.9% (attributable to owners of the parent company). OPDIVO will be experiencing the cut in NHI drug price and market entry of competition. However, we will try to increase the sales of our core products including the two products newly launched in FY2016. The biggest growth driver at ONO is the anticancer drug OPDIVO. We must maximize its product value as the top runner in cancer immunotherapy. The drug development race in this area is intensifying globally. While promoting its proper use, we will also engage in adding indicated tumors, adding treatment lines, developing combination therapies and searching for biomarkers. To attain sustained growth, ONO is dedicated to will maximizing the value of other products as well. We will drive forward our R&D. We will expedite approval and shorten the time between product launch and peak sales.



Q8 What investments are you making for the future?

A8 We are making investments and using human resources appropriately.

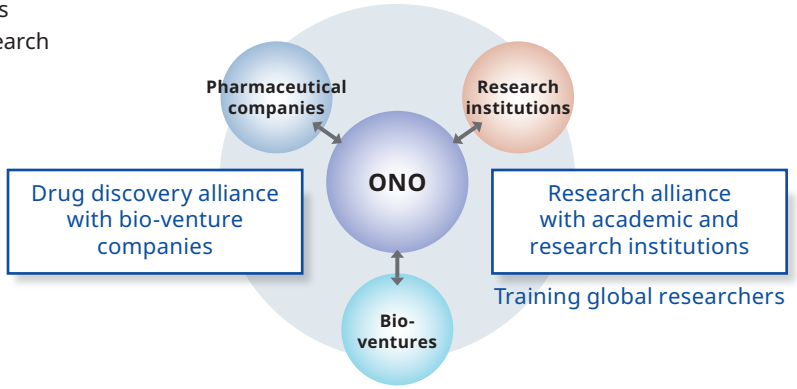
ONO undertakes active R&D investment. We are engaged in strengthening our R&D framework so that we can discover the desired new drugs and deliver them as quickly as possible to the frontline of healthcare.
In March 2016, we added to our main research R&D facility, the Minase Research Institute, its Third Research Building, as a center for invention and manufacturing technology.
In April 2016, we newly established two new centers, the Oncology R&D Center and the Immunology Research Center, which serve key roles in strengthening our global development capability. We make timely use of CRO (contract research organization) to ensure sound and speedy clinical development for the purpose of acquiring manufacturing and sales approval in the shortest timescale.
We are expanding our production capacity. To add to our main Fujiyama Plant and the Joto Plant, we have started construction of a new factory in Yamaguchi prefecture. Production is scheduled to begin in 2020. Not only would this new facility support ONO's operational expansion but will also aid to disperse natural disaster risks with respect to operational continuity.

As to human resources, we are making reinforcements in the oncology domain, our priority strategic area. We increased the number of specialist oncology MRs from some 30 to 180 in 2015. By October 2016, we boosted this to 250. We continue to increase the number of staff dedicated to safety information management of the pharmaceuticals we supply. In this way, we are bolstering our corporate infrastructure as a company that handles life-supporting products.
ONO is keenly making organizational improvements with a view to further global operations and making investments into HR development. Our overseas operations revolve mainly around royalty revenue at present but we are considering moves for establishing our own marketing operations in the U.S.A. and elsewhere, following on from our setup in South Korea and Taiwan. If we can discover new compounds that meet specific needs such as rare diseases, we would like to step out in this direction.
Though small in scale, we aspire to become a top-class global pharmaceutical company in terms of quality. This is why we are inputting our utmost effort into strengthening our management base from all angles.

Q9 What are you doing to produce the next generation of innovations?

A9 We are directing all efforts into discovering a post-OPDIVO drug.

We would like to discover a new breakthrough drug as a successor to OPDIVO. Using Compound-Orient, our original approach to drug discovery and targeting priority research areas including oncology, we are focusing our management resources, honing our specialism and expertise.
We embrace open innovation. ONO avidly introduces cutting-edge knowledge and technologies. Joint research projects underway with notable Japanese and international academic and research institutions as well as venture companies total some 250.
In pursuit of the world's top-class research partners, our staff make personal searches and direct approaches, repeatedly hold discussions with potential partners and dispatch our researchers into research facilities both in Japan and abroad. Having confirmed a shared purpose with our research allies, we establish a long-term relationship so that we can join our forces and strengths to deliver innovative drugs to patients worldwide. Drug discovery is our mission and our challenge.



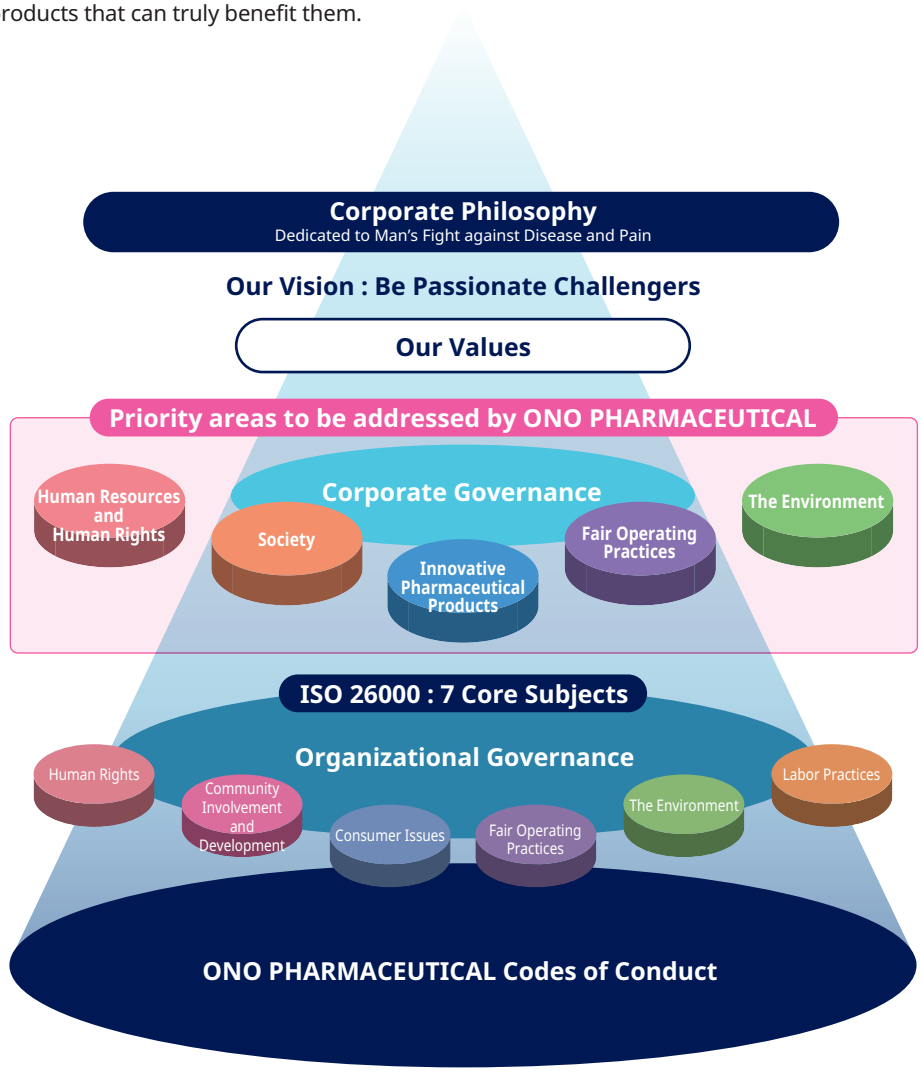
View from the Top

Q10 What social contributions do you think ONO can make through its business operations?

A10 We will develop high quality pharmaceuticals that contribute to healthcare and offer them to the public. We will work in harmony with the community as a good corporate citizen.

Placing the ONO PHARMACEUTICAL Codes of Conduct at the foundation of our CSR management, we have cross-checked them against the 7 Core Subjects of ISO 26000, and identified Six Priority Areas for the CSR activities that would be expected of us based on our Corporate Governance.
As the ONO's Codes of Conduct clearly states, "We will develop safe, high quality and effective drugs that help people have a healthy life and provide society with them in addition to necessary information." The greatest value that ONO can offer to society is the consistent delivery to patients of pharmaceutical products that can truly benefit them.

For ONO to continue enhancing our corporate value and to carry on as a successful entity, we must work in harmony with society as a good corporate citizen. As we have declared in our Codes of Conduct, we will act with respect for the human rights of all people, comply with the law, conserve the global environment, strive for establishment of transparent corporate management and proactively disclose business information. Following these Codes, we engage in all our business activities so that we can continue to earn the respect of society.



✻ ISO26000: The international standard on social responsibility for organizations, published by the ISO (International Organization for Standardization, based in Geneva) in November 2010

Q11 Tell us about corporate governance.

A11 We always work to ensure transparency and soundness of business management.

I believe it to be an important task for us to improve the transparency and soundness of our management by strengthening our corporate governance.
ONO wants to apply objective external perspectives to management decisions and we have appointed outside directors to our board. Our two outside directors each are highly expert and well experienced, using their specialist knowledge and broad insights as they participate in ONO's decision-making while adopting a position of independence.
As regards the Corporate Governance Code of the Tokyo Stock Exchange, we implement all its principles (General Principles, Principles and Supplementary Principles).
In FY2015 we set up the Directors Appointment Committee and Executive Compensation Committee, both attended by outside directors. This was to increase the contribution of outside directors in significant decision processes such as appointing directors and deciding remuneration, thereby pushing for greater transparency and objectivity. We are in pursuit of a governance framework high in effectiveness and introduced a system to analyze/evaluate the effectiveness of the entire Board of Directors.
We also ensure the soundness of management through our auditing system. We have appointed two outside auditors who are highly independent as well as knowledgeable as experts in law or corporate accounting. In collaboration with full-time auditors, they endeavor to ensure the soundness of ONO's business management.
We believe that governance has to be constantly reviewed and strengthened in terms of its system and operations as necessitated by environmental changes and our company's current circumstances.

Q12 What message do you have for ONO's stakeholders, and our shareholders in particular?

A12 We want to fulfil the expectations of all our stakeholders. To do so, we will carry on as challengers.

I am grateful to you all for the generous support that you always extend to us, without which, we would not have been able to celebrate this milestone, our 300th anniversary of founding. By developing our business successfully, we will keep enhancing our corporate value and fulfil our stakeholders' expectations.
In terms of dividend pay-out, ONO considers the redistribution of profits to shareholders as a vital management policy. We will prioritize stable dividend distribution in the medium to long term while taking account of our business results and general social conditions, making appropriate distribution of our profits in line with our business performance.
ONO's dividend distribution for FY2016 was an increase of 4 yen per share, bringing the 12-month total to 40 yen. (ONO split its ordinary shares on a five-for-one basis with a base date of March 31, 2016: comparison made after the split)
To commemorate the 300th anniversary and to express our gratitude to shareholders for their unwavering support, we plan to make a special 5-yen dividend payment to be distributed as the second-quarter dividend for FY2017.
We will pride ourselves as a company that engages in the business of pharmaceuticals which impact human lives. We remain acutely aware of our social responsibility. We will constantly face up to the challenge of disease and pain.
We highly appreciate your continued and most generous support and cooperation.

Key Product Profiles

ONCOLOGY

Sales in FY2016 | Percentage increase/decrease from FY2015

OPDIVO Intravenous Infusion for the Treatment of Malignant Tumors

103.9 billion yen

+391.3%

OPDIVO is an anticancer drug approved in Japan for cancer immunotherapy targeting PD-1, a world first. It is an immune checkpoint inhibitor that reactivates antitumor immune response using the body's immune system. It was launched in Japan in September 2014 for unresectable melanoma and before the end of March 2017 received additional approval for unresectable, advanced or recurrent non-small cell lung cancer as well as unresectable or metastatic renal cell carcinoma, relapsed or refractory classical Hodgkin lymphoma and recurrent or metastatic head and neck cancer. The number of patients using OPDIVO since approval up to March 2017 totals more than 15,000. FY2016 sales reached 103.9 billion yen. ONO signed a strategic alliance agreement with Bristol-Myers Squibb (U.S.A.). Under this alliance, development is steadily underway overseas as well. Regulatory approval has been obtained in more than 60 countries, enabling us to deliver this new drug discovered by ONO to patients around the globe. While promoting OPDIVO's proper use and collecting information on its safety, ONO is working hard on adding indications for other cancers, extending the therapy line as well as developing combination therapies. ONO will continue working to maximize OPDIVO's value.

OPDIVO: Development Status (Late stage)

As of August 02, 2017

Target Disease		Development Stage		
		Japan	U.S.A. & Europe	South Korea & Taiwan
Melanoma (First- and later-line treatment)		Approved	Approved	Approved
Non-small cell lung cancer	Second- and later-line treatment	Approved	Approved	Approved *
	First-line treatment	Ⅲ	Ⅲ	Ⅲ
Renal cell carcinoma	Second- and later-line treatment	Approved	Approved	Approved (TW)
	First-line treatment	Ⅲ	Ⅲ	Ⅲ
Hodgkin lymphoma		Approved	Approved	Filing (TW)
Head and neck cancer		Approved	Approved	Filing (TW) / Ⅲ (KR)
Urothelial cancer		Ⅲ	Approved	Filing (TW) / Ⅲ (KR)
Gastric cancer		Filing	Ⅲ	Filing (TW) / Ⅲ (KR)
Colorectal cancer		–	Approved (US) / Ⅰ / Ⅱ (EU)	–
Gastro-esophageal junction cancer and esophageal cancer		Ⅲ	Ⅲ	Ⅲ
Small cell lung cancer		Ⅲ	Ⅲ	Ⅲ
Hepatocellular carcinoma		Ⅲ	Filing (US) / Ⅲ (EU)	Ⅲ
Esophageal cancer		Ⅲ	Ⅲ	Ⅲ
Glioblastoma		Ⅲ	Ⅲ	–
Multiple myeloma		Ⅱ	Ⅲ	–
Malignant pleural mesothelioma		Ⅲ	Ⅲ	–
Ovarian cancer		Ⅲ	Ⅰ / Ⅱ	–

* Approved only for squamous NSCLC / under filing for non-squamous NSCLC in Taiwan

ONCOLOGY

Sales in FY2016 | Percentage increase/decrease from FY2015

KYPROLIS for Intravenous Injection for the Treatment of Malignant Tumors

2 billion yen

Product Launch: August 2016

KYPROLIS is a highly selective inhibitor that inhibits the action of proteasome, an enzyme complex within human cells, thereby causing functional cell death of myeloma cells. In August 2016, it was launched as a drug to treat relapsed or refractory multiple myeloma.

Multiple myeloma is a hematological malignancy caused by abnormality of plasma cells in the bone marrow. Although several regimens for multiple myeloma are currently available, the disease relapses and progresses and eventually becomes no longer responding to therapies, also known as refractory disease. Additionally, adverse drug reactions and co-morbid conditions have been reported following long-term treatment, making continued treatment difficult.

KYPROLIS is a drug expected to provide high efficiency and a long period of efficiency. Sales of KYRPOLIS reached 2 billion yen in FY2016.

In May 2017, additional approval was obtained for 2-drug therapy in combination with dexamethasone, widening the option for treatment.

ONO will continue promotion of proper use and other information dissemination to establish the positive evaluation of KYPROLIS.

EMEND Capsules / PROEMEND for Intravenous Injection for the Treatment of Chemotherapy-induced Nausea and Vomiting

9.9 billion yen

+4.3%

EMEND Capsules / PROEMEND is the first selective neurokinin (NK) 1 receptor antagonist in the world. It is effective for chemotherapy-induced nausea and vomiting. EMEND Capsules (oral) or PROEMEND (injection) is used in at least 70% of cases in which an anticancer drug with a high risk of inducing nausea and vomiting is used, and in about 30% of cases in which an anticancer drug with a moderate risk of inducing nausea and vomiting is used.

Sales of EMEND and PROEMEND together reached 9.9 billion yen in FY2016.

The NCCN Guideline 2017 published by the National Comprehensive Cancer Network formed of leading oncology centers in the U.S.A. recommended the use of EMEND in the treatment of lung cancer and gynecological cancers that use carboplatin regimen. ONO will therefore boost activities in these oncological areas and increase its use.

PROEMEND received additional approval for use in infants over six-months and in pediatric patients under 12-years of age. Medical practitioners indicated their requirements for its development, given the common difficulty that children have in taking capsules orally. Its approval means that infants over six-months and pediatric patients can now use this drug.

Key Product Profiles

NEW PRODUCTS

Sales in FY2016 | Percentage increase/decrease from FY2015

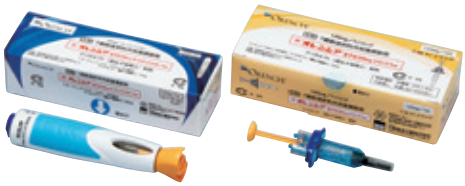
GLACTIV Tablets for the Treatment of Type 2 Diabetes

29.4 billion yen
–6.5%

GLACTIV, a dipeptidyl-peptidase (DPP) 4 inhibitor, is an oral drug for treatment of type 2 diabetes. It regulates blood sugar levels in type 2 diabetes patients with the mechanism of action selectively inhibiting DPP-4, an enzyme that metabolizes a gastrointestinal hormone, incretin. It thereby enhances the body's own insulin secretion ability in a glucose dependent manner and decreases glucagon release, signaling the liver to reduce its production of glucose.
Competition has been intensifying but the population of potential diabetes patients is large and GLACTIV has the strength of being a product with a rich evidence base and a large amount of efficacy and safety information accumulated through its long-term use by patients in Japan. ONO will carry on its effort at steadily penetrating the market with GLACTIV Tablets.

ORENCIA for Subcutaneous Injection for the Treatment of Rheumatoid Arthritis

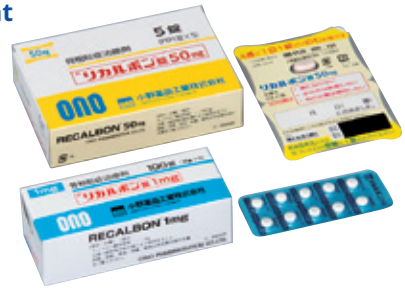
11.6 billion yen
+44.5%



ORENCIA is a subcutaneous injection for the treatment of rheumatoid arthritis. It inhibits secretion of cytokines by blocking the signal that activates T cells, resulting in the suppression of joint inflammation. ORENCIA auto-injector was launched in May 2016 as a new dosage form. It gives an additional treatment option to practitioners, and its dosage form is easier for patients to handle physically and functionally. It is hoped to be of benefit to patients who have difficulty with self-injection due to problems such as joint deformity. ONO will continue directing efforts toward raising patients' quality of life.

RECALBON Tablets for the Treatment of Osteoporosis

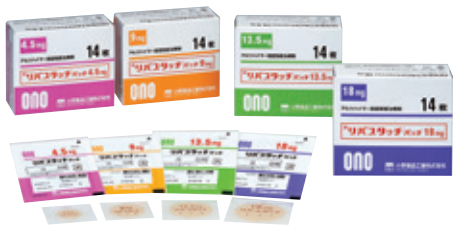
11.3 billion yen
–0.0%



RECALBON is the first oral bisphosphonate discovered in Japan for the treatment of osteoporosis. Although the osteoporosis drug market faces intense competition due to the entrance of new drugs and the proliferation of generic bisphosphonates on the market, as currently some 20-30% of osteoporosis patients are receiving drug therapy, the potential market is large, so ONO will press ahead to penetrate the market, making the most of RECALBON's features, namely its powerful bone resorption inhibition, together with the fact that it allows verification against placebo of fracture prevention effectiveness in Japanese osteoporosis patients.

RIVASTACH Patch for the Treatment of Alzheimer's Disease

8.9 billion yen
+13.1%



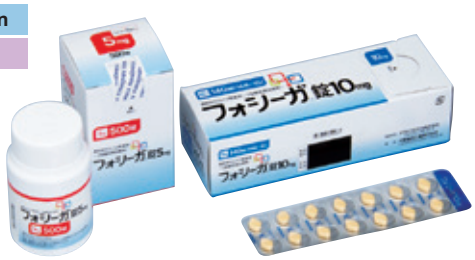
RIVASTACH Patch is a transdermal patch for the treatment of Alzheimer's disease. It reduces the progression of deteriorating cognitive functions such as memory loss (forgetfulness) and disorientation (inability to recognize time and place) by inhibiting acetylcholinesterase and thereby increasing the amount of acetylcholine in the brain and enhancing neurotransmission. Of the estimated 4.6 million patients with cognitive disorder, only about 1.5 million currently receive treatment. ONO will continue working on dissemination of information and drug therapy guidance based on the Clinical Practice Guideline for Dementia.

NEW PRODUCTS

Sales in FY2016 | Percentage increase/decrease from FY2015

FORXIGA Tablets for the Treatment of Type 2 Diabetes

7.8 billion yen
+82.6%



FORXIGA is a therapy that reduces blood sugar by excreting excess blood glucose via urine through the inhibition of SGLT2, a transporter that acts to regulate reabsorption of glucose in the kidney tubules. It is an oral drug for the treatment of type 2 diabetes and improves high blood sugar after meals and fasting blood sugar levels, independently of insulin.
Although SGLT2 inhibitors have been slow to penetrate the market, as the evaluation for its features including rapid improvement of blood sugar level has been enhanced, a growing number of patients are being prescribed FORXIGA tablets.
Based on the strength of ample evidence globally and ONO's track record in the diabetes area along with our marketing alliance with AstraZeneca, we will consolidate FORXIGA tablets' rating.

PARSABIV Intravenous Infusion for Dialysis for the Treatment of Secondary Hyperparathyroidism in Patients on Hemodialysis

200 million yen
Product launch: February 2017

PARSABIV reduces the excessive secretion of the parathyroid hormone by activating the calcium-sensing receptor in the parathyroid glands and lowers the phosphorus and serum calcium levels in the blood.
It was launched in February 2017 as a drug to treat secondary hyperparathyroidism, a complication of chronic renal failure. PARSABIV is an intravenous injection for dialysis patients to be administered through the dialysis circuit by the physician or medical staff upon completion of dialysis and such administration is expected to reduce the burden of oral medications in patients. ONO will disseminate information on PARSABIV's effectiveness and safety to consolidate its rating.

ONOACT

5.7 billion yen | **+0.3%**

for Intravenous Infusion for the Treatment of Intra-operative or Post-operative Tachyarrhythmia, or Tachyarrhythmia in Left Ventricular Dysfunction

ONOACT is a short-acting β_1 blocker that selectively blocks β_1 receptors mainly found in the heart. It is for emergency treatment of intra-operative or post-operative tachyarrhythmia (atrial fibrillation, atrial flutter, sinus tachycardia), and for treatment of tachyarrhythmia in left ventricular dysfunction (atrial fibrillation, atrial flutter).

STAYBLA Tablets

4.8 billion yen | **–7.6%**

for the Treatment of Overactive Bladder (OAB)

STAYBLA is a selective anticolinergic antagonist binding to muscarinic acetylcholine M3 and M1 receptors. It comes in two types, regular and orodispersable (OD) tablets. It improves urge to urinate, frequent urination, and urge incontinence, the symptoms of overactive bladder, by suppressing excessive contraction of smooth muscle in the bladder.

OTHER KEY PRODUCTS

Sales in FY2016 | Percentage increase/decrease from FY2015

OPALMON Tablets

17.0 billion yen | **–25.0%**

for the Treatment of Peripheral Circulatory Disorder

OPALMON is an orally administered prostaglandin-E_1 derivative for the treatment of ischemic symptoms accompanying thromboangiitis obliterans and subjective symptoms and walking disability associated with acquired lumbar spinal canal stenosis. It improves symptoms caused by peripheral circulatory disorder such as numbness, pain or coldness of the hands or feet.

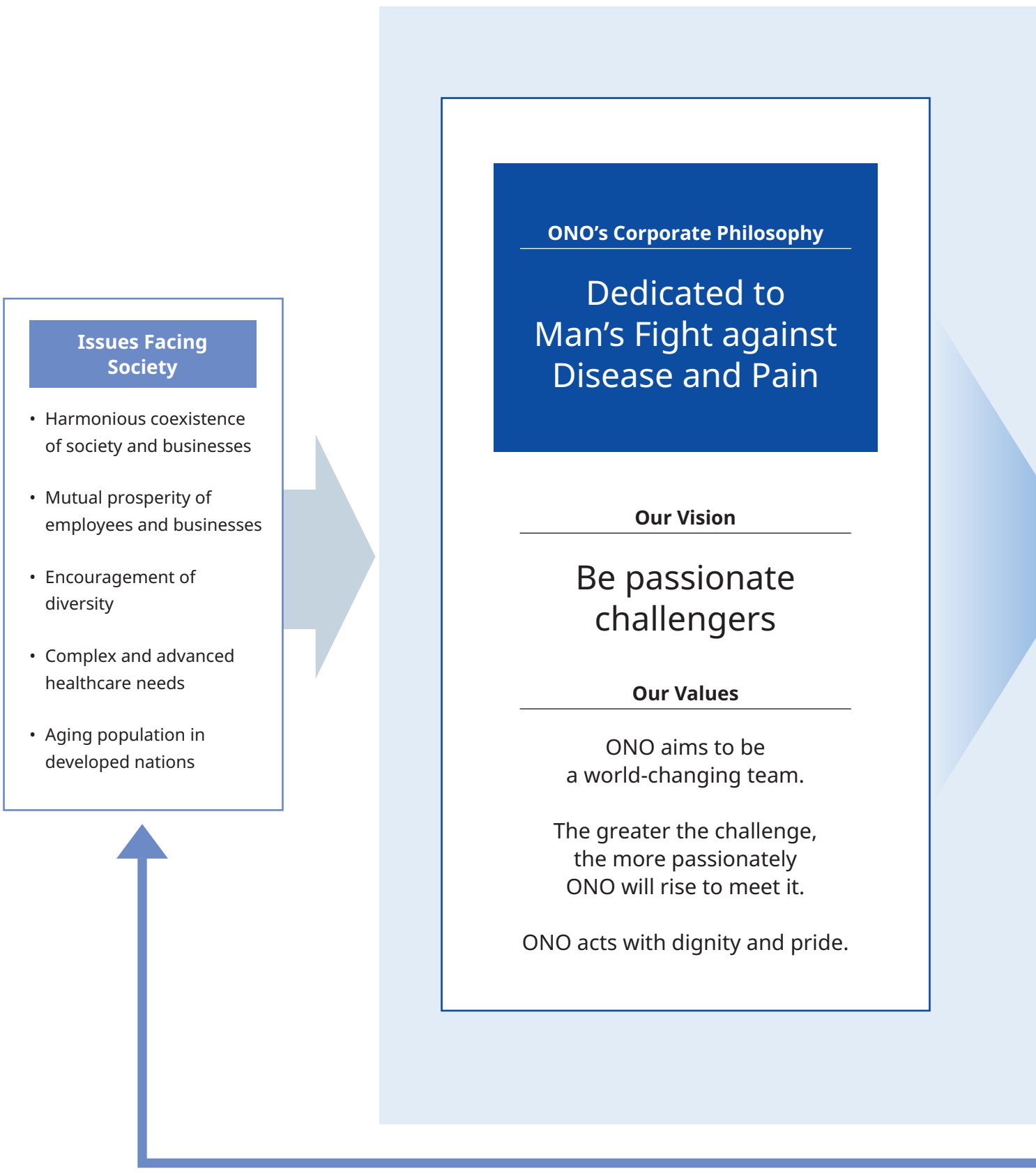
ONON Capsules / Dry Syrup

10.9 billion yen | **–25.3%**

for the Treatment of Bronchial Asthma and Allergic Rhinitis

Both ONON Capsules and ONON Dry Syrup are leukotriene receptor antagonist. Leukotriene is closely involved in the basic pathologies of bronchial asthma and of allergic rhinitis. The drug relieves asthma symptoms, namely coughing and breathlessness. ONON Dry Syrup is a formulation suitable for use with pediatric patients.

