Hisamitsu®

Salonpas®

FINANCIAL REPORT 2014

For the Fiscal Year Ended February 28, 2014

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 ¥101.94=U.S.$1.00, the approximate rate of exchange on February 28, 2014.

Contents

Consolidated Financial Highlights

Years ended the last day of February

	Fiscal 2010	Fiscal 2011	Fiscal 2012	Fiscal 2013	Fiscal 2014	Fiscal 2014
			(Millions of yen)			(Thousands of U.S. dollars)
Net sales	129,834	137,184	137,794	142,772	150,635	1,477,683
Operating income	28,585	28,193	25,937	25,326	19,123	187,591
Ordinary income	31,231	33,236	33,494	33,051	28,910	283,598
Net income	18,423	20,956	18,439	18,809	21,357	209,506
Comprehensive income	—	—	17,458	24,740	34,448	337,924
Net assets	130,976	141,222	149,263	167,933	196,308	1,925,721
Total assets	193,551	194,787	192,838	214,141	251,852	2,470,591
Net assets per share (yen and dollars)	1,500.92	1,618.69	1,730.22	1,951.54	2,281.40	22.38
Net income per share (yen and dollars)	210.78	241.80	215.09	219.56	249.30	2.45
Diluted net income per share (yen and dollars)	—	—	—	—	—	—
Shareholders' equity ratio (%)	67.2	72.0	76.9	78.1	77.6	—
Return on equity (ROE) (%)	14.5	15.5	12.8	11.9	11.8	—
Price-earnings ratio (PER) (times)	15.4	13.6	17.1	24.5	19.1	—
Net cash provided by operating activities	20,498	36,342	25,558	32,485	35,845	351,628
Net cash used in investing activities	(32,547)	(8,248)	(15,473)	(7,946)	(5,843)	(57,318)
Net cash provided by (used in) financing activities	4,899	(15,659)	(13,010)	(9,288)	(6,476)	(63,528)
Cash and cash equivalents, end of year	26,232	37,654	34,222	50,860	77,780	762,998
Number of employees [average temporary staff]	2,562 [369]	2,635 [415]	2,718 [503]	2,826 [610]	2,949 [625]	— [—]

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

Looking back on business conditions in the domestic market for the fiscal year ended February 28, 2014, in the ethical pharmaceuticals business, sales of mainstay products such as MOHRUS® TAPE and new products NEOXY® TAPE and Abstral® Sublingual Tablets dropped slightly from the previous fiscal year, despite efforts to provide medical institutions with scientific information about our products. Regarding OTC pharmaceuticals business, sales grew significantly for allegra® FX which was launched during the previous fiscal year, while mainstay products such as SALONPAS®, and FEITAS® families also continued to perform strongly.

In overseas markets, pharmaceutical sales expanded steadily in North America as well as in other areas. Net sales at U.S. subsidiary Noven Pharmaceuticals Inc. also made a positive contribution due to factors such as the impact of the exchange rate.

We achieved revenue growth as a result of the above, with consolidated net sales increasing 5.5% year on year to ¥150,635 million. In terms of profits, consolidated operating income decreased 24.5% year on year to ¥19,123 million, and consolidated ordinary income decreased 12.5% year on year to ¥28,910 million, reflecting factors such as the increase in selling, general and administrative expenses associated with strengthening sales promotion. However, thanks mainly to the posting of extraordinary income from distribution license fees for NEOXY® TAPE, consolidated net income increased 13.5% year on year to ¥21,357 million.

We invite all our investors to look forward to further development of the Group's businesses, and ask for your continued support and encouragement.

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 witnessed a gradual recovery affected by expectations for economic improvement thanks to new economic policies, which resulted in improved stock prices and export conditions due to the depreciating yen.

However, uncertainty prevailed against the backdrop of a sluggish world economy, mostly seen in emerging countries.

The operating environment for the ethical pharmaceutical industry in Japan remained severe due to the government's basic stance of curtailing healthcare spending, which involves enhanced measures to promote generic drug use.

We have responded to the changes by engaging in our 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, 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. (hereinafter referred to as "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 38 organizations including 7 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 various support for the "SAGA Heavy Ion Medical Accelerator in Tosu (SAGA HIMAT) Project" that was launched to contribute to the crusade against cancer.

SAGA HIMAT was established in May 2013, and started treatment of prostate cancer using heavy ion radiotherapy from August 2013.

In November 2013, by fulfilling the national standard criteria, heavy ion radiotherapy became available as advanced medical care.

Hisamitsu Springs, a women's volleyball team, won 5 titles in 2013 (the National Sports Festival championship, championship of the Emperor's Cup and Empress's Cup All Japan Volleyball Championship, V.Premier League championship, the Japan Korea V.League Top Match championship, and the Kurowashiki All Japan Volleyball Tournament championship), which was the first time in women's volleyball history. In addition, the team held volleyball classes in a number of prefectures, mostly in Saga and Hyogo.

For the coming 2020 Tokyo Olympics, we will continue to contribute to the further development and improvement of sports culture.

"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 FY2/14 due to 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 and MOHRUS® PAP, ketoprofen transdermal patches; ESTRANA® TAPE, an estradiol transdermal patch; 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 June 2013, we also began marketing NEOXY® TAPE 73.5 mg, an oxybutynin hydrochloride transdermal patch, as a new alternative for the treatment of an overactive bladder.

In December 2013, we also began marketing Abstral® Sublingual Tablets in 100 μg, 200 μg, and 400 μg, a cancer pain relief as a new alternative for the treatment of pain.

The tablets are marketed jointly with Kyowa Hakko Kirin Co., Ltd. in order to enhance activities for product distribution and providing information in Japan.

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

In September 2013, in order to acquire new customers, we began marketing FEITAS® 5.0 and FEITAS® 5.0 large-sized, a transdermal anti-inflammatory pain relief tape containing 5.0% of felbinac.

In October 2013, the product groups of FEITAS® and NOBINOBI® SALONSIP® received the Good Design Award 2013 for our efforts in product development from the customer's perspective, especially their user-friendly features such as being easier to patch and peel off.

Overseas, in November 2013, we began marketing BRISDELLE® CAPSULE 7.5 mg, a non-hormonal treatment agent in the category of ethical pharmaceuticals.

This product was developed as a remedy for moderate to severe menopausal vasomotor symptom (VMS), so-called hot flash, and was the first non-hormone therapeutic agent product approved by the FDA (the U.S. Food and Drug Administration).

In January 2014, Noven entered a co-promotion agreement with Shionogi Inc. in order to increase the recognition of this product to medical professionals.

In addition, we began the marketing in Thailand, Brazil and Malaysia of SALONPAS® PAIN RELIEF PATCH, the first anti-inflammatory pain relief patch product approved by the FDA in the category of OTC pharmaceuticals.

As a result of these business activities, net sales grew 5.5% year on year, or ¥7,862 million, to ¥150,635 million. Operating income declined 24.5% year on year, or ¥6,203 million, to ¥19,123 million. Ordinary income decreased 12.5% year on year, or ¥4,140 million, to ¥28,910 million; and net income increased 13.5% year on year, or ¥2,547 million, to ¥21,357 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 2014**		**Fiscal 2014**
Pharmaceuticals	**147,439**	**+5.6**	**1,446,331**
Other businesses	**3,196**	**(0.2)**	**31,352**
Total	**150,635**	**+5.5**	**1,477,683**

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

	(Millions of yen)				(Thousands of U.S. dollars)
Customer	Sales Fiscal 2013	% of total	Sales **Fiscal 2014**	% of total	**Fiscal 2014**
Alfresa Holdings Corporation	26,314	18.4	**26,132**	**17.3**	**256,347**
Medipal Holdings Corporation	26,007	18.2	**25,980**	**17.2**	**254,856**

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 by combining our areas of strength in technology, as well as expanding and strengthening our 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 NEOXY® TAPE, a transdermal patch to treat an overactive bladder 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 to establish the Hisamitsu brand in the US and to ensure future growth, and Hisamitsu Pharmaceutical Technology Consulting (Beijing) Co., Ltd. was established as a local subsidiary in order to enter the rapidly growing Chinese market and promote our pharmaceutical business, etc.

Overview of Operations

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.

