Hisamitsu®

Salonpas®

FINANCIAL REPORT 2013

For the Fiscal Year Ended February 28, 2013

Hisamitsu Pharmaceutical Co., Inc.

Corporate Vision

Our commitment to treating people around the world with topical and transdermal patches

Topical and transdermal patches are simple to use, being placed on the skin to treat medical conditions. They are consistent with the latest trend of improving drug delivery in medical treatment designed to enhance people's quality of life.

Our message that medicated skin patches have a lot to offer is embodied in the word Salonpathy, derived from our mainstay product Salonpas. Over the years we have continued to help people improve their health by leveraging our transdermal drug delivery system (TDDS) expertise to develop topical and transdermal patches mainly for pain relief and reducing inflammation.

Our basic management policy is to concentrate on and specialize in creating new pharmaceutical products and formulations adaptable to TDDS, which is the source of our competitiveness. We believe this will allow us to respond to the underlying need for health, safety, and comfort of people around the world and improve their quality of life.

We are committed to supplying pharmaceutical products capable of treating people anywhere in the world simply by applying them to the skin.

Forward-looking statements:
Statements in this financial report concerning current plans, forecasts, strategies, beliefs, and other forward-looking information related to Hisamitsu Pharmaceutical Co., Ltd., other than those of historical fact, are forecasts of future business performance based on the judgments of management at Hisamitsu Pharmaceutical Co., Ltd. in light of currently available information. Accordingly, please refrain from making investment decisions based solely on forecasts of business performance in this financial report. Actual business performance may differ significantly from these forecasts due to changes in a variety of factors.

Note:
Amounts in US dollars are included solely for convenience and are translated at a rate of ¥92.51=U.S.$1.00, the approximate rate of exchange on February 28, 2013.

Contents

Consolidated Financial Highlights

Years ended the last day of February

	(Millions of yen)					(Thousands of U.S. dollars)
	Fiscal 2009	Fiscal 2010	Fiscal 2011	Fiscal 2012	Fiscal 2013	Fiscal 2013
Net sales	124,655	129,834	137,184	137,794	142,772	1,543,314
Operating income	32,532	28,585	28,193	25,937	25,326	273,765
Ordinary income	32,476	31,231	33,236	33,494	33,051	357,269
Net income	19,120	18,423	20,956	18,439	18,809	203,319
Comprehensive income	—	—	—	17,458	24,740	267,431
Net assets	124,105	130,976	141,222	149,263	167,933	1,815,296
Total assets	167,642	193,551	194,787	192,838	214,141	2,314,788
Net assets per share (yen and dollars)	1,391.49	1,500.92	1,618.69	1,730.22	1,951.54	21.10
Net income per share (yen and dollars)	215.61	210.78	241.80	215.09	219.56	2.37
Diluted net income per share (yen and dollars)	—	—	—	—	—	—
Shareholders' equity ratio (%)	73.6	67.2	72.0	76.9	78.1	—
Return on equity (ROE) (%)	16.2	14.5	15.5	12.8	11.9	—
Price-earnings ratio (PER) (times)	13.8	15.4	13.6	17.1	24.5	—
Net cash provided by operating activities	22,382	20,498	36,342	25,558	32,485	351,151
Net cash used in investing activities	(15,927)	(32,547)	(8,248)	(15,473)	(7,946)	(85,893)
Net cash provided by (used in) financing activities	(5,467)	4,899	(15,659)	(13,010)	(9,288)	(100,400)
Cash and cash equivalents, end of year	33,356	26,232	37,654	34,222	50,860	549,778
Number of employees [average temporary staff]	1,890 [288]	2,562 [369]	2,635 [415]	2,718 [503]	2,826 [610]	— [—]

Notes: 1. Net sales do not include consumption tax.

2. Diluted net income per share is not listed due to the absence of residual securities.

To Our Stakeholders

The market environment for the ethical pharmaceutical industry in Japan during the fiscal year ended February 28, 2013, remained severe due to the impact of National Health Insurance drug price revision amid further measures by the government to curtail spending on healthcare.

Regarding the pharmaceutical market in Japan, we have responded to current conditions by launching a new product, Fentanyl 3-day tape “HMT,” and engaging in activities to promote the proper use of ethical pharmaceuticals, mainly transdermal therapeutic formulations. For OTC pharmaceuticals, we engaged in activities to create new customers by launching products in new areas such as Allegra® FX, an OTC nasal inflammation medication, in addition to focusing on sales of our mainstay products that include anti-inflammatory pain relief patches.

In our overseas business, we commenced sales of the SALONPAS® PAIN RELIEF PATCH in the U.K. and SALONPAS® in China and promoted market expansion for pain relief patches in the OTC pharmaceutical field.

We achieved revenue growth as a result of these efforts, with consolidated net sales increasing 3.6% year on year to ¥142,772 million. In terms of profits, the revision of national health insurance drug price had the effect of raising the cost-to-sales ratio and consequently consolidated operating income declined 2.4% year on year to ¥25,326 million, consolidated ordinary income declined 1.3% year on year to ¥33,051 million, and consolidated net income increased 2.0% year on year to ¥18,809 million.

NAKATOMI, Hirotaka
President & CEO

Medical Products

For Export

Over the Counter Products

Overview of Operations

Operating results

The Japanese economy during the fiscal year under review continued to face harsh conditions against the backdrop of a sluggish world economy precipitated by such factors as the European debt crisis and high prices for crude oil.

While expectations are growing for economic recovery on the back of improved export conditions, which reflect the depreciating yen and the effects of the government's economic measures, uncertainty continues to prevail as personal consumption remains sluggish and moderate deflation persists.

The operating environment for the ethical pharmaceutical industry in Japan remained severe due to the impact of National Health Insurance drug price revision in April 2012 amid the government's basic stance of curtailing healthcare spending, which involves enhanced measures to promote generic drug use. In Japan, we have responded to the changes by engaging in the ethical pharmaceuticals business with a focus on our mainstay transdermal therapeutic formulation and providing medical institutions with scientific information that precisely corresponds to their needs.

Regarding the OTC pharmaceuticals, we have also worked to launch and promote sales of new products in new areas, as sluggish consumption and tough competition continue in the OTC market.

Our research and development concentrated its resources on transdermal patches, a mainstay product, and focused on the development of new products with novel topical or systemic effects.

Additionally, in research and development activities carried out with overseas subsidiary Noven Pharmaceuticals, Inc. ("Noven") we have strengthened cooperation that includes personnel exchanges and strived to speed up the development of pharmaceutical products.

As for our production facilities, the Tosu and Utsunomiya Plants carried on initiatives to help protect the global environment as "ISO 14001" (International Environmental Management Standard) certified factories.

In addition to improving the efficiency of our manufacturing processes, we made an effort to reduce our environmental footprint through the reduction of energy usage and waste by changing its method of product transport and introducing highly functional air conditioning, and through maintaining a 99% recycle rate.

We also promoted energy conservation by establishing the Energy Management Committee and made an effort to conserve electricity by adjusting room temperatures.

As for CSR activities, the Company and employees jointly took part in community service programs such as the "Japan Red Cross Society Street Collection Drive for Overseas Programs." The Company also provided support to a total 35 organizations including 12 that were engaged in recovery efforts after the Great East Japan Earthquake through the "Hisamitsu Hot Heart Club" program, in which the Company makes matching donations deducted from employees' and directors' salaries.

In addition, we have continued to provide active financial support for the "SAGA Heavy Ion Medical Accelerator in Tosu Project" that was launched to contribute to the crusade against cancer.

"Pharmaceuticals" is the Company's sole reportable segment, whose performance is as follows.

Overview of Operations

Pharmaceuticals

The Pharmaceuticals segment, particularly the ethical pharmaceuticals business, faced an extremely uncertain business environment during FY2/13 due to the impact of National Health Insurance drug price revision in April 2012 and further measures to curb healthcare expenditures.

We responded to the situation by providing medical institutions with appropriate and detailed scientific information about our products, particularly our transdermal therapeutic formulations. While collecting and supplying information on efficacy and safety, we engaged in activities to promote the proper use of our mainstay products, including Mohrus® Tape, a ketoprofen transdermal patch; Mohrus® Pap, a ketoprofen transdermal patch; Estrana® Tape, an estradiol transdermal patch; HMT, a transdermal patch containing the bronchodilator tulobuterol; Fentos® Tape, a transdermal sustained-release cancer pain relief patch of fentanyl citrate that is a synthetic narcotic with significant analgesic effects; and NORSPAN® Tape, a transdermal sustained-release pain relief patch of buprenorphine.

In July 2012, we also began marketing Fentanyl 3-day tape “HMT,” a transdermal sustained-release cancer pain relief patch, as a new alternative for the treatment of pain in order to contribute to the enhancement of the QOL (Quality of Life) of a number of patients suffering pain from cancer.

Furthermore, in March 2013, we received approval to manufacture and market NEOXY® Tape 73.5 mg, an oxybutynin hydrochloride transdermal patch to treat overactive bladder.

In December 2012, we entered into a joint sales agreement for this medication with Asahi Kasei Pharma Corp. so that we could improve the distribution of this product and provide information on it in Japan.

In the OTC pharmaceuticals business, we launched new products in new areas, in addition to engage in sales of our mainstay anti-inflammatory pain relief patches, targeting new users.

In July 2012, we established a joint venture, SANOFI-HISAMITSU K.K., for marketing efforts in the OTC allergy medications business together with Sanofi K.K.

In November 2012, we commenced marketing of Allegra® FX, an OTC nasal inflammation medication, and we worked to cultivate new users.

Allegra® FX is the first Switch OTC product in Japan of Allegra® 60 mg, an ethical pharmaceutical for allergic disease treatment, using the same ingredients and dosage.

Overseas, we began the marketing in the U.K. of SALONPAS® PAIN RELIEF PATCH, the first anti-inflammatory pain relief patch product in the world to be approved by the FDA (the U.S. Food and Drug Administration), in the category of OTC pharmaceuticals.

As a result, this product is now approved in eleven countries and marketed in ten countries.

Additionally, in April 2012, we commenced marketing of the topical pain relief patch SALONPAS® in China.

As a result of these business activities, net sales increasing 3.6% year on year, or ¥4,978 million, to ¥142,772 million. Operating income declined 2.4% year on year, or ¥611 million, to ¥25,326 million. Ordinary income decreased 1.3% year on year, or ¥442 million, to ¥33,051 million; and net income increased 2.0% year on year, or ¥370 million, to ¥18,809 million.

Overview of Operations

Sales results

Our sales results broken down by business segment are as follows:

	(Millions of yen)	YoY (%)	(Thousands of U.S. dollars)
Business segment:	**Fiscal 2013**		**Fiscal 2013**
Pharmaceuticals	**139,569**	**3.7**	**1,508,691**
Other businesses	**3,202**	**0.6**	**34,612**
Total	**142,772**	**3.6**	**1,543,314**

Notes: 1. Sales breakdown by main customers and percentage of sales to main customers.

Customer	(Millions of yen) Sales Fiscal 2012	% of total	Sales **Fiscal 2013**	% of total	(Thousands of U.S. dollars) **Fiscal 2013**
Alfresa Holdings Corporation	25,648	18.6	**26,314**	**18.4**	**284,445**
Medipal Holdings Corporation	25,066	18.2	**26,007**	**18.2**	**281,126**

Effective October 1, 2012, Alfresa Holdings Corporation made TOKIWA YAKUHIN CO., LTD. its wholly-owned subsidiary. The amounts for the previous fiscal year have been adjusted to enable comparison with the amounts after the change.

2. The foregoing figures do not include consumption tax.

Key Challenges

We expect the ethical pharmaceuticals business to witness continued efforts to curb pharmaceutical expenditures, including additional National Health Insurance drug reimbursement price cuts for long listed products, and strengthened measures to promote the use of generic drugs, against a backdrop of a rapidly aging population. In response to this difficult business environment, we are stepping up efforts to provide medical institutions with scientific information and seek to develop new topical and systemic pharmaceutical products that meet the needs of medical institutions and their patients.

Furthermore, we strive to grow further with an aim to improve our profitability as well as enhance our sales and R&D capabilities.

For OTC pharmaceuticals, amid a prolonged market slump and intensifying competition, we seek to expand sales of mainstay anti-inflammatory pain relief patches and respond to the needs of our customers by continuing to improve existing products and developing new products.

In overseas business, we are working to establish our brand in terms of trademarks, designs, manufacturing technology, and quality control systems, and to further augment overseas production facilities and promote overseas clinical trials.

Especially, in the U.S. ethical pharmaceutical market, we plan to enhance our R&D capability at our business base Noven Pharmaceuticals by combining our areas of strength in technology, as well as building a manufacturing and sales network. Continuing to recognize our mission and responsibility as a pharmaceutical company, we aim to create a more robust business base and manufacturing structure, and to accelerate the development of new products by concentrating research in areas of specialty.

Overview of Operations

Basic policy on control of the company

(1) Overview of our basic policy on the entity with control over decision-making related to the company's financial and business policies

We believe any entity with control over decision-making related to the company's financial and business policies must have an understanding of the source of the company's enterprise value and be able to consistently maintain and improve this enterprise value and the common interests of shareholders.

We believe any decision on how to respond to a proposed acquisition that would transfer control over the company should ultimately be based on the wishes of individual shareholders. We are not opposed to large purchases of the company's stock, provided that it contributes to enterprise value and the common interests of shareholders.

However, there are many instances in which large stock purchases and proposed acquisitions may not contribute to the target company's enterprise value and the common interests of shareholders. Examples include: those that clearly damage the target company's enterprise value and the common interests of shareholders, in light of the objective and other aspects of the share purchase or proposed acquisition; those that effectively coerce shareholders into selling their shares; those that fail to provide a reasonable amount of time for the target company's board of directors and shareholders to consider the details and possibly prepare a counteroffer; those that have conditions (e.g., purchase price, timing, and method) that are either inadequate or inappropriate in light of the target company's enterprise value; and those that damage relations with employees, customers, creditors, or other parties essential to continued growth in the target company's enterprise value.

We believe any entity that pursues a large stock purchase or proposed acquisition that does not contribute to the company's enterprise value and the common interests of shareholders is not an appropriate entity for controlling decision-making related to the company's financial and business affairs, and that any large stock purchase or proposed acquisition by such an entity must be necessarily and appropriately counteracted to ensure the company's enterprise value and the common interests of shareholders.

(2) Overview of specific initiatives instrumental to achieving our basic policy

Since launching a pharmaceutical business in 1847, our company has worked hard to improve the health of people by providing pharmaceutical products, mainly pain relieving patches. Transdermal patches, that can heal the body simply by being applied to the skin, will be an improvement of not only the administration of drugs but also quality of life, and they are also representative of Japan's therapeutic culture, which is well respected around the world. We pursue our business as a mission to convey to the world the effectiveness and resulting excitement of this therapeutic patch culture.

Since releasing Salonpas® in 1934, we have successfully developed and marketed a variety of pharmaceutical patch products, including the OTC pharmaceutical Salonsip and the ethical pharmaceuticals Mohrus® Pap and Mohrus® Tape, by concentrating on the creation of new drugs and new drug preparations based on our accumulated expertise and experience and the support of our customers. We have also created products in new areas other than anti-inflammatory pain relief, including an estradiol transdermal patch Estrana® Tape, the transdermal sustained-release cancer pain relief patch Fentos® Tape, and the like, and are expanding our business internationally by conducting sales, pursuing research and development, and acquiring approvals in various countries around the world. As part of these efforts, Noven Pharmaceuticals, Inc. was acquired and made a subsidiary in 2009 to establish the Hisamitsu brand in the US and to ensure future growth.