ONO's Value Creation Process



ONO's 6 Priority Areas:

Innovative Pharmaceutical Products

- Challenge ourselves to satisfy unmet medical needs

Focus & Specialism	Creativity	Cooperation/ Collaboration
Conduct business operations specializing in prescription medicines and new drugs	Unique approach to develop innovative drugs and powerful R&D capability	Promoting the industry-academia open innovation strategy

Fair Operating Practices

- Commit to ethical actions appropriate for life science industries
- Keep engaged in fair and transparent business activities

Society

- Promote responsible business activities as a good corporate citizen
- Promote harmony with society as a good corporate citizen

Human Resources and Human Rights

- Respect the human rights of all people
- Promote action to ensure mutual prosperity of employees and businesses

The Environment

- Be aware of corporate social responsibility towards the environment
- Conduct environmentally friendly business activities

Corporate Governance

- Achieve highly transparent business management
- Ensure accurate, prompt, fair and impartial information disclosure

ONO PHARMACEUTICAL Codes of Conduct

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

Initiatives by Priority Area

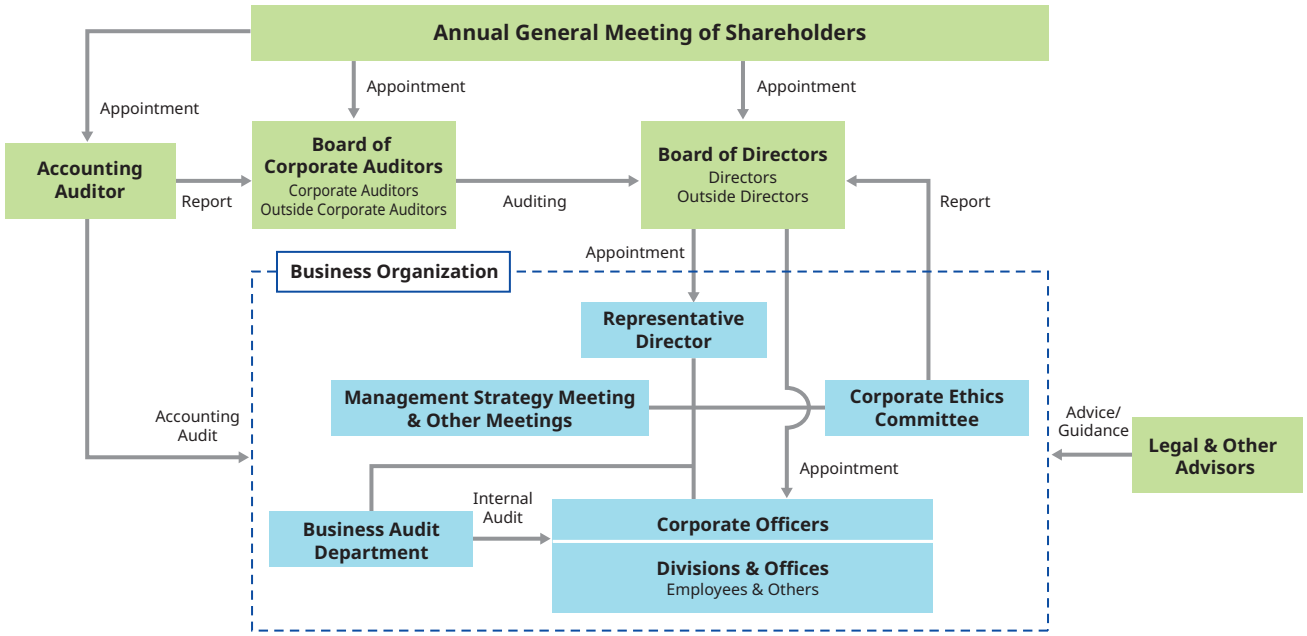
Corporate Governance

Basic Concept

To respond to the trust of all stakeholders and increase our corporate value, ONO PHARMACEUTICAL believes that our critical issues are not only the compliance of laws and regulations but also the enforcement of our management transparency and enhancement of our corporate governance.

Corporate Governance Structure

ONO has adopted the organizational framework with Corporate Auditor (or Board of Corporate Auditors) focusing on the enhancement of functions of the Board of Directors and the Board of Corporate Auditors, as a part of endeavors to bolster corporate governance.



Board of Directors

When selecting candidates for directorships we consider the balance of knowledge, experience and skills compatible with the whole Board of Directors' ability to make expert and general management decisions. We are also more clearly defining the responsibilities of management to our shareholders and have set the term of office for directors at one year, so as to enable rapid responses to changes in the management environment.
We have set the number of directors on the board to a number that is appropriate to enabling rapid and sound decision-making and that enhances managerial transparency and oversight. The Board of Directors currently consists of seven members including two outside directors and generally meets once a month. It is at these meetings when important management matters are decided and directors' performance oversight takes place.

Board of Auditors

We have strengthened our auditing capability by appointing four auditors to the Board of Auditors, including two thoroughly independent outside auditors and two full-time auditors who are thoroughly familiar with ONO's business and have the authority to gather high-level information. The full-time auditors and the outside auditors work together to strengthen audit effectiveness. The Board of Auditors generally meet once a month, and working with the internal auditing 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.

Outside Directors / Outside Auditors

Both outside directors possess wide-ranging knowledge and experience of corporate management, they oversee management of the company from an independent and objective standpoint as they work through the decision-making process. Outside directors also contribute by enhancing the work of the Board of Directors by attending Board HR Meetings and Board Remuneration Meetings. Outside auditors perform their duties from an independent and objective standpoint as experts in law or corporate accounting, carrying the responsibility for ensuring managerial soundness. ONO notifies the Tokyo Stock Exchange of our appointments for the two outside directors and two outside auditors as independent officers. None of these directors or auditors has a conflict of interest in their personal, capital or trading ties with the company. The outside directors attended all Board of Directors meetings held in FY2016. The outside auditors attended all Board of Directors meetings and all Board of Auditors meetings held in FY2016 (one auditor attended all meetings held after appointment in June 2016). Both Boards have benefited from comments and views given by the outside directors and auditors, which are grounded on their knowledge and expertise and are useful in management matters.

Operational Management Structure

ONO is striving to ensure the efficiency and correctness of decision-making and operational management by, for example, the President and Representative Director, the Directors and Corporate Officers, who take responsibility for each division, as well as the managers of those divisions attending Management Strategy Meetings to deliberate from various angles important operational management matters and above all, matters to put before the Board of Directors. We are also seeking to strengthen operational management capabilities in each business area by implementing our Corporate Officer system.
In addition, ONO also includes attendance at Management Strategy Meetings and inspection of the minutes within the scope of auditors' work.

Internal Control System

ONO provides for an internal system in accordance with the basic policies of the internal control system decided by the Board of Directors. Our Internal Audit capability (Business Audit Department) ascertains whether it is operating properly. We are also working to continually improve the system by reporting on its operation to the Board of Directors. Furthermore, we adopt a firm stance fighting against any antisocial forces or organizations that may threaten social order or security.

Corporate Governance Code

ONO implements all the principles of the Corporate Governance Code laid down by the Tokyo Stock Exchange: the five General Principles, the Principles which specify them and the Supplementary Principles. These General Principles set out the desirable actions in: 1. Securing the Rights and Equal Treatment of Shareholders, 2. Appropriate Cooperation with Stakeholders Other Than Shareholders, 3. Ensuring Appropriate Information Disclosure and Transparency, 4. Responsibilities of the Board, and 5. Dialogue with Shareholders. ONO is working to continually improve on and progress the provision of systems appropriate to our business from the point of view of management efficiency, soundness and transparency, applying the effectiveness evaluation of the Board of Directors and other such tools.
See our Corporate Governance Report for details of corporate governance at ONO.

■ Corporate Governance Report (only available in Japanese) is on ONO's corporate website.
→ http://www.ono.co.jp/jpnw/csr/governance.html

Initiatives by Priority Area

Risk Management

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

Rules and Other Systems for Risk Management for Losses

(1) Risks related to compliance, product quality and safety, safety and health, the environment, disasters, information security and other issues are managed by relevant division. Each division prepares and distributes risk management procedures in accordance with applicable internal rules, as well as provides its staff with appropriate training.

(2) Risks deemed to have significant impact on management, and cross-organizational risks, are monitored and addressed at a meeting attended by the President and Representative Director, Directors and Corporate Officers in charge, as well as the managers of relevant divisions. In case of unexpected risks, the President calls a meeting of the Emergency Response Committee to solve the problems promptly.

(3) Risks specific to each division are addressed by such division through preparation of handling procedures and other measures as necessary, and these are regularly reviewed in response to changes in the business environment.

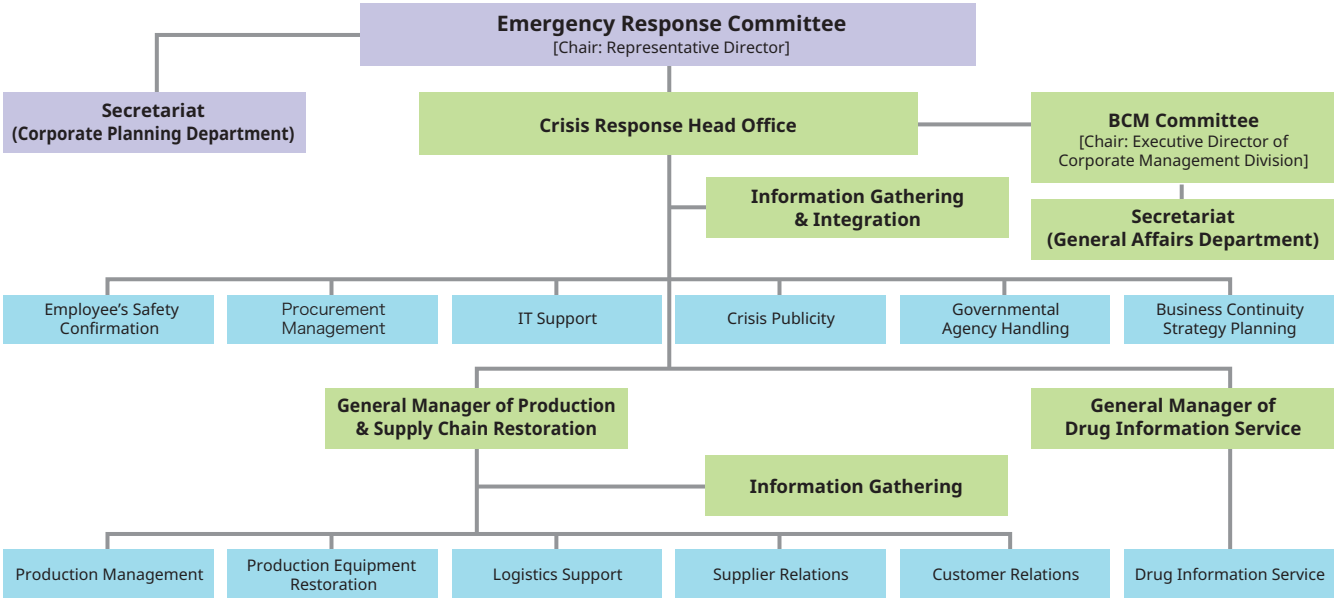
Systems to Ensure that the Company and its Corporate Group Composed of the Company's Subsidiaries are Operating in an Appropriate Manner

ONO provides sound advice and guidance to promote the compliance and risk management systems of the entire ONO's Group. As to the management of each group company, while respecting its autonomy, we periodically receive reports on their business operations and conducts preliminary consultations for important issues.

Business Continuity Plan (BCP)

In case of the occurrence of unexpected emergency such as a natural disaster or major accident, we have our BCP in place. This BCP was overhauled in 2016, strengthening our disaster response system. A framework is now in place under the Emergency Response Committee with the Representative Director as chair to ensure that we can minimize its impact on mission-critical operations and continue business activities or to immediately recover and resume them if suspended.

To improve our crisis response and business continuity capacities, we set up the Business Continuity Management (BCM) Committee and a secretariat responsible for its running. The BCM Committee, chaired by the Executive Director of the Corporate Management Division, is responsible for the management of business continuity. The Committee serves to support ordinary management activities.



Information Disclosure

As specified in our Codes of Conduct, we strive for establishment of the 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 the policy of pursuing accuracy, promptness, fairness, and impartiality. We disclose financial results and other related information in a timely manner through TDnet, the timely disclosure network of the Tokyo Stock Exchange, and our website at the same time. Information that is not subject to the timely disclosure rules is also disclosed swiftly through our website and other means.
For securities analysts and institutional investors, we actively hold separate meetings and phone conferences, in addition to a financial result briefing or conference call on each quarterly statement. We also diligently participate in securities firm-sponsored investor conferences and the like for individual investors to facilitate their deeper understanding of our business activities and management strategy.
Our website contains IR Library, which provides useful current and past data including flash report and development pipeline progress status, 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 report for shareholders, and Annual Reports (titled “Corporate Report”).

Messages from Independent Executives

Outside Director Yutaka Kato

I am an independent executive appointed as a Director of ONO PHARMACEUTICAL. Outside directors attend at Board of Directors meetings and get involved in management decision-making from a third-party perspective. Through such involvement, the directors play a role in strengthening the company’s governance structure. Outside directors may identify what the industry or the company takes for granted, as peculiar to the public at large, and can give advice accordingly. I believe that reflecting social perspectives in management decisions on various issues enables the support that can ensure true competitive advantage.
In general, outside directors cannot even participate in discussions if they have little knowledge about the industry and the company. ONO, however, makes sure to, upon appointment of outside directors, provide us with sufficient explanation with detailed information about modes of action of drugs on living organisms and clinical trials. This allows us to actively participate in discussions at the Meeting of Board of Directors.
Fortunately, business results have been good. However, as ONO celebrates the 300th anniversary, it is important at this milestone juncture to comprehensively revise internal systems and adopt a clear strategy to take us into the future.
We need to remind ourselves constantly of our Corporate Philosophy: Dedicated to Man’s Fight against Disease and Pain. We must advance further forward for the benefit of people around the world who are suffering from disease and pain.
Unfortunately, there have been serious problems in compliance with the law among many companies. I believe it is important that the notion “only virtuous companies flourish” permeates right throughout the organization.

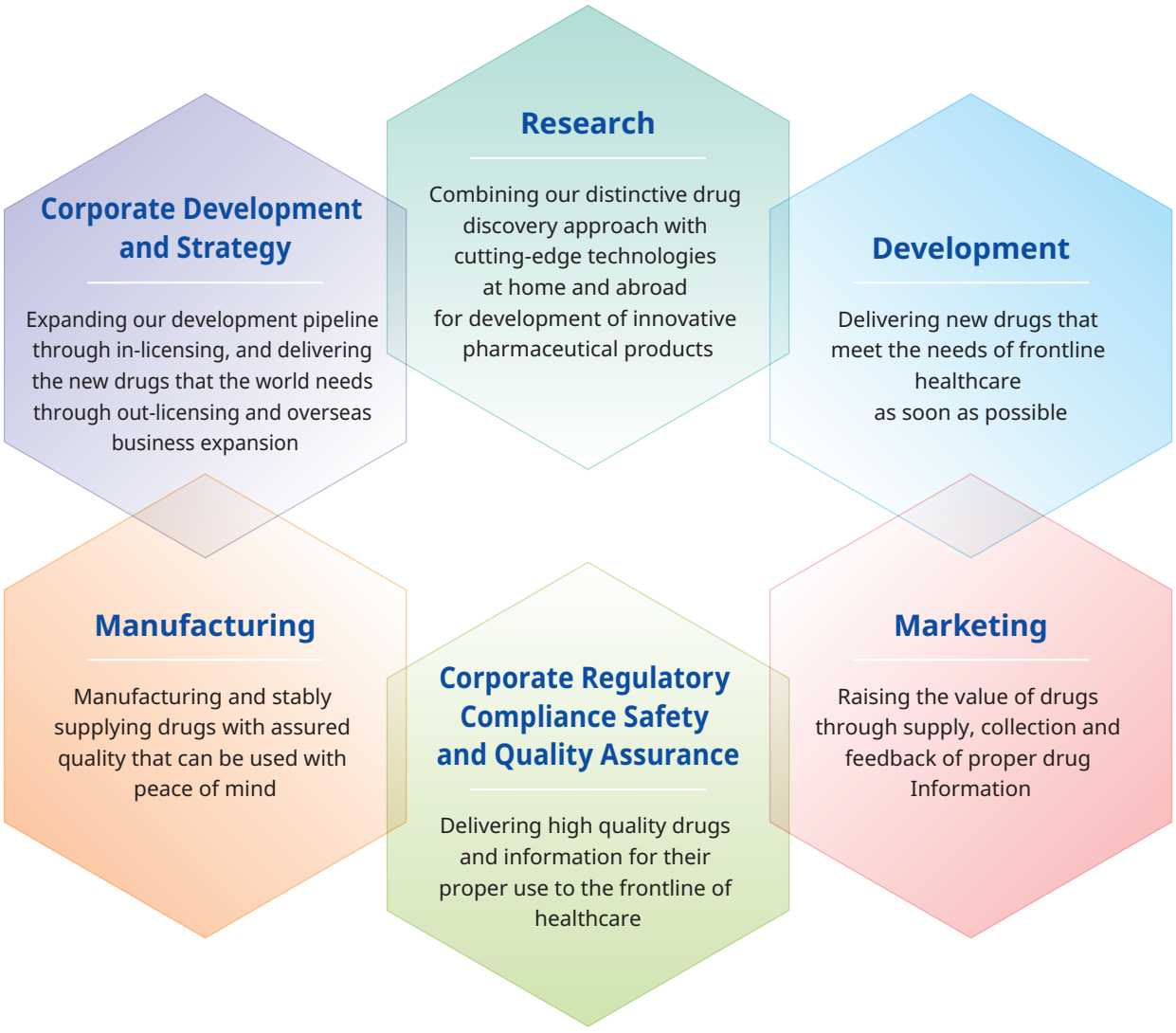
Outside Director Jun Kurihara

OPDIVO for Intravenous Injection for the treatment of malignant tumors had been featured not only by Japanese but also world media, including the Wall Street Journal.
It is delightful to see that ONO’s tireless efforts are being recognized globally.
Having said that, the higher the appraisal, greater the demands that the international community will make on our management effort. These demands will include not just heartfelt desires; there will also be harsh criticism resulting from some miniscule error in communication. Our management team needs to respond calmly and sincerely to such negativity. Furthermore, the team must make decisions with insight and speed in the face of complex and multifarious issues such as intensifying global competition, drug pricing system reform intended to cut healthcare costs, business efficiencies to be achieved through new technologies such as artificial intelligence.
It goes without saying that our in-house directors have excellent decision-making capacities. Nevertheless, no matter how excellent, nobody can always make the perfect and failsafe decision. This is why decisions have to be double-checked from an objective outsider’s viewpoint. This is truly the role of external directors. However eminent a physician, if his own child is suffering from a serious disease, he will not be able to take the child’s pulse without losing his composure. In such cases, another physician will be required to assist. I believe that the role of the outside director is just such, and although I wield little ability, I want to be involved in ONO’s decision-making process.

Initiatives by Priority Area

Innovative Pharmaceutical Products

"Dedicated to Man's Fight against Disease and Pain" is our corporate philosophy as a pharmaceutical company dedicated to the development of new drugs, a philosophy under which all our divisions collaborate and all our people dedicate themselves with enthusiasm and conviction in our research, development, corporate development and strategy, manufacturing, corporate regulatory compliance safety and quality assurance and marketing, so that we can bring innovative drugs as soon as possible to patients throughout the world.



Our Mission in Research and Development

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

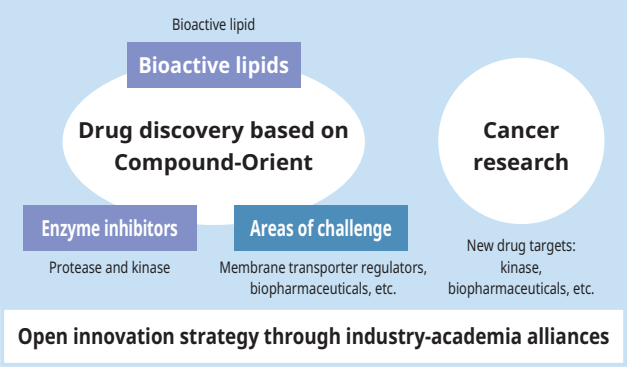
We are tackling the diseases that remain unconquered as yet, and addressing areas that are high in healthcare needs where patient satisfaction of treatment is still low. Our discovery research aims to identify and develop innovative and breakthrough pharmaceutical products.

Our Drug Discovery Research

ONO's approach – Areas of research

We have pursued our original path in drug discovery using the Compound-Orient approach that enables us to identify compounds that act on various therapeutic targets such as lipids and enzymes and maintain them as a compound library. We then screen it to identify drug candidate compounds that lead to treatments against disease. We have introduced technology that allows us to search for compounds leading to disease treatment with greater speed and precision. We will continue maximizing the potential of the well-amassed library of compounds in the discovery of breakthrough drugs. In the meantime, we have identified the area of cancer therapy and its supportive care as one of our key strategic areas. Here, we will keep working vigorously to produce novel drugs resorting also to methods other than Compound-Orient. ONO aggressively collaborates with universities and research institutions engaged in leading-edge research in order to promote the search for drug discovery seeds that could lead to breakthrough drugs. In addition, by combining ONO's accumulated drug discovery knowhow with leading-edge technologies of biopharmaceutical companies, we are aiming to discover new drug candidate compounds with strong originality to be OPDIVO's successor. We are also driving forward acquisition of innovative technologies in areas with great healthcare needs.

Drug Discovery Research Domains



Open Innovation

ONO has been driving drug discovery research using our world-leading technology and knowledge in various areas since long before the words "open innovation" started to become widely used. OPDIVO and our prostaglandin related products developed so far are the successful results of our open innovation alliances with universities and research institutions at home and abroad.

In order to pursue more vigorously the discovery of breakthrough drugs through our open innovation effort, ONO is driving research collaborations with universities, research institutions and biopharmaceutical companies, posting employees with extensive experience in discovery research to our overseas subsidiaries in the U.S.A. and UK for the long haul, and ONO's scientists posted to collaborative research laboratories are working on challenging research programs.

Through these R&D drives, ONO succeeded in FY2016 to conclude a comprehensive research alliance agreement with the National Cancer Center Japan for the purpose of the discovery of anticancer drugs of excellence and the search for biomarkers in uses such as cancer immunotherapy.

Other partnering activities successfully concluded include an in-licensing agreement with Ligand Pharmaceuticals of the U.S.A. to use Ligand's transgenic animals in order to discover fully humanized mono- and bispecific antibodies, and a drug discovery alliance with the Swiss company, Numab Therapeutics AG, to identify multispecific antibodies in the immune-oncology domain, as well as a drug discovery agreement with US X-Chem, Inc, to discover a novel small molecular weight regulator in the oncology domain.

We will continue directing our drug discovery efforts into the future toward discovery and development of innovative pharmaceuticals in areas with as-yet unmet medical needs as well as cancer and its supportive care by maximizing our open innovation strategy.

Initiatives by Priority Area

Strengthening our Research Capability

The development of innovative new drugs is driven by the spirit of challenge and motivation of individual scientists and their ability to think along new paths. We set out high but clear targets to enhance such 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.
Our drug discovery research coordinates the efforts of three laboratories: the Minase Research Institute, the Fukui Research Institute and the Tsukuba Research Institute. Working to strengthen our research capability and further accelerate drug discovery, we opened in March 2016 a new research building as a center for invention and manufacturing technology located in the Minase Research Institute. We have now integrated our compound synthesis and analysis functions at Minase, thereby driving R&D forward by building a capability that will allow us to progress with consistency from early-stage research into the seeds of breakthrough drug discoveries through to clinical investigations.

The Minase Research Institute
The Institute engages in research into medicinal chemistry as well as mass production and cost reduction for the supply of active pharmaceutical ingredients, research into the properties and efficacies of compounds, discovery research for cancer treatment, exploratory research for analysis of disease-causing substances and new compounds that can control these substances, and research aimed at the development of formulations whose quality and function as pharmaceutical products can be assured.

The Fukui Research Institute
The Institute focuses on compound safety assessment.

The Tsukuba Research Institute
The Institute undertakes advanced medical research freely from established concepts, research into immuno-regulation, as well as research to verify the pharmacokinetics of discovered compounds.

Accelerated Clinical Development

We are committed to promoting clinical development with enthusiasm to deliver new drugs that meet the needs of frontline healthcare as soon as possible, for the benefit of patients throughout the world.
We have integrated the functions necessary to bridge from research to clinical development into the Translational Medicine Center, a part of the Clinical Development Division, and we conduct further evaluation of the efficacy, safety and quality of promising new drug candidates at the basic research and non-clinical stages in an effort to enable quicker decision making in development to shorten the period from commencement of drug development to establishment of efficacy and safety in humans (POC).
Clinical development plays a role in collecting the data required for filing Ministry of Health, Labour and Welfare applications for marketing approval for prescription drugs. With the aim of obtaining marketing approval in the shortest time, we are speeding up the clinical development process by advancing mutual use of results from multinational clinical trials and other overseas studies.
In the oncology area, a key strategic area targeted by ONO, we are working to strengthen our development capability, for example, by establishing the R&D Unit for Immuno-Oncology in December 2015, where we are progressing investigation of biomarkers and combination therapies. In April 2016, we set up the Oncology R&D Center, which includes the Oncology Early Clinical Development, to strengthen the linkages between research and development and to further speed up clinical development.

Vigorous Activities for Licensing Initiatives

We continue to forge ahead with licensing activities to introduce 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 FY2016, we signed an option agreement to exclusively evaluate and negotiate licensing on IT1208, a humanized anti-CD4 antibody under development as a new drug by IDAC Theranostics. Another deal we secured was with Celyad, which is developing in Europe and U.S.A. NKR-2, an allogeneic CAR-T cell engineered to express activating receptor NKG2D of natural killer cell. ONO has acquired the exclusive rights to develop and commercialize NKR-2 in Japan, South Korea and Taiwan. Meanwhile, ONO is keenly pursuing out-licensing activities to partner companies so that we can deliver new drugs we develop to patients worldwide. ONO-4059 (Btk inhibitor) out-licensed to Gilead Sciences, Inc. and ONO-9054 (FP/EP3 dual agonist) out-licensed to Santen Pharmaceutical Co., Ltd. are being developed by our partners.

By continuously and vigorously promoting licensing activities, we are making steady progress in expanding our development pipeline and developing a road map for global business to deliver the new drugs we develop.

Promotion of Global Business

While our clinical development efforts are based in Japan, we have established nerve centers for clinical development within the overseas subsidiaries: ONO PHARMA USA, INC. (OPUS) and ONO PHARMA UK LTD. (OPUK). Both subsidiaries are pursuing overseas clinical development of our new drug candidates. We also strongly contribute to clinical development efforts in Asia.

We have commenced work to build operations bases in Asia enabling us to market some specialty products such as anticancer drugs overseas. Since establishing ONO PHARMA KOREA CO., LTD. and ONO PHARMA TAIWAN CO., LTD., both wholly owned subsidiaries of ONO have demonstrated steady progress and received approvals for the anticancer drug OPDIVO for the treatment of several types of cancer, and marketing by the subsidiaries has commenced. We intend to build and strengthen our marketing system with a view to future marketing through our own sales organizations in U.S.A. and Europe.

In cooperation with medical professionals, we will continue to be committed to activities that help to treat patients around the world.

