Corporate Report 2018

Be passionate challengers

Year ended March 31, 2018

ONO PHARMACEUTICAL CO.,LTD.

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.

Contents

■ 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, 2017 through March 31, 2018

✻ The report is based on activities in FY2017, 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 2018 are also covered.

■ Reference Guidelines

Sustainability Reporting Guidelines Version 4 by Global Reporting Initiative (GRI)
ISO 26000: 2010 (Guidance on social responsibility)
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 2018

■ 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.

Beyond its 300th Milestone: Toward Another 100 Years For the Health of People, ONO PHARMACEUTICALS Constantly Works Upholding its Original Values and Philosophy

ONO traces its origin to 1717 when Ichibei Fushimiya the First established an apothecary in Doshomachi, Osaka, the company celebrated 300 years of business foundation in 2017, marking a new step in its history.
Since our establishment in 1717, we have upheld the corporate philosophy “Dedicated to Man’s Fight against Disease and Pain,” and remain fully committed to the pharmaceutical business we engage in. We have united our efforts in meeting our challenge to create innovative drugs for delivery to patients worldwide. Even having passed our 300th anniversary as one milestone, we will proceed with our original stance.

The environment surrounding healthcare is changing at astonishing speed.
Globally, changes are occurring in scientific and technological advances, progression of open innovation, and utilization of information technology and engineering. Domestically, Japan’s healthcare system is facing an aging population that causes changes in disease structure, increased social security costs, introduction of healthcare cost reduction measures, and many other challenges we should address as a pharmaceutical company.

In order to continue to deliver innovative drugs to patients in any circumstances, we must respond rapidly with agility to any changes that challenge our operations. I believe we should continue to adopt a wide range of values and hire a diverse workforce to reflect our international outlook and continue being challengers for further growth.
Our corporate vision beyond growth is to be a Global Specialty Pharma company, priding ourselves in the original and innovative new drugs we offer and in competing in the global arena. In addition, we will also push forward CSR management considering it our corporate responsibility to make environmental and social contributions, placing our determination to deliver high quality drugs for people’s healthcare at the foundation of our management.

Holding up dignity and pride as a company that engages in the business of pharmaceuticals that impact human lives, we remain acutely aware of our social responsibility and will constantly face up to the challenge of disease and pain.

We highly appreciate your continued and most generous support and cooperation in these endeavors.

Gyo Sagara

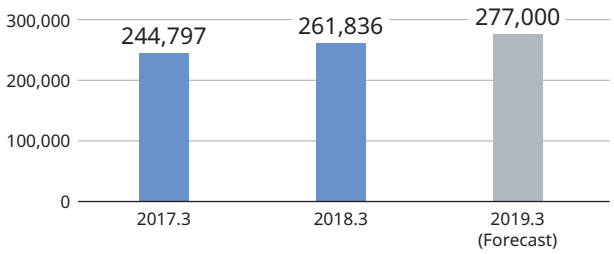
President, Representative Director, and CEO

Highlights 2017/4-2018/3

Financial/Non-Financial Highlights

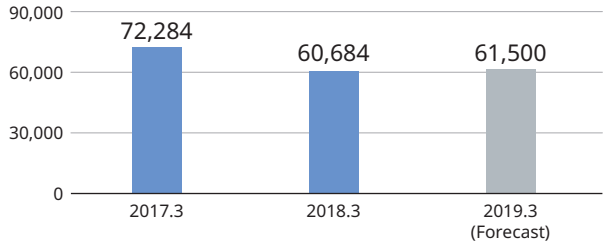
Financial Information

Revenue (Millions of Yen)



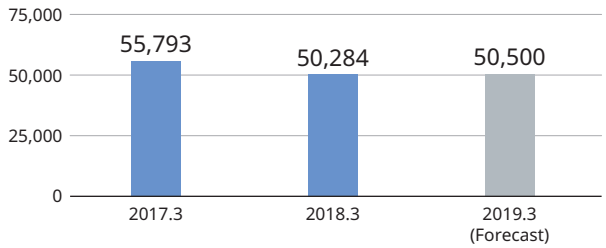
Increased by 7.0% year-on-year due to increased royalty revenue and expanded sales of new key products offsetting the negative impact of the OPDIVO price cut in Japan.

Operating profit (Millions of Yen)



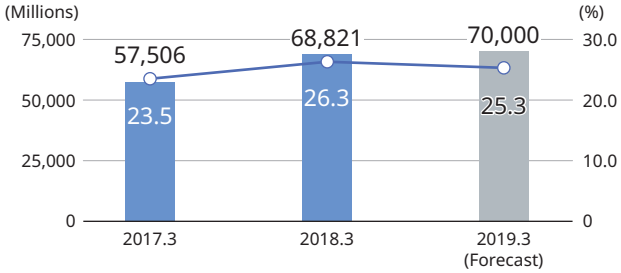
Decreased by 16.0% year-on-year mainly due to increased R&D costs and SG&A expenses, and reaction to the patent infringement litigation settlement revenue posted in the previous year.

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



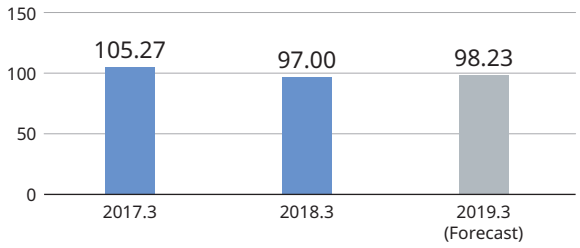
Net financial income improved from the previous year but the profit before tax decreased by 9.9% compared to the previous year due to decreased operating profit.

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

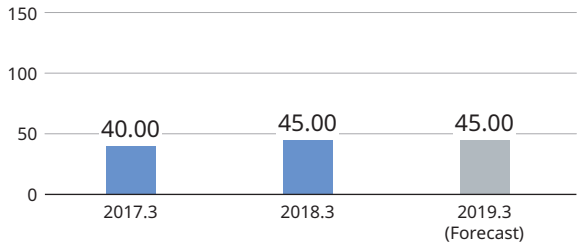


Increased by 19.7% compared to the previous year due to increased OPDIVO-related clinical trials, sponsored research projects and research collaborations in active pursuit of R&D activities.

Basic earnings per share (Yen)



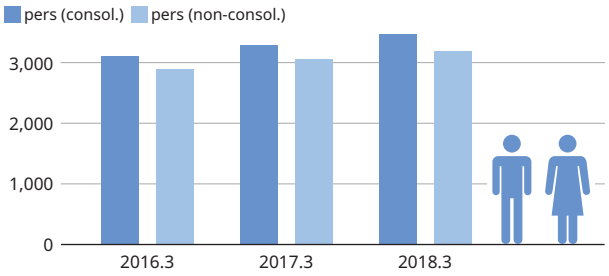
Dividend per share (Yen)



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

Non-Financial Information

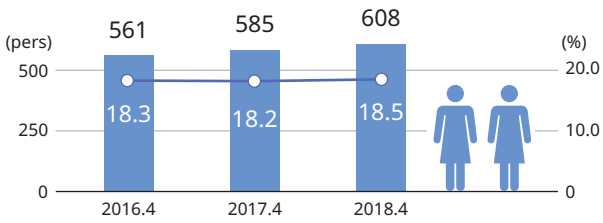
Number of employees



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

▶ Human Resources and Human Rights, p. 041

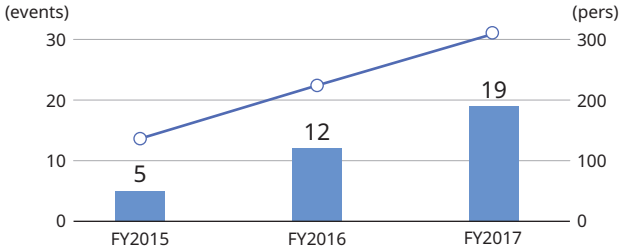
Number of female employees / Ratio of female to male workforce



We direct our strong endeavors in creating systems that enable women to flourish. Thanks to efforts we have made, female employees have increased in number across all divisions since 2011.

▶ Human Resources and Human Rights, p. 041

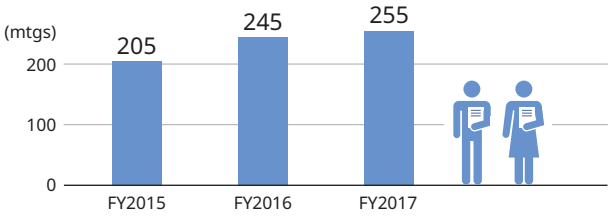
Participation record for "Relay For Life" as part of CSR activities



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. Both the frequency of participation and the number of participants have increased year by year.

▶ Society, p. 045

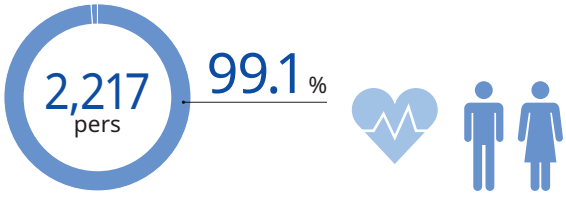
Meetings with institutional investors (personal interviews/phone conferences)



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

▶ Information Disclosure, p. 034

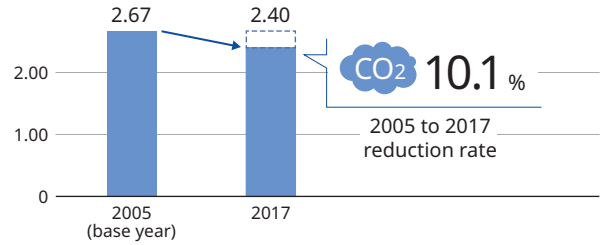
Comprehensive medical examination rate (February 2018)



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

▶ Promotion of Health and Productivity Management, p. 044

Energy-derived CO_2 emissions (10,000 tons-CO_2)



We have formulated a voluntary environmental action plan. Under the plan, we set and work to achieve numerical targets. Sites where data were collected: Fujiyama Plant, Joto Plant, Minase Research Institute, Fukui Research Institute, Tsukuba Research Institute.

▶ The Environment, p. 047

Highlights 2017/4-2018/3

Calendar of Events FY2017

R&D Topics

Development

Anticancer Drug OPDIVO Approved for Additional Indications around the World

Additional Indications

- **Japan**: September | Gastric cancer
- **South Korea**: August | Renal cell carcinoma, Classical Hodgkin's lymphoma, Head and neck cancer, Urothelial carcinoma, Melanoma (first-line therapy/combination with Yervoy Injection); March | Gastric or esophago-gastric junction cancer
- **US**: August | MSI-H or dMMR metastatic colorectal cancer; September | Hepatocellular carcinoma; December | Adjuvant therapy in resected melanoma

Alliance

Alliance Agreements Formed through Vigorous Licensing Activities regarding New Drug Candidates

In-Licensing

- **Array Biopharma**: May | MEK inhibitor Binimetinib, BRAF inhibitor Encorafenib (rights to develop and commercialize in Japan and South Korea)
- **Seikagaku Corporation**: August | Osteoarthritis drug SI-613 (rights to co-develop and market in Japan)
- **Karyopharm Therapeutics**: October | Oral XPO1 inhibitor Selinexor, second-generation oral XPO1 inhibitor KPT-8602 (rights to develop and commercialize in Japan, South Korea, Taiwan, Hong Kong and ASEAN countries)

2017/4 | 2017/5 | 2017/6 | 2017/7 | 2017/8 | 2017/9

Social Activity Topics

April to June

Great East Japan Earthquake reconstruction assistance activity "Operation Slimmer and Healthier in Iwate" conducted

Activities aimed at conveying the joy of sports and exercises to children of the disaster affected areas

May

Tree planting in Fuji-sanroku Nature Park undertaken

Participation in an activity that contributes to the local community

September

Hands-on learning program "Wonderful Water Expedition" for elementary school children co-sponsored

Co-sponsorship of hands-on learning in environmental education, encouraging students' interest in the water environment in the Mt. Fuji area

■ **Europe**: April | Head and neck cancer; June | Urothelial carcinoma
■ **Taiwan**: April | Renal cell carcinoma; August | Head and neck cancer;
September | Non-squamous non-small cell lung cancer; October | Classical Hodgkin's lymphoma, Urothelial carcinoma, Melanoma (first-line therapy/combination with Yervoy Injection);
January | Gastric or esophago-gastric junction cancer; March | Hepatocellular carcinoma

Out-Licensing

■ **Bristol-Myers Squibb**: December
Prostaglandin E_2 Receptor Antagonist ONO-4578 (rights to develop and commercialize worldwide except in Japan, South Korea, Taiwan, China and ASEAN countries)

Development Collaboration

■ **Eisai**: September
Combination therapy of OPDIVO and multi-kinase inhibitor Lenvima for the treatment of hepatocellular carcinoma (joint development in Japan)

Open Innovation

Research Alliance Agreements Formed to Adopt World-Leading Technologies and Knowledge

Drug Discovery Alliances

■ **Neurimmune**: November | Drug discovery in neurodegenerative disease area exploiting antibody development technology
■ **Cyclenium Pharma**: December | Drug discovery exploiting next generation synthetic molecule macrocyclic technology
■ **Schrödinger**: December | Drug discovery using advanced computational methods
■ **Merus**: March | Drug discovery in autoimmune disease area exploiting bispecific antibody development technology

2017/10 | 2017/11 | 2017/12 | 2018/1 | 2018/2 | 2018/3

November

Outreach class program "Secrets of Pharmaceuticals!" conducted

Continued conduct of outreach classes for students of the elementary school near the Minase Research Institute

December

Participation in UN Global Compact

Announcement of participation in efforts to establish a global framework for achieving sustainable growth

UN GLOBAL COMPACT
Network Japan
WE SUPPORT

March

Awardees announced for the 2018 Osamu Hayaishi Memorial Scholarship for Study Abroad

Support to the Japanese Biochemical Society project established to enable many young researchers to study abroad

Great East Japan Earthquake reconstruction assistance activity "Operation Slimmer and Healthier in Fukushima" conducted

January to February

Outreach classes conducted for middle and high school students

Continued conduct of outreach classes on the theme of dementia

Key Product Profiles

ONCOLOGY | Sales in FY2017 | Percentage increase/ decrease from FY2016

OPDIVO

Intravenous Infusion for the Treatment of Malignant Tumors

90.1 billion yen

–13.3%

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 2018 received additional approval for unresectable, advanced or recurrent non-small cell lung cancer, unresectable or metastatic renal cell carcinoma, relapsed or refractory classical Hodgkin lymphoma, recurrent or metastatic head and neck cancer, and unresectable advanced or recurrent gastric cancer which has progressed after chemotherapy. The number of patients using OPDIVO during FY2017 totals around 17,000. Although the drug price was reduced by 50% in February 2017, FY2017 sales reached 90.1 billion yen thanks to an approximate 45% year-on-year increase in volume terms.

ONO saw increases in sales of OPDIVO in the world except Japan, South Korea and Taiwan, with its partner Bristol-Myers Squibb (U.S.A.) obtaining regulatory approval in more than 60 countries for the treatment of several types of cancer. Accordingly, royalty income from OPDIVO sales overseas totaled 39.8 billion yen.

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. In the drive to add more indications to OPDIVO, ONO is currently working to obtain approval for more than 20 additional indications for cancers. In FY2018, the company plans to apply for approval of partial changes for OPDIVO, including in therapy line expansion and combination therapy.

OPDIVO: Development Status (Late stage)

As of July 31, 2018

Target Disease		Development Stage		
		Japan	US&EU	South Korea & Taiwan
Melanoma	First-and later-line treatment	Approved	Approved	Approved
	Adjuvant therapy	Filing	Approved (US) / Filing (EU)	Ⅲ
Non-small cell lung cancer	Second- and later-line treatment	Approved	Approved	Approved
	First-line treatment	Ⅲ	Filing	Ⅲ
Renal cell carcinoma	Second- and later-line treatment	Approved	Approved	Approved
	First-line treatment	Filing	Approved (US) / Filing (EU)	Ⅲ
Hodgkin lymphoma		Approved	Approved	Approved
Head and neck cancer		Approved	Approved	Approved
Gastric cancer		Approved	Ⅲ	Approved
Urothelial carcinoma		Ⅲ	Approved	Approved
Hepatocellular carcinoma		Ⅲ	Approved (US) / Ⅲ (EU)	Ⅲ (KR) / Approved (TW)
Colorectal cancer		Ⅱ / Ⅲ	Approved (US) / Ⅱ / Ⅲ (EU)	-
Malignant pleural mesothelioma		Filing	Ⅲ	–
Small cell lung cancer		Ⅲ	Filing (US) / Ⅲ (EU)	Ⅲ
Gastric or esophago-gastric junction cancer		Ⅲ	Ⅲ	Ⅲ
Esophageal cancer		Ⅲ	Ⅲ	Ⅲ
Glioblastoma		Ⅲ	Ⅲ	-
Multiple myeloma		Ⅱ	Ⅲ	-
Ovarian cancer		Ⅲ	Ⅲ	-

ONCOLOGY

KYPROLIS
for Intravenous Injection for the Treatment of Malignant Tumors

5.5 billion yen
+182.4%

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. In May 2017, additional approval was obtained for 2-drug therapy in combination with dexamethasone, widening the treatment options. 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 no longer responds to therapy, also known as refractory disease. Additionally, adverse drug reactions and co-morbid conditions have been reported following long-term treatment, making continued treatment difficult.
Sales of KYRPOLIS reached 5.5 billion yen in FY2017. Amid increased competition from the fast-paced launch of new anti-multiple myeloma drugs, ONO will continue promotion of proper use and other information dissemination to expand the market share for KYPROLIS.

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

9.9 billion yen
+0.7%

EMEND / 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) are used in at least 80% of cases in which an anticancer drug with a high risk of inducing nausea and vomiting is used, and in at least 40% of cases in which an anticancer drug with a moderate risk of inducing nausea and vomiting is used. In March 2016, PROEMEND received additional approval for use in infants over six-months and in pediatric patients under 12-years of age, which enabled medical practitioners to administer the drug to pediatric patients who have common difficulty in taking capsules orally. Meanwhile, changes to standard cancer therapy have led to a reduced number of patients treated with highly emetogenic anti-cancer drugs. The sales of EMEND and PROEMEND together reached 9.9 billion yen in FY2017.
Major overseas guidelines (including MASCC/ESMO Antiemetic Guidelines, NCCN Guidelines, and ASCO Guidelines) have recommended the use of EMEND for patients using carboplatin regimen. ONO will therefore boost activities for the drug and increase its use in lung and gynecological cancers, which can be treated with it.

Key Product Profiles

NEW PRODUCTS | Sales in FY2017 | Percentage increase/ decrease from FY2016

GLACTIV Tablets

for the Treatment of Type 2 Diabetes

27.4 billion yen

–6.7%

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. GLACTIV has been impacted by competitors such as combination drugs and once-weekly administered formulations 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 therefore carry on its effort at earning its reputation for GLACTIV Tablets being the first-choice drug in treatment of type 2 diabetes.

ORENCIA

for Subcutaneous Injection for the Treatment of Rheumatoid Arthritis

14.1 billion yen

+22.0%

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 for subcutaneous injection, evaluated in terms of both efficacy and safety, is seeing increased use. In addition, ORENCIA auto-injector, a new dosage form launched in May 2016, is now penetrating the market. It has given an additional treatment option to practitioners and is easier for patients to administer physically and functionally, giving hope that it can 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.

FORXIGA Tablets

for the Treatment of Type 2 Diabetes

11.1 billion yen

+41.8%

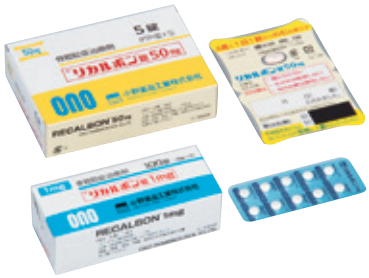
FORXIGA is an oral drug for the treatment of type 2 diabetes. This drug reduces blood sugar by excreting excess blood glucose via urine through the inhibition of SGLT2, a transporter that acts to regulate reabsorption of glucose in the kidney tubules. It improves high blood sugar after meals and fasting blood sugar levels, independently of insulin. FORXIGA, the first SGLT2 inhibitor in the world, keeps a top-class share in sales among drugs of the same mechanism of action based on the strength of ample evidence globally. We will continue taking advantage of ONO's track record in the diabetes area along with our marketing partner AstraZeneca, so as to add new prescriptions of FORXIGA.

RECALBON Tablets

for the Treatment of Osteoporosis

10.9 billion yen

–3.3%

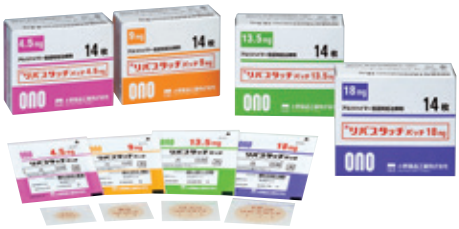


RECALBON is the first oral bisphosphonate discovered in Japan for the treatment of osteoporosis. Although the osteoporosis drug market faces intense competition due to the entrance of new drugs and the proliferation of generic bisphosphonates on the market, with 20-30% of osteoporosis patients currently receiving drug therapy, much of the market remains to be exploited, so ONO will press ahead to penetrate the market, using as a strong selling point its 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.

NEW PRODUCTS

RIVASTACH Patch
for the Treatment of Alzheimer's Disease

8.9 billion yen
+0.3%



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. ONO will communicate the characteristics of RIVASTACH's dosage form of patch as well as its efficacy and safety to continue dissemination of information. ONO will also work on disseminating drug therapy guidance based on the Clinical Practice Guideline for Dementia.

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

3.4 billion yen
Launch: February 2017

PARSABIV is a drug to treat secondary hyperparathyroidism, a complication of chronic renal failure. The drug 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. PARSABIV is an intravenous injection for dialysis patients to be administered through the dialysis circuit and such administration is expected to reduce the burden of oral medications in dialysis patients. Since its launch in February 2017, the number of prescriptions of PARSABIV has steadily risen. ONO will continue to disseminate information on PARSABIV's efficacy and safety to consolidate its rating.

