

Material Issue 18

Corporate Governance

Corporate Governance Structure

As part of our endeavors to strengthen corporate governance, ONO has adopted an organizational framework with an Audit & Supervisory Board, whose task is to focus on enhancing the functions of the Board of Directors and the Audit & Supervisory Board. ONO has established an Executive Appointment Meeting and an Executive Compensation Meeting, both of which are composed of a majority of Outside Directors and have an Outside Director as chairman to ensure independence and objectivity with regard to the appointment and compensation of executives. Regarding business execution, we have adopted a corporate officer system to improve management efficiency and speed up decision-making. On the other hand, important matters related to business execution are deliberated and determined by the Management Meeting and other meetings chaired by the responsible members of the Board of Directors or Corporate Officers. Thus, we strive to achieve optimal business operations by ensuring effective working of mutual supervisory functions.

Corporate Governance Code

ONO follows all the principles in the Corporate Governance Code stipulated by the Tokyo Stock Exchange. In consideration of the intent of the Corporate Governance Code, we are committed to improving the efficiency, soundness, transparency, etc. of management, and improving our systems to be more suitable for our business operations going forward, too, through the evaluation of effectiveness through the annual evaluation the Board's effectiveness.

Web For more details about our company's corporate governance, please refer to the following Corporate Governance Report.
https://www.ono-pharma.com/sites/default/files/en/ir/corporate_governance_report_en.pdf

Board of Directors

We work to ensure an appropriate number and composition of directors on the Board of Directors, with focus on an expedited and

accurate decision-making process while enhancing management transparency and supervisory functions. We nominate candidates for the Board of Directors by taking into consideration the balance of their knowledge, experience, and capability, as well as diversity, so that the Board of Directors as a whole can make technical and comprehensive management decisions. In addition, we nominate candidates for Outside Directors from those who have high levels of expertise in corporate management on the premise that they satisfy the standards for Independent Directors set out by the Tokyo Stock Exchange, with a basic policy of at least one-third of the Board of Directors being Outside Directors (currently, three of eight members of the Board of Directors are Outside Directors). The term of office for members of the Board of Directors is set at one year to maintain clarity of the responsibilities of management and to ensure we can respond quickly to changes in the business environment. A meeting of the Board of Directors is held once every month in principle, with the attendance of the members of the Board of Directors and the Audit & Supervisory Board, to decide on important management issues and to supervise the status of the execution of duties by members of the Board of Directors. In order for members of the Board of Directors and Audit & Supervisory Board to appropriately fulfill their roles and responsibilities, the attendance rate at the meetings of the Board of Directors is, in principle, set at 75% or more. Taking into account the time required to be devoted to duties as a member of the Board of Directors or Audit & Supervisory Board, we set a limit on the number of companies the members of the Board of Directors and Audit & Supervisory Board are allowed to concurrently serve as officers or in other capacities (appointment as officers of listed companies, etc.) at up to, in principle, four companies not including us.

information. These Outside and full-time members work together to achieve high auditing efficiency. A meeting of the Audit & Supervisory Board is held regularly. The Audit & Supervisory Board strives to enhance management's supervision by enhancing efficiency through cooperation with the Business Audit Department and audit effectiveness through cooperation with the Accounting Auditor.

