Salonpas

Delivering Patch Culture Hand by Hand
170th Anniversary

FINANCIAL REPORT 2017

For the Fiscal Year Ended February 28, 2017

Hisamitsu

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., Inc., other than those of historical fact, are forecasts of future business performance based on the judgments of management at Hisamitsu Pharmaceutical Co., Inc. 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 ¥112.56=U.S.$1.00, the approximate rate of exchange on February 28, 2017.

Contents

Consolidated Financial Highlights

Years ended the last day of February

	Fiscal 2013	Fiscal 2014	Fiscal 2015	Fiscal 2016	Fiscal 2017	Fiscal 2017
	(Millions of yen)					(Thousands of U.S. dollars)
Net sales	142,772	150,635	156,743	161,852	145,925	1,296,420
Operating income	25,326	19,123	20,527	27,730	26,306	233,706
Ordinary income	33,051	28,910	28,489	28,008	28,179	250,346
Profit attributable to owners of parent	18,809	21,357	18,784	17,784	20,395	181,192
Comprehensive income	24,740	34,448	32,244	15,299	21,156	187,953
Net assets	167,933	196,308	222,054	226,095	229,205	2,036,292
Total assets	214,141	251,852	285,440	284,954	278,820	2,477,079
Net assets per share (yen and dollars)	1,951.54	2,281.40	2,580.02	2,657.41	2,724.00	24.20
Net income per share (yen and dollars)	219.56	249.30	219.28	208.81	241.27	2.14
Diluted net income per share (yen and dollars)	—	—	—	208.76	241.15	2.14
Shareholders' equity ratio (%)	78.1	77.6	77.4	79.0	81.7	—
Return on equity (ROE) (%)	11.9	11.8	9.0	8.0	9.0	—
Price-earnings ratio (PER) (times)	24.5	19.1	20.4	23.6	25.0	—
Net cash provided by operating activities	32,485	35,845	23,232	30,923	19,910	176,883
Net cash (used in) provided by investing activities	(7,946)	(5,843)	(8,945)	(3,912)	1,070	9,506
Net cash used in financing activities	(9,288)	(6,476)	(7,036)	(11,616)	(18,402)	(163,486)
Cash and cash equivalents, end of year	50,860	77,780	88,614	103,940	105,610	938,255
Number of employees [average temporary staff]	2,826 [610]	2,949 [625]	2,942 [626]	2,900 [583]	2,751 [630]	— [—]

Notes: 1. Net sales do not include consumption tax.
2. Diluted net income per share for fiscal 2013, fiscal 2014 and fiscal 2015 is not listed due to the absence of residual securities.
3. As a result of the adoption of Accounting Standard for Business Combinations (ASBJ Statement No. 21, September 13, 2013), "net income" has been changed to "profit attributable to owners of parent" from FY2/17.

To Our Investors

We would like to express our sincere appreciation for our investors' continued patronage and support.

We hereby report the overview of operations and financial results for the 115th fiscal year (from March 1, 2016 to February 28, 2017).

Ethical pharmaceuticals in the domestic market posted a decrease in revenue, as our mainstay product, MOHRUS® TAPE, was affected by the revision of National Health Insurance drug prices and the medical service fees. In the OTC pharmaceuticals business, sales increased mainly for Salonpas®, and new products of the Nobinobi® Salonsip® brand and Feitas® brand also made a contribution, thus leading to an increase in revenue.

In overseas markets, ethical pharmaceuticals suffered a decrease in sales amid intensified competition with generic drugs. In the OTC pharmaceuticals business, products, especially Salonsip®, achieved sales growth, leading to an increase in revenue.

These business activities led to consolidated results as follows. Net sales decreased 9.8% year on year to ¥145,925 million, operating income decreased 5.1% year on year to ¥26,306 million, ordinary income increased 0.6% year on year to ¥28,179 million, and profit attributable to owners of parent increased 14.7% year on year to ¥20,395 million. The increase in profit attributable to owners of parent is mainly due to the posting of gain on transfer of manufacturing and marketing approval of Brisdelle® and Pexeva® by Noven Pharmaceuticals, Inc.