Initiatives by Priority Area

Satus of Development Pipeline (As of July 28, 2017)

Main Status of Development Pipelines (Oncology)

Product (Development Code)	Pharmacological Action, etc.	Proposed Indication	Development Stage	Area*	
OPDIVO Intravenous Infusion	Human anti-human PD-1 monoclonal antibody	Gastric cancer	Ⅲ Filed	(JP, TW)	Co-development with Bristol-Myers Squibb
			Ⅱ Ⅲ	(KR, US, EU)	
		Colorectal cancer	Ⅲ Filed	(US)	
			Ⅱ Ⅲ	(EU)	
		Hepatocellular carcinoma	Ⅲ Filed	(US)	
			Ⅱ Ⅲ	(JP, KR, TW, EU)	
		Non-small cell lung cancer (Non-squamous)	Ⅲ Filed	(TW)	
		Head and neck cancer	Ⅲ Filed	(TW)	
			Ⅱ Ⅲ	(KR)	
		Hodgkin lymphoma	Ⅲ Filed	(TW)	
		Urothelial cancer	Ⅲ Filed	(TW)	
			Ⅱ Ⅲ	(JP, KR)	
		Esophageal cancer	Ⅱ Ⅲ	(JP, KR, TW, US, EU)	
		Gastro-esophageal junction cancer and esophageal cancer	Ⅱ Ⅲ	(JP, KR, TW, US, EU)	
		Small cell lung cancer	Ⅱ Ⅲ	(JP, KR, TW, US, EU)	
		Glioblastoma	Ⅱ Ⅲ	(JP, US, EU)	
		Malignant pleural mesothelioma	Ⅱ Ⅲ	(JP, US, EU)	
		Ovarian cancer	Ⅱ Ⅲ	(JP)	
		Multiple myeloma	Ⅱ Ⅲ	(US, EU)	
			Ⅱ	(JP)	
		Diffuse large B cell lymphoma	Ⅱ	(US, EU)	
		Follicular lymphoma	Ⅱ	(US, EU)	
		Solid tumor (Cervix carcinoma, Uterine body cancer, Soft tissue sarcoma)	Ⅱ	(JP)	
		Central nervous system lymphoma, Primary testicular lymphoma	Ⅱ	(JP, US, EU)	
		Virus positive/negative solid carcinoma	Ⅱ	(JP, KR, TW, US, EU)	
		Solid tumors (Triple negative breast cancer, Gastric cancer, Pancreatic cancer, Small cell lung cancer, Urothelial cancer, Ovarian cancer)	Ⅱ	(US, EU)	
		Biliary tract cancer	Ⅰ	(JP)	
		Hematologic cancer (T-cell lymphoma, Multiple myeloma, Chronic leukemia, etc.)	Ⅰ	(US, EU)	
		Chronic myeloid leukemia	Ⅰ	(US, EU)	
KYPROLIS for Intravenous Infusion	Proteasome inhibitor	Multiple myeloma (change of dosage and administration)	Ⅱ Ⅲ	(JP)	In-license (Amgen)
ONO-7643 / Anamorelin	Ghrelin mimetic	Cancer anorexia / Cachexia	Ⅱ Ⅲ	(JP)	In-license (Helsinn Healthcare)
ONO-7702 / Encorafenib	BRAF inhibitor	Melanoma	Ⅱ Ⅲ	(JP, KR)	In-license (Array Biopharma)
		Colorectal cancer	Ⅱ Ⅲ	(KR)	
ONO-7703 / Binimetinib	MEK inhibitor	Melanoma	Ⅱ Ⅲ	(JP, KR)	In-license (Array Biopharma)
		Colorectal cancer	Ⅱ Ⅲ	(KR)	

Product (Development Code)	Pharmacological Action, etc.	Proposed Indication	Development Stage I	II	III	Filed	Area*	
ONO-5371 / Metyrosine	Tyrosine hydroxylase inhibitor	Pheochromocytoma	→				(JP)	In-license (Valeant Pharmaceuticals North America)
ONO-4686 (BMS-986207)	Anti-TIGIT antibody	Solid tumor	→				(JP)	Co-development with Bristol-Myers Squibb
ONO-4059 / Tirabrutinib	Bruton's tyrosine kinase (Btk) inhibitor	Central nervous system lymphoma	→				(JP)	In-house
ONO-7579	Tropomyosin receptor kinase (Trk) inhibitor	Solid tumor	→				(US, EU)	In-house
ONO-4059 / Tirabrutinib	Bruton's tyrosine kinase (Btk) inhibitor	B cell lymphoma	→				(EU)	Out-license (Gilead Sciences)
			→				(US)	
ONO-4481 (BMS-663513) / Urelumab	Anti-CD137 antibody	Solid tumor	→				(JP)	Co-development with Bristol-Myers Squibb
ONO-4482 (BMS-986016)	Anti-LAG-3 antibody	Solid tumor	→				(JP)	Co-development with Bristol-Myers Squibb
ONO-4687 (BMS-986227) / Cabiralizumab	Anti-CSF-1R antibody	Solid tumor and hematologic cancer	→				(JP)	Co-development with Bristol-Myers Squibb
ONO-7701 (BMS-986205)	IDO1 inhibitor	Solid tumor and hematologic cancer	→				(JP)	Co-development with Bristol-Myers Squibb
ONO-4483 (BMS-986015) / Lirilumab	Anti-KIR antibody	Solid tumor	→				(JP)	Co-development with Bristol-Myers Squibb
ONO-4578	PG receptor (EP4) antagonist	Solid tumor	→				(JP)	In-house
ONO-7475	Axl / Mer inhibitor	Acute leukemia	→				(US)	In-house

Main Status of Development Pipelines (Other than Oncology)

Product (Development Code)	Pharmacological Action, etc.	Proposed Indication	Development Stage I	II	III	Filed	Area*	
ORENCIA IV	T-cell activation inhibitor	Juvenile idiopathic arthritis	→				(JP)	Co-development with Bristol-Myers Squibb
		Lupus nephritis	→				(JP)	
ORENCIA SC	T-cell activation inhibitor	Untreated rheumatoid arthritis	→				(JP)	Co-development with Bristol-Myers Squibb
		Primary Sjögren syndrome	→				(JP)	
		Polymyositis / Dermatomyositis	→				(JP)	
ONO-1162 / Ivabradine	If channel inhibitor	Chronic heart failure	→				(JP)	In-license (Les Laboratoires Servier)
ONOACT for Intravenous Infusion 50 mg / 150 mg (ONO-1101)	Short acting beta 1 blocker	Tachyarrhythmia in low cardiac function for pediatric use	→				(JP)	In-house
		Ventricular arrhythmia	→				(JP)	
OPDIVO Intravenous Infusion	Human anti-human PD-1 monoclonal antibody	Sepsis	→				(JP)	Co-development with Bristol-Myers Squibb
			→				(US)	
		Hepatitis C	→				(US, EU)	
ONO-2370 / Opicapone	Long acting COMT inhibitor	Parkinson's disease	→				(JP)	In-license (Bial)
ONO-8577	Bladder smooth muscle relaxant	Overactive bladder	→				(JP)	In-house
ONO-4474	Tropomyosin receptor kinase (Trk) inhibitor	Osteoarthritis	→				(EU)	In-house
ONO-4059 / Tirabrutinib	Bruton's tyrosine kinase (Btk) inhibitor	Sjögren syndrome	→				(US)	Out-license (Gilead Sciences)
ONO-8055	PG receptor (EP2 / EP3) agonist	Underactive bladder	→				(EU)	In-house

* JP / Japan KR / South Korea TW / Taiwan US / United States of America EU / European Union

Initiatives by Priority Area

Manufacturing

To Ensure Stable Delivery of Drugs

At ONO, all the divisions involved in manufacturing cooperate closely with each other and they consistently maintain a strong sense of responsibility and ethics as they faithfully practice evidence-based manufacturing operations according to the operating procedures and continuously make maximum efforts for the stable supply of high-quality drugs.

Initiatives to Ensure the Stable Supply of High-quality Drugs

Improving Productivity

We continually review production systems and invest appropriately in plant and equipment for further optimization of marketed products, while keeping in mind the timing of marketing, quantities and product features relevant to the production system structure for products destined for market launch. We are also consistently managing costs, from pharmaceutical substances through to products.

Improvement of Quality Check System Reliability

We deliver only products that have been ascertained to have assured quality by monitoring safety and efficacy information and by checking manufacturing and testing records as well as visually inspecting all products.

Human Resources Development

We strive to develop our human resources through specialist training for workers involved in production, passing skills from experienced technicians to young employees, in-house personnel exchange, and training in anticipation of globalization.

Risk Management

We have a risk management system in place to ensure stable drug supply. Our system is based on proper production facility management, ensuring proper product quantities, and avoiding the impacts of power outages by equipping production centers with emergency power provisions.

Production Centers with Established High Quality and Productivity

Our production centers in Shizuoka and Osaka are compliant with GMP (a set of standards relating to the manufacturing control and quality control of pharmaceuticals). The Fujiyama Plant, our key production center, newly constructed in Fujinomiya City, Shizuoka Prefecture in 1975, has continually improved and expanded its facilities, so that today the plant boasts computer-controlled manufacturing facilities. In 1999, a large-scale injection manufacturing plant was constructed within the grounds of the Fujiyama Plant, equipped with high-performance automation facilities. In 2009, a solid formulation manufacturing plant equipped with state-of-the-art manufacturing facilities was newly constructed. In 2014, an injection line equipped with manufacturing facilities to handle highly active and antibody drugs was completed and came online, including facilities that can handle new drugs from the investigational drug manufacturing phase.

The injection manufacturing plant is equipped with high-performance facilities and world-class software that comply not only with Japanese but also European and U.S. GMP standards. Computers are used to give all the necessary operational commands in the manufacturing process, to check such operations, and to collect and record data. Industrial robots are used in all processes, from receiving pharmaceutical substances to the dispatch of finished products. The solid formulation manufacturing plant utilizes high-speed, high-performance machinery for thorough quality assurance. In August 2016, a new warehouse was completed at the Fujiyama Plant. This facility is intended to serve to manage products and materials that increase in line with new product launches and to stockpile products in the event of natural disasters.

In addition to strengthening our production capability aimed at future business expansion, we have decided to build a new factory for the first time in some 40 years after the construction of the Fujiyama Plant, so as to mitigate the risk of major disaster, from the business continuity perspective. The factory will be built in Yamaguchi prefecture, with construction starting in August 2017 and operations scheduled to commence in 2020. We are committed to strengthening our capabilities for the stable supply of drugs.

To Ensure Drug Reliability

Drugs are taken up into the body, they act on the body, and they also influence various biological reactions. Being a company that handles products involved with life, we continually engage in quality assurance and promotion of proper use to ensure the reliability of the drugs we deliver.

Strengthening our organization for safety and quality assurance

In April 2016, ONO set up a new division, Corporate Regulatory Compliance Safety & Quality, with the aim of further strengthening our capabilities to gather feedback and information aimed at the proper use and quality assurance of the drugs we supply. We have strengthened our organization by integrating our quality assurance and proper-use functions, which had been spread across several divisions, into the Corporate Regulatory Compliance Safety & Quality Division. We are undertaking a range of initiatives for safety and quality assurance through the product lifecycle, so as to deliver high-quality drugs and information on their proper use to patients and medical practitioners across the world.

Quality Assurance Policy

Pharmaceuticals are products concerned with life, playing a crucial role in maintaining health and in treating diseases. It is necessary to assure their quality to a high standard and to ensure their stable supply.
Accordingly, we not only meet the legal requirements as a manufacturer and marketer, but also set out our own quality manual to establish a drug quality system and work to continuously improve systems so as to provide high-quality drugs from the viewpoints of patients, caretakers and healthcare professionals. In addition, we contribute to society through stable supply of pharmaceutical products that are assured to a high quality standard.

Initiatives for the Proper Use of Pharmaceutical Products

Providing safety information aimed at proper use is an important undertaking for pharmaceutical manufacturers in order for patients and medical practitioners to use drugs with peace of mind. ONO has set out a drug risk management plan and gathers and manages information on safety (adverse effects) by monitoring safety.
As part of our safety measures, we collect information from patients and medical practitioners, academic papers, and post-marketing surveillance, we assess that information, and if necessary we revise the cautions on package inserts and make announcements about proper use.

Maintenance of Product Recall System

We have a system in place to recall any products with problems concerning efficacy, quality or safety, and to promptly provide medical professionals with information on them.
We also conduct periodical drills in preparation for product recall to check that they can be executed quickly even in unexpected circumstances.

Initiatives by Priority Area

Marketing

The Mission of MRs

Even if a drug is an excellent product, it is of no value unless it can be delivered to those who are suffering from disease and used correctly in medical treatment. Moreover, drugs could determine life or death. It is of paramount importance that accurate information is supplied appropriately. Our Medical Representatives (MRs) shoulder this all-important role of communicating drug information.
MRs meet with medical professionals to provide information on proper drug usage, as well as to provide and collect information on drug efficacy and safety. The mission of MRs is to contribute to society by providing healthcare support in collaboration with medical professionals for the benefit of patient treatment, in accordance with high ethical standards.

Promotion of Efforts to Enhance True Value of Drugs

Information Sharing Framework Architecture

In addition to providing information, MRs uphold the importance of exchanging information with medical professionals to ascertain whether our drugs truly benefit each individual patient and their family throughout the course of the patient's treatment.
ONO's information-sharing framework enables our MRs to share across the company the valuable information they gather from the frontline of healthcare. Our MR-support website carries a wide variety of information, notably the Product Q&A, a resource based on analysis of all information accumulated to date, as well as safety information, promotional materials, information on academic societies, conferences and research papers, and information on sponsored seminars. We also have a system in place that allows all the MRs to access information at all times from their tablet devices.
All the MRs are equipped with highly secure smartphones. The smartphones feature a sales force automation (SFA) system that makes the entire sales process more efficient, as well as functions for using the FAQ system. In addition, we have created strategies that promote information sharing, for example, by allowing them to participate in meetings from remote locations via their mobile devices, and enable rapid responses to healthcare providers' needs.

Relaying Up-to-date Drug Information to the Frontline of Healthcare

Medical technology undergoes daily advances and the same is true of pharmaceutical products. It is one of the roles of drug manufacturers to relay as quickly as possible up-to-date information about such drugs 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 overseas and through workshops and lectures in regional areas.
We are also putting efforts into disseminating disease information, for example, by putting summaries of up-to-date information on cancers in particular, as well as reviews by Japanese specialists, on our ONO Medical Navi website for medical practitioners and our ONO ONCOLOGY website, which contains information on cancer. Within that endeavor, we are directing efforts into the utilization of IT, holding more than 70 webinars each year, to allow for real time provision of information on disease treatment and our products.

Initiatives to Enhance our Marketing Systems

Designing Systems to Continue Improving the Accuracy of MRs' Work

We continually review our organizational structure in response to business conditions so as to improve the accuracy of the work by MRs to provide information.
The establishment of community-based integrated care systems (systems that ensure comprehensive delivery of medical care, nursing care, prevention, home, and daily living support) is currently being promoted so that everyone can continue living their own familiar lifestyle in familiar surroundings, even if they require advanced care. In response, with the aim of driving organizational operations and activities based on a big-picture approach to the market, we reorganized our branches and sales offices in April 2015. We now base our departments' activities on secondary medical care zones (group of municipalities) and conduct our information dissemination activities in line with the context of local healthcare issues.
Cancer treatment involves a high level of specialization and demands that MRs provide a reliable and rapid response to the pressing needs of specialists in university hospitals and specialist centers. In the drive to add more indications to our anticancer drug OPDIVO which was launched in 2014 and our new launch in August 2016 of KYPROLIS for the treatment of multiple myeloma, we increased the number of cancer specialist MRs from 180 in 2015 to 250 in FY2016, so as to provide information rapidly and with care.
We will continue to design the most appropriate systems that will enable us to provide adequate information for the additional approvals for cancer tumors that are currently being pursued.

Enhancement of MR Training Programs

We are enhancing MR training programs as we increase the investment in our MRs, for the sake of their development.
We provide training programs focusing on our products and related diseases and we also continuously provide training programs intended to familiarize MRs with the Japan Pharmaceutical Manufacturers Association (JPMA) Code of Practice to build mutual relationships with researchers, medical professionals, and patient organizations. Training programs are delivered at Head Office and branches across the country to ensure that even amendments or supplementary articles are appropriately made known to all our MRs.
Moreover, MRs do on-site training at specialist institutions to enable them to identify the needs of patients and their families for delivery of drugs that truly benefit patients. In addition to the ongoing training for dementia, diabetes, and cancer we already provide, we conducted on-site training this year at institutions specializing in dialysis.
In the field of dementia in particular, all our MRs have completed the Dementia Supporter Training Course — which aims to "get the facts straight on dementia, support people with dementia, their families, and caregivers, and carry on improving the amenity of everyday life for all members of society" — and work in a supporter capacity. We enjoy the support and cooperation of medical institutions for these efforts.
Experience that cannot be gained only through normal MR activities is incorporated into marketing work that distinguishes ONO MRs from the rest, aiming to truly benefit patients and place importance on the views of patients, as well as their families and caregivers.

Initiatives by Priority Area

Human Resources and Human Rights

Based on the belief that “People make the company,” we actively support the development of individual abilities and positive action taken without fear of failure. We promote efforts to improve safety and health conditions, and to create a working environment where the company and its employees can live in harmony and individual abilities blossom to their full extent.
We also value a society where human rights are fully respected and seek to establish a company with no discrimination due to race, nationality, ethnicity, gender, age, religion, belief or philosophy, academic background, disability or illness, or other attributes.

Development of Human Resources

Human Resources Sought by ONO

In a rapidly changing environment, we need human resources who:

- are innovation-minded and never give up trying until the end;
- can demonstrate their abilities in a team environment and can work collaboratively;
- have a strong sense of responsibility for, and are proud of, their own jobs;
- always take a positive approach and can learn and grow independently;

and

- act in an ethical manner with common sense.

To develop such human resources, we are committed to enhancing our education and training system, and cultivating employee-friendly workplaces.

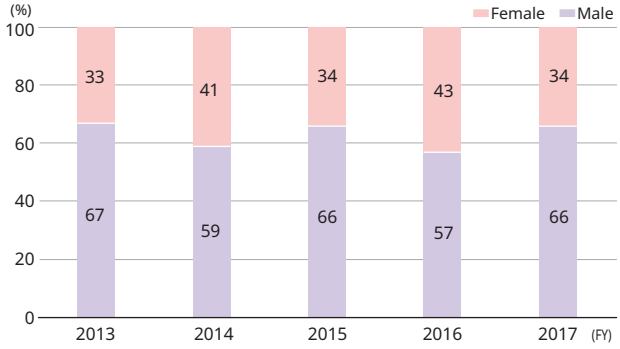
Provision of Growth Opportunities

We provide growth opportunities for our employees through training programs. We organize a wide range of collective training for employees in each phase of career growth, including companywide joint training for new employees from all divisions and departmental introductory training. To develop global human resources with capability for success irrespective of environment and location, we offer training programs and secondment to our overseas companies. We also aim to provide good training for managerial staff with a focus on the management skills required for organizational growth and the capability demanded of each role and position.
Furthermore, we encourage self-development efforts by employees with a subsidy system towards self-learning, thereby providing more growth opportunities.

Diversity Promotion Initiatives

At ONO, we make continuous efforts to promote diversity in our workplaces. For the purpose of 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.
We direct our strong endeavors in this area especially for the creation of systems that enable women to flourish. We have made strong drives to recruit women and to promote measures to prevent women from leaving the company due to major life events. Thanks to our effort, women employees have increased in number across all divisions since 2011.
Also, we are creating an environment in which women can more fully exploit their potential by enhancing "Diversity & Inclusion", and embracing and including all kind of people, opinions and ideas. We are working on this activity in various employee trainings.
As an another effort, starting in 2015, we have participated in a cross-industry activity which is run by fifty or so businesses located in western Japan that have taken the initiative to build on their diversity. This is an effort to cross company boundaries to share information on diversity know-how and activities.
We are continuing to move ahead with the creation of systems to increase the number of female employees and to support them in building up a career. We will do this by steadily implementing our Action Plan (for the five-years from April 1, 2016 to March 31, 2021), which is based on the Act to Promote Participation of Women in Work-Life (Women's Participation Promotion Act), set out in 2015.

The Male-to-Female Ratio of New Employees



Medirabi-san:
ONO's character promoting system utilization

Features in ONO's booklet on systems for balancing work and child-raising
Promotes initiatives to improve diversity

Outline of Action Plans based on the Women's Participation Promotion Act (Aims/Initiatives)

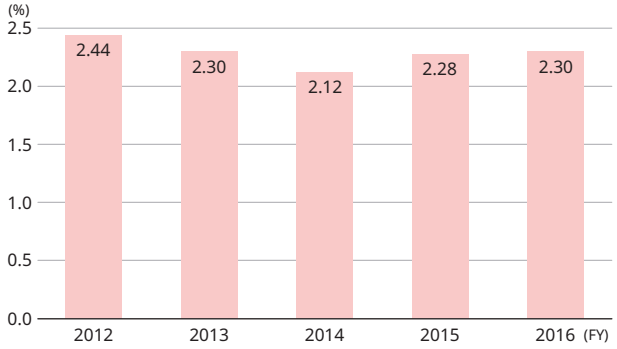
Aims	Initiatives
We aim to achieve 40% employment of women for regular positions from the 2017 intake of new graduates.	• Enhancement of training and revision of systems aimed at cultivating human resources • Introduction of a recruiter system • Proactive provision of information to applicants • Creating environments that facilitate career planning among younger staff
Initiatives aimed at lifting the rate of retention of new female employees in the next five years to above 90% of the male rate.	• **Aiming to be a company where continued employment is possible, even during major life events** Creating environments that enable both work and childcare/elderly care • **Creating an organizational culture that enables women to flourish** Promoting career support strategies • **Supporting work-life balance** Enhancement of support systems for childcare and female employees taking maternity leave • **Supporting early return to work** Introduction of external childcare support service

Initiatives by Priority Area

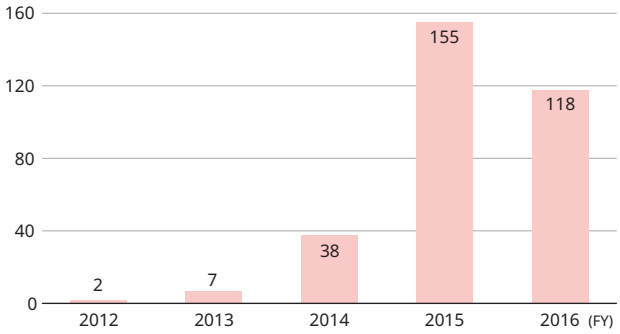
Diversity Promotion Initiatives

As part of our diversity enhancement effort, we have been actively recruiting persons with disabilities, who account for an employment rate of 2.30% as of March 31, 2017. This exceeds the legally stipulated rate (2.0%) set in 2013. Some 50 employees with disability currently enjoy working in their respective departments.
In addition, we have been directing efforts toward employing people mid-career as an industry-ready workforce equipped with the skills and knowledge that ONO requires. Notably, since FY2014 when we started to adopt active steps towards mid-career recruitment in view of our business environment, the number of mid-career employees that have joined ONO has increased substantially, including MRs, development staff as well as pharmacovigilance department members. In FY2016, about 120 such employees joined ONO, and they are playing their respective roles by applying their experience and expertise.

Employment Rate of Persons with Disabilities



Number of Mid-career Recruits



Respect for Human Rights

In all aspects of our business activities, ONO respects the human rights of every person and will act accordingly.
In upholding this principle, we have adopted the policy of "no discrimination due to race, nationality, ethnicity, gender, age, religion, belief or philosophy, academic background, disability or illness" in creating and managing our HR system. We have prohibited any form of harassment and we also conduct compliance training.
ONO supports international codes of conduct including the Universal Declaration of Human Rights, International Labor Standards, and the Voluntary Principles on Security and Human Rights.

Enhancing Cultivation of Employee-friendly Workplaces

We have identified the cultivation of human resources as one of the important management issues and are moving ahead to create workplaces where employees can work with a sense of security. We are making strong input into enhancing the work-life balance of employees by providing support systems and improving work environments so that our members can work in diverse ways, enabling each and every person in our diverse workforce to bring energy to their work and demonstrate their full potential.

Promotion of Reviewing the Way Employees Work

To make working easier, we believe that reducing working hours is fundamental and essential. We therefore direct strong effort into reviewing the way we work.
To engage in companywide initiative, we appointed an officer in each department. In cooperation with them, we are trying to change employees' awareness and encourage employees to positively reduce overtime work and acquire annual paid leave. We also promoted the creation of systems such as IT-assisted improvements, flex-time and home-working. Thanks to our action and initiative, during the April 2016 to March 2017 period, overtime hours decreased by 2.6% and the rate of the used portion of employee's annual paid leave increased by 2.1%, compared to the same period of the previous year.

Childcare Support Initiatives

We believe that society as a whole should give more support to families raising children and that businesses should tackle the issue of creating environments that facilitate child bearing and parenting. We set out an Action Plan aimed at realizing workplaces that improve work-life balance and have been implementing action accordingly, ONO has been certified as a general business operator meeting the criteria based on the Act on Advancement of Measures to Support the Development of the Next Generation in 2008, 2012 and 2014.
These initiatives have been appreciated and in 2015 ONO received two prizes in the "Awards of Companies Promoting Gender Equality and Work-Family Balance 2015" hosted by the Ministry of Health, Labour and Welfare. ONO was awarded the "Chief's Prize of Prefectural Labor Bureau" in the "Companies promoting gender equality category" and the "Family-friendly companies category".

Programs to Enhance Worker-friendliness

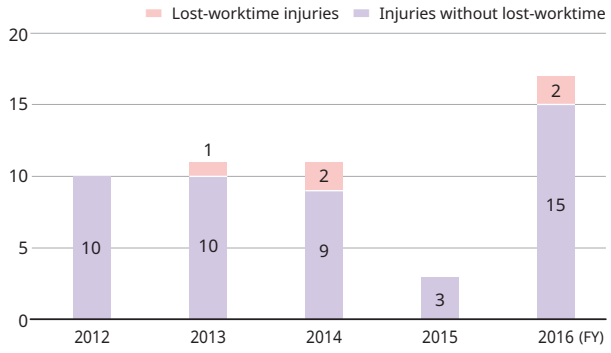
ONO offers various employment and support systems to make our workplaces more worker-friendly. We have systems that allow employees to continue working during various major life events and to achieve a good work-life balance, as well as support systems that help employees who develop cancer, together with leave and subsidy systems. We continuously improve these systems by listening to employee wishes so that they meet the actual needs of employees.
We created a handbook outlining a range of benefits programs and distribute them to ensure that all employees are well informed about what these systems offer and how to use them.

■ See ONO's corporate website for further details of our Employment Systems and Support Systems.
→http://www.ono.co.jp/eng/csr/employee.html

Safety and Health

For safety and health, we regularly hold safety and health committee meetings to continuously improve the working environment and employees' health. In our production and research sites, safety and health inspectors report findings from inspection patrols to the committee and propose improvements, effectively familiarizing employees with health and safety procedures, and taking appropriate actions. All our establishments are inspected annually for disaster prevention measures, fire extinguishing and first aid equipment, safe handling of machinery, safety procedure implementation levels, transportation operations, as well as cleanliness and tidiness. In addition, with labor and management cooperation, we are actively working to prevent industrial accidents and to promote return to work from Lost-worktime injuries.

Numbers of Industrial Accidents



Initiatives by Priority Area

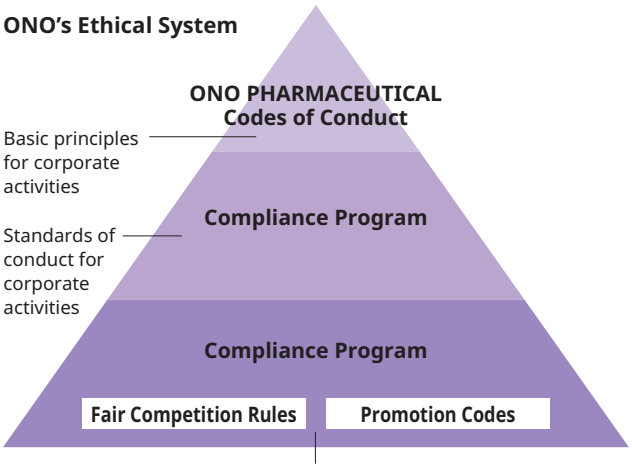
Fair Operating Practices

Being aware of responsibilities as a pharmaceutical company dealing in pharmaceuticals upon which human lives depend, ONO PHARMACEUTICAL has original Codes of Conduct in place to ensure that it takes actions in compliance with not only laws and regulations but also higher ethical standards.
We thoroughly train all employees to ensure compliance and promote proper procurement activities in cooperation with suppliers.

