

For Immediate Release

Company name Otsuka Holdings Co., Ltd.
Representative Tatsuo Higuchi
President and Representative Director, CEO
Code number 4578, First Section, Tokyo Stock Exchange
Inquiries Yuji Kogure
Director, Investor Relations Department

Issuance of Share Remuneration-type Stock Options (Share Acquisition Rights)

Tokyo, Japan – Notice is hereby given that Otsuka Holdings Co., Ltd. (“**Otsuka**”), at the meeting of the Board of Directors held as of today, resolved to issue share acquisition rights having the contents stated below, as a share remuneration-type stock option based on the conditions of business performance achievement, to Otsuka’s directors (excluding outside directors) and directors of Otsuka’s subsidiaries, pursuant to Articles 236, 238, and 240 of the Companies Act.

I. Reasons for issuing share remuneration-type stock options (share acquisition rights)

In order to make a further contribution to the continued improvement of our mid-to-long term business performance and corporate value, Otsuka will issue remuneration-type stock options based on the conditions of business performance achievement (share acquisition rights), as a mid-term incentive plan (“**Mid-term Incentive Plan**”) to be provided to Otsuka’s directors (excluding outside directors) and directors of Otsuka’s subsidiaries (Note 1).

The number of share acquisition rights that will be finally exercisable out of the share acquisition rights to be issued will vary according to the level of achievement, etc., of the mid-term management plan with 2018 as the final fiscal year (“**Mid-term Management Plan**”), within the range of 40% to 160% of the base number (Note 2) of the share acquisition rights, which is determined for each title of the persons eligible for allocation (Note 3).

(Note 1) The share acquisition rights shall be granted only once before the end of December 31, 2018, during which time the Mid-term Management Plan will be in progress, and no further additional issuance of any similar share acquisition rights will be scheduled during the progress of the Mid-term Management Plan. In granting such share acquisition rights to the directors of Otsuka (excluding outside directors), Otsuka has established a remuneration cap of “within the range of 1.2 billion yen annually” as the remuneration range for a business year including the day of granting of the share acquisition rights, under which the share acquisition rights to be granted are positioned to function as mid-term incentives based on the level of achievement of the Mid-term Management Plan for the three (3) year period until the termination of the Mid-term Management Plan, etc. In this issuance, the total paid-in amount for such share acquisition rights to be granted to the directors of Otsuka (excluding outside directors) is expected to be approximately 1 billion yen.

(Note 2) The number calculated through the formula set forth in the Reference section

(Note 3) Under the Mid-term Incentive Plan, the base number for calculating the number of exercisable share acquisition rights is determined for each title of the persons eligible for allocation. 40% of such base number shall be a “fixed portion,” which can be exercised in a lump sum upon the elapse of the final fiscal year of the target period, and the remaining 60% shall be a “business performance-linked portion,” regarding which the number of exercisable share acquisition rights shall be determined based on the level of achievement of objectives including the consolidated sales target amount and the consolidated business profit target amount in the fiscal period ending December 2018 (200% in the case where the level of achievement of the target amount is 200% or more, and 0% in the case where the level of achievement of the target amount is 80% or less.). Accordingly, the maximum number of exercisable share acquisition rights for each title of the persons eligible for allocation shall be 160% of each base number.

II. Persons eligible for allocation of share acquisition rights, the number of such persons, and the number of share acquisition rights to be allotted

Otsuka’s directors (excluding outside directors)	6 directors	8,100 share acquisition rights
Directors of Otsuka’s subsidiaries	3 directors	4,050 share acquisition rights

III. Issuance outline for share acquisition rights

1. Name of share acquisition rights

Otsuka Holdings Fifth Series Share Acquisition Rights

2. Number of share acquisition rights

The number of share acquisition rights shall be 12,150 (The number of shares subject to one (1) share acquisition right shall be 100 shares (Note 4); provided, however, that if adjustment is made to the number of shares subject to share acquisition rights as stated in Section 3(1) below, the same adjustment shall be made.). The total number of shares as stated above shall be the scheduled allocation number; if no application for acceptance thereof is made, or the like, or if the total number of share acquisition rights to be allotted decreases, the number of share acquisition rights to be allotted shall be the number of share acquisition rights to be issued.

