

Notice Concerning Issuance of Stock Options as Compensation

Today, the Company's board of directors determined the subscription requirements for stock options as compensation for the Company's directors (excluding outside directors), and resolved to offer stock options to subscribers as follows.

I. Reason for Issuing Stock Options

The objective is to further increase the motivation of directors to contribute to increasing the share price and improving corporate value by sharing the benefits and risks of share price fluctuations with shareholders.

II. Overview of Issuance of Stock Options

- Title of stock options: Hisamitsu Pharmaceutical Co., Inc. Series 2 Stock Options
- Recipients of allotment of stock options, number of recipients and number of stock options to be allotted

Recipients of allotment	Number of recipients	Number of stock options to be allotted
Directors of the Company (excluding outside directors)	10	179

- Total number of stock options: 179

The above total number is the number planned to be allotted, and if the total number of stock options allotted decreases such as when an application to accept allotment is not made, the total number of stock options allotted shall be the total number of stock options issued.

- Class and number of shares underlying stock options

The class of shares underlying the stock options shall be common shares, and the number of shares underlying each stock option (hereinafter "number of shares granted") shall be 100 shares. However, if the Company's common shares undergo any splits (including allotment of the Company's common shares without contribution; the same shall apply below to descriptions of share splits) or reverse splits after the date of allotment (hereinafter referred to as "allotment date"), the number of shares granted shall be adjusted according to the following formula, and fractions of less than one share resulting from adjustment shall be rounded down.

Number of shares granted after adjustment = Number of shares granted before adjustment x Ratio of share split or reverse share split

The number of shares granted after adjustment shall apply from the day following the record date of the share split (or the effective date if no record date is specified) in the event of a share split, and from the effective date in the event of a reverse share split. However, if a share split is carried out on the condition of approval by the General Shareholders' Meeting of a proposal to reduce the amount of surplus and increase stated capital or capital reserve, and a date on or before the conclusion of the General Shareholders' Meeting is the record date of the share split, the number of shares granted after adjustment shall apply retroactively from the day following the record date from the day following the conclusion of the General Shareholders' Meeting.

Furthermore, if adjustment of the number of shares granted is necessary due to the Company undergoing a merger, company split or other similar event after the allotment date, the Company may appropriately adjust the number of shares granted within a reasonable scope.

When adjusting the number of shares granted, the Company shall provide public notice or notify each person holding stock options listed in the registry of stock options (hereinafter referred to as "stock option holders") of the necessary information no later than the day preceding the date of application of the number of shares granted after adjustment. However, if notification or public notice no later than the day preceding the date of application, notification or public notice shall be promptly made thereafter.

- Value of assets contributed when exercising stock options

The value of assets contributed when exercising stock options (hereinafter referred to as "strike price") shall be a paid-in amount of 1 yen per share that may be received by exercising said stock options, multiplied by the number of shares granted.

6. Period in which stock options may be exercised

From July 26, 2016 until July 25, 2066

7. Matters relevant to increased stated capital and capital reserve when issuing shares through the exercise of stock options.

- (1) The amount of stated capital increased when issuing shares through the exercise of stock options shall be one half of the increase limit of stated capital, etc. calculated in accordance with Article 17, Paragraph 1 of the Ordinance on Accounting of Companies, and fractions of less than one share resulting from calculation shall be rounded down.
- (2) The amount of capital reserve increased when issuing shares through the exercise of stock options shall be the amount obtained by deducting the increased amount of stated capital specified in (1) above from the increase limit of stated capital, etc. in (1) above.

8. Restrictions on acquisition of stock options by assignment

Acquisition of stock options by assignment shall require approval by resolution of the Company's board of directors.

9. Stock option acquisition clause

If any of the proposals in (1), (2), (3), (4) or (5) below is approved by the Company's General Shareholders' Meeting (or resolved by the Board of Directors if a resolution of the General Shareholders' Meeting is not required), the Company may acquire stock options without compensation.

- (1) A proposal to approve a merger agreement in which the Company becomes the extinct company
- (2) A proposal to approve a split agreement or a split plan in which the Company is the split company
- (3) A proposal to approve a share exchange agreement or a share transfer plan in which the Company becomes a wholly owned subsidiary
- (4) A proposal to approve an amendment of the articles of incorporation establishing provisions concerning the need for the Company's approval of the acquisition of shares in assignment of all of the shares issued by the Company
- (5) A proposal to approve an amendment of the articles of incorporation establishing provisions concerning the need for the Company's approval for the acquisition of class shares underlying stock options through assignment, or the acquisition of all said class shares by resolution of the Company's General Shareholders' Meeting