For licensing activities, we entered an agreement with Mundipharma K.K. for exclusive distribution rights in Japan of the ethical pharmaceutical NORSPAN® TAPE, which is a transdermal sustained-release pain relief patch for the treatment of chronic pain associated with osteoarthritis and low back pain not being controlled sufficiently with non-opioid analgesics. We are also actively pursuing OTC pharmaceuticals, including the acquisition of distribution rights from Sanofi K.K. of allegra® FX, an allergic nasal inflammation medication and a switch OTC product for allegra® 60 mg marketed as an ethical pharmaceutical for allergic disease treatment.

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%. In the “5th Medium-term Management Plan for FY2014-2018” released as of May 13, 2014, the targets for FY2018 are 11% or more in ROE, 40% or more in payout ratio, and 4.5% or more in Dividend on Equity (DOE).

Further, we have implemented structural reforms as we have placed priority on creating an organization capable of responding quickly to changes in the business environment, as well as enhanced corporate governance, in order to enhance management transparency and ensure compliance. To be specific, we have established the Management Advisory Council, introduced an executive officer system, established the Crisis Management Committee, prepared the Hisamitsu Corporate Charter summarizing behavior based on high ethical and moral standards as an employee, which was ensured for officers and employees by the Compliance Promotion Committee and Compliance Promotion Office, introduced the System of Outside Corporate Auditors, prepared basic internal control policies, established the Internal

Audit Department, established the Privacy Protection Committee, and prepared Disclosure Policy Rules to provide timely and appropriate disclosure of corporate information.

Going forward, we seek to create a stronger bond of trust with our stakeholders as a good corporate citizen and to ensure and enhance the company's enterprise value and the common interests of shareholders, and thus, we plan to continue to achieve our basic policy.

(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 (takeover defense measures)" was approved to be adopted with an effective period until the conclusion of the annual general meeting of shareholders for the fiscal year ended February 28, 2011 (hereinafter "the Plan"). After that, the necessary measures were revised, and the renewals were approved by shareholders at the 109th annual general meeting of shareholders held on May 26, 2011 and the 112th annual general meeting of shareholders held on May 22, 2014, respectively (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 and in granting a period for review and evaluation by this independent committee and the board of directors. 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, 2017. 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.

Co-promotion agreement

(1) Noven Pharmaceuticals, our U.S. subsidiary concluded a co-promotion agreement with Shionogi Inc., the U.S. subsidiary of Shionogi & Co., Ltd. to co-promote BRISDELLE® CAPSULE 7.5 mg, a non-hormonal treatment agent on January 13, 2014.

1) Counterparty to the agreement
Shionogi Inc.
2) Agreement details
Co-promotion agreement with Shionogi, Inc. to co-promote Noven Pharmaceuticals' BRISDELLE® CAPSULE 7.5 mg, an FDA-approved non-hormonal treatment agent.
3) Compensation
Compensation commensurate with co-promotion performance.

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 NEOXY® TAPE (development code: HOB-294; active pharmaceutical Ingredient: oxybutynin hydrochloride), a transdermal patch to treat an overactive bladder, on March 25, 2013. We received approval for the additional indication and dosage and administration of ESTRANA® TAPE, an estradiol transdermal patch, for treatment of hypoestrogenism due to hypogonadism or other reasons, on February 21, 2014. This was evaluated to have high medical needs by the Evaluation Committee on Unapproved or Off-Labeled Drugs with High Medical Needs, and development was requested by the Ministry of Health, Labour and Welfare. Phase 3 trials have been completed for the FENTOS® TAPE (development code: HFT-290), a transdermal sustained-release cancer pain relief patch, additional indications of chronic pain relief, and an application for approval for additional indications of chronic pain relief has been filed on July 31, 2013. Phase 2 trials have been completed for HP-3000 (active pharmaceutical Ingredient: ropinirole hydrochloride), a transdermal patch to treat Parkinson's disease, and we are preparing for phase 3 trials. Phase 2 trials of HP-3000 were also commenced for the treatment of idiopathic restless legs syndrome. Regarding HP-3060, a transdermal system for the treatment of allergic rhinitis, phase 2 trials have been completed and we are preparing for phase 3 trials. Regarding HTU-520 (active pharmaceutical Ingredient: terbinafine hydrochloride), a patch to treat tinea unguium, further development of the current agent has been stopped based on analysis of results of Japanese phase 3 trials and U.S. phase 2 trials.

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

For the U.S. ethical pharmaceuticals, we received approval for BRISDELLE® (active pharmaceutical Ingredient: paroxetine mesylate), a non-hormonal oral preparation for the treatment of vasomotor symptoms due to menopause, on June 28, 2013. Applications for generic approval have been submitted for HP-1010 (active pharmaceutical Ingredient: Lidocaine), a patch to treat post-herpetic neuralgia and HP-1030 (active pharmaceutical Ingredient: rivastigmine), a patch to treat dementia of the Alzheimer's type. We have completed Phase 2 trials for d-ATS (active pharmaceutical Ingredient: d-amphetamine), a transdermal patch to treat Attention Deficit Hyperactivity Disorder, and phase 3 trials are in preparation. We commenced phase 1 trials on a transdermal tape formulation for the treatment of schizophrenia (development code: HP-3070).

In addition to the development of our own fundamental technologies, we utilize Noven's transdermal drug 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 ¥13,924 million in FY2/14.

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 23, 2014.

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.

As started above, We have 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 Department (3 persons in charge) as an internal audit division. The Internal Audit Department 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, a Trustee of Chubu University Educational Foundation, and Professor of Chubu University, 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 and head of office: Director)

We prepared the Hisamitsu Corporate Charter in June 2002 and established the Compliance Promotion Committee and Compliance Promotion Office, where the director serves as chair of the committee and head of the 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)

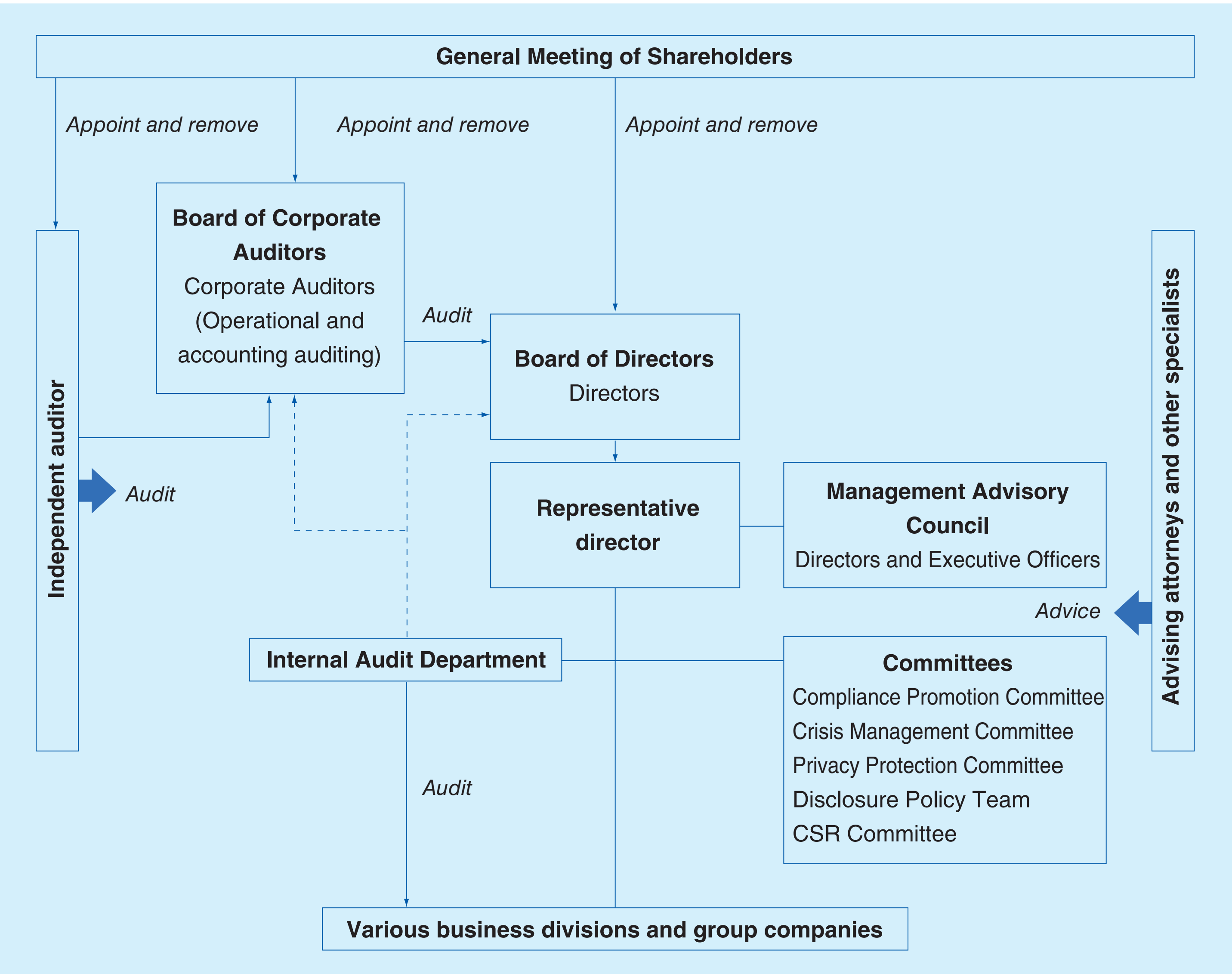
We established the Disclosure Policy Team in April 2001 to provide the timely and appropriate disclosure of corporate information. All officers and employees work toward timely disclosure based on our Disclosure Policy Rules.