The Company formulated and initiated "the 6th Medium-term Management Policy" based on changes in the business environment. Under this policy, we strive to achieve net sales of ¥170,000 million, operating income of ¥34,000 million, and ROE at 8.0% or more in FY2021, five years from now.

We ask for our investors' continued support and encouragement.

NAKATOMI, Hirotaka
Chairman & CEO

NAKATOMI, Kazuhide
President & COO

Medical Products

For Export

Over the Counter Products

Overview of Operations

Operating results

The Japanese economy during the fiscal year under review remained on a track of gradual recovery, due to the recovery of corporate earnings and the improvement in employment situation, backed by the government's economic policy along with the monetary easing by the Bank of Japan.

However, uncertainty still prevailed, as witnessed in the disorder in the financial markets such as the foreign exchange market and stock market, affected by concern for the slowdown of emerging economies, the U.K.'s exit from the E.U. and the results of the U.S. Presidential election.

The operating environment for the ethical pharmaceutical industry in Japan became more severe due to the measures to curtail 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 patches and providing medical institutions with scientific information that precisely corresponds to their needs.

Regarding the OTC pharmaceuticals in Japan, we have worked to launch and promote sales of new products, as tough competition continues.

Our research and development concentrated its resources in transdermal patches, a mainstay product, and strove to develop 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.

Furthermore, 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 changing the air conditioning, and through maintaining 99% or more recycle rate.

We also promoted energy conservation through the activities of 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 year-end collection drive for overseas. The Company also provided support to a total of 50 organizations through the "Hisamitsu Pharmaceutical Co., Inc. Hot Heart Club" program, in which the Company makes matching donations deducted from employees' and directors' salaries, and made donation of first-aid supplies to the Japan Red Cross Society.

In the aftermath of the Kumamoto Earthquake in April 2016, we engaged in support activities such as donating relief money and the Company's products, as well as calling for charity through events organized by the Company.

Furthermore, we supported intercultural exchange through cultural activities by sponsoring the exhibition, CECCO BONANOTTE – IL TEATRO DEI RICORDI –" which was held in commemoration of the 150th anniversary of diplomatic relations between Italy and Japan.

Hisamitsu Springs, a women's volleyball team, became the first team in women's volleyball history in 2016 to win the Emperor's Cup and Empress's Cup All Japan Volleyball Championship five times in a row. 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 our support for 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 in Japan, faced an uncertain environment during FY2/17 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 patches. 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, MOHRUS® PAP XR and MOHRUS® PAP, ketoprofen transdermal patches; ESTRANA® TAPE, an estradiol transdermal patch; Fentos® Tape, a transdermal sustained-release pain relief patch of fentanyl citrate that has significant analgesic effects; NORSPAN® TAPE, a transdermal sustained-release pain relief patch of buprenorphine; and NEOXY® TAPE, an oxybutynin hydrochloride transdermal patch for the treatment of an overactive bladder.

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

In April 2016, we began marketing the transdermal anti-inflammatory pain relief patch, Nobinobi® Salonsip® F and the transdermal anti-inflammatory pain relief tape, Feitas® Zα Dicsas® and Feitas® Zα Dicsas® Oban.

For Nobinobi® Salonsip® F, we made an improvement in adhesion, so that it firmly sticks to joints which are difficult parts of the body to maintain patches on. Moreover, Nobinobi® Salonsip® F is made thinner with four rounded corners, making it less troublesome to wear under clothing and reducing the possibility of peeling off from the corner.

Feitas® Zα Dicsas® as well as Feitas® Zα Dicsas® Oban is a transdermal anti-inflammatory pain relief tape featuring dual pain relief action, containing 2.0% diclofenac sodium and 1.0% l-menthol. Compared with existing products, these new products are better fit and easier to peel off. Thanks to our technology, their expiry period has extended from two years to three years for the first time as a patch containing diclofenac sodium.

In the overseas business, we began marketing renewed Salonpas® in the U.S. as well.

Salonpas® brand is engaged in active sales promotion overseas as well, achieving the largest share of sales in the OTC anti-inflammatory pain relief patch market of the U.S.

