



June 14, 2024

To Our Shareholders

Company name: SANKYO CO., LTD.  
Representative: Akihiko Ishihara  
Representative Director, President & CEO  
(Securities code: 6417; TSE Prime Market)  
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### Supplementary Explanation Regarding Item to Be Proposed at the 59th Ordinary General Meeting of Shareholders

It has come to our attention that the proxy advisory firm Institutional Shareholder Services Inc. (“ISS”) has issued a report recommending a vote “Against” Proposal No. 7: “Determination of the Amounts and Details of Performance-linked Stock Compensation, Etc. for Directors, Etc. (Excluding Directors Who Are Audit and Supervisory Committee Members and Outside Directors) of the Company and Its Subsidiaries” (the “Proposal”), to be presented at the 59th Ordinary General Meeting of Shareholders of SANKYO CO., LTD. (Representative Director, President & CEO Akihiko Ishihara; the “Company”), scheduled to be held on June 27, 2024.

Our understanding is that the reason for ISS’s recommendation “Against” the Proposal is that the dilution in the number of shares issued over the next 10 years based on the stock compensation plan to be introduced by the Proposal combined with the outstanding amount of unexercised stock options previously issued (the “Total Dilution Rate”) would be 5.6%, which exceeds ISS’s criterion for the exercise of voting rights. We have determined, however, that the maximum dilution rate under the compensation plan would be 0.45% for any single fiscal year, and that ISS’s recommendation does not take into account the Company’s policy for returns to shareholders. We are providing the explanation below.

We ask that shareholders confirm the content of this explanation and take it into account before you exercise your voting rights.

#### Details

1. Regarding Proposal No. 7: “Determination of the Amounts and Details of Performance-linked Stock Compensation, Etc. for Directors, Etc. (Excluding Directors Who Are Audit and Supervisory Committee Members and Outside Directors) of the Company and Its Subsidiaries”

At the 58th Ordinary General Meeting of Shareholders, held on June 29, 2023, the introduction of a performance-linked stock compensation plan (the “Plan”) for Directors (excluding Outside Directors and non-residents of Japan) and Operating

Officers (excluding non-residents of Japan) of the Company and for Directors (excluding Outside Directors and non-residents of Japan) of the Company's subsidiaries was approved (the "Previous Resolution"), which remains in effect today. If Proposal No. 2, "Partial Amendments to the Articles of Incorporation," is approved and passed as proposed, the Company will transition to a company with an Audit and Supervisory Committee. Consequently, subject to the approval and resolution of the said proposal as proposed, the Company requests approval to abolish the current compensation limit under the Plan and establish anew the amounts and details of compensation, etc., under the Plan after the transition to a company with an Audit and Supervisory Committee for Directors (excluding Directors who are Audit and Supervisory Committee Members, Outside Directors, and non-residents of Japan) and Operating Officers (excluding non-residents of Japan) of the Company and for Directors (excluding Outside Directors and non-residents of Japan) of its subsidiaries (hereinafter collectively referred to as "Directors, etc., of the Company and its subsidiaries" in this proposal). The Proposal is being presented to set once again the amounts, details, etc., under the Plan.

As was the Previous Resolution, the Proposal is for the purposes of clarifying the linkage between compensation of Directors, etc., of the Company and its subsidiaries and the Company's performance and stock value, and inspiring and motivating Directors, etc., of the Company and its subsidiaries to contribute to medium- to long-term improvement of the Company's performance and corporate value 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.