Our corporate philosophy is to strive to improve the quality of life of people around the world by creating external drugs to meet the needs of our customers, and by implementing this philosophy, we seek to enhance enterprise value and the common interests of shareholders.

In other words, the sources of enterprise value for our company are: 1) broad access to a variety of drugs created by a number of companies, and research and development capabilities to make these drugs available in patches; 2) manufacturing technology and quality control systems that enable the efficient, stable, and ongoing production of high-quality products; 3) marketing prowess to cultivate several long-selling and market-leading brands, including Salonpas®, Salonsip®, Feitas®, Butenalock®, Mohrus® Pap, Mohrus® Tape, and Estrana® Tape; and 4) an integrated research and development, manufacturing, and sales structure that allows us to quickly reflect the needs of our customers to improve products and services.

Going forward, we will continue our efforts to increase enterprise value and maximize the common interests of shareholders through ongoing and aggressive investment.

To achieve this goal, we aim to build a robust corporate structure capable of meeting our sales targets and securing net profits despite the difficult competitive environment, and to ensure sustained growth in net profits by strengthening our business both in Japan and overseas. We also aspire to be an independent research and development-based pharmaceutical company by concentrating research in our areas of specialty, in line with our basic management policy, and by focusing on the creation of new drugs and new drug preparations.

We are also actively pursuing licensing activities, including an agreement with Mundipharma K.K. for the exclusive distribution rights in Japan of NORSPAN® Tape, a buprenorphine patch for treatment of chronic pain associated with osteoarthritis and low back pain not being controlled sufficiently with non-opioid analgesics.

In this way, we seek to increase cash flow through the active pursuit of our business and to create future assets that will contribute to the common interests of shareholders through the development of new topical and transdermal products, international expansion of our brands in terms of trademarks, designs, manufacturing technology, and quality control systems, streamlining of management, and bolstering of our corporate structure.

We consider the return of profits to shareholders to be an important management issue, and we seek to pay appropriate dividends based on earnings and pursue flexible financial policies, including share buybacks, after considering research and development investment to raise capital efficiency and enterprise value and the internal reserves needed for future growth.

In particular, we seek to maintain ROE at 15% or higher from the standpoint of raising capital efficiency, and to consistently pay dividends with a target payout ratio of 30%.

(3) Initiatives in light of our basic policy to prevent inappropriate entities from controlling decision-making related to the group’s financial and business affairs

At the 106th annual general meeting of shareholders held on May 22, 2008, “Takeover defense measures to counter large purchases of the company’s stock” were adopted to ensure and enhance the company’s enterprise value and the common interests of shareholders. Upon expiration of the effective period for the takeover defense measures, the measures were partly revised and its renewal was approved by shareholders at the 109th annual general meeting of shareholders held on May 26, 2011 (hereinafter the renewed takeover defense measures are referred to as “the Plan”).

The Plan applies to purchases of the company’s stock with the objective or result of a specific shareholder group owning 20% or more of the voting rights (hereinafter referred to as “Purchases” and those who conduct the “Purchases” are referred to as “Purchasers”). Purchasers are required to follow certain procedures in providing shareholders, the company’s board of directors, and an independent committee with information on which to base their decision. If the purchaser fails to comply with these procedures or if the purchase will damage the company’s enterprise value and the common interests of shareholders, then the company can pursue countermeasures against the purchaser in the form of a gratis allotment of share acquisition rights or other appropriate countermeasure that the board of directors is permitted to take based on the Companies Act, other laws, and the company’s articles of incorporation. Whether countermeasures based on the Plan are adopted is ultimately a decision of the board of directors, but to ensure the proper use of the Plan and objective, rational, and impartial decisions by the company's board of directors, we established a committee independent from the board of directors and will give utmost respect to the opinions of this committee.

The Plan shall be effective until the conclusion of the annual general meeting of shareholders for the fiscal year ending February 28, 2014. Additionally, the Plan shall be terminated immediately if the board of directors comprising directors appointed at a general meeting of shareholders decides to terminate the Plan.

(4) Board of directors' opinion and reasoning for the foregoing initiatives

1) Specific initiatives to achieve our basic policy

The initiatives outlined above are intended to contribute to fulfilling our basic policy and have been prepared as specific policies to ensure and enhance on an ongoing basis the company's enterprise value and the common interests of shareholders. Accordingly, these initiatives comply with our basic policy and will not damage the common interests of shareholders.

2) Initiatives in light of our basic policy to prevent inappropriate entities from controlling decision-making related to the group's financial and business affairs

The Plan complies in its content with our basic policy and is intended to ensure objectivity and rationality in the decisions of the board of directors. Further, the Plan was adopted to ensure and enhance the company's enterprise value and the common interests of shareholders, and is not intended to maintain the position of the company's directors.

Overview of Operations

Important Business Agreements

Joint sales agreement

(1) We concluded an agreement with Kyowa Hakko Kirin Co., Ltd. (headquarters: Chiyoda-ku, Tokyo) on June 18, 2008 on joint sales in Japan of Fentos® Tape, a transdermal sustained-release patch for the treatment of cancer pain.

1) Counterparty to the agreement
Kyowa Hakko Kirin Co., Ltd.

2) Agreement details
Contract on the joint sales within Japan with Kyowa Hakko Kirin Co., Ltd. of Fentos® Tape, a transdermal sustained-release patch for treatment of cancer pain that Hisamitsu Pharmaceutical has acquired manufacturing and marketing approval for.

3) Compensation
Compensation commensurate with a one-time contract payment.

(2) We concluded an agreement with Asahi Kasei Pharma Corp. (headquarters: Chiyoda-ku, Tokyo) on December 10, 2012 on joint sales in Japan of NEOXY® Tape, a transdermal patch to treat overactive bladder.

1) Counterparty to the agreement
Asahi Kasei Pharma Corp.

2) Agreement details
Contract on the joint sales within Japan with Asahi Kasei Pharma Corp. of NEOXY® Tape, a transdermal patch to treat overactive bladder that Hisamitsu Pharmaceutical has acquired manufacturing and marketing approval for.

3) Compensation
Compensation commensurate with a one-time contract payment and subsequent payments according to milestones reached.

Distribution agreement

(1) We concluded an exclusive contract with Mundipharma K.K. on August 6, 2007, for the Japanese distribution rights to NORSPAN® Tape, a transdermal sustained-release pain relief patch.

1) Counterparty to the agreement
Mundipharma K. K.

2) Agreement details
Contract acquiring the exclusive rights for distribution of NORSPAN® Tape, a transdermal sustained-release pain relief tape, in Japan.

3) Compensation
Compensation commensurate with a one-time contract payment and subsequent milestone payments based on development progress and sales.

Overview of Operations

Research and Development

Pharmaceuticals

Our R&D program centered on the development of transdermal pharmaceutical products targets the needs of medical institutions.

For ethical pharmaceuticals in Japan, we received approval for Fentanyl 3-day tape “HMT,” a transdermal sustained-release cancer pain relief patch, on February 15, 2012. We applied for approval of NEOXY® Tape (development code: HOB-294; generic name: oxybutynin hydrochloride), a transdermal patch to treat an overactive bladder, in May 2012, and received approval on March 25, 2013. Phase 3 trials have been completed for additional indications of chronic pain relief for the Fentos® Tape (development code: HFT-290), a transdermal sustained-release cancer pain relief patch, and we are preparing to apply for its approval. Phase 2 trials are underway for HP-3000 (generic name: ropinirole hydrochloride), a patch to treat Parkinson’s disease. Regarding HTU-520 (generic name: terbinafine hydrochloride), a patch to treat tinea unguium, further development is under consideration since phase 3 trials in April 2012 failed to show the originally anticipated level of efficacy.

For OTC pharmaceuticals in Japan, we are developing new products and improving existing products for the purpose of improving effectiveness, safety, and user satisfaction.

In the U.S. ethical pharmaceutical market, we received FDA approval on October 29, 2012, of Minivelle™ (generic name: estradiol), a patch for the treatment of vasomotor symptoms due to menopause. Phase 3 trials have been completed for LDMP (generic name: paroxetine mesylate), an oral preparation for the treatment of vasomotor symptoms due to menopause, and an application for approval has been filed. Applications for generic approval have been submitted for HP-1010 (generic name: Lidocaine), a patch to treat post-herpetic neuralgia and HP-1030 (generic name: rivastigmine), a patch to treat dementia of the Alzheimer’s type. Phase 2 trials are underway for ATS (generic name: d-amphetamine), a patch to treat Attention Deficit Hyperactivity Disorder. We have completed phase 2 trials for HTU-520 (generic name: terbinafine hydrochloride), a patch to treat tinea unguium, and further development is under consideration.

For the U.S. OTC pharmaceuticals, post-sale clinical trials with pediatric patients following a request received from the FDA for the transdermal analgesic anti-inflammatory SALONPAS® PAIN RELIEF PATCH (development code: FS-67; generic name: methyl salicylate, l-menthol) were completed on March 29, 2013.

In addition to the development of our own fundamental technologies, we utilize Noven’s transdermal delivery system (TDDS) technology to develop pharmaceuticals and to conduct joint development with external organizations, working towards improvement of commercialization technologies to expand the possibilities of transdermal absorption.

Other businesses

We conduct some research and development in other businesses, but because the amount is limited, it does not merit special mention.

As a result of the foregoing, research and development expenses totaled ¥12,662 million in FY2/13.

Corporate Governance and Internal Auditing

Corporate Governance

(1) Basic approach to corporate governance

1) Corporate governance structure

We have prepared basic internal control policies to enhance management transparency and ensure compliance, and we consider the improvement of corporate governance to be an important task. To this end, we have placed priority on creating an organization capable of responding quickly to changes in the business environment and have implemented structural reforms.

With this in mind, we have adjusted the number of directors to an appropriate level with the goals of enhancing the performance of the board of directors and speeding up decision making. We have also introduced an executive officer system to clarify roles and responsibilities in business execution.

Going forward, we seek to create a stronger bond of trust with our stakeholders as a good corporate citizen by improving transparency, ensuring compliance, and upholding corporate ethics in our business activities.

Overview of our corporate governance structure and reasons for adopting the structure

We are structured as a company with a board of corporate auditors, comprising 11 directors and 6 corporate auditors (including 3 outside corporate auditors) as of May 24, 2013.

In the area of corporate governance, we reduced the number of directors as a way to clarify the responsibilities and authority of management and speed up decision-making and business execution. But in order to further reinforce and enhance our management structure in conjunction with the expansion of the organization, we changed the articles of incorporation to increase the number of directors from 10 or less to 12 or less, at the annual general meeting of shareholders on May 23, 2013.

In addition, we introduced an executive officer system in March 2003 to improve the speed, transparency, and strategic focus of business decisions. Moreover, to clarify management responsibilities of directors and construct a management structure that can respond to changes in management environments, the term of directors was changed from 2 years to 1 year at the annual general meeting of shareholders held on May 26, 2011.

Important management decisions are made by the Management Advisory Council comprising key directors and executive officers, and important resolutions are debated and decided by the board of directors.

We have also worked to enhance management oversight and to separate, decentralize, and strengthen decision making functions and business execution functions.

To better facilitate fair auditing, we switched to an auditing system in which 2 of the 4 corporate auditors comprise outside corporate auditors at the annual general meeting of shareholders on May 26, 2004. To bolster management oversight further and strengthen our auditing system, we changed the articles of incorporation to increase the number of corporate auditors from 4 or fewer to 6 or fewer at the annual general meeting of shareholders on May 25, 2006. In addition, the number of corporate auditors was increased to 6 (including 3 outside corporate auditors) at the annual general meeting of shareholders held on May 26, 2011.

Corporate auditors attend meetings of the board of directors, regularly convene meetings of the board of corporate auditors, and receive audit reports from the independent auditor as needed. The independence of our 3 outside corporate auditors from the company has been ensured and we believe that a structure sufficiently capable of monitoring management has been established.

Corporate Governance and Internal Auditing

Internal auditing and audit by board of corporate auditors

We established the Internal Audit Office (2 persons in charge) as an internal audit division. The Internal Audit Office is responsible for auditing the business activities of Hisamitsu Pharmaceutical and group companies to ensure that these activities are effective and appropriate and that they comply with relevant laws and the articles of incorporation, reporting to the board of directors and the board of corporate auditors, promoting mutual cooperation, reporting to relevant business division managers and directors, and providing support and advice as needed to improve internal control.

In addition to conducting audits based on predetermined audit guidelines and plans, the Board of Corporate Auditors also regularly holds individual hearings with directors, executive officers, division managers and key staff from each business division.

Outside directors and outside corporate auditors

Our 3 outside corporate auditors are ONO Keinosuke, ICHIKAWA Isao, and TOKUNAGA Tetsuo. Although we have not established selection criteria regarding the independence of outside officers, we do select our outside corporate auditors based on the criteria of independence set forth by the Financial Instruments Exchange. ONO Keinosuke has gained scholarly knowledge related to management through his past career experience such as professor of a graduate school of business. ICHIKAWA Isao has gained overall management experience and knowledge through his past career experience such as executive vice president and representative director of a listed company. TOKUNAGA Tetsuo has gained overall management experience and knowledge through his past career experience such as executive vice president and representative director of a listed company.

Outside corporate auditors regularly attend meetings of the board of directors and meetings of the board of corporate auditors. We believe that a structure sufficiently capable of auditing management has been established. In consideration of the efficiency and flexibility of the business decision making process, no outside directors have been appointed.

Although ONO Keinosuke concurrently serves as an outside director of YKK Corporation, Vice President of Chubu University, and a Trustee of Chubu University Educational Foundation, the company does not have any special conflict of interests in YKK Corporation or Chubu University. Additionally, ONO Keinosuke serves as Professor Emeritus of Keio University and the company outsources research to Keio University, although the transaction amounts are minimal.

Apart from the information stated above, there are no special cases of conflict of interest between our outside corporate auditors and the company.

2) Risk management systems

To respond to a variety of business risks, we have sought to enhance risk management and corporate governance by establishing a variety of internal committees.

Compliance Promotion Committee and Compliance Promotion Office (Chair: Director)

We prepared the Hisamitsu Corporate Charter in June 2002 and established the Compliance Promotion Committee and Compliance Promotion Office, to promote thorough and ethical compliance. We have distributed handbooks to officers and employees to promote a recognition and sustained awareness of the importance of compliance, and have worked to ensure behavior based on high ethical and moral standards.

Going forward, we will continue our efforts to bolster compliance related to social responsibility, including corporate ethics, the environment, and privacy protection, at Hisamitsu Pharmaceutical and group companies.

Crisis Management Committee (Chair: President & CEO)

We established a Crisis Headquarters to help prevent risk and prepare for times of crisis, standing as a permanent Crisis Management Committee to operate in normal times, and conduct training of committee members as needed.

Privacy Protection Committee (Chair: Director)

We established the Privacy Protection Committee in April 2005 to fully comply with the Personal Information Protection Act. We have called personal information administrators together and held committee meetings as needed to create an organization to protect individual rights and interests and to ensure that this organization is safely managed.