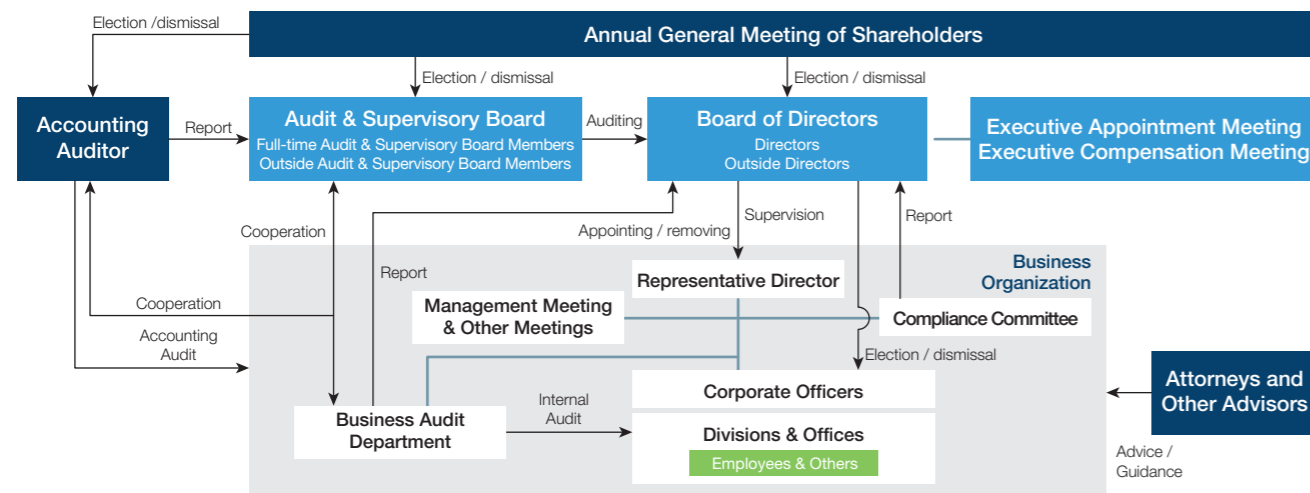
Executive Appointment Meeting

The Executive Appointment Meeting is composed of three Outside Directors, one of whom is the Chairperson, the President, Representative Director, and Chief Executive Officer, and the Director in charge of Personnel. With all members attending, they ensure the transparency and objectivity of the appointment of candidates for the Board of Directors, Audit & Supervisory Board, and senior management, and discuss the policies for planning the succession of the chief executive officer (President, CEO) and senior management, and the state of our corporate governance. Executive appointments to be submitted to the Board of Directors are discussed at the Executive Appointment Meeting, and submitted to and approved by the Board of Directors.

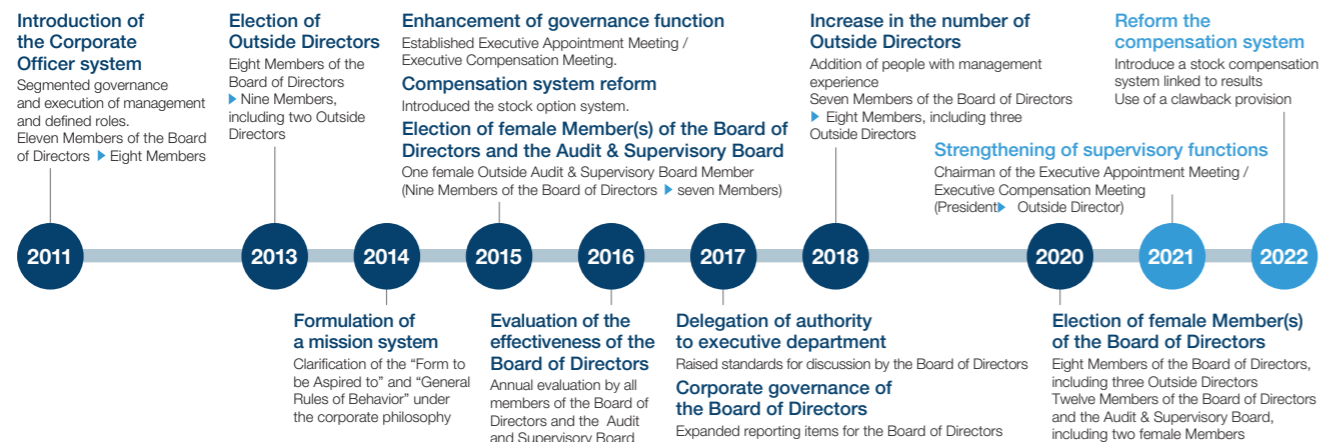
Executive Compensation Meeting

The Executive Compensation Meeting is composed of three Outside Directors, one of whom is the Chairman, and the President, Representative Director, and Chief Executive Officer. With all members attending they ensure the transparency and objectivity of, and deliberate on the amounts of compensation for each member of the Board of Directors and the calculation methods thereof, and the appropriateness and future form of the executive remuneration compensation system, etc. Also, when considering the compensation (including bonus) for the President, the President withdraws, and it is handled without his direct participation. Compensation, etc. of members of the Board of Directors is discussed at the Executive Compensation Meeting, and submitted to and approved by the Board of Directors.