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 have 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	Fiscal 2014					
		Total compensation by type				Number of officers to be paid
		Basic compensation	Stock options	Bonuses	Retirement benefits	
Directors (Excluding Outside Directors)	354	275	—	—	78	14
Corporate Auditors (Excluding Outside Corporate Auditors)	54	48	—	—	5	3
Outside Officers	21	19	—	—	1	3

(Thousands of U.S. dollars)

Category	Total compensation	Fiscal 2014				
		Total compensation by type				Number of officers to be paid
		Basic compensation	Stock options	Bonuses	Retirement benefits	
Directors (Excluding Outside Directors)	3,473	2,698	—	—	765	14
Corporate Auditors (Excluding Outside Corporate Auditors)	530	471	—	—	49	3
Outside Officers	206	186	—	—	10	3

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

(Millions of yen)

Name (Category of executive)	Fiscal 2014					
	Total consolidated compensation	Category of company	Total compensation by type			
			Basic compensation	Stock options	Bonuses	Retirement benefits
NAKATOMI, Hirotaka (President & CEO)	151	The filing company	111	—	—	40

(Thousands of U.S. dollars)

Name (Category of executive)	Fiscal 2014					
	Total consolidated compensation	Category of company	Total compensation by type			
			Basic compensation	Stock options	Bonuses	Retirement benefits
NAKATOMI, Hirotaka (President & CEO)	1,481	The filing company	1,089	—	—	392

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	8 CPAs & 6 others
	Designated limited liability partner and engagement partner	Akihisa Sada	

Note: A statement on the years of continuous audit service is omitted because all of the above accounting auditors 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 2013		**Fiscal 2014**		**Fiscal 2014**	
	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	—	**52**	**—**	**510**	**—**
Subsidiaries	4	—	**4**	**—**	**39**	**—**
Total	56	—	**56**	**—**	**549**	**—**

2) Breakdown of other important compensation

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.

FY2/14

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

FY2/13

Not applicable.

FY2/14

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 2014

1) Assets

Assets totaled ¥251,852 million at the end of FY2/14, an increase of ¥37,711 million from the previous year, due mainly to increases in cash and deposits of ¥25,150 million, in short-term investment securities of ¥3,115 million, and in investment securities of ¥6,261 million.

2) Liabilities

Liabilities totaled ¥55,544 million at the end of FY2/14, an increase of ¥9,336 million from the previous year, due mainly to an increase in electronically recorded obligations — operating of ¥5,625 million and increases in other current liabilities of ¥5,173 million.

3) Net assets

Net assets totaled ¥196,308 million at the end of FY2/14, an increase of ¥28,374 million from the previous year, due mainly to increases in retained earnings of ¥15,358 million, in valuation difference on available-for-sale securities of ¥4,435 million and in foreign currency translation adjustment of ¥8,467 million.

(2) Analysis of operating results in Fiscal 2014

1) Net sales

Net sales grew 5.5% year on year to ¥150,635 million. This increase is due mainly to the healthy sales of SALONPAS® and allegra® FX, in addition to the strong sales from overseas subsidiaries affected by the depreciating yen.

2) Operating income

Operating income fell 24.5% year on year to ¥19,123 million. This decrease is attributable mainly to the rises in selling, general and administrative expenses as a result of enhanced sales promotion activities.

3) Ordinary income

Ordinary income fell 12.5% year on year to ¥28,910 million. This decrease is attributable mainly to the decrease in operating income.

4) Net income

Net income grew 13.5% year on year to ¥21,357 million. This increase is due mainly to the posting distribution license fees of NEOXY® TAPE, a transdermal patch to treat an overactive bladder. Consequently, net income per share totaled ¥249.30 in FY2/14, and return on equity was 11.8%.

(3) Analysis of cash flows in Fiscal 2014

Cash and cash equivalents at the end of the FY2/14 totaled ¥77,780 million, an increase of ¥26,920 million from the end of the previous fiscal year.

1) Cash flows from operating activities

Net cash provided by operating activities totaled ¥35,845 million (¥32,485 million provided for of the previous fiscal year), due mainly to income before taxes and minority interests (¥33,727 million), interest and dividends received (¥12,360 million), and income taxes paid (¥13,349 million).

2) Cash flows from investing activities

Net cash used in investment activities totaled ¥5,843 million (¥7,946 million used for of the previous fiscal year), due mainly to payments for purchase of tangible fixed assets (¥4,089 million) and payments for purchase of investment securities (¥1,354 million).

3) Cash flows from financing activities

Net cash used in financing activities totaled ¥6,476 million (¥9,288 million used for of the previous fiscal year), due mainly to cash dividends paid (¥5,998 million).

Capital Expenditures

Capital investment totaled ¥3,843 million in FY2/14.

In the Pharmaceutical segment, we mainly invested in the building and manufacturing equipment, etc. of the Tosu and Utsunomiya Plants and Pharmaceutical Technology Laboratories resulting in capital investment of ¥1,947 million.

In other businesses, we mainly invested to expand bandwidth to provide digital capabilities to our subscribers, resulting in capital investment of ¥132 million.

In FY2/14, 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 decides on interim dividends.

In FY2/14, we paid ¥40 per share, consisting of a year-end dividend of ¥35 per share plus ¥5 per share as a commemorative dividend for the 80th anniversary of the sales of SALONPAS®, and an interim dividend of ¥35 per share, which makes an annual dividend of ¥75 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 from retained earnings with a record date in Fiscal 2014 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 9, 2013 Board of directors resolution	2,999	35.00	29,419	0.34
May 22, 2014 General meeting of shareholders resolution	3,427	40.00	33,618	0.39

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 FY2/14.

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 28, 2013 and February 28, 2014

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2013	**Fiscal 2014**	**Fiscal 2014**
ASSETS			
Current assets:			
Cash and deposits	41,157	**66,307**	**650,451**
Notes and accounts receivable — trade	36,986	**37,092**	**363,861**
Short-term investment securities	12,338	**15,453**	**151,589**
Merchandise and finished goods	7,927	**9,694**	**95,095**
Work-in-process	271	**417**	**4,091**
Raw materials and supplies	5,130	**5,085**	**49,882**
Deferred tax assets	2,281	**2,921**	**28,654**
Other	1,838	**2,389**	**23,435**
Allowance for doubtful accounts	(211)	**(255)**	**(2,501)**
Total current assets	107,719	**139,107**	**1,364,597**
Noncurrent assets			
Tangible fixed assets, net:			
Buildings and structures (Notes 2 and 3)	17,643	**17,735**	**173,975**
Machinery, equipment and vehicles (Notes 2 and 3)	6,094	**6,159**	**60,418**
Tools, furniture and fixtures (Notes 2 and 3)	2,354	**2,320**	**22,758**
Land (Notes 2 and 4)	12,462	**12,677**	**124,357**
Lease assets	145	**116**	**1,138**
Construction in progress	4,518	**4,321**	**42,388**
Total tangible fixed assets	43,219	**43,330**	**425,054**
Intangible fixed assets:			
Distribution right	6,828	**5,844**	**57,328**
Goodwill	5,112	**5,280**	**51,795**
Software	291	**633**	**6,210**
Temporary account for intangible fixed assets	50	**—**	**—**
Other	4,881	**5,053**	**49,568**
Total intangible fixed assets	17,163	**16,812**	**164,921**
Investments and other assets:			
Investment securities (Note 1)	36,685	**42,947**	**421,297**
Long-term deposits	2,500	**2,000**	**19,619**
Prepaid pension cost	3,170	**2,822**	**27,683**
Deferred tax assets	460	**1,239**	**12,154**
Other	3,440	**3,811**	**37,385**
Allowance for doubtful accounts	(218)	**(218)**	**(2,139)**
Total investments and other assets	46,038	**52,602**	**516,009**
Total noncurrent assets	106,421	**112,745**	**1,105,994**
TOTAL ASSETS	214,141	**251,852**	**2,470,591**

