

June 22, 2018

Notice Concerning Issuance of Stock Options (Stock Acquisition Rights)

ONO PHARMACEUTICAL CO., LTD. (Osaka, Japan; President, Representative Director and CEO, Gyo Sagara; “ONO”) announced that the meeting of Board of Directors held on June 22, 2018 resolved to determine the offering conditions of Stock Acquisition Rights as Stock Options to Members of the Board of Directors (excluding outside directors) and to offer the Stock Acquisition Rights to the Directors as set forth below.

I. The Reason of the Issuance of Stock Acquisition Rights

Issuance aimed at specifying the Members of the Board of Directors’ motivation to long-term improvement of corporate value and to share the consciousness to the profit of ONO with shareholders

II. Details of the Issuance of the Stock Acquisition Rights

1. Name of the Stock Acquisition Rights: ONO PHARMACEUTICAL CO., LTD. FY2018 Stock Acquisition Rights

2. Total number of the Stock Acquisition Rights: 29

The total number above is the number scheduled to be allotted, but if the total number of the Stock Acquisition Rights to be allotted decreases due to a lack of acceptance and the like, the total number of Stock Acquisition Rights to be issued shall be deemed the number of the Stock Acquisition Rights to shares to be allotted.

3. Type and number of shares underlining the Stock Acquisition Rights

The type of shares underlining the Stock Acquisition Rights shall be the ONO's common stock, and the number of shares issued per Stock Acquisition Right (hereinafter referred to as the “number of shares granted”) is 500. However, in case it is appropriate to change the number of shares granted as a result of splitting (including allotting shares of the ONO’s common stock free of charge) or consolidating its common stock after the date to allot the Stock Acquisition Rights (hereinafter referred to as the “Allotment Date”) and the like, the number of shares granted shall be adjusted deemed necessary by ONO.

The number of shares granted after adjustment shall be applicable in case of stock split from the date immediately following the record date of such stock split (the effective date if the record date is not determined) or in case of stock consolidation from the effective date of the stock consolidation. However, if a stock split is made under the condition that a proposal to increase capital or capital reserves by decreasing the amount of surplus shall be approved at ONO’s general shareholders’ meeting and a date prior to the closing of such general shareholders’ meeting is set as the record

date for the stock split, the number of shares granted after adjustment shall become retroactively applicable on the day following such record date, which procedure may be conducted after the day following the closing date of such general shareholders' meeting.

If any adjustment to the number of shares granted is necessary due to carrying out merger, demerger or the like after the Allotment Date, it may adjust the number of shares granted within a reasonable range.

When ONO adjusts the number of shares granted, it shall give notice to each holder of Stock Acquisition Rights registered in the register of Stock Acquisition Rights (hereinafter collectively referred to as the "Rights Holder") or give public notice with respect to any necessary matters no later than the day immediately preceding the day on which the number of shares granted after adjustment becomes applicable. However, if ONO is unable to give such notice or public notice no later than the day immediately preceding the day on which the number of shares granted after adjustment becomes applicable, it shall subsequently give notice or public notice promptly.

4. Amount of property to be provided as contribution upon the exercise of Stock Acquisition Rights

The amount of property to be provided as contribution upon the exercise of Stock Acquisition Rights shall be the amount obtained by multiplying the number of shares granted by one yen (hereinafter referred to as the "Exercise Price"), which is the amount to be paid per share granted upon the exercise of Stock Acquisition Rights.

5. Period of time during that Stock Acquisition Rights may be exercised

From July 10, 2018 through July 9, 2058

6. Matters concerning capital or capital reserves to be increased when shares are issued upon the exercise of Stock Acquisition Rights

- (1) The amount of capital to be increased when shares are issued upon the exercise of Stock Acquisition Rights shall be a half of the limit of capital increase calculated in accordance with Article 17, paragraph (1) of the Ordinance on Accounting of Companies, and any fractions less than one yen resulting from that calculation shall be rounded up to the nearest yen.
- (2) The amount of capital reserves to be increased when shares are issued upon the exercise of Stock Acquisition Rights shall be amount of the limit of capital increase described in (1) above less the amount of capital to be increased as set out in (1) above.