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

5.6 billion yen
–1.8%

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
for the Treatment of Overactive Bladder (OAB)

4.1 billion yen
–13.4%

STAYBLA is a selective anticholinergic antagonist binding to muscarinic acetylcholine M3 and M1 receptors. It comes in two types, regular and orodispersible (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 (LONG-TERM LISTED PRODUCTS)

OPALMON Tablets
for the Treatment of Peripheral Circulatory Disorder

14.4 billion yen
–15.6%

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
for the Treatment of Bronchial Asthma and Allergic Rhinitis

8.8 billion yen
–19.3%

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

Status of Development Pipeline (As of July 31, 2018)

Main Status of Development Pipelines (Oncology)

Product (Development Code)	Pharmacological Action, etc.	Proposed Indication	Development Stage	Area*	
			I / II / III / Filed		
Opdivo Intravenous Infusion	Human anti-human PD-1 monoclonal antibody	Malignant pleural mesothelioma	→ / → / → / →	(JP)	Co-development with Bristol-Myers Squibb
			→ / → / →	(US, EU)	
		Small cell lung cancer	→ / → / → / →	(US)	
			→ / → / →	(JP, KR, TW, EU)	
		Esophageal cancer	→ / → / →	(JP, KR, TW, US, EU)	
		Gastric or esophago-gastric junction cancer	→ / → / →	(JP, KR, TW, US, EU)	
		Hepatocellular carcinoma	→ / → / →	(JP, KR, EU)	
		Glioblastoma	→ / → / →	(JP, US, EU)	
		Ovarian cancer	→ / → / →	(JP, US, EU)	
		Colorectal cancer	→ / → / →	(JP, EU)	
		Gastric cancer	→ / → / →	(US, EU)	
		Urothelial carcinoma	→ / → / →	(JP)	
		Multiple myeloma	→ / → / →	(US, EU)	
			→ / →	(JP)	
		Pancreatic cancer	→ / →	(JP, KR, TW, US, EU)	
		Solid tumors (Cervix carcinoma, Uterine body cancer, Soft tissue sarcoma)	→ / →	(JP)	
		Central nervous system lymphoma, Primary testicular lymphoma	→ / →	(JP, US, EU)	
		Diffuse large B cell lymphoma	→ / →	(US, EU)	
		Follicular lymphoma	→ / →	(US, EU)	
		Prostate cancer	→ / →	(US, EU)	
		Solid tumors (Triple negative breast cancer, Gastric cancer, Pancreatic cancer, Small cell lung cancer, Urothelial carcinoma, Ovarian cancer)	→ / →	(US, EU)	
		Virus positive / negative solid carcinoma	→ / →	(JP, KR, TW, US, EU)	
		Biliary tract cancer	→ /	(JP)	
		Hematologic cancer (T-cell lymphoma, Multiple myeloma, Chronic leukemia, etc.)	→ /	(US, EU)	
		Chronic myeloid leukemia	→ /	(US, EU)	
Yervoy Injection	Anti-CTLA-4 antibody	Renal cell carcinoma	→ / → / → / →	(JP)	Co-development with Bristol-Myers Squibb
			→ / → / →	(KR, TW)	
		Non-small cell lung cancer	→ / → / →	(JP, KR, TW)	
		Small cell lung cancer	→ / → / →	(JP, KR, TW)	
		Head and neck cancer	→ / → / →	(JP, KR, TW)	
		Gastric cancer	→ / → / →	(JP, KR, TW)	
		Malignant pleural mesothelioma	→ / → / →	(JP)	
		Esophageal cancer	→ / → / →	(JP, KR, TW)	
		Urothelial carcinoma	→ / → / →	(JP, KR, TW)	
		Virus positive / negative solid carcinoma	→ / →	(JP, KR, TW)	
ONO-7702 / Encorafenib	BRAF inhibitor	Melanoma	→ / → / → / →	(JP)	In-license (Array BioPharma)
			→ / → / →	(KR)	
		Colorectal cancer	→ / → / →	(JP, KR)	
ONO-7703 / Binimetinib	MEK inhibitor	Melanoma	→ / → / → / →	(JP)	In-license (Array BioPharma)
			→ / → / →	(KR)	
		Colorectal cancer	→ / → / →	(JP, KR)	

Product (Development Code)	Pharmacological Action, etc.	Proposed Indication	Development Stage I	Development Stage II	Development Stage III	Development Stage Filed	Area*	
ONO-5371 / Metyrosine	Tyrosine hydroxylase inhibitor	Pheochromocytoma	→	→	→	→	(JP)	In-license (Valeant Pharmaceuticals North America)
Kyprolis for Intravenous Infusion	Proteasome inhibitor	Multiple myeloma	→	→	→		(JP)	In-license (Amgen)
ONO-7643 / Anamorelin	Ghrelin mimetic	Cancer anorexia / cachexia	→	→	→		(JP)	In-license (Helsinn Healthcare)
ONO-7701 (BMS-986205)	IDO1 inhibitor	Melanoma	→	→	→		(JP)	Co-development with Bristol-Myers Squibb
ONO-4687 (BMS-986227) / Cabiralizumab	Anti-CSF-1R antibody	Pancreatic cancer	→	→			(JP, KR, TW)	Co-development with Bristol-Myers Squibb
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
		B cell lymphoma	→	→			(EU)	Out-license (Gilead Sciences)
			→				(US)	
ONO-4482 (BMS-986016) / Relatlimab	Anti-LAG-3 antibody	Melanoma	→	→			(JP)	Co-development with Bristol-Myers Squibb
ONO-7807 (BMS-986258)	Anti-TIM-3 antibody	Solid tumor	→	→			(JP)	Co-development with Bristol-Myers Squibb
ONO-4481 (BMS-663513) / Urelumab	Anti-CD137 antibody	Solid tumor	→				(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-7705	XPO1 inhibitor	Multiple myeloma and non-Hodgkin lymphoma	→				(JP)	In-license (Karyopharm Therapeutics)
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	Development Stage II	Development Stage III	Development Stage Filed	Area*	
Onoact for Intravenous Infusion 50mg / 150mg (ONO-1101)	β_1 blocker (short acting)	Ventricular arrhythmia	→	→	→	→	(JP)	In-house
		Tachyarrhythmia in low cardiac function for pediatric use	→	→	→		(JP)	
		Tachyarrhythmia upon sepsis	→	→	→		(JP)	
Orencia IV	T-cell activation inhibitor	Lupus nephritis	→	→	→		(JP)	Co-development with Bristol-Myers Squibb
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)
ONO-5704 / SI-613	Hyaluronic acid-NSAID	Osteoarthritis	→	→	→		(JP)	In-license (Seikagaku)
ONO-2370 / Opicapone	Long acting COMT inhibitor	Parkinson's disease	→	→			(JP)	In-license (Bial)
ONO-5704 / SI-613	Hyaluronic acid-NSAID	Enthesopathy	→	→			(JP)	In-license (Seikagaku)
Opdivo Intravenous Infusion	Human anti-human PD-1 monoclonal antibody	Sepsis	→	→			(JP)	Co-development with Bristol-Myers Squibb
		Hepatitis C	→				(US, EU)	
		Sepsis	→				(US)	
ONO-4059 / Tirabrutinib	Bruton's tyrosine kinase (Btk) inhibitor	Sjögren syndrome	→	→			(US, EU)	Out-license (Gilead Sciences)
		Autoimmune disease	→				(JP)	In-house
ONO-5788	Growth hormone secretion inhibitor	Acromegaly	→				(US)	In-house

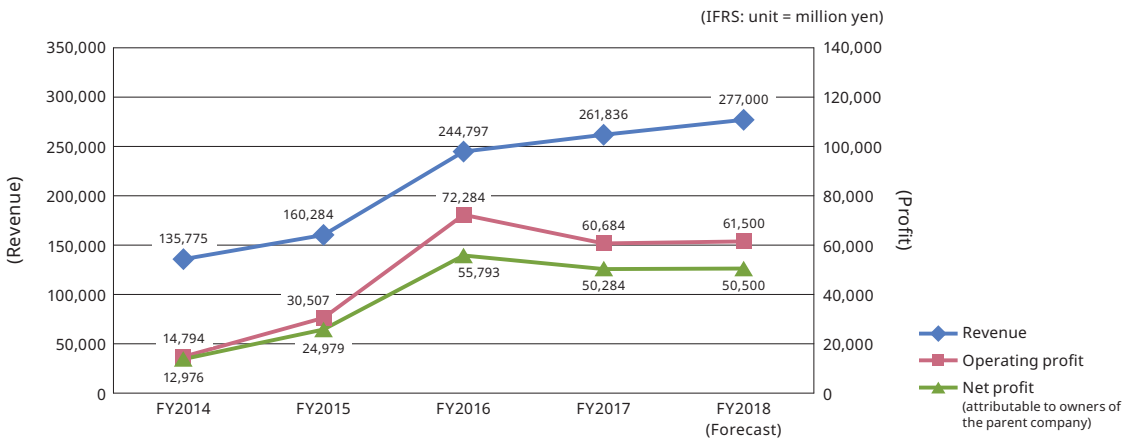
*JP / Japan KR / South Korea TW / Taiwan US / United States of America EU / European Union

Boosting R&D Capability to Discover Innovative Drugs, ONO Always Meets the Challenges that Face Us to Maximize Product Value

Q1 Tell us about ONO's business results for FY2017 (year ended March 2018).

A1 We achieved increased revenues despite the influence of National Health Insurance drug price cuts on the sales of OPDIVO.

In our consolidated financial results for FY2017, revenue increased by 7.0% and operating profit decreased by 16.0% compared to FY2016. Of the revenue, the sales of products and goods decreased by 8.4 billion yen from the previous year. The NHI drug price for the anticancer drug OPDIVO Intravenous Infusion, one of our core products, was cut by 50% in February 2017, which had a great impact on the sales of the product. As a result, the sales of OPDIVO fell by 13.3% from the previous year to 90.1 billion yen. However, this sales figure was significantly exceeding our initial forecast of 74.0 billion yen due to successful expansion of the indications of OPDIVO to gastric cancer in September 2017, in addition to renal cell carcinoma and head and neck cancer in FY2016, boosting sales volume by about 45% from the previous year. Meanwhile, OPDIVO expanded sales overseas mainly thanks to additional indication approval. Therefore, royalty revenue saw a huge increase, helping us achieve gains in revenue as a whole.



Gyo Sagara

President, Representative Director, and CEO

Q2 Tell us about the R&D performance and outlook.

A2 We succeeded in extending the indications of our core product OPDIVO to more types of cancer in FY2017. In FY2018, we will continue working to file many applications for approval.

FY2017 saw our R&D efforts lead to extending the indications of our core anticancer drug OPDIVO to more types of cancer worldwide including in Japan, South Korea, and Taiwan. In Japan, we obtained approval for additional indication to gastric cancer in September 2017 and now see OPDIVO administered to many patients. We also applied for additional indication to malignant pleural mesothelioma and adjuvant treatment (to reduce the risk of recurrence after resection) in melanoma. As part of OPDIVO development efforts, we have been progressing with development of combination therapies. In January 2018 we applied for approval for combination therapy with antineoplastic drug YERVOY® for untreated renal cell carcinoma. In South Korea and Taiwan, OPDIVO obtained additional indication approval for several types of cancer: it can now be used to treat eight types in Taiwan and seven types in South Korea. In the US and Europe, our partner Bristol-Myers Squibb steadily proceeds with OPDIVO development including combination therapies with other drugs.

We also actively promote the industry-academia open innovation strategy globally. Currently, we are conducting more than 200 joint research projects with universities, research institutes, and biopharmaceutical companies inside and outside Japan. We are committed to meeting our challenges to discover new drugs exploiting new discovery modalities and technologies—including next generation antibody technology, small molecule macrocyclic technology, and computational drug discovery platform—to deliver innovations to the future frontline of healthcare.

In addition to in-house drug discovery, we are actively engaged in licensing activities. In FY2017, we in-licensed new drug candidates that have high value in terms of corporate strategy and efficiency, successfully expanding our development pipeline. We also signed alliance agreements to out-license our anticancer drug candidate ONO-4578, to deliver new drugs we develop to patients worldwide.

In FY2018, we will continue to put efforts into applying for approval for further additional indication of OPDIVO to esophageal cancer, hepatocellular carcinoma, and small cell lung cancer. We proceed with OPDIVO development to obtain approval for further additional indication to treat more than 20 types of cancer in the long run. Other than for OPDIVO, we aim to apply for approval for several drugs within this fiscal year including those to treat cancer cachexia, chronic heart failure, osteoarthritis, and Parkinson's disease. If development and application successfully progress to approval, that would significantly contribute to our financial results beyond FY2019.

Q3 What do you think of the environment surrounding ONO and the pharmaceutical industry at large?

A3 The speed of change in the business environment is accelerating. We need to respond with speed and agility.

The environment surrounding the pharmaceutical industry is toughening and this situation is expected to continue in the future.
One challenge we address is increased R&D costs. With decreased success rates of drug discovery faced by the pharmaceutical industry as a whole, inside and outside Japan, we have to discover better drugs faster and at less cost. Another challenge is the promotion of healthcare cost reduction measures in Japan. To curb further increase in social security costs with the population aging and the birthrate declining, Japan has introduced healthcare cost reduction measures, including the NHI drug price cuts and generics use promotion measures. As part of the fundamental review of the NHI drug pricing system, moves are also stepping up toward introducing cost benefit assessment in healthcare.
In addition, the pharmaceutical sector will undergo intensifying competition on a global basis. We must continue as a company to act responsively and innovatively to the evolving markets that we operate within. In delivering our mission of developing and distributing innovative drugs that bring true benefit to all patients, we continue to make positive contributions to society.

Q4 Tell us about ONO's business model.

A4 We specialize in prescription medicines and focus management resources into drug discovery.

To achieve sustained growth in a tough and complex business environment, we believe we have to focus our finite management resources on discovering and developing new drugs as an R&D-based pharmaceutical company specializing in prescription medicines.
ONO's business model we pursue is not only to take up the challenge of discovering our own innovative drugs, but to develop in-licensing promising new candidate compounds from around the world.

ONO's Challenge of Discovering and Developing Innovative Drugs

We discover and develop novel drugs based on the "Compound-Orient" approach by collecting a library of compounds that may act on various therapeutic targets such as lipids and enzymes, and, through screening the library, identifying new drug candidates that would lead to treatments against disease. Based on our unique approach in discovery research, we focus our resources on the R&D efforts for cancer, autoimmune disease and neurological disease. We have specified these areas that have high medical needs as our priority R&D areas. We also focus on novel technologies including cell therapies and macrocyclic compounds, to keep tackling the challenge of drug discovery.

In addition, we are driving open innovation through the adoption of world-leading technologies and knowledge including research collaborations with world top-class scientists as well as many drug discovery collaborations with biopharmaceutical companies with leading-edge technologies to discover new drug candidates.
We will continue to work toward drug discovery and development to provide new treatment options with innovation to the frontline of healthcare, focusing on cancer, immunoregulation, and neurological disease by maximizing our open innovation strategy on a global basis.

Licensing Activities

We vigorously pursue in-licensing of new drug candidates, in addition to in-house drug discovery, 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 our global business, excluding Asia, with specially our new drug candidates developed in-house, we adopt a basic strategy of licensing out on a per-developed-compound basis to our partners, which have outstanding development and commercialization capacities.

Q5 What do you think about ONO's corporate social responsibility through business activities?

A5 We will develop high quality pharmaceuticals that contribute to healthcare, thereby contributing to solving issues facing society and creating a sustainable society.

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 our 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 we can offer to society is the consistent delivery to patients of pharmaceutical products that can truly benefit them. We will contribute to solving issues facing society through challenging ourselves to satisfy unmet medical needs.
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 laws, help to conserve the 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

Q6 What measures do you take to continuingly enhance corporate value?

A6 We work to strengthen our corporate governance and risk management.

We step up our efforts for compliance, corporate governance and risk management that form the backbone of all our activities. In December 2017, we participated in the United Nations Global Compact (UNGC), which consists of 10 principles in areas regarding human rights, labour, the environment and anti-corruption. We signed to join the UNGC to penetrate the 10 principles of the UNGC to all employees through daily activities.

Corporate Governance

To respond to the trust of all stakeholders and increase our corporate value, we believe that our critical issues are not only the compliance of laws but also the enforcement of our management transparency and enhancement of our corporate governance. We continue working to raise the effectiveness of our corporate governance.

Currently, our Board of Directors consists of eight members including three outside directors. We would like to apply objective external perspectives to management decisions. We have therefore appointed outside directors to our board, one of whom joined the board in June 2018 with extensive experience and deep insight as a business executive. Our three outside directors each are highly expert and abundantly experienced, using their specialist knowledge and broad insights as they oversee appropriately the management of the company from an objective and independent standpoint and work through the decision-making process by providing advice and/or proposals on management as a whole. The outside directors also engage in significant decision processes such as appointing directors and deciding remuneration by attending Directors Appointment Committee and Executive Compensation Committee, contributing to ensuring transparency and objectivity and enhancing the work of the board.

We have also appointed to the Board of Auditors two outside auditors who are highly knowledgeable as experts in law or corporate accounting. In collaboration with full-time auditors, they conduct audits from an independent and objective standpoint to ensure the soundness of ONO's business management. To ensure effective conduct of audits by the Board of Auditors, we have a framework in place in which, for example, to hold periodical meetings for exchange of opinions between the President and Representative Director, other Directors and the Board of Auditors.

As regards the Corporate Governance Code of the Tokyo Stock Exchange, we implemented all its principles before revision in June 2018. We will proceed with complying with the revised Corporate Governance Code as appropriate. We will ensure that governance is constantly reviewed and otherwise strengthened in terms of our system and operations as necessitated by environmental changes and our current circumstances.

Risk Management

Drugs are related to human life and health. Pharmaceutical companies should identify various possible risks that might affect society and management, to prevent them from occurring and to address them quickly and properly if occurring. To perform proper risk management of our corporate group including subsidiaries, with appropriate internal rules in place, we have prepared handling procedures and regularly review them in response to the business environment. We also overhauled our business continuity plan (BCP) in 2016, improving our emergency response capabilities. Our new Tokyo Building completed in March 2018 is equipped with facilities for preparation for disasters including earthquakes. We have now another emergency command center in Tokyo besides our headquarters in Osaka, strengthening our disaster response system that allows for business continuity even in the event of natural disasters.

Moreover, we promote compliance, which will translate into earning our credibility with the public and improving our corporate value. We do not only work to improve our compliance promotion system by establishing regulations to create and establish a companywide compliance system and setting up contacts for reporting/consultation. But we also implement programs for employees in various ways—including lecture-style training, e-learning system-based training, and compliance awareness survey by external contractor—to develop and raise awareness among them for improving the effectiveness of compliance risk measures.

For our subsidiaries' compliance promotion system, we give advice and instructions for system improvement as part of subsidiary control, and ask for periodical progress reporting to ensure proper operation of their business.

Q7 What do you think about relationships with stakeholders?

A7 I believe it important to be open to a variety of opinions while working with different stakeholders in pursuing business activities.

Companies work with various stakeholders in pursuing business activities. We always conduct business activities upon checking whether we can meet expectations or requests we receive, while ensuring legal compliance, corporate governance, and transparency as well as respecting the interests of and communicating with all stakeholders.

We adhere to the policy of disclosing necessary information accurately, fairly, impartially, and promptly to all stakeholders—including patients, healthcare professionals, shareholders, investors, suppliers, local communities, employees, relevant governmental agencies, and industrial associations—to promote communication/constructive dialogues with them.

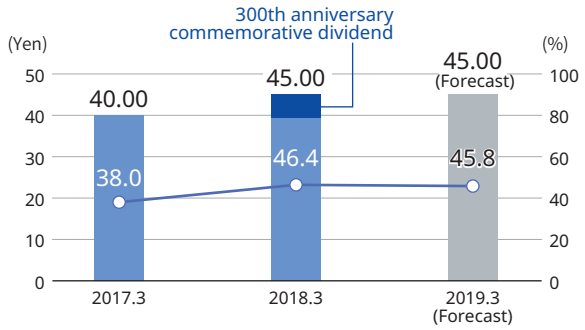
Q8 What message do you have for ONO's shareholders?

A8 We want to fulfill the expectations. To do so, we will work for mid- and long-term growth.

We consider the redistribution of profits to shareholders as a vital management policy.
In terms of dividend pay-out, 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.
We regard the purchase of treasury shares as part of raising capital efficiency and comprehensive shareholder returns. As usual, we will flexibly consider and carry out the purchase, keeping future demand for funds in mind, for the purpose of redistributing more profit to shareholders, raising capital efficiency, or tightening the supply-demand balance in the stock market. If we purchase our own shares, we intend to hold up to 10 percent of them as treasury stock and cancel the rest.
We periodically review the proper benchmarks of management indices including ROE and work hard to achieve higher performance so that these indices will go up.
As an R&D-based pharmaceutical company, we would like to fulfill the expectations of shareholders. We will continue to meet various challenges that face us to become a company undergoing growth in middle and long term. We highly appreciate your continued support.

Profit Redistribution Policy

Annual Dividend Payments and Forecast / Consolidated Payout Ratio (Yen / %)



Q9 Could you tell us what your vision is for the future?

A9 We will implement a new growth strategy to move toward the next stage.

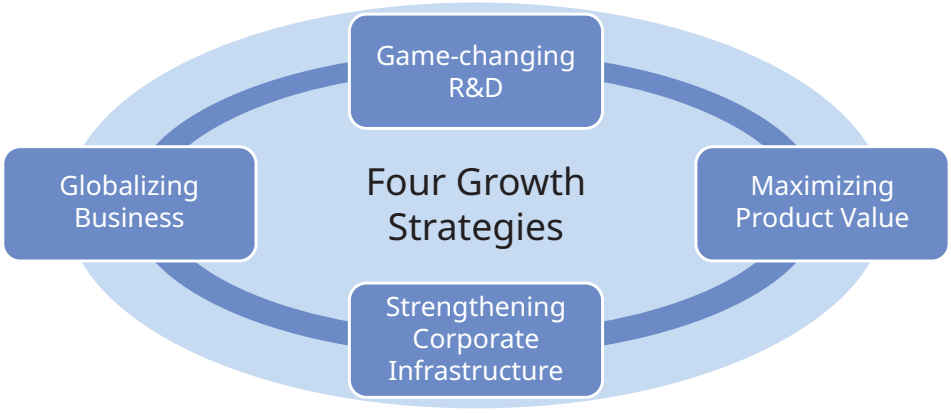
Last year we celebrated the 300th anniversary of our establishment, taking a new step forward. Under our corporate philosophy, we drive activities in six priority areas, committing to our vision of turning ONO into what can be called a Global Specialty Pharma. We have established four growth strategies for sustained growth and are accordingly taking measures to satisfy as-yet unmet needs.

(a) Maximizing Product Value
Through active R&D efforts, companywide 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.

(b) Game-changing R&D
Based on our original drug discovery approach "Compound-Orient," we have specified cancer, autoimmune disease and neurological disease that have high medical needs as our priority areas of research, to develop new pharmaceuticals that will provide new treatment options with innovation to the frontline of healthcare. For this, we will strengthen and enhance research and drug discovery alliance with world-leading universities, research institutes, and biopharmaceutical companies in specific research areas so that we can expand our development pipeline aiming first-in-class drugs with high originality. We will also drive forward activities in areas with great medical needs, by in-licensing innovative compounds and acquiring novel technologies.

(c) Globalizing Business
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 already set up wholly owned subsidiaries and have started selling our products. We are also working to improve and strengthen our development and other systems, with a view to future marketing through our own sales organizations in America and Europe.

(d) Strengthening Corporate Infrastructure
We continue to reinforce our operational infrastructure, which we need to achieve in order to expand our overseas business and to continuously 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. In addition, we will fulfill our social responsibility toward all stakeholders through our activities.



Q10 Tell us about investments you are making for the future.

A10 We focus on investing in training human resources and creating the next innovations.

Human Resource Development

To push toward becoming a global player who can introduce world-class pharmaceutical products into the global market, we are inputting our utmost effort into strengthening our management base from all angles. We believe it essential, among other things, to develop human resources. So we are keenly making investments into, including, organizational improvements. As to organizational structure, we have made reinforcements mainly in the oncology domain, our priority strategic area. Especially, we have increased the number of MRs and pharmacovigilance professionals—including through mid-career professional recruitment—to bolster our corporate infrastructure as a company that handles life-supporting products. We will continue working toward an optimal organizational structure in light of the market environment. We also work hard to promote diversity in our workplaces. We believe it important to enhance the diversity of our corporate members' attributes, values and actions, while recognizing their individualities, to adapt quickly and flexibly to changing business conditions. We have taken various measures especially to create systems that enable women to flourish, and these measures are taking effect.

It is important to make our workplaces more worker-friendly to ensure that workers can demonstrate their full potential in their organization. Working toward all employees maintaining a positive work-life balance, we are implementing programs and improving systems so that our employees can work in diverse and flexible ways. We are taking companywide, not individual-based, initiatives to promote the reformation of our mindset of the way we work, which will lead to further improving operational efficiency and reducing working hours. We are also actively committed to helping maintain and improve employees' and their families' health to ensure that employees can work in physically and mentally good health. In April 2018, a committee of members from the company, the labor union, the occupational health staff, and the health insurance society was set up for promoting health maintenance/improvement programs, and the committee has started action, setting targets for several items including disease prevention, early detection and treatment, and anti-smoking.

We will continue actively investing in HR development, including enhancement of training programs, for further growth.

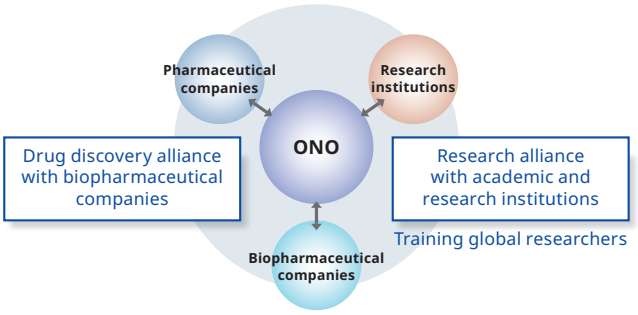
Creating Innovations

We continue actively driving R&D investment and are engaged in strengthening our R&D organization so that we can discover and deliver new drugs truly desired by patients as quickly as possible to the frontline of healthcare.

Specifying priority research areas, we are focusing our management resources, and accelerating drug discovery research by honing our expertise. However, we also believe it important to actively adopt outstanding knowledge and technologies from outside in order to overcome difficulty of keeping discovery of innovative drugs in-house only. Currently, we are conducting joint research projects and drug discovery alliances underway with notable Japanese and international universities, research institutes and biopharmaceutical companies over 200. Our researchers posted to our research allies and alliance partners are working on challenging research programs there.