Corporate Governance and Internal Auditing

Disclosure Policy Team (Chair: President & CEO)

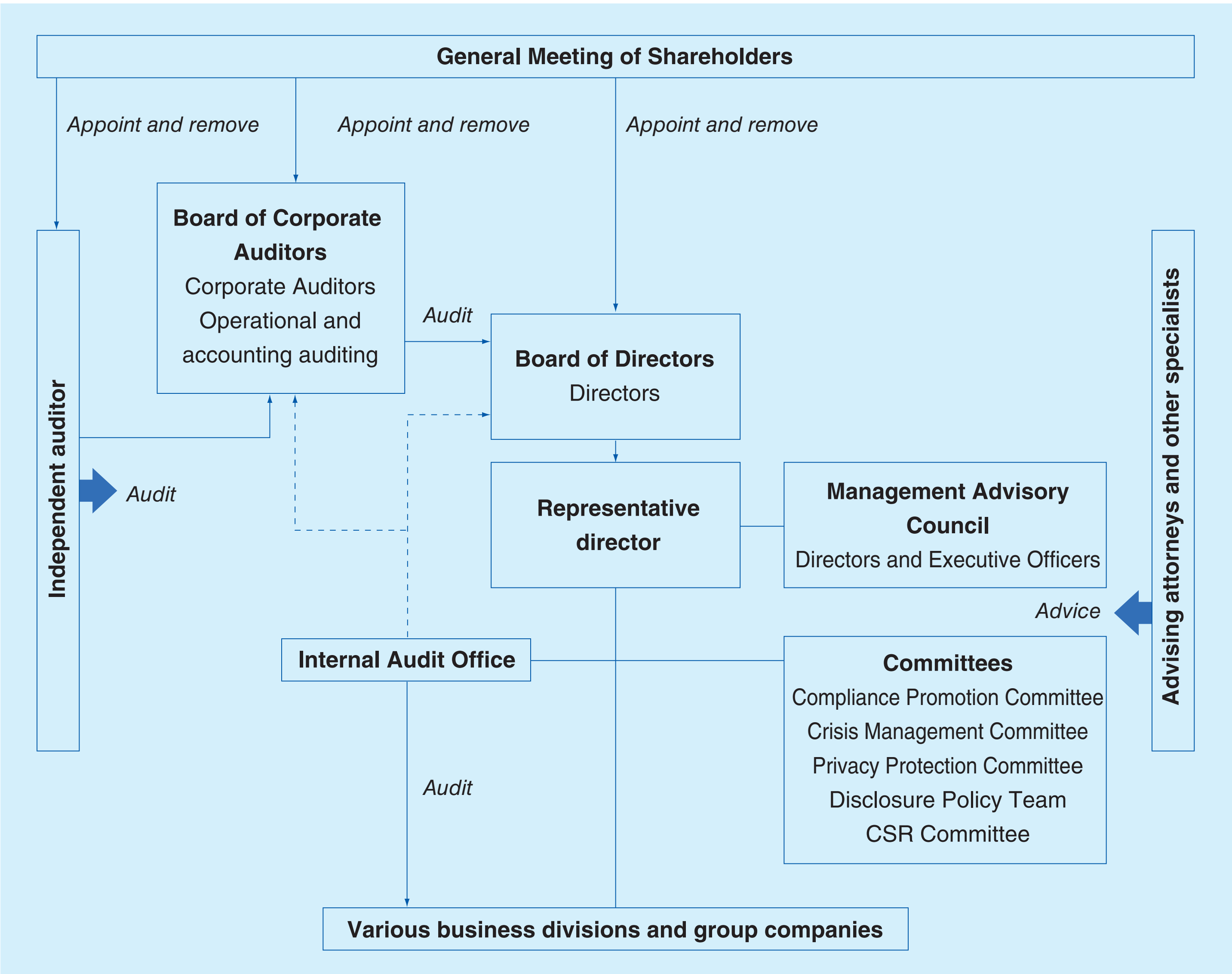
We established the Disclosure Policy Team in April 2001 to provide the timely and appropriate disclosure of corporate information. All officers and employees work toward timely disclosure based on our Disclosure Policy Rules.

We strive to actively disclose information to enhance management transparency and seek to promote smooth communication with shareholders and investors through our investor relations activities.

CSR Committee (Chair: Director)

We set up the CSR Committee to progress our environmental and community service programs. Headed by the CSR Office, the CSR Committee is made up of CSR committee members in each business division and engages in CSR programs.

Corporate governance structure



3) Executive compensation

a) Total compensations by classification of executives and by type of compensations, and number of executives by category of the filing company

(Millions of yen)

Category	Total compensation	Basic compensation	Stock options	Bonuses	Retirement benefits	Number of officers to be paid
	Fiscal 2013					
		Total compensation by type				
Directors (Excluding Outside Directors)	341	265	—	—	75	11
Corporate Auditors (Excluding Outside Corporate Auditors)	54	48	—	—	6	3
Outside Officers	21	19	—	—	1	3

(Thousands of U.S. dollars)

Category	Total compensation	Basic compensation	Stock options	Bonuses	Retirement benefits	Number of officers to be paid
	Fiscal 2013					
		Total compensation by type				
Directors (Excluding Outside Directors)	3,686	2,865	—	—	811	11
Corporate Auditors (Excluding Outside Corporate Auditors)	584	519	—	—	65	3
Outside Officers	227	205	—	—	11	3

b) Total consolidated compensation paid to executive of the filing company

(Millions of yen)

Name (Category of executive)	Total consolidated compensation	Category of company	Basic compensation	Stock options	Bonuses	Retirement benefits
	Fiscal 2013					
			Total compensation by type			
NAKATOMI, Hirotaka (President & CEO)	126	The filing company	102	—	—	24

(Thousands of U.S. dollars)

Name (Category of executive)	Total consolidated compensation	Category of company	Basic compensation	Stock options	Bonuses	Retirement benefits
	Fiscal 2013					
			Total compensation by type			
NAKATOMI, Hirotaka (President & CEO)	1,362	The filing company	1,103	—	—	259

c) Material disclosures on employee salaries for directors who also serve as employees.

Not applicable.

d) Policy on deciding amount of executive compensation

Directors' compensation is determined at the board of directors meeting within the range approved at the annual general meeting of shareholders in consideration of the company's business performance, as well as the position, job specifications, and individual performance of each director.

Corporate auditors' compensation is determined at the board of corporate auditors meeting within the range approved at the annual general meeting of shareholders.

4) Accounting auditing

The company has concluded an auditing contract with KPMG AZSA LLC to serve as an independent auditor responsible for accounting auditing, and by providing accurate business information and taking other steps, we provide an environment conductive to fair auditing. There are no special interests between the company and KPMG AZSA LLC and their designated limited liability partner and engagement partners.

Audit company providing auditing services

Audit company	Certified public accountants providing auditing services		Assisting personnel
KPMG AZSA LLC	Designated limited liability partner and engagement partner	Yasushi Masuda	6 CPAs & 7 others
	Designated limited liability partner and engagement partner	Hiromi Kimura	
	Designated limited liability partner and engagement partner	Akihisa Sada	

Note: A statement on the years of continuous audit service is omitted because all accounting have served less than seven years.

5) Annual general meeting of shareholders resolution items that can be decided at the board of directors meeting

● Acquisition of treasury stock

To enable the flexible execution of capital policy, the articles of incorporation stipulate that the company can repurchase shares in the open market or through other means based on a board of directors resolution in accordance with Article 165-2 of the Companies Act.

● Interim dividends

To flexibly return profits to shareholders, the articles of incorporation stipulate that interim dividends from retained earnings, as defined in Article 454-5 in the Companies Act, can be paid based on a board of directors resolution to shareholders or pledgees listed or registered in the final shareholder registry at the end of August each year.

6) Resolutions to appoint or remove directors

● The articles of incorporation stipulate that resolutions to appoint directors require a majority vote of at least one-third of shareholders capable of executing voting rights. Cumulative voting is not provided for.

● The articles of incorporation stipulate that resolutions to remove directors require a minimum two-third vote of shareholders owning a majority of the voting rights of shareholders capable of executing voting rights.

7) Special resolutions of the general meeting of shareholders

To facilitate the smooth administration of general meetings of shareholders, the articles of incorporation stipulate that resolutions based on Article 309-2 of the Companies Act require a minimum two-third vote of shareholders owning a minimum one-third of the voting rights of shareholders capable of executing voting rights, except as otherwise provided for by the articles of incorporation.

(2) Compensation for auditing

1) Breakdown of compensation for certified public accountants providing auditing services, etc.

	(Millions of yen)				(Thousands of U.S. dollars)	
Category	Fiscal 2012		**Fiscal 2013**		**Fiscal 2013**	
	Compensation for audit certification services	Compensation for non-auditing services	Compensation for audit certification services	Compensation for non-auditing services	Compensation for audit certification services	Compensation for non-auditing services
The company	52	2	**52**	**—**	**562**	**—**
Subsidiaries	4	—	**4**	**—**	**43**	**—**
Total	57	2	**56**	**—**	**605**	**—**

2) Breakdown of other important compensation

FY2/12

The company and most of its overseas consolidated subsidiaries paid the KPMG Group, which belongs to the same network as our certified public accountants providing auditing services, for audit certification and non-auditing services (such as tax advisory services).

FY2/13

The company and most of its overseas consolidated subsidiaries paid the KPMG Group, which belongs to the same network as our certified public accountants providing auditing services, for audit certification services.

3) Details of non-auditing services provided by certified public accountants to the company

FY2/12

We have commissioned an audit company to undertake advisory and guiding tasks relating to the International Financial Reporting Standards (IFRS), which are business other than that stipulated in Article 2, Paragraph 1 of the Certified Public Accounts Act (non-auditing services).

FY2/13

Not applicable.

4) Policy on setting compensation for auditing services

Not applicable.

Financial Section

Analysis of Financial Position, Operating Results, and Cash Flows

(1) Analysis of financial position in Fiscal 2013

1) Assets

Assets totaled ¥214,141 million at the end of FY2/13, an increase of ¥21,303 million from the previous year, due mainly to increases of ¥13,368 million in cash and deposits, of ¥3,351 million in notes and accounts receivable — trade, and of ¥5,255 million in short-term investment securities.

2) Liabilities

Liabilities totaled ¥46,207 million at the end of FY2/13, an increase of ¥2,632 million from the previous year, due mainly to a decrease in short-term loans payable of ¥2,770 million and an increase in income taxes payable of ¥2,737 million.

3) Net assets

Net assets totaled ¥167,933 million at the end of FY2/13, an increase of ¥18,670 million from the previous year, due mainly to increases in retained earnings of ¥12,810 million, in valuation difference on available-for-sale securities of ¥2,128 million and in foreign currency translation adjustment of ¥4,022 million.

(2) Analysis of operating results in Fiscal 2013

1) Net sales

Net sales grew 3.6% year on year to ¥142,772 million. This increase is due mainly to the strong sales of Mohrus® Tape and NORSPAN® Tape.

2) Operating income

Operating income fell 2.4% year on year to ¥25,326 million. This decrease is attributable mainly to the rise in ratio of cost of sales as a result of National Health Insurance drug price revision.

3) Ordinary income

Ordinary income fell 1.3% year on year to ¥33,051 million. This decrease is attributable mainly to the decrease in operating income.

4) Net income

Net income rose 2.0% year on year to ¥18,809 million due mainly to the decrease in minority interests. Consequently, net income per share totaled ¥219.56 in FY2/13, and return on equity was 11.9%.

(3) Analysis of cash flows in Fiscal 2013

Cash and cash equivalents at the end of the FY2/13 totaled ¥50,860 million, an increase of ¥16,637 million from the end of the previous fiscal year.

1) Cash flows from operating activities

Net cash provided by operating activities totaled ¥32,485 million (¥25,558 million provided for of the previous fiscal year), due mainly to income before taxes and minority interests (¥31,991 million), interest and dividends received (¥8,162 million), and income taxes paid (¥9,841 million).

2) Cash flows from investing activities

Net cash used in investing activities totaled ¥7,946 million (¥15,473 million used for of the previous fiscal year), due mainly to payments for purchase of tangible fixed assets (¥4,976 million) and payments for purchase of investment securities (¥1,763 million).

3) Cash flows from financing activities

Net cash used in financing activities totaled ¥9,288 million (¥13,010 million used for of the previous fiscal year), due mainly to outflow from repayment of long-term loans payable (¥2,803 million) and cash dividends paid (¥6,000 million).

Capital Expenditures

Capital investment totaled ¥5,170 million in FY2/13.

In the Pharmaceutical segment, we mainly invested in the building and manufacturing equipment, etc. of the Tosu Plant, resulting in capital investment of ¥2,438 million.

In other businesses, we mainly invested to expand bandwidth to provide digital capabilities to our subscribers, resulting in capital investment of ¥125 million.

In FY2/13, there was no disposal or removal of equipment that could impact production capacity.

Dividend Policy

Our basic policy is to continue paying stable dividends to shareholders. We pay special and commemorative dividends in light of earnings and other factors in an effort to return profits to shareholders.

We also implement various other financial measures, such as company share buybacks, as effective means for returning profits to shareholders.

Our basic policy is to pay dividends from retained earnings twice yearly through interim dividends and year-end dividends. The General Meeting of Shareholders is responsible for deciding on year-end dividends and the Board of Directors decide on interim dividends.

In FY2/13 we paid an interim dividend of ¥35 per share and a year-end dividend of ¥35 per share, for an annual dividend of ¥70 per share.

We work to improve our business base through the targeted investment of internal reserves into research and development, manufacturing facilities, overseas business development, and other areas.

Our Articles of Incorporation stipulate that interim dividends can be paid based on a Board of Directors' resolution to shareholders or pledgees listed or registered in the final shareholder registry at the end of August each year.

Note: Dividends in Fiscal 2013 are as follows.

	(Millions of yen)	(Yen)	(Thousands of U.S. dollars)	(U.S. dollars)
Resolution date	Total dividends	Dividends per share	Total dividends	Dividends per share
October 10, 2012 Board of directors resolution	2,999	35	32,418	378
May 23, 2013 General meeting of shareholders resolution	2,999	35	32,418	378

Business and Other Risks

The following risks associated with our group's business activities could have a significant impact on the decisions of investors.

Any forward-looking statements are based on our judgments at the end of FY2/13.

1) Legal and regulatory risks

Our mainstay pharmaceuticals and related products business is affected by a variety of regulations, including the national health insurance drug price system and the healthcare insurance system. For example, the revision of national health insurance drug prices every two years places regular downward pressure on selling prices, and this could have a negative impact on earnings. We are similarly affected by a variety of regulations overseas.

2) Risks from side effects

Unforeseen side effects could force our mainstay pharmaceuticals and related products business to recall products or cancel product launches, which could have a negative impact on earnings.

3) Research and development risks

We conduct research and development into new products and new technologies. However, earnings could be adversely affected by the suspension of research and development activities for a variety of reasons, including failure to produce anticipated results, or by the inability to recover research and development investment through sales.

4) Manufacturing and procurement risks

We manufacture products using independent technology at our own plants. We rely on specific vendors to supply certain products and raw materials. Consequently, earnings could be adversely affected by the suspension of manufacturing or purchasing of these products and raw materials for some reason.

5) Environmental risks

Some of the chemicals used in our research and development activities and manufacturing processes can have an adverse impact on human health and the surrounding environment. Although we take sufficient safeguards, earnings could be adversely affected if these substances are judged to be having a negative impact on the surrounding environment.