7. Restrictions on the transfer of Stock Acquisition Rights

Transfer of Stock Acquisition Rights shall need an approval of the Board of Directors.

8. Conditions for acquiring Stock Acquisition Rights

If the following proposals (1), (2), (3), (4) and (5) are approved by ONO's general shareholders' meeting (in case approval of general shareholders' meeting is not required, if the Board of Directors of ONO determines by resolution), ONO may acquire Stock Acquisition Rights for free on the date separately determined by the Board of Directors:

- (1) A proposal for a merger agreement where ONO shall be dissolved;
- (2) A proposal for a company split agreement or company split plan where ONO shall be split;
- (3) A proposal for a stock exchange agreement or stock transfer plan where ONO shall

become a wholly owned subsidiary of another company;

- (4) A proposal for an approval of amendments to the Articles of Incorporation to establish new provisions by which any transfer of any shares to be issued by ONO will be subject to ONO's approval;
- (5) A proposal for an approval of amendments to the Articles of Incorporation to establish new provisions by which any acquisition by way of transfer of the type of any shares to be issued upon the exercise of Stock Acquisition Rights will be subject to ONO's approval or ONO may acquire all of the shares in such type (if any) to be issued upon the exercise of Stock Acquisition Rights by resolution of ONO's general shareholders' meeting

9. Determination policy concerning details of delivery of Stock Acquisition Rights of the Restructured Company under the Organizational Restructuring

If ONO conducts a merger (limited to where ONO is extinguished in a merger), absorption-type split or incorporation-type split (in each case, limited to where ONO is splitting company), or stock exchange or stock transfer (in each case, limited to where ONO becomes a wholly owned subsidiary) (hereinafter collectively referred to as the "Organizational Restructuring"), ONO shall deliver Stock Acquisition Rights of corporations listed in Article 236, paragraph (1), item (viii) (a) to (e) of the Companies Act (hereinafter referred to as the "Restructured Company") to the Rights Holder of Stock Acquisition Rights remaining unexercised (hereinafter referred to as the "Remaining Stock Acquisition Rights") at the time immediately preceding the effective date of the Organizational Restructuring (the date on which an absorption-type merger becomes effective, the date on which a stock company is incorporated through a consolidation-type merger, the date on which an absorption-type split becomes effective, the date on which a stock company is incorporated through an incorporation-type split, the date on which a stock exchange becomes effective, or the date on which a wholly owning parent company is incorporated through a stock transfer; the same shall apply hereinafter). However, an absorption-type merger agreement, consolidation-type merger agreement, absorption-type split agreement, incorporation-type split plan, stock exchange agreement, or stock transfer plan states that the Stock Acquisition Rights of the Restructured Company shall be provided according to each of the following:

- (1) Number of Stock Acquisition Rights of the Restructured Company to be delivered:
ONO shall deliver Stock Acquisition Rights, the number of which shall equal the number of Stock Acquisition Rights held by the Rights Holder of the Remaining Stock Acquisition Rights.
- (2) Type of shares of the Restructured Company to be issued upon the exercise of Stock Acquisition Rights:
Shares of common stock of the Restructured Company
- (3) Number of shares of the Restructured Company to be issued upon the exercise of Stock Acquisition Rights:
To be determined according to item 3. above taking into consideration the conditions and the like for the Organizational Restructuring.
- (4) Amount of property to be provided as contribution upon the exercise of Stock Acquisition Rights:
The amount of property to be provided as contribution upon the exercise of each

Stock Acquisition Right to be delivered shall be the amount obtained by multiplying the Exercise Price after the Organizational Restructuring prescribed below by the number of shares of the Restructured Company underlining the Stock Acquisition Rights determined according to (3) above. The Exercise Price after the Organizational Restructuring shall be one yen per share of the Restructured Company's shares that could be issued upon the exercise of each Stock Acquisition Right delivered.