(Note 4) Each of the number of share acquisition rights to be allotted to Otsuka’s directors (excluding outside directors) and the directors of Otsuka’s subsidiaries who are eligible for allocation (collectively, “**Persons Eligible for Allocation**”) shall be the same number of share acquisition rights (the theoretical maximum number) that can be exercised by a person who has the highest title in the case where the greatest possible business performance is achieved, regardless of the actual title of each Person Eligible for Allocation as of the time of allotment, in preparation for a situation where there is a change in the level of achievement of the consolidated sales target amount and the consolidated business profit target amount, etc., in the December 2018 period, and/or each Person Eligible for Allocation’s title during the target period.

Of the 12,500 share acquisition rights, the total number of share acquisition rights to be allotted to the six (6) directors (excluding outside directors) of Otsuka shall be 8,100, and among such number, in regard to the total number of share acquisition rights which the six (6) directors (excluding outside directors) of Otsuka shall be finally entitled to exercise, it is scheduled that a cap thereof shall be established. Specifically, with respect to

such six (6) directors (excluding outside directors), in principle, it is anticipated that the cap will be set at the sum of each number of share acquisition rights that can be exercised by each title of the Persons Eligible for Allocation in the case where the business operation system as of the Allotment Day (the titles and the number of persons who assume such titles as of the same day) is maintained and the greatest possible business performance is achieved. In the case of such cap number being exceeded, a provision whereby the Persons Eligible for Allocation shall not be permitted to exercise the share acquisition rights possessed by them for such excess portion shall be set forth in the share acquisition rights allocation agreement scheduled to be entered into between Otsuka and such Persons Eligible for Allocation.

The cap to be established on the total number of share acquisition rights that can be exercised shall be based on the assumption that such six (6) directors will continuously serve as the current directors for three (3) years, and also, such cap shall be established based on the number of share acquisition rights that can be exercised when the level of achievement of the business performance target amount becomes 200% or more with regard to the business performance-linked portion. Such number is expected to be established within the range up to a maximum of 3,400 share acquisition rights (subject number of shares, 340,000).

3. Content of share acquisition rights

(1) Class and number of shares subject to share acquisition rights

The class and number of shares subject to share acquisition rights shall be 1,215,000 shares of common stock of Otsuka;

Provided, however, that if Otsuka conducts a stock split or a reverse stock split after the day on which Otsuka allots the share acquisition rights (the “**Allotment Day**”), the number of shares subject to each share acquisition right shall be adjusted using the following formula, and any fractional share less than one share which may occur as a result of such adjustment shall be rounded down.

$$\text{Number of shares after adjustment} = \text{Number of shares before adjustment} \times \text{Ratio of stock split or reverse stock split}$$

In addition, if Otsuka carries out a merger, company split, share exchange, share transfer, or an allotment of shares without consideration, or if it is otherwise necessary to adjust the number of shares subject to each share acquisition right, the number of shares to be issued through the exercise of share acquisition rights shall be appropriately adjusted to the necessary and reasonable extent.

Adjustment in accordance with this item shall be made only for the number of shares subject to share acquisition rights which have not been exercised at the relevant time.

(2) Value of property to be invested upon the exercise of share acquisition rights

The value of the property to be invested upon the exercise of one (1) share acquisition right shall be the amount obtained by multiplying the paid-in amount per share that can be received through the exercise of the share acquisition rights (the “**Exercise Value**”) by the number of shares subject to one (1) share acquisition right.

The Exercise Value shall be one (1) yen.