6) Intellectual property risks

Our business activities could possibly be suspended or lead to litigation if they violate the patents or other intellectual property rights of another company. We may also initiate litigation if another company violates our intellectual property rights. Earnings could be adversely affected by the process and outcome of such actions.

7) Litigation risks

Our business activities could possibly lead to litigation related to pharmaceutical side effects and product liability. Earnings could be adversely affected by the process and outcome of such actions.

8) Other risks

In addition to the foregoing, other potential risks include natural disasters and the security of computer systems.

Consolidated Balance Sheets

February 29, 2012 and February 28, 2013

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2012	**Fiscal 2013**	**Fiscal 2013**
ASSETS			
Current assets:			
Cash and deposits	27,789	**41,157**	**444,892**
Notes and accounts receivable — trade	33,635	**36,986**	**399,805**
Short-term investment securities	7,083	**12,338**	**133,369**
Merchandise and finished goods	7,249	**7,927**	**85,688**
Work-in-process	367	**271**	**2,929**
Raw materials and supplies	4,935	**5,130**	**55,453**
Deferred tax assets	2,896	**2,281**	**24,657**
Other	3,702	**1,838**	**19,868**
Allowance for doubtful accounts	(202)	**(211)**	**(2,281)**
Total current assets	87,455	**107,719**	**1,164,404**
Noncurrent assets			
Tangible fixed assets, net			
Buildings and structures (Notes 2 and 3)	19,385	**17,643**	**190,715**
Machinery, equipment and vehicles (Notes 2 and 3)	6,972	**6,094**	**65,874**
Tools, furniture and fixtures (Notes 2 and 3)	2,470	**2,354**	**25,446**
Land (Notes 2 and 4)	12,364	**12,462**	**134,710**
Lease assets	390	**145**	**1,567**
Construction in progress	1,772	**4,518**	**48,838**
Total tangible fixed assets	43,357	**43,219**	**467,182**
Intangible fixed assets:			
Distribution right	7,893	**6,828**	**73,808**
Goodwill	5,286	**5,112**	**55,259**
Software	345	**291**	**3,146**
Temporary account for intangible fixed assets	50	**50**	**540**
Other	2,973	**4,881**	**52,762**
Total intangible fixed assets	16,548	**17,163**	**185,526**
Investments and other assets:			
Investment securities (Note 1)	34,549	**36,685**	**396,552**
Long-term deposits	3,000	**2,500**	**27,024**
Prepaid pension cost	3,995	**3,170**	**34,267**
Deferred tax assets	1,402	**460**	**4,972**
Other	2,757	**3,440**	**37,185**
Allowance for doubtful accounts	(228)	**(218)**	**(2,357)**
Total investments and other assets	45,477	**46,038**	**497,654**
Total noncurrent assets	105,382	**106,421**	**1,150,373**
TOTAL ASSETS	192,838	**214,141**	**2,314,788**

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2012	**Fiscal 2013**	**Fiscal 2013**
LIABILITIES			
Current liabilities:			
Notes and accounts payable — trade	11,932	**12,991**	**140,428**
Short-term loans payable (Note 2)	4,445	**1,674**	**18,095**
Lease obligations	111	**125**	**1,351**
Accounts payable	6,177	**7,035**	**76,046**
Income taxes payable	3,839	**6,576**	**71,084**
Allowance for sales returns	198	**229**	**2,475**
Provision for bonuses	1,550	**1,714**	**18,528**
Provision for loss on disaster	147	**—**	**—**
Other	2,730	**4,036**	**43,628**
Total current liabilities	31,134	**34,385**	**371,690**
Noncurrent liabilities:			
Long-term loans payable (Note 2)	1,224	**989**	**10,691**
Lease obligations	304	**245**	**2,648**
Deferred tax liabilities on revaluation (Note 4)	1,894	**1,894**	**20,473**
Deferred tax liabilities	1,495	**392**	**4,237**
Provision for retirement benefits	4,927	**5,119**	**55,335**
Provision for directors' retirement benefits	1,230	**1,302**	**14,074**
Other	1,365	**1,878**	**20,301**
Total noncurrent liabilities	12,441	**11,822**	**127,792**
Total Liabilities	43,575	**46,207**	**499,481**
NET ASSETS			
Shareholders' equity:			
Capital stock	8,473	**8,473**	**91,590**
Capital surplus	8,396	**8,396**	**90,758**
Retained earnings	159,677	**172,488**	**1,864,534**
Treasury stock	(21,844)	**(21,846)**	**(236,147)**
Total shareholders' equity	154,702	**167,511**	**1,810,734**
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	47	**2,175**	**23,511**
Revaluation reserve for land (Note 4)	3,459	**3,459**	**37,391**
Foreign currency translation adjustment	(9,983)	**(5,961)**	**(64,436)**
Total accumulated other comprehensive income	(6,476)	**(325)**	**(3,513)**
Minority interests	1,036	**747**	**8,075**
Total net assets	149,263	**167,933**	**1,815,296**
TOTAL LIABILITIES AND NET ASSETS	192,838	**214,141**	**2,314,788**

Consolidated Statements of Income

Years ended February 29, 2012 and February 28, 2013

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2012	**Fiscal 2013**	**Fiscal 2013**
Net sales	137,794	**142,772**	**1,543,314**
Cost of sales (Notes 2 and 3)	46,785	**51,659**	**558,415**
Gross profit	91,008	**91,112**	**984,888**
Selling, general and administrative expenses (Notes 1 and 2)	65,070	**65,786**	**711,123**
Operating income	25,937	**25,326**	**273,765**
Non-operating income:			
Interest income	71	**67**	**724**
Dividends income	392	**433**	**4,681**
Foreign exchange gains	—	**253**	**2,735**
Development license revenues	127	**122**	**1,319**
Equity in earnings of affiliates	6,881	**6,540**	**70,695**
Other	402	**383**	**4,140**
Total non-operating income	7,875	**7,800**	**84,315**
Non-operating expenses:			
Interest expenses	92	**38**	**411**
Foreign exchange losses	44	**—**	**—**
Provision of allowance for doubtful accounts	97	**—**	**—**
Loss on sales of receivables	21	**24**	**259**
Other	63	**11**	**119**
Total non-operating expenses	319	**74**	**800**
Ordinary income	33,494	**33,051**	**357,269**
Extraordinary income:			
Government subsidies	4,611	**—**	**—**
Reversal of allowance for doubtful accounts	20	**—**	**—**
Distribution license fees	—	**500**	**5,405**
R&D expenses received	190	**—**	**—**
Insurance income	3,403	**—**	**—**
Other	34	**1**	**11**
Total extraordinary income	8,260	**501**	**5,416**
Extraordinary loss:			
Loss on disposals of fixed assets (Note 4)	189	**208**	**2,248**
Advanced depreciation deduction of fixed assets	4,611	**—**	**—**
Loss on valuation of investment securities	1,940	**—**	**—**
Impairment loss (Note 6)	—	**1,353**	**14,625**
Loss on disaster (Note 5)	2,584	**—**	**—**
Other	49	**—**	**—**
Total extraordinary loss	9,375	**1,561**	**16,874**
Income before taxes and minority interests	32,379	**31,991**	**345,811**
Income taxes — current	12,145	**13,927**	**150,546**
Income taxes — deferred	1,610	**(518)**	**(5,599)**
Total income taxes	13,755	**13,409**	**144,946**
Income before minority interests	18,623	**18,582**	**200,865**
Minority interests	184	**(227)**	**(2,454)**
Net income	18,439	**18,809**	**203,319**

Consolidated Statements of Comprehensive Income

Years ended February 29, 2012 and February 28, 2013

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2012	**Fiscal 2013**	**Fiscal 2013**
Income before minority interests	18,623	**18,582**	**200,865**
Other comprehensive income:			
Valuation difference on available-for-sale securities	607	**2,050**	**22,160**
Revaluation reserve for land	270	**—**	**—**
Foreign currency translation adjustment	(1,508)	**3,077**	**33,261**
Share of other comprehensive income of associates accounted for under the equity method	(534)	**1,030**	**11,134**
Total other comprehensive income (Note 1)	(1,165)	**6,158**	**66,566**
Comprehensive income:	17,458	**24,740**	**267,431**
Comprehensive income attributable to:			
Owners of the parent	17,287	**24,960**	**269,809**
Minority interests	171	**(219)**	**(2,367)**

Consolidated Statements of Changes in Shareholders' Equity

Years ended February 29, 2012 and February 28, 2013

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2012	**Fiscal 2013**	**Fiscal 2013**
Shareholders' equity			
Common stock:			
Balance at the beginning of the current period	8,473	**8,473**	**91,590**
Changes of items during the period			
Total changes of items during the period	—	**—**	**—**
Balance at the end of the current period	8,473	**8,473**	**91,590**
Capital surplus:			
Balance at the beginning of the current period	8,396	**8,396**	**90,758**
Changes of items during the period			
Total changes of items during the period	—	**—**	**—**
Balance at the end of the current period	8,396	**8,396**	**90,758**
Retained earnings:			
Balance at the beginning of the current period	147,272	**159,677**	**1,726,051**
Changes of items during the period:			
Cash dividends	(6,033)	**(5,998)**	**(64,836)**
Net income	18,439	**18,809**	**203,319**
Total changes of items during the period	12,405	**12,810**	**138,472**
Balance at the end of the current period	159,677	**172,488**	**1,864,534**
Treasury stock:			
Balance at the beginning of the current period	(18,525)	**(21,844)**	**(236,126)**
Changes of items during the period:			
Purchase of treasury stock	(3,319)	**(1)**	**(11)**
Total changes of items during the period	(3,319)	**(1)**	**(11)**
Balance at the end of the current period	(21,844)	**(21,846)**	**(236,147)**
Total shareholders' equity:			
Balance at the beginning of the current period	145,616	**154,702**	**1,672,273**
Changes of items during the period:			
Cash dividends	(6,033)	**(5,998)**	**(64,836)**
Net income	18,439	**18,809**	**203,319**
Purchase of treasury stock	(3,319)	**(1)**	**(11)**
Total changes of items during the period	9,086	**12,808**	**138,450**
Balance at the end of the current period	154,702	**167,511**	**1,810,734**

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2012	**Fiscal 2013**	**Fiscal 2013**
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities:			
Balance at the beginning of the current period	(564)	**47**	**508**
Changes of items during the period:			
Net changes of items other than shareholders' equity	611	**2,128**	**23,003**
Total changes of items during the period	611	**2,128**	**23,003**
Balance at the end of the current period	47	**2,175**	**23,511**
Revaluation reserve for land:			
Balance at the beginning of the current period	3,189	**3,459**	**37,391**
Changes of items during the period:			
Net changes of items other than shareholders' equity	270	**—**	**—**
Total changes of items during the period	270	**—**	**—**
Balance at the end of the current period	3,459	**3,459**	**37,391**
Foreign currency translation adjustments:			
Balance at the beginning of the current period	(7,949)	**(9,983)**	**(107,913)**
Changes of items during the period:			
Net changes of items other than shareholders' equity	(2,034)	**4,022**	**43,476**
Total changes of items during the period	(2,034)	**4,022**	**43,476**
Balance at the end of the current period	(9,983)	**(5,961)**	**(64,436)**
Total accumulated other comprehensive income:			
Balance at the beginning of the current period	(5,324)	**(6,476)**	**(70,003)**
Changes of items during the period:			
Net changes of items other than shareholders' equity	(1,152)	**6,150**	**66,479**
Total changes of items during the period	(1,152)	**6,150**	**66,479**
Balance at the end of the current period	(6,476)	**(325)**	**(3,513)**
Minority interests			
Balance at the beginning of the current period	930	**1,036**	**11,199**
Changes of items during the period:			
Net changes of items other than shareholders' equity	106	**(289)**	**(3,124)**
Total changes of items during the period	106	**(289)**	**(3,124)**
Balance at the end of the current period	1,036	**747**	**8,075**
Total net assets			
Balance at the beginning of the current period	141,222	**149,263**	**1,613,480**
Changes of items during the period:			
Cash dividends	(6,033)	**(5,998)**	**(64,836)**
Net income	18,439	**18,809**	**203,319**
Purchase of treasury stock	(3,319)	**(1)**	**(11)**
Net changes of items other than shareholders' equity	(1,045)	**5,861**	**63,355**
Total changes of items during the period	8,040	**18,670**	**201,816**
Balance at the end of the current period	149,263	**167,933**	**1,815,296**

Consolidated Statements of Cash Flows

Years ended February 29, 2012 and February 28, 2013

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2012	**Fiscal 2013**	**Fiscal 2013**
Cash flows from operating activities:			
Income before taxes and minority interests	32,379	**31,991**	**345,811**
Depreciation and amortization	6,188	**6,878**	**74,349**
Impairment loss	—	**1,353**	**14,625**
Amortization of goodwill	711	**715**	**7,729**
Increase (decrease) in provision for retirement benefits	21	**188**	**2,032**
Increase (decrease) in provision for directors' retirement benefits	29	**72**	**778**
Increase (decrease) in provision for bonuses	79	**87**	**940**
Increase (decrease) in allowance for doubtful accounts	59	**(2)**	**(22)**
Increase (decrease) in provision for sales returns	22	**30**	**324**
Interest and dividends income	(464)	**(500)**	**(5,405)**
Interest expenses	92	**38**	**411**
Foreign exchange losses (gains)	2	**(83)**	**(897)**
Equity in losses (earnings) of affiliates	(6,881)	**(6,540)**	**(70,695)**
Subsidy income	(4,611)	**—**	**—**
Insurance income	(3,403)	**—**	**—**
Advanced depreciation deduction of fixed assets	4,611	**—**	**—**
Loss on disaster	2,584	**—**	**—**
Loss (gain) on sales of investment securities	(34)	**(1)**	**(11)**
Loss (gain) on valuation of investment securities	1,940	**—**	**—**
Loss (gain) on disposal of tangible fixed assets	189	**208**	**2,248**
Decrease (increase) in notes and accounts receivable-trade	2,979	**(3,068)**	**(33,164)**
Decrease (increase) in inventories	(2,168)	**(754)**	**(8,150)**
Decrease (increase) in other current assets	(1,004)	**621**	**6,713**
Increase (decrease) in notes and accounts payable — trade	790	**792**	**8,561**
Increase (decrease) in other current liabilities	(1,022)	**1,759**	**19,014**
Other, net	1,449	**412**	**4,454**
Sub-total	34,543	**34,203**	**369,722**
Interest and dividends received	6,982	**8,162**	**88,228**
Interest expenses paid	(92)	**(38)**	**(411)**
Proceeds from insurance income	3,403	**—**	**—**
Payments for loss on disaster	(793)	**—**	**—**
Income taxes paid	(18,484)	**(9,841)**	**(106,378)**
Net cash provided by (used in) operating activities	25,558	**32,485**	**351,151**

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2012	**Fiscal 2013**	**Fiscal 2013**
Cash flows from investing activities			
Net decrease (increase) in time deposits	189	**(134)**	**(1,448)**
Decrease (increase) in long-term deposits	(1,000)	**500**	**5,405**
Payments for purchase of tangible fixed assets	(9,858)	**(4,976)**	**(53,789)**
Proceeds from sales of tangible fixed assets	3	**5**	**54**
Payments for purchase of intangible fixed assets	(5,921)	**(659)**	**(7,124)**
Decrease (increase) in short-term investment securities	—	**(967)**	**(10,453)**
Payments for purchase of investment securities	(3,735)	**(1,763)**	**(19,057)**
Proceeds from sales and redemption of investment securities	234	**3**	**32**
Payments of loans receivable	(11)	**—**	**—**
Collection of loans receivable	13	**44**	**476**
Proceeds from subsidy	4,611	**—**	**—**
Net cash provided by (used in) investing activities	(15,473)	**(7,946)**	**(85,893)**
Cash flows from financing activities			
Increase (decrease) in short-term loans payable	881	**(211)**	**(2,281)**
Proceeds from long-term loans payable	1,065	**—**	**—**
Repayment of long-term loans payable	(5,401)	**(2,803)**	**(30,299)**
Cash dividends paid to minority shareholders	(65)	**(69)**	**(746)**
Purchase of treasury stock	(3,317)	**(0)**	**(0)**
Cash dividends paid	(6,031)	**(6,000)**	**(64,858)**
Other, net	(140)	**(202)**	**(2,184)**
Net cash provided by (used in) financing activities	(13,010)	**(9,288)**	**(100,400)**
Effect of exchange rate changes on cash and cash equivalents	(506)	**1,387**	**14,993**
Net increase (decrease) in cash and cash equivalents	(3,431)	**16,637**	**179,840**
Cash and cash equivalents, beginning of year	37,654	**34,222**	**369,928**
Cash and cash equivalents, end of year (Note 1)	34,222	**50,860**	**549,778**

Financial Section

Basis of Preparation of Consolidated Financial Statements

The Company has prepared consolidated financial statements in accordance with the Regulations Concerning the Terminology, Forms and Preparation Methods of Consolidated Financial Statements (Ministry of Finance Ordinance No. 28, 1976).