(5) Exercise period of Stock Acquisition Rights:

From the later of the commencement date of the exercise period of Stock Acquisition Rights set out in item 5. above or the day on which the Organizational Restructuring becomes effective through the expiration date of the exercise period of Stock Acquisition Rights set out in item 5. above.

(6) Matters concerning capital or capital reserves to be increased when shares are issued upon the exercise of Stock Acquisition Rights:

To be determined according to item 6. above.

(7) Restriction on transfer of Stock Acquisition Rights:

To acquire Stock Acquisition Rights by transfer shall require approval of the Board of Directors of the Restructured Company.

(8) Conditions for acquiring Stock Acquisition Rights:

To be determined according to item 8. above.

(9) Other conditions for exercise of Stock Acquisition Rights:

To be determined according to item 11. below.

10. Arrangement of handling of fractional shares resulting from exercise of Stock Acquisition Rights

If the shares to be delivered to the Rights Holder include fractional shares, such number of fractional shares shall be disregarded.

11. Other conditions for exercise of the Stock Acquisition Rights

(1) The Rights Holder may, from the day immediately following the date when such Rights Holder ceases to hold any position as a Director of ONO, exercise the Stock Acquisition Rights allotted based on such ceased position.

(2) The provisions of (1) above shall not apply to any successor inherited the Stock Acquisition Rights.

(3) If the Rights Holder waives the Stock Acquisition Rights, such Stock Acquisition Rights may not be exercised.

12. Calculation method of the amount to be paid in for Stock Acquisition Rights

The amount to be paid in for each Stock Acquisition Right shall be the amount of the option price per share (the amount is rounded to the nearest yen) calculated by the Black-Scholes Model based on the basic figures set forth in (2) to (7) below multiplied by the number of shares granted:

$$C = Se^{-qT} N(d) - Xe^{-rT} N(d - \sigma\sqrt{T})$$

In this formula,

$$d = \frac{\ln\left(\frac{S}{X}\right) + \left(r - q + \frac{\sigma^2}{2}\right)T}{\sigma\sqrt{T}}$$

- (1) Option price per share (C)
- (2) Share price (S): The closing price per share of ONO on July 9, 2018 in ordinary transactions at the Tokyo Stock Exchange (the closing price on the next trading day if no closing price is available on such day)
- (3) Exercise price (X): One yen
- (4) Expected remaining period (T): 20 years
- (5) Share price volatility (σ): The share price volatility is calculated based on the closing price of ONO's shares in ordinary transactions at the Tokyo Stock Exchange for each trading date of the twenty year period (from July 9, 1998 through July 9, 2018)
- (6) Risk-free interest rate (r): The interest rate on Japanese government bonds, of which the remaining years correspond to the expected remaining period
- (7) Dividend yield (q): The dividend per share (dividend paid in the fiscal year ended March 31, 2018) divided by the stock price prescribed in (2) above
- (8) Cumulative distribution function of the standard normal distribution ($N(\cdot)$)

*The amount calculated in accordance with the above formula is the fair value of Stock Acquisition Rights. It is not applicable to the issue of Stock Acquisition Rights with favorable terms. ONO shall pay monetary compensation equivalent to the amount to be paid for Stock Acquisition Rights to the allottees, and the rights to claim this compensation shall be offset with the obligation to pay the amount to be paid in for Stock Acquisition Rights.

13. Allotment Date of Stock Acquisition Rights: July 9, 2018

14. Payment date for Stock Acquisition Rights: July 9, 2018

15. Allottees and the number of Stock Acquisition Rights:

Allottees	Number	Number of Stock Acquisition Rights
ONO's Directors (excluding outside directors)	5	29

Contact

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