Furthermore, our overseas subsidiary P.T. Hisamitsu Pharma Indonesia started the operation of a new plant, in an effort to enhance production capacity and further localization of Salonpas® brand.

As a result of our research and development activities, in April 2016, we received the “Technology prize” (Development section) of the 2016 Commendation for Science and Technology by the Ministry of Education, Culture, Sports, Science and Technology, in honor of the “development of a transdermal anti-inflammatory pain relief patch with superior transdermal absorption.”

As a result of these business activities, net sales of our group decreased 9.8% year on year, or ¥15,926 million, to ¥145,925 million. Operating income decreased 5.1% year on year, or ¥1,424 million, to ¥26,306 million. Ordinary income increased 0.6% year on year, or ¥170 million, to ¥28,179 million; and profit attributable to owners of parent increased 14.7% year on year, or ¥2,611 million, to ¥20,395 million.

Overview of Operations

Sales results

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

Business segment	(Millions of yen) Sales **Fiscal 2017**	YoY (%)	(Thousands of U.S. dollars) Sales **Fiscal 2017**
Pharmaceuticals	**142,689**	**(10.0)**	**1,267,671**
Other businesses	**3,235**	**(1.1)**	**28,740**
Total	**145,925**	**(9.8)**	**1,296,420**

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

Customer	(Millions of yen) Sales Fiscal 2016	% of total	Sales **Fiscal 2017**	% of total	(Thousands of U.S. dollars) Sales **Fiscal 2017**
MEDIPAL HOLDINGS CORPORATION	24,264	15.0	**22,416**	**15.4**	**199,147**
Alfresa Holdings Corporation	23,729	14.7	**22,072**	**15.1**	**196,091**

2. The foregoing figures do not include consumption tax.

Key Challenges

We expect the ethical pharmaceuticals business in Japan to witness continued efforts to curb healthcare expenditures, including strengthened measures to promote the use of generic drugs and additional National Health Insurance drug reimbursement price cuts for long listed products, 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, production and R&D capabilities.

For OTC pharmaceuticals in Japan, 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 improving existing products and developing new products.

In overseas business, we are working to establish our brand in terms of intellectual property, manufacturing technology, and quality control technology, 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 function at our business base Noven by combining our areas of strength in technology, as well as strengthening our manufacturing.

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 management resources more in our specialty area of transdermal patches.

Overview of Operations

Basic policy on control of the company

The basic policy and the takeover defense measures described below are policy and measures as of the end of FY2/17. These were terminated at the conclusion of the 116th annual general meeting of shareholders held on May 25, 2017.

(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: a) 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; b) manufacturing technology and quality control technology that enable the efficient, stable, and ongoing production of high-quality products; c) marketing prowess to cultivate several long-selling and market-leading brands, including Salonpas®, Salonsip®, Feitas®, Butenalock®, MOHRUS® PAP, MOHRUS® TAPE, and ESTRANA® TAPE; and d) 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 intellectual property, manufacturing technology, and quality control technology, 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 Return on Equity (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 Policy for FY2014-2018” released as of May 13, 2014, the targets for FY2018 are 11% or more in Return on Equity (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, 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, the continuation of the Plan with partial revision was approved with an effective period until the conclusion of the annual general meeting of shareholders for the fiscal year ending February 28, 2017.

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.

(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 pain relief patch.

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 pain relief patch that Hisamitsu Pharmaceutical has acquired manufacturing and marketing approval for.

3) Compensation

Compensation commensurate with a one-time contract payment.

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 patch, 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 is centered on the development of patch products that targets the needs of medical institutions.

For ethical pharmaceuticals in Japan, application has been submitted for HP-3060 (active pharmaceutical ingredient: emedastine difumarate), a transdermal system for the treatment of allergic rhinitis. Phase 3 trials are underway for HP-3000 (active pharmaceutical ingredient: ropinirole hydrochloride), a transdermal patch to treat Parkinson's disease. Phase 3 trials of HP-3000 for the treatment of idiopathic restless legs syndrome are being prepared. Regarding HP-3150, an analgesic transdermal drug containing NSAIDs, phase 3 trials for cancer pain relief and low back pain are underway.