Significant Accounting Policies Concerning the Preparation of Consolidated Financial Statements

Fiscal 2013 (March 1, 2012 – February 28, 2013)

I. Scope of consolidation

(1) Consolidated subsidiaries: 17

Names of consolidated subsidiaries:

CRCC Media Co., Ltd.
Saga City-Vision Co., Ltd.
Taiyo Co., Ltd
Kyudo Co., Ltd
Hisamitsu Agency Co., Ltd.
Hisamitsu U.S., Inc.
Hisamitsu America, Inc.
Noven Pharmaceuticals, Inc.
Hisamitsu Farmaceutica do Brasil Ltda.
Hisamitsu UK Ltd.
Hisamitsu Vietnam Pharmaceutical Co., Ltd.
Hisamitsu Pharmaceutical Technology Consulting (Beijing) Co., Ltd.
P.T. Hisamitsu Pharma Indonesia
4 other companies

(2) Non-consolidated subsidiaries: 0

Liquidation procedures for Kokusai Pappu-zai Kenkyusho Co., Ltd. and Taiyo Kaihatsu Co., Ltd. were completed during the fiscal year under review.

II. Investments accounted for under the equity method

(1) Equity-method non-consolidated subsidiaries: 0

(2) Equity-method affiliates: 4

SANOFI-HISAMITSU K.K.
Yutoku Pharmaceutical Ind. Co., Ltd.
Maruto Sangyo Co., Ltd.
Novogyne Pharmaceuticals

SANOFI-HISAMITSU K.K., upon its formation and equity investment, has been accounted for under the equity method.

Reason why non-consolidated subsidiaries have not been accounted for under the equity method
Liquidation procedures for Kokusai Pappu-zai Kenkyusho Co., Ltd. and Taiyo Kaihatsu Co., Ltd. were completed during the fiscal year under review.

III. Information concerning fiscal years, etc., of consolidated subsidiaries

The fiscal years of the 12 overseas consolidated subsidiaries end on December 31. Since there is less than three months' difference between that date and the end of the consolidated fiscal year, we use financial statements as of the date of the end of the fiscal years of the consolidated subsidiaries. We make the required consolidated adjustments if any major transactions occur between the end of the fiscal years of the consolidated subsidiaries and end of the consolidated fiscal year.

IV. Accounting standards

(1) Valuation standards and methods for significant assets

1) Securities

a) Held-to-maturity bonds

Valued under amortized cost method (straight-line method).

b) Available-for-sale securities

i) Securities with market value

Valued at market price, using the market price at the balance sheet date.

All valuation differences are directly charged or credited to shareholders' equity, and costs of securities sold are computed using the moving average method.

ii) Securities without market value

Valued at cost, determined by the moving average method.

2) Inventories

Calculated by the average cost method (book value on the balance sheet is written down according to the decline in profitability).

(2) Depreciation methods for significant depreciable assets

1) Tangible fixed assets (excluding lease assets)

a) Company and domestic consolidated subsidiaries

Mainly the declining balance method.

b) Overseas consolidated subsidiaries

Mainly straight-line method.

2) Intangible fixed assets (excluding lease assets) and long-term prepaid expenses

Measured by the straight-line method.

Within intangible fixed assets, software for internal use is depreciated over its useful life (five years) using the straight-line method.

3) Lease assets

For finance lease transactions other than those for which the right of ownership of the lease assets transfers to the lessee at the end of the lease period, depreciation is calculated by the straight-line method based on the assumption that the useful life equals the lease term and the residual value equals zero. The accounting treatment of finance lease transactions other than those for which the right of ownership of the lease assets transfers to the lessee at the end of the lease period and whose lease period commenced before February 28, 2009 is accounted for in accordance with that of normal rental transactions.

(3) Standards for significant reserves and allowances

1) Allowance for doubtful accounts

In order to provide against losses from doubtful receivables, estimated irrecoverable amounts are recorded as a provision.

a) General receivables

Based on historical bad debt experience.

b) Receivables at risk of default and in bankruptcy reorganization

Based on an assessment of the financial position.

2) Provision for sales returns

In order to provide against losses from product returns after the balance sheet date, the company makes a provision up to the maximum amount allowed under the Corporation Tax Law.

3) Provision for bonuses

To provide for the payment of bonuses to employees, the Company and its certain subsidiaries record a provision equal to the portion of expected future bonus payments incurred during the term under review.

4) Provision for retirement benefits

The Company and certain subsidiaries, to prepare for the payment of retirement benefits to employees, provide a reserve at an amount based on estimated retirement benefit obligations and pension assets at the end of the consolidated fiscal year.

Actuarial differences are amortized starting in the next consolidated fiscal year in equal amounts for a fixed number of years (five years) that is less than the average remaining years of service of employees when incurred.

5) Provision for directors' retirement benefits

The Company and certain subsidiaries make a provision for estimated retirement payments to directors and corporate auditors in accordance with its internal regulations.

(4) Translation of significant foreign currency denominated assets and liabilities used in preparing the financial statements of consolidated companies on which the consolidated financial statements are based

Assets and liabilities denominated in foreign currencies are translated into yen using the spot exchange rate for final day of the fiscal year, and translation differences are booked as gains or losses. Note that the assets and liabilities of overseas subsidiaries and other like entities are translated into yen using the spot exchange rate for final day of the fiscal year, while revenues and expenses are translated using the average exchange rate for the period, and these translation differences are booked on the Foreign Currency Translation Adjustment and Minority Interests under Net Assets.

(5) Method and period of amortization of goodwill

Goodwill is amortized evenly over a five to ten-year period which is expected to show an effect. If the value of goodwill is small, it is amortized in full in the fiscal year when it accrues.

(6) Scope of funds in the Consolidated Statements of Cash Flows

Funds (cash & cash equivalents) in the Consolidated Statements of Cash Flows consist of cash in hand, demand deposits and easily realizable short-term investments with high liquidity and maturity dates not more than three months from the date of purchase, and which carry negligible risks of price fluctuation.

(7) Other significant accounting policies used in the preparation of the consolidated financial statements

Treatment of Consumption Tax etc.

The accounts are prepared excluding Consumption Tax and Local Consumption Tax.

Unapplied Accounting Standards, etc.

Accounting standards relating to consolidated financial statements

Issuance of "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26; May 17, 2012), and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No.25; May 17, 2012)

(1) Outline

This accounting standard and guidance have been revised mainly in terms of the accounting methods of unrecognized actuarial differences and past service costs, the calculation methods of projected retirement benefit obligations and service costs, and the improvement of disclosure, from the perspective of improving financial statements and in light of current international trends.

(2) Scheduled date of adoption

We plan to adopt this accounting standard and guidance from the end of the fiscal year starting on and after March 1, 2014.

(3) Impact of adoption of this accounting standard and guidance

In preparing consolidated financial statements, the impact in the financial statements as a result of the adoption is currently being evaluated.

Additional Information

The Company adopts the "Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Statement No. 24; December 4, 2009) and the "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No. 24; December 4, 2009) for accounting changes and corrections made after the beginning of the fiscal year under review.

Notes to Consolidated Financial Statements

Fiscal 2012 (March 1, 2011 – February 29, 2012) and Fiscal 2013 (March 1, 2012 – February 28, 2013)

CONSOLIDATED BALANCE SHEETS

(Note 1) Investment securities for non-consolidated subsidiaries and affiliated companies are as follows.

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2012	**Fiscal 2013**	**Fiscal 2013**
Investment securities (stocks)	14,738	**13,069**	**141,271**

(Note 2) Assets pledged as collateral are as follows.

Pledged assets			
Buildings and structures	1,370 (book value)	**1,306 (book value)**	**14,117**
Machinery, equipment and vehicles	32 (book value)	**23 (book value)**	**249**
Tools, furniture and fixtures	192 (book value)	**171 (book value)**	**1,848**
Land	59 (book value)	**59 (book value)**	**638**
Total	1,655 (book value)	**1,560 (book value)**	**16,863**
Assets provided for factory foundation mortgage			
Buildings and structures	1,128 (book value)	**1,147 (book value)**	**12,399**
Machinery, equipment and vehicles	28 (book value)	**21 (book value)**	**227**
Tools, furniture and fixtures	192 (book value)	**171 (book value)**	**1,848**
Total	1,349 (book value)	**1,340 (book value)**	**14,485**

Liabilities related to the above assets			
Short-term loans payable	182	**174**	**1,881**
Long-term loans payable	1,164	**989**	**10,691**
Total	1,346	**1,164**	**12,582**
Liabilities provided for factory foundation mortgage			
Short-term loans payable	119	**118**	**1,276**
Long-term loans payable	989	**870**	**9,404**
Total	1,108	**989**	**10,691**

(Note 3) Advanced depreciation of government subsidies is ¥5,830 million and ¥5,832 million in FY2/12 and FY2/13, respectively.

These figures are deducted from the consolidated balance sheets.

(Note 4) Application of the Land Revaluation Law

Land used for business purposes has been revalued in accordance with the "Act on revaluation of land" (Law 34 of 1998, promulgated on March 31, 1998) and the "Law Partially Amending the Act on Revaluation of Land" (revision of March 31, 1999). The portion of the revaluation gain equivalent to corporation tax and other taxes with tax bases linked to corporate profits has been recorded under liabilities as "Deferred tax liabilities on revaluation," while the net sum after this transfer to the deferred tax liability account is recorded under net assets as "Revaluation reserve for land."

Revaluation method

The land value used as the basis for calculation of the tax base under the Land Value Tax, stipulated in Article 16 of the Land Value Tax Law (Law No. 69 of 1991), has been calculated by making rational adjustments to the price calculated by the method determined and publicly announced by the Commissioner of the National Tax Agency, as stipulated in

Article 2.4 of the “Regulations for Applying the Land Revaluation Law” (Government Ordinance No. 119 of 1998, promulgated March 31, 1998).

Revaluation date	February 28, 2001

The market value of commercial land revalued in accordance with Article 10 of the Land Revaluation Law at the end of FY2/12 and FY2/13 were ¥3,103 million and ¥3,464 million lower than the book value after revaluation.

CONSOLIDATED STATEMENTS OF INCOME

(Note 1) Main items and the amounts under “Selling, general and administrative expenses” are as follows.

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2012	**Fiscal 2013**	**Fiscal 2013**
Advertising expenses	9,565	**10,086**	**109,026**
Sales promotion expenses	12,415	**12,549**	**135,650**
Packing and transportation expenses	2,502	**2,757**	**29,802**
Provision of allowance for doubtful accounts	1	**20**	**216**
Salaries and allowances	6,755	**7,299**	**78,900**
Provision for bonuses	941	**1,004**	**10,853**
Provision for retirement benefits	639	**819**	**8,853**
Provision for directors’ retirement benefits	101	**84**	**908**
Amortization of goodwill	711	**715**	**7,729**
Business consignment expenses	3,097	**2,933**	**31,705**
Research and development expenses, of which:	14,758	**12,662**	**136,872**
Provision for bonuses	263	**312**	**3,373**
Provision for retirement benefits	216	**269**	**2,908**

(Note 2) General and administrative expenses include research and development expenses of ¥14,758 million and ¥12,662 million in FY2/12 and FY2/13, respectively.
Manufacturing costs do not include research and development expenses.

(Note 3) In FY2/12 and FY2/13, manufacturing costs include provision for bonuses of ¥333 million and ¥380 million and provision for retirement benefits of ¥358 million and ¥442 million, respectively.

(Note 4) Breakdown of losses on the disposal of fixed assets

	(Millions of yen)		(Thousands of U.S. dollars)
Loss on retirement	Fiscal 2012	**Fiscal 2013**	**Fiscal 2013**
Buildings and structures	122	**116**	**1,254**
Machinery, equipment and vehicles	57	**77**	**832**
Tools, furniture and fixtures	8	**13**	**141**
Software	0	**0**	**0**
Total	189	**208**	**2,248**

(Note 5) Fiscal 2012 (March 1, 2011 – February 29, 2012)
Loss on disaster represents the loss resulting from the Great East Japan Earthquake which occurred on March 11, 2011 comprising primarily costs for retirement and restoration of tangible fixed assets, loss on disposal of inventories, and fixed expenses during the period of suspended operation. Of these, provision for loss on disaster is ¥147 million.

Fiscal 2013 (March 1, 2012 – February 28, 2013)
Not applicable.

(Note 6) In FY2/13, the Group recorded impairment losses on the following assets.

Purpose of use	Location	Category	Amount (Millions of yen)	Amount (Thousands of U.S. dollars)
Assets used for business activities	Kurume city, Fukuoka, etc.	Buildings and structures	645	6,972
		Machinery, equipment and vehicles	42	454
		Tools, furniture and fixtures	3	32
		Lease assets	199	2,151
		Software	2	21
		Future lease payments	53	573
	United States	Intangible fixed assets and other	406	4,389

Assets used for business activities are basically grouped according to the business unit for which reasonable profit and loss management is possible, and rental assets and idle assets are grouped by individual asset. Each consolidated subsidiary is taken as a single unit when determining signs of impairment.

Consequently, in terms of the aforementioned assets used for business activities, the estimated future cash flows have been determined to fall below the book values of each asset. Accordingly, the book values have been written down to their recoverable amounts and the write-down amount was recognized as impairment loss.