Corporate Governance Structure



Initiatives to Strengthen Corporate Governance



Audit & Supervisory Board

From the perspective of strengthening audit functions, the Audit & Supervisory Board is composed of two independent members along with two full-time members who have expert knowledge of our business operations and who are highly skilled in collecting auditing

Attendance at the Meetings of the Board of Directors and the Audit & Supervisory Board One year from June 17, 2021 (the end of the 73rd Annual General Meeting of Shareholders)

	Name	Board of Directors	Audit & Supervisory Board	Executive Appointment Meeting	Executive Compensation Meeting
Member of the Board of Director	Gyo Sagara	100%	-	100%	100%
	Toshihiro Tsujinaka	100%	-	100%	-
	Toichi Takino	100%	-	-	-
	Isao Ono	100%	-	-	-
Outside Director	Kiyooki Idemitsu	100%	-	-	-
	Masao Nomura	100%	-	100%	100%
	Akiko Okuno	100%	-	100%	100%
Audit & Supervisory Board Member	Shusaku Nagae	100%	-	100%	100%
	Katsuyoshi Nishimura	100%	100%	-	-
Outside Audit & Supervisory Board Member	Hironobu Tanisaka	100%	100%	-	-
	Yasuo Hishiyama	100%	100%	-	-
	Akiko Tanabe	100%	100%	-	-

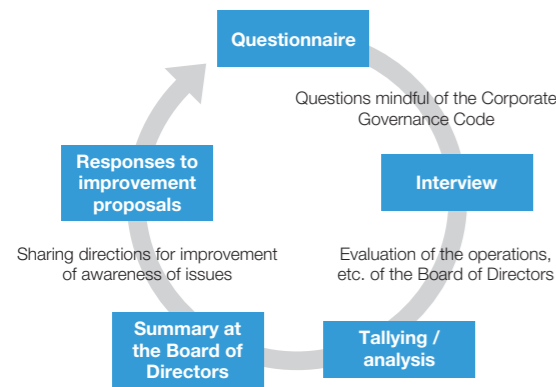
○: Chairperson (*assumed the position in January 2022)
 Number of meetings held since appointment
 Board of Directors meetings: 15, Audit & Supervisory Board meetings: 16, Executive Appointment Meetings: 4, and Executive Compensation Meetings: 5

Evaluation of the Effectiveness of the Board of Directors

ONO conducts self-evaluations on the composition, operation and other matters of the Board of Directors once a year with the aim of improving the effectiveness of the Board of Directors as a whole. The results of the FY2021 analysis and evaluation of the effectiveness of the Board as a whole are summarized as follows:

1 Method of Evaluation

ONO conducted a questionnaire of all the members of the Board of Directors and Audit & Supervisory Board requiring them to write their names on the answer sheets, and also held one-on-one interviews with them, after explaining the purpose of the questionnaire and interviews at a meeting of the Board of Directors. Based on the answers and opinions gained from the questionnaire and interviews, the Board of Directors conducted analysis and self-assessments of its effectiveness and discussed difficulties to tackling issues as well.



Major contents of the questionnaire and interviews

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

2 Summary of Results of Analysis and Evaluation

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

3 Initiatives to Improve Effectiveness

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

Improvement Status Based on Evaluation of the Effectiveness of the Board of Directors

Major improvements in FY2021	
Composition of the Board of Directors	Increased the number of Outside Board members with management experience
Corporate governance of the Board of Directors	Increased information provided to Outside Directors and broadened discussions regarding medium- to long-term management
Role and functions of Outside Directors	Chairman of the Executive Appointment Meeting and the Executive Compensation Meeting

Outside Directors and Outside Audit & Supervisory Board Members

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

The Outside Directors oversee our business operations and take part in our decision-making process from an independent and objective standpoint. They are involved in the process of making important decisions, such as the nomination of officers and executive compensation, help to ensure transparency and objectivity, and enhance the function of the Board of Directors by serving as members of the Executive Appointment Meeting and the Executive Compensation Meeting.