ONO's Ethical System

Our ethical system consists of Ono Pharmaceutical Codes of Conduct, which serve as basic guidance for our corporate activities; the Compliance Program, which provides for standards of conduct for the activities; and the Codes of Practice, which are based on the industry standards on promotion and other activities.
In putting the ethical system into practice, we repeatedly remind our employees of their duties to ensure transparency in transactions and prevent fraud and corruption, and act in consideration of social situations at home and abroad.
Being keenly aware of corporate ethics as a pharmaceutical company, we will continue to further strengthen our level of compliance in line with our ethical system.

ONO's Ethical System

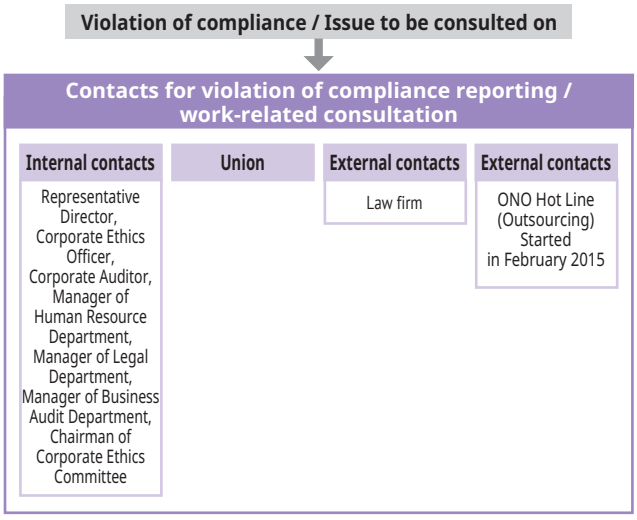


Standards of conduct that govern the actions of all executives and employees on medical workers/institutions, researchers, patient groups and wholesalers

Compliance Promotion Initiatives

Compliance Promotion System

To promote compliance, we have appointed a Corporate Ethics Officer and set up a Corporate Ethics Committee under the officer to examine and deliberate compliance-related issues and to plan and promote relevant training programs.
We have internal and external contacts for compliance issues as well as a system to ensure that informants can also directly report to or consult with top management — that is, the Chief Executive Officer, the Corporate Ethics Officer, and the Corporate Auditors — to prevent the occurrence or recurrence of violation of compliance or to take necessary measures in the event of violation of compliance to minimize any loss or decrease in our credibility. External contacts include not only a law firm but the 24-hour ONO Hot Line set up in February 2015, to enable employees to report or consult without hesitation.



Compliance Education System

We give the following training courses for employees to enhance their awareness of compliance.
We schedule a period for training (three months) every year during which all employees are required to join lectures given by the leaders of respective departments, and training courses using an e-learning system, to improve their familiarity with and understanding of compliance in general. In addition, in case of violation of compliance, we give special companywide training to prevent occurrence or recurrence of violation of compliance, depending on the nature of the case.
We periodically provide training for relevant departments on the internal standards established based on the laws and industry agreements. For the Sales and Marketing Division, compliance promotion staff members visit each sales branch twice a year to provide MRs with compliance training focusing on dissemination of the internal standards especially for the pharmaceutical promotion code in our Codes of Practice. We use an e-learning system to train our compliance team and other staff involved in ensuring the production of appropriate promotional materials.
In addition, we seek to raise awareness of compliance by incorporating occasional training programs by external trainers on harassment, for example, into our position-based training programs for employees, training that forms part of our career path training.

Ethical Considerations

We always take consideration of ethics at every stage of research and development.
We have established internal ethical rules for research using human-derived samples (blood, tissue, cells, genes, etc.) ('research using human tissue') based on the basic guidelines issued by the Japanese government. We have also established a Corporate Ethics Committee on Research Using Human Tissue, as the advisory body comprising members from inside and outside the company. Such research is conducted only after the Committee conducts strict assessment of its ethical and scientific validity.
For research using laboratory animals, we have an Institutional Animal Care and Use Committee in place. The committee reviews such research in advance to determine whether the protocols are prepared with due consideration of the 3Rs — replacement (to use alternative methods), reduction (to use a smaller number of animals) and refinement (to relieve pain and distress) — to ensure appropriate conduct of animal experiments with respect for the lives of the animals and with consideration for animal welfare. In addition, we conduct self-inspection and assessment of the status of ongoing animal experiments, for example, and obtain third-party certification of these activities from the Center for Accreditation of Laboratory Animal Care and Use in the Japan Health Sciences Foundation.
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 the high ethical standards. We are committed to evaluating the real merit of investigational compounds by steadily applying essential and complete testing procedures that comply with Japan's Act on Securing Quality, Efficacy and Safety of Pharmaceuticals, Medical Devices, Regenerative and Cellular Therapy Products, Gene Therapy Products, and Cosmetics (Pharmaceutical Affairs Law) and other related legislation, as well as the global standards based on the spirit of the Declaration of Helsinki.

Fair and Transparent Business Activities

We conduct fair and transparent business activities and we ensure thorough awareness of the prevention of unfair and corrupt practices by repeatedly training our employees.
We aim to contribute to healthcare all around the world and people's health through continuous new drug R&D and stable supply of our products. To this end, we need to engage in collaborative activities (support for patient organizations) and cooperate with research and medical institutions to help patients overcome disease and pain.
To enhance the fairness and transparency aspects of such collaboration and cooperation, it is important to ensure transparent relationships with our partners. We therefore disclose information on costs of our assistance to medical institutions and patient organizations in accordance with our transparency guideline developed in consideration with the JPMA's relevant guideline.
As public interest rises globally on compliance to laws governing unfair and corrupt practices, we are mindful of the need to be aware of both domestic and international social contexts, and we therefore adopted in April 2017 the ONO Anticorruption Global Policy and Regulations on the Prevention of Corruption. These are intended to clearly define and state our company's stance and system in preventing bribery and corruption. We are endeavoring to put these more strictly into practice.
As for publicly funded research, we instituted our Guideline on Publicly Funded Research as well as our Regulations on Publicly Funded Research in compliance with Japanese government guidelines and we are committed to ensuring proper operation and management.
We have established a basic policy for procurement activities that is based on fairness, and incorporates the principles of economic rationality and environmental protection.
Our procurement staff members are required to act in accordance with this policy. The purchasing organization is clearly separated from other parts of the company and is subject to regular internal audit to ensure transparency.

■ See ONO's corporate website for further details of our operation and management system of public research funds.
→ http://www.ono.co.jp/eng/rd/management.html

Initiatives by Priority Area

Society

We are working to support patients and their family members by disseminating information on diseases and their treatments.
Our business facilities in various locations are actively involved in activities that contribute to local communities.

Various Corporate Social Responsibility Activities

Web-Based Information Dissemination

Our corporate website contains a section for patients and their families that provides information for the proper use of ONO's key products. This section also explains common diseases, including diabetes, allergic rhinitis and Alzheimer's disease, in an easy-to-understand manner with diagrams and illustrations. In 2016, we overhauled the illustrations relating to osteoporosis and overactive bladder, which are diseases that increase due to the aging of the population. The pages for patients explain specific symptoms, therapeutic methods and things that patients should do in their daily lives to support themselves and their families.
We also have other web sources to disseminate practical and useful healthcare information widely. We have a website specializing in dementia titled "Dementia Medical Care with Smiles and Hearts," which provides comments and messages from a wide range of healthcare professionals involved in the treatment and care of people with dementia. We have also set up "ONO ONCOLOGY," a website to communicate information on diseases and treatments in oncology, relaying the latest information. We offer free software apps for smartphones to support patients of lifestyle diseases such as diabetes.

Initiatives for Medical Advancement

We are committed to contributing to medical advancement to meet unmet medical needs.
In 1988, 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.
As of FY2016, we newly endowed or continue to endow some 20 academic chairs in institutions throughout Japan, focusing on disease domains where rapid increase in patient numbers are foreseen in line with the aging population, for example, cancer, diabetes and neuropathy and musculoskeletal disease.
We have pledged 10-year support starting in FY2017 to the Japanese Biochemical Society for The Osamu Hayaishi Memorial Scholarship for Study Abroad to fund the overseas study of highly motivated life science researchers in biochemistry.

Activities to Support the Health of People

We conduct various activities to provide a wide range of support for the health of people including patients and their families.

We also cooperate in holding disease seminars for citizens to raise disease awareness and provide correct disease information. Since FY2014, we have enthusiastically 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, taking part mainly in events in locations near our research institutes, plants and sales offices.

In the field of dementia, all our MRs, who have completed the Dementia Supporters Training Program, learn and practice what they can do to help people with dementia and their families live with a sense of security. We have produced a series of short movies titled “Grandma’s World” aimed at raising dementia awareness and have made them available on our corporate website. We also present the “Communicate & Link” exhibition on the website, which shows images of paintings, calligraphy and other art works created by people with dementia at medical institutions. This exhibition is aimed at spreading joy to them and their family members and helping medical providers gain professional fulfillment.

In addition, following Operation Slimmer and Healthier, which we held in FY2014 in Aizu Misato-Machi, Fukushima Prefecture as a Great East Japan Earthquake reconstruction assistance activity, we held the event again in FY2015 in Ishinomaki City, Miyagi Prefecture in cooperation with top athletes and specialists in lifestyle disease, to address childhood obesity, a social issue in the earthquake-affected areas. This project seeks to convey the joy of sports and exercises to children, and to provide an opportunity for their parents to consider children’s meals and lifestyle. Following on from Aizu Misato-Machi (FY2014) and Ishinomaki (FY2015), we held another event in Ofunato City, Iwate Prefecture, in April 2017.

We are committed to our continued involvement in activities that help people stay healthy.

Engagement with Local Communities

In our role as a corporate citizen, we are committed to activities that contribute to local communities through our places of business, including cleanups, natural disaster drills and nature conservation activities.

ONO also runs events aimed at children and school students. Since FY2014, we have been giving special lessons on dementia (to junior and senior high school students).

In FY2015 and also in 2016, we gave special lessons on pharmaceuticals aimed at raising interest in science studies (to elementary school students in the town near the Minase Research Institute), and we supported hands-on activities aimed at stimulating thinking about the global environment, especially the aquatic environment (for elementary students, run by local government near the Fujiyama Plant).

ONO will go on contributing to the local community in various ways, for example by selling bakery products handmade by people with disabilities in their work centers, by enthusiastically supporting Japan Red Cross Society blood drives at Head Office, research institutes, and plants; and by donating teeth-brushing packs and toothbrushes, produced by an ONO subsidiary company, to the elementary schools, kindergartens and nursery centers near the Minase Research Institute, during Dental and Oral Health Week.

Initiatives by Priority Area

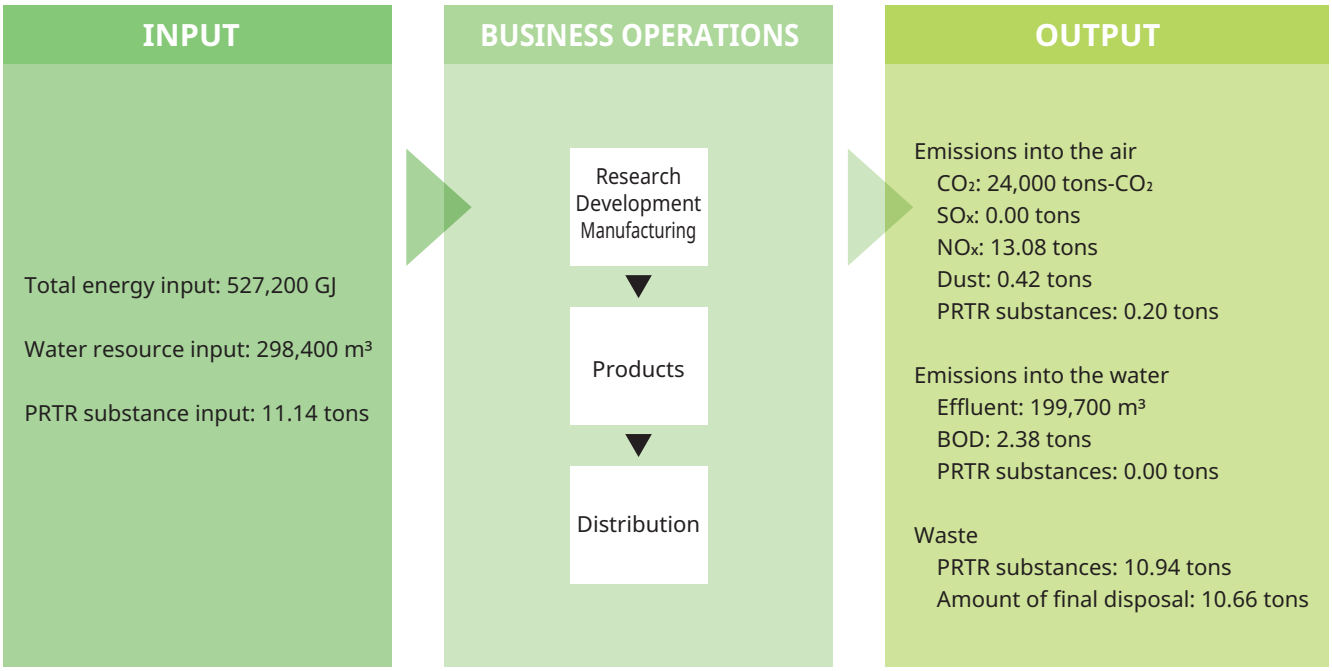
The Environment

ONO PHARMACEUTICAL Environmental Guidelines

- Aware of corporate social responsibility for the environment, we will work to protect and preserve the global environment in all of our business operations.
- In addition to fully complying with all environment-related laws and regulations, we will establish targets and action plans in a continuous effort to protect and preserve the environment, including natural resources and biodiversity.
- In all of our business operations, we will implement environment-focused measures such as saving resource and energy, recycling, reducing waste and preventing pollution.
- We will endeavor to produce eco-friendly products and will cooperate with society.
- With the participation of every employee, we will strive to further understand environmental issues and to promote environment-related activities.

Overall Picture of Environmental Impact (ONO's Involvement in Environmental Protection)

Annual input and output data are collected on a regular basis to use as reference for our efforts to reduce environmental impact.
(Scope: production and research sites/ FY2016)



Promotion of Environmental Management

Initiatives aimed at preventing global warming have become in recent times a major challenge for us to undertake.
We recognize that ONO has social responsibility regarding the environment, and we are working to protect and preserve the global environment in all of our business operations.

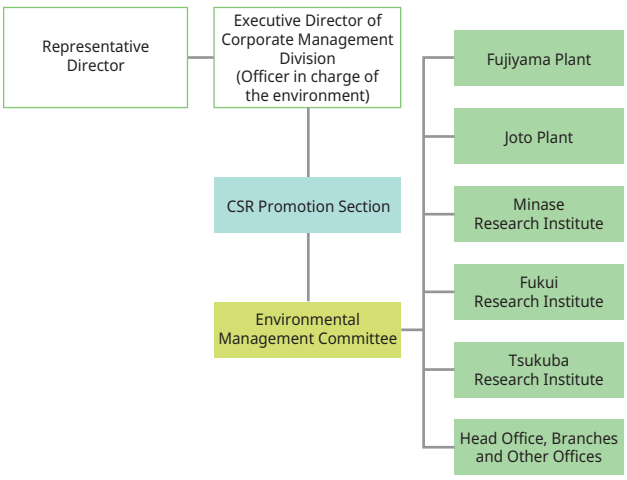
We have formulated a voluntary environmental action plan in accordance with our Environmental Guidelines. Under the plan, we set and work to achieve specific actions and numerical targets for the following initiatives, and review the results (or progress) of the work toward the targets every year.

Voluntary environmental action plan and results

Initiative	Target	FY2016 Results
Low-carbon society action plan	23% CO_2 emission reduction by FY2020 over FY2005 ✻ Scope: Energy-derived CO_2 emission from production and research sites	CO_2 emission was 24,000 tons for FY2016, a 10.1% reduction compared to 26,700 tons for FY2005.
Chemical management	Reduction of environmental emission of PRTR Act Class 1 designated chemical substances	Emission/transfer volume of notified chemical substances was 11.14 tons, a 2.2% reduction compared to 11.39 tons in FY2015.
Waste reduction	Reduction of final waste disposal volume in FY2020 to a level below FY2015	Volume of waste put to final waste disposal was 10.66 tons in FY2016, a 14.7% reduction compared to 12.49 tons in FY2015.
Air and water pollution control measures	Continued action on thorough compliance with emission standards and prevention of environmental accidents and complaints from local communities	Emission standards were all met in data analyses in air and water pollution control; no complaints were received from local communities
Environmental efficiency	Compliance with the Ministry of the Environment guideline	• Disclosure of environmental cost, plant and equipment investment, economic impact and environmental conservation impact was disclosed. • Assessment of environmental efficiency was conducted. • Environmental efficiency was 33.2 points up on FY2005.
Community-employee relations	• Active participation in cleanup activities in the local communities • Programs to care for employee mental health • Prevention of work-related injury	• Employees took part in cleanup campaigns and firefighting drills in local communities. • Employees took part in municipal projects aimed at preventing work-related injury. • Education and training sessions were held on health and safety issues.

Environmental Management Promotion Structure

Our environmental management promotion structure consists of the Executive Director of Corporate Management Division, CSR Promotion Section, and the Environmental Management Committee. The Executive Director of Corporate Management Division supervises company-wide environment management, and CSR Promotion section operates the Committee. Members of the Committee are chosen from relevant departments, and are responsible for specific on-site monitoring and promoting environmental management. Each of the production and research sites with environmentally major impact has a subcommittee to work on environmental issues. Each production site makes continuous efforts to reduce environmental impact under an ISO 14000-compliant environmental management system in place.
Employees receive necessary training on environmental management concerning the operations that could have impact on the environment, to reduce environmental risks. We also have a structure to minimize environmental impact arising from emergency disasters, by providing training and onsite education and formulating manuals to prepare for them.



Initiatives by Priority Area

Ongoing Environmental Protection Activities

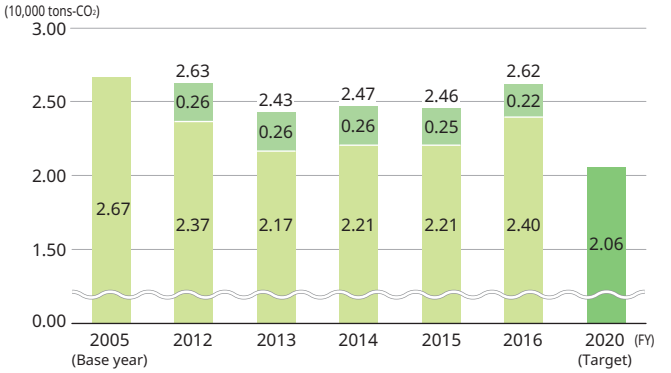
Energy Saving and Measures against Global Warming

Energy saving and measures against global warming are regarded as the most important environmental goals of ONO. All our places of business—production sites, research sites, and offices—take energy-saving and power-reducing measures appropriate to the nature of their operations. Efforts are made to reduce greenhouse gas emissions from our business activities with the aim of achieving our mid-term environmental target of more than 23% reduction in CO_2 emissions (from the production and research sites) for FY2020 compared to FY2005.
CO_2 emissions from production and research sites reached 24,000 tons in FY2016, a 10.1% reduction from 26,700 tons in FY2005. ONO will continue driving initiatives aimed at achieving our goals.

[Emission reduction initiatives]
We are putting effort into reducing energy consumption by promoting such initiatives as the Cool Biz and Warm Biz campaigns, for example by dressing down and adjusting air-conditioning accordingly.
In production and research sites, when outdated air conditioning and electrical equipment is replaced, we install the latest energy efficient equipment and manage operations for the sake of energy conservation. At Headquarters and the Minase Research Institute, we have installed a solar power generation system, a renewable-energy based system.
ONO has been designated a specified business operator under the Act on the Rational Use of Energy. Every year, we report to the Ministry of Economy, Trade and Industry and the Ministry of Health, Labour and Welfare on our energy consumption and saving plan. We will contribute to electric load leveling through consumption reduction by considering the installation of state-of-the-art highly energy efficient systems and renewable energy systems when new construction or large-scale refurbishment of buildings is planned.

■ See ONO's corporate website for further details of our environmental conservation activities.
→http://www.ono.co.jp/eng/csr/environment03.html

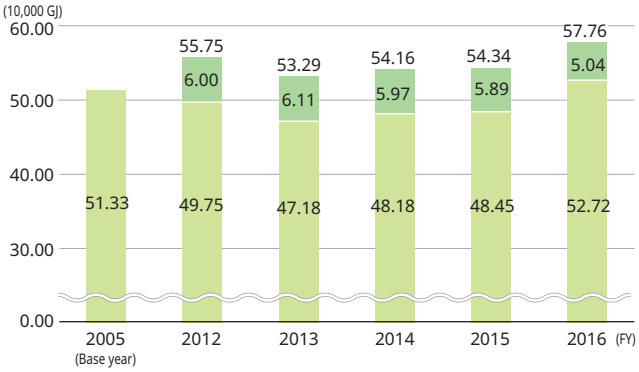
Energy-derived CO_2 Emissions



Production and research sites
Head Office and other sites in Japan (including tenant locations)

✻Sites where CO_2 emission data were collected: Fujiyama Plant, Joto Plant, Minase Research Institute, Fukui Research Institute, Tsukuba Research Institute, Head Office, branches, sales offices etc.
CO_2 emissions are calculated according to the methods below.
CO_2 emissions = Purchased electricity (10,000 kWh) x the Federation of Pharmaceutical Manufacturers' Associations of Japan tracking indicator (1.152 tons-C/10,000 kWh) x 44 / 12+ Σ (Fuel consumption x Unit calorific value x Carbon emission indicator x 44 / 12)
We use the value of the Warming Countermeasures Act as the calorific power unit and carbon emission indicator. However, we use the Federation of Pharmaceutical Manufacturers' Associations of Japan tracking indicator (FY2005 values) as the electricity CO_2 emissions volume calculation. This is to enable proper evaluation of ONO's initiatives, after removing the effect of external factors such as nuclear power plant operation status.
The figures in the base year and the target value are those in the production and research sites.

Energy Consumption



Production and research sites
Head Office and other sites in Japan (including tenant locations)

✻Sites where energy consumption data were collected: Fujiyama Plant, Joto Plant, Minase Research Institute, Fukui Research Institute, Tsukuba Research Institute, Head Office, branches, sales offices etc.

Waste Management

The production and research sites are achieving, and are committed to continuing "Zero Emissions※". Also, we visit intermediate and final waste disposal contractors to confirm that our industrial waste is properly disposed of. We are promoting efforts aimed at recycling industrial waste, using thermal recycling by authorized heat recovery facilities and choosing final waste disposal sites that utilize the material recycling system.

※ Some hazardous substances and waste reagents are excluded from the "zero waste emission" activities because priority is given to disposal of them in a safe and reliable manner.

※ This aims to reduce the proportion of waste landfilled below 1.0% through reuse of industrial waste generated from business activities.

Air and Water Pollution Control

The production and research sites are reducing their impact on the environment by observing the Air Pollution Control Act, the Water Pollution Control Act, local government regulations, agreements on pollution prevention and related laws and statutes.
We train our employees, we conduct regular inspections, and our work to prevent pollution is underpinned by appropriate maintenance and controls.

Chemical Emission Reduction

We are committed to reducing chemical emissions to the lowest possible level not only in compliance with laws and regulations but also with awareness that they may have impact on human health and the ecosystem. We manage and report annually on PRTR substances and polychlorinated biphenyl (PCB) in compliance with applicable laws and in an appropriate manner.

CO_2 Emission in ONO's Corporate Value Chain (Scope 3)

In accordance with the guideline of the Ministry of the Environment, CO_2 Emission in ONO's Corporate Value Chain (Scope 3) has been classified into 15 categories and calculated with respect to all Japanese sites starting with data for FY2014.
We analyze and use Scope 3 data as indicators for achieving a low-carbon society, promoting collaboration among business operators that form the supply chain so that we can reduce greenhouse gas emissions.

■ See ONO's corporate website for more details on CO_2 Emission in ONO's Corporate Value Chain (Scope 3).
→http://www.ono.co.jp/eng/csr/environment03.html

Independent Practitioner's Assurance

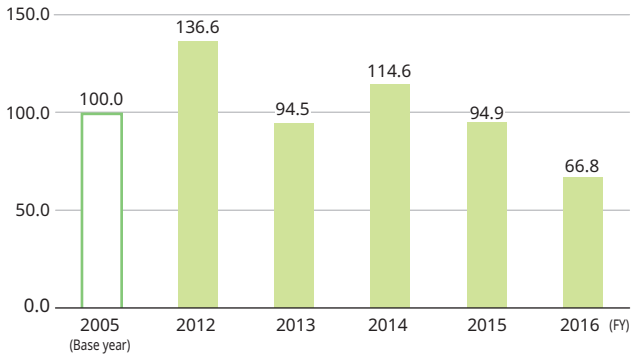
We have received independent practitioner's assurance by a third party to heighten the credibility of the information we disclose in this report regarding energy-derived CO_2 emissions.
See the Independent Practitioner's Assurance Report on page 114.

Environmental Efficiency / Environmental Accounting

We are assessing, the environmental efficiency of our production and research sites to evaluate their environmental efforts in a quantitative form. In addition, we have disclosed environmental accounting data in reference to the Environmental Accounting Guidelines (2005 edition) issued by the Ministry of the Environment of Japan.
We disclose the indicator that represents the efficiency of our environmental conservation activities in the reduction of environmental impact. To calculate the indicator, environmental impacts generated by our activities were categorized into the five categories of chemical substances, global warming, waste, water quality, and air quality. The level of the environmental impact in a representative environmental factor selected for each of these categories was divided by the revenue for the fiscal year.
Despite the levels of CO_2 emission, BOD load and NOX emission exceeding previous year levels, the FY2016 environmental efficiency indicator improved by 33.2 points from the FY2005 figure due to our sales turnover increasing.
We will be committed to reducing environmental impact, working to improve the environmental efficiency indicator.

Assessment of Environmental Efficiency

(Indicator with a score of 100 representing the level in FY2005)



■ See ONO's corporate website for more details on FY2016 environmental cost and effect.
→http://www.ono.co.jp/eng/csr/environment04.html

Highlights 2016/4-2017/3

Calendar of Events

Apr.