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2013	**Fiscal 2014**	**Fiscal 2014**
LIABILITIES			
Current liabilities:			
Notes and accounts payable — trade	12,991	**8,987**	**88,160**
Electronically recorded obligations — operating	—	**5,625**	**55,180**
Short-term loans payable (Note 2)	1,674	**1,677**	**16,451**
Lease obligations	125	**112**	**1,099**
Accounts payable	7,035	**6,656**	**65,293**
Income taxes payable	6,576	**7,354**	**72,140**
Allowance for sales returns	229	**180**	**1,766**
Provision for bonuses	1,714	**1,942**	**19,050**
Other	4,036	**9,209**	**90,337**
Total current liabilities	34,385	**41,745**	**409,506**
Noncurrent liabilities:			
Long-term loans payable (Note 2)	989	**852**	**8,358**
Lease obligations	245	**156**	**1,530**
Deferred tax liabilities on revaluation (Note 4)	1,894	**1,894**	**18,580**
Deferred tax liabilities	392	**1,881**	**18,452**
Provision for retirement benefits	5,119	**5,265**	**51,648**
Provision for directors' retirement benefits	1,302	**1,200**	**11,772**
Other	1,878	**2,548**	**24,995**
Total noncurrent liabilities	11,822	**13,799**	**135,364**
Total Liabilities	46,207	**55,544**	**544,870**
NET ASSETS			
Shareholders' equity:			
Capital stock	8,473	**8,473**	**83,118**
Capital surplus	8,396	**8,396**	**82,362**
Retained earnings	172,488	**187,846**	**1,842,711**
Treasury stock	(21,846)	**(21,851)**	**(214,352)**
Total shareholders' equity	167,511	**182,865**	**1,793,849**
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	2,175	**6,611**	**64,852**
Revaluation reserve for land (Note 4)	3,459	**3,459**	**33,932**
Foreign currency translation adjustment	(5,961)	**2,506**	**24,583**
Total accumulated other comprehensive income	(325)	**12,577**	**123,376**
Minority interests	747	**865**	**8,485**
Total net assets	167,933	**196,308**	**1,925,721**
TOTAL LIABILITIES AND NET ASSETS	214,141	**251,852**	**2,470,591**

Consolidated Statements of Income

Years ended February 28, 2013 and February 28, 2014

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2013	**Fiscal 2014**	**Fiscal 2014**
Net sales	142,772	**150,635**	**1,477,683**
Cost of sales (Notes 2 and 3)	51,659	**55,471**	**544,153**
Gross profit	91,112	**95,163**	**933,520**
Selling, general and administrative expenses (Notes 1 and 2)	65,786	**76,040**	**745,929**
Operating income	25,326	**19,123**	**187,591**
Non-operating income:			
Interest income	67	**84**	**824**
Dividends income	433	**477**	**4,679**
Foreign exchange gains	253	**294**	**2,884**
Royalty Income	122	**74**	**726**
Equity in earnings of affiliates	6,540	**8,456**	**82,951**
Other	383	**484**	**4,748**
Total non-operating income	7,800	**9,872**	**96,841**
Non-operating expenses:			
Interest expenses	38	**34**	**334**
Loss on sales of receivables	24	**24**	**235**
Other	11	**25**	**245**
Total non-operating expenses	74	**85**	**834**
Ordinary income	33,051	**28,910**	**283,598**
Extraordinary income:			
Gain on sales of investment securities	—	**108**	**1,059**
Distribution license fees	500	**5,000**	**49,048**
Other	1	**—**	**—**
Total extraordinary income	501	**5,108**	**50,108**
Extraordinary loss:			
Loss on disposals of fixed assets (Note 4)	208	**291**	**2,855**
Impairment loss	1,353	**—**	**—**
Total extraordinary loss	1,561	**291**	**2,855**
Income before taxes and minority interests	31,991	**33,727**	**330,851**
Income taxes — current	13,927	**14,072**	**138,042**
Income taxes — deferred	(518)	**(1,905)**	**(18,687)**
Total income taxes	13,409	**12,166**	**119,345**
Income before minority interests	18,582	**21,560**	**211,497**
Minority interests in income (loss)	(227)	**203**	**1,991**
Net income	18,809	**21,357**	**209,506**

Consolidated Statements of Comprehensive Income

Years ended February 28, 2013 and February 28, 2014

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2013	**Fiscal 2014**	**Fiscal 2014**
Income before minority interests	18,582	**21,560**	**211,497**
Other comprehensive income:			
Valuation difference on available-for-sale securities	2,050	**4,338**	**42,554**
Foreign currency translation adjustment	3,077	**6,879**	**67,481**
Share of other comprehensive income of associates accounted for under the equity method	1,030	**1,669**	**16,372**
Total other comprehensive income (Note 1)	6,158	**12,887**	**126,418**
Comprehensive income	24,740	**34,448**	**337,924**
Comprehensive income attributable to:			
Owners of the parent	24,960	**34,260**	**336,080**
Minority interests	(219)	**187**	**1,834**

Consolidated Statements of Changes in Shareholders' Equity

Years ended February 28, 2013 and February 28, 2014

(Millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as at March 1, 2012	8,473	8,396	159,677	(21,844)	154,702
Cash dividends			(5,998)		(5,998)
Net income			18,809		18,809
Purchase of treasury stock				(1)	(1)
Net changes of items other than shareholders' equity					
Total changes of items during the period	—	—	12,810	(1)	12,808
Balance as at February 28, 2013	8,473	8,396	172,488	(21,846)	167,511

(Millions of yen)

	Accumulated other comprehensive income					
	Valuation difference on available-for-sale securities:	Revaluation reserve for land	Foreign currency translation adjustments	Total accumulated other comprehensive income	Minority interests	Total net assets
Balance as at March 1, 2012	47	3,459	(9,983)	(6,476)	1,036	149,263
Cash dividends						(5,998)
Net income						18,809
Purchase of treasury stock						(1)
Net changes of items other than shareholders' equity	2,128	—	4,022	6,150	(289)	5,861
Total changes of items during the period	2,128	—	4,022	6,150	(289)	18,670
Balance as at February 28, 2013	2,175	3,459	(5,961)	(325)	747	167,933

(Millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as at March 1, 2013	8,473	8,396	172,488	(21,846)	167,511
Cash dividends			**(5,998)**		**(5,998)**
Net income			**21,357**		**21,357**
Purchase of treasury stock				**(4)**	**(4)**
Net changes of items other than shareholders' equity					
Total changes of items during the period	**—**	**—**	**15,358**	**(4)**	**15,353**
Balance as at February 28, 2014	**8,473**	**8,396**	**187,846**	**(21,851)**	**182,865**

(Millions of yen)

	Accumulated other comprehensive income					
	Valuation difference on available-for-sale securities:	Revaluation reserve for land	Foreign currency translation adjustments	Total accumulated other comprehensive income	Minority interests	Total net assets
Balance as at March 1, 2013	2,175	3,459	(5,961)	(325)	747	167,933
Cash dividends						**(5,998)**
Net income						**21,357**
Purchase of treasury stock						**(4)**
Net changes of items other than shareholders' equity	**4,435**	**—**	**8,467**	**12,903**	**118**	**13,021**
Total changes of items during the period	**4,435**	**—**	**8,467**	**12,903**	**118**	**28,374**
Balance as at February 28, 2014	**6,611**	**3,459**	**2,506**	**12,577**	**865**	**196,308**