As experts in law and corporate accounting, the Outside Audit & Supervisory Board members carry out audits from an independent and objective standpoint to ensure that our management remains sound.

There are no special interest relationships between outside officers and ONO, such as personal relationships, capital relationships, or business relationships. Because of this we believe there is no risk of conflict of interest with general shareholders.

Cooperation between Outside Directors and the Audit & Supervisory Board

Since FY2015, we have held annual cooperation meetings between Outside Directors and the Audit & Supervisory Board hosted by the Audit & Supervisory Board. One of the purposes of these meetings is to facilitate cooperation between Outside Directors and the Audit & Supervisory Board, who monitor business management as non-executive officers.

In this meeting, full-time Audit & Supervisory Board members, who are familiar with the operations of ONO, Outside Audit & Supervisory Board members, who are experts in law and corporate accounting, and Outside Directors, who have abundant experience and knowledge, come to an understanding of each other's viewpoints and differences in authority and then exchange opinions related to the issues and themes surrounding business management.

Support System for Outside Directors and Outside Audit & Supervisory Board Members

The Company supports Outside Directors by providing information to and receiving information from them through the Corporate Governance Office, which serves as the secretariat of the Board of Directors.

Full-time Audit & Supervisory Board members mainly provide Outside Audit & Supervisory Board members with information at meetings of the Audit & Supervisory Board and other occasions in an appropriate manner.

In addition, support for the Audit & Supervisory Board members, including Outside Audit & Supervisory Board members, is provided

by the person in charge of supporting the duties of the Audit & Supervisory Board.

Major Fields of Expertise and Experience of Members of the Board of Directors and Audit & Supervisory Board Members

- **Subject persons** Members of the Board of Directors and Audit & Supervisory Board Members who are required to attend the Board of Directors' meetings
- **Skill recognition criteria In-house** Members of the Board of Directors: Experiences in operations and management positions; Outside Members of the Board of Directors/Audit & Supervisory Board Members: Fields where supervision, auditing, and advice are expected.

	Name	Major fields of expertise and experience							
		Corporate management	Finance/Accounting	Legal/Risk management	Research and development	Corporate Development & Strategy/Marketing	Human resources/Human capital development	ESG/Sustainability	Global experience
Members of the Board of Directors	Gyo Sagara	●	●			●		●	
	Toshihiro Tsujinaka		●			●	●		
	Toichi Takino				●	●			●
	Isao Ono					●	●	●	
	Kiyooki Idemitsu				●	●			●
	Masao Nomura	●	●	●		●	●	●	
	Akiko Okuno						●	●	●
Audit & Supervisory Board Members	Shusaku Nagae	●			●	●		●	●
	Katsuyoshi Nishimura			●		●		●	
	Hironobu Tanisaka			●				●	
	Yasuo Hishiyama			●				●	
	Akiko Tanabe		●					●	

Expected Roles of Outside Directors and Outside Audit & Supervisory Board Members