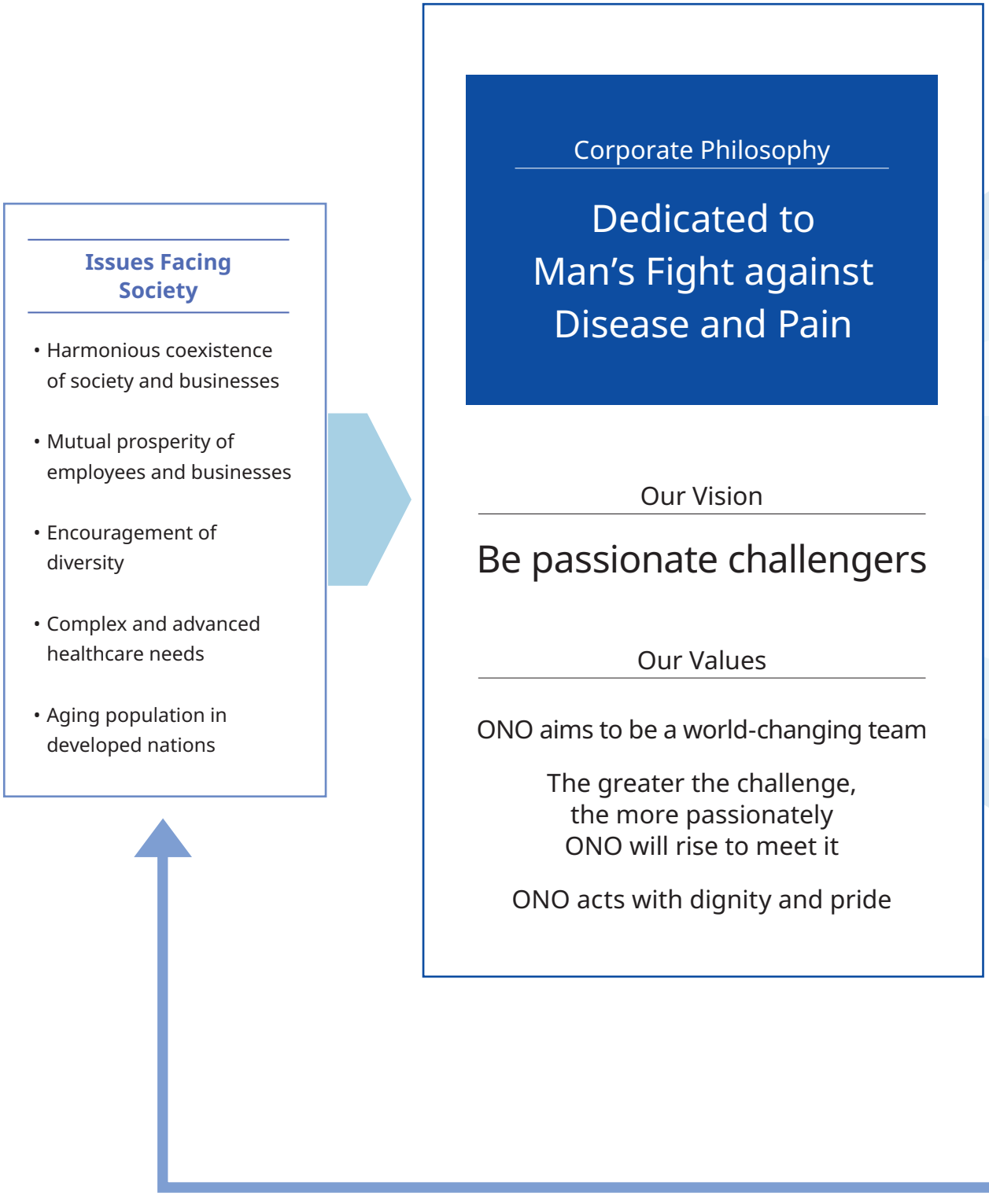
As to organizational structure, we have departments in charge for research collaboration and drug discovery alliance promotion in place at our research institute, as well as at our local subsidiaries in the US and the UK posting our employees with extensive experience in drug discovery research. They visit world top-class researches on their own, and work hard to propose, plan and launch joint research projects that might lead to discovery of innovative drugs.

We devote prominent resources and efforts toward acceleration of open innovation much more than other companies of the same size do, striving toward creating new innovations.



Upholding our corporate philosophy, "Dedicated to Man's Fight against Disease and Pain," ONO is committed to creating innovations toward the future for the sake of development of new drugs and delivery to patients desiring them across the world. To this end, ONO will continue making investments actively to human resources development and R&D acceleration to turn ONO into what can be called a Global Specialty Pharma.

ONO's Value Creation Process



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

Game-changing R&D

Our Mission in Research and Development

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

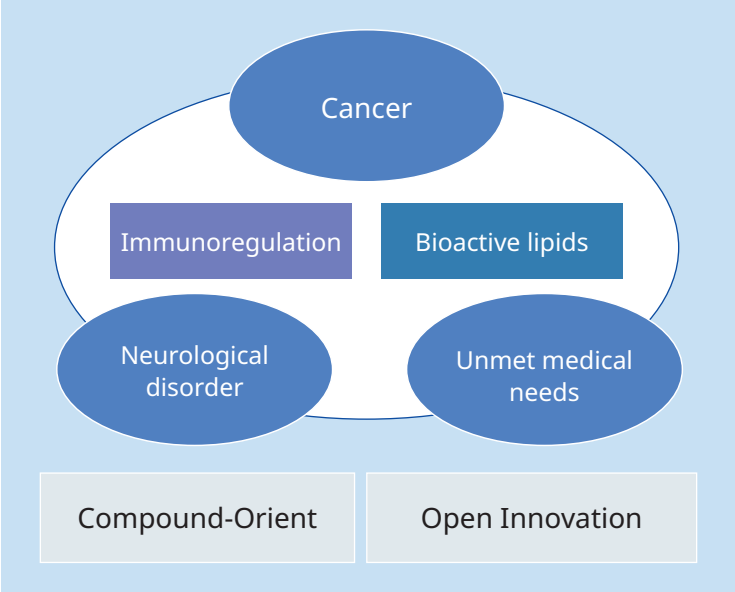
Keeping in mind our R&D mission "Deliver our contribution to society by developing drugs that truly benefit patients," we are tackling diseases that remain unconquered as yet, and addressing areas that are high in healthcare needs where patient satisfaction with current treatment is low. Our discovery 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 to developing novel drugs by collecting a library of compounds that may act on various therapeutic targets such as lipids and enzymes, and, through screening the library, identifying new drug candidates that would lead to treatments against disease. Utilizing this unique approach as the foundation, we now focus our resources on the research and development of drugs for cancer, autoimmune disease and neurological disease. We have specified these areas that have high medical needs as our priority areas of research and development. In addition to drug discovery research with small molecular compounds and antibodies which we have focused upon and will continue to enhance, we will also focus on novel technologies including cell therapies and macrocyclic compounds, to keep tackling the challenge of developing breakthrough drugs.

Drug Discovery Research Domains



Open Innovation

ONO has been driving drug discovery research using world-leading technology and knowledge in various areas long before the words "open innovation" started to become widely used.
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 US and UK for the long haul, and ONO's scientists posted to collaborative research laboratories are working on challenging research programs.
In FY2017, we vigorously formed drug discovery alliances with biopharmaceutical companies with proprietary technology. We have initiated a drug discovery collaboration with Neurimmune AG (Switzerland), focusing on the development of human antibodies against a novel therapeutic target for neurodegenerative diseases. Other partnering activities successfully initiated include drug discovery collaborations with Cyclenium Pharma, Inc. (Canada) to exploit its proprietary next generation small molecule macrocyclic technology; with Schrödinger, Inc. (U.S.) to design novel small molecules against therapeutic targets selected by ONO, using Schrödinger's computational drug discovery platform; and with Merus N.V. (Netherlands) to develop human bispecific antibodies against therapeutic targets selected by ONO for the treatment of autoimmune diseases.
We will continue directing our drug discovery efforts into the future toward discovery and development of innovative new drugs in areas of diseases with as-yet unmet medical needs, focusing on cancer and neurological disease, and immunoregulation by maximizing our open innovation strategy.

A Research Capability Combining Knowledge with Technology

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

We conduct drug discovery research through coordination of the efforts of three laboratories, the Minase Research Institute, the Fukui Research Institute and the Tsukuba Research Institute, and work to strengthen our research capability to further accelerate drug discovery. The new research building opened in March 2016 at the Minase Research Institute, is our center for invention and medicinal chemistry. Now we have integrated our compound synthesis and analysis functions, thereby driving R&D forward by building capability with consistency in chemistry research, from exploration of breakthrough drug seeds through to clinical investigations.

The Minase Research Institute

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

The Fukui Research Institute

The Institute focuses on compound safety assessment.

The Tsukuba Research Institute

The Institute undertakes research into immunoregulation, and the pharmacokinetics of discovered compounds. It carries out advanced medical research, unrestrained by the paradigm or status quo.

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 people suffering diseases throughout the world.

We have integrated the functions necessary to bridge from research to clinical development at the Translational Medicine Center (TMC), a part of the Clinical Development Division, after further evaluation of the efficacy, safety and quality of promising new drug candidates at the basic research and non-clinical stages 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).

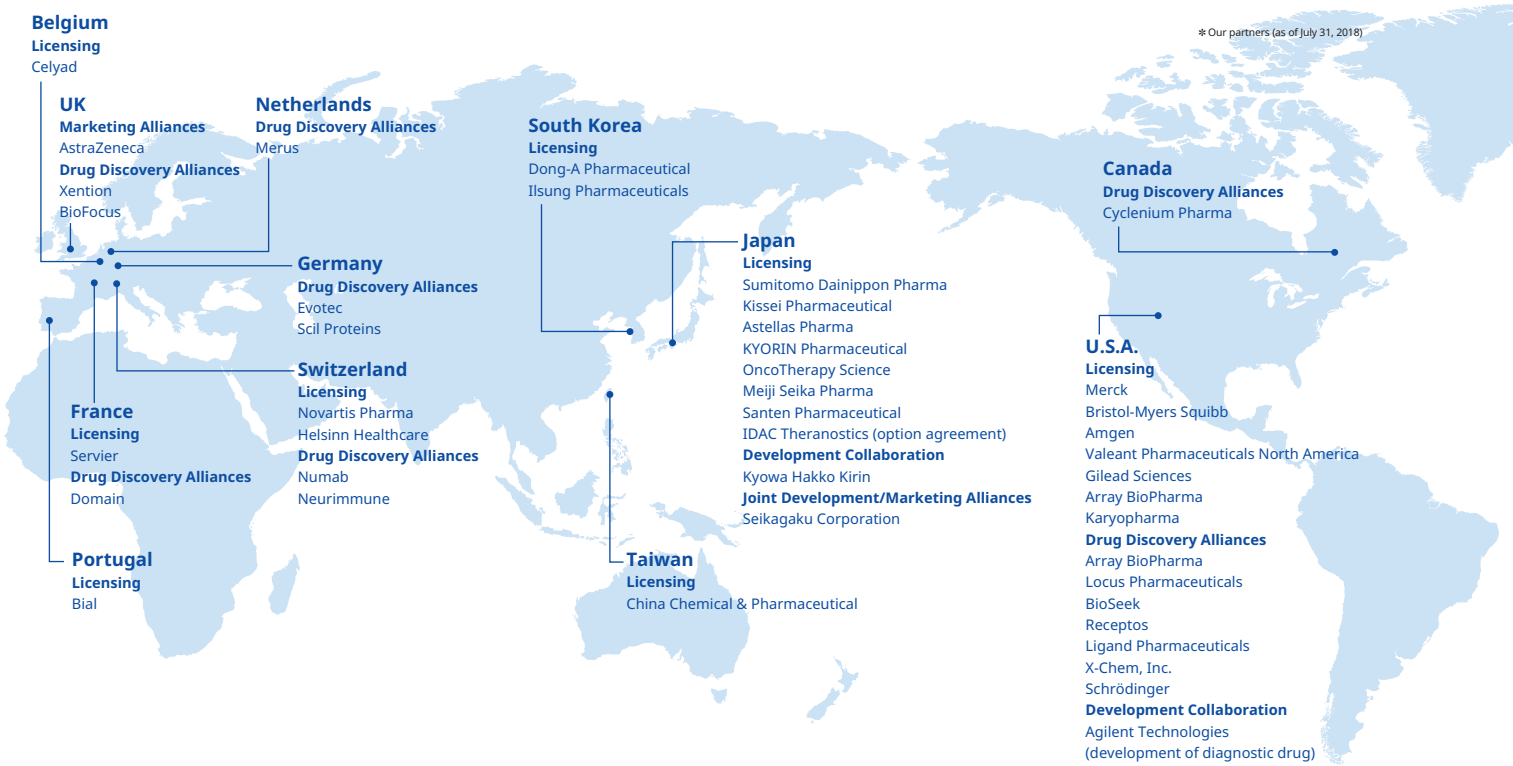
Clinical development plays a role in collecting the data required for filing Ministry of Health, Labour and Welfare applications for marketing approval for prescription drugs. With the aim of obtaining marketing approval in the shortest time, we are speeding up the clinical development process by advancing mutual use of results from multinational clinical trials and other overseas studies.

Under the awareness of being a pioneer in cancer immunotherapy, we focus our efforts on oncology as a key strategic area and 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 January 2018, we set up an Oncology Clinical Development Unit, which consists of the Oncology Early Clinical Development Planning for early clinical development stage and the Oncology Clinical Development Planning for late clinical development stage, to shorten the time of oncology projects from early clinical stage to market launch for further speeding up clinical development.

Game-changing R&D

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 the oncology domain, we take advantage of our strength with OPDIVO in acquiring product candidate compounds in a wide range of areas such as molecular target drugs including antitumor drugs and cell therapies.
In FY2017, we signed a license agreement with Array Biopharma (U.S.) to develop and commercialize the MEK inhibitor Binimetinib and the BRAF inhibitor Encorafenib in Japan and South Korea. We also signed a definitive agreement with Seikagaku Corporation on co-development and marketing collaboration on SI-613 in Japan, a drug under development by Seikagaku for osteoarthritis treatment (and also for enthesopathy treatment). In addition, we entered into an exclusive license agreement with Karyopharm Therapeutics (U.S.) to develop and commercialize the XPO1 inhibitor Selinexor and the second-generation XPO1 inhibitor KPT-8602, both under development by Karyopharm, in Japan, South Korea, Taiwan, Hong Kong, and ASEAN countries.
Meanwhile, we are keenly pursuing out-licensing activities to partner companies so that we can deliver new drugs we develop to patients worldwide. We have expanded collaboration activities with our long-time alliance partner Bristol-Myers Squibb (U.S.), granting the company the rights to develop and commercialize ONO-4578 under development by ONO—a selective antagonist of EP_4 which is a Prostaglandin E_2 (PGE_2) receptor—worldwide, except Japan, South Korea, Taiwan, China and ASEAN countries.
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.



Maximizing Product Value

ONO conducts R&D activities to maximize the product value of the anticancer drug OPDIVO, the biggest growth driver at ONO. It also works on exploiting the full potential of each of its products through marketing activities to shorten the time between product market launch to peak sales, and activities to ensure product quality and reliability.

Maximizing OPDIVO's product value

To maximize OPDIVO's product value, ONO works with its partner Bristol-Myers Squibb (U.S.A.) with focus on four perspectives.
We engage in adding indicated cancers. We work on development to obtain approval for adding more than 20 indications for carcinomas to the already approved indications: malignant melanoma, non-small cell lung cancer, renal cell cancer, Hodgkin's lymphoma, head and neck cancer, and gastric cancer.
For approved indications for cancers, the Clinical Development Division plays a leading role in efforts to enable OPDIVO as early as possible to be used at earlier stages from third- to second- to first-line treatment.
We also proceed with clinical trials in various combinations or dosages and dose regimens. OPDIVO may have more therapeutic effects in combination with another immune checkpoint inhibitor, chemotherapy with anticancer drugs with different mechanism of action, or radiotherapy, rather than alone.
Biomarkers, substances in a living organism, are indicative of any change in disease or reaction to therapy. Their measurements can be used as an indicator of presence or progress of disease or therapeutic effects. We advance the search for optimal biomarkers that will predict patients who are more likely to be expected to exhibit the therapeutic effects of OPDIVO.

Activities to maximize OPDIVO's product value

Adding indicated tumors	Working with corporate partners to progress clinical trials targeting various tumors
Adding treatment lines	Moving ahead with clinical trials to enable OPDIVO's use at earlier stages
Developing combination therapies	Searching for ways of boosting its therapeutic effects by combining OPDIVO with other drugs or treatments
Searching for biomarkers	Advancing the search for indicative biomarkers that will predict the effects of OPDIVO administration

Marketing (Scientific Information Dissemination) Enhancing Product Value Through Supply, Collection and Feedback of Proper Product Information

Drugs are of no value unless they can be used properly in those who are suffering from disease while undergoing medical treatment. Moreover, drugs could determine life or death. It is therefore 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.

Marketing Activities to Enhance Product Value

The Sales & Marketing Division develops a strategy formation that constantly ensures competitive advantage by adjusting with agility to environmental changes in each stage of the product life cycle to maximize the potential of every product we offer.
In addition, we make every effort to collect patient opinions through meetings with healthcare professionals to understand potential healthcare needs toward development of narrative-based medicine (NBM), which is based on actual clinical experiences for patients. We will make use of what has been obtained through these efforts in future information dissemination activities to enhance product value.

Maximizing Product Value

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. Our information-sharing framework enables our MRs to share across the company the valuable information they gather from the frontline of healthcare. We also have a system in place that allows all the MRs to access the 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.
Our framework promotes information sharing and enables rapid responses to healthcare providers' needs.

Relaying Up-To-Date Drug Information to Frontline of Healthcare

Pharmaceuticals and medical technology undergo daily advances. It is one of the roles of drug manufacturers to relay as quickly as possible up-to-date information about such drugs and technology to the frontline of healthcare and to provide opportunities for information exchange. ONO actively provides information by organizing symposiums and seminars in conjunction with academic conferences held in Japan and through workshops and lectures in regional areas.
In addition, we put effort into disseminating up-to-date drug information through operating several websites for medical professionals. In FY2017, we held more than 100 live webinars. We also provide small-scale area live webinars in line with community needs to relay up-to-date drug information to the frontline of healthcare.

Strengthening Community-Based Activities

With medical care zone initiatives for community areas proceeding toward the establishment of community-based integrated care systems, we propose possible improvements in the medical care systems through consultation with medical providers upon understanding of the characteristics of the healthcare provision system of each community area, so that our drugs will truly benefit each individual patient, to become a player who can carry out information dissemination activities to be appreciated by medical professionals.
As an activity that distinguishes ONO MRs from the rest, our MRs hold table discussion meetings (TDMs) in each area. TDMs are projects where lectures are organized based on themes proposed in line with the context of local healthcare issues, providing opportunities to solve questions in daily medical care through discussion with lecturers. TDMs are thoughtfully planned and orchestrated so as to contribute to local healthcare through responding to different needs of each area.

Manufacturing Enhancing Product Value Through Stable Supply of High-Quality Drugs

At ONO, all the divisions involved in manufacturing cooperate closely with each other and consistently maintain a strong sense of responsibility and ethics as they faithfully practice scientific evidence-based manufacturing operations according to the operating procedures and continuously make maximum efforts for the stable supply of high-quality drugs. We are committed to strengthening our capabilities in both hardware and software related to manufacturing activities for the stable supply of drugs.

Initiatives to Ensure Stable Supply of High-Quality Drugs

It is essential to improve productivity for stable product supply. 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 active pharmaceutical ingredient production to commercialization.
We ensure quality assurance and system reliability by monitoring efficacy and safety information, checking manufacturing and testing records for all products we manufacture, so as to deliver only products that have been ascertained to have assured quality.
We take various measures to stably supply high-quality drugs, including education and training of not only plant workers but also all other workers involved in production, and upgrading of risk management systems at our manufacturing centers.

Strengthening Production Systems

Our manufacturing centers in Shizuoka and Osaka are compliant with GMP (a set of standards relating to the manufacturing control and quality control of pharmaceuticals). The main Fujiyama Plant has continually improved and expanded its facilities since its establishment. In addition to strengthening our production capabilities aimed at future business expansion, a new plant is under construction in Yamaguchi to mitigate the risk of major disaster from the business continuity perspective. Equipped with a production line for highly active antibody drugs, this plant is scheduled to start operation in 2020 to serve as a manufacturing center that will support ONO's production capabilities together with the Fujiyama Plant.

As-built image of Yamaguchi Plant

Safety and Quality Assurance Enhancing Product Value Through Drug Reliability Assurance Activities

From a patient standpoint, ONO conducts drug reliability assurance activities with global perspective through drug life cycle to constantly check for drug quality assurance and reflect opinions from healthcare professionals and patients on further quality improvement. In addition, we analyze and assess, based on latest scientific evidence, drug quality and efficacy and safety (adverse reaction) information collected from, e.g., reports from patients and healthcare professionals, literature, and surveys, to constantly provide updates to the frontline of healthcare.

Quality Assurance Policy

We not only meet the legal requirements as a marketing authorization holder, 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 pharmaceuticals that are assured to a high-quality standard.

Initiatives for Proper Use of Pharmaceuticals

We develop a risk management plan and collect and manage safety (adverse reaction) information for each pharmaceutical. We assess collected data and information, and if necessary revise the cautions on package inserts and make announcements about proper use. As safety information drastically increases inside and outside Japan after market launch of antineoplastic drugs, we assess such information based on opinions from external medical experts to promote the proper use of the drugs, e.g., by disseminating it through promotional materials, conference presentations, and medical journals.

Maintenance of Product Recall System

We have a system in place to recall any products with efficacy, quality or safety problems 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.

Globalizing Business

Globally, developed countries are aging and emerging countries are undergoing population growth, generating further unmet medical needs. This means that the global pharmaceutical market is set to continue its growth path. ONO is striding forward in a drive to achieve its vision of becoming a Global Specialty Pharma company in competing in the global arena.

Step1 **Globalizing own marketing operations**	• Launching own marketing in South Korea and Taiwan • Building business base in Asia • Strengthening new drug development framework in US and Europe
Step2 **Expanding own marketing operations into US and Europe**	• Expanding sales in Asia • Launching own marketing in US and European markets
Step3 **Becoming a true global company**	• Expanding global development pipeline • Delivering US/Europe-originated pharmaceutical products to patients around the world

Global Clinical Development System

To promote clinical development efforts in Asia based in Japan, we have established the Asian Development Division within our headquarters and have been actively expanding into the Asian market including by commercializing the world's first anti PD-1 antibody drug OPDIVO. We established wholly owned subsidiaries, ONO PHARMA KOREA CO., LTD. (OPKR) in South Korea in 2013 and ONO PHARMA TAIWAN CO., LTD. (OPTW) in Taiwan in 2014, and have already launched our own marketing. We will engage in strengthening development activities in South Korea and Taiwan and expanding our developing activities into the rest of the region.

For development activities in the US and Europe, 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 trials of our new drug candidates.
We aim at the creation of systems where we can apply for approval on our own in the US and Europe in addition to Japan and the rest of Asia, by upgrading our drug development infrastructure in Japan, the rest of Asia, the US, and Europe, and making our global development system more efficient and speeding up clinical development.

Promotion of Global Business

We have been reinforcing overseas business expansion starting in Asia, in anticipation of our own overseas marketing of some specialty products such as anticancer drugs. Since the establishment of OPKR and OPTW, the subsidiaries have demonstrated steady progress.
In South Korea and Taiwan, the subsidiaries have received approvals for the anticancer drug OPDIVO for the treatment of several types of cancer and have commenced marketing. To significantly contribute to advancement in cancer therapy in South Korea and Taiwan, we also put efforts into safety measures by, e.g., rolling out scientific activities countrywide with Japanese and Western doctors appointed as lectures to promote proper drug use. In addition, we conduct information dissemination activities not only on a countrywide level but also on a small-scale, locally-focused level to bring a fresh sensitivity to both markets as part of efforts to become the market leader in oncology in Asia.
In the US and Europe, we focus on a market niche where we can take advantage of our strengths to narrow down drug candidates, aiming to take the first step toward carrying out our own marketing there.
We intend to build and strengthen our overseas business promotion system to become a true global company. In cooperation with medical professionals, we will continue to be committed to activities that help treat patients around the world.