Research Center of Immunology newly established in the Discovery & Research Division
Institution of a body that would promote innovative research in the immunology domain aimed at discovering breakthrough drugs to meet unmet medical needs

Corporate Regulatory Compliance Safety & Quality Division newly established
Reinforcement of organizational structure aimed at further promotion of quality assurance and proper use of our prescription medicines

Oncology R&D Center newly established in Sales & Marketing Division
Institution of an organization aimed at speeding up R&D and boosting functional capacity in oncology R&D

Oncology Business Unit newly established
Reinforcement of organizational structure aimed at creating and promoting proactive marketing strategies in the oncology domain

Stock split implemented (five for one split of the common stock)
Reduction of sum required per investment unit so as to provide an investment-friendly environment, to enlarge investor base and to improve stock fluidity

OPDIVO Intravenous Infusion for the treatment of malignant tumors: Additional indications approved in South Korea
• Approval for extended use of product for the treatment of untreated malignant melanoma
• Approval of additional indication for locally advanced or metastatic NSCLC

OPDIVO: Additional indications approved in Europe
• Approval for additional indication for advanced renal cell carcinoma
• Approval for additional indication for metastatic non-squamous NSCLC

May

Great East Japan Earthquake reconstruction assistance activity: Operation Slimmer and Healthier in Miyagi follow-up program conducted
CSR activities aimed at conveying the joy of sports and exercises to children of the disaster affected areas (March to May)

Tree planting in Fuji-sanroku Nature Park undertaken
Participation (by Fujiyama Plant members) in a project to create a pleasant natural environment with a view of Mt. Fuji and to help water source cultivation and natural forest recovery

OPDIVO: Approved in Taiwan
First approval in Taiwan for the treatment of unresectable or metastatic melanoma and metastatic squamous NSCLC

OPDIVO: Additional indication approved in the U.S.A.
Approval for additional indication for the treatment of relapsed or progressed classical Hodgkin lymphoma (the world's first anti PD-1 antibody drug in hematological cancers)

OPDIVO: Additional approval obtained in Europe
Approval for combination therapy for the treatment of melanoma using OPDIVO and YERVOY intravenous infusion

ORENCIA subcutaneous auto-injection for the treatment of rheumatoid arthritis launched
Launch of new dosage form following intravenous infusion and subcutaneous injection syringe in Japan

Option agreement with IDAC Theranostics of Japan, for exclusive evaluation and licensing negotiation
Signing of agreement to exclusively evaluate and negotiate licensing on IT1208, a human anti-CD4 antibody now under development

Jul.

OPDIVO: Additional indication approved in Japan
Approval of additional indication for unresectable or metastatic renal cell carcinoma

KYPROLIS for Intravenous Infusion for the treatment of malignant tumors launched in Japan
New launch in Japan for the treatment of patients with multiple myeloma

Aug.

Licensing agreement signed with Celyad of Belgium
Acquisition of rights to develop and commercialize Celyad's NKG2D-ligand targeting allogeneic CAR T-cell therapy, NKR-2, in Japan, South Korea and Taiwan

Sep.

Oncology Strategic Marketing Department newly established in Sales & Marketing Division
Establishment of a body aimed at improved functioning of product strategies and speedier decision-making in the oncology domain

Walking campaign held companywide, used to provide reconstruction support for the Kumamoto Earthquake
Event aimed at boosting employee health, in which rice harvested in the Kumamoto Aso region were presented to participants for attaining their personal targets

Oct.

Comprehensive research alliance agreement signed with the National Cancer Center Japan
Strengthening of joint research alliance aimed at discovering anticancer drugs and to search for biomarkers in uses such as cancer immunotherapy

Environmental education program Wonderful Water Expedition co-sponsored with Fujinomiya City Government
Co-sponsorship of hands-on learning for primary school children, encouraging their interest in nature and water environment in the Mt. Fuji area and self-initiated thinking about the environment

Nov.

OPDIVO: Additional indication approved in Japan
Approval of additional indication for the treatment of relapsed or refractory classical Hodgkin lymphoma

Licensing agreement on drug discovery technology signed with Ligand Pharmaceuticals of the U.S.A.
In-licensing of technology to use Ligand's transgenic animals in order to discover fully humanized mono- and bispecific antibodies

Dec.

Settlement of Patent litigations regarding anti PD-1 antibody with Merck of U.S.A., and execution of licensing agreement
Worldwide litigations ended; ONO and BMS had fought in court against Merck & Co., Inc., U.S.A. and its subsidiaries for their patent infringements including anti PD-1 antibody product sales

Study - Secrets of Pharmaceuticals!, a special lesson in Shimamoto-cho, location of the Minase Research Institute
Special lesson for elementary school students aimed at heightening interest in studying science

OPDIVO: Additional indication approved in the U.S.A.
Approval for additional indication for the treatment of recurrent or metastatic squamous cell head and neck cancer

OPDIVO: Additional indication approved in Europe
Approval for additional indication for the treatment of relapsed or refractory classical Hodgkin lymphoma

Jan.

OPDIVO: Additional indication approved in the U.S.A.
Approval of additional indication for the treatment of advanced or metastatic urothelial carcinoma

PARSABIV Intravenous Injection for the treatment of secondary hyperparathyroidism newly launched
Launch in Japan as a drug for administration via dialysis to patients receiving dialysis for chronic renal failure

Feb.

Support decided to be given to the Japan Biochemical Society's new project, Osamu Hayaishi Memorial Scholarship for Study Abroad
Support through funding for project assisting international study by young researchers, enabling them to study abroad and conduct life science research

Drug discovery alliance agreement signed with X-Chem, Inc. of U.S.A.
Drug discovery alliance agreement aimed at discovering a novel small molecular weight regulator in the oncology domain

Drug discovery alliance and option agreements signed with Numab Therapeutics AG of Switzerland
In-licensing of technology to identify multispecfic antibodies in the immune-oncology domain, obtaining option rights to exclusively develop and commercialize

Mar.

OPDIVO: Additional indication approved in Japan
Approval for additional indication for the treatment of recurrent or metastatic head and neck cancer

Highlights 2016/4-2017/3

Financial Highlights

	Millions of Yen	Millions of Yen	Millions of Yen	Thousands of U.S. Dollars[*1]
	2015.3 (IFRS)	2016.3 (IFRS)	**2017.3 (IFRS)**	**2017.3 (IFRS)**
Operating Results				
Revenue	135,775	160,284	**244,797**	**2,185,690**
Research and development costs	41,346	43,369	**57,506**	**513,448**
Operating profit	14,794	30,507	**72,284**	**645,389**
Profit for the year attributable to owners of the parent company	12,976	24,979	**55,793**	**498,152**
Financial Position				
Total assets	524,588	540,450	**617,461**	**5,513,043**
Total equity	475,213	476,255	**524,211**	**4,680,456**
Cash flows from operating activities	31,579	12,842	**74,450**	**664,731**
Cash flows from investing activities	(12,756)	13,037	**(17,989)**	**(160,616)**
Cash flows from financing activities	(19,603)	(19,465)	**(20,552)**	**(183,496)**
Amount per share[*2]	Yen	Yen	Yen	U.S. Dollars[*1]
Basic earnings	24.48	47.13	**105.27**	**0.94**
Equity attributable to owners of the parent company	887.81	889.38	**979.42**	**8.74**
Cash dividends	180.00	180.00	**40.00**	**0.36**
Financial indicators				
Equity ratio (%)	89.7	87.2	**84.1**	
ROA (%)[*3]	3.6	6.2	**12.9**	
ROE (%)[*4]	2.8	5.3	**11.3**	
Payout ratio (%)	147.1	76.4	**38.0**	
Number of employees	2,913	3,116	**3,290**	

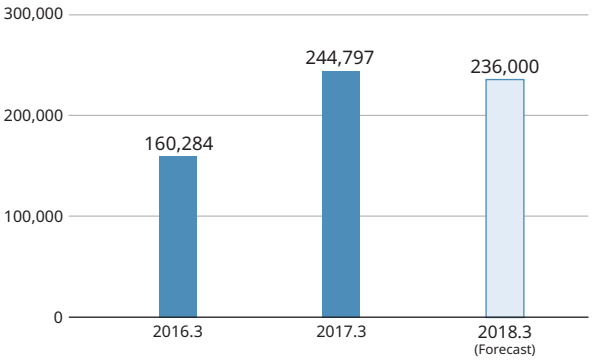
*1 U.S. Dollar amounts are translated at a rate of US$1 = ¥112. See Notes to consolidated financial statements.

*2 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, 2015. Also, "Cash dividends" for the fiscal year ended March 31, 2015 and 2016 indicate the amounts before conducting the stock split.

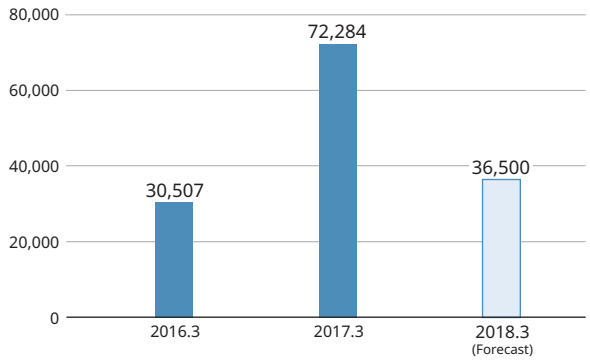
*3 ROA = profit before tax / Total assets (average of beginning and end of fiscal year)

*4 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)

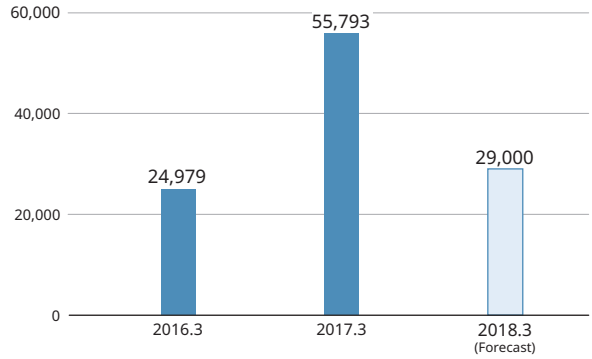
Revenue (Millions of Yen)



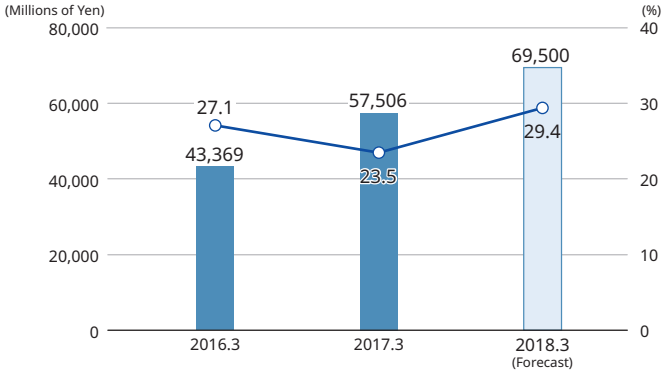
Operating profit (Millions of Yen)



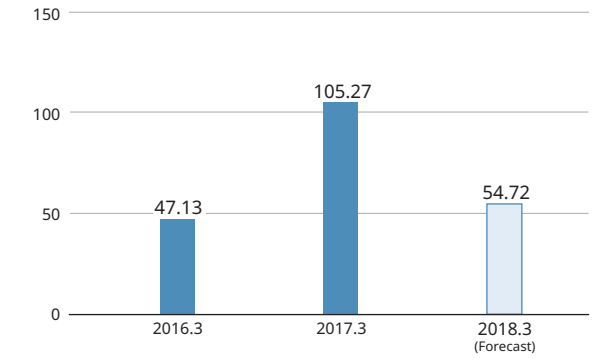
Profit for the year attributable to owners of the parent company (Millions of Yen)



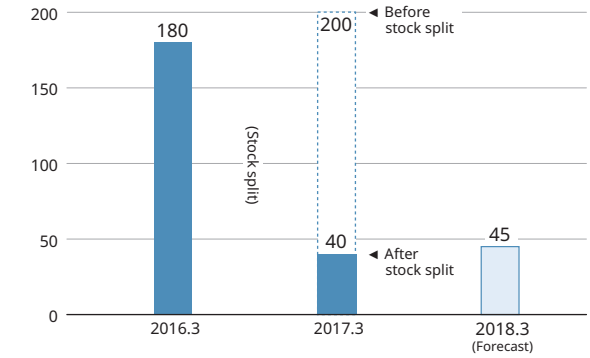
R&D costs / Ratio to revenue (Millions of Yen / %)



Basic earnings per share (Yen)



Dividend per share (Yen)



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 per share”, it is calculated assuming that the stock split was conducted at the beginning of the fiscal year ended March 31, 2016. Also, “Dividend per share” of 2016.3 is indicated the amounts before conducting the stock split, and those of 2017.3 and 2018.3 (Forecast) are indicated the amounts after conducting the stock split.

Financial Section

Financial Review

The following is a summary of the consolidated business results for the fiscal year ended March 31, 2017.

Area of Business

ONO PHARMACEUTICAL CO., LTD. and its subsidiaries are engaged in the pharmaceuticals business.

Results for Fiscal Year Ended March 31, 2017

In the current consolidated fiscal year, mild recovery of Japanese economy continued, as indicated by signs including gradual improvement in corporate earnings by the financial policies and measures of the government and the Bank of Japan and continued improvement of the employment and income environment. However, due to concern regarding the deceleration of China economy, Britain's withdrawal from the EU, the transition to a new administration in the U.S.A. and etc., the economic condition continues to be difficult to read.
The pharmaceutical industry was faced with a decreased success rate of drug discovery and increased R&D costs. In the domestic market, the strengthening of healthcare cost reduction measures continued through the introduction of new measures to promote the use of generics in addition to the National Health Insurance (NHI) drug price reduction. Thereby, the business conditions remained difficult for research-based pharmaceutical companies.
Under such circumstances, the Group reinforced its R&D structure under our corporate philosophy "Dedicated to Man's Fight against Disease and Pain" by combining its own original drug discovery knowhow with cutting-edge science and technologies acquired from around the world to create innovative drugs. In addition, the Group directed efforts into improving efficiencies across all corporate management areas, while seeking to enhance dissemination of scientific information for further product value improvement. The Group's business results for the current consolidated fiscal year are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Revenue	¥ 244,797	$ 2,185,690
Operating profit	72,284	645,389
Profit for the year (attributable to owners of the parent company)	55,793	498,152

Revenue

Revenue totaled ¥244,797 million (US$2,185,690 thousand), an increase of ¥84,513 million (US$754,581 thousand), up 52.7% over the previous consolidated fiscal year.

- Sales of OPDIVO Intravenous Infusion for malignant tumors, the world-first anti-human PD-1 monoclonal antibody launched in September 2014, jumped 391.3% or ¥82.8 billion to ¥103.9 billion (US$927,759 thousand) by an increase in use for the treatment of patients with unresectable, advanced or recurrent non-small cell lung cancer. Royalty income for OPDIVO from Bristol-Myers Squibb Company totaled ¥26.7 billion (US$238,313 thousand), an increase of ¥18.5 billion, up 224.4% over the previous consolidated fiscal year.
- Sales of our key new products: GLACTIV Tablets for type-2 diabetes decreased 6.5% year-on-year to ¥29.4 billion (US$262,301 thousand), ORENCIA for rheumatoid arthritis increased 44.5% year-on-year to ¥11.6 billion (US$103,379 thousand), RECALBON Tablets for osteoporosis decreased 0.0% year-on-year to ¥11.3 billion (US$100,816 thousand), the combined sales of EMEND Capsules and PROEMEND for Intravenous Injection for chemotherapy-induced nausea and vomiting increased 4.3% year-on-year to ¥9.9 billion (US$88,213 thousand), RIVASTACH Patch for Alzheimer's disease increased 13.1% year-on-year to ¥8.9 billion (US$79,077 thousand), FORXIGA Tablets for type-2 diabetes increased 82.6% year-on-year to ¥7.8 billion (US$69,695 thousand). Also, Sales of KYPROLIS for Intravenous Infusion for malignant tumors, launched in August 2016, was ¥2.0 billion (US$17,501 thousand). Sales of PARSABIV Intravenous Injection for Dialysis for secondary hyperparathyroidism in patients on hemodialysis, launched in February 2017, was ¥0.2 billion (US$1,740 thousand).
- On the other hand, sales of the main long-term listed products were affected by competing product and the new generics use promotion measures. OPALMON Tablets for peripheral circulatory disorder decreased 25.0% year-on-year to ¥17.0 billion (US$151,978 thousand), ONON Capsules for bronchial asthma and allergic rhinitis decreased 24.2% year-on-year to ¥6.8 billion (US$60,591 thousand), ONON Dry Syrup decreased 26.7% year-on-year to ¥4.1 billion (US$36,657 thousand).

Profit and Loss

Operating profit for the current consolidated fiscal year totaled ¥72,284 million (US$645,389 thousand), an increase of ¥41,776 million (US$373,002 thousand), up 136.9% over the previous consolidated fiscal year.

- Cost of sales was up 57.8%, or ¥24,000 million (US$214,286 thousand), from the previous consolidated fiscal year to ¥65,524 million (US$585,038 thousand).
- R&D costs were up 32.6%, or ¥14,137 million (US$126,226 thousand), from the previous consolidated fiscal year to ¥57,506 million (US$513,448 thousand). In the previous consolidated fiscal year, the personnel expenses decreased due to past service costs incurred from the transition to new retirement benefit plan. There was the reverse effect of this in the current consolidated fiscal year. In addition, vigorous development investment related to OPDIVO was made.
- Selling, general, and administrative expenses were up 41.1%, or ¥18,070 million (US$161,337 thousand), from the previous consolidated fiscal year to ¥62,049 million (US$554,008 thousand). In the previous consolidated fiscal year, the personnel expenses decreased due to past service costs incurred from the transition to new retirement benefit plan. There was the reverse effect of this in the current consolidated fiscal year. In addition, operating expenses for OPDIVO and expenses regarding safety information management increased.
- Anti-PD-1 antibody patent infringement litigation was settled with Merck & Co., Inc., USA. As the result, other income includes settlement revenue ¥17.8 billion (US$159,249 thousand) and other expenses include litigation cost and etc. ¥3.0 billion (US$26,734 thousand) respectively.
- Profit for the year (attributable to owners of the parent company) was up 123.4%, or ¥30,814 million (US$275,124 thousand), from the previous consolidated fiscal year to ¥55,793 million (US$498,152 thousand), with an increase in profit before tax.

Consolidated Cash Flows

The cash and cash equivalents balance at the end of the consolidated fiscal year was ¥146,323 million (US$1,306,460 thousand), up 32.4%, or ¥35,839 million (US$319,989 thousand) from the previous year's figure of ¥110,485 million (US$986,471 thousand). The main factors were cash flows from operating activities ended in a positive balance of ¥74,450 million (US$664,731 thousand), cash flows from investing activities ended in a negative cash flow balance of ¥17,989 million (US$160,616 thousand), and cash flows from financing activities ended in a negative cash flow balance of ¥20,552 million (US$183,496 thousand) due to dividend payments.

■ Cash Flows from Operating Activities

Cash flows from operating activities for the current consolidated fiscal year ended in a positive cash flow balance of ¥74,450 million (US$664,731 thousand), a year-on-year increase of ¥61,607 million. The main factor was profit before tax ended in a positive balance of ¥74,540 million (US$665,536 thousand).

■ Cash Flows from Investing Activities

Cash flows from investing activities for the current consolidated fiscal year ended in a negative balance of ¥17,989 million (US$160,616 thousand) (The cash flows for the previous consolidated fiscal year ended in a positive balance of ¥13,037 million). The main factors were proceeds from sales and redemption of investments of ¥28,883 million (US$257,880 thousand), but on the other hand, payments into time deposits of ¥20,800 million (US$185,714 thousand), purchases of property, plant, and equipment of ¥14,805 million (US$132,187 thousand), and purchases of intangible assets of ¥9,274 million (US$82,805 thousand).

■ Cash Flows from Financing Activities

Cash flows from financing activities for the current consolidated fiscal year ended in a negative balance of ¥20,552 million (US$183,496 thousand), a year-on-year increase in expenditure of ¥1,086 million. The main factor was the dividends paid to owners of the parent company of ¥20,116 million (US$179,606 thousand).

Investment in Plant and Equipment

Plant and equipment investment during the current consolidated fiscal year totaled ¥9,532 million (US$85,107 thousand). This included investment in enhancement and maintenance of research facilities (¥4,892 million, or US$43,678 thousand), manufacturing facilities (¥3,341 million, or US$29,826 thousand), and business facilities (¥1,299 million, or US$11,603 thousand).

Financial Section

Consolidated Statement of Financial Position

Year Ended March 31, 2017

	Notes	Millions of Yen		Thousands of U.S. Dollars [Note 2 (7)]
Assets		**March 31, 2016**	**March 31, 2017**	**March 31, 2017**
Current assets:				
Cash and cash equivalents	7, 33	¥ 110,485	¥ 146,323	$ 1,306,460
Trade and other receivables	8, 33	62,043	73,255	654,062
Marketable securities	9, 20, 33	21,583	17,560	156,786
Other financial assets	10, 33	800	819	7,311
Inventories	12	23,232	25,334	226,194
Other current assets	11, 20	5,430	7,742	69,121
Total current assets		223,573	271,033	2,419,934
Non-current assets:				
Property, plant, and equipment	13	80,094	83,659	746,952
Intangible assets	14	38,324	45,237	403,900
Investment securities	9, 33	182,396	176,573	1,576,547
Investments in associates		982	114	1,019
Other financial assets	10, 33	6,753	26,836	239,611
Deferred tax assets	16	5,179	10,739	95,880
Other non-current assets	11	3,149	3,271	29,201
Total non-current assets		316,877	346,428	3,093,110
Total assets		¥ 540,450	¥ 617,461	$ 5,513,043

Liabilities and Equity	Notes	Millions of Yen		Thousands of U.S. Dollars [Note 2 (7)]
		March 31, 2016	March 31, 2017	March 31, 2017
Current liabilities:				
Trade and other payables	17, 33	¥ 31,250	¥ 30,905	$ 275,936
Borrowings	18, 21, 33	328	423	3,778
Other financial liabilities	19, 33	3,068	5,814	51,910
Income taxes payable		6,585	24,777	221,223
Provisions	24	1,355	6,086	54,342
Other current liabilities	22	9,607	14,928	133,287
Total current liabilities		52,194	82,933	740,477
Non-current liabilities:				
Borrowings	18, 21, 33	515	542	4,841
Other financial liabilities	19, 33	19	11	95
Retirement benefit liabilities	23	4,093	2,805	25,045
Provisions	24	30	30	268
Deferred tax liabilities	16	885	881	7,864
Long-term advances received		5,814	5,276	47,107
Other non-current liabilities	22	643	772	6,892
Total non-current liabilities		12,000	10,316	92,111
Total liabilities		64,195	93,250	832,587
Equity:				
Share capital	25	17,358	17,358	154,985
Capital reserves	25	17,103	17,144	153,074
Treasury shares	25	(59,358)	(59,382)	(530,195)
Other components of equity	25	43,307	51,752	462,070
Retained earnings	25	452,983	492,237	4,394,976
Equity attributable to owners of the parent company		471,393	519,110	4,634,909
Non-controlling interests		4,862	5,101	45,546
Total equity		476,255	524,211	4,680,456
Total liabilities and equity		¥ 540,450	¥ 617,461	$ 5,513,043

Financial Section

Consolidated Statement of Income / Consolidated Statement of Comprehensive Income

Year Ended March 31, 2017

Consolidated Statement of Income

	Notes	Millions of Yen		Thousands of U.S. Dollars [Note 2 (7)]
		For the year ended March 31, 2016	For the year ended March 31, 2017	For the year ended March 31, 2017
Revenue	6	¥ 160,284	¥ 244,797	$2,185,690
Cost of sales		(41,524)	(65,524)	(585,038)
Gross profit		118,760	179,273	1,600,651
Selling, general, and administrative expenses	27	(43,979)	(62,049)	(554,008)
Research and development costs		(43,369)	(57,506)	(513,448)
Other income	29	708	18,133	161,900
Other expenses	29	(1,612)	(5,567)	(49,706)
Operating profit		30,507	72,284	645,389
Finance income	30	3,088	3,057	27,291
Finance costs	30	(291)	(260)	(2,318)
Share of loss from investments in associates and others	15	(32)	(541)	(4,827)
Profit before tax		33,272	74,540	665,536
Income tax expense	16	(8,080)	(18,504)	(165,215)
Profit for the year		25,192	56,036	500,320
Profit for the year attributable to:				
Owners of the parent company		24,979	55,793	498,152
Non-controlling interests		213	243	2,168
Profit for the year		¥ 25,192	¥ 56,036	$ 500,320

		Yen		U.S. Dollars [Note 2 (7)]
Earnings per share:[*1]				
Basic earnings per share	32	¥ 47.13	¥ 105.27	$ 0.94
Diluted earnings per share	32	47.13	105.26	0.94

*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 per share" and "Diluted earnings per share", it is calculated assuming that the stock split was conducted at the beginning of the fiscal year ended March 31, 2016.

Consolidated Statement of Comprehensive Income

	Notes	Millions of Yen		Thousands of U.S. Dollars [Note 2 (7)]
		For the year ended March 31, 2016	For the year ended March 31, 2017	For the year ended March 31, 2017
Profit for the year		¥ 25,192	¥ 56,036	$ 500,320
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	31, 33	(1,411)	10,979	98,023
Remeasurement of defined benefit plans	31	(3,261)	1,165	10,403
Share of net (loss) gain on financial assets measured at fair value through other comprehensive income of investments in associates	15, 31	(7)	0	0
Total of items that will not be reclassified to profit or loss		(4,679)	12,144	108,426
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translation of foreign operations	31	(360)	(96)	(859)
Total of items that may be reclassified subsequently to profit or loss		(360)	(96)	(859)
Total other comprehensive (loss) income		(5,039)	12,048	107,567
Total comprehensive income for the year		20,153	68,083	607,888
Comprehensive income for the year attributable to:				
Owners of the parent company		19,926	67,841	605,727
Non-controlling interests		227	242	2,160
Total comprehensive income for the year		¥ 20,153	¥ 68,083	$ 607,888

Financial Section

Consolidated Statement of Changes in Equity / Consolidated Statement of Cash Flows

Year Ended March 31, 2017

Consolidated Statement of Changes in Equity

	Notes	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, 2015		¥ 17,358	¥ 17,080	¥ (59,308)	¥ 45,756	¥ 449,690	¥ 470,575	¥ 4,638	¥ 475,213
Profit for the year						24,979	24,979	213	25,192
Other comprehensive income	31				(5,054)		(5,054)	14	(5,039)
Total comprehensive income for the year		–	–	–	(5,054)	24,979	19,926	227	20,153
Purchase of treasury shares	25			(50)			(50)		(50)
Cash dividends	26					(19,081)	(19,081)	(3)	(19,084)
Share-based payments	34		23				23		23
Transfer from other components of equity to retained earnings	25				2,605	(2,605)	–		–
Total transactions with the owners		–	23	(50)	2,605	(21,686)	(19,108)	(3)	(19,111)
Balance at March 31, 2016		17,358	17,103	(59,358)	43,307	452,983	471,393	4,862	476,255
Profit for the year						55,793	55,793	243	56,036
Other comprehensive income	31				12,048		12,048	(1)	12,048
Total comprehensive income for the year		–	–	–	12,048	55,793	67,841	242	68,083
Purchase of treasury shares	25			(23)			(23)		(23)
Cash dividends	26					(20,142)	(20,142)	(3)	(20,145)
Share-based payments	34		41				41		41
Transfer from other components of equity to retained earnings	25				(3,604)	3,604	–		–
Total transactions with the owners		–	41	(23)	(3,604)	(16,539)	(20,125)	(3)	(20,128)
Balance at March 31, 2017		¥ 17,358	¥ 17,144	¥ (59,382)	¥ 51,752	¥ 492,237	¥ 519,110	¥ 5,101	¥ 524,211

	Notes	Thousands of U.S. Dollars [Note 2 (7)]							
		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 March 31, 2016		$ 154,985	$ 152,708	$ (529,986)	$ 386,669	$ 4,044,489	$ 4,208,865	$ 43,414	$ 4,252,279
Profit for the year						498,152	498,152	2,168	500,320
Other comprehensive income	31				107,575		107,575	(8)	107,567
Total comprehensive income for the year		–	–	–	107,575	498,152	605,727	2,160	607,888
Purchase of treasury shares	25			(209)			(209)		(209)
Cash dividends	26					(179,840)	(179,840)	(28)	(179,868)
Share-based payments	34		366				366		366
Transfer from other components of equity to retained earnings	25				(32,174)	32,174	–		–
Total transactions with the owners		–	366	(209)	(32,174)	(147,665)	(179,683)	(28)	(179,711)
Balance at March 31, 2017		$ 154,985	$ 153,074	$ (530,195)	$ 462,070	$ 4,394,976	$ 4,634,909	$ 45,546	$ 4,680,456

Consolidated Statement of Cash Flows

	Notes	Millions of Yen		Thousands of U.S. Dollars [Note 2 (7)]
		For the year ended March 31, 2016	For the year ended March 31, 2017	For the year ended March 31, 2017
Cash flows from operating activities				
Profit before tax		¥ 33,272	¥ 74,540	$ 665,536
Depreciation and amortization		6,534	7,821	69,829
Impairment losses		1,188	937	8,368
Interest and dividend income		(2,782)	(2,951)	(26,349)
Interest expense		13	15	132
(Increase) decrease in inventories		2,562	(2,042)	(18,231)
(Increase) decrease in trade and other receivables		(20,099)	(11,195)	(99,960)
Increase (decrease) in trade and other payables		9,312	4,980	44,463
Increase (decrease) in provisions		613	4,731	42,240
Increase (decrease) in retirement benefit liabilities		(6,031)	389	3,477
Increase (decrease) in long-term advances received		(909)	(538)	(4,806)
Other		(3,722)	6,292	56,176
Subtotal		19,951	82,978	740,876
Interest received		314	154	1,373
Dividends received		2,522	2,818	25,163
Interest paid		(13)	(15)	(132)
Income taxes paid		(9,932)	(11,485)	(102,548)
Net cash provided by (used in) operating activities		12,842	74,450	664,731
Cash flows from investing activities				
Purchases of property, plant, and equipment		(7,021)	(14,805)	(132,187)
Proceeds from sales of property, plant, and equipment		936	274	2,449
Purchases of intangible assets		(7,061)	(9,274)	(82,805)
Purchases of investments		(863)	(3,240)	(28,933)
Proceeds from sales and redemption of investments		27,693	28,883	257,880
Payments into time deposits		(800)	(20,800)	(185,714)
Other		153	974	8,693
Net cash provided by (used in) investing activities		13,037	(17,989)	(160,616)
Cash flows from financing activities				
Dividends paid		(19,059)	(20,116)	(179,606)
Dividends paid to non-controlling interests		(3)	(3)	(31)
Repayments of long-term borrowings		(366)	(398)	(3,558)
Net increase (decrease) in short-term borrowings		11	(11)	(102)
Purchases of treasury shares		(49)	(22)	(199)
Net cash provided by (used in) financing activities		(19,465)	(20,552)	(183,496)
Net increase (decrease) in cash and cash equivalents		6,414	35,909	320,619
Cash and cash equivalents at the beginning of the year		104,222	110,485	986,471
Effects of exchange rate changes on cash and cash equivalents		(152)	(71)	(630)
Cash and cash equivalents at the end of the year	7	¥ 110,485	¥ 146,323	$ 1,306,460

Financial Section

Notes to Consolidated Financial Statements

Year Ended March 31, 2017

Note 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 http://www.ono.co.jp/eng/index.html).
The consolidated financial statements of the Company were closed at its year-end of March 31, 2017, 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 Note 6. Segment Information.