	Name	Expected roles
Outside Directors	Masao Nomura	Mr. Nomura has abundant experience and high-level knowledge because he has served as a corporate executive for many years, and he has fulfilled important roles as an Outside Director by providing appropriate supervision of the Company's management from an independent perspective as well as useful advice and suggestions on overall management. We expect that Mr. Nomura will continue to be involved in the Company's management as an Outside Director and thereby contribute to increasing the Company's value due to his experience and knowledge from being a corporate executive.
	Akiko Okuno	Ms. Okuno has extensive academic knowledge as a university professor specializing in business administration. She has fulfilled important roles as an Outside Director by providing appropriate supervision of the Company's management from an independent standpoint as well as useful advice and suggestions based on her knowledge in her fields of expertise, such as women's labor and personnel appraisal systems. We expect that Ms. Okuno will contribute to increasing the Company's value due to her expertise cultivated through business science research and the results of her work by being involved in ONO's management as an Outside Director.
	Shusaku Nagae	Mr. Nagae has abundant experience and high-level knowledge because he has served as a corporate executive for many years. He appropriately supervises our management from an independent perspective, and provides useful advice and suggestions related to overall management, fulfilling an important role as an Outside Director. We expect that based on his results as a corporate manager, knowledge, and work to date, Mr. Nagae will continue to be involved in the Company's management as an Outside Director and thereby contribute to increasing the Company's value.
Outside Audit & Supervisory Board Members	Yasuo Hishiyama	With abundant experience and high-level knowledge of corporate legal affairs as an attorney-at-law, Mr. Hishiyama has fulfilled important roles as an Outside Audit & Supervisory Board member. He has provided appropriate supervision of the operations of the Board of Directors from an expert and independent standpoint, as well as making comments and suggestions as needed. We expect that Mr. Hishiyama will contribute to maintaining and improving sound management and appropriate operation by being involved in the management of the Company as an Outside Audit & Supervisory Board member.
	Akiko Tanabe	With abundant experience and considerable knowledge of accounting as a certified public accountant, Ms. Tanabe has fulfilled important roles as an Outside Audit & Supervisory Board member. She has provided appropriate supervision of the operations of the Board of Directors from an expert and independent standpoint as well as making comments and suggestions as required. We expect that Ms. Tanabe will contribute to maintaining and improving sound management and appropriate operation by being involved in the management of the Company as an Outside Audit & Supervisory Board member.

Executive Compensation

1 Basic Stance on Executive Compensation

- The compensation of members of the Board of Directors encourages them to continue pursuing a medium- to long-term vision so that they can address achieving sustainable growth as a research and development-type pharmaceutical company, share awareness of interests with shareholders, and improve company value. The compensation makes it possible to increase the awareness of the Board of Directors (excluding Outside Directors) of performance goals and facilitate their contribution to improving company value.
- Compensation for Directors and Audit & Supervisory Board members shall be set to an appropriate level, taking into consideration the scale of the Company's business, responsibilities, management strategy, etc., and referring to the management compensation database of an external professional organization, with the prerequisite that the level of compensation is appropriate to secure excellent human resources.
- Compensation of members of the Board of Directors (excluding Outside Directors) consists of Basic Compensation that is fixed compensation, Performance-based Compensation that is a short-term incentive, and Stock-based Compensation that is a medium- to long-term incentive. As for Outside Directors and Audit & Supervisory

Board members, in consideration of their duties they receive only Basic Compensation that is fixed compensation.

2 The Process to Determine Director Compensation

- The amount of individual compensation of members of the Board of Directors is proposed to and determined by the Board of Directors to the extent that approval is obtained at the annual general meeting of shareholders after examination at the Executive Compensation Meeting.
- The amount of compensation of Audit & Supervisory Board members is determined in discussions among Audit & Supervisory Board members to the extent that approval is obtained at the annual general meeting of shareholders.

3 Revision of the Directors' Compensation System

In FY2022, we revised the compensation system for directors in order to strengthen the incentive to improve corporate value over the medium- to long-term and to promote further value sharing with shareholders, with the aim of becoming a global specialty pharmaceutical company.

Overview of Performance Indicators for FY2022

Financial targets	Revenue
	Operating profit
Strategic targets	Maximization of product value
	Strengthening of the pipeline and acceleration of global development
	Realization of our own marketing in the US and Europe
	Expansion of business domains
	Management foundation that supports the growth strategy (expansion of intangible assets)
Non-financial targets	Initiatives for priority issues
	State of adoption by ESG indexes

Note: In FY2022, we will adopt indexes developed by Dow Jones Sustainability Indices (DJSI), FTSE Russell, MSCI, CDP.

Malus Clause and Clawback Provision

If, during the term of office of a Director or executive officer (hereinafter referred to as "Director, etc."), such Director, etc. violates laws, regulations, or internal rules in a material respect, or if the Board of Directors of the Company deems it appropriate, or if certain other circumstances determined by the Board of Directors of the Company occur, all or part of the shares with transfer restrictions held by such Director, etc. may be forfeited according to a malus clause established by the Company. From the viewpoint of ensuring appropriate operation of the system, in addition to the malus clause for performance-linked restricted transfer stock, the Company has established a clawback provision that allows the Company to demand the return of the shares for a certain period of time after the termination of the restriction on transfer in the case of the same events as described above.

