

May 27, 2014

For Immediate Release

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## **Notice concerning Abolition of the Retirement Benefit Plan for Directors and Statutory Auditors and Introduction of Stock Compensation-type Stock Options**

SANKYO CO., LTD. (the Company) today announced that, at the meeting of the Company's board of directors held on May 27, 2014, it was resolved to abolish the Company's retirement benefit plan for directors and statutory auditors in light of the review of the compensation system for directors and statutory auditors. Also, it was resolved to submit a proposal on the amount of compensation concerning stock options to be granted to the Company's directors and details thereof to the 49th Ordinary General Meeting of Shareholders of the Company to be held on June 27, 2014 in accordance with the provision of Article 361 of the Companies Act of Japan. Details are described below.

### **I. Purpose**

The purpose of introducing stock compensation-type stock options (subscription rights to shares) to directors is to inspire and motivate the directors to contribute to medium to long-term improvement of the Company's performance and corporate value, and to strive to conduct the business operation with a focus on further increasing the shareholder value, by having the directors share with the Company's shareholders not only the benefits of the increase of the Company's share price but also the risk of its decrease. The introduction is part of the review of the compensation system for directors and statutory auditors and abolish the retirement benefit plan for directors and statutory auditors, which is similar to deferred payment according to tenure.

### **II. Details**

#### **1. Abolition of the retirement benefit plan for directors and statutory auditors**

The following proposal will be submitted to the Ordinary General Meeting of Shareholders: abolition of the current retirement benefit plan for directors and statutory auditors upon conclusion of the 49th Ordinary General Meeting of Shareholders of the Company to be held on June 27, 2014 with the final payment of retirement benefits to directors and statutory auditors who are in office at the time of this Ordinary General Meeting of Shareholders in the amount corresponding to their tenure up to the date of abolition of the said plan, to be paid at the time of retirement of each director and statutory auditor.

#### **2. Introduction of stock compensation-type stock options**

In order to achieve the purpose of the change of the compensation system, the Company has decided to introduce stock compensation-type stock options (subscription rights to shares) for the Company's directors so as to strengthen linkage between directors' compensation, the Company's performance and shareholder value. The Company secured approval at the 41st Ordinary General Meeting of Shareholders held on June 29, 2006, for payment of compensation to the Company's directors in an amount not exceeding 800 million yen a year (excluding the salaries they receive as employees), however, the Company requests approval for allotment of stock compensation-type stock options to directors in an amount not exceeding 200 million yen a year, separately from the above-stated monetary compensation.

Details of the subscription rights to shares to be issued as the said stock compensation-type stock options are as described below.

This material is an English translation of Japanese announcement made on May 27, 2014. Although the Company intended to faithfully translate the Japanese document into English, the accuracy and correctness of this translation are not guaranteed.

(1) Total number of subscription rights to shares

The number of subscription rights to shares to be allotted within one year from the date of the Ordinary General Meeting of Shareholders for each fiscal year shall not exceed 1,000.

(2) Class and number of shares to be issued upon exercise of subscription rights to shares

The class of shares to be issued upon exercise of subscription rights to shares shall be the Company's common stock and the number of shares to be issued upon exercise of one subscription right to shares (hereinafter referred to as the "Number of Shares Granted") shall be 100.

However, in the event that, on and after the date of the resolution of this proposal (hereinafter referred to as the "Resolution Date") , the Company conducts a share split (including gratis allotment of shares of the Company's common stock; the same applies to the references to share split below) or a share consolidation for the Company's common stock, the Number of Shares Granted with respect to unexercised subscription rights to shares at the time of such share split or share consolidation shall be adjusted in accordance with the following formula:

Number of Shares Granted after adjustment

= Number of Shares Granted before adjustment x Ratio of share split or share consolidation

In the event that any other unavoidable circumstance arises that requires adjustment of the Number of Shares Granted after Resolution Date, the Company may make adjustment to the Number of Shares Granted as deemed necessary at a meeting of the board of directors.

Fractions of less than one unit resulting from such adjustment shall be rounded down.

(3) Amount to be paid in for subscription rights to shares

The amount to be paid in for subscription rights to shares shall be the fair value of the stock option per share calculated using the Black-Scholes model on the date of allotment of subscription rights to shares, multiplied by the Number of Shares Granted.

A person who receives allotment of subscription rights to shares (hereinafter referred to as the "Holder of subscription rights to shares") offsets payment of the said amount to be paid in with compensation receivable from the Company and thus is not required to pay any money.

(4) Amount of assets to be contributed upon exercise of subscription rights to shares

The amount of assets to be contributed upon exercise of subscription rights to shares shall be the amount to be paid (hereinafter referred to as the "exercise price") per share granted upon exercise of a subscription right to shares multiplied by the number of shares granted.

The exercise price shall be one yen per share.

(5) Period during which subscription rights to shares may be exercised

The period during which subscription rights to shares may be exercised shall be determined by the board of directors but shall not exceed 50 years from the following date of the date of allotment of the subscription rights to shares.

(6) Restrictions on the acquisition of subscription rights to shares by way of transfer

The acquisition of subscription rights to shares by way of transfer shall require approval of the board of directors.

(7) Conditions for the exercise of subscription rights to shares

1) A holder of subscription rights to shares may exercise all the subscription rights to shares at any time within 10 days from the date following the date on which such holder loses the position of a director, a statutory auditor, or an operating officer of the Company during the period stated in (5) above.

2) Other conditions for the exercise of subscription rights to shares shall be determined by resolution of the board of directors.

(8) Other conditions concerning subscription rights to shares

Other matters concerning subscription rights to shares shall be determined at a meeting of the board of directors where the conditions of stock acquisition rights are to be decided.

### III. Impact on business results

The Company intends to disclose any impact on income/loss and the business results forecast for the fiscal year ending March 31, 2015, as necessary, without delay.

(Reference)

The Company intends to allot subscription rights to shares equivalent to the subscription rights to shares described above to the operating officers of the Company and directors of the Company's subsidiaries by resolution of the board of directors.

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