For the U.S. ethical pharmaceuticals, applications for generic approval have been submitted for HP-1010 (active pharmaceutical Ingredient: Lidocaine), a transdermal patch to treat postherpetic neuralgia and HP-1030 (active pharmaceutical Ingredient: rivastigmine), a transdermal patch to treat dementia of the Alzheimer's type. We are conducting phase 3 trials for HP-3070, a transdermal patch drug preparation for the treatment of schizophrenia. We are preparing for phase 3 trials for ATS (active pharmaceutical Ingredient: d-amphetamine), a transdermal patch to treat Attention Deficit Hyperactivity Disorder.

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

In addition to the development of our own fundamental technologies, we are promoting the utilization of Noven's transdermal drug delivery system (TDDS) technology as well as joint development with external organizations, to expand the possibilities of TDDs.

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 ¥14,378 million in FY2/17.

Corporate Governance and Internal Auditing

Corporate Governance

(1) Basic approach to corporate governance

1) Corporate governance structure

We consider corporate governance as the framework for transparent, fair, prompt and resolute decision-making with due consideration to the interests of its stakeholders including shareholders, customers, employees and local communities and position 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 12 directors (including 2 outside directors) and 4 corporate auditors (including 2 outside corporate auditors) as of May 26, 2017.

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 held on May 23, 2013. Furthermore, we appointed 2 outside directors at the annual general meeting of shareholders held on May 21, 2015 to further reinforce corporate governance.

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 we stated 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 held on May 26, 2004.

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 2 outside corporate auditors from the company has been ensured and we believe that a structure sufficiently capable of monitoring management has been established.

Systems to ensure appropriate operations of the corporate group comprising Hisamitsu Pharmaceutical and group companies

We have requested group companies to prepare and observe their own rules regarding compliance, equivalent to the Hisamitsu Corporate Charter, and are making the best efforts to foster the compliance awareness of directors and employees of the Group as a whole.

Corporate Governance and Internal Auditing

We are monitoring the business status of each subsidiary through compliance of the Operation Manuals for Overseas and Domestic Group Corporations, reporting at meetings of the subsidiaries' presidents and group audit by the Company's corporate auditors, and also working on sharing information through exchanging opinions between corporate auditors of the subsidiaries and the Company.

Directors, executive officers, division managers of the Company and presidents of group companies have authority and responsibility for establishment and operations of internal control system to ensure appropriate business execution in each business division.

The Internal Audit Department of the Company carries out internal audits of Hisamitsu Pharmaceutical and group companies, reports results to relevant business division managers and directors in charge, and provides guidance on improvement measures for internal control as well as support and advice on their implementation as needed.

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

Although we have not established selection criteria regarding the independence of outside officers, we do select our outside officers based on the criteria of independence set forth by the Financial Instruments Exchange.

We have entered into agreements, in accordance with Article 427-1 of the Companies Act, with outside directors and outside corporate auditors to limit their liability for damages to the minimum amount stipulated in Article 425-1 of the Companies Act, provided that their duties have been carried out in good faith and with no gross negligence.

Our 2 outside directors are ICHIKAWA Isao and FURUKAWA Teijiro. 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. FURUKAWA Teijiro has gained deep insight with regard to our particular business through his experience in important positions at the Ministry of Health, Labour and Welfare.

Although FURUKAWA Teijiro concurrently serves as Executive Chairman of Imperial Gift Foundation Boshi-Aiiku-Kai, the company does not have any special conflict of interests in this Foundation.

Our 2 outside corporate auditors are ONO Keinosuke and TOKUNAGA Tetsuo. ONO Keinosuke has gained scholarly knowledge related to management through his past career experience such as professor of a graduate school of business. 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.

Although ONO Keinosuke concurrently serves as an outside director of YKK Corporation and Professor Emeritus 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 directors and outside corporate auditors and the company.

Corporate Governance and Internal Auditing

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 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: Chief Executive Officer (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.

Disclosure Policy Team (Chair: Chief Executive Officer (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.