ONO PHARMA KOREA CO., LTD. (OPKR) with around 40 employees (as of April 2018)

ONO PHARMA TAIWAN CO., LTD. (OPTW) with around 30 employees (as of April 2018)

Status of Approval Obtained for OPDIVO in South Korea and Taiwan

Year Approved	South Korea	Taiwan
2015	Melanoma	
2016	Non-small cell lung cancer	Melanoma Squamous non-small cell lung cancer
2017	Renal cell carcinoma Classical Hodgkin's lymphoma Head and neck cancer Urothelial carcinoma	Renal cell carcinoma Head and neck cancer Non-squamous non-small cell lung cancer Classical Hodgkin's lymphoma Urothelial carcinoma
2018	Gastric or esophago-gastric junction cancer	Gastric or esophago-gastric junction cancer Hepatocellular carcinoma

Strengthening Corporate Infrastructure

In order to expand our business globally, the management of our company is also required to meet global standards.
ONO is investing resources to strengthen its corporate infrastructure, including the enhancement of corporate governance.

Corporate Governance

Corporate Governance Structure

ONO has adopted the organizational framework with Corporate Auditors (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 eight members including three outside directors and generally meets once a month. It is at these meetings when important management matters are decided and oversight of directors' duties 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 meeting of the Board of Auditors is held on a regular basis. The auditors are working with our Internal Audit Capability (Business Audit Department) to enforce auditing efficiency, and 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

The outside directors, including one outside director appointed in June 2018, participated in all meetings of the Board of Directors held during FY2017. From an independent and objective standpoint, they oversee our business operations and take part in our decision-making process. The outside auditors participated in all meetings of the Board of Directors and Board of Auditors held during FY2017. As experts in law and corporate accounting, the outside auditors carry out their duties from an independent and objective standpoint to ensure that our management remains sound and strong.
The outside directors provide us with useful indications and opinions related to the management of our business based on their abundant experience and broad knowledge.
In addition, the outside directors have no personal affiliations with ONO, and no any capital ties, business relations, or other connections to the company and therefore we consider that there is no risk of conflict of interest with general shareholders.

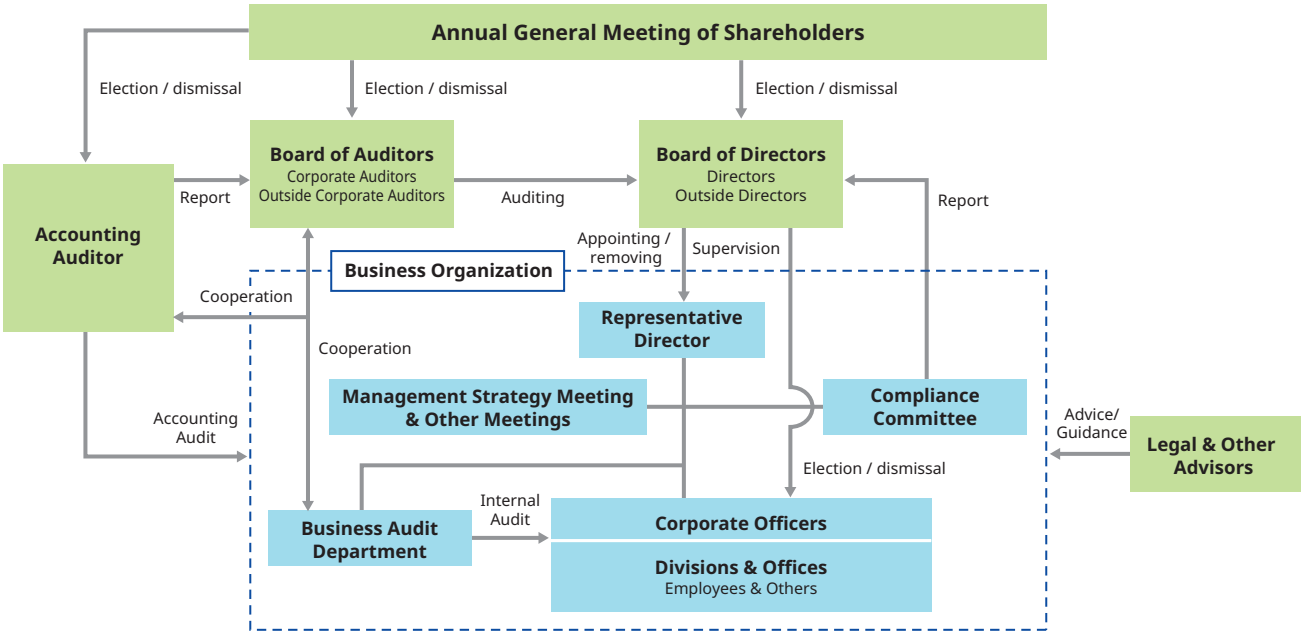
Operational Management Structure

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 on 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.

Corporate Governance Code

Concerning the Corporate Governance Code stipulated by the Tokyo Stock Exchange, we follow all of its principles before revision (general principles that respectively specify the five issues of securing the rights and equal treatment of shareholders, appropriate cooperation with stakeholders other than shareholders, ensuring appropriate information disclosure and transparency, responsibilities of the board, and dialogue with shareholders, as well as the principles that embody the general principles and supplementary principles). Through the assessment of the effectiveness of the Board of Directors and other measures, we will continuously develop and improve our system in a way to make it more suitable for our business operations from such perspectives as the management efficiency, soundness, and transparency. We will take action in response to the Corporate Governance Code revised in June 2018 as necessary.

■ For more details on our company's corporate governance, please refer to the following Corporate Governance Report (only available in Japanese).
→http://www.ono.co.jp/jpnw/csr/governance.html



Internal Control System

ONO provides for an internal system in accordance with the basic policies of the internal control system decided upon by the Board of Directors. Our Internal Audit capability (Business Audit Department) ascertains whether it is operating properly or not.
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.

Information Disclosure

As specified in our Codes of Conduct, we strive to establish transparent corporate management and recognize the importance of taking various opportunities to disclose information on our business activities in a timely and appropriate manner. We actively conduct investor relations (IR) activities based on a policy of pursuing accuracy, fairness, impartiality, and promptness.
We disclose financial results and other timely disclosure information on our website and at the same time through TDnet, the timely disclosure network of the Tokyo Stock Exchange. Information that is not subject to the timely disclosure rules is also disclosed swiftly through our website and by other means.
For securities analysts and institutional investors, we actively hold individual meetings and phone conferences in addition to financial results briefing or a conference call at the time of each quarterly statement and there were approximately 250 such opportunities in total in FY2017. We also participate diligently in investor conferences sponsored by securities firms and the like in order to facilitate individual investors' understanding of our business activities and management strategy.
Our website contains IR Library that provides useful current and past data, including development progress updates, as well as financial highlights for the last five years. Also, we endeavor to convey our corporate information to a wider range of people in an easy-to-understand manner by issuing business reports (shareholder newsletters) and Annual Reports (titled "Corporate Report").
We continue to address the disclosure of information in more accurate and prompt ways.

Risk Management

Rules and other systems on the management of the risk of losses

(1) We manage risks related to compliance, product quality and safety, safety and health, the environment, disasters, information security, and other issues on the basis of internal rules and through the preparation and distribution of procedures in the relevant sections, as well as through training and other measures.
(2) Cross-organizational risks and risks deemed to have a significant impact on management are monitored and addressed at a meeting attended by the President and Representative Director, the Directors and Corporate Officers in charge, and the managers of relevant divisions. In case of unexpected risks, the President gathers the relevant persons to solve any problems promptly as necessary.
(3) Risks specific to a division are addressed by that division through the preparation of handling procedures, which are reviewed constantly in accordance with changes in the business environment.

Structure to ensure proper business operations of the corporate group composed of ONO and its subsidiaries

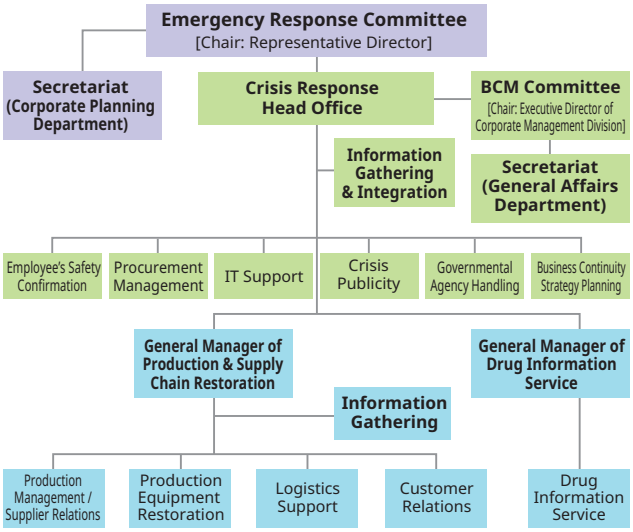
We provide consultation and guidelines for our group companies with regard to their legal compliance and risk management. While respecting their autonomy, we request that each company provides us with regular business reports and consult with us on important business issues in advance.

Strengthening Corporate Infrastructure

Corporate Governance

Business Continuity Plan (BCP)

According to the instructions of the Emergency Response Committee chaired by the President, we have organized the Crisis Management Headquarters and established a structure designed to minimize the impact of an emergency on mission-critical operations, so that we can continue business activities or recover promptly and resume them if they are suspended in cases of an emergency such as a natural disaster or serious accident. The BCM Committee, which is chaired by the Executive Director of the Corporate Management Division and in charge of business continuity management (BCM), and the Secretariat have been formed to maintain and strengthen our abilities to respond to crisis and continue our business operations, and promote relevant management activities during normal times.
Equipment for disasters, including emergency power equipment, two-line power receiving systems, and other measures, have been adopted at the Head office, Tokyo Building, each manufacturing plant, and each research institute, and seismic isolation devices against earthquakes have been introduced at the Head office, Tokyo Building, and Minase Research Institute. Furthermore, we have established a system to handle emergencies at two bases, in Osaka and Tokyo.



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 outside 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, ONO is expected to begin a new era after celebrating its 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. In particular, I consider the following activities to be important: further strengthening research and development abilities; maximizing product value and strengthening corporate infrastructure in order to ensure sustainable competitive superiority; and sales expansion of ONO's products in overseas markets and engagement in new business fields. Outside directors are expected to cooperate with internal management members concerning the issues involved in these management strategies.

We need to remind ourselves constantly of our Corporate Philosophy: Dedicated to Man's Fight against Disease and Pain. It is imperative we are aware of our duty to engage in corporate activities for people around the world.
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

Today, globalization shows further development and companies are required to review management strategies day after day in order to survive and develop under the severe competition beyond national boundaries. In addition, each country's system often changes, as shown in examples of the General Data Protection Regulation (GDPR) of the EU, and we need to consider preparation and responses to the frequent changes. Meanwhile the pressure of pursuing financial soundness is increasing in Japan, while company environments related to drug prices become critical in terms of social security expenses year on year. Furthermore, supported by advancements in computerization, the progressive improvement of management efficiency by information-communication technology (ICT) and security enhancement of corporate information have both become important management issues.

Under these environmental changes, according to a recent study by OECD, the gap in productivity between companies is increasing year by year and a major cause of the gap is due to business management quality. For this reason, companies are asked to improve their governance more than ever before. Further reforms are requested of companies in relation to the following points due to the amendment of the Corporate Governance Code this year: giving sufficient consideration to shareholders; establishing leadership where stakeholders are respected; placing an emphasis on information disclosure; reconfirming heavy responsibilities of the Board of Directors, etc.; and communication with shareholders.

I will keep my eyes sharp with an "externally cool gaze" on daily operations as one of the outside directors in consideration of the aforementioned environmental changes and overall stakeholders, including shareholders. No doctor can calmly measure the pulse of his or her own child with a serious disease, even if he or she is an excellent doctor. In this case, it is necessary to have another doctor at his or her side. I think that the outside director fulfills the duties of this other doctor. I will do my utmost to be involved in the decision-making of ONO.

Outside Director Masao Nomura

I have been appointed as an outside director of ONO PHARMACEUTICAL as of June 2018.

It is my great honor to join ONO PHARMACEUTICAL, which has tradition of more than 300 years of history since its foundation of 1717. At the same time, I am humbled by the heavy responsibilities that I assume. I was President of Iwatani Corporation for five years starting in 2012 and was involved in business management. Iwatani Corporation started its business in May 1930 and will celebrate its 90th anniversary two years from now in 2020. Since its foundation, Iwatani Corporation has developed its business, by setting gas and energy as its core business, under the company philosophy, "Become a person needed by society, as those needed by society can prosper." It handles helium gas that is used for MRIs, medical gases, and other items as its products. In addition, Iwatani Corporation as a whole is preparing for the arrival of the next generation of energy, hydrogen energy. Since I have no direct relationship with the pharmaceutical industry, I would like to join in the management of ONO PHARMACEUTICAL from a different but allied perspective.

In the pharmaceutical industry, the business environment is rapidly changing; for example, the revision of the drug price system and promotion of the use of generics which is advancing in Japan, while M&A is occurring worldwide. In the future, I consider that the allocation of management resources and reinforcement of governance will increasingly become important management issues. Under the company philosophy "Dedicated to Man's Fight against Disease and Pain," I would like to join management as an outside director of ONO PHARMACEUTICAL, addressing continued growth and progression into a new stage, by bringing an independent and objective standpoint based on the management perspectives and knowledge that I have cultivated. I will strive to hand over ONO PHARMACEUTICAL, which has continued its business for more than 300 years since its foundation, to the next generation.

Strengthening Corporate Infrastructure

Corporate Governance

(Front row, left to right) Hishiyama, Sakka, Sagara, Kato, Kurihara, Nomura
(Back row, left to right) Fujiyoshi, Nishimura, Awata, Sano, Kawabata, Ono

Expected Roles of Outside Directors and Outside Auditors

	Name	Expected Roles	Attendance at meetings of the Board of Directors and Board of Auditors in the fiscal year ended in March 2018
Outside Director	Yutaka Kato	With advanced academic knowledge and abundant experience as a professor of management accounting and cost accounting, Mr. Kato has fulfilled important roles as an outside director by providing appropriate supervision of our company management from an independent standpoint as well as useful advice and suggestions. We expect that he will contribute to maintaining and improving sound management and appropriate operation by being involved in the management of our company as an outside director.	13 times / 13 times
	Jun Kurihara	With broad knowledge and abundant experience as one of the leading researchers in the fields related to politics, the economy, and society, Mr. Kurihara has fulfilled important roles as an outside director by providing appropriate supervision of our company management from an independent standpoint as well as useful advice and suggestions. We expect that he will contribute to maintaining and improving sound management and appropriate operation by being involved in the management of our company as an outside director.	13 times / 13 times
	Masao Nomura	Mr. Nomura has abundant experience and advanced knowledge as he has served as a management executive over the years and we expect that he will provide appropriate supervision of our company management from an independent standpoint as well as useful advice and suggestions.	Appointed in June 2018
Outside Auditor	Hiromi Sakka	With abundant experience and considerable knowledge of accounting as a certified public accountant, Ms. Sakka has fulfilled important roles as an outside auditor by providing appropriate supervision of our company management from an independent standpoint as well as findings and suggestions if needed. We expect that she will contribute to maintaining and improving sound management and appropriate operation by being involved in the management of our company as an outside auditor.	Meeting of Board of Directors: 13 times / 13 times Meeting of Board of Auditors: 13 times / 13 times
	Yasuo Hishiyama	With abundant experience and advanced knowledge of corporate legal affairs as an attorney-at-law, Mr. Hishiyama has fulfilled important roles as an outside auditor by providing appropriate supervision of our company management from an independent standpoint as well as findings and suggestions if needed. We expect that he will contribute to maintaining and improving sound management and appropriate operation by being involved in the management of our company as an outside auditor.	Meeting of Board of Directors: 13 times / 13 times Meeting of Board of Auditors: 13 times / 13 times

Management (as of June 22, 2018)

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 Assurance	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
Member of the Board of Directors, Outside Director	Masao Nomura	Senior Adviser to the Board, Iwatani Corporation

Audit & Supervisory Board Members

Audit & Supervisory Board Member	Katsuyoshi Nishimura	
Audit & Supervisory Board Member	Shinji Fujiyoshi	
Outside Audit & Supervisory Board Member	Hiromi Sakka	CPA Partner of Kyoritsu Audit Corporation
Outside Audit & Supervisory Board Member	Yasuo Hishiyama	Attorney-at-law Partner Attorney at Law, TANABE & PARTNERS

Corporate Officers

Corporate Executive Officer/ Executive Director, Sales and Marketing & Business Unit Director, Primary Care Business Unit	Hiroshi Ichikawa
Corporate Executive Officer/ Director, Corporate Communications	Yukio Tani
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/ Business Unit Director, Primary Care Business Unit, Western Japan Region	Katsuji Teranishi
Corporate Officer/ Executive Director, CMC Production	Takuya Seko, Ph.D
Corporate Officer/ Business Unit Director, Oncology Business Unit, Sales and Marketing	Toshihiro Tsujinaka
Corporate Officer/ Executive Director, Discovery and Research	Hiromu Habashita
Corporate Officer/ Business Unit Director, Primary Care Business Unit, Metropolitan Region	Katsunori Morio

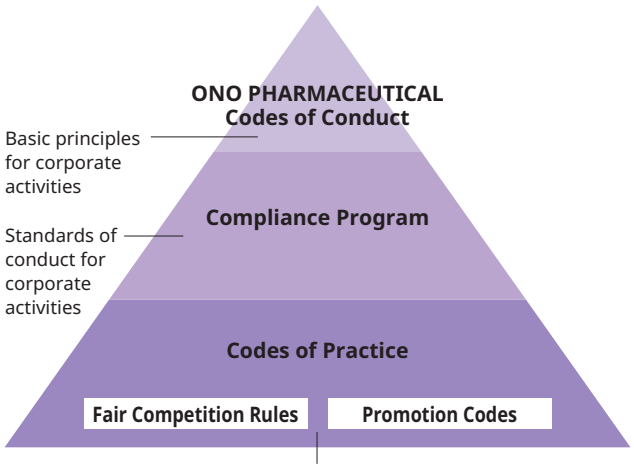
Strengthening Corporate Infrastructure

Fair Operating Practices

ONO PHARMACEUTICAL Compliance Structure

ONO has the ONO PHARMACEUTICAL Codes of Conduct to be aware of the responsibilities it holds as a pharmaceutical company in the development and provision of medicines on which human lives depend and to ensure that it acts in compliance with laws and regulations and that it meets high ethical standards.
Our compliance structure consists of the ONO PHARMACEUTICAL Codes of Conduct, which serve as a foundation for guiding our corporate activities; the Compliance Program, which provides standards of conduct for the activities; and the Codes of Practice, which are based on the pharmaceutical industry standards on promotion and other activities.
When putting compliance with laws and regulations into practice, we repeatedly remind our employees of their duties to ensure transparency in transactions and prevent fraud and corruption, and to act taking consideration of the social context at home and abroad.
As a pharmaceutical company keenly aware of corporate ethics both in principle and in practice, we will continue to strengthen our level of compliance in line with our ethical principles.

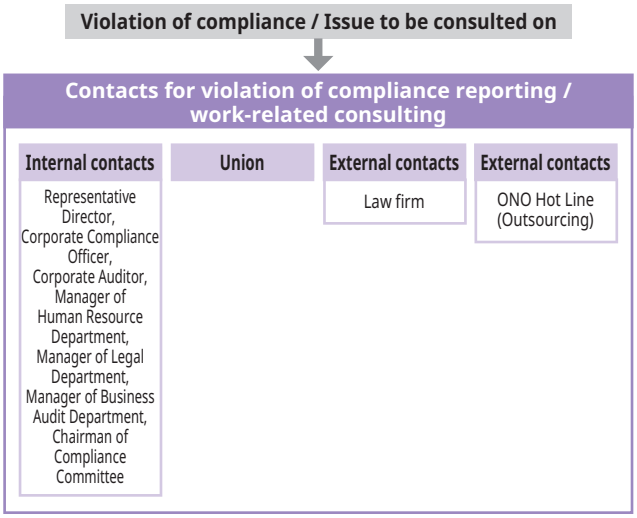
ONO PHARMACEUTICAL Compliance Structure



Compliance Promotion Initiatives

Compliance Promotion System

To promote compliance, we have appointed a Corporate Compliance Officer and set up a Compliance Committee. The Compliance Committee examines and deliberates compliance-related issues, plans and promotes training and cooperates with the internal auditing department to check the extent to which compliance has been disseminated and practiced.
We have internal and external contacts for reporting and consulting on compliance issues for all group companies, including the 24-hour external contact for counseling service, ONO Hot Line, as a system to ensure that informants can directly report to or consult with top management members, including the Representative Director, the Corporate Compliance Officer, and Corporate Auditors. This system ensures harassment and other compliance violations are prevented as well as stopped from reoccurring. Likewise, an appropriate working environment can be ensured, and necessary actions and measures can be taken to minimize any damage or decline in credibility in the event of a compliance violation. From the perspective of the protection of informants, any information related to privacy, such as the name of an informant who uses the system, information related to details of the report, and other information will be strictly kept confidential and only provided to the authorized persons who need it for investigatory purposes. Anonymous reporting is also accepted. No employees who have used this reporting system will suffer prejudicial treatment of any kind only for making the report.



Engagement in Fair Promotion Activities

In terms of pharmaceutical marketing, so that the Compliance Promotion Department, Sales and Marketing Division, and other relevant departments cooperated with each other in order to provide optimal medical treatment from the patient standpoint, we established the Pharmaceutical Promotion Code in our Codes of Practice as an action guideline and we practice this Promotion in accordance with the guidelines.
ONO defines the term “Promotion” as “providing and conveying pharmaceutical information to medical workers so as to disseminate the appropriate use of pharmaceuticals based on such information.”
Employees involved in Promotion proactively carry out promotion activities, while always examining whether they are acting in accordance with the spirit of the Pharmaceutical Promotion Code in our Codes

of Practice regardless of whether there are any specific provision or description in the Code. Also, we comply with the Code and adhere to the JPMA (Japan Pharmaceutical Manufacturers Association) Code of Practice, as well as respecting the IFPMA (International Federation of Pharmaceutical Manufacturers & Associations) Code of Practice, which is a code established by an association in which the JPMA participates.

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.

In particular, with regard to harassment, not only do we provide training courses for management staff, but we also have external lecturers hold sessions on harassment, thereby enhancing awareness of compliance.

Concerning the thorough implementation of fair promotion activities, compliance promotion staff members visit each sales branch twice a year to provide MRs with compliance training focusing on dissemination and raising awareness of the Pharmaceutical Promotion Code in our Codes of Practice. The Compliance Promotion Department and Sales and Marketing Division hold monthly joint meetings with Trade Practice Committee members of the Fair Trade Council to share information and provide training. Furthermore, at meetings held by leaders in the Sales and Marketing Division, systems to improve familiarity with the aforementioned standards within the Division are developed.

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.) based on the basic guidelines issued by the Japanese government. We have also established the Ethics Committee for Medical and Health Research Involving Human Subjects, 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 (PMD Act) and other related legislation, as well as the global standards based on the spirit of the Declaration of Helsinki.

Fair and Transparent Business Activities

In promoting fair and transparent business activities, we ensure thorough awareness of the prevention of unfair and corrupt practices by repeatedly training our employees.

In order to contribute to healthcare and people's health around the world through continuous new drug R&D, along with a stable supply of our products, 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 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.

Appropriate Procurement Activities

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. In addition, the purchasing organization is clearly separated from other parts of the company and is subject to regular internal audit to ensure transparency.

The basic policy for procurement activity is established based on our six CSR priority areas. We defined compliance with relevant laws and regulations in and outside Japan, respect of basic human rights, consideration of the environment, and other requirements in a written policy and engage in appropriate procurement activities with the cooperation of customers.

Strengthening Corporate Infrastructure

Human Resources and Human Rights

Development of Human Resources

Based on the belief that "People make the company," we actively support the development of individual abilities and positive action taken where they are never afraid to fail so that individual abilities can fully blossom.

Basic Concept for the Development of Human Resources

We aim to invest in individuals who can work as members of a pharmaceutical company dealing in pharmaceuticals that human lives depend on and in members who can become resources of competitiveness to help us make the leap to becoming a R&D-based pharmaceutical company that can grow and develop in a global field.
While investing in the development of human resources, ONO seeks the following human resources:
Persons who try to achieve goals and who are self-directed, such as 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.

