

July 4, 2014

For Immediate Release

Listed company name: **SANKYO CO., LTD.**
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Notice concerning Issuance of Stock Compensation-type Stock Options (Subscription Rights to Shares)

SANKYO CO., LTD. (the Company) today announced that, at the meeting of the Company's board of directors held on July 4, 2014, it was resolved to issue subscription rights to shares as stock compensation-type stock options to directors and operating officers of the Company and to directors of the Company's subsidiaries in accordance with the provisions of Article 236, Article 238, and Article 240 of the Companies Act of Japan. Details are described below.

I. Reason for issuing subscription rights to shares as stock compensation-type stock options

The purpose of issuing stock compensation-type stock options (subscription rights to shares) to directors and operating officers of the Company and directors of the Company's subsidiaries is to inspire and motivate them to contribute to medium to long-term improvement of the Company's performance and corporate value and to place greater emphasis on the interests of shareholders in business operations by having them 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.

II. Outline of the issuance of subscription rights to shares

1. Name of subscription rights to shares

Fiscal 2014 Subscription Rights to Shares of SANKYO CO., LTD.

2. Number of subscription rights to shares

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The total number of shares to be issued upon exercise of the subscription rights to shares shall be 87,100 shares of the Company's common stock. In the event that the number of shares to be granted upon exercise of one subscription right to shares (hereinafter referred to as the "Number of Shares Granted") is adjusted in accordance with 4. (1) below, the total number of shares to be granted shall be the Number of Shares Granted after adjustment multiplied by the number of subscription rights to shares.

3. Amount to be paid in for the subscription rights to shares

The amount to be paid in for the 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 the monetary claim against the Company* and thus is not required to pay any money.

*Such monetary claim is issued by the Company to a holder of subscription rights to shares at its discretion in the amount equal to the amount to be paid in for the subscription rights to shares or is issued by a subsidiary of the Company to a holder of subscription rights to shares at its discretion in the amount equal to the amount to be paid in for the subscription rights to shares and is assumed by the Company. Such monetary claim is not compensation for labor and internal rules of the Company or the Company's subsidiaries hold neither the Company nor the Company's subsidiaries liable for payment.

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4. Details of subscription rights to shares

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

Number of Shares Granted shall be 100 shares of the Company's common stock.

However, in the event that 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 shall be adjusted in accordance with the formula below. Such adjustment shall be applicable only to unexercised subscription rights to shares at the time of such share split or share consolidation, and fractions of less than one unit resulting from such adjustment shall be rounded down.

Number of Shares Granted after adjustment

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

In addition, if the Company conducts mergers, company splits or capital reductions, or if any other events occur that require an adjustment of the Number of Shares Granted in a method similar to such events, the Number of Shares Granted may appropriately be adjusted to a reasonable extent.

(2) Amount of assets to be contributed upon exercise of subscription rights to shares or the calculation method

The amount of assets to be contributed upon exercise of the subscription rights to shares (hereinafter referred to as the "exercise price") shall be one yen per share to be issued upon exercise of a subscription right to shares multiplied by the Number of Shares Granted.

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

The period during which the subscription rights to shares may be exercised (hereinafter referred to as the "exercise period") shall be 50 years from the following date of the date of allotment of the subscription rights to shares.

(4) Matters concerning the capital and capital reserve to be increased

1) The amount of capital to be increased due to the issuance of shares upon exercise of the subscription rights to shares shall be one half (1/2) of the maximum amount of increases of the capital, etc. to be calculated according to Paragraph 1, Article 17 of the Company Accounting Ordinance, with any amount less than one yen arising from such calculation to be rounded up.

2) The amount of capital reserve to be increased due to the issuance of shares upon exercise of the subscription rights to shares shall be the amount obtained by deducting the amount of capital to be increased set forth in 1) above from the maximum amount of increases of the capital, etc. set forth in 1) above.

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

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

(6) 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 only at a time 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 or a subsidiary of the Company during the period stated in 4. (3) above (until the business day immediately before the 10th day, if the 10th day is a holiday).

2) Notwithstanding the provision in the preceding 1), in the event that a proposal for approval of a merger agreement under which the Company becomes defunct, or a share exchange agreement or a share transfer plan, under which the Company becomes a wholly owned subsidiary is approved at a general meeting of shareholders of the Company (or, if approval of a general meeting of shareholders is not required, is resolved by the board of directors of the Company), a holder of subscription rights to shares may exercise subscription rights to shares within 30 days from the date following the date of approval of such proposal. However, this provision shall not apply in the event that, in accordance with the matters concerning the delivery of subscription rights to shares in line with the acts of structural reorganization specified in 7. below, subscription rights to shares of the reorganized company are delivered to a holder of subscription rights to shares.

3) In the event that a holder of subscription rights to shares dies, heirs of the holder of subscription rights to shares inherit the subscription rights to shares and may exercise the inherited subscription rights to shares within one year from the death of the holder of subscription rights to shares in accordance with the provisions of the subscription rights to shares allotment agreement, which will be entered into between the Company and the holder of subscription rights to shares in accordance with the resolution of the Company's board of directors and the conditions specified by the Company separately, provided that the heirs consent to comply with the provisions of the subscription rights to shares allotment agreement. (However, the heirs who inherited the subscription rights to shares from the deceased holder of subscription rights to shares may exercise the inherited subscription rights to shares collectively only once.)

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In the event that a holder of subscription rights to shares has no heirs, unexercised subscription rights to shares held by him or her shall become unexercisable upon his or her death.

4) If exercise of subscription rights to shares would result in the total number of issued shares of the Company exceeding the number of authorized shares of the Company, such exercise of subscription rights to shares shall not be permitted.