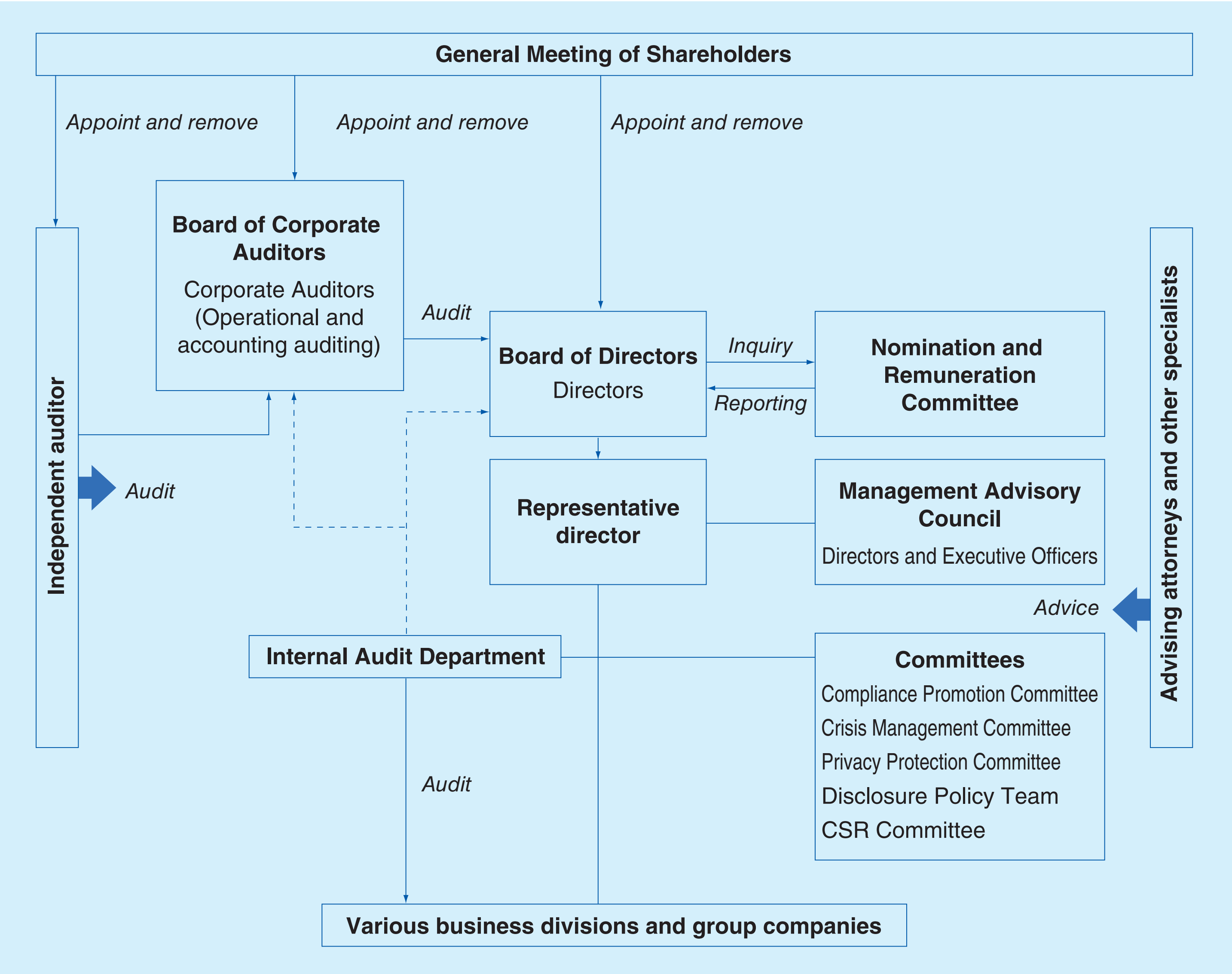
We strive to actively disclose information to enhance management transparency and seek to promote smooth communication with shareholders and investors through our investor relations activities.