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 subsidiaries. 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. Contents of these trainings are being continually enhanced. Furthermore, we encourage the self-development efforts made by employees. We set up a voluntary training system and we provide opportunities where employees can learn operations that are not familiar to those who work in some departments during regular operations and opportunities where cooperation and awareness between different departments can be cultivated. A support system for self-learning has also been introduced. We provide more than 140 subjects for correspondence learning, including leadership, management, accounting, English conversation, and more, and we are always preparing an environment where attendees can learn a broad range of subjects. In addition, we promote self-development learning by aiding online English conversation classes and qualification tests.
Concerning activities mainly for MRs, we provide on-site training at medical institutions and other places so that MRs can understand the needs of patients and their families and can deliver our products that bring true benefit to patients. We conduct field training at facilities related to dementia, diabetes, and cancer and at medical institutions specialized in dialysis thanks to agreements for this type of our training and cooperation with medical institutions.

Respect for Human Rights

In all 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, or other attributes," in creating and managing our HR system. We have prohibited any form of harassment and 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.

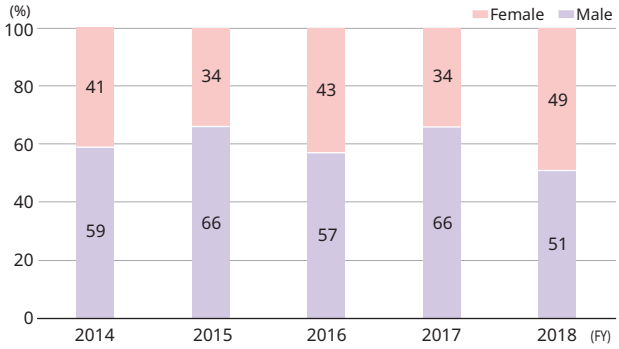
Diversity Promotion Initiatives

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.

Women's Participation Promotion Activities

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 these efforts, the number of female employees has steadily increased and the employment rate of female employees as of March 2018 increased by 3.5% from March 2013. 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 by providing training for managerial staff members, for employees by year of employment or by work position, and other training. Starting in 2015, we have participated in a cross-industry activity which is run by sixty or so businesses located in western Japan that have taken the initiative to build on their diversity. We are striving to share information on diversity know-how and activities by participating in cross-industry seminars.
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 Five-Year Action Plan (for the period from April 1, 2016 to March 31, 2021), which is based on the Act of Promotion of Women's Participation and Advancement in the Workplace (Women's Participation Promotion Act), set out in 2015.

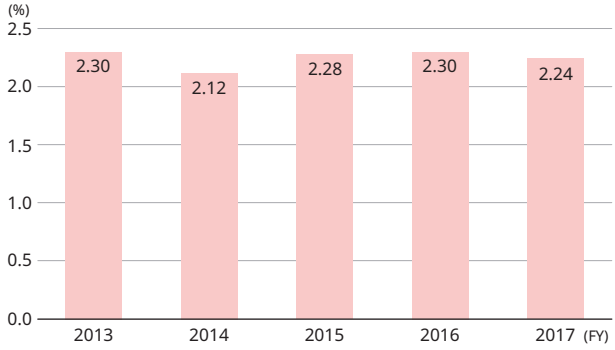
The Male-to-Female Ratio of New Graduate Employees



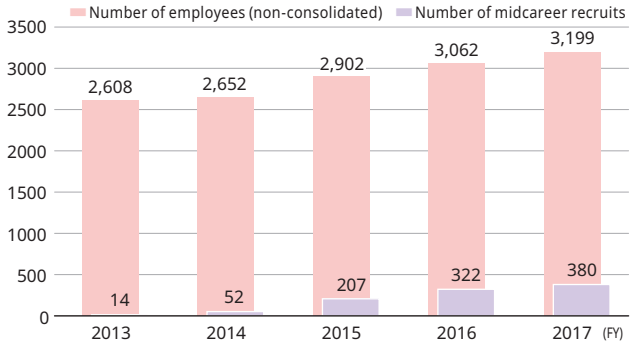
Activities to Promote Opportunities for Persons with Disabilities to Thrive / Activities to Promote of Midcareer Employment

As part of our diversity enhancement effort, we have been actively recruiting persons with disabilities, who account for an employment rate of 2.24% as of March 31, 2018. This exceeds the legally stipulated rate (2.2%), which was revised in 2018. Some 50 employees with disability currently enjoy working in their respective departments.
In addition, we have been directing efforts toward employing people midcareer as an industry-ready workforce equipped with the skills and knowledge that ONO requires. Notably, since FY2014 when we started to adopt active steps toward midcareer recruitment in view of our business environment, the number of midcareer employees that have joined ONO has increased substantially among a wide range of employees and departments, including MRs, development staff members as well as pharmacovigilance department members and administrational department members. In FY2017, approximately seventy midcareer recruits joined ONO. They are playing their respective roles by applying their experience and expertise.

Employment Rate of Persons with Disabilities



Number of Midcareer Recruits



Strengthening Corporate Infrastructure

Human Resources and Human Rights

Enhancing Cultivation of Employee-Friendly Workplaces

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

Promotion of the Reviewing the Way Employees Work

We consider that the shortening of work hours is an essential and fundamental challenge to be addressed for the development of a pleasant work environment. To this end, we focus on the review of working styles.
We appoint a promotion committee member in each department to involve the whole company in the activities, and the members work to raise awareness and encourage employees to make operations more efficient and to take paid holidays. We have also improved the system by making use of IT and introduced a flexible working time system and telecommuting system. Through these initiatives, we achieved positive results such as a year-on-year decrease in working hours by 0.5% and a year-on-year increase in the rate of taking paid holidays by 6.4% during the period from April 2017 to March 2018.

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, 2014, and 2017.
Since April 2017, we have been promoting initiatives to build an environment in which men can actively take part in child-raising, such as the introduction of a new childcare support system, holidays to encourage employees to take part in child-raising, as well as the strengthening of activities to ensure that the male employees who wish to participate in child-raising by taking childcare leave can obtain the consent of the people around them.

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. ONO designs systems so that employees can have more options in the way they work, for example, in cases of legally required systems, ONO's systems exceeds the statutory standards. We continuously improve these systems by listening to the workers' wishes so that they meet the actual needs of employees.
Furthermore, ONO strives to disseminate details of the systems thoroughly as well as the method of use for various kinds of employment and support systems by preparing and delivering handbooks that describe the benefit programs, such as leave before and after childbirth and childcare leave, application procedures for each system, FAQs, and other information and by providing announcements via Intranet.

Commitment to 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. At the ONO Head Office and other company sites which have a health committee, each committee discusses health issues based on the results of workplace environmental measurements. We established the Central Safety and Health Committee as a place to share information and exchange opinions between all of the safety and health committees and have implemented safety and health activities across the entire company.
Labor and management proactively engage together in the prevention of industrial accidents and early reinstatement after an industrial accident.

Promotion of Health and Productivity Management

For ONO to achieve its corporate philosophy and to contribute to society by creating and developing innovative pharmaceuticals, it is essential that employees and their families are mentally and physically healthy, that our worksite is a place where individual abilities can be fulfilled to their utmost, and that lives of employees and their families are satisfying. ONO has developed a system for maintaining and enhancing the health of employees and has continuously implemented health and productivity management. For further implementation of activities in a systematic way, our company, labor union, industrial health staff members, and health insurance association organized the "Health Up Committee" in April 2018 based on the Representative Director's health declaration whereby we built a system to engage in activities to help maintain and promote health together.

Prevention of Diseases / Early Detection / Early Treatment Support

- ONO requires its employees to receive an annual health checkup and employees over 35 years old are required to undergo a complete medical checkup instead of a statutory health checkup. The complete medical checkup rate has continued to be approximately 99% excluding unavoidable reasons, such as employees taking leave, etc.
- Contract facilities for complete medical checkup exist in prefectures throughout Japan. The number of contract facilities as of April 2018 is 178 facilities so that employees and their families can easily receive the complete medical checkup.
- ONO supports the cost of screening tests for each cancer and many employees receive optional screening tests related to cancer when they undergo a complete medical checkup. We provide mail-in-type cervical cancer screening to female employees under 35 years old.

Cancer screening test rate (as of February 2018)
(Target: cervical cancer, employees over 20 years old; other cancers, employees over 40 years old)

	Cancer screening rate
Gastric cancer screening test	97.2%
Lung cancer screening test	99.3%
Colorectal cancer screening test	93.9%
Breast cancer screening test	90.0%
Cervical cancer screening test	43.4%

- After employees receive their health checkup, industrial health staff members recommend pursuing a consultation at a medical institution or give health instructions as necessary, or they recommend that employees with a high risk of lifestyle-related disease and their families receive specific health instructions.

Mental Health Measures

- ONO has provided internal training on mental health and conducted individual consultations by industrial health staff members in order to contribute to prevention, early detection, and early treatment of mental disorders, and we engage in these activities in cooperation with industrial physicians.
- We conduct stress checks once a year for all employees and the implementation rate is approximately 95%. After the checks, we continuously improve our worksites based on the results of organization analysis.
- ONO established a free consulting service counter operated by an external company and developed a system where employees can consult with experts via phone or e-mail in addition to face-to-face consultation.

Measures Against Passive Smoking and Promotion of Health

- On the way to enforcement of a total ban of smoking on the ONO's premises starting in April 2019, we are increasing employee awareness of no smoking activities by establishing "No Smoking Day," implementing an internal questionnaire on tobacco, and publishing the results of the questionnaire. We also engage in activities to increase awareness organizationally by preparing and displaying original posters using employee illustrations and by other means.

- In order to support employees who are trying to quit smoking, we have conducted an internal Quit Smoking Competition with the aim to stop smoking within six weeks in a fun and smart way. ONO supports employee activities to promote their health by providing allowances for treatment as an outpatient of the quit-smoking department, by providing an online quit smoking program, and by other measures.
- ONO conducts an internal walking campaign every year. Employee teams and their family members can participate in the campaign in addition to individual employees so that everyone can voluntarily join in the campaign. In addition, people who achieve a specific goal will receive local products from a disaster area as an achievement award. The number of participants is increasing year by year and the campaign is expected to encourage employees to make a habit of walking.
- Physical checkup meetings are conducted every year at major offices, and they include measurement of body composition, age of the blood vessels, bone density, and other items. Participants can check the conditions of muscles and bones that are not made clear by health checkups alone and they can also receive individual advice on diet and exercise from medical staff members. Therefore, the number of participants is increasing every year.

Health Management Support

- ONO started to operate a portal site where employees can check the results of their complete medical checkups and health checkups at any time with their terminal device regardless of where they received the checkups. The portal site provides extensive details to increase employee health awareness, including content that provides information to help accurately understand checkup results and correct lifestyle habits as well as advice on lifestyle habits based on each person's lifestyle conditions.

Strengthening Corporate Infrastructure

Society

Various Corporate Social Responsibility (CSR) Activities

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.

Web-Based Information Dissemination

Our corporate website contains a section, for patients and their families that explains specific symptoms of the clinical conditions, therapeutic methods, and things that the patients and their families should do in their daily lives to support themselves concerning common diseases, including diabetes and allergic rhinitis, and other diseases for which patients are increasing as the population ages, including Alzheimer's dementia, osteoporosis, and overactive bladder, in an easy-to-understand manner with diagrams and illustrations.
We also have other web sources to disseminate useful information widely. We operate a website specializing in dementia which provides comments and messages from a wide range of healthcare professionals involved in the treatment and care of people with dementia, as well as a website focused on oncology (information for the general public and patients), created in cooperation with supervising physicians so that people can learn about diseases and treatments in oncology, including the concept of cancer immunity, in an easy-to-understand way. In addition, we offer a free smartphone app that provides support to patients suffering from diabetes or other lifestyle diseases.
Concerning the website specializing in dementia, we covered an additional 37 medical institutions in FY2017 and published an article to introduce their activities. The website focused on oncology has content on orphan cancers which have a high amount of unmet medical needs, including malignant melanoma, Hodgkin's lymphoma, multiple myeloma, etc., lung cancer, renal cell cancer, head and neck cancer, gastric cancer and other cancers, and it continuously provides the latest information.

Initiatives for Medical Advancement

We are making efforts to contribute to the medical advancement of unmet medical needs.
In 1988, the ONO Medical Research Foundation was established with donations from ONO. The Foundation provides grants for research activities in the field of lipid metabolism disorders and also aims to promote research and treatment in that field through various projects and thereby contributes to the health and welfare of the public. The Foundation has provided research grants and scholarships every year since its establishment. In FY2017, one person received the Osamu Hayashi Memorial Award, 12 persons received research grants, and 16 persons received grants to encourage research (under 40 years old) respectively.
As of FY2017, 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.
8 researchers were named recipients of the Osamu Hayaishi Memorial Scholarship for Study Abroad in March 2017 and 8 others in March 2018 respectively.
ONO continues to engage in providing grants for research that leads to medical advancements.

Activities to Support the Health of People

We conduct various health-related activities to provide a wide range of support for people such as patients and their families. We also cooperate in holding seminars for citizens to raise awareness and provide correct information about diseases. Since FY2014, we have been actively participating in a charity

event “Relay for Life” mainly in the locations of our offices. The objective of this event is to support cancer patients and their families and make cancer controllable and surmountable through actions of the whole local community against cancer.
In the field of dementia, all our MRs, who have completed the Dementia Supporters Training Program, learn and put into action what they can do on a daily basis to help people with dementia and their families live with a sense of security.
We produce and release on our corporate website a series of short movies titled “Grandma’s World” which are aimed at raising dementia awareness. In addition, we continue 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 people with dementia and their families and helping medical providers gain professional fulfillment. We received more than 400 works from all over Japan for the 9th exhibition held in FY2017.
Since 2015, as a Great East Japan Earthquake reconstruction assistance activity, we cooperate with top athletes and specialists in lifestyle disease and provide a program, “Operation Slimmer and Healthier,” addressed childhood obesity, a social issue in the earthquake-affected areas. This project provides an opportunity for children and their parents to consider diet and lifestyle habit through sports. In March 2018, we held the program in Soma City, Fukushima Prefecture following Aizu Misato-machi, Fukushima Prefecture in 2015, Ishinomaki City, Miyagi Prefecture in 2016, and Ofunato City, Iwate Prefecture in 2017.
We will be committed to continuing to be involved in activities that help people keep healthy.

Activities for Students and Children

ONO proactively engages in activities that support the development of children who will carry our future.
We have been visiting schools and giving lessons on the theme of dementia (for junior and senior high school students). This continued activity of our company aims to give students the idea that dementia is not an uncommon event and to instruct them with the correct knowledge about dementia by viewing a short movie titled “Grandma’s World” which was created by ONO with the aim of raising dementia awareness and by providing statements from a specialist. This initiative has been repeatedly taken since its start in May 2014, and a total of more than 1,400 students have attended the lessons by the end of March 2018.
In addition, our researchers visited schools and gave lessons (in the town where the Minase Research Institute is located, for elementary school students) on the theme of drugs with the aim of increasing interest in science in FY2017, following FY2016.
We also sponsored experience training (provided by local governments around the Fujiyama Plant, for elementary school students) with the aim of having students voluntarily consider the global environment and mainly the water environment.
In FY2017, as we agreed with the philosophy of “Kokoro no Gekijo (Theater of the Heart)” performed by the Shiki Theatre Company and Butaigeijutsu Center, we started to sponsor their activities. The Theater of the Heart is a project that invites children in Japan (mainly 6th grade students) to theaters for free and conveys emotions in order to talk to the children’s hearts about the importance of life, caring for others, the pleasures of mutual trust, and other information through theater.
In addition, ONO donated to a project, “Kodomo Hon no Mori, Nakanoshima (tentative name),” which builds libraries. The project aims to help children pursue their abundant creativity by building libraries filled with books, art, and culture.

Relationship with Local Communities

In our role as a corporate citizen, we have each of our business sites take part in various activities such as cleanups, disaster prevention activities, and conservation of the natural environment.
In addition, 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 Japanese 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.
From the perspective of sustainability where the local community and company live and achieve sustainable development together, ONO will proactively participate in and engage in a variety of activities to contribute to local communities as a member of society.

Visiting schools and giving lessons on the theme of dementia

Strengthening Corporate Infrastructure

The Environment

Activities to Achieve an Abundant Global Environment

ONO established the ONO PHARMACEUTICAL Environmental Guidelines for our environmental activities and formulated a voluntary environment action plan based on the Guidelines. We defined the specific content of actions as well as numerical goals by which we will strive to reduce greenhouse gas emissions from business activities on a company-wide basis. In this and other ways, we will fulfill our corporate social responsibility by prioritizing the environment in all business areas and by contributing to the realization of an abundant global 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 resources 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.

Promotion of Environmental Management

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.

Environmental Efficiency / Environmental Accounting

We assess 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.

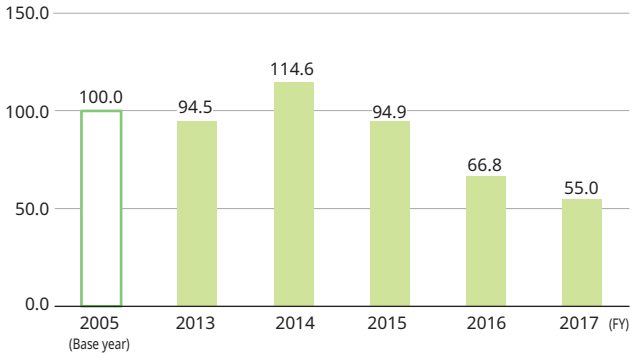
We disclose an indicator that shows the efficiency of our environmental conservation activities in reducing environmental impact. To calculate this indicator, we classify the company's environmental impacts into five categories: chemical substances, global warming, waste, water quality, and air quality. We then select a typical environmental factor for each of the categories and divide their amount of environmental impact by revenue in the relevant fiscal year. The resulting figure is then used to assess the level of reduction in environmental impact achieved through environmental conservation activities.

Due to sales growth, the environmental efficiency indicator for FY2017 improved by 45.0 points compared to FY2005 in spite of temporary increases in waste from the renovation of facilities related to investigational drugs at Joto Plant.

We will remain committed to reducing our environmental impact and improving the environmental efficiency indicator.

Assessment of Environmental Efficiency

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

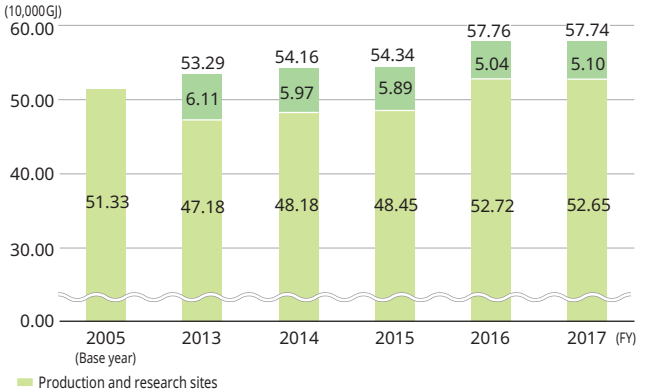


- See ONO's corporate website for more details on FY2017 environmental cost and effect.
  →http://www.ono.co.jp/eng/csr/environment04.html

Energy Saving and Measures Against Global Warming

Implementation of energy saving and global warming prevention activities are regarded as the most important environmental goal of ONO. All our places of business - production sites, research institutes, 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 medium-term environmental target of a more than 23% reduction in CO_2 emissions (energy-derived CO_2 emissions from production and research sites) in FY2020 compared to FY2005. In FY2017, CO_2 emissions from production sites and research institutes decreased by 10.1% to 24,000 tons compared to 26,700 tons in FY2005.
We implement company-wide activities, including Cool Biz and Warm Biz, to reduce energy consumption. We also use the latest energy-saving devices at production sites and research institutes when renewing old air conditioning equipment and electric equipment. In addition, a solar power generation system, a renewable energy based system, is used at the Head Office, Minase Research Institute, and Tokyo Building constructed in March 2018.
ONO is a specified business operator under Japan's Act on the Rational Use of Energy (Energy Saving Act), and every year we report our energy consumption and our mid- to long-term energy reduction plan to the Ministry of Economy, Trade and Industry (METI) and the Ministry of Health, Labour and Welfare (MHLW). We will examine the use of the latest systems with high energy-saving performance and renewable energy systems when planning to construct a new building or when conducting a major renovation, and thereby strive to reduce electric energy consumption in order to contribute to electric load leveling.

Energy Consumption



✻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.

Water Resources Preservation / Measures Against Water-Related Risks

ONO addresses the preservation of water resources from the perspective of both production activities and research activities in order to fulfill our corporate social responsibility and reduce management risks. We make efforts to reduce water consumption amounts and to provide strict quality control of water discharge as we continue activities that take biodiversity into consideration.
In addition, one of the important elements for us is to have quality freshwater available to engage in our business activities. For that reason, we survey risks related to water, understand risks that are likely to have an impact on our business, and analyze and assess them. The use of quality freshwater has never been restricted at our plants and research institutes in Japan and therefore there is a low possibility that the use of quality freshwater will present obstacles under the current situation. However, we understand and assess impact in cases where water quality worsens or water shortages arise due to changes in the global environment caused by future climate change or where regulations on water discharge are tightened, and we examine countermeasures.

Waste Management

We promote company-wide initiatives to reduce the amount of industrial waste landfilled. Residues after intermediate treatment were sent to landfill sites where materials can be recycled to reduce the amount of landfilled industrial waste to 7.4 tons in FY2017, which was equivalent to 1055.7% of the amount in the previous fiscal year. This is due to temporary increases in waste from the renovation of facilities related to investigational drugs at Joto Plant. All of our sites thoroughly collect waste paper by sorting them into three types, and they are recycled into copy paper, toilet paper, and cardboard respectively. In FY2012, we introduced on-demand printing of marketing materials to reduce the stock of such materials in our sales offices. This has trimmed the amount of stock in the offices and reduced the amount of unused materials that are disposed of as waste.
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.

Consolidated Financial Summary FY2017

	Millions of Yen	Millions of Yen	Millions of Yen	Thousands of U.S. Dollars[*1]
	2016.3 (IFRS)	2017.3 (IFRS)	**2018.3 (IFRS)**	**2018.3 (IFRS)**
Operating Results				
Revenue	160,284	244,797	**261,836**	**2,470,150**
Research and development costs	43,369	57,506	**68,821**	**649,251**
Operating profit	30,507	72,284	**60,684**	**572,493**
Profit for the year attributable to owners of the parent company	24,979	55,793	**50,284**	**474,375**
Financial Position				
Total assets	540,450	617,461	**609,226**	**5,747,411**
Total equity	476,255	524,211	**529,619**	**4,996,403**
Cash flows from operating activities	12,842	74,450	**15,727**	**148,365**
Cash flows from investing activities	13,037	(17,989)	**(34,189)**	**(322,534)**
Cash flows from financing activities	(19,465)	(20,552)	**(62,549)**	**(590,082)**
Amount per share[*2]	Yen	Yen	Yen	U.S. Dollars[*1]
Basic earnings	47.13	105.27	**97.00**	**0.92**
Equity attributable to owners of the parent company	889.38	979.42	**1,019.97**	**9.62**
Cash dividends	180.00	40.00	**45.00**	**0.42**
Financial indicators				
Equity ratio (%)	87.2	84.1	**86.1**	
ROA (%)[*3]	6.2	12.9	**10.4**	
ROE (%)[*4]	5.3	11.3	**9.6**	
Payout ratio (%)	76.4	38.0	**46.4**	
Number of employees	3,116	3,290	**3,480**	

*1 U.S. Dollar amounts are translated at a rate of US$1 = ¥106, the approximate rate of exchange at March 30, 2018. 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, 2016. Also, "Cash dividends" for the fiscal year ended March 31, 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 by Major Product

(Billions of yen)

Product	FY2016	**FY2017**	FY2018 (Forecast)
OPDIVO Intravenous Infusion	103.9	**90.1**	90.0
GLACTIV Tablets	29.4	**27.4**	26.0
ORENCIA for Subcutaneous Injection	11.6	**14.1**	16.5
FORXIGA Tablets	7.8	**11.1**	13.0
OPALMON Tablets	17.0	**14.4**	10.5
EMEND Capsules / PROEMEND for Intravenous Injection	9.9	**9.9**	10.5
RECALBON Tablets	11.3	**10.9**	9.5
RIVASTACH Patch	8.9	**8.9**	9.0
KYPROLIS for Intravenous Injection	2.0	**5.5**	6.5
PARSABIV Intravenous Infusion	0.2	**3.4**	5.5
ONON Capsules	6.8	**5.5**	4.5
ONOACT for Intravenous Infusion	5.7	**5.6**	4.0
STAYBLA Tablets	4.8	**4.1**	3.5
ONON Dry Syrup	4.1	**3.3**	2.5

✻ Based on ex-manufacturer prices

Financial Review

The following is a summary of the consolidated business results for the fiscal year ended March 31, 2018.