Recoverable amounts are measured based on value in use, and value in use is calculated by discounting future cash flow by 3.0%. A discount rate of 18.45% has been applied to the assets of overseas consolidated subsidiaries.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Fiscal 2013 (March 1, 2012 – February 28, 2013)

(Note 1) Reclassification adjustments amount and tax effect amount relating to other comprehensive income

	(Millions of yen)	(Thousands of U.S. dollars)
Valuation difference on available-for-sale securities		
Amount arising during fiscal year under review	**3,082**	**33,315**
Reclassification adjustment amount:	**(78)**	**(843)**
Before tax effect adjustment	**3,004**	**32,472**
Tax effect amount	**(954)**	**(10,312)**
Valuation difference on available-for-sale securities	**2,050**	**22,160**
Foreign currency translation adjustment		
Amount arising during fiscal year under review	**3,077**	**33,261**
Share of other comprehensive income of associates accounted for under the equity method		
Amount arising during fiscal year under review	**1,030**	**11,134**
Total other comprehensive income	**6,158**	**66,566**

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Fiscal 2012 (March 1, 2011 – February 29, 2012)

1. Shares issued

Type of shares	Beginning of fiscal 2012	Increase	Decrease	End of fiscal 2012
Common stock	95,164,895	—	—	95,164,895

2. Treasury shares

Type of shares	Beginning of fiscal 2012	Increase	Decrease	End of fiscal 2012
Common stock	8,494,757	1,000,867	—	9,495,624

Reasons for changes

Shares increased for the following main reasons:

Acquisition in compliance with the articles of incorporation under the provisions of Paragraph 2, Article 165 of the Companies Act	1,000,000 shares
Increase from purchasing shares in less than one unit	538 shares
Company portion of treasury shares purchased by equity method affiliates	329 shares

3. Dividends

(1) Dividends paid

Resolution	Type of shares	Total dividends (millions of yen)	Dividends per share (yen)	Record date	Payment date
May 26, 2011 Annual general meeting of shareholders	Common stock	3,034	35	February 28, 2011	May 27, 2011
October 12, 2011 Board of Directors meeting	Common stock	2,999	35	August 31, 2011	November 8, 2011

(2) Dividends with a record date in fiscal 2012 but a payment date in fiscal 2013

Resolution	Type of shares	Source of dividend	Total dividends (millions of yen)	Dividends per share (yen)	Record date	Payment date
May 24, 2012 Annual general meeting of shareholders	Common stock	Retained earnings	2,999	35	February 29, 2012	May 25, 2012

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Fiscal 2013 (March 1, 2012 – February 28, 2013)

1. Shares issued

Type of shares	Beginning of fiscal 2013	Increase	Decrease	End of fiscal 2013
Common stock	95,164,895	—	—	95,164,895

2. Treasury shares

Type of shares	Beginning of fiscal 2013	Increase	Decrease	End of fiscal 2013
Common stock	9,495,624	453	—	9,496,077

Reasons for changes

Shares increased for the following main reasons:

Increase from purchasing shares in less than one unit	166 shares
Company portion of treasury shares purchased by equity method affiliates	287 shares

3. Dividends

(1) Dividends paid

Resolution	Type of shares	Total dividends (millions of yen)	Dividends per share (yen)	Record date	Payment date
May 24, 2012 Annual general meeting of shareholders	Common stock	2,999	35	February 29, 2012	May 25, 2012
October 10, 2012 Board of Directors meeting	Common stock	2,999	35	August 31, 2012	November 8, 2012

Resolution	Type of shares	Total dividends (Thousands of U.S. dollars)	Dividends per share (U.S. dollars)	Record date	Payment date
May 24, 2012 Annual general meeting of shareholders	Common stock	32,418	378	February 29, 2012	May 25, 2012
October 10, 2012 Board of Directors meeting	Common stock	32,418	378	August 31, 2012	November 8, 2012

(2) Dividends with a record date in fiscal 2013 but a payment date in fiscal 2014

Resolution	Type of shares	Source of dividend	Total dividends (millions of yen)	Dividends per share (yen)	Record date	Payment date
May 23, 2013 Annual general meeting of shareholders	Common stock	Retained earnings	2,999	35	February 28, 2013	May 24, 2013

Resolution	Type of shares	Source of dividend	Total dividends (Thousands of U.S. dollars)	Dividends per share (U.S. dollars)	Record date	Payment date
May 23, 2013 Annual general meeting of shareholders	Common stock	Retained earnings	32,418	378	February 28, 2013	May 24, 2013

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Note 1) Relationship between year-end balances of cash and cash equivalents and amounts stated in the consolidated balance sheets

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2012	**Fiscal 2013**	**Fiscal 2013**
Cash and deposits	27,789	**41,157**	**444,892**
Cash equivalents included in short-term investment securities	7,083	**10,495**	**113,447**
Total	34,872	**51,652**	**558,340**
Term deposits longer than three months	(649)	**(792)**	**(8,561)**
Cash and cash equivalents	34,222	**50,860**	**549,778**

LEASE TRANSACTIONS

Lease transactions other than finance leases in which ownership of the leased asset is deemed to have passed to the lessee and whose lease period commenced before February 28, 2009

1. Purchase price equivalent, accumulated depreciation equivalent, and book value equivalent

	(Millions of yen)		
	Fiscal 2012		
	Purchase value equivalent	Accumulated depreciation equivalent	Book value equivalent
Machinery, equipment and vehicles	192	164	27
Tools, furniture and fixtures	749	604	144
Software	34	29	4
Total	976	799	176

Note: The purchase price equivalent was computed by including interest paid because the ratio of future lease payment obligations to the year-end balance of tangible fixed assets is not material.

	(Millions of yen)			(Thousands of U.S. dollars)		
	Fiscal 2013			**Fiscal 2013**		
	Purchase value equivalent	Accumulated depreciation equivalent	Book value equivalent	Purchase value equivalent	Accumulated depreciation equivalent	Book value equivalent
Tools, furniture and fixtures	**638**	**585**	**52**	**6,897**	**6,324**	**562**
Software	**3**	**3**	**0**	**32**	**32**	**0**
Total	**642**	**588**	**53**	**6,940**	**6,356**	**573**

Note: The purchase price equivalent was computed by including interest paid because the ratio of future lease payment obligations to the year-end balance of tangible fixed assets is not material.

2. Book value equivalent of future lease payments

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2012	**Fiscal 2013**	**Fiscal 2013**
Within one year	124	**44**	**476**
Over one year	52	**8**	**86**
Total	176	**53**	**573**

Note: Future lease payment obligations were computed by including interest paid because the ratio of the year-end balance of future lease payments to the year-end balance of tangible fixed assets is not material.

3. Lease payments and depreciation equivalent

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2012	**Fiscal 2013**	**Fiscal 2013**
Lease payments	231	**95**	**1,027**
Depreciation equivalent	231	**95**	**1,027**

4. Method of calculating depreciation equivalent

The value is calculated using the straight-line method whereby the lease period equals the useful life of the lease asset, and the residual value of the lease asset is zero.

FINANCIAL INSTRUMENTS

1. Outline of financial instruments

(1) Policy for financial instruments

Our Group raises funds necessary to conduct mainly the manufacturing and sales of pharmaceuticals through bank loans or issuance of bonds. Temporary cash surpluses are invested in low risk financial assets. Derivatives are used within the scope of actual requirements and not for speculative purposes.

(2) Nature and extent of risks arising from financial instruments, and risk management for financial instruments

Although operating receivables such as notes and accounts receivable-trade are exposed to customer credit risk, this risk is managed through regular checks on the business and credit position of customers.

Short-term investment securities and investment securities, mainly consisting of stocks of corporations that the Company has business relationships with, are exposed to the risk of market price fluctuations. This risk is managed through periodic monitoring of market value and the financial status of the related issuers. With respect to stocks in companies that have a business relationship, the Company checks necessity for holding them, taking into account the business relationship.

Payment terms of operating payables, such as notes and accounts payable-trade, accounts payable, and income taxes payable are less than one year. Although operating payables and borrowings are exposed to liquidity risk, this risk is managed through methods such as preparing cash flow planning on a monthly basis.

Derivatives transactions are undertaken by the Finance Department after authorization by the Board of Directors or the General Manager of the Finance Department, depending on the importance of the transaction, and details are appropriately reported to the Board of Directors.

2. Market values of financial instruments

Carrying amount, market value and unrealized gain/loss of the financial instruments are as follows: Financial instruments whose market values are not readily determinable are excluded from the following table (See (Note 2)):

Fiscal 2012 (February 29, 2012)

		(Millions of yen)	
	Carrying amount	Market value	Unrealized gain (loss)
(1) Cash and deposits	27,789	27,789	—
(2) Notes and accounts receivable-trade	33,635	33,635	—
(3) Short-term investment securities and investment securities:			
Available-for-sale securities	25,862	25,862	—
Stock of affiliated companies	1,382	612	(769)
(4) Long-term deposits	3,000	2,986	(13)
Total assets	91,669	90,885	(783)
(1) Notes and accounts payable-trade	11,932	11,932	—
(2) Short-term loans payable	1,651	1,651	—
(3) Accounts payable	6,177	6,177	—
(4) Income taxes payable	3,839	3,839	—
(5) Long-term loans payable (*)	4,018	4,032	14
Total liabilities	27,620	27,634	14
Derivative transactions	—	—	—

(*) Includes current portion of long-term loans payable.

Fiscal 2013 (February 28, 2013)

	(Millions of yen)			(Thousands of U.S. dollars)		
	Carrying amount	Market value	Unrealized gain (loss)	Carrying amount	Market value	Unrealized gain (loss)
(1) Cash and deposits	**41,157**	**41,157**	**—**	**444,892**	**444,892**	**—**
(2) Notes and accounts receivable-trade	**36,986**	**36,986**	**—**	**399,805**	**399,805**	**—**
(3) Short-term investment securities and investment securities:						
Available-for-sale securities	**34,924**	**34,924**	**—**	**377,516**	**377,516**	**—**
Stock of affiliated companies	**1,440**	**637**	**(802)**	**15,566**	**6,886**	**(8,669)**
(4) Long-term deposits	**2,500**	**2,494**	**(5)**	**27,024**	**26,959**	**(54)**
Total assets	**117,009**	**116,200**	**(808)**	**1,264,825**	**1,256,080**	**(8,734)**
(1) Notes and accounts payable-trade	**12,991**	**12,991**	**—**	**140,428**	**140,428**	**—**
(2) Short-term loans payable	**1,440**	**1,440**	**—**	**15,566**	**15,566**	**—**
(3) Accounts payable	**7,035**	**7,035**	**—**	**76,046**	**76,046**	**—**
(4) Income taxes payable	**6,576**	**6,576**	**—**	**71,084**	**71,084**	**—**
(5) Long-term loans payable (*)	**1,224**	**1,227**	**3**	**13,231**	**13,263**	**32**
Total liabilities	**29,268**	**29,272**	**3**	**316,377**	**316,420**	**32**
Derivative transactions	**—**	**—**	**—**	**—**	**—**	**—**

(*) Includes current portion of long-term loans payable.

Note 1: Calculation method of market values of financial instruments and securities

Assets

(1) Cash and deposits and (2) Notes and accounts receivable-trade

These assets are recorded using book values because market values approximate book values because of their short-term maturities.

(3) Short-term investment securities and investment securities

Certificates of deposit are recorded using book values because market values approximate book values because of their short-term maturities. The market values of stocks are determined using the quoted market price on applicable stock exchanges.

(4) Long-term deposits

Long-term deposits are stated using the quoted prices obtained from financial institutions.

Liabilities

(1) Notes and accounts payable-trade, (2) Short-term loans payable, (3) Accounts payable, and (4) Income taxes payable

These payables are recorded using book values because market values approximate book values because of their short-term maturities.

(5) Long-term loans payable (including current portion of long-term loans payable)

Long-term loans payable with floating interest rates are recorded using book values because market values approximate book values as these rates reflect market interest rates over the short-term. For long-term loans payable with fixed interest rates, market values are determined by discounting the aggregated values of the principal and interest using an assumed interest rate based on the interest rate that would be applied to a new loan of a similar nature.

Note 2: Carrying amounts of financial instruments whose market values are not readily determinable

	(Millions of yen)		(Thousands of U.S. dollars)
Category	February 29, 2012	**February 28, 2013**	**February 28, 2013**
Unlisted equity securities	14,388	**12,659**	**136,839**

These items are not included in "(3) Short-term investment securities and investment securities," because there is no market price, and it is very difficult to identify market values.

Note 3: Redemption schedule of monetary assets and securities with contractual maturities after the balance sheet date

Fiscal 2012 (February 29, 2012)

	(Millions of yen)			
	Within one year	One to five years	Five to ten years	Over ten years
Cash and deposits	27,789	—	—	—
Notes and accounts receivable-trade	33,635	—	—	—
Short-term investment securities and investment securities:				
Available-for-sale securities with contractual maturities:				
Negotiable certificates of deposit	2,000	—	—	—
Other	—	—	433	282
Long-term deposits	—	3,000	—	—
Total	63,424	3,000	433	282

Fiscal 2013 (February 28, 2013)

	(Millions of yen)				(Thousands of U.S. dollars)			
	Within one year	One to five years	Five to ten years	Over ten years	Within one year	One to five years	Five to ten years	Over ten years
Cash and deposits	**41,157**	**—**	**—**	**—**	**444,892**	**—**	**—**	**—**
Notes and accounts receivable-trade	**36,986**	**—**	**—**	**—**	**399,805**	**—**	**—**	**—**
Short-term investment securities and investment securities:								
Available-for-sale securities with contractual maturities:								
Other	**1,842**	**—**	**—**	**—**	**19,911**	**—**	**—**	**—**
Long-term deposits	**—**	**2,500**	**—**	**—**	**—**	**27,024**	**—**	**—**
Total	**79,987**	**2,500**	**—**	**—**	**864,631**	**27,024**	**—**	**—**

Note 4: Redemption schedule of long-term loans payable after the balance sheet date

Fiscal 2012 (February 29, 2012)

	(Millions of yen)			
	Within one year	One to five years	Five to ten years	Over ten years
Long-term loans payable	2,793	576	356	292
Total	2,793	576	356	292

Fiscal 2013 (February 28, 2013)

	(Millions of yen)				(Thousands of U.S. dollars)			
	Within one year	One to five years	Five to ten years	Over ten years	Within one year	One to five years	Five to ten years	Over ten years
Long-term loans payable	**234**	**412**	**356**	**221**	**2,529**	**4,454**	**3,848**	**2,389**
Total	**234**	**412**	**356**	**221**	**2,529**	**4,454**	**3,848**	**2,389**

SECURITIES

1. Available-for-sale securities

Fiscal 2012 (February 29, 2012)

		(Millions of yen)	
Category	Carrying amount	Acquisition cost	Difference
Carrying amount higher than acquisition cost			
(1) Stocks	7,833	6,414	1,419
(2) Bonds	—	—	—
(3) Other	—	—	—
Subtotal	7,833	6,414	1,419
Carrying amount lower than acquisition cost			
(1) Stocks	10,229	11,615	(1,386)
(2) Bonds	—	—	—
(3) Other	7,799	7,799	—
Subtotal	18,028	19,415	(1,386)
Total	25,862	25,830	32

Fiscal 2013 (February 28, 2013)

Category	(Millions of yen) Carrying amount	Acquisition cost	Difference	(Thousands of U.S. dollars) Carrying amount	Acquisition cost	Difference
Carrying amount higher than acquisition cost						
(1) Stocks	**16,053**	**12,194**	**3,859**	**173,527**	**131,813**	**41,714**
(2) Bonds	—	—	—	—	—	—
(3) Other	—	—	—	—	—	—
Subtotal	**16,053**	**12,194**	**3,859**	**173,527**	**131,813**	**41,714**
Carrying amount lower than acquisition cost						
(1) Stocks	**6,532**	**7,354**	**(821)**	**70,609**	**79,494**	**(8,875)**
(2) Bonds	—	—	—	—	—	—
(3) Other	**12,338**	**12,338**	—	**133,369**	**133,369**	—
Subtotal	**18,870**	**19,692**	**(821)**	**203,978**	**212,863**	**(8,875)**
Total	**34,924**	**31,887**	**3,037**	**377,516**	**344,687**	**32,829**

2. Available-for-sale securities sold during the fiscal year

Fiscal 2012 (March 1, 2011 – February 29, 2012)

Category	(Millions of yen) Sale value	Profit from sale	Loss from sale
(1) Stocks	234	34	—
(2) Bonds	—	—	—
(3) Other	—	—	—
Total	234	34	—

Fiscal 2013 (March 1, 2012 – February 28, 2013)

Category	(Millions of yen) Sale value	Profit from sale	Loss from sale	(Thousands of U.S. dollars) Sale value	Profit from sale	Loss from sale
(1) Stocks	**3**	**1**	—	**32**	**11**	—
(2) Bonds	—	—	—	—	—	—
(3) Other	—	—	—	—	—	—
Total	**3**	**1**	—	**32**	**11**	—

3. Impairment loss on securities

Fiscal 2012 (March 1, 2011 – February 29, 2012)

In FY2/12, the Group recognized an impairment loss of ¥1,940 million under short-term investment securities.