CSR Committee (Chair: Director)

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

Corporate Governance and Internal Auditing

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 2017 Total compensation by type: Basic compensation	Stock options	Bonuses	Retirement benefits	Number of officers to be paid
Directors (Excluding Outside Directors)	402	300	101	—	—	10
Corporate Auditors (Excluding Outside Corporate Auditors)	38	38	—	—	—	2
Outside Officers	34	34	—	—	—	4

(Thousands of U.S. dollars)

Category	Total compensation	Fiscal 2017 Total compensation by type: Basic compensation	Stock options	Bonuses	Retirement benefits	Number of officers to be paid
Directors (Excluding Outside Directors)	3,571	2,665	897	—	—	10
Corporate Auditors (Excluding Outside Corporate Auditors)	338	338	—	—	—	2
Outside Officers	302	302	—	—	—	4

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

(Millions of yen)

Name (Category of executive)	Total consolidated compensation	Category of company	Fiscal 2017 Total compensation by type: Basic compensation	Stock options	Bonuses	Retirement benefits
NAKATOMI, Hirotaka (Chairman & CEO)	181	The filing company	126	55	—	—

(Thousands of U.S. dollars)

Name (Category of executive)	Total consolidated compensation	Category of company	Fiscal 2017 Total compensation by type: Basic compensation	Stock options	Bonuses	Retirement benefits
NAKATOMI, Hirotaka (Chairman & CEO)	1,608	The filing company	1,119	489	—	—

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	MASUDA Yasushi	8 CPAs & 10 others
	Designated limited liability partner and engagement partner	SADA Akihisa	
	Designated limited liability partner and engagement partner	KOBAYASHI Atsushi	

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 2016		**Fiscal 2017**		**Fiscal 2017**	
	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 filing company	50	2	**50**	—	**444**	—
Subsidiaries	13	—	**3**	—	**27**	—
Total	63	2	**53**	—	**471**	—

2) Breakdown of other important compensation

FY2016

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.

FY2017

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

FY2016

The Company has entrusted the accounting auditor with accounting advisory services, etc., that is other than the services set forth in Article 2-1 of the Certified Public Accountants Act (non-auditing services).

FY2017

Not applicable.

4) Policy on setting compensation for auditing services

Not applicable.

Analysis of Financial Position, Operating Results, and Cash Flows

(1) Analysis of financial position in Fiscal 2017

1) Assets

Assets totaled ¥278,820 million at the end of FY2/17, a decrease of ¥6,134 million from the previous year, due mainly to a decrease in notes and accounts receivable—trade of ¥1,550 million, an increase in merchandise and finished goods of ¥2,509 million, and a decrease in goodwill of ¥3,905 million.

2) Liabilities

Liabilities totaled ¥49,614 million at the end of FY2/17, a decrease of ¥9,244 million from the previous year, due mainly to decreases in income taxes payable of ¥3,648 million, and in other current liabilities of ¥4,181 million.

3) Net assets

Net assets totaled ¥229,205 million at the end of FY2/17, an increase of ¥3,110 million from the previous year, due mainly to an increase in retained earnings of ¥13,489 million, and a decrease in treasury stock of ¥8,671 million.

(2) Analysis of operating results in Fiscal 2017

1) Net sales

Net sales decreased 9.8% year on year to ¥145,925 million. This decrease is due mainly to a decrease in revenue of the ethical pharmaceuticals business in Japan, affected by the revisions of national health insurance drug prices and medical service fees.

2) Operating income

Operating income decreased 5.1% year on year to ¥26,306 million. This decrease is attributable mainly to the decrease in net sales.

3) Ordinary income

Ordinary income increased 0.6% year on year to ¥28,179 million. This is attributable mainly to the increase in equity in earnings of affiliates and the decrease in foreign exchange losses.

4) Profit attributable to owners of parent

Profit attributable to owners of the parent increased 14.7% year on year to ¥20,395 million. This increase is due mainly to the posting of gain associated with the termination of the joint sales agreement and gain on transfer of rights of approval for manufacture and commercial sale under extraordinary gain. Consequently, net income per share totaled ¥241.27 in FY2/17, and return on equity was 9.0%.