Contents Decided at the Annual General Meeting of Shareholders Regarding Director Compensation

The maximum total amount of compensation (annual) for the Company's directors was approved at the 74th Annual General Meeting of Shareholders (held on June 23, 2022) as follows:

Revision of the Maximum Total Amount of Compensation

		Before the revision (up to FY2021)	
		Directors (excluding Outside Directors)	Outside Directors
Monetary compensation	Basic compensation	¥450 million	-
	Bonus		
Stock compensation	Stock-based Compensation-type Stock options	¥100 million (equivalent to 75,000 shares)	-

		After the revision (from FY2022)	
		Directors (excluding Outside Directors)	Outside Directors
Monetary compensation	Basic compensation	¥700 million	(¥100 million)
	Bonus		-
Stock compensation	Continuous service-type Restricted-transfer stock	¥100 million (60,000 shares)	-
	Performance linked-type Restricted-transfer stock	¥300 million (180,000 shares)	-

The maximum total compensation of 100 million yen for the Company's auditors was approved at the 65th Annual General Meeting of Shareholders held on June 26, 2013.

Purpose of the Revision

- Strengthen the incentive to improve corporate value over the medium- to long-term with the aim of becoming a Global Specialty Pharma.
- Increase the proportion of incentive compensation and stock compensation to promote further value sharing with shareholders.
- Strengthen compensation governance.

Main Points of the Revision

- Make it possible to increase the proportion of variable compensation.
- Replace the old stock compensation-type stock option system with a continuous service restricted transfer stock compensation plan.
- Newly establish a performance-linked restricted transfer stock compensation plan.
- Establish a clawback provision for the performance-linked restricted transfer stock compensation plan.

Changes to the Composition of Director's Compensation (excluding Outside Directors) due to Revision of the System (when standard targets have been achieved)

	Fixed Compensation	Incentive Compensation		
Before revision (FY2021)		Basic compensation 60%	Bonus 30%	SO 10%
After revision		Basic compensation 50%	Bonus 25% (Aim to increase the proportion)	Continuous service-type RS 12.5% Changed
				Performance-linked RS 12.5% Newly established
	Fixed Compensation	Incentive Compensation		

Note: The proportions of the compensation structure for directors (excluding Outside Directors) will be determined based on the characteristics of ONO's business, management issues at the time, and the business environment. The proportion of each type of remuneration after revision is an estimate calculated based on a certain company size and the unit price of the Company's shares, and is only a guideline figure and will change according to changes in business performance and stock price, etc. SO stands for stock option for stock-linked compensation and RS for restricted transfer stock.

About the New Stock Compensation Plan

Continuous service-type Restricted transfer stock compensation	<p>Overview of the Plan</p> <ul style="list-style-type: none"> In principle, stock restrictions shall be released and the stock delivered in a lump sum after the retirement of a director. The number of shares to be delivered will be calculated according to the level of responsibility in making decisions. The shares will be delivered after the end of the annual general meeting of shareholders.
Performance-linked Restricted transfer stock compensation ¹	<p>Overview of the Plan</p> <ul style="list-style-type: none"> In principle, stock restrictions shall be released and the stock delivered in a lump sum after the retirement of a director. The number of shares to be delivered will be calculated based on the degree of achievement of performance targets (including ESG targets) set on a fiscal year-by-fiscal year basis, which are tied to medium- to long-term management targets and management issues, and the degree of achievement of target figures for performance indicators for each fiscal year. Based on the results of the performance evaluation after the end of the performance evaluation period (one fiscal year), the shares will be delivered after the end of the annual general meeting of shareholders (post-delivery type). <p>The Actual Method of Calculation for Each Director</p> <ul style="list-style-type: none"> Number of shares to be delivered to each Director = the base number of shares² x percentage to be delivered³

¹ The same number of performance-linked restricted transfer shares will be issued to executive officers who do not concurrently serve as Directors.

² The Board of Directors shall determine the amount of the compensation based on the position, responsibility, etc. of the Director.

³ The Board of Directors will determine the percentage of achievement of each performance target, etc. for each performance evaluation period in the range of 0 to 200%.

