

## Consolidated Financial Results for Fiscal Year Ended March 31, 2018

### 1. Revenue

Revenue totaled ¥261.8 billion, which was an increase of ¥17.0 billion (7.0%) year-on-year from the previous fiscal year.

Revenue of goods and products decreased by ¥8.4 billion (-3.9%) year-on-year to ¥205.9 billion due to the impact of drug price revision of OPDIVO Intravenous Infusion for malignant tumors made in February 2017, while royalty and other revenue remarkably increased by ¥25.4 billion (83.7%) year-on-year to ¥55.9 billion.

Royalty and other revenue include royalty revenue of OPDIVO from Bristol-Myers Squibb (BMS) and Merck, and co-promotion fee of ORENCIA IV for rheumatoid. The royalty revenue of OPDIVO from BMS increased by ¥13.1 billion year-on-year to ¥39.8 billion.

#### **Sales of major products:**

Sales of OPDIVO decreased by ¥13.8 billion (-13.3%) year-on-year to ¥90.1 billion due to the impact of drug price revision made in February 2017, but the use of OPDIVO increased by about 45% in volume terms.

Sales of GLACTIV Tablets for type-2 diabetes decreased by ¥2.0 billion (-6.7%) year-on-year to ¥27.4 billion due to intensified competition with the combination drugs and once weekly administered preparations, while the DDP-4 inhibitor market was almost equal to the previous period.

Sales of ORENCIA Subcutaneous Injection for rheumatoid arthritis continued to steadily increase by ¥2.6 billion (22.0%) year-on-year to ¥14.1 billion which was lower than the forecast of ¥14.5 billion.

Sales of RECALBON Tablets for osteoporosis decreased by ¥0.4 billion (-3.3%) year-on-year to ¥10.9 billion due to intensified competition in the osteoporosis market where the whole sales of bisphosphonate preparations decreased.

Sales of FORXIGA Tablets for type-2 diabetes continued to steadily increase by ¥3.3 billion (41.8%) year-on-year to ¥11.1 billion, which exceeded the revised forecast by ¥0.1 billion.

Sales of RIVASTACH Patch for Alzheimer's disease was ¥8.9 billion which was almost equal to the previous period and lower than the forecast of ¥10.0 billion.

The combined sales of EMEND Capsules and PROEMEND for Intravenous Injection for chemotherapy-induced nausea and vomiting was ¥9.9 billion which was almost equal to the previous period (increase by 0.7%).

Sales of KYPROLIS for Intravenous Infusion for multiple myeloma increased by ¥3.6 billion (182.4%) year-on-year to ¥5.5 billion which was lower than the forecast (¥6.0 billion) due to the impact of competitors.

Sales of ONOACT Intravenous Infusion for tachyarrhythmia decreased by ¥0.1 billion (-1.8%) year-on-year to ¥5.6 billion.

Sales of STAYBLA Tablets for overactive bladder decreased by ¥0.6 billion (-13.4%) year-on-year to ¥4.1 billion.

Sales of PARSABIV Intravenous Injection for Dialysis for secondary hyperparathyroidism in patients on hemodialysis launched in February 2017 steadily increased to ¥3.4 billion, which exceeded the full year forecast by ¥0.4 billion.

### **Long-term listed products**

For long-term listed products, due to the impact of continuous generic drug use promotion policies, sales of OPALMON Tablets for peripheral circulatory disorder decreased by ¥2.7 billion (-15.6%) year-on-year to ¥14.4 billion. ONON Capsules for bronchial asthma and allergic rhinitis decreased by ¥1.3 billion (-19.5%) year-on-year to ¥5.5 billion and ONON Dry Syrup for bronchial asthma and allergic rhinitis decreased by ¥0.8 billion (-18.8%) to ¥3.3 billion. FOIPAN Tablets for chronic pancreatitis and postoperative reflux esophagitis decreased by ¥0.9 billion (-24.7%) year-on-year to ¥2.9 billion. KINEDAK Tablets for diabetic peripheral neuropathy decreased by ¥0.8 billion (-26.4%) year-on-year to ¥2.1 billion. As stated above, the sales of these products decreased by about 20%.