(3) Analysis of cash flows in Fiscal 2017

Cash and cash equivalents at the end of the FY2/17 totaled ¥105,610 million, an increase of ¥1,669 million from the end of the previous fiscal year.

1) Cash flows from operating activities

Net cash provided by operating activities totaled ¥19,910 million (¥30,923 million provided in the previous fiscal year), due mainly to income before taxes (¥29,984 million), depreciation and amortization (¥6,438 million), and income taxes paid (¥11,228 million).

2) Cash flows from investing activities

Net cash provided in investing activities totaled ¥1,070 million (¥3,912 million used in the previous fiscal year), due mainly to payments for purchase of tangible fixed assets (¥3,125 million) and gain on transfer of rights of approval for manufacture and commercial sale (¥3,280 million).

3) Cash flows from financing activities

Net cash used in financing activities totaled ¥18,402 million (¥11,616 million used in the previous fiscal year), due mainly to purchase of treasury stock (¥11,153 million) and cash dividends paid (¥6,944 million).

Capital Expenditures

Capital investment totaled ¥3,693 million in FY2/17.

In the Pharmaceutical segment, we mainly invested in the building and manufacturing equipment, etc. of the Tosu and Utsunomiya Plants resulting in capital investment of ¥2,302 million.

In other businesses, we mainly invested to expand bandwidth to provide digital capabilities to our subscribers, resulting in capital investment of ¥212 million.

In FY2/17, there was no disposal or removal of equipment that could impact production capacity.

Financial Section

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 FY2/17, we paid a year-end dividend of ¥41 per share including an interim dividend of ¥40.5 per share, which makes an annual dividend of ¥81.5 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 2017 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 11, 2016 Board of directors resolution	3,470	40.5	30,828	0.36
May 25, 2017 Annual general meeting of shareholders resolution	3,431	41.0	30,482	0.36

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 FY2/17.

1) Legal and regulatory risks

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

2) Risks from side effects

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

3) Research and development risks

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

4) Manufacturing and procurement risks

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

5) Environmental risks

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

6) Intellectual property risks

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

7) Litigation risks

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

8) Other risks

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

Consolidated Balance Sheets

February 29, 2016 and February 28, 2017

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2016	**Fiscal 2017**	**Fiscal 2017**
ASSETS			
Current assets:			
Cash and deposits	81,584	**80,280**	**713,220**
Notes and accounts receivable—trade	37,638	**36,087**	**320,602**
Securities	30,895	**32,767**	**291,107**
Merchandise and finished goods	8,105	**10,615**	**94,305**
Work in process	493	**441**	**3,918**
Raw materials and supplies	7,317	**6,631**	**58,911**
Deferred tax assets	4,293	**2,960**	**26,297**
Other	1,714	**2,628**	**23,348**
Allowance for doubtful accounts	(283)	**(315)**	**(2,799)**
Total current assets	171,760	**172,097**	**1,528,936**
Non-current assets			
Property, plant and equipment:			
Buildings and structures (Notes 2 and 3)	18,122	**16,979**	**150,844**
Machinery, equipment and vehicles (Notes 2 and 3)	7,213	**8,178**	**72,655**
Tools, furniture and fixtures (Notes 2 and 3)	2,080	**1,972**	**17,520**
Land (Notes 2 and 4)	13,015	**13,138**	**116,720**
Lease assets	58	**42**	**373**
Construction in progress	3,361	**2,718**	**24,147**
Total property, plant and equipment	43,851	**43,031**	**382,294**
Intangible assets:			
Sales rights	3,676	**2,612**	**23,205**
Goodwill	3,905	**—**	**—**
Software	912	**572**	**5,082**
Other	4,028	**2,788**	**24,769**
Total intangible assets	12,522	**5,973**	**53,065**
Investments and other assets:			
Investment securities (Note 1)	48,234	**49,989**	**444,110**
Long term-bank cash	129	**200**	**1,777**
Net defined benefit asset	1,602	**2,284**	**20,291**
Deferred tax assets	2,056	**512**	**4,549**
Other	5,014	**4,948**	**43,959**
Allowance for doubtful accounts	(216)	**(216)**	**(1,919)**
Total investments and other assets	56,820	**57,718**	**512,775**
Total non-current assets	113,194	**106,722**	**948,134**
TOTAL ASSETS	284,954	**278,820**	**2,477,079**