Note that when the market value at the end of FY2/12 declines more than approximately 30% of its acquisition cost, the market value is considered to have diminished sharply. An impairment loss is recognized when the market value declines more than 50% of its acquisition cost, as it is not considered possible for market value to be recovered. When the market value declines more than 30% and lower than 50% of the acquisition cost, the amount considered to be necessary, taking into account the recoverability in light of the market value and the financial position of the issuer of the security, is recognized as an impairment loss.

Fiscal 2013 (March 1, 2012–February 28, 2013)

Not applicable.

DERIVATIVE TRANSACTIONS

1. Derivative transactions to which hedge accounting is not applied

Not applicable.

2. Derivative transactions to which hedge accounting is applied

Not applicable.

RETIREMENT BENEFITS

1. Overview of retirement benefit plans

Corporate pension plan:

The Company previously used the Hisamitsu Pharmaceutical Welfare Pension Plan to cover a portion of retirement benefits starting on July 1, 1995, but it switched to the Hisamitsu Pharmaceutical Corporate Pension Plan on July 1, 2005.

The Company previously used a qualified pension plan to augment its retirement benefit plans from March 1, 1966, but this plan was terminated on April 1, 2007 and integrated into the corporate pension plan.

Lump sum retirement allowance:

The Company and domestic consolidated subsidiaries provide lump sum retirement allowances based on retirement benefit regulations. In some cases, employees may receive an additional retirement allowance upon retirement.

2. Retirement benefit obligations

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2012 (February 29, 2012)	**Fiscal 2013 (February 28, 2013)**	**Fiscal 2013 (February 28, 2013)**
(1) Retirement benefit obligations	(11,604)	**(12,213)**	**(132,018)**
(2) Pension assets	9,024	**9,938**	**107,426**
(3) Subtotal (1) + (2)	(2,580)	**(2,275)**	**(24,592)**
(4) Unrecognized actuarial differences	1,648	**326**	**3,524**
(5) Total (3) + (4)	(931)	**(1,949)**	**(21,068)**
(6) Prepaid pension costs	(3,995)	**(3,170)**	**(34,267)**
(7) Provision for retirement benefits (5) + (6)	(4,927)	**(5,119)**	**(55,335)**

3. Retirement benefit costs

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2012 (March 1, 2011 – February 29, 2012)	**Fiscal 2013 (March 1, 2012 – February 28, 2013)**	**Fiscal 2013 (March 1, 2012 – February 28, 2013)**
(1) Service costs	548	**575**	**6,216**
(2) Interest costs	223	**228**	**2,465**
(3) Expected return on plan assets	(267)	**(261)**	**(2,821)**
(4) Amortization of actuarial differences	728	**989**	**10,691**
(5) Retirement benefit expenses	1,232	**1,531**	**16,550**

Notes: 1. Excludes employee contributions to the corporate pension plan.
2. Retirement benefit expenses at consolidated subsidiaries using the simplified method are recorded under “(1) Service costs.”

4. Basis for calculating retirement benefit obligations

(1) Allocation of expected retirement benefits — Straight-line method

(2) Discount rate

Fiscal 2012 (March 1, 2011 – February 29, 2012)	**Fiscal 2013 (March 1, 2012 – February 28, 2013)**
2.00%	2.00%

(3) Expected return on plan assets

Fiscal 2012 (March 1, 2011 – February 29, 2012)	**Fiscal 2013 (March 1, 2012 – February 28, 2013)**
2.90%	2.90%

(4) Amortization period of prior service costs

Two years (amortized in equal amounts for a fixed number of years that is less than the average remaining years of service of employees when incurred)

(5) Amortization period of actuarial differences

Five years (amortized starting in the next consolidated fiscal year in equal amounts for a fixed number of years that is less than the average remaining years of service of employees when incurred.)

TAX EFFECT ACCOUNTING

1. Main reasons for deferred tax assets and deferred tax liabilities.

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2012	**Fiscal 2013**	**Fiscal 2013**
Deferred tax assets:			
Provision for retirement benefits	1,724	**1,798**	**19,436**
Provision for directors' retirement benefits	434	**459**	**4,962**
Accrued enterprise tax	344	**351**	**3,794**
Allowance for doubtful accounts	236	**240**	**2,594**
Inventories	181	**99**	**1,070**
Excess depreciation	645	**586**	**6,334**
Intangible fixed assets	2,886	**1,967**	**21,263**
Valuation losses on memberships	265	**248**	**2,681**
Loss on valuation of investment securities	946	**945**	**10,215**
Provision for bonuses	373	**360**	**3,891**
Outsourced research and development	1,376	**759**	**8,205**
Other	1,551	**1,791**	**19,360**
Sub-total deferred tax assets	10,966	**9,607**	**103,848**
Valuation allowance	(2,202)	**(2,413)**	**(26,084)**
Total deferred tax assets	8,764	**7,193**	**77,754**
Deferred tax liabilities:			
Stock and investments in affiliated companies	(2,580)	**(1,845)**	**(19,944)**
Prepaid pension costs	(1,413)	**(1,121)**	**(12,118)**
Other	(1,966)	**(1,877)**	**(20,290)**
Total deferred tax liabilities	(5,960)	**(4,844)**	**(52,362)**
Net deferred tax assets	2,803	**2,349**	**25,392**

Note: The net value of deferred tax assets are included in the following consolidated balance sheet categories:

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2012	**Fiscal 2013**	**Fiscal 2013**
Current assets – deferred tax assets	2,896	**2,281**	**24,657**
Noncurrent assets – deferred tax assets	1,402	**460**	**4,972**
Noncurrent liabilities – deferred tax liabilities	(1,495)	**(392)**	**(4,237)**

2. Main reasons for difference in statutory tax rate and income tax rate after application of tax effect accounting

	Fiscal 2012	**Fiscal 2013**
Statutory tax rate	40.4%	—
Adjustments:		
Non-deductible expenses, such as entertainment expenses	1.3	—
Non-taxable income, such as dividend income	(0.3)	—
Special tax exemption for experimental research and development	(3.8)	—
Valuation allowance	4.2	—
Other	0.7	—
Income tax rate after application of tax effect accounting	42.5	—

Note: Because the difference in the statutory tax rate and the income tax after the application of tax effect accounting is less than five per cent of the statutory tax rate, notes for Fiscal 2013 are omitted.

INVESTMENT AND RENTAL PROPERTY

Because the total amount of investment and rental property is not material, this item is not stated.

SEGMENT INFORMATION

1. Outline of reportable segments

The Company engages in business activities primarily in research and development, manufacturing, purchase, and sales of pharmaceuticals, where “Pharmaceuticals” is the concerned reportable segment.
“Pharmaceuticals” is conducting business related to ethical and OTC pharmaceuticals both in Japan and overseas.

2. Method to calculate the amounts of net sales, profit or loss, assets, liabilities and other items by reportable segment

Because the reportable segment of the Company is “Pharmaceuticals” only, this item is not stated.

3. Information regarding the amounts of net sales, profit or loss, assets, liabilities and other items by reportable segment

Because the reportable segment of the Company is “Pharmaceuticals” only, this item is not stated.

4. Difference between the aggregate of all reportable segments and the consolidated financial statements amount, and the details of such difference (items concerning the adjustment of difference)

Because the reportable segment of the Company is “Pharmaceuticals” only, this item is not stated.

RELATED INFORMATION

Fiscal 2012 (March 1, 2011 – February 29, 2012)

1. Information by product/service segment

This information is omitted, as net sales to external customers in single product/service segment accounts for more than 90% of net sales in the consolidated statements of income.

2. Information by geographic segment

(1) Net sales

(Millions of yen)

Japan	North America	Other	Total
116,644	**12,541**	**8,608**	**137,794**

Note: Net sales are segmented into countries or territories according to the location of the customer.

(2) Tangible fixed assets

(Millions of yen)

Japan	North America	Other	Total
37,029	**4,495**	**1,832**	**43,357**

3. Information by significant customer

(Millions of yen)

Name of customers	Net sales	Related segment
Alfresa Holdings Corporation	**25,648**	Pharmaceuticals
Medipal Holdings Corporation	**25,066**	Pharmaceuticals

Note: Effective October 1, 2012, Alfresa Holdings Corporation made TOKIWA YAKUHIN CO., LTD its wholly-owned subsidiary. The foregoing figures have been adjusted to enable comparison with the amounts after the change.

Fiscal 2013 (March 1, 2012 – February 28, 2013)

1. Information by product/service segment

This information is omitted, as net sales to external customers in single product/service segment accounts for more than 90% of net sales in the consolidated statements of income.

2. Information by geographic segment

(1) Net sales

(Millions of yen)

Japan	North America	Other	Total
119,242	**14,135**	**9,394**	**142,772**

(Thousands of U.S. dollars)

Japan	North America	Other	Total
1,288,963	**152,794**	**101,546**	**1,543,314**

Note: Net sales are segmented into countries or territories according to the location of the customer.

(2) Tangible fixed assets

(Millions of yen)

Japan	North America	Other	Total
35,128	**5,976**	**2,115**	**43,219**

(Thousands of U.S. dollars)

Japan	North America	Other	Total
379,721	**64,598**	**22,862**	**467,182**

3. Information by significant customer

(Millions of yen)

Name of customers	Net sales	Related segment
Alfresa Holdings Corporation	**26,314**	Pharmaceuticals
Medipal Holdings Corporation	**26,007**	Pharmaceuticals

(Thousands of U.S. dollars)

Name of customers	Net sales	Related segment
Alfresa Holdings Corporation	**284,445**	Pharmaceuticals
Medipal Holdings Corporation	**281,126**	Pharmaceuticals

Information on the impairment loss of noncurrent assets by reportable segment

Fiscal 2012 (March 1, 2011 – February 29, 2012) and Fiscal 2013 (March 1, 2012 – February 28, 2013)
Because the reportable segment of the Company is “Pharmaceuticals” only, this item is not stated.

Information on the amortization of goodwill and unamortized balance by reportable segment

Fiscal 2012 (March 1, 2011 – February 29, 2012) and Fiscal 2013 (March 1, 2012 – February 28, 2013)
Because the reportable segment of the Company is “Pharmaceuticals” only, this item is not stated.

Information on the gain on negative goodwill by reportable segment

Fiscal 2012 (March 1, 2011 – February 29, 2012) and Fiscal 2013 (March 1, 2012 – February 28, 2013)
Not applicable.

RELATED PARTY INFORMATION

Fiscal 2012 (March 1, 2011 – February 29, 2012)

1. Transactions with related parties

Not applicable.

2. Notes to parent entities or significant affiliated companies

Summarized financial statements of significant affiliated companies

For FY2/12, the significant affiliated company is Novogyne Pharmaceuticals and its summarized financial statement is as follows.

	(Millions of yen)
Total current assets	**5,363**
Total noncurrent assets	**523**
Total current liabilities	**1,854**
Total net assets	**4,031**
Net sales	**20,262**
Income before income taxes	**13,852**

Fiscal 2013 (March 1, 2012–February 28, 2013)

1. Transactions with related parties

Affiliated companies, etc.

Type	Name of company, etc	Location	Capital or investment (Millions of yen)	Capital or investment (Thousands of U.S. dollars)	Business activities or occupation	Holding (held) of voting rights, etc. (%)
Affiliate	Yutoku Pharmaceutical Ind. Co., Ltd.	Kashima, Saga	120	1,297	Pharmaceuticals	Holding Direct 15.0

Relationship with related party	Description of transaction	Amount of transaction (Millions of yen)	Amount of transaction (Thousands of U.S. dollars)	Item	Balance at end of the fiscal year (Millions of yen)	Balance at end of the fiscal year (Thousands of U.S. dollars)
Selling of products						
Purchase of merchandise	Selling of products	9,344	101,005	Account receivable-trade	3,014	32,580
Interlocking of executives	Purchase of merchandise	14	151	Accounts payable-trade	4	43

Notes: 1. Transaction amounts do not include consumption tax.
2. Terms and conditions for the purchasing and selling of products and merchandises are determined similarly to general trading terms and conditions following discussions taking into account market prices.

2. Notes on parent entities or significant affiliated companies

Summarized financial statements of significant affiliated companies

For FY2/13, the significant affiliated company is Novogyne Pharmaceuticals and its summarized financial statement is as follows.

	(Millions of yen)	(Thousands of U.S. dollars)
Total current assets	**7,564**	**81,764**
Total noncurrent assets	**514**	**5,556**
Total current liabilities	**2,008**	**21,706**
Total net assets	**6,070**	**65,615**
Net sales	**29,042**	**313,934**
Income before income taxes	**18,750**	**202,681**

PER SHARE INFORMATION

	(Yen)		(U.S. dollars)
	Fiscal 2012	**Fiscal 2013**	**Fiscal 2013**
Net assets per share	1,730.22	**1,951.54**	**21.10**
Net income per share	215.09	**219.56**	**2.37**

Notes: 1. Diluted net income per share is not listed due to the absence of residual securities.
2. The basis for the calculation of net assets per share is as follows.

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2012	**Fiscal 2013**	**Fiscal 2013**
Total net assets in the consolidated balance sheets	149,263	**167,933**	**1,815,296**
Net assets attributable to common shareholders	148,226	**167,186**	**1,807,221**
Main differences Minority interests	1,036	**747**	**8,075**
Common stock issued (Thousands of shares)	95,164	**95,164**	**—**
Common stock held in treasury (Thousands of shares)	9,495	**9,496**	**—**
Common stock used in calculating net assets per share (Thousands of shares)	85,669	**85,668**	**—**

3.The basis for the calculation of net income per share is as follows.

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2012	**Fiscal 2013**	**Fiscal 2013**
Net income	18,439	**18,809**	**203,319**
Amount not attributable to common shareholders	—	**—**	**—**
Net income attributable to common shareholders	18,439	**18,809**	**203,319**
Average common stock during year (Thousands of shares)	85,726	**85,669**	**—**

SIGNIFICANT SUBSEQUENT EVENTS

Not applicable.

Supplementary Schedule

Supplementary schedule of bonds payable

Not applicable.