4 Total Amount of Executive Compensation* (FY2021 actual)

Executive category	Number of recipients	Fixed compensation	Bonus	Stock options	Total amount to be paid
Members of the Board of Directors (excluding Outside Directors)	6	¥208 million	¥130 million	¥41 million	¥379 million
Outside Directors	4	¥50 million	-	-	¥50 million
Audit & Supervisory Board members (excluding Outside Audit & Supervisory Board members)	3	¥59 million	-	-	¥59 million
Outside Audit & Supervisory Board members	2	¥26 million	-	-	¥26 million
Total	15	¥342 million	¥130 million	¥41 million	¥513 million

* Includes directors who retired as of June 17, 2021 (one director, one outside director, and one Audit & Supervisory Board Member).

Policy on Cross-Shareholdings

The Company believes that it is essential to have partner companies with which the Company can maintain long-term collaborative relationships in order to discover innovative pharmaceutical products that truly benefit patients. The Company, therefore, holds shares that it deems necessary to hold for strategic purposes, after comprehensively considering the business relationship with the issuers of those shares and the synergies created, in light of a medium- to long-term perspective for increasing corporate value. When judging whether cross-shareholding will lead to an increase in the corporate value of the Company from a medium- to long-term perspective, once a year the Board of Directors reviews the purpose of the holdings, the benefits and risks from cross-shareholding with respect to each issuer of the cross-held shares, and determines whether or not to continue holding those shares after comprehensively considering the business relationship with the issuers and synergies created. For the shares that the Company decides to reduce holdings of as a result of this review, the Company has discussions with the investees to obtain their understanding while implementing the reduction.

As part of an overall revision of cross-shareholdings, we have been systematically reducing them since fiscal 2018. By the end of March 2022, we had reduced our cross-shareholdings by 44 issues, bringing the total amount on the balance sheet to 114 billion yen and the ratio of cross-shareholdings to consolidated net assets to 17.2%. Going forward, we will continue to reduce these holdings with the goal of reducing the ratio to less than 10% over the medium to long term.

■ Status of Cross-Shareholdings

	As of the end of March 2018	As of the end of March 2022
Number of issues held	111 issues	67 issues
Amount reflected on the balance sheet	¥167.1 billion	¥114.0 billion
Percentage of consolidated net assets	31.6%	17.2%

Internal Control System

ONO has laid out its operational system in compliance with the internal control system set out at the Board of Directors meeting. We also strive to ensure compliance and detect internal control problems at an early stage through auditing by the Business Audit Department, which does internal audits, thereby maintaining and improving the appropriateness of organizational management. In addition, the development and operation status of the internal control system is reported periodically to the Board of Directors, and we work to constantly improve organizational operation. Concerning antisocial forces, or organizations that may threaten social order or security, we communicate our firm stance to fight against them throughout our organization.

Operational Management Structure

For the maintenance and improvement of efficiency and accuracy of our decision-making and business operations, we hold Management Meetings and other meetings attended by the President, members of the Board of Directors, the corporate officers in charge of each division, and managers of relevant departments. At these meetings, we take a multifaceted approach to addressing important management issues, including those that are to be

deliberated on at Board of Directors meetings. Also, we have a corporate officer system and promote the transfer of authority to maintain and improve management efficiency and make quicker decisions.

Audit & Supervisory Board Members are obliged to attend Management Meetings and inspect their minutes, as these meetings are also subject to auditing.

Information Disclosure

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

We disclose financial results and other information subject to timely disclosure rules on our website and at the same time through TDnet, the timely disclosure network of the Tokyo Stock Exchange.

Information that is not subject to the timely disclosure rules is also disclosed swiftly through our website and by other means.

For securities analysts and institutional investors, we actively hold individual meetings and phone conferences in addition to a financial result briefing or a conference call at the time of each quarterly statement. In FY2021, due to the impact of COVID-19, we continued to use the Internet and held approximately 200 meetings in total. In normal circumstances we participate diligently in company briefings for individual investors sponsored by security firms, etc.; however, face-to-face briefings were difficult due to the impact of COVID-19 and therefore briefings were live-streamed. Under this environment, we continue to deepen investors' understanding of our business activities and business management strategies.