	(Thousands of U.S. dollars)				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as at March 1, 2013	83,118	82,362	1,692,054	(214,303)	1,643,231
Cash dividends			(58,839)		(58,839)
Net income			209,506		209,506
Purchase of treasury stock				(39)	(39)
Net changes of items other than shareholders' equity					
Total changes of items during the period	—	—	150,657	(39)	150,608
Balance as at February 28, 2014	83,118	82,362	1,842,711	(214,352)	1,793,849

	(Thousands of U.S. dollars)					
	Accumulated other comprehensive income					
	Valuation difference on available-for-sale securities:	Revaluation reserve for land	Foreign currency translation adjustments	Total accumulated other comprehensive income	Minority interests	Total net assets
Balance as at March 1, 2013	21,336	33,932	(58,476)	(3,188)	7,328	1,647,371
Cash dividends						(58,839)
Net income						209,506
Purchase of treasury stock						(39)
Net changes of items other than shareholders' equity	43,506	—	83,059	126,574	1,158	127,732
Total changes of items during the period	43,506	—	83,059	126,574	1,158	278,340
Balance as at February 28, 2014	64,852	33,932	24,583	123,376	8,485	1,925,721

Consolidated Statements of Cash Flows

Years ended February 28, 2013 and February 28, 2014

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2013	**Fiscal 2014**	**Fiscal 2014**
Cash flows from operating activities:			
Income before taxes and minority interests	31,991	**33,727**	**330,851**
Depreciation and amortization	6,878	**6,619**	**64,930**
Impairment loss	1,353	**—**	**—**
Amortization of goodwill	715	**873**	**8,564**
Increase (decrease) in provision for retirement benefits	188	**146**	**1,432**
Increase (decrease) in provision for directors' retirement benefits	72	**(102)**	**(1,001)**
Increase (decrease) in provision for bonuses	87	**60**	**589**
Increase (decrease) in allowance for doubtful accounts	(2)	**40**	**392**
Increase (decrease) in provision for sales returns	30	**(49)**	**(481)**
Interest and dividends income	(500)	**(562)**	**(5,513)**
Interest expenses	38	**34**	**334**
Foreign exchange losses (gains)	(83)	**(23)**	**(226)**
Equity in losses (earnings) of affiliates	(6,540)	**(8,456)**	**(82,951)**
Loss (gain) on sales of investment securities	(1)	**(108)**	**(1,059)**
Loss (gain) on disposal of tangible fixed assets	208	**291**	**2,855**
Decrease (increase) in notes and accounts receivable — trade	(3,068)	**571**	**5,601**
Decrease (increase) in inventories	(754)	**(1,365)**	**(13,390)**
Decrease (increase) in other current assets	621	**(445)**	**(4,365)**
Increase (decrease) in notes and accounts payable — trade	792	**896**	**8,789**
Increase (decrease) in other current liabilities	1,759	**4,180**	**41,005**
Other, net	412	**540**	**5,297**
Sub-total	34,203	**36,869**	**361,674**
Interest and dividends received	8,162	**12,360**	**121,248**
Interest expenses paid	(38)	**(35)**	**(343)**
Income taxes paid	(9,841)	**(13,349)**	**(130,950)**
Net cash provided by (used in) operating activities	32,485	**35,845**	**351,628**

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2013	**Fiscal 2014**	**Fiscal 2014**
Cash flows from investing activities			
Net decrease (increase) in time deposits	(134)	**(315)**	**(3,090)**
Decrease (increase) in long-term deposits	500	**(500)**	**(4,905)**
Payments for purchase of tangible fixed assets	(4,976)	**(4,089)**	**(40,112)**
Proceeds from sales of tangible fixed assets	5	**6**	**59**
Payments for purchase of intangible fixed assets	(659)	**(119)**	**(1,167)**
Decrease (increase) in short-term investment securities	(967)	**(532)**	**(5,219)**
Payments for purchase of investment securities	(1,763)	**(1,354)**	**(13,282)**
Proceeds from sales and redemption of investment securities	3	**1,045**	**10,251**
Collection of loans receivable	44	**14**	**137**
Net cash provided by (used in) investing activities	(7,946)	**(5,843)**	**(57,318)**
Cash flows from financing activities			
Increase (decrease) in short-term loans payable	(211)	**63**	**618**
Repayment of long-term loans payable	(2,803)	**(243)**	**(2,384)**
Cash dividends paid to minority shareholders	(69)	**(69)**	**(677)**
Purchase of treasury stock	(0)	**(3)**	**(29)**
Cash dividends paid	(6,000)	**(5,998)**	**(58,839)**
Other, net	(202)	**(223)**	**(2,188)**
Net cash provided by (used in) financing activities	(9,288)	**(6,476)**	**(63,528)**
Effect of exchange rate changes on cash and cash equivalents	1,387	**3,394**	**33,294**
Net increase (decrease) in cash and cash equivalents	16,637	**26,920**	**264,077**
Cash and cash equivalents, beginning of year	34,222	**50,860**	**498,921**
Cash and cash equivalents, end of year (Note 1)	50,860	**77,780**	**762,998**

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 2014 (March 1, 2013 – February 28, 2014)

1. Scope of consolidation

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. Investments accounted for under the equity method

Equity-method affiliates: 4

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

3. 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.

4. 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.

Change in accounting policies, which is difficult to differentiate from change in accounting estimate

In accordance with revisions to the Corporate Tax Law, from the fiscal year under review, the Company and domestic consolidated subsidiaries changed the depreciation methods for tangible fixed assets acquired on and after March 1, 2013, pursuant to the revised Corporate Tax Law. However, there were only minor impacts on the amounts of operating income, ordinary income and income before taxes and minority interests of the fiscal year under review affected by this change.

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 gain/loss.

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, record a provision at an amount deemed to arise at the end of the fiscal year under review 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 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 them for the consolidated financial statements for the fiscal year ending February 28, 2015. However, we plan to revise the method of attributing expected retirement benefits to the periods starting from the beginning of the fiscal year ending February 29, 2016.

(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.

Notes to Consolidated Financial Statements

Fiscal 2013 (March 1, 2012 – February 28, 2013) and Fiscal 2014 (March 1, 2013 – February 28, 2014)

CONSOLIDATED BALANCE SHEETS

(Note 1) Investment securities for unconsolidated subsidiaries and affiliated companies are as follows.

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2013	**Fiscal 2014**	**Fiscal 2014**
Investment securities (stocks)	13,069	**11,479**	**112,605**

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

Pledged assets			
Buildings and structures	1,306 (book value)	**1,118 (book value)**	**10,967**
Machinery, equipment and vehicles	23 (book value)	**17 (book value)**	**167**
Tools, furniture and fixtures	171 (book value)	**150 (book value)**	**1,471**
Land	59 (book value)	**59 (book value)**	**579**
Total	1,560 (book value)	**1,344 (book value)**	**13,184**
Assets provided for factory foundation mortgage			
Buildings and structures	1,147 (book value)	**972 (book value)**	**9,535**
Machinery, equipment and vehicles	21 (book value)	**16 (book value)**	**157**
Tools, furniture and fixtures	171 (book value)	**150 (book value)**	**1,471**
Total	1,340 (book value)	**1,138 (book value)**	**11,163**

Liabilities related to the above assets			
Short-term loans payable	174	**137**	**1,344**
Long-term loans payable	989	**852**	**8,358**
Total	1,164	**989**	**9,702**
Liabilities provided for factory foundation mortgage			
Short-term loans payable	118	**99**	**971**
Long-term loans payable	870	**770**	**7,553**
Total	989	**870**	**8,534**

(Note 3) Advanced depreciation of government subsidies is ¥5,832 million in both FY2/13 and FY2/14.
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 presented under liabilities as "Deferred tax liabilities on revaluation," while the net sum after this transfer to the deferred tax liability account is presented 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 FY2/13 and FY2/14 was ¥3,464 million and ¥3,610 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 2013	**Fiscal 2014**	**Fiscal 2014**
Advertising expenses	10,086	**11,950**	**117,226**
Sales promotion expenses	12,549	**15,290**	**149,990**
Freightage and packing expenses	2,757	**2,643**	**25,927**
Provision of allowance for doubtful accounts	20	**38**	**373**
Salaries and allowances	7,299	**10,115**	**99,225**
Provision for bonuses	1,004	**1,013**	**9,937**
Provision for retirement benefits	819	**605**	**5,935**
Provision for directors' retirement benefits	84	**94**	**922**
Amortization of goodwill	715	**873**	**8,564**
Business consignment expenses	2,933	**2,607**	**25,574**
Research and development expenses, of which:	12,662	**13,924**	**136,590**
Provision for bonuses	312	**339**	**3,325**
Provision for retirement benefits	269	**168**	**1,648**

(Note 2) General and administrative expenses include research and development expenses of ¥12,662 million and ¥13,924 million in FY2/13 and FY2/14, respectively.
Manufacturing costs do not include research and development expenses.