- (3) Period during which share acquisition rights can be exercised
From March 1, 2019 to February 28, 2021
- (4) Matters concerning increase in capital and capital reserve when shares are issued through the exercise of share acquisition rights
- (i) The increase in capital when shares are issued through the exercise of share acquisition rights shall be half of the limit amount of an increase in capital, etc. to be calculated in accordance with Article 17, Paragraph 1 of the Ordinance on Company Accounting, and any fractions less than one (1) yen which may occur as a result of such calculation shall be rounded up.
- (ii) The increase in capital reserve when shares are issued through the exercise of share acquisition rights shall be the limit amount of the increase in capital, etc. stated in (i) above less the increase in capital as provided in (i) above.
- (5) Restriction on acquisition of share acquisition rights by way of transfer
Acquisition of share acquisition rights by way of transfer shall require the approval of Otsuka's Board of Directors.
- (6) Events and conditions allowing for the acquisition of share acquisition rights
- (i) If a merger agreement under which Otsuka becomes a company ceasing to exist is approved at a General Shareholders Meeting of Otsuka (if a resolution is made at the Board of Directors meeting in the event that a resolution at a General Shareholders Meeting is not required), or if a share exchange agreement or share transfer plan under which Otsuka becomes a wholly-owned subsidiary is approved at a General Shareholders Meeting of Otsuka (if a resolution is made at the Board of Directors meeting in the event that a resolution at a General Shareholders Meeting is not required), Otsuka may obtain, free of charge, as of the day separately determined by the Board of Directors of Otsuka, any share acquisition rights which have not been exercised.
- (ii) If the persons to whom share acquisition rights are allotted (“**Share Acquisition Rights Holder(s)**”) are unable to exercise share acquisition rights in accordance with Section (7) below, Otsuka may obtain, free of charge, as of the day separately determined by the Board of Directors of Otsuka, any share acquisition rights which have not been exercised.
- (iii) If a Share Acquisition Rights Holder disclaims all or part of his/her share acquisition rights in writing, Otsuka may obtain, free of charge, as of the day separately determined by the Board of Directors of Otsuka, any share acquisition rights which have not been exercised.
- (7) Conditions for exercise of share acquisition rights
- (i) In principle, the Share Acquisition Right Holders must, as of the exercise of the share acquisition rights held thereby, continuously hold the same status as directors of Otsuka or Otsuka's subsidiaries as they held on the Allotment Day; provided, however, that the same shall not apply to any of the following events approved of by the Board of Directors:
- a. The Share Acquisition Right Holders retire from the status they held on the Allotment Day, as

- directors of Otsuka or Otsuka's subsidiaries, due to expiration of their terms of office; or
- b. The Share Acquisition Right Holders leave the position they held on the Allotment Day, as directors of Otsuka or Otsuka's subsidiaries, for the company's reasons.
- (ii) The Share Acquisition Right Holders are not entitled to exercise their share acquisition rights if, without prior approval from the Board of Directors of Otsuka or Otsuka's subsidiaries, the Share Acquisition Right Holders assume or give their consent to assume office as officers or employees of other companies, or engage in any business which directly or indirectly competes with the business of Otsuka or Otsuka's subsidiaries.
- (iii) The Share Acquisition Right Holders are not entitled to exercise their share acquisition rights if they materially breach the laws or the internal rules of Otsuka or Otsuka's subsidiaries.
- (iv) The Share Acquisition Right Holders may not pledge or otherwise dispose of their share acquisition rights.
- (v) In the event of the death of any Share Acquisition Right Holder, his/her heir shall not be entitled to exercise the share acquisition rights.
- (vi) The Share Acquisition Right Holders shall not be permitted to divide the share acquisition rights or exercise part thereof.
- (vii) Other conditions for the exercise of share acquisition rights shall be as set forth in the share acquisition rights allotment agreement to be executed between Otsuka and the Share Acquisition Right Holders in accordance with a resolution of Otsuka's Board of Directors.
- (8) Grant of share acquisition rights in the case of merger, absorption-type split, incorporation-type split, share exchange or share transfer
- If Otsuka undergoes a merger (only those that cause Otsuka to be dissolved), absorption-type split, incorporation-type split, share exchange or share transfer (hereinafter collectively referred to as a "**Corporate Reorganization**"), the share acquisition rights of the stock company prescribed in (a) through (e) of Article 236, Paragraph 1, item (viii) of the Companies Act (such company shall hereinafter be referred to as the "**Reorganized Company**") shall be granted in accordance with the conditions set forth below, respectively to the Share Acquisition Right Holders who hold the share acquisition rights immediately before the day on which the Corporate Reorganization takes effect. In such event, any remaining share acquisition rights shall be extinguished, and the Reorganized Company shall issue new share acquisition rights; provided, however, that the foregoing shall apply only if it is stipulated in an agreement for merger by absorption, agreement for merger by consolidation, agreement for absorption-type split, agreement for incorporation-type split, share exchange agreement, or share transfer plan that the new share acquisition rights of the Reorganized Company shall be granted in accordance with the conditions set forth below:
- (i) Number of the Reorganized Company's share acquisition rights to be granted
- The same number as the number of the share acquisition rights held by the Share Acquisition Right Holders immediately before the day on which the Corporate Reorganization takes effect.