## **2. Operating profit**

Operating profit was ¥60.7 billion, a decrease of ¥11.6 billion (-16.0%) year-on-year from the previous fiscal year.

Cost of sales decreased by ¥0.1 billion (-0.2%) year-on-year to ¥65.4 billion in association with the sales decrease of OPDIVO. The cost of sales includes royalty payment to BMS on sales of OPDIVO in Japan, South Korea and Taiwan, and the payment of profit sharing with BMS in

Japan, South Korea and Taiwan.

Research and development (R&D) costs increased by ¥11.3 billion (19.7%) year-on-year to ¥68.8 billion due to the increase in the expenses related to OPDIVO.

Selling, general and administrative (SG&A) expenses except R&D costs increased by ¥6.0 billion (9.7%) year-on-year to ¥68.1 billion due to the increase in operating expenses of OPDIVO, operating expenses related to the launch of PARSABIV, etc.

Other income was ¥3.3 billion including ¥2.9 billion of gain on disposal of property, plant and equipment, in association with disposal of the former Tokyo Building, etc. On the other hand, other expenses were ¥2.1 billion.

Taking the above issues into account, operating profit decreased by ¥11.6 billion (-16.0%) year-on-year to ¥60.7 billion.

“Other income” includes a lump-sum payment for the settlement of patent infringement litigation related to anti-PD-1 antibody with Merck, and “other expenses” include its litigation costs in the previous period. Excluding these factors, operating profit becomes ¥57.4 billion in FY 2016, leading to an increase by 5.6% in FY 2017.

### **3. Profit for the period (attributable to owners of the parent company)**

Corporate income tax decreased by 5.0 billion (-26.9%) and profit for the period decreased by 5.5 billion (-9.9%) year-on-year to ¥50.3 billion. Applicable tax rate was 30.8%, same as the previous period and actual average burden tax rate was 21.2% compared to 24.8% (the previous period).

## Consolidated Financial Forecasts for Fiscal Year Ending March 31, 2019

### 1. Revenue

Revenue is forecast to increase by ¥15.2 billion (5.8%) year-on-year to ¥277.0 billion from the previous fiscal year.

Sales of goods and products is expected to be ¥206.0 billion which is almost equal to the previous period, due to the impact of drug price revision. Royalty and other revenue is expected to increase by ¥15.1 billion (27.0%) year-on-year to ¥71.0 billion, anticipating royalty revenue of OPDIVO. As for the royalty revenue from BMS, it is announced on a quarterly base as done previously.

#### **Sales forecast of individual products:**

The use of OPDIVO is anticipated to increase by about 30% in volume terms with steadily increase in the area of head and neck cancer, and gastric cancer, while it is affected by competitive drugs in the area of non-small cell lung cancer. Although the drug price has been further reduced by 23.8%, sales of OPDIVO is expected to be ¥90.0 billion which is almost equal to the previous period. This sales forecast of OPDIVO does not include those for the first line of renal cell carcinoma in combination with OPDIVO and YERVOY and malignant pleural mesothelioma which are currently under the application.

For new products other than OPDIVO, due to an impact of possible drug price revision, the sales of GLACTIV is anticipated to decrease by ¥1.4 billion (-5.1%) year-on-year to ¥26.0 billion. Sales of ORENCIA SC will increase by ¥2.4 billion (16.8%) to ¥16.5 billion, FORXIGA increase by ¥1.9 billion (17.4%) to ¥13.0 billion, EMEND and PROEMEND increase by ¥0.6 billion (5.5%) to ¥10.5 billion, RECALBON decrease by ¥1.4 billion (-13.0%) to ¥9.5 billion due to anticipated introduction of generic drugs, RIVASTACH increase by ¥0.1 billion (1.3%) to ¥9.0 billion, KYPROLIS increase by ¥1.0 billion (17.4%) to ¥6.5 billion, PARSABIV increase by ¥2.1 billion (60.4%) to ¥5.5 billion, ONOACT decrease by ¥1.6 billion (28.8%) to ¥4.0 billion and STAYBLA decrease by ¥0.6 billion (-15.3%) to ¥3.5 billion.