(Note 3) In FY2/13 and FY2/14, manufacturing costs include provision for bonuses of ¥380 million and ¥470 million and provision for retirement benefits of ¥442 million and ¥311 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 2013	**Fiscal 2014**	**Fiscal 2014**
Buildings and structures	116	**87**	**853**
Machinery, equipment and vehicles	77	**190**	**1,864**
Tools, furniture and fixtures	13	**12**	**118**
Lease assets	—	**0**	**0**
Software	0	**0**	**0**
Total	208	**291**	**2,855**

(Note 5)

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

The Group recorded impairment losses on the following assets.

Purpose of use	Location	Category	Amount (Millions of yen)
Assets used for business activities	Kurume city, Fukuoka, etc.	Buildings and structures	645
		Machinery, equipment and vehicles	42
		Tools, furniture and fixtures	3
		Lease assets	199
		Software	2
		Future lease payments	53
	United States	Other intangible fixed assets	406

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.

Fiscal 2014 (March 1, 2013–February 28, 2014)

Not applicable.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2013	**Fiscal 2014**	**Fiscal 2014**
Valuation difference on available-for-sale securities			
Amount arising during fiscal year under review	3,082	**6,577**	**64,518**
Reclassification adjustment amount:	(78)	**(96)**	**(942)**
Before tax effect adjustment	3,004	**6,480**	**63,567**
Tax effect amount	(954)	**(2,142)**	**(21,012)**
Valuation difference on available-for-sale securities	2,050	**4,338**	**42,554**
Foreign currency translation adjustment			
Amount arising during fiscal year under review	3,077	**6,879**	**67,481**
Share of other comprehensive income of associates accounted for under the equity method			
Amount arising during fiscal year under review	1,030	**1,669**	**16,372**
Total other comprehensive income	6,158	**12,887**	**126,418**

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

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

1. Shares issued

(shares)

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

2. Treasury shares

(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
The 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

(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

Fiscal 2014 (March 1, 2013–February 28, 2014)

1. Shares issued

(shares)

Type of shares	Beginning of fiscal 2014	Increase	Decrease	End of fiscal 2014
Common stock	95,164,895	—	—	95,164,895

2. Treasury shares

(shares)

Type of shares	Beginning of fiscal 2014	Increase	Decrease	End of fiscal 2014
Common stock	9,496,077	949	—	9,497,026

Reasons for changes

Shares increased for the following main reasons:

Increase from purchasing shares in less than one unit	724 shares
The Company portion of treasury shares purchased by equity method affiliates	225 shares

3. Dividends

(1) Dividends paid

Resolution	Type of shares	Total dividends (millions of yen)	Dividends per share (yen)	Record date	Payment date
May 23, 2013 Annual general meeting of shareholders	Common stock	2,999	35	February 28, 2013	May 24, 2013
October 9, 2013 Board of Directors meeting	Common stock	2,999	35	August 31, 2013	November 8, 2013

Resolution	Type of shares	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	29,419	0.34	February 28, 2013	May 24, 2013
October 9, 2013 Board of Directors meeting	Common stock	29,419	0.34	August 31, 2013	November 8, 2013

(2) Dividends with a record date in fiscal 2014 but a payment date in fiscal 2015

Resolution	Type of shares	Source of dividend	Total dividends (millions of yen)	Dividends per share (yen)	Record date	Payment date
May 22, 2014 Annual general meeting of shareholders	Common stock	Retained earnings	3,427	40	February 28, 2014	May 23, 2014

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 22, 2014 Annual general meeting of shareholders	Common stock	Retained earnings	33,618	0.39	February 28, 2014	May 23, 2014

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 2013	**Fiscal 2014**	**Fiscal 2014**
Cash and deposits	41,157	**66,307**	**650,451**
Cash equivalents included in short-term investment securities	10,495	**13,609**	**133,500**
Total	51,652	**79,917**	**783,961**
Term deposits longer than three months	(792)	**(2,136)**	**20,954**
Cash and cash equivalents	50,860	**77,780**	**762,998**

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 2013		
	Purchase value equivalent	Accumulated depreciation equivalent	Book value equivalent
Tools, furniture and fixtures	638	585	52
Software	3	3	0
Total	642	588	53

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 2014			**Fiscal 2014**		
	Purchase value equivalent	Accumulated depreciation equivalent	Book value equivalent	Purchase value equivalent	Accumulated depreciation equivalent	Book value equivalent
Tools, furniture and fixtures	**271**	**261**	**9**	**2,658**	**2,560**	**88**
Software	**2**	**2**	**0**	**20**	**20**	**0**
Total	**273**	**264**	**9**	**2,678**	**2,590**	**88**

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 2013	**Fiscal 2014**	**Fiscal 2014**
Within one year	44	**8**	**78**
Over one year	8	**1**	**10**
Total	53	**9**	**88**

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 2013	**Fiscal 2014**	**Fiscal 2014**
Lease payments	95	**38**	**373**
Depreciation equivalent	95	**38**	**373**

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 in light of the business plan. 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, electronically recorded obligations — operating, 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 2013 (February 28, 2013)

(Millions of yen)

	Carrying amount	Market value	Unrealized gain (loss)
(1) Cash and deposits	41,157	41,157	—
(2) Notes and accounts receivable — trade	36,986	36,986	—
(3) Short-term investment securities and investment securities:			
Available-for-sale securities	34,924	34,924	—
Stock of affiliated companies	1,440	637	(802)
(4) Long-term deposits	2,500	2,494	(5)
Total assets	117,009	116,200	(808)
(1) Notes and accounts payable — trade	12,991	12,991	—
(2) Short-term loans payable	1,440	1,440	—
(3) Accounts payable	7,035	7,035	—
(4) Income taxes payable	6,576	6,576	—
(5) Long-term loans payable (*)	1,224	1,227	3
Total liabilities	29,268	29,272	3
Derivative transactions	—	—	—

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

Fiscal 2014 (February 28, 2014)

	(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	66,307	66,307	—	650,451	650,451	—
(2) Notes and accounts receivable — trade	37,092	37,092	—	363,861	363,861	—
(3) Short-term investment securities and investment securities:						
Available-for-sale securities	45,922	45,922	—	450,481	450,481	—
Stock of affiliated companies	1,488	764	(724)	14,597	7,495	(7,102)
(4) Long-term deposits	2,000	1,996	(3)	19,619	19,580	(29)
Total assets	152,811	152,083	(727)	1,499,029	1,491,887	(7,132)
(1) Notes and accounts payable — trade	8,987	8,987	—	88,160	88,160	—
(2) Electronically recorded obligations — operating	5,625	5,625	—	55,180	55,180	—
(3) Short-term loans payable	1,540	1,540	—	15,107	15,107	—
(4) Accounts payable	6,656	6,656	—	65,293	65,293	—
(5) Income taxes payable	7,354	7,354	—	72,140	72,140	—
(6) Long-term loans payable (*)	989	992	2	9,702	9,731	20
Total liabilities	31,152	31,155	2	305,592	305,621	20
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) Electronically recorded obligations — operating (3) Short-term loans payable, (4) Accounts payable, and (5) Income taxes payable

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

(6) 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 28, 2013	**February 28, 2014**	**February 28, 2014**
Unlisted equity securities	12,659	**10,990**	**107,809**

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 2013 (February 28, 2013)

	(Millions of yen)			
	Within one year	One to five years	Five to ten years	Over ten years
Cash and deposits	41,157	—	—	—
Notes and accounts receivable — trade	36,986	—	—	—
Short-term investment securities and investment securities:				
Available-for-sale securities with contractual maturities:				
Other	1,842	—	—	—
Long-term deposits	—	2,500	—	—
Total	79,987	2,500	—	—

Fiscal 2014 (February 28, 2014)