Area of Business

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

Results for Fiscal Year Ended March 31, 2018

In the current consolidated fiscal year, mild recovery of Japanese economy continued, as indicated by signs including gradual improvement in the employment environment, capital investment, and personal consumption by the financial policies and measures of the government and the Bank of Japan.
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	¥ 261,836	$ 2,470,150
Operating profit	60,684	572,493
Profit for the year (attributable to owners of the parent company)	50,284	474,375

Revenue

Revenue totaled ¥261,836 million (US$2,470,150 thousand), an increase of ¥17,039 million (US$160,742 thousand), up 7.0% over the previous consolidated fiscal year.

- The use of OPDIVO Intravenous Infusion for malignant tumor expanded for the treatment of renal cell cancer and head and neck cancer approved a fiscal year ago, gastric cancer approved in September 2017, and etc. However sales of OPDIVO decreased by ¥13.8billion (-13.3%) year on year to ¥90.1 billion (US$849,973 thousand) due to the impact of drug price revision made in February 2017.
- Sales of our key new products: GLACTIV Tablets for type-2 diabetes decreased by 6.7% year-on-year to ¥27.4 billion (US$258,467 thousand), ORENCIA for rheumatoid arthritis increased by 22.0% year-on-year to ¥14.1 billion (US$133,307 thousand), FORXIGA Tablets for type-2 diabetes increased by 41.8% year-on-year to ¥11.1 billion (US$104,443 thousand), RECALBON Tablets for osteoporosis decreased by 3.3% year-on-year to ¥10.9 billion (US$103,023 thousand), the combined sales of EMEND Capsules and PROEMEND for Intravenous Injection for chemotherapy-induced nausea and vomiting increased by 0.7% year-on-year to ¥9.9 billion (US$93,853 thousand), RIVASTACH Patch for Alzheimer's disease increased by 0.3% year-on-year to ¥8.9 billion (US$83,790 thousand), KYPROLIS for Intravenous Infusion for multiple myeloma increased by 182.4% year-on-year to ¥5.5 billion (US$52,223 thousand), PARSABIV Intravenous Injection for Dialysis for secondary hyperparathyroidism in patients on hemodialysis increased by 1660.3% year-on-year to ¥3.4 billion (US$32,355 thousand).
- On the other hand, sales of the main long-term listed products were affected by competing product and the new generic use promotion measures. OPALMON Tablets for peripheral circulatory disorder decreased by 15.6% year-on-year to ¥14.4 billion (US$135,545 thousand), ONON Capsules for bronchial asthma and allergic rhinitis decreased by 19.5% year-on-year to ¥5.5 billion (US$51,507 thousand), ONON Dry Syrup decreased by 18.8% year-on-year to ¥3.3 billion (US$31,449 thousand).
- Royalty and Other Revenue increased by 83.7% year on year to ¥55.9 billion (US$527,813 thousand) due to increase of the royalty for OPDIVO from Bristol-Myers Squibb (BMS) and etc.

Profit and Loss

Operating profit for the current consolidated fiscal year totaled ¥60,684 million (US$572,493 thousand), a decrease of ¥11,599 million (US$109,427 thousand), down 16.0% over the previous consolidated fiscal year.

- Cost of sales was down 0.2%, or ¥133 million (US$1,256 thousand), from the previous consolidated fiscal year to ¥65,391 million (US$616,897 thousand).
- R&D costs were up 19.7%, or ¥11,314 million (US$106,739 thousand), from the previous consolidated fiscal year to ¥68,821 million (US$649,251 thousand) due to vigorous development investment related to OPDIVO.
- Selling, general, and administrative expenses were up 9.7%, or ¥6,006 million (US$56,665 thousand), from the previous consolidated fiscal year to ¥68,055 million (US$642,032 thousand) due to increase of operating expenses for OPDIVO and new products including PARSABIV and etc.
- Other income includes gain on sale of non-current assets ¥2.9 billion (US$26,955 thousand). 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$168,264 thousand) in the previous consolidated fiscal year.
- Profit for the year (attributable to owners of the parent company) was down 9.9%, or ¥5,509 million (US$51,974 thousand), from the previous consolidated fiscal year to ¥50,284 million (US$474,375 thousand), with a decrease in profit before tax.

Consolidated Cash Flows

The cash and cash equivalents balance at the end of the consolidated fiscal year was ¥65,273 million (US$615,781 thousand), down 55.4%, or ¥81,051 million (US$764,629 thousand) from the previous year's figure of ¥146,323 million (US$1,380,410 thousand). The main factors were cash flows from operating activities ended in a positive balance of ¥15,727 million (US$148,365 thousand), cash flows from investing activities ended in a negative cash flow balance of ¥34,189 million (US$322,534 thousand), and cash flows from financing activities ended in a negative cash flow balance of ¥62,549 million (US$590,082 thousand).

■ Cash Flows from Operating Activities

Cash flows from operating activities for the current consolidated fiscal year ended in a positive cash flow balance of ¥15,727 million (US$148,365 thousand), a year-on-year decrease of ¥58,723 million. The main factors were profit before tax ended in a positive balance of ¥63,922 million (US$603,037 thousand), income taxes paid of ¥36,370 million (US$343,113 thousand), and other including payment of consumption taxes and etc. ended in a negative balance of ¥17,138 (US$161,679 thousand).

■ Cash Flows from Investing Activities

Cash flows from investing activities for the current consolidated fiscal year ended in a negative balance of ¥34,189 million (US$322,534 thousand) (The cash flows for the previous consolidated fiscal year ended in a negative balance of ¥17,989 million). The main factors were payments into time deposits of ¥30,800 million (US$290,566 thousand), purchases of property, plant, and equipment of ¥15,620 million (US$147,358 thousand), purchases of intangible assets of ¥14,218 million (US$134,136 thousand), and proceeds from sales and redemption of investments of ¥21,315 million (US$201,083 thousand).

■ Cash Flows from Financing Activities

Cash flows from financing activities for the current consolidated fiscal year ended in a negative balance of ¥62,549 million (US$590,082 thousand) (The cash flows for the previous consolidated fiscal year ended in a negative balance of ¥20,552 million). The main factors were purchases of treasury shares of ¥38,773 (US$365,779 thousand) and the dividends paid to owners of the parent company of ¥23,414 million (US$220,890 thousand).

Investment in Plant and Equipment

Plant and equipment investment during the current consolidated fiscal year totaled ¥18,593 million (US$175,407 thousand). This included investment in enhancement and maintenance of research facilities (¥6,496 million, or US$61,285 thousand), manufacturing facilities (¥6,227 million, or US$58,741 thousand), and business facilities (¥5,870 million, or US$55,382 thousand). The main components of investment in plant and equipment during the current consolidated fiscal year were factory facilities under construction in Yamaguchi Prefecture and the Tokyo Building newly established in Chuo ku, Tokyo.

Consolidated Statement of Financial Position

Year Ended March 31, 2018

Assets	Notes	Millions of Yen		Thousands of U.S. Dollars [Note 2 (6)]
		March 31, 2017	March 31, 2018	March 31, 2018
Current assets:				
Cash and cash equivalents	7, 33	¥ 146,323	¥ 65,273	$ 615,781
Trade and other receivables	8, 33	73,255	77,577	731,862
Marketable securities	9, 33	17,560	9,670	91,230
Other financial assets	10, 33	819	10,833	102,198
Inventories	12	25,334	31,290	295,189
Other current assets	11,20	7,742	14,821	139,817
Total current assets		271,033	209,464	1,976,077
Non-current assets:				
Property, plant, and equipment	13	83,659	94,321	889,822
Intangible assets	14	45,237	55,715	525,611
Investment securities	9, 33	176,573	188,803	1,781,158
Investments in associates		114	116	1,096
Other financial assets	10, 33	26,836	46,685	440,428
Deferred tax assets	16	10,739	10,192	96,153
Other non-current assets	11	3,271	3,929	37,067
Total non-current assets		346,428	399,761	3,771,334
Total assets		¥ 617,461	¥ 609,226	$ 5,747,411

Liabilities and Equity	Notes	Millions of Yen		Thousands of U.S. Dollars [Note 2 (6)]
		March 31, 2017	March 31, 2018	March 31, 2018
Current liabilities:				
Trade and other payables	17, 33	¥ 30,905	¥ 34,015	$ 320,894
Borrowings	18, 21, 33	423	392	3,694
Other financial liabilities	19, 33	5,814	3,756	35,430
Income taxes payable		24,777	8,742	82,472
Provisions	24	6,086	11,696	110,340
Other current liabilities	22	14,928	9,869	93,099
Total current liabilities		82,933	68,469	645,930
Non-current liabilities:				
Borrowings	18, 21, 33	542	320	3,015
Other financial liabilities	19, 33	11	8	74
Retirement benefit liabilities	23	2,805	3,856	36,378
Provisions	24	30	30	283
Deferred tax liabilities	16	881	1,016	9,583
Long-term advances received		5,276	5,095	48,065
Other non-current liabilities	22	772	814	7,681
Total non-current liabilities		10,316	11,138	105,078
Total liabilities		93,250	79,607	751,008
Equity:				
Share capital	25	17,358	17,358	163,757
Capital reserves	25	17,144	17,175	162,024
Treasury shares	25	(59,382)	(38,148)	(359,884)
Other components of equity	25	51,752	68,021	641,703
Retained earnings	25	492,237	459,985	4,339,480
Equity attributable to owners of the parent company		519,110	524,390	4,947,080
Non-controlling interests		5,101	5,228	49,323
Total equity		524,211	529,619	4,996,403
Total liabilities and equity		¥ 617,461	¥ 609,226	$ 5,747,411

Consolidated Statement of Income

Year Ended March 31, 2018

	Notes	Millions of Yen		Thousands of U.S. Dollars [Note 2 (6)]
		For the year ended March 31, 2017	For the year ended March 31, 2018	For the year ended March 31, 2018
Revenue	6	¥ 244,797	¥ 261,836	$ 2,470,150
Cost of sales		(65,524)	(65,391)	(616,897)
Gross profit		179,273	196,445	1,853,252
Selling, general, and administrative expenses	27	(62,049)	(68,055)	(642,032)
Research and development costs		(57,506)	(68,821)	(649,251)
Other income	29	18,133	3,255	30,705
Other expenses	29	(5,567)	(2,139)	(20,181)
Operating profit		72,284	60,684	572,493
Finance income	30	3,057	3,277	30,918
Finance costs	30	(260)	(36)	(339)
Share of loss from investments in associates and others	15	(541)	(4)	(35)
Profit before tax		74,540	63,922	603,037
Income tax expense	16	(18,504)	(13,525)	(127,592)
Profit for the year		56,036	50,397	475,445
Profit for the year attributable to:				
Owners of the parent company		55,793	50,284	474,375
Non-controlling interests		243	113	1,070
Profit for the year		¥ 56,036	¥ 50,397	$ 475,445

		Yen		U.S. Dollars [Note 2 (6)]
Earnings per share:				
Basic earnings per share	32	¥ 105.27	¥ 97.00	$ 0.92
Diluted earnings per share	32	105.26	96.99	0.92

Consolidated Statement of Comprehensive Income

Year Ended March 31, 2018

	Notes	Millions of Yen		Thousands of U.S. Dollars [Note 2 (6)]
		For the year ended March 31, 2017	For the year ended March 31, 2018	For the year ended March 31, 2018
Profit for the year		¥ 56,036	¥ 50,397	$ 475,445
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	10,979	17,797	167,901
Remeasurement of defined benefit plans	31	1,165	(478)	(4,514)
Share of net (loss) gain on financial assets measured at fair value through other comprehensive income of investments in associates	15, 31	0	2	22
Total of items that will not be reclassified to profit or loss		12,144	17,321	163,408
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translation of foreign operations	31	(96)	(112)	(1,054)
Total of items that may be reclassified subsequently to profit or loss		(96)	(112)	(1,054)
Total other comprehensive (loss) income		12,048	17,210	162,355
Total comprehensive income for the year		68,083	67,607	637,800
Comprehensive income for the year attributable to:				
Owners of the parent company		67,841	67,477	636,571
Non-controlling interests		242	130	1,228
Total comprehensive income for the year		¥ 68,083	¥ 67,607	$ 637,800

Consolidated Statement of Changes in Equity

Year Ended March 31, 2018

	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, 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
Profit for the year						50,284	50,284	113	50,397
Other comprehensive income	31				17,193		17,193	17	17,210
Total comprehensive income for the year		–	–	–	17,193	50,284	67,477	130	67,607
Purchase of treasury shares	25			(38,773)			(38,773)		(38,773)
Retirement of treasury shares	25			60,007		(60,007)	–		–
Cash dividends	26					(23,453)	(23,453)	(3)	(23,457)
Share-based payments	34		30				30		30
Transfer from other components of equity to retained earnings	25				(924)	924	–		–
Total transactions with the owners		–	30	21,234	(924)	(82,536)	(62,196)	(3)	(62,199)
Balance at March 31, 2018		¥ 17,358	¥ 17,175	¥ (38,148)	¥ 68,021	¥ 459,985	¥ 524,390	¥ 5,228	¥ 529,619

	Notes	Thousands of U.S. Dollars [Note 2 (6)]							
		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, 2017		$ 163,757	$ 161,739	$ (560,206)	$ 488,225	$ 4,643,748	$ 4,897,263	$ 48,125	$ 4,945,387
Profit for the year						474,375	474,375	1,070	475,445
Other comprehensive income	31				162,197		162,197	158	162,355
Total comprehensive income for the year		–	–	–	162,197	474,375	636,571	1,228	637,800
Purchase of treasury shares	25			(365,781)			(365,781)		(365,781)
Retirement of treasury shares	25			566,103		(566,103)	–		–
Cash dividends	26					(221,259)	(221,259)	(29)	(221,288)
Share-based payments	34		286				286		286
Transfer from other components of equity to retained earnings	25				(8,719)	8,719	–		–
Total transactions with the owners		–	286	200,322	(8,719)	(778,643)	(586,754)	(29)	(586,784)
Balance at March 31, 2018		$ 163,757	$ 162,024	$ (359,884)	$ 641,703	$ 4,339,480	$ 4,947,080	$ 49,323	$ 4,996,403

Consolidated Statement of Cash Flows

Year Ended March 31, 2018

	Notes	Millions of Yen		Thousands of U.S. Dollars [Note 2 (6)]
		For the year ended March 31, 2017	For the year ended March 31, 2018	For the year ended March 31, 2018
Cash flows from operating activities				
Profit before tax		¥ 74,540	¥ 63,922	$ 603,037
Depreciation and amortization		7,821	9,213	86,912
Impairment losses		937	306	2,883
Interest and dividend income		(2,951)	(2,990)	(28,207)
Interest expense		15	14	134
(Increase) decrease in inventories		(2,042)	(5,971)	(56,332)
(Increase) decrease in trade and other receivables		(11,195)	(4,333)	(40,873)
Increase (decrease) in trade and other payables		4,980	300	2,827
Increase (decrease) in provisions		4,731	5,611	52,931
Increase (decrease) in retirement benefit liabilities		389	362	3,412
Increase (decrease) in long-term advances received		(538)	(181)	(1,709)
Other		6,292	(17,138)	(161,679)
Subtotal		82,978	49,114	463,337
Interest received		154	95	896
Dividends received		2,818	2,902	27,379
Interest paid		(15)	(14)	(134)
Income taxes paid		(11,485)	(36,370)	(343,113)
Net cash provided by (used in) operating activities		74,450	15,727	148,365
Cash flows from investing activities				
Purchases of property, plant, and equipment		(14,805)	(15,620)	(147,358)
Proceeds from sales of property, plant, and equipment		274	4,663	43,995
Purchases of intangible assets		(9,274)	(14,218)	(134,136)
Purchases of investments		(3,240)	(60)	(566)
Proceeds from sales and redemption of investments		28,883	21,315	201,083
Payments into time deposits		(20,800)	(30,800)	(290,566)
Other		974	531	5,012
Net cash provided by (used in) investing activities		(17,989)	(34,189)	(322,534)
Cash flows from financing activities				
Dividends paid		(20,116)	(23,414)	(220,890)
Dividends paid to non-controlling interests		(3)	(3)	(29)
Repayments of long-term borrowings		(398)	(417)	(3,932)
Net increase (decrease) in short-term borrowings		(11)	58	548
Purchases of treasury shares		(22)	(38,773)	(365,779)
Net cash provided by (used in) financing activities		(20,552)	(62,549)	(590,082)
Net increase (decrease) in cash and cash equivalents		35,909	(81,011)	(764,251)
Cash and cash equivalents at the beginning of the year		110,485	146,323	1,380,410
Effects of exchange rate changes on cash and cash equivalents		(71)	(40)	(379)
Cash and cash equivalents at the end of the year	7	¥ 146,323	¥ 65,273	$ 615,781

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, 2018, 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) 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 ¥106 to $1, the approximate rate of exchange at March 30, 2018. 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 acquisition. The consideration transferred is measured at fair value at the acquisition date. The non-controlling interest is measured at fair value or based on the appropriate share of the acquiree's identifiable net assets.

The Group recognizes goodwill as any excess of 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 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 new and revised standards and interpretations that have been issued but not yet effective except for IFRS 9 Financial Instruments (issued in November 2009, revised in October 2010 and December 2011). 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.

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 (Revised in July 2014)	*Financial Instruments*	January 1, 2018	Fiscal year ending March 31, 2019	Impairment of financial assets and revision of hedge accounting
IFRS 16	*Leases*	January 1, 2019	Fiscal year ending March 31, 2020	Revision of accounting treatment for lease contracts
IFRIC (International Finacial Reporting Interpretations Committee) 22	*Foreign Currency Transactions and Advance Consideration*	January 1, 2018	Fiscal year ending March 31, 2019	Clarification of the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency

(1) IFRS 15 "Revenue from Contracts with Customers"
IFRS 15 sets out standards on accounting for revenue recognition, and the application of this standard mainly affects the revenue recognition timing arising from an out-licensing agreement on development rights and sales rights of developed products concluded between the Group and third parties. In accordance with the nature of the rights provided by the license agreement, etc., if it is determined that the performance obligation is satisfied at the time of granting the license, the received upfront payment, etc. will be recognized at the time of grant. On the other hand, if it is determined that the performance obligation is satisfied over time, the received upfront payment, etc. will be recognized over time based on the development periods, etc.by measuring the progress towards complete satisfaction of each performance obligation.
With the application of this standard, upfront payment received, which was formerly recognized over time, will be recognized as one-time income on out-licensing. The Group recognizes the cumulative effect of applying this standard at the date of initial application, with no restatement of the comparative periods presented. It records the cumulative effect, the amount of ¥4,127 million ($38,933 thousand) after tax effect, as an adjustment to the opening balance of retained earnings at the date of initial application.

(2) IFRS 9 "Financial Instruments" (Revised in July 2014)
The impact of applying this standard on its consolidated financial statements is immaterial.

(3) IFRS 16 "Leases"
The Group is currently evaluating the potential impact of applying this standard on its consolidated financial statements.

(4) IFRIC 22 "Foreign Currency Transactions and Advance Consideration"
The impact of applying this standard on its consolidated financial statements is immaterial.

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, 2017	For the year ended March 31, 2018	For the year ended March 31, 2018
Revenue of goods and products	¥ 214,337	¥ 205,888	$ 1,942,336
Royalty and other revenue	30,460	55,948	527,813
Total	¥ 244,797	¥ 261,836	$ 2,470,150

(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, 2017	For the year ended March 31, 2018	For the year ended March 31, 2018
Revenue of goods and products			
Japan	¥ 214,039	¥ 204,023	$ 1,924,741
Americas	27,251	52,525	495,516
Asia	3,135	5,071	47,840
Europe	373	218	2,054
Total	¥ 244,797	¥ 261,836	$ 2,470,150

Note: 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, 2017	For the year ended March 31, 2018	For the year ended March 31, 2018
Medipal Holdings Corporation and the group	¥ 52,006	¥ 48,932	$ 461,627
Suzuken Co., Ltd. and the group	47,487	45,662	430,775
Bristol-Myers Squibb Company and the group	26,832	43,662	411,906
Alfresa Holdings Corporation and the group	32,906	31,987	301,768
Toho Holdings Co., Ltd. and the group	35,327	31,392	296,154

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, 2017	March 31, 2018	March 31, 2018
(Cash and cash equivalents)			
Cash and deposits	¥ 146,323	¥ 65,273	$ 615,781
Cash and cash equivalents in the consolidated statement of financial position	¥ 146,323	¥ 65,273	$ 615,781
Cash and cash equivalents in the consolidated statement of cash flows	¥ 146,323	¥ 65,273	$ 615,781

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, 2017	March 31, 2018	March 31, 2018
Notes receivable	¥ 467	¥ 2,315	$ 21,836
Trade accounts receivable	68,136	70,398	664,131
Other accounts receivable	4,657	4,871	45,956
Allowance for doubtful accounts	(5)	(6)	(60)
Net	¥ 73,255	¥ 77,577	$ 731,862

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, 2017	March 31, 2018	March 31, 2018
Marketable securities	Financial assets measured at amortized cost	Bonds	¥ 17,560	¥ 9,670	$ 91,230
	Total		¥ 17,560	¥ 9,670	$ 91,230
Investment securities	Financial assets measured at FVOCI	Stock	¥ 162,060	¥ 183,967	$ 1,735,535
	Financial assets measured at FVPL	Other	490	547	5,163
	Financial assets measured at amortized cost	Bonds	14,024	4,289	40,460
	Total		¥ 176,573	¥ 188,803	$ 1,781,158

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, 2017	
Description	Millions of Yen
SANTEN PHARMACEUTICAL CO., LTD.	15,002
DAIKIN INDUSTRIES, LTD.	13,590
T&D Holdings, Inc.	9,219
Nissan Chemical Industries, Ltd.	7,698
NISSIN FOODS HOLDINGS CO., LTD.	7,589
DAIICHI SANKYO COMPANY, LIMITED	7,223
MEIJI Holdings Co., Ltd.	5,612
YAKULT HONSHA CO., LTD.	4,990
Astellas Pharma Inc.	4,855
OBAYASHI CORPORATION	4,047
Sumitomo Dainippon Pharma Co., Ltd.	3,948
Kurita Water Industries Ltd.	3,905
Nippon Shinyaku Co., Ltd.	3,515
HISAMITSU PHARMACEUTICAL CO., INC.	2,851
KOKUYO CO., LTD.	2,666
NIPPON KAYAKU CO., LTD.	2,569
KISSEI PHARMACEUTICAL CO., LTD.	2,469
KIKKOMAN CORPORATION	2,384
Otsuka Holdings Co., Ltd.	2,356
KYORIN Holdings, Inc.	2,269
Mitsubishi Tanabe Pharma Corporation	1,961
Carna Biosciences, Inc.	1,925
MIURA CO., LTD.	1,870
Alfresa Holdings Corporation	1,830
SUMITOMO CHEMICAL COMPANY, LIMITED	1,786
FUJIFILM Holdings Corporation	1,733
SHIMADZU CORPORATION	1,626
SUZUKEN CO., LTD.	1,577
MAEDA CORPORATION	1,565
TOPPAN PRINTING CO., LTD.	1,488