2. Company's supplementary explanation regarding ISS's recommendation "Against" Against this backdrop, ISS is recommending a vote "Against" the Proposal based on its 2024 Proxy Voting Guidelines and Benchmark Policy Recommendations for Japan of "Total dilution from proposed plan(s) and previous option plans exceeds 5 percent for mature companies, or 10 percent for growth companies." Given that the upper limit under the Proposal is for the granting of up to 1 million shares of the Company per business year, and based on the February 7, 2024, press release "Notice concerning Share Split, Amendments to the Articles of Incorporation, and Partial Change to the Matters related to Repurchase of the Company's Own Shares" (the "Share Split"), **there is no change in the maximum number of the Company's shares to be granted under the Plan compared with the number in the Previous Proposal. In addition, the Previous Proposal was approved with an affirmative vote of 96.6%, including ISS's recommendation to vote "For," meaning that an overwhelming number of shareholders approved the proposal.**

**While the upper limit on the number of shares of the Company has not changed from that of the Previous Proposal, with the repurchase of the Company's own shares, the total number of shares issued, which is the ratio's denominator, decreases, thereby increasing the dilution rate. The total number of shares issued excluding the Company's own shares decreased from 290,317,190 shares (taking into account the share split) as of March 31, 2023, to 220,698,145 shares as of March 31, 2024, for a reduction of 24.0%.**

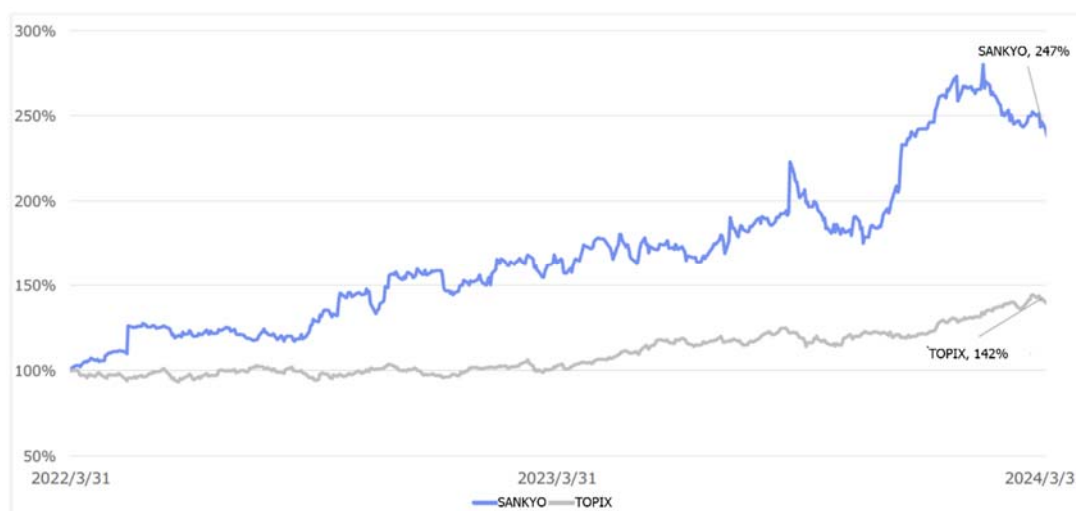
**\* If the dilution rate is calculated based on the previous fiscal year's number of shares issued, the rate is 3.4%.**

We believe that investors and shareholders understand that as a result of the acquisition of the Company's own shares and other factors, the share price has been favorable. At the same time, the acquisition of the Company's own shares, which is one measure for providing returns to shareholders, effectively raises the dilution rate. We ask that shareholders correctly understand this background to the Proposal when exercising your voting rights.

The Proposal is intended to be aligned with the perspective of shareholders. We believe a vote "For" is warranted.

### 3. Reference information

- The Company's share price (from March 31, 2022, through March 31, 2024, vs. TOPIX)



- Policy for returns to shareholders

The Company regards the return of profits to shareholders as one of its most important management priorities. The Company's basic policy is to pay performance-linked dividends with a consolidated dividend payout ratio of 40% as a benchmark. However, the minimum annual dividend per share shall be set at ¥20 to maintain stable dividends.

Regarding future profit sharing and the use of retained earnings, while maintaining performance-based dividend payments as the basic policy, the Company will effectively utilize retained earnings, such as in business investment for growth and the repurchase of its own shares for flexible shareholder returns, through appropriate allocation.

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