Supplementary schedule of loans payable

	(Millions of yen)		(Thousands of U.S. dollars)	(%)	
Category	Balance at the beginning of Fiscal 2013	**Balance at the end of Fiscal 2013**	**Balance at the end of Fiscal 2013**	Average interest rate	Due date
Short-term loans	1,651	**1,440**	**15,566**	0.62	—
Current portion of long-term loans	2,793	**234**	**2,529**	0.95	—
Current portion of long-term lease obligation	111	**125**	**1,351**	—	—
Long-term loans (excluding current portion)	1,224	**989**	**10,691**	1.07	March 1, 2014 to March 31, 2026
Lease obligation (excluding current portion)	304	**245**	**2,648**	—	March 1, 2014 to January 31, 2019
Other liabilities	—	**—**	**—**	—	—
Total	6,085	**3,036**	**32,818**	—	—

Notes: 1. Average interest rate is the weighted average interest rate for the year-end balances of loans, etc.
2. Repayments of current portion of long-term loans, include ¥103 million in interest free loans from the Development Bank of Japan Inc.
3. The average interest rate on lease obligations is not listed, mainly because lease obligations are stated in the consolidated balance sheet mainly as a total before deduction of the equivalent of interest contained in the total lease payment.
4. Repayments of long-term loans (excluding current portion), include ¥127 million in interest free loans from the Development Bank of Japan Inc.
5. Yearly repayments of long-term loans and lease obligations (both excluding current portion) within five years after the consolidated balance sheet date are as follows:

(Millions of yen)

Category	Due after one year but within two years	Due after two years but within three years	Due after three years but within four years	Due after four years but within five years
Long-term loans	153	108	78	71
Lease obligations	107	95	23	12

(Thousands of U.S. dollars)

Category	Due after one year but within two years	Due after two years but within three years	Due after three years but within four years	Due after four years but within five years
Long-term loans	1,654	1,167	843	767
Lease obligations	1,157	1,027	249	130

Supplementary schedule of asset retirement obligations

Not applicable.

Other

Consolidated sales and income for Fiscal 2013

	(Millions of yen)			
(Cumulative)	Three months ended May 31, 2012	Six months ended August 31, 2012	Nine months ended November 30, 2012	Fiscal 2013
Net sales	34,670	71,932	107,357	142,772
Income before taxes and minority interests	6,232	16,025	25,589	31,991
Net income	3,613	9,334	15,021	18,809
Net income per share (yen)	42.18	108.96	175.34	219.56

	(Thousands of U.S. dollars)			
(Cumulative)	Three months ended May 31, 2012	Six months ended August 31, 2012	Nine months ended November 30, 2012	Fiscal 2013
Net sales	374,770	777,559	1,160,491	1,543,314
Income before taxes and minority interests	67,366	173,225	276,608	345,811
Net income	39,055	100,897	162,372	203,319
Net income per share (U.S. dollars)	0.46	1.18	1.90	2.37

	(yen)			
(Quarterly)	First quarter	Second quarter	Third quarter	Fourth quarter
Net income per share	42.18	66.78	66.39	44.22

	(U.S. dollars)			
(Quarterly)	First quarter	Second quarter	Third quarter	Fourth quarter
Net income per share	0.46	0.72	0.72	0.48

Corporate Information

Stock Information

(1) Total number of shares

1) Total number of shares

Type of shares	Total authorized shares
Common stock	380,000,000
Total	380,000,000

2) Shares issued

Type of shares	Shares issued at end-Fiscal 2013 (February 28, 2013)	Shares issued on filing date (May 24, 2013)	Names of listing stock exchanges or registered securities dealers associations	Details
Common stock	95,164,895	95,164,895	Tokyo Stock Exchange (First Section) Nagoya Stock Exchange (First Section) Fukuoka Stock Exchange	All voting shares, standard shares with unlimited rights (Voting units: 100 shares)
Total	95,164,895	95,164,895	—	—

(2) Status of share subscription rights to shares

Not applicable.

(3) Execution of warrant bonds, etc. with clause allowing change in exercise price

Not applicable.

(4) Details of rights plans

Not applicable.

(5) Changes in shares issued, capital stock, and other items

	(Shares)		(Millions of yen)			
Date	Change in shares issued	Shares issued	Change in capital stock	Capital stock	Change in additional paid-in capital	Additional paid-in capital
July 5, 2002(Note)	—	95,164,895	—	8,473	(6,123)	2,118

	(Shares)		(Thousands of U.S. dollars)			
Date	Change in shares issued	Shares issued	Change in capital stock	Capital stock	Change in additional paid-in capital	Additional paid-in capital
July 5, 2002(Note)	—	95,164,895	—	91,590	(66,187)	22,895

Note: The decrease in additional paid-in capital was based on provisions in Article 289-2 of the former Commercial Code (creditor protection procedures were completed on July 5, 2002)

(6) Details of shareholders

As of February 28, 2013

Category	Status of shares (Investment unit comprises 100 shares)								
	National and local government	Financial institutions	Securities companies	Other corporations	Foreign shareholders		Individuals and other	Total	Shares under one unit (shares)
					Non-individuals	Individuals			
Shareholders (entities)	—	49	22	178	300	4	4,010	4,563	—
Shares owned (units)	—	463,635	3,389	169,311	124,944	15	189,894	951,188	46,095
Ratio (%)	—	48.74	0.36	17.80	13.14	0.00	19.96	100.00	—

Note: Treasury stock of 9,469,371 are listed as 94,693 units in the individuals and other column and as 71 shares in the shares under one unit column. The 9,469,371 treasury share figure is the number of shares listed in the shareholder registry.

(7) Principal shareholders

As of February 28, 2013

Name	Address	Shares owned (thousand shares)	Percentage of shares outstanding (%)
Japan Trustee Service Bank, Ltd. (trust account)	1-8-11 Harumi, Chuo-ku, Tokyo	5,973	6.28
Nippon Life Insurance Company	1-6-6 Marunouchi, Chiyoda-ku, Tokyo	4,887	5.14
The Master Trust Bank of Japan, Ltd. (trust account)	2-11-3 Hamamatsucho, Minato-ku, Tokyo	4,807	5.05
The Nomura Trust and Banking Co., Ltd. (The Bank of Tokyo-Mitsubishi UFJ, Ltd. pension trust account)	2-2-2 Otemachi, Chiyoda-ku, Tokyo	4,387	4.61
Japan Trustee Service Bank, Ltd. (Resona Bank, Ltd. retrust account, The Nishi-Nippon City Bank, Ltd. pension trust account)	1-8-11 Harumi, Chuo-ku, Tokyo	4,370	4.59
The Bank of Fukuoka, Ltd.	2-13-1 Tenjin, Chuo-ku, Fukuoka	3,871	4.07
The Bank of Saga, Ltd.	2-7-20 Tojin, Saga	3,356	3.53
Japan Trustee Service Bank, Ltd. (Sumitomo Mitsui Trust Bank, Ltd. retrust account, Sumitomo Mitsui Banking Corporation pension trust account)	1-8-11 Harumi, Chuo-ku, Tokyo	2,064	2.17
Japan Trustee Service Bank, Ltd. (Sumitomo Mitsui Trust Bank, Ltd. retrust account; Resona Bank, Ltd. pension trust account)	1-8-11 Harumi, Chuo-ku, Tokyo	2,000	2.10
BBH for Matthews Asian Growth and Income Fund (Standing proxy: The Bank of Tokyo-Mitsubishi UFJ, Ltd.)	Four Embarcadero Center Suite 550 San Francisco, CA 94111 U.S.A. (2-7-1 Marunouchi, Chiyoda-ku, Tokyo)	1,983	2.08
Total		37,701	39.62

Notes: 1. The number of the foregoing shares related to fiduciary services is as follows.

Japan Trustee Service Bank, Ltd.: 14,407 thousand shares

The Master Trust Bank of Japan, Ltd.: 4,807 thousand shares

The Nomura Trust and Banking Co., Ltd.: 4,387 thousand shares

2. In addition to the shares listed above, the company owns treasury stock of 9,469 thousand shares (9.95%).

Corporate Information

(8) Information on transfer of the Company's stock

Stock exchange listings	First sections of the Tokyo Stock Exchange, and Nagoya Stock Exchange, and the Fukuoka Stock Exchange (stock code: 4530)
Stock registrar	Mitsubishi UFJ Trust and Banking Corporation 1-4-5 Marunouchi, Chiyoda-ku, Tokyo
Annual general meeting of shareholders	May each year
Ex dividend date	End of February (August 31 for interim dividend)
Record date	Record date for the annual general meeting of shareholders is the end of February. Report in advance if otherwise needed.
Newspaper for public announcements	Nihon Keizai Shimbun
Stock related inquiries	Stock Section, General Affairs Department, Kyushu Head Office 408 Tashiro Daikan-machi, Tosu-shi Saga Tel: +81 942-83-2101 Fax: +81 942-83-6119 Website: http://www.hisamitsu.co.jp

Corporate Information

Group Companies

Our corporate group comprises Hisamitsu Pharmaceutical, 17 consolidated subsidiaries, and Four equity-method affiliates.

Name	Location	Capital or investment	Main business activities	Voting rights (%)	Relationship					Remarks
					Concurrent employees		Capital support from Hisamitsu	Business transactions	Other	
					Hisamitsu officers (Persons)	Hisamitsu employees (Persons)				
Consolidated subsidiaries										
CRCC Media Co., Ltd.	Kurume, Fukuoka	¥1,115 million	Other businesses	69.50	1	4	Debt guarantees	—	—	Note 3
Saga City-Vision Co., Ltd.	Saga, Saga	¥605 million	Other businesses	70.12	—	3	Debt guarantees	—	—	
Taiyo Co., Ltd.	Tosu, Saga	¥50 million	Other businesses	100	1	3	—	Agent for casualty insurance contracts for Hisamitsu	Hisamitsu leases land	
Kyudo Co., Ltd.	Tosu, Saga	¥10 million	Other businesses	100	1	2	—	Provide laboratory animals and equip-ment to Hisamitsu	Hisamitsu leases land & buildings	
Hisamitsu Agency Co., Ltd.	Kurume, Fukuoka	¥25 million	Other businesses	100 (100)	—	3	—	Provide advertising agency services to Hisamitsu	Hisamitsu leases part of a lease building	
Hisamitsu U.S., Inc.	Delaware USA	USD 10	Pharmaceuticals	100	1	—	—	—	—	Note 3
Hisamitsu America, Inc.	California, USA	USD 3,000,000	Pharmaceuticals	100 (100)	1	1	Working capital loans	Selling products supplied by Hisamitsu	—	
Noven Pharmaceuticals, Inc.	Florida, USA	USD 10	Pharmaceuticals	100 (100)	2	—	Working capital loans	Hisamitsu outsources development	—	Note 3
Hisamitsu Farmaceutica do Brasil Ltda.	Manaus, Brazil	BRL 15 million	Pharmaceuticals	100	—	3	—	Manufacture and sell products in Brazil, with products and some raw materials supplied by Hisamitsu	—	Note 3
Hisamitsu UK Ltd.	London, UK	GBP 120,000	Pharmaceuticals	100	1	1	—	Hisamitsu outsources development	—	
Hisamitsu Vietnam Pharmaceutical Co., Ltd.	Bien Hoa, Vietnam	VND 258,775 million	Pharmaceuticals	100	—	4	Working capital loans Debt guarantees	Manufacture and sell products in Vietnam, with products and some raw materials supplied by Hisamitsu	—	Note 3
Hisamitsu Pharmaceutical Technology Consulting (Beijing) Co., Ltd.	Beijing, China	CNY 1,206 thousand	Pharmaceuticals	100	1	3	—	Hisamitsu outsources medical marketing	—	
PT. Hisamitsu Pharma Indonesia	Surabaya, Indonesia	IDR 32,518 million	Pharmaceuticals	75	1	2	—	Manufacture and sell products in Indonesia, with products and some raw materials supplied by Hisamitsu	—	
4 other companies	—	—	—	—	—	—	—	—	—	

Corporate Information

Name	Location	Capital or investment	Main business activities	Voting rights (%)	Relationship					Remarks
					Concurrent employees		Capital support from Hisamitsu	Business transactions	Other	
					Hisamitsu officers (Persons)	Hisamitsu employees (Persons)				
Equity-method affiliates										
Sanofi-Hisamitsu K.K.	Shinjuku Tokyo	¥250 million	Pharmaceuticals	49.0	1	3	—	Supplies raw materials to Hisamitsu	—	
Yutoku Pharmaceutical Ind. Co., Ltd.	Kashima, Saga	¥120 million	Pharmaceuticals	15.0	1	1	—	Manufacture and sell products with some products supplied by Hisamitsu, supply some products of Hisamitsu	—	
Maruto Sangyo Co., Ltd.	Ogori, Fukuoka	¥1,807 million	Other businesses	39.9	1	3	—	Supplies raw materials to Hisamitsu	—	Note 4
Novogyne Pharmaceuticals	Delaware, USA	USD 32 million	Pharmaceuticals	49.0 (49.0)	—	—	—	—	—	

Notes: 1. Main business activities column lists names of business segments.
2. There are no companies in accounting insolvency that would significantly affect the consolidated financial statements.
3. Specified subsidiary.
4. Listed and files financial statements.
5. Figures in parenthesis in the voting rights column indicate indirect ownership.
6. Key earnings information for the foregoing consolidated subsidiaries is not listed because sales at these companies account for less than 10% of consolidated sales (excluding internal sales between consolidated subsidiaries).

Management

President & CEO	NAKATOMI, Hirotaka
Senior Managing Director	NAKATOMI, Kazuhide
Senior Managing Director	SUEYASU, Kensaku
Managing Director	AKIYAMA, Tetsuo
Managing Director	NODA, Takehiko
Managing Director	SUGIYAMA, Kousuke
Director	TSURUDA, Toshiaki
Director	HIGO, Naruhito
Director	KABASHIMA, Mitsumasa
Director	TAKAO, Shinichiro
Director	SAITO, Kyu

Standing Corporate Auditor	NAKATOMI, Nobuyuki
Standing Corporate Auditor	UEDA, Masahiro
Standing Corporate Auditor	HIRANO, Munehiko
Corporate Auditor	ONO, Keinosuke
Corporate Auditor	ICHIKAWA, Isao
Corporate Auditor	TOKUNAGA, Tetsuo

Notes: 1. NAKATOMI Nobuyuki, Standing Corporate Auditor, is the younger brother of NAKATOMI Hirotaka, President & CEO.
2. NAKATOMI Kazuhide, Senior Managing Director, is the first son of NAKATOMI Hirotaka, President & CEO.
3. Corporate Auditors ONO Keinosuke, ICHIKAWA Isao, and TOKUNAGA Tetsuo are Outside Corporate Auditors provided for under Article 2, Paragraph 16, of the Companies Act.

Corporate Information

Company Profile

Company name	Hisamitsu Pharmaceutical Co., Inc.
Founded	1847
Established	May 22, 1944
Head office	408 Tashiro Daikan-machi, Tosu, Saga
Representative	NAKATOMI, Hirotaka, President & CEO
Capital	¥8,473,839,816
Fiscal year	March 1 – End of February

Number of employees

Business segment	Employees (As of February 28, 2013)
Pharmaceuticals	2,671 (560)
Other businesses	155 (50)
Total	2,826 (610)

Note: Employee figures are for full-time employees. Temporary employees are shown in parentheses; these figures are averages for the fiscal year and are not included in totals.

Hisamitsu Pharmaceutical Co., Inc.

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