March 31, 2018		
Description	Millions of Yen	Thousands of U.S. Dollars
SANTEN PHARMACEUTICAL CO., LTD.	15,961	150,573
DAIKIN INDUSTRIES, LTD.	14,258	134,510
Nissan Chemical Industries, Ltd.	10,502	99,075
DAIICHI SANKYO COMPANY, LIMITED	10,158	95,834
T&D Holdings, Inc.	9,633	90,875
NISSIN FOODS HOLDINGS CO., LTD.	9,077	85,636
YAKULT HONSHA CO., LTD.	6,354	59,946
Astellas Pharma Inc.	5,345	50,421
MEIJI Holdings Co., Ltd.	4,904	46,262
Kurita Water Industries Ltd.	4,894	46,174
OBAYASHI CORPORATION	4,526	42,695
Nippon Shinyaku Co., Ltd.	4,414	41,645
KOKUYO CO., LTD.	3,888	36,683
Sumitomo Dainippon Pharma Co., Ltd.	3,837	36,193
HISAMITSU PHARMACEUTICAL CO., INC.	3,694	34,849
MIURA CO., LTD.	3,512	33,129
KIKKOMAN CORPORATION	3,069	28,951
SHIMADZU CORPORATION	2,750	25,940
Otsuka Holdings Co., Ltd.	2,500	23,583
KISSEI PHARMACEUTICAL CO., LTD.	2,433	22,953
Shiseido Company, Limited	2,255	21,275
Alfresa Holdings Corporation	2,246	21,192
CKD Corporation	2,189	20,655
MAEDA CORPORATION	1,992	18,789
KYORIN Holdings, Inc.	1,929	18,198
SUZUKEN CO., LTD.	1,899	17,914
OKAMURA CORPORATION	1,850	17,455
Carna Biosciences, Inc.	1,849	17,448
SUMITOMO CHEMICAL COMPANY, LIMITED	1,780	16,793
DAIWA HOUSE INDUSTRY CO., LTD.	1,775	16,748

(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, 2017	For the year ended March 31, 2018	For the year ended March 31, 2018
Stock held at year-end	¥ 2,715	¥ 2,829	$ 26,690
Stock disposed of during the year	104	71	674
Total	¥ 2,818	¥ 2,901	$ 27,364

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

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

	Millions of Yen				Thousands of U.S. Dollars	
	For the year ended March 31, 2017		For the year ended March 31, 2018		For the year ended March 31, 2018	
	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	¥ 7,331	¥ 3,515	¥ 3,761	¥ 2,018	$ 35,477	$ 19,034

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 ¥2,436 million and ¥1,403 million ($13,233 thousand) for the years ended March 31, 2017 and 2018, 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, 2017	March 31, 2018	March 31, 2018
(Current assets)				
Time deposits	Financial assets measured at amortized cost	¥ 800	¥ 10,800	$ 101,887
Other	—	19	33	311
	Total	¥ 819	¥ 10,833	$ 102,198
(Non-current assets)				
Long-term time deposits	Financial assets measured at amortized cost	¥ 20,000	¥ 40,000	$ 377,358
Insurance reserve fund	Financial assets measured at FVPL	6,836	6,685	63,069
	Total	¥ 26,836	¥ 46,685	$ 440,428

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, 2017	March 31, 2018	March 31, 2018
(Other current assets)			
Prepaid expenses	¥ 4,034	¥ 5,174	$ 48,814
Consumption taxes receivable	—	3,619	34,140
Advance payments	1,547	1,848	17,436
Other	2,161	4,179	39,427
Total	¥ 7,742	¥ 14,821	$ 139,817
(Other non-current assets)			
Lease deposits	¥ 796	¥ 858	$ 8,092
Long-term prepaid expenses	508	350	3,298
Other	1,967	2,722	25,677
Total	¥ 3,271	¥ 3,929	$ 37,067

Note 12

Inventories

Details of inventories are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	March 31, 2017	March 31, 2018	March 31, 2018
Merchandise and finished goods	¥ 14,813	¥ 18,982	$ 179,079
Work in process	4,188	4,012	37,850
Raw materials and supplies	6,332	8,296	78,260
Total	¥ 25,334	¥ 31,290	$ 295,189

Note: Inventories recognized as an expense for the years ended March 31, 2017 and 2018, amounted to ¥38,118 million and ¥39,348 million ($371,205 thousand), respectively. In addition, the write-downs of inventories recognized as an expense for the years ended March 31, 2017 and 2018, were ¥313 million and ¥126 million ($1,188 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, 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
Acquisition	—	1,055	505	3,031	15,383	19,975
Transfer	—	9,545	1,087	880	(11,512)	—
Sale or disposal	(1,220)	(3,307)	(1,204)	(1,059)	—	(6,790)
Exchange differences on translation of foreign operations	—	8	—	5	—	14
Other	—	—	—	—	(1,217)	(1,217)
Balance at March 31, 2018	¥ 25,003	¥ 93,511	¥ 23,241	¥ 28,266	¥ 6,838	¥ 176,859

	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	$ 247,390	$ 813,294	$ 215,594	$ 239,705	$ 39,467	$ 1,555,450
Acquisition	—	9,956	4,766	28,598	145,119	188,439
Transfer	—	90,045	10,257	8,301	(108,603)	—
Sale or disposal	(11,509)	(31,198)	(11,362)	(9,990)	—	(64,060)
Exchange differences on translation of foreign operations	—	79	—	49	—	129
Other	—	—	—	—	(11,477)	(11,477)
Balance at March 31, 2018	$ 235,881	$ 882,176	$ 219,255	$ 266,663	$ 64,506	$ 1,668,481

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, 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)
Depreciation	(1)	(2,792)	(1,046)	(1,791)	—	(5,629)
Impairment losses	—	(300)	(5)	(0)	—	(305)
Sale or disposal	—	2,436	1,139	1,046	—	4,622
Exchange differences on translation of foreign operations	—	(2)	—	(5)	—	(7)
Other	—	—	—	—	—	—
Balance at March 31, 2018	¥ (1)	¥ (48,203)	¥ (15,601)	¥ (18,734)	¥ —	¥ (82,538)

	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	$ —	$ (448,542)	$ (148,013)	$ (169,662)	$ —	$ (766,218)
Depreciation	(7)	(26,336)	(9,865)	(16,893)	—	(53,100)
Impairment losses	—	(2,828)	(43)	(4)	—	(2,875)
Sale or disposal	—	22,986	10,744	9,870	—	43,601
Exchange differences on translation of foreign operations	—	(23)	—	(43)	—	(66)
Other	—	—	—	—	—	—
Balance at March 31, 2018	$ (7)	$ (454,744)	$ (147,176)	$ (176,732)	$ —	$ (778,659)

Carrying amount

	Millions of Yen					
	Land	Buildings and structures	Machinery and vehicles	Tools, furniture, and fixtures	Construction in progress	Total
Balance at April 1, 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
Balance at March 31, 2018	25,003	45,308	7,640	9,533	6,838	94,321

	Thousands of U.S. Dollars					
	Land	Buildings and structures	Machinery and vehicles	Tools, furniture, and fixtures	Construction in progress	Total
Balance at March 31, 2018	$ 235,874	$ 427,432	$ 72,079	$ 89,931	$ 64,506	$ 889,822

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, 2016, and March 31, 2017 and 2018, are as follows:

	Millions of Yen			
	Buildings and structures	Machinery and vehicles	Tools, furniture, and fixtures	Total
Balance at April 1, 2016	¥ 195	¥ 586	¥ —	¥ 781
Balance at March 31, 2017	179	629	99	907
Balance at March 31, 2018	163	354	78	595

	Thousands of U.S. Dollars			
	Buildings and structures	Machinery and vehicles	Tools, furniture, and fixtures	Total
Balance at March 31, 2018	$ 1,540	$ 3,338	$ 734	$ 5,612

(3) Impairment Losses

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

The Group recognized impairment losses for property, plant, and equipment of ¥727 million and ¥305 million ($2,875 thousand) for the years ended March 31, 2017 and 2018, respectively, which are included in "Other expenses" in the consolidated statement of income.

Impairment losses recognized for the years ended March 31, 2017 and 2018, 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, 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
Acquisition	11,694	955	1,677	14,326
Transfer	—	2,428	(2,428)	—
Disposal	(200)	(188)	(69)	(456)
Exchange differences on translation of foreign operations	—	(0)	—	(0)
Other	—	—	(227)	(227)
Balance at March 31, 2018	¥ 55,683	¥ 11,945	¥ 2,333	¥ 69,962

	Thousands of U.S. Dollars			
	Patents and licenses	Software	Other	Total
Balance at March 31, 2017	$ 416,884	$ 82,539	$ 31,890	$ 531,313
Acquisition	110,318	9,012	15,820	135,151
Transfer	—	22,903	(22,903)	—
Disposal	(1,887)	(1,769)	(648)	(4,304)
Exchange differences on translation of foreign operations	—	(0)	—	(0)
Other	—	—	(2,145)	(2,145)
Balance at March 31, 2018	$ 525,315	$ 112,686	$ 22,013	$ 660,014

Accumulated amortization and accumulated impairment losses

	Millions of Yen			
	Patents and licenses	Software	Other	Total
Balance at April 1, 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)
Amortization	(2,613)	(960)	(4)	(3,577)
Disposal	200	170	43	413
Impairment losses	—	—	—	—
Exchange differences on translation of foreign operations	—	0	—	0
Other	—	—	—	—
Balance at March 31, 2018	¥ (7,971)	¥ (5,885)	¥ (390)	¥ (14,247)

	Thousands of U.S. Dollars			
	Patents and licenses	Software	Other	Total
Balance at March 31, 2017	$ (52,434)	$ (48,070)	$ (4,047)	$ (104,551)
Amortization	(24,651)	(9,059)	(40)	(33,750)
Disposal	1,887	1,606	403	3,896
Impairment losses	—	—	—	—
Exchange differences on translation of foreign operations	—	2	—	2
Other	—	—	—	—
Balance at March 31, 2018	$ (75,198)	$ (55,521)	$ (3,684)	$ (134,403)

Carrying amount

	Millions of Yen			
	Patents and licenses	Software	Other	Total
Balance at April 1, 2016	¥ 34,002	¥ 3,426	¥ 895	¥ 38,324
Balance at March 31, 2017	38,632	3,654	2,951	45,237
Balance at March 31, 2018	47,712	6,059	1,943	55,715

	Thousands of U.S. Dollars			
	Patents and licenses	Software	Other	Total
Balance at March 31, 2018	$ 450,117	$ 57,165	$ 18,330	$ 525,611

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 ¥9,574 million and ¥20,285 million ($191,370 thousand) as of March 31, 2017 and 2018, 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, 2017	March 31, 2018	March 31, 2018
Patents and licenses	In-process research and development costs acquired separately	¥ 7,064	¥ 18,758	$ 176,959
	Sales licenses	31,568	28,955	273,158

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, 2017	March 31, 2018
In-process research and development costs acquired separately	ONO-7643/RC-1291 ONO-1162/Ivabradine ONO-2370/BIA9-1067	ONO-7643/Anamorelin ONO-1162/Ivabradine ONO-2370/Opicapone ONO-7702/Encorafenib ONO-7703/Binimetinib ONO-7701(BMS-986205) ONO-5704/SI-613 ONO-7705/Selinexor ONO-7706/KPT-8602
Sales licenses	STAYBLA RIVASTACH FORXIGA KYPROLIS PARSABIV	STAYBLA RIVASTACH FORXIGA KYPROLIS PARSABIV

§2 Remaining Amortization Period

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

Item	Details	Year	
		March 31, 2017	March 31, 2018
Patents and licenses	Sales licenses	13.3	12.4

(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 is calculated based on the weighted-average cost of capital, and the pretax discount rate used in the calculation of value in use is from 8.8% to 14.4% for the year ended March 31, 2018.

As a result of impairment testing, the Group recognized impairment losses for intangible assets of ¥200 million for the year ended March 31, 2017. 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. In addition, the Group does not recognize any impairment losses for the year ended March 31, 2018. Impairment losses on separately acquired in-process research and development costs for the year ended March 31, 2017 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, 2017	For the year ended March 31, 2018	For the year ended March 31, 2018
Share of profit (loss) from investments in associates	¥ 16	¥ (4)	$ (35)
Losses on sales of affiliates	(556)	—	—
Total	¥ (541)	¥ (4)	$ (35)

Note: Losses on sales of affiliates for the year ended March 31, 2017 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, 2017	For the year ended March 31, 2018	For the year ended March 31, 2018
Profit from continuing operations attributable to the Group	¥ 16	¥ (4)	$ (35)
Other comprehensive income attributable to the Group	0	2	22
Total comprehensive income attributable to the Group	¥ 16	¥ (1)	$ (14)

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, 2017	March 31, 2018	March 31, 2018
Deferred tax assets	¥ 10,739	¥ 10,192	$ 96,153
Deferred tax liabilities	881	1,016	9,583
Net	¥ 9,858	¥ 9,176	$ 86,570

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

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

For the year ended March 31, 2018

	Millions of Yen			
	Balance at April 1, 2017	Recognized in profit or loss	Recognized in other comprehensive income	Balance at March 31, 2018
Deferred tax assets				
Accrued bonuses	¥ 1,670	¥ (95)	¥ —	¥ 1,575
Accrued enterprise tax	1,296	(570)	—	727
Expenses for research and development commissions and others	22,307	7,269	—	29,576
Property, plant, and equipment	3,438	(1,006)	—	2,433
Intangible assets	309	(87)	—	222
Retirement benefit liabilities	2,838	93	211	3,141
Long-term advances received	1,614	(55)	—	1,559
Other accounts payable	2,541	(414)	—	2,127
Provision for patent royalties	1,870	1,454	—	3,324
Other	3,287	1,071	—	4,358
Total	¥ 41,171	¥ 7,660	¥ 211	¥ 49,042
Deferred tax liabilities				
Property, plant, and equipment	¥ (3,342)	¥ (323)	¥ —	¥ (3,665)
Intangible assets	(2,689)	(1,007)	—	(3,695)
Investment securities	(25,277)	(21)	(7,208)	(32,505)
Other	(6)	6	—	—
Total	¥ (31,314)	¥ (1,344)	¥ (7,208)	¥ (39,866)
Net	¥ 9,858	¥ 6,315	¥ (6,997)	¥ 9,176

	Thousands of U.S. Dollars			
	Balance at April 1, 2017	Recognized in profit or loss	Recognized in other comprehensive income	Balance at March 31, 2018
Deferred tax assets				
Accrued bonuses	$ 15,758	$ (899)	$ —	$ 14,859
Accrued enterprise tax	12,230	(5,374)	—	6,856
Expenses for research and development commissions and others	210,442	68,578	—	279,020
Property, plant, and equipment	32,438	(9,486)	—	22,951
Intangible assets	2,917	(824)	—	2,094
Retirement benefit liabilities	26,770	875	1,990	29,635
Long-term advances received	15,231	(523)	—	14,708
Other accounts payable	23,974	(3,908)	—	20,066
Provision for patent royalties	17,639	13,719	—	31,358
Other	31,011	10,104	—	41,115
Total	$ 388,410	$ 72,261	$ 1,990	$ 462,661
Deferred tax liabilities				
Property, plant, and equipment	$ (31,528)	$ (3,048)	$ —	$ (34,576)
Intangible assets	(25,365)	(9,498)	—	(34,863)
Investment securities	(238,460)	(196)	(67,997)	(306,652)
Other	(59)	59	—	—
Total	$ (295,412)	$ (12,683)	$ (67,997)	$ (376,091)
Net	$ 92,998	$ 59,578	$ (66,006)	$ 86,570

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, 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. And the effective statutory tax rate used to calculate deferred tax assets and deferred tax liabilities as of March 31, 2018, in Japan is 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 ¥2,113 million and ¥2,357 million ($22,237 thousand) as of March 31, 2017 and 2018, 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, 2017	For the year ended March 31, 2018	For the year ended March 31, 2018
Current tax expense	¥ 28,325	¥ 19,840	$ 187,167
Deferred tax expense	(9,820)	(6,315)	(59,575)
Total	¥ 18,504	¥ 13,525	$ 127,592

Note: The Group is subject to corporate tax, inhabitant tax, and enterprise tax in Japan, which in the aggregate resulted in an applicable tax rate for current tax expense of approximately 30.8% for the years ended March 31, 2017 and 2018, respectively. 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, 2017	For the year ended March 31, 2018
Applicable tax rates	30.8 %	30.8 %
Permanent non-deductible items	0.3	0.6
Non-taxable dividends	(0.3)	(0.3)
Tax credit for research and other	(7.6)	(11.5)
Other	1.6	1.5
Average actual tax rates	24.8 %	21.2 %

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, 2017	March 31, 2018	March 31, 2018
Notes payable	¥ 1,510	¥ 485	$ 4,580
Trade accounts payable	5,618	5,137	48,462
Other accounts payable	23,777	28,392	267,852
Total	¥ 30,905	¥ 34,015	$ 320,894

Note 18

Borrowings

Details of borrowings are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	March 31, 2017	March 31, 2018	March 31, 2018
Current liabilities			
Short-term borrowings	¥ 26	¥ 84	$ 790
Current portion of long-term borrowings	0	—	—
Short-term lease obligations	397	308	2,904
Total	¥ 423	¥ 392	$ 3,694
Non-current liabilities			
Long-term lease obligations	542	320	3,015
Total	¥ 542	¥ 320	$ 3,015

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 1.88% is calculated based on the applicable outstanding balance at March 31, 2018.

Note 19

Other Financial Liabilities

Details of other financial liabilities are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	March 31, 2017	March 31, 2018	March 31, 2018
Current liabilities			
Dividends payable	¥ 91	¥ 110	$ 1,039
Deposits received	5,722	3,645	34,384
Other	—	1	7
Total	¥ 5,814	¥ 3,756	$ 35,430
Non-current liabilities			
Other	¥ 11	¥ 8	$ 74
Total	¥ 11	¥ 8	$ 74

Note 20

Assets Pledged as Collateral

Assets pledged as collateral are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	March 31, 2017	March 31, 2018	March 31, 2018
Other current assets	¥ 2,000	¥ 4,000	$ 37,736
Total	¥ 2,000	¥ 4,000	$ 37,736

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, 2017	March 31, 2018	March 31, 2018	March 31, 2017	March 31, 2018	March 31, 2018
One year or less	¥ 409	¥ 317	$ 2,988	¥ 397	¥ 308	$ 2,904
More than one year to five years	450	240	2,261	420	215	2,031
More than five years	137	115	1,088	122	104	984
Total	¥ 997	¥ 672	$ 6,336	¥ 939	¥ 627	$ 5,919

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, 2017	March 31, 2018	March 31, 2018
One year or less	¥ 153	¥ 211	$ 1,988
More than one year to five years	244	499	4,711
More than five years	—	—	—
Total	¥ 397	¥ 710	$ 6,699

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, 2017	For the year ended March 31, 2018	For the year ended March 31, 2018
Minimum lease payments	¥ 153	¥ 132	$ 1,246

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, 2017	March 31, 2018	March 31, 2018
One year or less	¥ 18	¥ 18	$ 172
More than one year to five years	52	33	311
More than five years	9	7	66
Total	¥ 78	¥ 58	$ 550

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, 2017	March 31, 2018	March 31, 2018
Other current liabilities			
Accrued consumption taxes	¥ 5,137	¥ 19	$ 183
Accrued salary and bonus	5,504	5,244	49,469
Accrued compensated vacation	2,177	2,594	24,475
Accrued expenses	1,495	1,307	12,334
Other	615	704	6,638
Total	¥ 14,928	¥ 9,869	$ 93,099
Other non-current liabilities			
Compensated long-service benefit obligations	¥ 566	¥ 596	$ 5,623
Other	206	218	2,058
Total	¥ 772	¥ 814	$ 7,681

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 corporate 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, 2017	March 31, 2018	March 31, 2018
Contributory			
Defined benefit obligations	¥ 44,948	¥ 47,324	$ 446,457
Fair value of plan assets (including retirement benefit trust)	(42,866)	(44,249)	(417,440)
Subtotal	2,082	3,076	29,016
Non-contributory			
Defined benefit obligations	723	780	7,361
Subtotal	723	780	7,361
Net defined benefit liability	¥ 2,805	¥ 3,856	$ 36,378
Retirement benefit liabilities stated in the consolidated statement of financial position	¥ 2,805	¥ 3,856	$ 36,378

§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, 2017	For the year ended March 31, 2018	For the year ended March 31, 2018
Opening balance of defined benefit obligations	¥ 45,794	¥ 45,671	$ 430,859
Service cost	2,093	2,207	20,817
Interest cost	321	380	3,587
Remeasurements			
Actuarial losses (gains) due to changes in financial assumptions	(1,125)	737	6,957
Other	33	567	5,348
Benefits paid	(1,445)	(1,458)	(13,750)
Closing balance of defined benefit obligations	¥ 45,671	¥ 48,105	$ 453,818

Notes: 1. The weighted-average payment years for the defined benefit obligations as of March 31, 2017 and 2018, were 17.4 years and 18.1 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, 2017	For the year ended March 31, 2018	For the year ended March 31, 2018
Opening balance of fair value of plan assets	¥ 41,700	¥ 42,866	$ 404,396
Interest income	298	365	3,445
Remeasurements			
Return on plan assets	587	615	5,801
Contributions from employers	1,380	1,474	13,908
Benefits paid	(1,101)	(1,072)	(10,110)
Closing balance of fair value of plan assets	¥ 42,866	¥ 44,249	$ 417,440

Note: The Group expected to make contributions of ¥1,420 million and ¥1,491 million ($14,068 thousand) to the defined benefit corporate pension plans in the year subsequent to March 31, 2017 and 2018, 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, 2017			March 31, 2018			March 31, 2018		
	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	¥ 1,908	¥ —	¥ 1,908	¥ 2,518	¥ —	¥ 2,518	$ 23,753	$ —	$ 23,753
Overseas equity instruments	1,368	—	1,368	1,903	—	1,903	17,955	—	17,955
Debt instruments									
Domestic debt instruments	—	4,816	4,816	—	4,883	4,883	—	46,063	46,063
Overseas debt instruments	—	497	497	—	1,776	1,776	—	16,753	16,753
General accounts at life insurance companies	—	31,257	31,257	—	28,920	28,920	—	272,830	272,830
Other	—	3,021	3,021	—	4,249	4,249	—	40,086	40,086
Total	¥ 3,276	¥ 39,590	¥ 42,866	¥ 4,421	¥ 39,828	¥ 44,249	$ 41,708	$ 375,732	$ 417,440

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, 2017	For the year ended March 31, 2018	For the year ended March 31, 2018
Service costs	¥ 2,093	¥ 2,207	$ 20,817
Net interest	22	15	141
Expenses recognized in the consolidated statement of income	¥ 2,115	¥ 2,222	$ 20,959

Note: Among the above expenses, service costs are included in "Cost of sales," "Selling, general, and administrative expenses," and "Research and development costs," and net interest is included in "Finance income" or "Finance costs."

§5 Significant Assumptions Used for the Actuarial Valuations

The significant assumptions used for the purposes of the actuarial valuations are as follows:

	March 31, 2017	March 31, 2018
Discount rate (%)	0.9	0.8
Expected rate of salary increase (%)	2.8	2.8
Expected average remaining lives of current pensioners at age 60 at year-end (years)	24.9	25.2
Expected average remaining lives, from age 60, of future pensioners at age 40 at year-end (years)	26.4	26.7

§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, 2017		March 31, 2018		March 31, 2018	
		Increase	Decrease	Increase	Decrease	Increase	Decrease
Defined benefit obligations							
Discount rate	0.5% increase/decrease	¥ (3,750)	¥ 4,107	¥ (4,116)	¥ 4,526	$ (38,828)	$ 42,693
Expected average remaining lives	1 year increase/decrease	817	(852)	857	(890)	8,087	(8,396)

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

(2) Multiemployer Pension Plans

Although two domestic consolidated subsidiaries had joined employees' pension funds (multiemployer pension plans), subsidiaries transferred from employees' pension funds to corporate pension funds (multiemployer pension plans) established in March 28, 2018 as the successor, resulted from obtaining approval of dissolution of the employees' pension plan from the Minister of Health, Labor, and Welfare on the same day. These plans are integrated-type defined benefit plan, and therefore, the amount of pension assets corresponding to the contributions made by each company cannot be determined reasonably. Thus, the amount of the contribution is recognized as postemployment expenses in the same manner as defined contribution plans. The contributions for each fiscal year presented are as follows (the Group has not yet started making contributions to corporate pension funds.):

	Millions of Yen		Thousands of U.S. Dollars
	For the year ended March 31, 2017	For the year ended March 31, 2018	For the year ended March 31, 2018
Contributions to employees' pension funds	¥ 31	¥ 23	$ 219

Notes: 1. The Group expected to make contributions of ¥31 million and ¥23 million ($219 thousand) in the year subsequent to March 31, 2017 and 2018, respectively.