- (ii) Class of shares subject to share acquisition rights
Ordinary shares of the Reorganized Company
- (iii) Number of shares subject to share acquisition rights
Determined in the same manner as (1) above, taking into consideration the conditions, etc. for the Corporate Reorganization
- (iv) Value of property to be invested upon exercise of share acquisition rights
The value of the property to be invested upon the exercise of the granted share acquisition rights shall be in the amount obtained by multiplying (x) by (y) where: (x) equals the post-reorganization Exercise Value, adjusted in consideration of the conditions, etc. for the Corporate Reorganization; and (y) equals the number of the Reorganized Company's shares subject to such share acquisition rights, as determined pursuant to (iii) above.
- (v) Period during which share acquisition rights can be exercised
The period during which the granted share acquisition rights can be exercised commences on the later of: the commencement day of the term set forth in (3) above or the day on which the Corporate Reorganization takes effect, and ends on the date of expiration of the period during which share acquisition rights can be exercised as set forth in (3) above.
- (vi) Matters concerning increase in capital and capital reserve in the case of issuance of shares upon exercise of share acquisition rights
Determined in the same manner as in (4) above
- (vii) Grounds for acquisition of and conditions for exercise of share acquisition rights
The grounds for acquisition of and conditions for exercise of share acquisition rights shall be determined by the Board of Directors of Otsuka, at the time of the Corporate Reorganization, in the same manner as in the provisions of (6) and (7) above.
- (viii) Restriction on acquisition of share acquisition rights through transfer
The acquisition of share acquisition rights through transfer shall require the approval of the Board of Directors of the Reorganized Company.
- (9) Agreement on fractions less than one (1) share arising upon the exercise of share acquisition rights
If there is any fraction less than one (1) share in the number of shares to be granted to the Share Acquisition Rights Holders exercising their share acquisition rights, such fraction shall be disregarded.

4. Paid-in amount for share acquisition rights

The paid-in amount shall be obtained by multiplying the option price per share on the Allotment Day of the share acquisition rights, calculated by using the Black-Scholes Model, by the number of shares subject to a single share acquisition right. The Share Acquisition Right Holders shall, in lieu of payment of such paid-in amount, set off their remuneration claims against Otsuka and their paid-in obligations pertaining to the total paid-in amount of the share acquisition rights to be allotted. The paid-in amount calculated by the above-mentioned method is a fair value of the share acquisition rights, and does not constitute especially favorable terms to any particular party (*yuuri hakko*).

5. Allotment Day of share acquisition rights

May 31, 2016

6. Due date for payment of money payable in exchange for share acquisition rights

May 31, 2016

-End-

[Reference]

Out of the share acquisition rights allotted to the Persons Eligible for Allocation, the number of exercisable share acquisition rights shall be calculated as follows:

(Calculation formula for base number)

Amount obtained by dividing (x) by (y) and further dividing it by (z), where: (x) equals the base amount; (y) equals the closing price of Otsuka's shares on the First Section of the Tokyo Stock Exchange on the day immediately preceding the Allotment Day (or, in the event of there being no such closing price on that day, the closing price on the immediately preceding trading day), and (z) equals 100

- * Any fraction less than one (1) shall be disregarded.
- * The level of the base amount shall be determined by taking into consideration the balance of: the content of the duties performed, the responsibilities, and the base remuneration (i.e., monthly remuneration).

(Calculation formula for exercisable numbers)

Under the Mid-term Incentive Plan, 40% of the base number of the share acquisition rights of each Person Eligible for Allocation shall be a "fixed portion," which can be exercised in a lump sum upon the elapse of the final fiscal year of the target period, and the remaining 60% shall be a "business performance-linked portion," regarding which the number of exercisable share acquisition rights shall be determined based on the level of achievement of objectives including the consolidated sales objective amount and/or the consolidated business profit objective amount for the fiscal period ending December 2018, which are established at the time of introducing the Mid-term Incentive Plan.

The number of exercisable share acquisition rights is the sum of (i) the base number multiplied by 0.4 (i.e., the ratio of the fixed portion) and (ii) the base number multiplied by 0.6 (i.e., the ratio of the variable portion) and further multiplied by a business performance-linked coefficient.

- * Any fraction less than one (1) shall be disregarded.
- * The business performance-linked coefficient shall be determined within the range of 0% - 200%, based on the level of achievement of objectives including the consolidated sales objective amount and/or the consolidated business profit objective amount for the fiscal period ending December 2018, established at the time of introducing the Mid-term Incentive Plan (provided, however, that the business performance-linked coefficient shall be 200% in the case where the level of achievement of the objective amount is 200% or more, and 0% in the case where the level of achievement of the objective amount is 80% or less).