Note 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 Note 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.

(4) Early Application of New Accounting Standards

The Group has early applied IFRS 9 *Financial Instruments* (issued in November 2009, revised in October 2010 and December 2011) from the IFRS transition date (April 1, 2012).

(5) Changes in Accounting Policies

The significant accounting policies of the Group that are applied for the current consolidated fiscal year are the same as the ones for the previous consolidated fiscal year. There were some minor revisions of IFRSs but these did not have a significant impact on the Group's financial position and results.

(6) Changes in method of presentation

"Increase in provisions" included in "Other" in "Net cash provided by operating activities" for the previous year was reported as a separate line item from the current year due to the increased quantitative materiality. To reflect this change in method of presentation, the Group has made certain reclassifications to its consolidated financial statements for the previous year.
Consequently, (¥3,110) million included in "Other" in "Net cash provided by operating activities" on the consolidated statement of cash flows for the previous year was reclassified to ¥613 million of "Increase in provisions" and (¥3,722) million of "Other."
"Payments into time deposits" included in "Other" in "Net cash provided by (used in) investing activities" for the previous year was reported as a separate line item from the current year due to the increased quantitative materiality. To reflect this change in method of presentation, the Group has made certain reclassifications to its consolidated financial statements for the previous year.
Consequently, (¥647) million included in "Other" in "Net cash provided by (used in) investing activities" on the consolidated statement of cash flows for the previous year was reclassified to (¥800) million of "Payments into time deposits" and ¥153 million of "Other."

(7) 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 ¥112 to $1, the approximate rate of exchange at March 31, 2017. 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.

Note 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 the Group 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, the Group 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.

§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 acquire. 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 this 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.

(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

Financial assets are classified as either financial assets measured at fair value or financial assets measured at amortized cost. For financial assets measured at fair value, each equity instrument is designated as measured at fair value through profit or loss (FVPL) or as measured at fair value through other comprehensive income (FVOCI), except for equity instruments held for trading purposes, which must be measured at FVPL. Such designations are applied irrevocably.
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.

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

Financial assets measured at amortized cost are initially recognized at fair value, plus directly attributable transaction costs. After initial recognition, the carrying amounts of the financial assets measured at amortized cost are calculated using the effective interest method, less impairment loss when necessary.

Financial Assets Measured at FVPL

Financial assets (other than the financial assets measured at FVOCI) that do not meet the above conditions for the classification of financial assets measured at amortized cost are classified to financial assets measured at FVPL.
Financial assets measured at FVPL are initially measured at fair value and transaction costs are recognized as expenses when they are incurred. Financial assets measured at FVPL are measured at fair value after initial recognition and any changes in fair value are recognized as profit or loss in the consolidated statement of income.

Financial Assets Measured at FVOCI

Equity instruments designated to be measured at FVOCI are initially recognized at fair value, plus directly attributable transaction costs. After initial recognition, they 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 financial assets measured at FVOCI are derecognized, the accumulated amounts of net gain (loss) on the financial assets measured at FVOCI are immediately transferred to retained earnings. Dividends on financial assets measured at FVOCI are recognized as profit or loss in the consolidated statement of income.

(ii) 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.

§2 Impairment of Financial Assets
Financial assets measured at amortized cost are assessed on the reporting date as to whether there is objective evidence that the asset may be impaired. Evidence of impairment includes financial difficulties, default or delinquency of the debtor, or an indication that the debtor may go bankrupt.
When there is objective evidence that a financial asset is impaired, an impairment loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted by the original effective interest rate.

§3 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.

§4 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.

§5 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.

§6 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 the Group revokes the hedging relationship, when a hedging instrument expires or 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.

§7 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) 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 Leased 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.
Property, plant, and equipment, other than non-depreciable assets such as land, 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.
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.

§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; and
(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. 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

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 and 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. Contingent rents are recognized as an expense in the period when incurred.

Determining whether an arrangement is, or contains, a lease is identified based on the substance of the arrangement in accordance with International Financial Reporting Interpretations Committee Interpretation 4 *Determining Whether an Arrangement Contains a Lease*.

(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.

(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

The Group measures revenue at the fair value of the consideration received or receivable, less discounts, rebates, and taxes such as consumption tax.

§1 Sale of Goods
The Group sells medical and general pharmaceutical products. Revenue from the sale of goods is recognized when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods, the Group retains neither continuing involvement nor effective control over the goods, it is probable that the future economic benefits associated with the transaction will flow to the Group, and the economic benefits and the costs in respect of the transaction can be measured reliably.

§2 Royalty Income
The Group has license agreements with third parties permitting product manufacturing and use of technology. Income (up-front payments, milestone payments, and running royalties) attributable to the agreements is recognized as revenue when the performance obligations under the agreements are fulfilled. In case the performance obligations under the agreements occur over the licensing period, the revenue is recognized over the period based on rational methods.

§3 Interest Income
Interest income is recognized using the effective interest method.

§4 Dividend Income
Dividend income is recognized when the shareholder's right to receive payment is established.

(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.

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 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.

Note 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 estimates and assumptions that have a significant effect on the amounts recognized in the Group's consolidated financial statements are as follows:

- Impairment of property, plant, and equipment and intangible assets
  With regard to property, plant, and equipment and intangible assets, if there is any indication that the recoverable amount of an asset is less than its carrying amount, the Group performs an impairment test. Important factors that trigger the impairment test to be performed include significant changes adversely affecting the results of past or projected business performance, significant changes in the usage of acquired assets or changes in overall business strategy, and significant deterioration in industry trends or economic trends. The amount of impairment is determined based on the higher of the fair value less costs to sell or the 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.

- Recoverability of deferred tax assets
  Deferred tax assets are recognized on temporary differences between the carrying amounts of assets and liabilities for accounting purposes and the corresponding

tax bases using the effective tax rate applied to the temporary differences to the extent it is probable that future taxable profits will be available against which they can be utilized to recover the deferred tax assets.

- Actuarial assumptions for retirement benefit accounting
  The Group has a number of retirement benefit plans, including defined benefit 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, net interest, etc.
  The Group obtains advice 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, there is a possibility that these assumptions may be affected by changes in uncertain future economic conditions. In cases where the assumptions need to be revised, the revision may have a material impact on amounts recognized in the consolidated financial statements.

Note 5

Standards and Interpretations Issued but Not Yet Applied

The Group has not elected early application of the following new and revised standards and interpretations, except for IFRS 9 Financial Instruments (issued in November 2009, revised in October 2010 and December 2011), that have been issued but not yet effective. The major new standards, interpretations, and amendments issued as of the date of the approval for the consolidated financial statements that may affect the Group are as follows. The Group is currently evaluating the potential impact of applying these standards on its consolidated financial statements, which is currently not available.

IFRS		Mandatory application (from the year beginning)	To be applied by the Group	Subject of new standard / amendment
IFRS 15	*Revenue from Contracts with Customers*	January 1, 2018	Fiscal year ending March 31, 2019	Issuance of a single and comprehensive model for accounting treatment for revenue from contracts with customers
IFRS 9	*Financial Instruments*	January 1, 2018	Fiscal year ending March 31, 2019	Impairment of financial assets and revision of hedge accounting
IFRS 16	*Lease*	January 1, 2019	Not determined	Revision of accounting treatment for lease contracts

Note 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:

	Millions of Yen		Thousands of U.S. Dollars
	For the year ended March 31, 2016	For the year ended March 31, 2017	For the year ended March 31, 2017
Revenue of goods and products	¥ 144,621	¥ 214,337	$ 1,913,727
Royalty and other revenue	15,663	30,460	271,963
Total	¥ 160,284	¥ 244,797	$ 2,185,690

Note: Disclosure items of "Details of Revenue" were reviewed based on the Group's managerial indicators and were restated in the current consolidated fiscal year due to the increased materiality of "Royalty and other revenue." To reflect this change, the Group has made certain reclassifications to its "Details of Revenue" for the previous consolidated fiscal year.

(3) Revenue by geographic area

Details of revenue by geographic area are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	For the year ended March 31, 2016	For the year ended March 31, 2017	For the year ended March 31, 2017
Revenue of goods and products			
Japan	¥ 147,098	¥ 214,039	$ 1,911,058
Americas	10,885	27,251	243,314
Asia	2,020	3,135	27,988
Europe	281	373	3,330
Total	¥ 160,284	¥ 244,797	$ 2,185,690

Notes: 1. "Revenue by geographic area" was reviewed according to the change of disclosure items of "Details of Revenue" and was restated in the current consolidated fiscal year. To reflect this change, the Group has made certain reclassifications to its "Revenue by geographic area" for the previous consolidated fiscal year.

2. Revenue of goods and products is presented on the basis of the place of destination for sales.

(4) Major Customers

Details of revenue from major customers are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	For the year ended March 31, 2016	For the year ended March 31, 2017	For the year ended March 31, 2017
Mediceo Corporation	¥ 34,628	¥ 50,431	$ 450,278
Suzuken Co., Ltd.	27,632	40,713	363,505
Toho Pharmaceutical Co., Ltd.	21,596	35,321	315,366
Bristol-Myers Squibb Company	8,346	26,809	239,365
Alfresa Corporation	16,171	24,404	217,891

Note: "Bristol-Myers Squibb Company" was newly added to "Major Customers" in the current consolidated fiscal year due to increased quantitative materiality.

Note 7

Cash and Cash Equivalents

Details of cash and cash equivalents are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	March 31, 2016	March 31, 2017	March 31, 2017
(Cash and cash equivalents)			
Cash and deposits	¥ 35,516	¥ 146,323	$ 1,306,460
Short-term investments	74,969	—	—
Cash and cash equivalents in the consolidated statement of financial position	¥ 110,485	¥ 146,323	$ 1,306,460
Cash and cash equivalents in the consolidated statement of cash flows	¥ 110,485	¥ 146,323	$ 1,306,460

Note 8

Trade and Other Receivables

Details of trade and other receivables are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	March 31, 2016	March 31, 2017	March 31, 2017
Notes receivable	¥ 520	¥ 467	$ 4,167
Trade accounts receivable	56,442	68,136	608,358
Other accounts receivable	5,087	4,657	41,582
Allowance for doubtful accounts	(6)	(5)	(46)
Net	¥ 62,043	¥ 73,255	$ 654,062

Note: Credit risk management is described in Note 33. Financial Instruments.

Note 9

Marketable Securities and Investment Securities

(1) Details

Details of marketable securities and investment securities are as follows:

Classification			Millions of Yen		Thousands of U.S. Dollars
			March 31, 2016	March 31, 2017	March 31, 2017
Marketable securities	Financial assets measured at amortized cost	Bonds	¥ 21,583	¥ 17,560	$ 156,786
	Total		¥ 21,583	¥ 17,560	$ 156,786
Investment securities	Financial assets measured at FVOCI	Stock	¥ 153,561	¥ 162,060	$ 1,446,960
	Financial assets measured at FVPL	Other	512	490	4,372
	Financial assets measured at amortized cost	Bonds	28,323	14,024	125,214
	Total		¥ 182,396	¥ 176,573	$ 1,576,547

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.

(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:

March 31, 2016	
Description	Millions of Yen
SANTEN PHARMACEUTICAL CO., LTD.	15,756
NISSIN FOODS HOLDINGS CO., LTD.	13,016
DAIKIN INDUSTRIES, LTD.	10,221
DAIICHI SANKYO COMPANY, LIMITED	7,210
Nissan Chemical Industries, Ltd.	6,890
T&D Holdings, Inc.	5,987
MEIJI Holdings Co., Ltd.	5,479
Astellas Pharma Inc.	4,956
OBAYASHI CORPORATION	4,316
YAKULT HONSHA CO., LTD.	4,025
Kurita Water Industries Ltd.	3,723
Carna Biosciences, Inc.	3,516
Sumitomo Dainippon Pharma Co., Ltd.	2,784
Nippon Shinyaku Co., Ltd.	2,728
KIKKOMAN CORPORATION	2,653
KOKUYO CO., LTD.	2,447
HISAMITSU PHARMACEUTICAL CO., INC.	2,255
MIURA CO., LTD.	2,199
KISSEI PHARMACEUTICAL CO., LTD.	2,195
KYORIN Holdings, Inc.	2,069
Alfresa Holdings Corporation	2,048
NIPPON KAYAKU CO., LTD.	1,936
Otsuka Holdings Co., Ltd.	1,918
FUJIFILM Holdings Corporation	1,774
Mitsubishi Tanabe Pharma Corporation	1,656
SUZUKEN CO., LTD.	1,653
Shimadzu Corporation	1,622
SUMITOMO CHEMICAL COMPANY, LIMITED	1,461
OKAMURA CORPORATION	1,372
DAIWA HOUSE INDUSTRY CO., LTD.	1,371

March 31, 2017		
Description	Millions of Yen	Thousands of U.S. Dollars
SANTEN PHARMACEUTICAL CO., LTD.	15,002	133,947
DAIKIN INDUSTRIES, LTD.	13,590	121,337
T&D Holdings, Inc.	9,219	82,314
Nissan Chemical Industries, Ltd.	7,698	68,734
NISSIN FOODS HOLDINGS CO., LTD.	7,589	67,760
DAIICHI SANKYO COMPANY, LIMITED	7,223	64,488
MEIJI Holdings Co., Ltd.	5,612	50,108
YAKULT HONSHA CO., LTD.	4,990	44,551
Astellas Pharma Inc.	4,855	43,344
OBAYASHI CORPORATION	4,047	36,138
Sumitomo Dainippon Pharma Co., Ltd.	3,948	35,252
Kurita Water Industries Ltd.	3,905	34,870
Nippon Shinyaku Co., Ltd.	3,515	31,388
HISAMITSU PHARMACEUTICAL CO., INC.	2,851	25,457
KOKUYO CO., LTD.	2,666	23,803
NIPPON KAYAKU CO., LTD.	2,569	22,933
KISSEI PHARMACEUTICAL CO., LTD.	2,469	22,049
KIKKOMAN CORPORATION	2,384	21,286
Otsuka Holdings Co., Ltd.	2,356	21,034
KYORIN Holdings, Inc.	2,269	20,256
Mitsubishi Tanabe Pharma Corporation	1,961	17,510
Carna Biosciences, Inc.	1,925	17,189
MIURA CO., LTD.	1,870	16,700
Alfresa Holdings Corporation	1,830	16,338
SUMITOMO CHEMICAL COMPANY, LIMITED	1,786	15,944
FUJIFILM Holdings Corporation	1,733	15,474
SHIMADZU CORPORATION	1,626	14,515
SUZUKEN CO., LTD.	1,577	14,080
MAEDA CORPORATION	1,565	13,971
TOPPAN PRINTING CO., LTD.	1,488	13,286

(3) Dividends Received

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

	Millions of Yen		Thousands of U.S. Dollars
	For the year ended March 31, 2016	For the year ended March 31, 2017	For the year ended March 31, 2017
Stock held at year-end	¥ 2,422	¥ 2,715	$ 24,238
Stock disposed of during the year	8	104	925
Total	¥ 2,431	¥ 2,818	$ 25,163

(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 loss are as follows:

	Millions of Yen				Thousands of U.S. Dollars	
	For the year ended March 31, 2016		For the year ended March 31, 2017		For the year ended March 31, 2017	
	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	¥ 2,239	¥ 939	¥ 7,331	¥ 3,515	$ 65,456	$ 31,385

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 ¥653 million and ¥2,436 million ($21,746 thousand) for the years ended March 31, 2016 and 2017, respectively.

Note 10

Other Financial Assets

Details of other financial assets are as follows:

	Classification	Millions of Yen		Thousands of U.S. Dollars
		March 31, 2016	March 31, 2017	March 31, 2017
(Current assets)				
Time deposits	Financial assets measured at amortized cost	¥ 800	¥ 800	$ 7,143
Other	—	—	19	168
	Total	¥ 800	¥ 819	$ 7,311
(Non-current assets)				
Long-term time deposits	Financial assets measured at amortized cost	—	¥ 20,000	$ 178,571
Insurance reserve fund	Financial assets measured at FVPL	¥ 6,753	6,836	61,040
	Total	¥ 6,753	¥ 26,836	$ 239,611

Note 11

Other Assets

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

	Millions of Yen		Thousands of U.S. Dollars
	March 31, 2016	March 31, 2017	March 31, 2017
(Other current assets)			
Prepaid expenses	¥ 3,180	¥ 4,034	$ 36,018
Advance payments	1,136	1,547	13,809
Other	1,114	2,161	19,294
Total	¥ 5,430	¥ 7,742	$ 69,121
(Other non-current assets)			
Lease deposits	¥ 758	¥ 796	$ 7,108
Long-term prepaid expenses	403	508	4,534
Other	1,988	1,967	17,559
Total	¥ 3,149	¥ 3,271	$ 29,201

Note 12

Inventories

Details of inventories are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	March 31, 2016	March 31, 2017	March 31, 2017
Merchandise and finished goods	¥ 14,510	¥ 14,813	$ 132,258
Work in process	4,659	4,188	37,396
Raw materials and supplies	4,063	6,332	56,540
Total	¥ 23,232	¥ 25,334	$ 226,194

Note: Inventories recognized as an expense for the years ended March 31, 2016 and 2017, amounted to ¥35,407 million and ¥38,118 million ($340,338 thousand), respectively. In addition, the write-downs of inventories recognized as an expense for the years ended March 31, 2016 and 2017, were ¥89 million and ¥313 million ($2,791 thousand), respectively.

Note 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:

Cost

	Millions of Yen					
	Land	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
Balance at April 1, 2015	¥ 26,755	¥ 71,902	¥ 21,985	¥ 23,701	¥ 5,246	¥ 149,589
Acquisition	225	532	776	1,966	13,506	17,005
Transfer	—	12,377	618	898	(13,893)	—
Sale or disposal	(648)	(1,673)	(604)	(1,951)	—	(4,877)
Exchange differences on translation of foreign operations	—	(11)	—	(18)	(0)	(29)
Other	(584)	—	—	—	(1,369)	(1,953)
Balance at March 31, 2016	¥ 25,747	¥ 83,127	¥ 22,774	¥ 24,596	¥ 3,491	¥ 159,735
Acquisition	476	1,284	609	2,209	5,800	10,379
Transfer	—	3,491	504	326	(4,321)	—
Sale or disposal	—	(1,679)	(1,034)	(1,704)	—	(4,417)
Exchange differences on translation of foreign operations	—	(13)	—	(19)	(0)	(32)
Other	—	—	—	—	(787)	(787)
Balance at March 31, 2017	¥ 26,223	¥ 86,209	¥ 22,853	¥ 25,409	¥ 4,184	¥ 164,878

	Thousands of U.S. Dollars					
	Land	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
Balance at March 31, 2016	$ 229,885	$ 742,205	$ 203,342	$ 219,607	$ 31,166	$ 1,426,205
Acquisition	4,252	11,466	5,439	19,725	51,790	92,672
Transfer	—	31,166	4,496	2,914	(38,576)	—
Sale or disposal	—	(14,994)	(9,232)	(15,214)	—	(39,440)
Exchange differences on translation of foreign operations	—	(119)	—	(168)	—	(287)
Other	—	—	—	—	(7,027)	(7,027)
Balance at March 31, 2017	$ 234,137	$ 769,724	$ 204,045	$ 226,864	$ 37,353	$ 1,472,123

Accumulated depreciation and accumulated impairment losses

	Millions of Yen					
	Land	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
Balance at April 1, 2015	¥ (29)	¥ (44,810)	¥ (15,299)	¥ (18,698)	¥ —	¥ (78,836)
Depreciation	—	(2,496)	(927)	(1,444)	—	(4,866)
Impairment losses	(63)	(107)	(1)	(14)	—	(185)
Sale or disposal	—	1,630	592	1,912	—	4,134
Exchange differences on translation of foreign operations	—	4	—	14	—	18
Other	92	—	—	—	—	92
Balance at March 31, 2016	¥ —	¥ (45,779)	¥ (15,633)	¥ (18,229)	¥ —	¥ (79,641)
Depreciation	—	(2,663)	(1,017)	(1,406)	—	(5,087)
Impairment losses	—	(660)	(62)	(5)	—	(727)
Sale or disposal	—	1,554	1,023	1,641	—	4,218
Exchange differences on translation of foreign operations	—	4	—	15	—	18
Other	—	—	—	—	—	—
Balance at March 31, 2017	¥ —	¥ (47,545)	¥ (15,689)	¥ (17,984)	¥ —	¥ (81,219)

	Thousands of U.S. Dollars					
	Land	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
Balance at March 31, 2016	$ —	$ (408,744)	$ (139,583)	$ (162,756)	$ —	$ (711,083)
Depreciation	—	(23,780)	(9,081)	(12,555)	—	(45,416)
Impairment losses	—	(5,897)	(554)	(41)	—	(6,492)
Sale or disposal	—	13,876	9,134	14,652	—	37,662
Exchange differences on translation of foreign operations	—	33	—	131	—	164
Other	—	—	—	—	—	—
Balance at March 31, 2017	$ —	$ (424,513)	$ (140,084)	$ (160,569)	$ —	$ (725,166)

Carrying amount

	Millions of Yen					
	Land	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
Balance at April 1, 2015	¥ 26,725	¥ 27,092	¥ 6,687	¥ 5,003	¥ 5,246	¥ 70,754
Balance at March 31, 2016	25,747	37,348	7,141	6,367	3,491	80,094
Balance at March 31, 2017	26,223	38,664	7,164	7,425	4,184	83,659

	Thousands of U.S. Dollars					
	Land	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
Balance at March 31, 2017	$ 234,137	$ 345,211	$ 63,961	$ 66,295	$ 37,353	$ 746,957

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. Commitments related to property, plant, and equipment purchases are described in Note 37. Commitments for Expenditure.

(2) Assets Held under Finance Leases

The carrying amounts of leased assets held under finance leases, which are included in items of property, plant, and equipment as of April 1, 2015, and March 31, 2016 and 2017, are as follows:

	Millions of Yen			
	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Total
Balance at April 1, 2015	¥ 211	¥ 320	¥ —	¥ 531
Balance at March 31, 2016	195	586	—	781
Balance at March 31, 2017	179	629	99	907

	Thousands of U.S. Dollars			
	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Total
Balance at March 31, 2017	$ 1,599	$ 5,614	$ 884	$ 8,098

(3) Impairment Losses

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

The Group recorded impairment losses for property, plant, and equipment of ¥185 million and ¥727 million ($6,492 thousand) for the years ended March 31, 2016 and 2017, respectively, which are included in “Other expenses” in the consolidated statement of income.

Impairment losses recognized for the years ended March 31, 2016 and 2017, 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.

Note 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

	Millions of Yen			
	Patents and licenses	Software	Other	Total
Balance at April 1, 2015	¥ 33,469	¥ 7,414	¥ 1,439	¥ 42,322
Acquisition	6,000	484	682	7,165
Transfer	—	458	(458)	—
Disposal	(1,565)	(224)	(304)	(2,094)
Exchange differences on translation of foreign operations	—	(2)	—	(2)
Other	—	—	(42)	(42)
Balance at March 31, 2016	¥ 37,904	¥ 8,129	¥ 1,317	¥ 47,350
Acquisition	6,816	529	2,619	9,964
Transfer	—	435	(435)	—
Disposal	(530)	(344)	(70)	(945)
Exchange differences on translation of foreign operations	—	(0)	—	(0)
Other	—	—	(51)	(51)
Balance at March 31, 2017	¥ 44,190	¥ 8,749	¥ 3,380	¥ 56,319

	Thousands of U.S. Dollars			
	Patents and licenses	Software	Other	Total
Balance at March 31, 2016	$ 338,427	$ 72,584	$ 11,758	$ 422,770
Acquisition	60,858	4,723	23,387	88,968
Transfer	—	3,885	(3,885)	—
Disposal	(4,734)	(3,072)	(626)	(8,433)
Exchange differences on translation of foreign operations	—	(2)	—	(2)
Other	—	—	(452)	(452)
Balance at March 31, 2017	$ 394,551	$ 78,117	$ 30,182	$ 502,850

Accumulated amortization and accumulated impairment losses

	Millions of Yen			
	Patents and licenses	Software	Other	Total
Balance at April 1, 2015	¥ (3,457)	¥ (4,278)	¥ (674)	¥ (8,409)
Amortization	(1,009)	(642)	(13)	(1,664)
Disposal	1,565	217	268	2,050
Impairment losses	(1,000)	—	(3)	(1,003)
Exchange differences on translation of foreign operations	—	0	—	0
Other	—	—	—	—
Balance at March 31, 2016	¥ (3,901)	¥ (4,703)	¥ (422)	¥ (9,026)
Amortization	(1,987)	(732)	(13)	(2,732)
Disposal	530	339	6	876
Impairment losses	(200)	(0)	—	(200)
Exchange differences on translation of foreign operations	—	(0)	—	(0)
Other	—	—	—	—
Balance at March 31, 2017	¥ (5,558)	¥ (5,095)	¥ (429)	¥ (11,082)

	Thousands of U.S. Dollars			
	Patents and licenses	Software	Other	Total
Balance at March 31, 2016	$ (34,835)	$ (41,991)	$ (3,763)	$ (80,589)
Amortization	(17,739)	(6,533)	(120)	(24,392)
Disposal	4,734	3,031	54	7,819
Impairment losses	(1,786)	(1)	—	(1,786)
Exchange differences on translation of foreign operations	—	(2)	—	(2)
Other	—	—	—	—
Balance at March 31, 2017	$ (49,625)	$ (45,495)	$ (3,830)	$ (98,950)

Carrying amount

	Millions of Yen			
	Patents and licenses	Software	Other	Total
Balance at April 1, 2015	¥ 30,012	¥ 3,136	¥ 765	¥ 33,913
Balance at March 31, 2016	34,002	3,426	895	38,324
Balance at March 31, 2017	38,632	3,654	2,951	45,237

	Thousands of U.S. Dollars			
	Patents and licenses	Software	Other	Total
Balance at March 31, 2017	$ 344,926	$ 32,623	$ 26,352	$ 403,900

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 ¥24,898 million and ¥9,574 million ($85,479 thousand) as of March 31, 2016 and 2017, 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 Note 37. Commitments for Expenditure.