2. Funded status of pension plans
The aggregate funded status for the plan is as follows:
§1 Employees' pension funds

	Millions of Yen		Thousands of U.S. Dollars
	March 31, 2017	March 31, 2018	March 31, 2018
	As of March 31, 2016	As of March 31, 2017	As of March 31, 2017
Plan assets	¥ 306,491	¥ 291,474	$ 2,749,757
Benefit obligations for purposes of pension financing calculations	365,489	358,592	3,382,940
Net	¥ (58,998)	¥ (67,117)	$ (633,182)

§2 Corporate pension funds
Descriptions are omitted because the funds have established in March 28, 2018, and the status has not yet been determined.

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

	March 31, 2017	March 31, 2018
	As of March 31, 2016	As of March 31, 2017
Share of contributions to employees' pension funds	0.3317%	0.3291%

(3) Defined Contribution Plans

The Group recognized ¥2,808 million and ¥2,885 million ($27,220 thousand) as expenses for defined contribution plans for the years ended March 31, 2017 and 2018, respectively.

Note 24

Provisions

(1) Details

Details of provisions are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	March 31, 2017	March 31, 2018	March 31, 2018
Provision for patent royalties	¥ 6,071	¥ 10,862	$ 102,476
Others	46	864	8,147
Total	¥ 6,116	¥ 11,726	$ 110,623
Current liabilities	¥ 6,086	¥ 11,696	$ 110,340
Non-current liabilities	30	30	283

(2) Schedule of Movements

The movements in provisions are as follows:

	Millions of Yen		
	Provision for patent royalties	Others	Total
Balance at April 1, 2017	¥ 6,071	¥ 46	¥ 6,116
Added to provisions	4,792	1,310	6,102
Settled	—	(492)	(492)
Exchange difference	—	(1)	(1)
Balance at March 31, 2018	¥ 10,862	¥ 864	¥ 11,726

	Thousands of U.S. Dollars		
	Provision for patent royalties	Others	Total
Balance at April 1, 2017	$ 57,270	$ 431	$ 57,701
Added to provisions	45,207	12,362	57,569
Settled	—	(4,638)	(4,638)
Exchange difference	—	(9)	(9)
Balance at March 31, 2018	$ 102,476	$ 8,147	$ 110,623

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

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, 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
Increase (decrease)	—	(45,896,100)	—	30
Balance at March 31, 2018	1,500,000,000	543,341,400	¥ 17,358	¥ 17,175

	Thousands of U.S. Dollars	
	Share capital	Capital reserves
Balance at March 31, 2017	$ 163,757	$ 161,739
Increase (decrease)	—	286
Balance at March 31, 2018	$ 163,757	$ 162,024

Notes: 1. All shares issued by the Company are fully paid-up ordinary shares with no par value.
2. Increases and decreases in the number of issued shares for the year ended March 31, 2017 are due to a stock split. And those for year ended March 31, 2018 are due to retirement of treasury shares.
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 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, 2016	11,842,627	¥ 59,358
Increase (decrease)	47,375,744	23
Balance at March 31, 2017	59,218,371	¥ 59,382
Increase (decrease)	(29,998,584)	(21,234)
Balance at March 31, 2018	29,219,787	¥ 38,148

	Amount (Thousands of U.S. Dollars)
Balance at March 31, 2017	$ 560,206
Increase (decrease)	(200,322)
Balance at March 31, 2018	$ 359,884

Notes: 1. Increases and decreases in the number and amount of treasury shares for year ended March 31, 2017 are due to a stock split and purchases of fractional unit shares. And those for year ended March 31, 2018 are due to purchases under Article 156 of the Companies Act, applied by the reading of terms pursuant to the provisions of Paragraph 3, Article 165 of the Act, retirement of treasury shares and purchases of fractional unit shares.
2. Treasury shares held by associates as of March 31, 2017 and 2018, are ¥24 million and ¥25 million ($239 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, 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
Increase (decrease)					
Other comprehensive income	(112)	—	17,783	(478)	17,193
Transfer to retained earnings	—	—	(1,403)	478	(924)
Balance at March 31, 2018	¥ 605	¥ —	¥ 67,416	¥ —	¥ 68,021

	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, 2017	$ 6,759	$ —	$ 481,466	$ —	$ 488,225
Increase (decrease)					
Other comprehensive income	(1,054)	—	167,764	(4,514)	162,197
Transfer to retained earnings	—	—	(13,233)	4,514	(8,719)
Balance at March 31, 2018	$ 5,705	$ —	$ 635,998	$ —	$ 641,703

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, 2017

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
Board of Directors' meeting held on November 7, 2016	Ordinary shares	¥ 10,600	¥ 20	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.

For the year ended March 31, 2018

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	$ 100,004	$ 0.19	March 31, 2017	June 30, 2017
Board of Directors' meeting held on November 6, 2017	Ordinary shares	¥ 12,853	¥ 25	$ 121,255	$ 0.24	September 30, 2017	December 1, 2017

Note: The dividends per share resolved by Board of Directors' meeting held on November 6, 2017 is including the 300th anniversary commemorative dividend of 5 yen per share.

(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, 2017

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, 2017	Ordinary shares	¥ 10,600	¥ 20	March 31, 2017	June 30, 2017

For the year ended March 31, 2018

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 22, 2018	Ordinary shares	¥ 10,282	¥ 20	$ 97,004	$ 0.19	March 31, 2018	June 25, 2018

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, 2017	For the year ended March 31, 2018	For the year ended March 31, 2018
Business planning expenses	¥ 4,606	¥ 5,533	$ 52,198
Sales promotion expenses	2,882	3,714	35,039
Employee benefit expenses	25,986	25,961	244,918
Depreciation and amortization	1,389	1,702	16,052
Business consignment expenses	7,108	9,609	90,651

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, 2017	For the year ended March 31, 2018	For the year ended March 31, 2018
Salary and bonus	¥ 34,441	¥ 33,488	$ 315,926
Retirement benefit expenses (defined benefit plans)	2,093	2,207	20,817
Retirement benefit expenses (multiemployer pension plans)	31	23	219
Retirement benefit expenses (defined contribution plans)	2,808	2,885	27,220
Legal welfare expenses	1,840	1,851	17,463
Other welfare expenses	1,773	2,014	18,997
Other employee benefit expenses	3,200	3,531	33,314
Total	¥ 46,187	¥ 45,999	$ 433,957

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, 2017	For the year ended March 31, 2018	For the year ended March 31, 2018
Other income			
Gain on sale of non-current assets	¥ 1	¥ 2,857	$ 26,955
Insurance proceeds	181	224	2,111
Gain on legal settlement	17,836	—	—
Others	115	174	1,639
Total	¥ 18,133	¥ 3,255	$ 30,705
Other expenses			
Impairment losses	¥ 737	¥ 306	$ 2,883
Loss on disposal of non-current assets	88	41	382
Donations	1,643	1,564	14,757
Litigation costs	2,994	—	—
Others	104	229	2,158
Total	¥ 5,567	¥ 2,139	$ 20,181

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, 2017	For the year ended March 31, 2018	For the year ended March 31, 2018
(Finance income)			
Interest income			
Financial assets measured at amortized cost	¥ 133	¥ 89	$ 843
Financial assets measured at FVPL	0	—	—
Dividend income			
Financial assets measured at FVOCI	2,818	2,901	27,364
Gains on marketable securities			
Financial assets measured at FVPL	—	57	534
Exchange gains	—	120	1,127
Others	106	111	1,050
Total	¥ 3,057	¥ 3,277	$ 30,918
(Finance costs)			
Interest expenses			
Financial liabilities measured at amortized cost	¥ 15	¥ 14	$ 134
Losses on marketable securities			
Financial assets measured at FVPL	22	—	—
Net interest on employee benefits	22	15	141
Exchange losses	176	—	—
Others	25	7	64
Total	¥ 260	¥ 36	$ 339

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, 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

For the year ended March 31, 2018

	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	¥ 25,668	¥ —	¥ 25,668	¥ (7,870)	¥ 17,797
Remeasurement of defined benefit plans	(689)	—	(689)	211	(478)
Share of net gain (loss) on financial assets measured at FVOCI of associates	3	—	3	(1)	2
Total	24,982	—	24,982	(7,660)	17,321
Items that may be reclassified to profit or loss					
Exchange differences on translation of foreign operations	(112)	—	(112)	—	(112)
Net fair value gain (loss) on cash flow hedges	112	(112)	—	—	—
Total	0	(112)	(112)	—	(112)
Total other comprehensive income	¥ 24,982	¥ (112)	¥ 24,870	¥ (7,660)	¥ 17,210

	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	$ 242,149	$ —	$ 242,149	$ (74,248)	$ 167,901
Remeasurement of defined benefit plans	(6,504)	—	(6,504)	1,990	(4,514)
Share of net gain (loss) on financial assets measured at FVOCI of associates	31	—	31	(10)	22
Total	235,676	—	235,676	(72,268)	163,408
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translation of foreign operations	(1,054)	—	(1,054)	—	(1,054)
Net fair value gain (loss) on cash flow hedges	1,056	(1,056)	—	—	—
Total	3	(1,056)	(1,054)	—	(1,054)
Total other comprehensive income	$ 235,679	$ (1,056)	$ 234,622	$ (72,268)	$ 162,355

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, 2017	For the year ended March 31, 2018	For the year ended March 31, 2018
Basic earnings per share	¥ 105.27	¥ 97.00	$ 0.92

§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, 2017	For the year ended March 31, 2018	For the year ended March 31, 2018
Profit for the year attributable to owners of the parent company	¥ 55,793	¥ 50,284	$ 474,375
Weighted-average number of ordinary shares outstanding (Thousands of shares)	530,020	518,390	

(2) Diluted Earnings per Share

§1 Diluted earnings per share are as follows:

	Yen		U.S. Dollars
	For the year ended March 31, 2017	For the year ended March 31, 2018	For the year ended March 31, 2018
Diluted earnings per share	¥ 105.26	¥ 96.99	$ 0.92

§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, 2017	For the year ended March 31, 2018	For the year ended March 31, 2018
Profit for the year attributable to owners of the parent company	¥ 55,793	¥ 50,284	$ 474,375
Weighted-average number of ordinary shares outstanding (Thousands of shares)	530,020	518,390	
Increased number of ordinary shares under subscription rights to share (Thousands of shares)	20	36	
Weighted-average number of diluted ordinary shares outstanding (Thousands of shares)	530,040	518,426	

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, liquidity, market, and others (e.g., foreign exchange and price fluctuation). In order to avoid or mitigate these risks, the Group manages risks according to certain basic policies. The Group policy is not to enter into speculative derivative or equity transactions, but to operate funds primarily through debt instruments such as safe government bonds, etc., while also partially employing financial assets with guaranteed liquidity to meet short-term capital requirements. For derivative transactions, the Group enters into foreign exchange contracts to mitigate the foreign exchange risk associated with settling payments in foreign currencies. Such transactions are controlled by the Accounting Department of the Company.

(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 Management

The Group is exposed to the liquidity risk of not being able to fulfill its payment obligations at present or in the future due to an inability to source sufficient cash.

The Group, in particular the Accounting Department, maintains appropriate reserves and manages liquidity risk through monitoring of the Group's cash flow forecasts and results. Because the Group has sufficient cash and cash equivalents and other highlyliquid assets and secures stable cash inflows from operating activities, this risk is low.

Financial liabilities by maturity are as follows:

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

March 31, 2018

	Millions of Yen			
	Carrying amount	Contractual cash flows	One year or less	More than one year
Trade and other payables	¥ 34,015	¥ 34,015	¥ 34,015	¥ —
Borrowings				
Short-term borrowings	84	84	84	—
Current portion of long-term borrowings	—	—	—	—
Short-term lease obligations	308	317	317	—
Long-term lease obligations	320	355	—	355
Other financial liabilities	3,764	3,764	3,756	8

	Thousands of U.S. Dollars			
	Carrying amount	Contractual cash flows	One year or less	More than one year
Trade and other payables	$ 320,894	$ 320,894	$ 320,894	$ —
Borrowings				
Short-term borrowings	790	790	790	—
Current portion of long-term borrowings	—	—	—	—
Short-term lease obligations	2,904	2,988	2,988	—
Long-term lease obligations	3,015	3,349	—	3,349
Other financial liabilities	35,505	35,505	35,430	74

(5) Market Risk Management

§1 Foreign Exchange Risk

1) Foreign Exchange Risk Management

The Group engages in business activities internationally and receives royalties or makes payment of expense in foreign currencies. Therefore, the Group is exposed to risks such as decrease in revenue, increase in cost price and development cost, and foreign exchange losses through fluctuations in foreign exchange rates. This risk primarily arises from currencies such as U.S. dollar, Euro, and British pound. In order to mitigate this risk, the Group enters into hedging instruments for a fixed portion of foreign currency-denominated transactions through forward foreign exchange contracts in accordance with the market risk management policy. These forward foreign exchange contracts 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, 2017		March 31, 2018		March 31, 2018
	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	$ 29	¥ 32	$ 304
Cash flow hedge included in the above	23	19	27	33	311

3) Foreign Exchange Sensitivity Analysis
At the end of each fiscal year, the amount of impact on equity and profit or loss in the case of the yen depreciating by 10% against the U.S. dollar, Euro, and British pound is as follows:

	Millions of Yen				Thousands of U.S. Dollars	
	March 31, 2017		March 31, 2018		March 31, 2018	
	Equity	Profit or (loss)	Equity	Profit or (loss)	Equity	Profit or (loss)
U.S. Dollar	¥ 299	¥ (12)	¥ 287	¥ (62)	$ 2,710	$ (588)
Euro	—	(0)	—	(58)	—	(546)
British Pound	89	(6)	107	(17)	1,008	(156)

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

§2 Price Fluctuation Risk
The Group is exposed to the risk of share price fluctuations that arise from equity instruments. These equity instruments are basically held for the purpose of business strategy and not for short-term trading purposes. In addition, the Group periodically reviews the fair value of the instruments and the financial condition of issuers and the like, and 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 ¥11,247 million and ¥12,767 million ($120,446 thousand) as of March 31, 2017 and 2018, 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, 2017		March 31, 2018		March 31, 2018	
	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	31,584	31,689	13,959	13,940	131,690	131,514
Other financial assets	20,800	20,800	50,800	50,800	479,245	479,245

§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, 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

	Millions of Yen			
	March 31, 2018			
	Level 1	Level 2	Level 3	Total
(Financial assets)				
Financial assets measured at FVPL				
Marketable securities and investment securities	¥ 422	¥ —	¥ 125	¥ 547
Other financial assets	—	33	6,685	6,718
Financial assets measured at FVOCI				
Investment securities	181,855	—	2,112	183,967
Total	¥ 182,277	¥ 33	¥ 8,922	¥ 191,232
(Financial liabilities)				
Financial liabilities measured at FVPL				
Other financial liabilities	¥ —	¥ 1	¥ —	¥ 1
Total	¥ —	¥ 1	¥ —	¥ 1

	Thousands of U.S. Dollars			
	March 31, 2018			
	Level 1	Level 2	Level 3	Total
(Financial assets)				
Financial assets measured at FVPL				
Marketable securities and investment securities	$ 3,981	$ —	$ 1,182	$ 5,163
Other financial assets	—	311	63,069	63,380
Financial assets measured at FVOCI				
Investment securities	1,715,612	—	19,922	1,735,535
Total	$ 1,719,594	$ 311	$ 84,173	$ 1,804,078
(Financial liabilities)				
Financial liabilities measured at FVPL				
Other financial liabilities	$ —	$ 7	$ —	$ 7
Total	$ —	$ 7	$ —	$ 7

Note: For the years ended March 31, 2017 and 2018, 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, 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

	Millions of Yen			
	March 31, 2018			
	Level 1	Level 2	Level 3	Total
(Financial assets)				
Financial assets measured at amortized cost				
Marketable securities and investment securities	—	13,940	—	13,940
Other financial assets	—	50,800	—	50,800

	Thousands of U.S. Dollars			
	March 31, 2018			
	Level 1	Level 2	Level 3	Total
(Financial assets)				
Financial assets measured at amortized cost				
Marketable securities and investment securities	—	131,514	—	131,514
Other financial assets	—	479,245	—	479,245

Note: For the years ended March 31, 2017 and 2018, 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, 2017	For the year ended March 31, 2018	For the year ended March 31, 2018
Balance at beginning of the year	¥ 8,625	¥ 8,861	$ 83,595
Total gains or losses	254	308	2,909
Profit or loss	76	82	771
Other comprehensive income	178	227	2,138
Purchase	343	289	2,727
Sale	—	(1)	(8)
Settlement	(361)	(535)	(5,050)
Balance at end of the year	¥ 8,861	¥ 8,922	$ 84,173

Notes: 1. Profit or loss included in total gains or losses is related to financial assets measured at FVPL. These gains and losses are included in "Finance income" and "Finance costs."
2. Other comprehensive income included in total gains or losses is related to financial assets measured at FVOCI. These gains and losses are included in "Net gain (loss) on financial assets measured at FVOCI."
3. There are no applicable financial liabilities measured using Level 3 on a recurring basis.

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
2017 issued	The Company's directors (excluding outside directors)	14,500	July 14, 2017	From July 15, 2017 through July 14, 2057	Settled in equity	None

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, 2017		March 31, 2018		March 31, 2018
	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	27,500	1	0.01
Granted	13,000	1	14,500	1	0.01
Exercised	—	—	—	—	—
Forfeited	—	—	—	—	—
Outstanding at the end of the period	27,500	1	42,000	1	0.01
Options exercisable, at the end of the period	—	—	—	—	—

Note: The exercise price of unexercised share options was ¥1 ($0.01) for the current fiscal year and the weighted-average remaining life was 38.3 years as of March 31, 2018.

(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, 2017	For the year ended March 31, 2018	For the year ended March 31, 2018
Fair value	¥ 3,405	¥ 1,766	$ 17
Share price at the grant date	¥ 4,066	¥ 2,449	$ 23
Exercise price	¥ 1	¥ 1	$ 0.01
Expected volatility	32.316%	33.059%	
Option life	20years	20years	
Expected dividend yield	¥ 36	¥ 40	$ 0.38
Risk-free interest rate	0.086%	0.595%	

Note: 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, 2017	For the year ended March 31, 2018	For the year ended March 31, 2018
Share-based payments	¥ 41	¥ 30	$ 286

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, 2017	For the year ended March 31, 2018	For the year ended March 31, 2018
Property, plant, and equipment acquired under finance leases	¥ 532	¥ 104	$ 986
Total	¥ 532	¥ 104	$ 986

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, 2017	March 31, 2018
			(%)	(%)
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, 2017	For the year ended March 31, 2018	For the year ended March 31, 2018
Fixed remuneration	¥ 244	¥ 247	$ 2,326
Bonuses	60	60	562
Share-based payments	41	30	286
Total	¥ 345	¥ 336	$ 3,174

Notes: 1. Remuneration of key management personnel comprises the remuneration for seven people for the year ended March 31, 2018 (seven people for the year ended March 31, 2017), 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, 2017	March 31, 2018	March 31, 2018
Property, plant, and equipment	¥ 6,669	¥ 12,786	$ 120,624
Intangible assets	398	266	2,513
Total	¥ 7,067	¥ 13,052	$ 123,136

Commitments for expenditure of Property, plant, and equipment for year ended March 31, 2018 is composed of mainly expenditures relating to plant equipment under construction in Yamaguchi prefecture.

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 ¥23,767 million and ¥19,359 million ($182,632 thousand) as of March 31, 2017 and 2018, 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, 2018, were approved by Gyo Sagara, President and Representative Director, on June 22, 2018.

Note 39

Significant Subsequent Events

There is no applicable item.

Independent Auditor's Report

Deloitte.

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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, 2018, 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, 2018, and the consolidated results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

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 22, 2018

Member of
Deloitte Touche Tohmatsu Limited

ISO 26000 Comparison Table

ISO26000		ONO PHARMACEUTICAL Corporate Report 2018	
Core subjects	Issues	Pages	Related items
Organizational Governance		pp. 023-024 pp. 033-034 p. 033 p. 034 p. 034 p. 035	• ONO's Value Creation Process • Corporate Governance Structure • Corporate Governance Code • Internal Control System • Risk Management • Business Continuity Plan (BCP)
Human Rights	Due diligence	p. 041 p. 042 p. 043	• Respect for Human Rights • Diversity Promotion Initiatives • 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. 041 p. 042 p. 043 p. 044	• Development of Human Resources • Diversity Promotion Initiatives • Enhancing Cultivation of Employee-friendly Workplaces • Promotion of Health and Productivity Management
	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. 047 p. 047 p. 048 p. 048 p. 048	• Promotion of Environmental Management • Environmental Efficiency / Environmental Accounting • Energy Saving and Measures against Global Warming • Water Resources Preservation / Measures Against Water-Related Risks • Waste Management
	Sustainable resource use		
	Climate change mitigation and adaptation		
	Protection of the environment, biodiversity and restoration of natural habitats		
Fair Operating Practices	Anti-corruption	p. 039 pp. 039-040	• ONO's Compliance Structure • 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	pp. 009-012 pp. 013-014 pp. 025-027 pp. 028-030 pp. 031-032	• Key Product Profiles • Status of Development Pipeline • Game-changing R&D • Maximizing Product Value • Globalizing Business
	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	pp. 045-046	Various Corporate Social Responsibility (CSR) Activities
	Education and culture		
	Employment creation and skills development		
	Technology development and access		
	Wealth and income creation		
	Health		
	Social investment		

Guide to Our Website

Our website provides detailed information about us in various areas, focusing around business activities.
In combination with this report, please use our website to learn more about us.

English http://www.ono.co.jp/eng/

Japanese http://www.ono.co.jp/

Research & Development
http://www.ono.co.jp/eng/rd/philosophy.html

Global Business & Alliances
http://www.ono.co.jp/eng/alliances/business_development.html

News Releases & Archives
http://www.ono.co.jp/eng/news/index.html

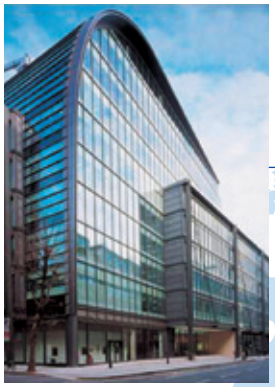
CSR Activities
http://www.ono.co.jp/eng/csr/index.html

Investor Information
http://www.ono.co.jp/eng/investor/index.html

Corporate Information

Profile (as of March 31, 2018)

Company Name	ONO PHARMACEUTICAL CO., LTD.
Founded	1717
Date of Incorporation	July 4, 1947
Paid-in Capital	¥17,358 million
Number of Shareholders	87,193
Number of Employees	3,480 (consolidated) 3,199 (unconsolidated)
Corporate Website	http://www.ono.co.jp/eng/



EUROPE

ONO PHARMA UK LTD.

● Branch

Fukui Research Institute

Tsukuba Research Institute

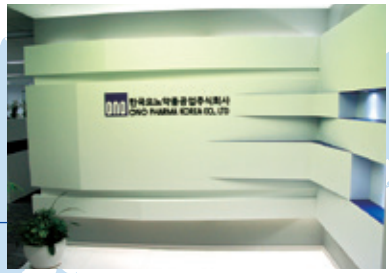
Minase Research Institute

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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(Registered Office)
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Tokyo Office
9-11, Nihonbashi-Honcho 4-chome, Chuo-ku,
Tokyo 103-0023, Japan

Branches in Japan
Hokkaido, Miyagi, Tokyo, Yokohama, Nagoya, Kyoto, Osaka, Takamatsu, Hiroshima, Fukuoka, and other branches in major cities

Research Institutes
Minase Research Institute, Osaka, Japan
Fukui Research Institute, Fukui, Japan
Tsukuba Research Institute, Ibaraki, Japan

Manufacturing Plants
Fujiyama Plant, Shizuoka, Japan
Joto Plant, Osaka, Japan

Domestic Subsidiaries
Oriental Pharmaceutical & Synthetic Chemical Co., Ltd.
Bee Brand Medico Dental Co., Ltd.

Overseas Subsidiaries
ONO PHARMA USA, INC., New Jersey, USA
ONO PHARMA UK LTD., London, UK
ONO PHARMA KOREA CO., LTD., Seoul, Korea
ONO PHARMA TAIWAN CO., LTD., Taipei City, Taiwan

Related Party
Namicos Corporation

ONO PHARMACEUTICAL CO.,LTD.

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