5) Any amount less than one subscription right to shares is not exercisable.

6) In the event that a holder of subscription rights to shares loses his or her position as a director, statutory auditor, or operating officer of the Company or a subsidiary of the Company during his or her subsequent term of office (hereinafter referred to as the "scheduled term of office") for the position he or she had on the date of allocation of the subscription rights to shares, he or she shall not be able to exercise a part of the subscription rights to shares allotted to him or her. The number of unexercisable subscription rights to shares shall be calculated in accordance with the formula below according to the number of months from the date on which the scheduled term of office started (or the date of assumption of office if he or she assumed the position he or she had on the date of allocation later than the start date of the scheduled term of office) to the date on which he or she lost the position (hereinafter referred to as the "number of months in office." If he or she lost the position on or before the 15th of a month, that month shall not be included in the number of months in office). However, if a holder of subscription rights to shares dies or resigns for unavoidable reason during the scheduled term of office, the scheduled term of office in whole or in part may be counted as the number of months in office.

Term of office of directors of the Company and subsidiaries of the Company	From July 1, 2014 to June 30, 2015
Term of office of operating officers of the Company	From April 1, 2014 to March 31, 2015

$$\text{Number of unexercisable subscription rights to shares} = \frac{12 \text{ months} - \text{Number of months in office}}{12 \text{ months}} \times \text{Number of subscription rights to shares allotted to a director, or operating officer of the Company or a subsidiary of the Company}$$

7) Other conditions shall be pursuant to the subscription rights to shares allotment agreement to be entered into between the Company and a holder of subscription rights to shares in accordance with the resolution of the board of directors.

5. Date of allotment of subscription rights to shares
July 22, 2014

6. Matters concerning acquisition of subscription rights to shares by the Company

(1) In the event that a proposal for approval of a merger agreement under which the Company becomes defunct, a company split agreement or a company split plan, related to the company split under which the Company becomes a split company, or a share exchange agreement or a share transfer plan, under which the Company becomes a wholly owned subsidiary is approved at a general meeting of shareholders of the Company (or, if approval of a general meeting of shareholders is not required, is resolved by the board of directors of the Company), the Company may acquire all the subscription rights to shares without compensation on the day separately determined by the board of directors of the Company.

(2) In the event that a holder of subscription rights to shares becomes unable to exercise the subscription rights to shares pursuant to the provision of 4. (6) above, the Company may acquire all the subscription rights to shares without compensation.

7. Treatment of the subscription rights to shares in the event of acts of structural reorganization

In the event that the Company conducts a merger (limited to the case where the Company is to be extinguished as a result of the merger), an absorption-type company split, an incorporation-type company split, a share exchange or a share transfer (hereafter collectively referred to as "Acts of Structural Reorganization"), subscription rights to shares of any of the relevant companies listed in (a) through (e) of Item 8, Paragraph 1, Article 236 of the Companies Act (hereafter referred to as "the Reorganized Company") shall be delivered, in each of the above cases, to holders of subscription rights to shares remaining on the effective date of the relevant Acts of Structural Reorganization in accordance with the conditions below, provided, however, that the foregoing shall be on the condition that delivery of subscription rights to shares of the Reorganized Company in accordance with the conditions below is stipulated in an absorption-type merger agreement, a consolidation-type merger agreement, an absorption-type company split agreement, an incorporation-type company split plan, a share exchange agreement or a share transfer plan.

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- (1) Number of subscription rights to shares of the Reorganized Company to be delivered
A number equal to the number of the subscription rights to shares held by the holder of subscription rights to shares shall be delivered to such holder.
- (2) Class of shares of the Reorganized Company to be issued upon exercise of the subscription rights to shares
Shares of common stock of the Reorganized Company
- (3) Number of shares of the Reorganized Company to be issued upon exercise of the subscription rights to shares
To be determined in accordance with 4. (1) above, taking into consideration the conditions of the Acts of Structural Reorganization.
- (4) Amount of assets to be contributed upon exercise of subscription rights to shares
The amount of assets to be contributed upon exercise of each subscription right to shares to be delivered shall be the amount calculated by multiplying the exercise price after reorganization, which is calculated by adjusting the exercise price provided for in 4. (2) above, taking into consideration the conditions of the Act of Structural Reorganization, by the number of shares of the Reorganized Company to be issued upon exercise of the subscription rights to shares determined in accordance with 7. (3) above.
- (5) Period during which subscription rights to shares may be exercised
From and including whichever is the later of the commencement date of the exercise period provided for in 4. (3) above or the effective date of the Act of Structural Reorganization to and including the expiry date of the exercise period provided for in 4. (3) above.
- (6) Matters concerning the capital and capital reserve to be increased due to the issuance of shares upon exercise of subscription rights to shares
To be determined in accordance with 4. (4) above.
- (7) Restrictions on acquisition by way of transfer of subscription rights to shares
Acquisition by way of transfer of the subscription rights to shares shall require approval by resolution of the board of directors of the Reorganized Company.
- (8) Other conditions for exercise of subscription rights to shares
To be determined in accordance with 4. (6) above.
- (9) Cause for acquisition of subscription rights to shares and conditions
To be determined in accordance with 6. above.
- (10) Other conditions shall be determined in accordance with the conditions of the Reorganized Company.
8. Matters concerning certificates of subscription rights to shares
The Company shall issue no certificates of subscription rights to shares corresponding to the subscription rights to shares.
9. Persons to whom subscription rights to shares are to be allotted, the number of such persons, and the number of subscription rights to shares to be allotted
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|--|----|-----|
| Directors of the Company | 4 | 666 |
| Operating officers of the Company | 8 | 133 |
| Directors of subsidiaries of the Company | 11 | 72 |

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