	(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	**66,307**	**—**	**—**	**—**	**650,451**	**—**	**—**	**—**
Notes and accounts receivable — trade	**37,092**	**—**	**—**	**—**	**363,861**	**—**	**—**	**—**
Short-term investment securities and investment securities:								
Available-for-sale securities with contractual maturities:								
Other	**1,844**	**728**	**—**	**—**	**18,089**	**7,141**	**—**	**—**
Long-term deposits	**—**	**2,000**	**—**	**—**	**—**	**19,619**	**—**	**—**
Total	**105,245**	**2,728**	**—**	**—**	**1,032,421**	**26,761**	**—**	**—**

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

Fiscal 2013 (February 28, 2013)

	(Millions of yen)			
	Within one year	One to five years	Five to ten years	Over ten years
Short-term loans payable	1,440	—	—	—
Long-term loans payable	234	412	356	221
Total	1,674	412	356	221

Fiscal 2014 (February 28, 2014)

	(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
Short-term loans payable	**1,540**	**—**	**—**	**—**	**15,107**	**—**	**—**	**—**
Long-term loans payable	**137**	**346**	**356**	**149**	**1,344**	**3,394**	**3,492**	**1,462**
Total	**1,677**	**346**	**356**	**149**	**16,451**	**3,394**	**3,492**	**1,462**

SECURITIES

1. Available-for-sale securities

Fiscal 2013 (February 28, 2013)

		(Millions of yen)	
Category	Carrying amount	Acquisition cost	Difference
Carrying amount higher than acquisition cost			
(1) Stocks	16,053	12,194	3,859
(2) Bonds	—	—	—
(3) Other	—	—	—
Subtotal	16,053	12,194	3,859
Carrying amount lower than acquisition cost			
(1) Stocks	6,532	7,354	(821)
(2) Bonds	—	—	—
(3) Other	12,338	12,338	—
Subtotal	18,870	19,692	(821)
Total	34,924	31,887	3,037

Fiscal 2014 (February 28, 2014)

	(Millions of yen)			(Thousands of U.S. dollars)		
Category	Carrying amount	Acquisition cost	Difference	Carrying amount	Acquisition cost	Difference
Carrying amount higher than acquisition cost						
(1) Stocks	**27,264**	**17,495**	**9,769**	**267,451**	**171,621**	**95,831**
(2) Bonds	—	—	—	—	—	—
(3) Other	—	—	—	—	—	—
Subtotal	**27,264**	**17,495**	**9,769**	**267,451**	**171,621**	**95,831**
Carrying amount lower than acquisition cost						
(1) Stocks	**2,474**	**2,726**	**(251)**	**24,269**	**26,741**	**(2,462)**
(2) Bonds	—	—	—	—	—	—
(3) Other	**16,182**	**16,182**	—	**158,740**	**158,740**	—
Subtotal	**18,657**	**18,908**	**(251)**	**183,019**	**185,482**	**(2,462)**
Total	**45,922**	**36,404**	**9,517**	**450,481**	**357,112**	**93,359**

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

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

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

Fiscal 2014 (March 1, 2013–February 28, 2014)

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

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 benefit upon retirement.

2. Retirement benefit obligations

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2013	**Fiscal 2014**	**Fiscal 2014**
(1) Retirement benefit obligations	(12,213)	**(14,059)**	**(137,914)**
(2) Pension assets	9,938	**11,148**	**109,358**
(3) Subtotal (1) + (2)	(2,275)	**(2,910)**	**(28,546)**
(4) Unrecognized actuarial differences	326	**466**	**4,571**
(5) Total (3) + (4)	(1,949)	**(2,443)**	**(23,965)**
(6) Prepaid pension costs	(3,170)	**(2,822)**	**(27,683)**
(7) Provision for retirement benefits (5) + (6)	(5,119)	**(5,265)**	**(51,648)**

3. Retirement benefit costs

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2013	**Fiscal 2014**	**Fiscal 2014**
(1) Service costs	575	**597**	**5,856**
(2) Interest costs	228	**239**	**2,345**
(3) Expected return on plan assets	(261)	**(288)**	**(2,825)**
(4) Amortization of actuarial differences	989	**536**	**5,258**
(5) Retirement benefit expenses	1,531	**1,085**	**10,644**

Notes: 1. Excludes employee contributions to the corporate pension plan.
2. Retirement benefit expenses at consolidated subsidiaries using the simplified method are included in "(1) Service costs."

4. Basis for calculating retirement benefit obligations

	Fiscal 2013	**Fiscal 2014**
(1) Allocation of expected retirement benefits	Straight-line method	Straight-line method
(2) Discount rate	2.00%	1.30%
(3) Expected return on plan assets	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 2013	**Fiscal 2014**	**Fiscal 2014**
Deferred tax assets:			
Provision for retirement benefits	1,798	**1,846**	**18,109**
Provision for directors' retirement benefits	459	**423**	**4,149**
Accrued enterprise tax	351	**340**	**3,335**
Allowance for doubtful accounts	240	**252**	**2,472**
Inventories	99	**217**	**2,129**
Excess depreciation	586	**539**	**5,287**
Intangible fixed assets	1,967	**2,381**	**23,357**
Valuation losses on memberships	248	**248**	**2,433**
Loss on valuation of investment securities	945	**892**	**8,750**
Provision for bonuses	360	**372**	**3,649**
Outsourced research and development	759	**877**	**8,603**
Other	1,791	**2,402**	**23,563**
Sub-total deferred tax assets	9,607	**10,793**	**105,876**
Valuation allowance	(2,413)	**(2,993)**	**(29,360)**
Total deferred tax assets	7,193	**7,800**	**76,516**
Deferred tax liabilities:			
Stock and investments in affiliated companies	(1,845)	**(835)**	**(8,191)**
Prepaid pension costs	(1,121)	**(998)**	**(9,790)**
Other	(1,877)	**(3,685)**	**(36,149)**
Total deferred tax liabilities	(4,844)	**(5,519)**	**(54,140)**
Net deferred tax assets	2,349	**2,280**	**22,366**

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 2013	**Fiscal 2014**	**Fiscal 2014**
Current assets; deferred tax assets	2,281	**2,921**	**28,654**
Noncurrent assets; deferred tax assets	460	**1,239**	**12,154**
Noncurrent liabilities; deferred tax liabilities	(392)	**(1,881)**	**(18,452)**

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

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 to the difference are omitted.

3. Changes in the rate of income taxes after the balance sheet date

With the promulgation on March 31, 2014 of the "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 10, 2014), the Special Corporation Tax for Reconstruction will no longer be imposed from the fiscal year beginning on and after April 1, 2014. In accordance with this Act, the statutory tax rate used for the calculation of deferred tax assets and deferred tax liabilities has been changed from the 37.8% applicable hitherto to 35.4%, for the temporary differences likely to be eliminated in the fiscal year beginning on March 1, 2015.

The impact of this change in tax rate is minor.

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 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**

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**

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

Fiscal 2014 (March 1, 2013 – February 28, 2014)

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
119,497	**19,670**	**11,467**	**150,635**

(Thousands of U.S. dollars)

Japan	North America	Other	Total
1,172,229	**192,957**	**112,488**	**1,477,683**

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
33,763	**7,129**	**2,436**	**43,330**

(Thousands of U.S. dollars)

Japan	North America	Other	Total
331,205	**69,933**	**23,896**	**425,054**

3. Information by significant customer

	(Millions of yen)	(Thousands of U.S. dollars)	
Name of customers	Net sales	Net sales	Related segment
Alfresa Holdings Corporation	**26,132**	**256,347**	Pharmaceuticals
Medipal Holdings Corporation	**25,980**	**254,856**	Pharmaceuticals

Information on the impairment loss of noncurrent assets by reportable segment

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

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

Not applicable.