As for long-term listed products, due to the impact of continuous generic drug use promotion policies in addition to remarkable drug price reduction, sales of OPALMON is forecast to decrease by ¥3.9 billion to ¥10.5 billion, ONON Capsules decrease by ¥1.0 billion to ¥4.5 billion, ONON Dry Syrup decrease by ¥0.8 billion to ¥2.5 billion

## 2. Operating profit

Operating profit is forecast to increase by ¥0.8 billion (1.3%) to ¥61.5 billion from the previous fiscal year.

Cost of sales is forecast to increase by ¥10.6 billion (16.2%) year-on-year to ¥76.0 billion.

R&D costs are anticipated to increase by ¥1.2 billion (1.7%) year-on-year to ¥70.0 billion, because the company actively invests to realize continuous growth including OPDIVO activities.

SG&A expenses except R&D costs are forecast to increase by ¥0.9 billion (1.4%) to ¥69.0 billion due to an increase of OPDIVO-related operating activity expenses.

As other income is forecast to be ¥1.0 billion and other expenses ¥1.5 billion, operating profit is expected to increase by ¥0.8 billion (1.3%) year-on-year to ¥61.5 billion.

## 3. Profit for the period (attributable to owners of the parent company)

As tax expenses (e.g. corporate tax) is anticipated to increase by ¥0.9 billion (6.5%) to ¥14.4 billion, profit for the period is anticipated to increase by ¥0.2 billion (0.4%) year-on-year to ¥50.5 billion.

The annual dividend for FY 2017 will be ¥45 per share, combining a year-end dividend of ¥20 with the 2<sup>nd</sup> quarter end dividend of ¥25 including the 300-year commemorative dividend of ¥5. The company plans annual dividend of ¥45 (¥22.5 both at the 2<sup>nd</sup> quarter end and the year-end) per share of common dividend for FY 2018.

### **Application of IFRS 15 “Revenue from Contracts with Customers”**

IFRS 15 "Revenue from Contracts with Customers" will be applied from the fiscal year ending March 31, 2019. The company forecasts its impact, especially in terms of revenue and cost of sales.

As stated in the Financial Results, calculating revenue and operating profit for the fiscal year ended March 31, 2018 using the same standards, growth rates in the full-year financial forecast for FY 2019 would be increase of 2.3% for revenue and 1.2% for operating profit.

Regarding revenue, up-front income from an out-licensing contract was not recognized as one-time income when received, but was deferred over several years. From now on, it will be recognized as revenue in the FY when it is received, in most cases.

In terms of revenue and cost of sales, there were some net amounts recognized as revenue deducting cost of sales from revenue, but they will be recognized as both revenue and cost of

sales separately in the future. To be more precise, in terms of product sales, as for some co-promoted product sales, the amount equivalent to profit distribution to partner companies was deducted from revenue, but this will not be deducted from revenue and be recognized as cost of sales. In addition, in terms of royalty and other revenue, as for the royalty received from BMS, net amount excluding part of royalty paid to other companies by BMS (the company's burden share) was paid to the company and this was recognized as revenue. In the future, the royalty received from BMS will be recognized as revenue, and the royalty payment of the company's burden share paid to other companies will be recognized as cost of sales.

The effect on financial forecast of the FY ending March 31, 2019 due to the application of IFRS 15 is expected to be increase factor in product sales, and royalty and other revenue each by more than 4 billion yen.