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<br>ONO-1162/Ivabradine<br>ONO-2370/BIA9-1067 | ONO-7643/Anamorelin<br>ONO-1162/Ivabradine<br>ONO-2370/Opicapone<br>ONO-7702/Encorafenib<br>ONO-7703/Binimetinib<br>ONO-7701(BMS-986205)<br>ONO-5704/SI-613<br>ONO-7705/Selinexor<br>ONO-7706/KPT-8602 |
| Sales licenses | STAYBLA<br>RIVASTACH<br>FORXIGA<br>KYPROLIS<br>PARSABIV | STAYBLA<br>RIVASTACH<br>FORXIGA<br>KYPROLIS<br>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.