RELATED PARTY INFORMATION

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	1,177	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	Selling of products	9,344	91,662	Account receivable-trade	3,014	29,566
Purchase of merchandise	Purchase of merchandise	14	137	Accounts payable-trade	4	39
Interlocking of executives						

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 to 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)
Total current assets	**7,564**
Total noncurrent assets	**514**
Total current liabilities	**2,008**
Total net assets	**6,070**
Net sales	**29,042**
Income before income taxes	**18,750**

Fiscal 2014 (March 1, 2013–February 28, 2014)

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	1,177	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	Selling of products	8,965	87,944	Account receivable-trade	2,920	28,644
Purchase of merchandise	Purchase of merchandise	10	98	Electronically recorded obligations-operating	1	10
				Accounts payable-trade	0	0
Interlocking of executives						

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 to parent entities or significant affiliated companies

Summarized financial statements of significant affiliated companies

For FY2/14, 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	**9,320**	**91,426**
Total noncurrent assets	**203**	**1,991**
Total current liabilities	**1,651**	**16,196**
Total net assets	**7,873**	**77,232**
Net sales	**29,649**	**290,848**
Income before income taxes	**25,092**	**246,145**

PER SHARE INFORMATION

	(Yen)		(U.S. dollars)
	Fiscal 2013	**Fiscal 2014**	**Fiscal 2014**
Net assets per share	1,951.54	**2,281.40**	**22.38**
Net income per share	219.56	**249.30**	**2.45**

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 2013	**Fiscal 2014**	**Fiscal 2014**
Total net assets in the consolidated balance sheets	167,933	**196,308**	**1,925,721**
Net assets attributable to common shareholders	167,186	**195,442**	**1,917,226**
Main differences:			
Minority interests	747	**865**	**8,485**
Common stock issued (Thousands of shares)	95,164	**95,164**	—
Common stock held in treasury (Thousands of shares)	9,496	**9,497**	—
Common stock used in calculating net assets per share (Thousands of shares)	85,668	**85,667**	—

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

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2013	**Fiscal 2014**	**Fiscal 2014**
Net income	18,809	**21,357**	**209,506**
Amount not attributable to common shareholders	—	—	—
Net income attributable to common shareholders	18,809	**21,357**	**209,506**
Average common stock during year (Thousands of shares)	85,669	**85,668**	—

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 2014	**Balance at the end of Fiscal 2014**	Balance at the beginning of Fiscal 2014	**Balance at the end of Fiscal 2014**	Average interest rate	Due date
Short-term loans	1,440	**1,540**	14,126	**15,107**	0.61	—
Current portion of long-term loans	234	**137**	2,295	**1,344**	0.53	—
Current portion of long-term lease obligation	125	**112**	1,226	**1,099**	—	—
Long-term loans (excluding current portion)	989	**852**	9,702	**8,358**	1.06	March, 2015 to March, 2026
Lease obligation (excluding current portion)	245	**156**	2,403	**1,530**	—	March, 2015 to October, 2019
Other interest-bearing liabilities	—	**—**	—	**—**	—	—
Total	3,036	**2,798**	29,782	**27,448**	—	—

Notes: 1. Average interest rate is the weighted average interest rate for the year-end balances of loans, etc.

2. Current portion of long-term loans include ¥74 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. Long-term loans (excluding current portion) include ¥53 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	125	78	71	71
Lease obligations	99	25	15	9

(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	1,226	765	696	696
Lease obligations	971	245	147	88

Supplementary schedule of asset retirement obligations

The supplementary schedule of asset retirement obligations is omitted because the amounts of asset retirement obligations at the beginning and the end of the fiscal year under review were not more than 1/100 of the total amounts of liabilities and net assets at the beginning and the end of the fiscal year under review.

Other

Quarterly Consolidated financial information for Fiscal 2014

	(Millions of yen)			
(Cumulative)	Three months ended May 31, 2013	Six months ended August 31, 2013	Nine months ended November 30, 2013	Fiscal 2014
Net sales	37,065	77,382	115,129	150,635
Income before taxes and minority interests	11,801	21,849	30,554	33,727
Net income	7,514	13,681	19,188	21,357
Net income per share (yen)	87.71	159.71	223.99	249.30

	(Thousands of U.S. dollars)			
(Cumulative)	Three months ended May 31, 2013	Six months ended August 31, 2013	Nine months ended November 30, 2013	Fiscal 2014
Net sales	363,596	759,094	1,129,380	1,477,683
Income before taxes and minority interests	115,764	214,332	299,725	330,851
Net income	73,710	134,206	188,228	209,506
Net income per share (U.S. dollars)	0.86	1.57	2.20	2.45

	(yen)			
(Quarterly)	First quarter	Second quarter	Third quarter	Fourth quarter
Net income per share	87.71	72.00	64.28	25.31

	(U.S. dollars)			
(Quarterly)	First quarter	Second quarter	Third quarter	Fourth quarter
Net income per share	0.86	0.71	0.63	0.25

Corporate Information

Stock Information

(1) Total number of shares

1) Total number of shares

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

2) Shares issued

Type of shares	Shares issued at year end Fiscal 2014 (February 28, 2014)	Shares issued on filing date (May 23, 2014)	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	—	83,118	(60,065)	20,777

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, 2014

Category	National and local government	Financial institutions	Securities companies	Other corporations	Foreign shareholders: Non-individuals	Foreign shareholders: Individuals	Individuals and other	Total	Shares under one unit (shares)
	Status of shares (Investment unit comprises 100 shares)								
Shareholders (entities)	—	53	28	183	301	4	4,727	5,296	—
Shares owned (units)	—	458,106	3,789	172,339	132,442	15	184,519	951,210	43,895
Ratio (%)	—	48.16	0.40	18.12	13.92	0.00	19.40	100.00	—

Note: Treasury stock of 9,470,095 are listed as 94,700 units in the individuals and other column and as 95 shares in the shares under one unit column. The 9,470,095 treasury share figure is the number of shares listed in the shareholder registry.

(7) Principal shareholders

As of February 28, 2014

Name	Address	Shares owned (thousand shares)	Percentage of shares outstanding (%)
Japan Trustee Service Bank, Ltd. (trust account)	1-8-11 Harumi, Chuo-ku, Tokyo	6,223	6.54
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	4,724	4.96
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	2,956	3.11
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
Hisamitsu Business Partner' Shareholding Association	408 Tashiro Daikan-machi, Tosu-shi Saga	1,844	1.94
Total		37,328	39.23

Notes: 1. The number of the foregoing shares related to fiduciary services is as follows.
Japan Trustee Service Bank, Ltd.: 14,657 thousand shares
The Master Trust Bank of Japan, Ltd.: 4,724 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 9,470 thousand shares (9.95%).

(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 4 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	2	2	Debt guarantees	—	—	Note 3
Saga City-Vision Co., Ltd.	Saga, Saga	¥605 million	Other businesses	70.12	1	2	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)	1	2	—	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 thousands	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 thousands	Pharmaceuticals	100	1	1	—	Hisamitsu outsources development	—	
Hisamitsu Vietnam Pharmaceutical Co., Ltd.	Bien Hoa, Vietnam	VND 258,775 million	Pharmaceuticals	100	—	3	Working capital loans	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	2	2	—	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: Concurrent employees: Hisamitsu officers (Persons)	Relationship: Concurrent employees: Hisamitsu employees (Persons)	Relationship: Capital support from Hisamitsu	Relationship: Business transactions	Relationship: Other	Remarks
Equity-method affiliates										
Sanofi-Hisamitsu K.K.	Shinjuku Tokyo	¥250 million	Pharmaceuticals	49.0	2	1	—	Supplies merchandise to Hisamitsu	—	
Yutoku Pharmaceutical Ind. Co., Ltd.	Kashima, Saga	¥120 million	Pharmaceuticals	15.0	2	—	—	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	2	2	—	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. Net sales of Noven Pharmaceuticals, Inc. (excluding internal sales among consolidated subsidiaries) accounted for more than 10% of consolidated sales and key earnings information is as follows. Noven Pharmaceuticals, Inc. prepares financial statements on a consolidated basis and thus the information below is also presented on a consolidated basis.

Key earnings information

(1) Net sales	¥16,862 million
(2) Ordinary loss	¥2,125 million
(3) Net loss	¥1,552 million
(4) Net assets	¥43,777 million
(5) Total assets	¥57,947 million

Corporate Information

Management

President & CEO	NAKATOMI, Hirotaka
Executive Vice President	NAKATOMI, Kazuhide
Senior Managing Director	SUGIYAMA, Kousuke
Managing Director	AKIYAMA, Tetsuo
Managing Director	HIGO, Naruhito
Director	TSURUDA, Toshiaki
Director	KABASHIMA, Mitsumasa
Director	TAKAO, Shinichiro
Director	SAITO, Kyu
Director	TSUTSUMI, Nobuo
Director	MURAYAMA, Shinichi

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, Executive Vice President, 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.

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	(As of February 28, 2014)

Business segment	Employees
Pharmaceuticals	2,797 (573)
Other businesses	152 (52)
Total	2,949 (625)

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 employees colum.

Hisamitsu Pharmaceutical Co., Inc.

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