10. Policy for the determination of the content of granting stock options of a company subject to reorganization

If the Company undergoes a merger (limited to cases in which the Company becomes extinct through the merger), an absorption-type company split, an incorporation-type company split (limited to cases in which the Company becomes a split company), a share exchange or a share transfer (limited to cases in which the Company becomes a wholly owned subsidiary) (hereinafter collectively referred to as "acts of reorganization"), the Company shall grant stock options in the joint stock company listed in Article 236, Paragraph 1, Item 8 (a) through (e) of the Companies Act (hereinafter referred to as "company subject to reorganization") to stock option holders who hold residual stock options (hereinafter referred to as "residual stock options") immediately before the effective date of the act of reorganization (meaning the effective date of an absorption-type merger, the date of establishment of the joint stock company newly established in a consolidation-type merger, the effective date of an absorption-type split, the effective date of an incorporation-type company split, the effective date of a share exchange, or the date of establishment of a wholly-owning parent company through the a share transfer; the same applies hereinafter). However, this is conditional upon the absorption-type merger agreement, consolidation-type merger agreement, absorption-type split agreement, incorporation-type company split plan, share exchange agreement or share transfer plan stipulating the granting of stock options of the company subject to reorganization in accordance with the following items.

- (1) Number of stock options of the company subject to reorganization to be granted
The number granted shall be the same as the number of residual stock options held by the stock option holder.
- (2) Class of shares of the company subject to reorganization underlying the stock options
Common shares of the company subject to reorganization.
- (3) Number of shares of the company subject to reorganization underlying the stock options

This shall be determined in accordance with 4. above based on consideration of the conduct of the act of reorganization.

(4) Value of assets contributed when exercising stock options

The value of the assets contributed when exercising the stock options delivered shall be the amount obtained by multiplying the strike price after reorganization stipulated below and the number of shares of the company subject to reorganization underlying the stock options determined in accordance with (3) above. The strike price after reorganization shall be 1 yen per share of the company subject to reorganization that can be delivered by exercising each of the stock options delivered.

(5) Period in which stock options may be exercised

From the latter of the starting date of the period in which stock options may be exercised stipulated in 6. above and the effective date of the act of reorganization until the end of the period in which the stock options can be exercised as stipulated in 6. above.

(6) Matters relevant to increased stated capital and capital reserve when issuing shares through the exercise of stock options.

These shall be determined in accordance with 7. above.

(7) Restrictions on acquisition of stock options by assignment

Acquisition of stock options by assignment requires approval by resolution of the Board of Directors of the company subject to reorganization (the "General Shareholders' Meeting" if the company subject to reorganization is not a company with a board of directors).

(8) Stock option acquisition clause

These shall be determined in accordance with 9. above.

(9) Other conditions for exercising stock options

These shall be determined in accordance with 12. below.

11. Arrangements for fractions of less than one share arising in the exercise of stock options

If the number of shares granted to a stock option holder who exercises stock options includes a fraction of less than one share, this shall be rounded down.

12. Other conditions for exercising stock options

(1) A stock option holder may exercise stock options allotted in accordance with the lost status from the day following the loss of status as a Director of the Company.

(2) In the event a stock option holder dies, only if all of the stock options are inherited by one heir who is a spouse, child, parent or sibling (hereinafter referred to as "successor"), the stock options of the stock option holder may be exercised by the successor. However, the conditions and procedures, etc. for the exercise of stock options shall be as stipulated in the stock option allotment agreement concluded between the Company and the stock option holder in accordance with a resolution of the Company's Board of Directors.

(3) If the stock option holder waives the stock options, said stock options may not be exercised.

(4) A stock option holder must exercise all stock options allotted (or the residual stock options after waiving part thereof) at once.

13. Method of calculation of the amount to be paid in for stock options

The amount to be paid in for each stock option shall be the amount determined by multiplying the option price per share based on the base value in (2) through (7) below calculated using the following Black-Scholes formula (rounded to the nearest yen) by the number of shares granted.

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

Where,

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

- (1) The option price per share (C)
- (2) Share price (S): The closing price of the Company's common shares in regular trading on the Tokyo Stock Exchange on July 25, 2016 (if there is no closing price, the base price for the following trading day)
- (3) Strike price (X): 1 yen
- (4) Expected remaining duration (T): 10 years
- (5) Share price variation (σ): Rate of variation of share prices calculated based on the closing price of the Company's common shares in regular trading on each trading day over ten years (from July 25, 2006 until July 25, 2016)
- (6) Risk-free interest rate (r): The interest rate of government bonds with remaining duration corresponding to the expected remaining duration
- (7) Dividend yield (q): Dividend per share (actual dividend for the year ended February 2015) \div the share price in (2) above
- (8) The cumulative distribution function of the standard normal distribution ($N(\cdot)$)

* The amount calculated above is the fair value of the stock options and does not apply to discounted issue. Furthermore, the remuneration receivables for the amount equivalent to the total amount to be paid in to the Company for stock options held by a person who receives allotment shall be offset against the payment obligation for the amount to be paid in.

14. Date of allotment of stock options: July 25, 2016

15. Date for payment of funds in exchange for stock options: July 25, 2016

END