(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, 2016	March 31, 2017	March 31, 2017
Patents and licenses	In-process research and development costs acquired separately	¥ 24,898	¥ 7,064	$ 63,071
	Sales licenses	9,104	31,568	281,855

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, 2016	March 31, 2017
In-process research and development costs acquired separately	ONO-7643/RC-1291 ONO-7057/Carfilzomib ONO-5163/AMG-416 ONO-1162/Ivabradine ONO-2370/BIA9-1067	ONO-7643/RC-1291 ONO-1162/Ivabradine ONO-2370/BIA9-1067
Sales licenses	RECALBON STAYBLA RIVASTACH FORXIGA	STAYBLA RIVASTACH FORXIGA KYPROLIS PARSABIV

§2 Remaining Amortization Period

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

Item	Details	March 31, 2016	March 31, 2017
Patents and licenses	Sales licenses (years)	11.8	13.3

(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. The Group's discount rate used in calculating value in use was based on the pretax weighted-average cost of capital, and it was 7.5% and 6.0% for the years ended March 31, 2016 and 2017, respectively.

The Group recorded impairment losses for intangible assets of ¥1,003 million and ¥200 million ($1,786 thousand) for the years ended March 31, 2016 and 2017, respectively. Impairment losses on patents and licenses representing impairment losses on separately acquired in-process research and development costs were included in "Research and development costs" and impairment losses on software and impairment losses on other were included in "Other expenses" in the consolidated statement of income.

Impairment losses on patents and licenses were attributable to reviews of recoverable amounts as a result of the suspension of new drug development, changes in development status, etc., and those values in use were considered to be zero.

Note 15

Investments in Associates

(1) Details of share of profit (loss) from investments in associates

Details of share of profit (loss) from investments in associates are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	For the year ended March 31, 2016	For the year ended March 31, 2017	For the year ended March 31, 2017
Share of profit (loss) from investments in associates	¥ (32)	¥ 16	$ 146
Losses on sales of affiliates	—	(556)	(4,972)
Total	¥ (32)	¥ (541)	$ (4,827)

Note: Losses on sales of affiliates resulted from the sale of all stocks of Tokai Capsule Co., Ltd., which was equity interests in associates of the Group.

(2) Aggregate financial information of equity-method investees

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

	Millions of Yen		Thousands of U.S. Dollars
	For the year ended March 31, 2016	For the year ended March 31, 2017	For the year ended March 31, 2017
Profit from continuing operations attributable to the Group	¥ (32)	¥ 16	$ 146
Other comprehensive income attributable to the Group	(7)	0	0
Total comprehensive income attributable to the Group	¥ (39)	¥ 16	$ 146

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

Note 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:

	Millions of Yen		Thousands of U.S. Dollars
	March 31, 2016	March 31, 2017	March 31, 2017
Deferred tax assets	¥ 5,179	¥ 10,739	$ 95,880
Deferred tax liabilities	885	881	7,864
Net	¥ 4,294	¥ 9,858	$ 88,016

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

For the year ended March 31, 2016

	Millions of Yen			
	Balance at April 1, 2015	Recognized in profit or loss	Recognized in other comprehensive income	Balance at March 31, 2016
Deferred tax assets				
Accrued bonuses	¥ 1,450	¥ 52	¥ —	¥ 1,502
Accrued enterprise tax	707	(82)	—	625
Expenses for research and development commissions and others	13,862	2,600	—	16,462
Property, plant, and equipment	3,673	(234)	—	3,439
Intangible assets	299	(76)	—	223
Retirement benefit liabilities	3,828	(2,037)	1,438	3,230
Long-term advances received	2,165	(386)	—	1,779
Other accounts payable	415	1,323	—	1,738
Other	2,343	242	—	2,585
Total	¥ 28,742	¥ 1,402	¥ 1,438	¥ 31,582
Deferred tax liabilities				
Property, plant, and equipment	¥ (3,267)	¥ 108	¥ —	¥ (3,159)
Intangible assets	(1,863)	(717)	—	(2,580)
Investment securities	(24,718)	256	2,927	(21,535)
Other	(5)	(9)	—	(14)
Total	¥ (29,853)	¥ (362)	¥ 2,927	¥ (27,288)
Net	¥ (1,111)	¥ 1,040	¥ 4,365	¥ 4,294

For the year ended March 31, 2017

	Millions of Yen			
	Balance at April 1, 2016	Recognized in profit or loss	Recognized in other comprehensive income	Balance at March 31, 2017
Deferred tax assets				
Accrued bonuses	¥ 1,502	¥ 169	¥ —	¥ 1,670
Accrued enterprise tax	625	671	—	1,296
Expenses for research and development commissions and others	16,462	5,845	—	22,307
Property, plant, and equipment	3,439	(0)	—	3,438
Intangible assets	223	87	—	309
Retirement benefit liabilities	3,230	122	(514)	2,838
Long-term advances received	1,779	(165)	—	1,614
Other accounts payable	1,738	803	—	2,541
Provision for patent royalties	—	1,870	—	1,870
Other	2,585	702	—	3,287
Total	¥ 31,582	¥ 10,103	¥ (514)	¥ 41,171
Deferred tax liabilities				
Property, plant, and equipment	¥ (3,159)	¥ (183)	¥ —	¥ (3,342)
Intangible assets	(2,580)	(108)	—	(2,689)
Investment securities	(21,535)	7	(3,749)	(25,277)
Other	(14)	8	—	(6)
Total	¥ (27,288)	¥ (277)	¥ (3,749)	¥ (31,314)
Net	¥ 4,294	¥ 9,827	¥ (4,263)	¥ 9,858

	Thousands of U.S. Dollars			
	Balance at April 1, 2016	Recognized in profit or loss	Recognized in other comprehensive income	Balance at March 31, 2017
Deferred tax assets				
Accrued bonuses	$ 13,409	$ 1,505	$ —	$ 14,914
Accrued enterprise tax	5,581	5,993	—	11,575
Expenses for research and development commissions and others	146,983	52,186	—	199,169
Property, plant, and equipment	30,702	(2)	—	30,700
Intangible assets	1,987	774	—	2,761
Retirement benefit liabilities	28,837	1,086	(4,587)	25,335
Long-term advances received	15,885	(1,471)	—	14,415
Other accounts payable	15,517	7,173	—	22,690
Provision for patent royalties	—	16,694	—	16,694
Other	23,080	6,270	—	29,350
Total	$ 281,981	$ 90,208	$ (4,587)	$ 367,603
Deferred tax liabilities				
Property, plant, and equipment	$ (28,205)	$ (1,634)	$ —	$ (29,839)
Intangible assets	(23,038)	(968)	—	(24,006)
Investment securities	(192,278)	64	(33,471)	(225,685)
Other	(123)	67	—	(56)
Total	$ (243,644)	$ (2,471)	$ (33,471)	$ (279,586)
Net	$ 38,337	$ 87,737	$ (38,058)	$ 88,016

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, 2016 and 2017, in Japan is 30.8% for expected reversals up to March 31, 2018, and 30.6% for expected reversals on or after April 1, 2018.
3. Taxable temporary differences associated with investments in subsidiaries, for which deferred tax liabilities were not recognized, amounted to ¥1,934 million and ¥2,113 million ($18,868 thousand) as of March 31, 2016 and 2017, 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:

	Millions of Yen		Thousands of U.S. Dollars
	For the year ended March 31, 2016	For the year ended March 31, 2017	For the year ended March 31, 2017
Current tax expense	¥ 9,120	¥ 28,325	$ 252,898
Deferred tax expense	(1,040)	(9,820)	(87,682)
Total	¥ 8,080	¥ 18,504	$ 165,215

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 33.0% for the year ended March 31, 2016, and approximately 30.8% for the year ended March 31, 2017. Overseas subsidiaries use the income tax rates of the countries in which they are located.

(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, 2016	For the year ended March 31, 2017
Applicable tax rates	33.0 %	30.8 %
Permanent non-deductible items	0.6	0.3
Non-taxable dividends	(0.5)	(0.3)
Tax credit for research and other	(14.4)	(7.6)
Effect of change in tax rates	4.9	0.0
Other	0.7	1.6
Average actual tax rates	24.3 %	24.8 %

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.

Note 17

Trade and Other Payables

Details of trade and other payables are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	March 31, 2016	March 31, 2017	March 31, 2017
Notes payable	¥ 5,264	¥ 1,510	$ 13,482
Trade accounts payable	4,529	5,618	50,164
Other accounts payable	21,457	23,777	212,291
Total	¥ 31,250	¥ 30,905	$ 275,936

Note 18

Borrowings

Details of borrowings are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	March 31, 2016	March 31, 2017	March 31, 2017
Current liabilities			
Short-term borrowings	¥ 37	¥ 26	$ 229
Current portion of long-term borrowings	1	0	4
Short-term lease obligations	290	397	3,545
Total	¥ 328	¥ 423	$ 3,778
Non-current liabilities			
Long-term borrowings	¥ 0	¥ —	$ —
Long-term lease obligations	515	542	4,841
Total	¥ 515	¥ 542	$ 4,841

Notes: 1. Long-term borrowings, including the current portion, consist of unsecured loans from financial institutions with no financial covenants attached.
2. The average interest rate of 1.55% is calculated based on the applicable outstanding balance at March 31, 2017.

Note 19

Other Financial Liabilities

Details of other financial liabilities are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	March 31, 2016	March 31, 2017	March 31, 2017
Current liabilities			
Dividends payable	¥ 89	¥ 91	$ 817
Deposits received	2,979	5,722	51,093
Total	¥ 3,068	¥ 5,814	$ 51,910
Non-current liabilities			
Other	¥ 19	¥ 11	$ 95
Total	¥ 19	¥ 11	$ 95

Note 20

Assets Pledged as Collateral

Assets pledged as collateral are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	March 31, 2016	March 31, 2017	March 31, 2017
Marketable securities	¥ 998	¥ —	$ —
Other current assets	1,000	2,000	$ 17,857
Total	¥ 1,998	¥ 2,000	$ 17,857

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.

Note 21

Lease Transactions

(1) Finance Leases

Lessee

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

	Millions of Yen		Thousands of U.S. Dollars	Millions of Yen		Thousands of U.S. Dollars
	Minimum lease payments			Present value of minimum lease payments		
	March 31, 2016	March 31, 2017	March 31, 2017	March 31, 2016	March 31, 2017	March 31, 2017
One year or less	¥ 301	¥ 409	$ 3,652	¥ 290	¥ 397	$ 3,545
More than one year to five years	404	450	4,021	376	420	3,752
More than five years	159	137	1,226	139	122	1,089
Total	¥ 864	¥ 997	$ 8,899	¥ 805	¥ 939	$ 8,386

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

(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:

	Millions of Yen		Thousands of U.S. Dollars
	March 31, 2016	March 31, 2017	March 31, 2017
One year or less	¥ 186	¥ 153	$ 1,366
More than one year to five years	339	244	2,179
More than five years	—	—	—
Total	¥ 525	¥ 397	$ 3,545

Note: The Group engages in office rental, etc., classified as operating leases. Certain lease contracts include renewal options. The lease contracts do not include contingent rents 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:

	Millions of Yen		Thousands of U.S. Dollars
	For the year ended March 31, 2016	For the year ended March 31, 2017	For the year ended March 31, 2017
Minimum lease payments	¥ 294	¥ 153	$ 1,368

Lessor

§1 Non-cancelable Operating Lease Contracts

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

	Millions of Yen		Thousands of U.S. Dollars
	March 31, 2016	March 31, 2017	March 31, 2017
One year or less	¥ 2	¥ 18	$ 158
More than one year to five years	7	52	464
More than five years	10	9	78
Total	¥ 19	¥ 78	$ 700

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

Note 22

Other Liabilities

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

	Millions of Yen		Thousands of U.S. Dollars
	March 31, 2016	March 31, 2017	March 31, 2017
Other current liabilities			
Accrued consumption taxes	¥ 1,501	¥ 5,137	$ 45,864
Accrued salary and bonus	4,927	5,504	49,144
Accrued compensated vacation	1,934	2,177	19,437
Accrued expenses	1,134	1,495	13,352
Other	112	615	5,490
Total	¥ 9,607	¥ 14,928	$ 133,287
Other non-current liabilities			
Compensated long-service benefit obligations	¥ 531	¥ 566	$ 5,053
Other	112	206	1,838
Total	¥ 643	¥ 772	$ 6,892

Note 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 employees' pension fund plans (multiemployer pension plans) in addition to lump-sum payment plans.

(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:

	Millions of Yen		Thousands of U.S. Dollars
	March 31, 2016	March 31, 2017	March 31, 2017
Contributory			
Defined benefit obligations	¥ 45,138	¥ 44,948	$ 401,320
Fair value of plan assets (including retirement benefit trust)	(41,700)	(42,866)	(382,732)
Subtotal	3,438	2,082	18,588
Non-contributory			
Defined benefit obligations	656	723	6,457
Subtotal	656	723	6,457
Net defined benefit liability	¥ 4,093	¥ 2,805	$ 25,045
Retirement benefit liabilities stated in the consolidated statement of financial position	¥ 4,093	¥ 2,805	$ 25,045

§2 Obligations under Defined Benefit Plans

Movements in the defined benefit obligations are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	For the year ended March 31, 2016	For the year ended March 31, 2017	For the year ended March 31, 2017
Opening balance of defined benefit obligations	¥ 46,677	¥ 45,794	$ 408,871
Service cost	1,617	2,093	18,688
Interest cost	536	321	2,865
Remeasurements			
Actuarial losses (gains) due to changes in financial assumptions	4,642	(1,125)	(10,041)
Other	(179)	33	296
Past service cost	(6,297)	—	—
Benefits paid	(1,202)	(1,445)	(12,902)
Closing balance of defined benefit obligations	¥ 45,794	¥ 45,671	$ 407,777

Notes: 1. The weighted-average payment years for the defined benefit obligations as of March 31, 2016 and 2017, were 17.6 years and 17.4 years, respectively.
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:

	Millions of Yen		Thousands of U.S. Dollars
	For the year ended March 31, 2016	For the year ended March 31, 2017	For the year ended March 31, 2017
Opening balance of fair value of plan assets	¥ 41,251	¥ 41,700	$ 372,324
Interest income	522	298	2,665
Remeasurements			
Return on plan assets	(236)	587	5,245
Contributions from employers	1,304	1,380	12,325
Benefits paid	(1,141)	(1,101)	(9,828)
Closing balance of fair value of plan assets	¥ 41,700	¥ 42,866	$ 382,732

Note: The Group expected to make contributions of ¥1,358 million and ¥1,420 million ($12,682 thousand) to the defined benefit corporate pension plans in the year subsequent to March 31, 2016 and 2017, respectively.

The fair value of plan assets classified by nature of assets and risks is as follows:

	Millions of Yen						Thousands of U.S. Dollars		
	March 31, 2016			March 31, 2017			March 31, 2017		
	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	¥ 2,151	¥ —	¥ 2,151	¥ 1,908	¥ —	¥ 1,908	$ 17,033	$ —	$ 17,033
Overseas equity instruments	1,702	—	1,702	1,368	—	1,368	12,217	—	12,217
Debt instruments									
Domestic debt instruments	—	6,132	6,132	—	4,816	4,816	—	42,996	42,996
Overseas debt instruments	—	662	662	—	497	497	—	4,437	4,437
General accounts at life insurance companies	—	29,077	29,077	—	31,257	31,257	—	279,077	279,077
Other	—	1,976	1,976	—	3,021	3,021	—	26,972	26,972
Total	¥ 3,853	¥ 37,847	¥ 41,700	¥ 3,276	¥ 39,590	¥ 42,866	$ 29,250	$ 353,482	$ 382,732

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.

§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:

	Millions of Yen		Thousands of U.S. Dollars
	For the year ended March 31, 2016	For the year ended March 31, 2017	For the year ended March 31, 2017
Service costs	¥ 1,617	¥ 2,093	$ 18,688
Past service costs	(6,297)	—	—
Net interest	14	22	200
Expenses recognized in the consolidated statement of income	¥ (4,666)	¥ 2,115	$ 18,888

Note: Among the above expenses, net interest is included in "Finance income" or "Finance costs," and other expenses are included in "Cost of sales," "Selling, general, and administrative expenses," and "Research and development 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, 2016	March 31, 2017
Discount rate (%)	0.7	0.9
Expected rate of salary increase (%)	3.4	2.8
Expected average remaining lives of current pensioners at age 60 at year-end (years)	24.8	24.9
Expected average remaining lives, from age 60, of future pensioners at age 40 at year-end (years)	26.4	26.4

§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, 2016		March 31, 2017		March 31, 2017	
		Increase	Decrease	Increase	Decrease	Increase	Decrease
Defined benefit obligations							
Discount rate	0.5% increase/decrease	¥ (3,807)	¥ 4,174	¥ (3,750)	¥ 4,107	$ (33,479)	$ 36,671
Expected average remaining lives	1 year increase/decrease	858	(892)	817	(852)	7,298	(7,607)

Note: The analysis is based on the assumption that other factors remain constant.

(2) Multiemployer Pension Plans

Two domestic consolidated subsidiaries have joined employees' pension funds (multiemployer pension plans). The 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 post-employment expenses in the same manner as defined contribution plans. The contributions for each fiscal year presented are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	For the year ended March 31, 2016	For the year ended March 31, 2017	For the year ended March 31, 2017
Contributions	¥ 42	¥ 31	$ 279

Notes: 1. The Group expected to make contributions of ¥42 million and ¥31 million ($279 thousand) in the year subsequent to March 31, 2016 and 2017, respectively.

2. Funded status of pension plans
The aggregate funded status for the plan is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	March 31, 2016	March 31, 2017	March 31, 2017
	As of March 31, 2015	As of March 31, 2016	As of March 31, 2016
Plan assets	¥ 334,668	¥ 306,491	$ 2,736,527
Benefit obligations for purposes of pension financing calculations	381,438	365,489	3,263,293
Net	¥ (46,770)	¥ (58,998)	$ (526,766)

3. Share of Contributions
Share of contributions by the Group in the plan as a whole is as follows:

	March 31, 2016	March 31, 2017
	As of March 31, 2015	As of March 31, 2016
Share of contributions	0.3421%	0.3317%

4. Dissolution of the employees' pension funds was resolved at the Conference of Representatives held in February 2016. In addition, subsidiaries obtained an approval for the return of the substitutional portion of their future pension obligations by the Minister of Health, Labor and Welfare in September 2016.

(3) Defined Contribution Plans

The Group recognized ¥2,564 million and ¥2,808 million ($25,074 thousand) as expenses for defined contribution plans for the years ended March 31, 2016 and 2017, respectively.

Note 24

Provisions

(1) Details

Details of provisions are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	March 31, 2016	March 31, 2017	March 31, 2017
Provision for patent royalties	¥ —	¥ 6,071	$ 54,202
Provision for sales rebates	1,343	—	—
Others	42	46	408
Total	¥ 1,385	¥ 6,116	$ 54,610
Current liabilities	¥ 1,355	¥ 6,086	$ 54,342
Non-current liabilities	30	30	268

(2) Schedule of Movements

The movements in provisions are as follows:

	Millions of Yen			
	Provision for patent royalties	Provision for sales rebates	Others	Total
Balance at April 1, 2016	¥ —	¥ 1,343	¥ 42	¥ 1,385
Added to provisions	6,071	—	16	6,086
Settled	—	(1,343)	(12)	(1,355)
Reversed	—	—	—	—
Balance at March 31, 2017	¥ 6,071	¥ —	¥ 46	¥ 6,116

	Thousands of U.S. Dollars			
	Provision for patent royalties	Provision for sales rebates	Others	Total
Balance at April 1, 2016	$ —	$ 11,992	$ 377	$ 12,370
Added to provisions	54,202	—	140	54,342
Settled	—	(11,992)	(109)	(12,102)
Reversed	—	—	—	—
Balance at March 31, 2017	$ 54,202	$ —	$ 408	$ 54,610

Notes: 1. Provision for patent royalties is recognized and measured based on estimated royalty payment to third parties.

2. Provision for sales rebates is recognized and measured based on the estimated future sales rebate payments etc., to authorized distributors, determined by multiplying trade accounts receivable at year-end by a rebate rate based on historical experience to provide for such payments. In addition, there was no balance of provision for sales rebates at the current consolidated fiscal year end due to the revision of its regulation of sales rebates in the current consolidated fiscal year.

Note 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:

	Number of authorized shares (Shares)	Number of issued shares (Shares)	Millions of Yen	
			Share capital	Capital reserves
Balance at April 1, 2015	300,000,000	117,847,500	¥ 17,358	¥ 17,080
Increase (decrease)	—	—	—	23
Balance at March 31, 2016	300,000,000	117,847,500	¥ 17,358	¥ 17,103
Increase (decrease)	1,200,000,000	471,390,000	–	41
Balance at March 31, 2017	1,500,000,000	589,237,500	¥ 17,358	¥ 17,144

	Thousands of U.S. Dollars	
	Share capital	Capital reserves
Balance at March 31, 2016	$ 154,985	$ 152,708
Increase (decrease)	—	366
Balance at March 31, 2017	$ 154,985	$ 153,074

Notes: 1. All shares issued by the Company are fully paid-up ordinary shares with no par value.
2. The Company conducted a stock split of common stocks at a ratio of 1:5 with an effective date of April 1, 2016. As a result, total number of authorized shares increased by 1,200,000,000 shares to 1,500,000,000 shares and the number of issued shares increased by 471,390,000 shares to 589,237,500 shares.

(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, 2015	11,839,742	¥ 59,308
Increase (decrease)	2,885	50
Balance at March 31, 2016	11,842,627	¥ 59,358
Increase (decrease)	47,375,744	23
Balance at March 31, 2017	59,218,371	¥ 59,382

	Amount (Thousands of U.S. Dollars)
Balance at March 31, 2016	$ 529,986
Increase (decrease)	209
Balance at March 31, 2017	$ 530,195

Notes: 1. Increases in the number and amount of treasury shares are due to a stock split and purchases of fractional unit shares.
2. Treasury shares held by associates as of March 31, 2016 and 2017, were ¥23 million and ¥24 million ($212 thousand), respectively.
3. The Company conducted a stock split of common stocks at a ratio of 1:5 with an effective date of April 1, 2016. As a result, total number of treasury shares increased by 47,370,510 shares to 59,213,137 shares.

(3) Other Components of Equity

Changes in other components of equity are as follows:

	Millions of Yen				
	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	Total
Balance at April 1, 2015	¥ 1,173	¥ —	¥ 44,583	¥ —	¥ 45,756
Increase (decrease)					
Other comprehensive income	(360)	—	(1,432)	(3,261)	(5,054)
Transfer to retained earnings	—	—	(657)	3,261	2,605
Balance at March 31, 2016	¥ 813	¥ —	¥ 42,494	¥ —	¥ 43,307
Increase (decrease)					
Other comprehensive income	(96)	—	10,980	1,165	12,048
Transfer to retained earnings	—	—	(2,438)	(1,165)	(3,604)
Balance at March 31, 2017	¥ 716	¥ —	¥ 51,035	¥ —	¥ 51,752

	Thousands of U.S. Dollars				
	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	Total
Balance at March 31, 2016	$ 7,256	$ —	$ 379,413	$ —	$ 386,669
Increase (decrease)					
Other comprehensive income	(859)	—	98,031	10,403	107,575
Transfer to retained earnings	—	—	(21,771)	(10,403)	(32,174)
Balance at March 31, 2017	$ 6,397	$ —	$ 455,674	$ —	$ 462,070

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.”

Note 26

Dividends

(1) Dividends Paid

Dividends paid are as follows:

For the year ended March 31, 2016

Date of resolution	Share type	Total dividends (Millions of Yen)	Dividends per share (Yen)	Record date	Effective date
General shareholders' meeting held on June 26, 2015	Ordinary shares	¥ 9,541	¥ 90	March 31, 2015	June 29, 2015
Board of Directors' meeting held on November 4, 2015	Ordinary shares	¥ 9,541	¥ 90	September 30, 2015	December 1, 2015

For the year ended March 31, 2017

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 29, 2016	Ordinary shares	¥ 9,540	¥ 90	$ 85,182	$ 0.80	March 31, 2016	June 30, 2016
Board of Directors' meeting held on November 7, 2016	Ordinary shares	¥ 10,600	¥ 20	$ 94,646	$ 0.18	September 30, 2016	December 1, 2016

Note: The Company conducted a stock split of common stocks at a ratio of 1:5 with an effective date of April 1, 2016. "Dividends per share" whose record date is on or before March 31, 2016, show the amount of dividends paid before the stock split.

(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, 2016

Date of resolution	Share type	Total dividends (Millions of Yen)	Dividends per share (Yen)	Record date	Effective date
General shareholders' meeting held on June 29, 2016	Ordinary shares	¥ 9,540	¥ 90	March 31, 2016	June 30, 2016

Note: The Company conducted a stock split of common stocks at a ratio of 1:5 with an effective date of April 1, 2016. "Dividends per share" whose record date is on or before March 31, 2016, show the amount of dividends paid before the stock split.

For the year ended March 31, 2017

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 29, 2017	Ordinary shares	¥ 10,600	¥ 20	$ 94,646	$ 0.18	March 31, 2017	June 30, 2017

Note 27

Selling, General, and Administrative Expenses

Major details of selling, general, and administrative expenses are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	For the year ended March 31, 2016	For the year ended March 31, 2017	For the year ended March 31, 2017
Business planning expenses	¥ 4,464	¥ 4,606	$ 41,129
Sales promotion expenses	1,293	2,882	25,735
Employee benefit expenses	18,882	25,986	232,014
Depreciation and amortization	1,351	1,389	12,401

Note 28

Employee Benefit Expenses

Details of the Group's employee benefit expenses are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	For the year ended March 31, 2016	For the year ended March 31, 2017	For the year ended March 31, 2017
Salary and bonus	¥ 30,856	¥ 34,441	$ 307,505
Retirement benefit expenses (defined benefit plans)	(4,680)	2,093	18,688
Retirement benefit expenses (multiemployer pension plans)	42	31	279
Retirement benefit expenses (defined contribution plans)	2,564	2,808	25,074
Legal welfare expenses	1,702	1,840	16,429
Other welfare expenses	1,604	1,773	15,834
Other employee benefit expenses	2,591	3,200	28,571
Total	¥ 34,678	¥ 46,187	$ 412,380

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 "Note 36. Related Parties."

Note 29

Other Income and Other Expenses

Details of other income and other expenses are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	For the year ended March 31, 2016	For the year ended March 31, 2017	For the year ended March 31, 2017
Other income			
Gain on sale of non-current assets	¥ 331	¥ 1	$ 5
Insurance proceeds	215	181	1,617
Gain on legal settlement	—	17,836	159,249
Others	161	115	1,029
Total	¥ 708	¥ 18,133	$ 161,900
Other expenses			
Impairment losses	¥ 188	¥ 737	$ 6,582
Loss on disposal of non-current assets	26	88	790
Donations	1,348	1,643	14,669
Litigation costs	—	2,994	26,734
Others	50	104	931
Total	¥ 1,612	¥ 5,567	$ 49,706

Note: “Gain on legal settlement” in “Other income” and “Litigation costs” in “Other expenses” are related to settlement with Merck (USA) of the anti-PD-1 antibody patent infringement litigation.

Note 30

Finance Income and Finance Costs

Details of finance income and finance costs are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	For the year ended March 31, 2016	For the year ended March 31, 2017	For the year ended March 31, 2017
(Finance income)			
Interest income			
Financial assets measured at amortized cost	¥ 221	¥ 133	$ 1,186
Financial assets measured at FVPL	38	0	0
Dividend income			
Financial assets measured at FVPL	92	—	—
Financial assets measured at FVOCI	2,431	2,818	25,163
Exchange gains	68	—	—
Others	238	106	943
Total	¥ 3,088	¥ 3,057	$ 27,291
(Finance costs)			
Interest expenses			
Financial liabilities measured at amortized cost	¥ 13	¥ 15	$ 132
Losses on marketable securities			
Financial assets measured at FVPL	53	22	196
Net interest on employee benefits	14	22	200
Exchange losses	—	176	1,570
Others	212	25	220
Total	¥ 291	¥ 260	$ 2,318

Note 31

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, 2016

	Millions of Yen				
	Amount incurred	Reclassification adjustments	Before tax effects	Tax effects	Net of tax amount
Items that will not be reclassified to profit or loss					
Net gain (loss) on financial assets measured at FVOCI	¥ (3,722)	¥ —	¥ (3,722)	¥ 2,310	¥ (1,411)
Remeasurement of defined benefit plans	(4,699)	—	(4,699)	1,438	(3,261)
Share of net gain (loss) on financial assets measured at FVOCI of associates	(11)	—	(11)	4	(7)
Total	(8,432)	—	(8,432)	3,753	(4,679)
Items that may be reclassified to profit or loss					
Exchange differences on translation of foreign operations	(360)	—	(360)	—	(360)
Net fair value gain (loss) on cash flow hedges	(17)	17	—	—	—
Total	(377)	17	(360)	—	(360)
Total other comprehensive income	¥ (8,809)	¥ 17	¥ (8,792)	¥ 3,753	¥ (5,039)

For the year ended March 31, 2017

	Millions of Yen				
	Amount incurred	Reclassification adjustments	Before tax effects	Tax effects	Net of tax amount
Items that will not be reclassified to profit or loss					
Net gain (loss) on financial assets measured at FVOCI	¥ 15,830	¥ —	¥ 15,830	¥ (4,851)	¥ 10,979
Remeasurement of defined benefit plans	1,679	—	1,679	(514)	1,165
Share of net gain (loss) on financial assets measured at FVOCI of associates	0	—	0	(0)	0
Total	17,509	—	17,509	(5,365)	12,144
Items that may be reclassified to profit or loss					
Exchange differences on translation of foreign operations	(96)	—	(96)	—	(96)
Net fair value gain (loss) on cash flow hedges	(214)	214	—	—	—
Total	(310)	214	(96)	—	(96)
Total other comprehensive income	¥ 17,199	¥ 214	¥ 17,412	¥ (5,365)	¥ 12,048

	Thousands of U.S. Dollars				
	Amount incurred	Reclassification adjustments	Before tax effects	Tax effects	Net of tax amount
Items that will not be reclassified to profit or loss					
Net gain (loss) on financial assets measured at FVOCI	$ 141,336	$ —	$ 141,336	$ (43,313)	$ 98,023
Remeasurement of defined benefit plans	14,990	—	14,990	(4,587)	10,403
Share of net gain (loss) on financial assets measured at FVOCI of associates	0	—	0	(0)	0
Total	156,326	—	156,326	(47,900)	108,426
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translation of foreign operations	(859)	—	(859)	—	(859)
Net fair value gain (loss) on cash flow hedges	(1,907)	1,907	—	—	—
Total	(2,766)	1,907	(859)	—	(859)
Total other comprehensive income	$ 153,560	$ 1,907	$ 155,467	$ (47,900)	$ 107,567

Note 32

Earnings per Share

(1) Basic Earnings per Share

§1 Basic earnings per share are as follows:

	Yen		U.S. Dollars
	For the year ended March 31, 2016	For the year ended March 31, 2017	For the year ended March 31, 2017
Basic earnings per share	¥ 47.13	¥ 105.27	$ 0.94

Note: 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 per share," it is calculated assuming that the stock split was conducted at the beginning of the previous fiscal year.

§2 Basis of Calculation of Basic Earnings per Share

The basis of calculation of basic earnings per share is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	For the year ended March 31, 2016	For the year ended March 31, 2017	For the year ended March 31, 2017
Profit for the year attributable to owners of the parent company	¥ 24,979	¥ 55,793	$ 498,152
Weighted-average number of ordinary shares outstanding (Thousands of shares)	530,032	530,020	

(2) Diluted Earnings per Share

§1 Diluted earnings per share are as follows:

	Yen		U.S. Dollars
	For the year ended March 31, 2016	For the year ended March 31, 2017	For the year ended March 31, 2017
Diluted earnings per share	¥ 47.13	¥ 105.26	$ 0.94

Note: 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 "Diluted earnings per share," it is calculated assuming that the stock split was conducted at the beginning of the previous fiscal year.

§2 Basis of Calculation of Diluted Earnings per Share

The basis of calculation of diluted earnings per share is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	For the year ended March 31, 2016	For the year ended March 31, 2017	For the year ended March 31, 2017
Profit for the year attributable to owners of the parent company	¥ 24,979	¥ 55,793	$ 498,152
Weighted-average number of ordinary shares outstanding (Thousands of shares)	530,032	530,020	
Increased number of ordinary shares under subscription rights to share (Thousands of shares)	8	20	
Weighted-average number of diluted ordinary shares outstanding (Thousands of shares)	530,040	530,040	

Note 33

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 risk, liquidity risk, market risks, and others (e.g., foreign exchange risk and price fluctuation risk). 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.

(3) Credit Risk Management

The Group's trade receivables, such as notes receivable and trade accounts receivable, 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 it may have a severe and disadvantageous influence on the Group's financial performance.

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 receivable, the Group manages due dates and balances by counterparty, and executes continuous credit evaluation by receiving credit updates for its main counterparties from third-party rating agencies.

In the past, the Group has never recorded a significant bad debt loss on its trade receivables.

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 derivatives transactions used to mitigate the foreign exchange risk associated with settling payments in foreign currencies. 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.

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.

(4) Liquidity Risk

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.

Financial liabilities by maturity are as follows:

March 31, 2016

	Millions of Yen			
	Carrying amount	Contractual cash flows	One year or less	More than one year
Trade and other payables	¥ 31,250	¥ 31,250	¥ 31,250	¥ —
Borrowings				
Short-term borrowings	37	37	37	—
Current portion of long-term borrowings	1	1	1	—
Long-term borrowings	0	0	—	0
Short-term lease obligations	290	301	301	—
Long-term lease obligations	515	563	—	563
Other financial liabilities	3,087	3,087	3,068	19

March 31, 2017

	Millions of Yen			
	Carrying amount	Contractual cash flows	One year or less	More than one year
Trade and other payables	¥ 30,905	¥ 30,905	¥ 30,905	¥ —
Borrowings				
Short-term borrowings	26	26	26	—
Current portion of long-term borrowings	0	0	0	—
Short-term lease obligations	397	409	409	—
Long-term lease obligations	542	588	—	588
Other financial liabilities	5,825	5,825	5,814	11

	Thousands of U.S. Dollars			
	Carrying amount	Contractual cash flows	One year or less	More than one year
Trade and other payables	$ 275,936	$ 275,936	$ 275,936	$ —
Borrowings				
Short-term borrowings	229	229	229	—
Current portion of long-term borrowings	4	4	4	—
Short-term lease obligations	3,545	3,652	3,652	—
Long-term lease obligations	4,841	5,247	—	5,247
Other financial liabilities	52,005	52,005	51,910	95

(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 enter 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 include 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, 2016		March 31, 2017		March 31, 2017
	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	$ —	¥ —	$ 23	¥ 19	$ 168
Cash flow hedge included in the above	—	—	23	19	168

3) Foreign Exchange Sensitivity Analysis
At the end of the 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:

	Millions of Yen				Thousands of U.S. Dollars	
	March 31, 2016		March 31, 2017		March 31, 2017	
	Equity	Profit or (loss)	Equity	Profit or (loss)	Equity	Profit or (loss)
U.S. Dollar	¥ 302	¥ 536	¥ 299	¥ (12)	$ 2,672	$ (106)
Euro	—	(2)	—	(0)	—	(0)
British Pound	90	(1)	89	(6)	790	(50)

Note: The analysis is based on the assumption that other variable factors remain constant.

§2 Price Fluctuation Risk Management
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 in cases where the issuer is also a counterparty company, takes into account the relationship with that company and reconsiders the composition of holdings in the company as necessary.
In the 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 ¥10,657 million and ¥11,247 million ($100,419 thousand) as of March 31, 2016 and 2017, respectively, as a result of changes in fair value of the equity instruments designated as financial assets measured at FVOCI.

(6) 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.

Borrowings

The fair values of borrowings are based on discounted future cash flows using a current interest rate for liabilities under similar terms and conditions. The fair value of lease obligations is measured based on discounted cash flows using a current interest rate for lease agreements under the same terms and conditions.

§2 Fair Value and Carrying Amount

The carrying amounts and fair value 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 the fair value are equivalent.

	Millions of Yen				Thousands of U.S. Dollars	
	March 31, 2016		March 31, 2017		March 31, 2017	
	Carrying amounts	Fair value	Carrying amounts	Fair value	Carrying amounts	Fair value
(Financial assets)						
Financial assets measured at amortized cost						
Marketable securities and investment securities	¥ 49,907	¥ 50,198	¥ 31,584	¥ 31,689	$ 282,000	$ 282,934
Other financial assets	800	800	20,800	20,800	185,714	185,714

§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 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.

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:

	Millions of Yen			
	March 31, 2016			
	Level 1	Level 2	Level 3	Total
(Financial assets)				
Financial assets measured at FVPL				
Marketable securities and investment securities	¥ 356	¥ —	¥ 156	¥ 512
Other financial assets	—	—	6,753	6,753
Financial assets measured at FVOCI				
Investment securities	151,845	—	1,715	153,561
Total	¥ 152,201	¥ —	¥ 8,625	¥ 160,826

	Millions of Yen			
	March 31, 2017			
	Level 1	Level 2	Level 3	Total
(Financial assets)				
Financial assets measured at FVPL				
Marketable securities and investment securities	¥ 358	¥ —	¥ 132	¥ 490
Other financial assets	—	19	6,836	6,855
Financial assets measured at FVOCI				
Investment securities	160,167	—	1,893	162,060
Total	¥ 160,525	¥ 19	¥ 8,861	¥ 169,404

	Thousands of U.S. Dollars			
	March 31, 2017			
	Level 1	Level 2	Level 3	Total
(Financial assets)				
Financial assets measured at FVPL				
Marketable securities and investment securities	$ 3,197	$ —	$ 1,175	$ 4,372
Other financial assets	—	168	61,040	61,208
Financial assets measured at FVOCI				
Investment securities	1,430,058	—	16,902	1,446,960
Total	$ 1,433,256	$ 168	$ 79,117	$ 1,512,540

Note: For the years ended March 31, 2016 and 2017, the Group has not transferred any financial assets or liabilities between Levels 1, 2, and 3.

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:

	Millions of Yen			
	March 31, 2016			
	Level 1	Level 2	Level 3	Total
(Financial assets)				
Financial assets measured at amortized cost				
Marketable securities and investment securities	—	50,198	—	50,198
Other financial assets	800	—	—	800

	Millions of Yen			
	March 31, 2017			
	Level 1	Level 2	Level 3	Total
(Financial assets)				
Financial assets measured at amortized cost				
Marketable securities and investment securities	—	31,689	—	31,689
Other financial assets	—	20,800	—	20,800

	Thousands of U.S. Dollars			
	March 31, 2017			
	Level 1	Level 2	Level 3	Total
(Financial assets)				
Financial assets measured at amortized cost				
Marketable securities and investment securities	—	282,934	—	282,934
Other financial assets	—	185,714	—	185,714

Note: For the years ended March 31, 2016 and 2017, the Group has not transferred any financial assets or liabilities between Levels 1, 2, and 3.

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:

	Millions of Yen		Thousands of U.S. Dollars
	For the year ended March 31, 2016	For the year ended March 31, 2017	For the year ended March 31, 2017
Balance at beginning of the year	¥ 7,948	¥ 8,625	$ 77,008
Total gains or losses	363	254	2,266
Profit or loss	133	76	681
Other comprehensive income	229	178	1,585
Purchase	404	343	3,062
Sale	—	—	—
Settlement	(89)	(361)	(3,220)
Balance at end of the year	¥ 8,625	¥ 8,861	$ 79,117

Notes: 1. Profit or loss included in total gains or losses are related to financial assets measured at FVPL as of the consolidated fiscal year end. These gains and losses are included in “Finance income” and “Finance costs.”
2. Other comprehensive income included in total gains or losses are related to financial assets measured at FVOCI as of the consolidated fiscal year end. 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.

Note 34

Share-based payment

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

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.
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

	March 31, 2016		March 31, 2017		March 31, 2017
	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 period	—	—	14,500	1	0.01
Granted	2,900	1	13,000	1	0.01
Exercised	—	—	—	—	—
Forfeited	—	—	—	—	—
Outstanding at the end of the period	2,900	1	27,500	1	0.01
Options exercisable, at the end of the period	—	—	—	—	—

Notes: 1. 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 the fiscal year ended March 31, 2016.
2. The exercise price of unexercised share options was ¥1 ($0.01) for the current fiscal year and the weighted-average remaining life was 38.8 years as of March 31, 2017.

(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, 2016	For the year ended March 31, 2017	For the year ended March 31, 2017
Fair value	¥ 10,776	¥ 3,405	$ 30
Share price at the grant date	¥ 13,950	¥ 4,066	$ 36
Exercise price	¥ 1	¥ 1	$ 0.01
Expected volatility	31.122%	32.316%	
Option life	20years	20years	
Expected dividend yield	¥ 180	¥ 36	$ 0.32
Risk-free interest rate	1.218%	0.086%	

Notes: 1. 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 the fiscal year ended March 31, 2016.
2. The expected volatility is estimated based on share prices for the past 20 years.

(4) Expenses Related to Share-based Payment

Expenses related to share-based payments were as follows.

	Millions of Yen		Thousands of U.S. Dollars
	For the year ended March 31, 2016	For the year ended March 31, 2017	For the year ended March 31, 2017
Share-based payments	¥ 23	¥ 41	$ 366

Note 35

Non-cash Transactions

Non-cash transactions (investments and financial transactions that do not involve the use of cash and cash equivalents) are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	For the year ended March 31, 2016	For the year ended March 31, 2017	For the year ended March 31, 2017
Property, plant, and equipment acquired under finance leases	¥ 594	¥ 532	$ 4,746
Total	¥ 594	¥ 532	$ 4,746

Note 36

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, 2016	March 31, 2017
			(%)	(%)
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.

(3) Remuneration of Key Management Personnel

The remuneration of the Group's key management personnel is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	For the year ended March 31, 2016	For the year ended March 31, 2017	For the year ended March 31, 2017
Remuneration	¥ 257	¥ 244	$ 2,178
Bonuses	39	60	537
Share-based payments	23	41	366
Total	¥ 319	¥ 345	$ 3,081

Notes: 1. Remuneration of key management personnel comprises the remuneration for seven people for the years ended March 31, 2017 (nine people for the years ended March 31, 2016), 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 monthly fixed remuneration, bonuses and share-based payments, and remuneration of outside directors and auditors consists of only monthly fixed remuneration. The monthly 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 data from external institutions. The bonuses are determined in consideration of factors such as their annual performance. As for the stock options, the number of stock options to be granted is determined in consideration of factors 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 monthly fixed remuneration. To determine the level of remuneration of outside directors, the Company refers to levels of remuneration in other companies so that the Company can seek suitable persons who have significant experience and broad knowledge.

Note 37

Commitments for Expenditure

Payment commitments after the end of each fiscal year date are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	March 31, 2016	March 31, 2017	March 31, 2017
Property, plant, and equipment	¥ 6,188	¥ 6,669	$ 59,547
Intangible assets	126	398	3,552
Total	¥ 6,314	¥ 7,067	$ 63,099

In addition to the above commitments, 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 ¥26,727 million and ¥23,767 million ($212,205 thousand) as of March 31, 2016 and 2017, 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.

Note 38

Approval of Financial Statements

The consolidated financial statements for the year ended March 31, 2017, were approved by Gyo Sagara, President and Representative Director, on June 29, 2017.

Note 39

Significant Subsequent Events

Acquisition and Retirement of Treasury Shares

The Company resolved at a meeting of the Board of Directors held on June 13, 2017 to acquire its treasury shares under Article 156 of the Companies Act, applied by the reading of terms pursuant to the provisions of Paragraph 3, Article 165 of the Act. The Company also resolved to retire treasury shares pursuant to the provisions of Article 178 of the Companies Act.

(1) Reasons for the Acquisition and Retirement of Treasury Shares

The shares will be acquired and retired for the purpose of improving capital efficiency and as a part of measures for shareholder return.

(2) Contents of the Acquisition

(1) Class of shares to be acquired:	Common stock of the Company
(2) Total number of shares to be acquired:	Up to 20 million shares (The percentage compared to the total number of the shares issued excluding own shares: 3.77%)
(3) Aggregate amount of acquisition cost:	Up to ¥50 billion
(4) Period of acquisition:	From June 14, 2017 to September 29, 2017
(5) Method for acquisition:	Purchase on the Tokyo Stock Exchange
(6) Schedule after acquisition:	All the acquired common stock will be retired

(3) Contents of the Retirement

(1) Class of shares to be retired:	Common stock of the Company
(2) Total number of shares to be retired:	All the common stock acquired in accordance with Section 2 above and an additional 30 million shares (treasury shares owned other than Section 2 above).
(3) Scheduled date of retirement:	October 31, 2017

Independent Auditor's Report

Deloitte.

Deloitte Touche Tohmatsu LLC
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Osaka 541-0042
Japan

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Fax: +81 (6) 4560 6001
www.deloitte.com/jp/en

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated statement of financial position of ONO PHARMACEUTICAL CO., LTD. and its subsidiaries as of March 31, 2017, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ONO PHARMACEUTICAL CO., LTD. and its consolidated subsidiaries as of March 31, 2017, and the consolidated results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

As discussed in Note 39 "Significant Subsequent Events" to the consolidated financial statements, the Company resolved at a meeting of the Board of Directors held on June 13, 2017 to acquire its treasury shares and retire treasury shares. 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 2 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC.

June 29, 2017

Member of
Deloitte Touche Tohmatsu Limited

ISO 26000 Comparison Table

ISO26000		ONO PHARMACEUTICAL Corporate Report 2017	
Core subjects	Issues	Pages	Related items
Organizational Governance		P. 017-018 P. 019-020 P. 020 P. 020 P. 021 P. 021	• ONO's Value Creation Process • Corporate Governance Structure • Internal Control System • Corporate Governance Code • Risk Management • Business Continuity Plan (BCP)
Human Rights	Due diligence	P. 034-035 P. 035 P. 036	• Diversity Promotion Initiatives • Respect for Human Rights • Enhancing Cultivation of Employee-friendly Workplaces
	Human rights risk situations		
	Avoidance of complicity		
	Resolving grievances		
	Discrimination and vulnerable groups		
	Civil and political rights		
	Economic, social and cultural rights		
	Fundamental principles and rights at work		
Labor Practices	Employment and employment relationships	P. 033 P. 034-035 P. 036	• Development of Human Resources • Diversity Promotion Initiatives • Enhancing Cultivation of Employee-friendly Workplaces
	Conditions of work and social protection		
	Social dialog		
	Health and safety at work		
	Human development and training in the workplace		
The Environment	Prevention of pollution	P. 042 P. 043-044 P. 044	• Promotion of Environmental Management • Ongoing Environmental Protection Activities • Environmental Efficiency / Environmental Accounting
	Sustainable resource use		
	Climate change mitigation and adaptation		
	Protection of the environment, biodiversity and restoration of natural habitats		
Fair Operating Practices	Anti-corruption	P. 037 P. 037-038	• ONO's Ethical System • Compliance Promotion Initiatives
	Responsible political involvement		
	Fair competition		
	Promoting social responsibility in the value chain		
	Respect for property rights		
Consumer Issues	Fair marketing, factual and unbiased information and fair contractual practices	P. 013-016 P. 023-032	• Key Product Profiles • Innovative Pharmaceutical Products (Research, Development, Corporate Development and Strategy, Manufacturing, Corporate Regulatory Compliance Safety and Quality Assurance, and Marketing)
	Protecting consumers' health and safety		
	Sustainable consumption		
	Consumer service, support, and complaint and dispute resolution		
	Consumer data protection and privacy		
	Access to essential services		
	Education and awareness		
Community Involvement and Development	Community involvement	P. 039-040	Various Corporate Social Responsibility Activities
	Education and culture		
	Employment creation and skills development		
	Technology development and access		
	Wealth and income creation		
	Health		
	Social investment		

Independent Practitioner's Assurance Report

Deloitte.
デロイト トーマツ

(TRANSLATION)

Independent Practitioner's Assurance Report

August 7, 2017

Mr. Gyo Sagara,
President, Representative Director, and Chief Executive Officer,
ONO PHARMACEUTICAL CO., LTD.

Masahiko Sugiyama
Representative Director
Deloitte Tohmatsu Sustainability Co., Ltd.
3-3-1, Marunouchi, Chiyoda-ku, Tokyo

We have undertaken a limited assurance engagement of the Energy-derived CO_2 Emissions (the "CO_2 Information") for the year ended March 31, 2017 included on page 43 of the "Corporate Report 2017" (the "Report") of ONO PHARMACEUTICAL CO., LTD. (the "Company").

The Company's Responsibility

The Company is responsible for the preparation of the CO_2 Information in accordance with the calculation and reporting standard adopted by the Company (indicated with the CO_2 Information included in the Report). CO_2 quantification is subject to inherent uncertainty for reasons such as incomplete scientific knowledge used to determine emissions factors and numerical data.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior. We apply International Standard on Quality Control 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our Responsibility

Our responsibility is to express a limited assurance conclusion on the CO_2 Information based on the procedures we have performed and the evidence we have obtained. We conducted our limited assurance engagement in accordance with the International Standard on Assurance Engagements ("ISAE") 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, issued by the International Auditing and Assurance Standards Board ("IAASB"), ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*, issued by the IAASB and *the Practical Guideline for the Assurance of Sustainability Information*, issued by the Japanese Association of Assurance Organizations for Sustainability Information.

The procedures we performed were based on our professional judgment and included inquiries, observation of processes performed, inspection of documents, analytical procedures, evaluating the appropriateness of quantification methods and reporting policies, and agreeing or reconciling with underlying records. These procedures also included the following:

- Evaluating whether the Company's methods for estimates are appropriate and had been consistently applied. However, our procedures did not include testing the data on which the estimates are based or reperforming the estimates.
- Undertaking site visits to assess the completeness of the data, data collection methods, source data and relevant assumptions applicable to the sites.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed a reasonable assurance engagement.

Limited Assurance Conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the Company's CO_2 Information is not prepared, in all material respects, in accordance with the calculation and reporting standard adopted by the Company.

The above represents a translation, for convenience only, of the original Independent Practitioner's Assurance report issued in the Japanese language.

Member of
Deloitte Touche Tohmatsu Limited

Corporate Information

Management (as of June 29, 2017)

Members of the Board of Directors

President, Representative Director, and Chief Executive Officer	Gyo Sagara	
Member of the Board of Directors, Vice President Executive Officer/ Executive Director, Clinical Development	Hiroshi Awata	
Member of the Board of Directors, Senior Executive Officer/ Executive Director, Corporate Management & Director, Product Strategy Department	Kei Sano	
Member of the Board of Directors, Executive Officer/ Executive Director, Corporate Regulatory Compliance Safety and Quality	Kazuhito Kawabata, Ph.D	
Member of the Board of Directors, Executive Officer/ Director, Corporate Research	Isao Ono	
Member of the Board of Directors, Outside Director	Yutaka Kato	Professor, Doshisha Business School
Member of the Board of Directors, Outside Director	Jun Kurihara	Research Director, The Canon Institute for Global Studies Visiting Professor, School of Policy Studies, Kwansei Gakuin University

Audit & Supervisory Board Members

Audit & Supervisory Board Member	Katsuyoshi Nishimura	
Audit & Supervisory Board Member	Shinji Fujiyoshi	

Outside Corporate Auditor

Outside Audit & Supervisory Board Member	Hiromi Sakka	CPA
Outside Audit & Supervisory Board Member	Yasuo Hishiyama	Attorney-at-law

Corporate Officers

Corporate Officer/ Executive Director, Sales and Marketing	Hiroshi Ichikawa
Corporate Officer/ Director, Nivolumab Strategic Planning & Chairman, Scientific Review Committee of R&D Programs	Shozo Matsuoka, Ph.D
Corporate Officer/ Executive Director, Corporate Development & Strategy	Toichi Takino, Ph.D
Corporate Officer/ Director, Kyusyu-Okinawa Branch	Katsuji Teranishi
Corporate Officer, Executive Director, CMC Production & CMC Research	Takuya Seko, Ph.D
Corporate Officer, Director, Corporate Communications	Yukio Tani
Corporate Officer, Business Unit Director, Oncology Business Unit, Sales and Marketing	Toshihiro Tsujinaka
Corporate Officer, Executive Director, Discovery and Research	Hiromu Habashita
Corporate Officer, Executive Director, Metropolitan area First Branch	Katsunori Morio

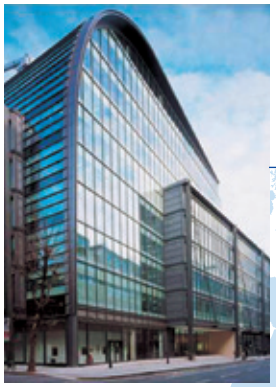
From left:
Kawabata, Awata, Kato,
Sagara, Kurihara, Sano, Ono

From left:
Nishimura, Hishiyama, Sakka, Fujiyoshi

Corporate Information

Profile (as of March 31, 2017)

Company Name	ONO PHARMACEUTICAL CO., LTD.
Founded	1717
Date of Incorporation	July 4, 1947
Paid-in Capital	¥17,358 million
Number of Shareholders	20,919
Number of Employees	3,290 (consolidated) 3,062 (unconsolidated)



EUROPE
ONO PHARMA UK LTD.

● Branch

Fukui Research Institute

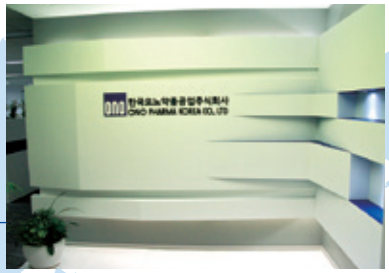
Tsukuba Research Institute

Minase Research Institute

Fujiyama Plant

Joto Plant

JAPAN
ONO PHARMACEUTICAL CO., LTD.
Headquarters



KOREA
ONO PHARMA KOREA CO., LTD.

TAIWAN
ONO PHARMA TAIWAN CO., LTD.

NORTH AMERICA
ONO PHARMA USA, INC.

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Branches in Japan
Hokkaido, Tohoku, Metropolitan area First,
Metropolitan area Second, Kanto-Koushinetsu, Tokai,
Kansai-Hokuriku, Chugoku-Shikoku, Kyusyu-Okinawa
✻ There are offices and sales branches in other major cities across the country.

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

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Oriental Pharmaceutical & Synthetic Chemical Co., Ltd.
Bee Brand Medico Dental Co., Ltd.
Namicos Corporation

Corporate Website
http://www.ono.co.jp/eng/

ONO PHARMACEUTICAL CO.,LTD.

VEGETABLE OIL INK

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