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2016	**Fiscal 2017**	**Fiscal 2017**
LIABILITIES			
Current liabilities:			
Notes and accounts payable—trade	7,669	**8,005**	**71,118**
Electronically recorded obligations—operating	6,347	**6,375**	**56,636**
Short-term loans payable (Note 2)	1,683	**1,561**	**13,868**
Lease obligations	33	**22**	**195**
Accounts payable—other	7,012	**6,264**	**55,650**
Income taxes payable	6,208	**2,559**	**22,735**
Provision for sales returns	126	**134**	**1,190**
Provision for bonuses	1,940	**1,708**	**15,174**
Other	9,975	**5,793**	**51,466**
Total current liabilities	40,997	**32,425**	**288,069**
Non-current liabilities:			
Long-term loans payable (Note 2)	647	**576**	**5,117**
Lease obligations	42	**32**	**284**
Deferred tax liabilities for land revaluation (Note 4)	1,716	**1,614**	**14,339**
Deferred tax liabilities	4,014	**3,911**	**34,746**
Net defined benefit liability	6,817	**7,028**	**62,438**
Other	4,623	**4,025**	**35,759**
Total non-current liabilities	17,862	**17,189**	**152,710**
Total Liabilities	58,859	**49,614**	**440,778**
NET ASSETS			
Shareholders' equity:			
Capital stock	8,473	**8,473**	**75,275**
Capital surplus	8,396	**5,914**	**52,541**
Retained earnings	210,725	**224,214**	**1,991,951**
Treasury shares	(26,033)	**(34,705)**	**(308,324)**
Total shareholders' equity	201,561	**203,897**	**1,811,452**
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	13,367	**14,531**	**129,096**
Revaluation reserve for land (Note 4)	3,637	**3,685**	**32,738**
Foreign currency translation adjustment	8,360	**6,904**	**61,336**
Remeasurements of defined benefit plans	(1,934)	**(1,115)**	**(9,906)**
Total accumulated other comprehensive income	23,430	**24,007**	**213,282**
Subscription rights to shares	101	**203**	**1,803**
Non-controlling interests	1,000	**1,097**	**9,746**
Total net assets	226,095	**229,205**	**2,036,292**
TOTAL LIABILITIES AND NET ASSETS	284,954	**278,820**	**2,477,079**

Consolidated Statements of Income

Years ended February 29, 2016 and February 28, 2017

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2016	**Fiscal 2017**	**Fiscal 2017**
Net sales	161,852	**145,925**	**1,296,420**
Cost of sales (Notes 2 and 3)	58,319	**53,155**	**472,237**
Gross profit	103,532	**92,770**	**824,183**
Selling, general and administrative expenses (Notes 1 and 2)	75,802	**66,464**	**590,476**
Operating income	27,730	**26,306**	**233,706**
Non-operating income:			
Interest income	184	**292**	**2,594**
Dividend income	615	**675**	**5,997**
Royalty income	43	**37**	**329**
Share of profit of entities accounted for using equity method	—	**471**	**4,184**
Other	370	**557**	**4,948**
Total non-operating income	1,214	**2,034**	**18,070**
Non-operating expenses:			
Interest expenses	32	**39**	**346**
Foreign exchange losses	832	**8**	**71**
Loss on sales of accounts receivable	23	**21**	**187**
Share of loss of entities accounted for using equity method	11	**—**	**—**
Other	35	**91**	**808**
Total non-operating expenses	936	**160**	**1,421**
Ordinary income	28,008	**28,179**	**250,346**
Extraordinary income:			
Gain on disposal of non-current assets (Note 4)	2	**13**	**115**
Gain on sales of investment securities	—	**0**	**0**
Gain on discontinuation of joint sales agreement	—	**1,303**	**11,576**
Gain on transfer of manufacturing and marketing approval	—	**2,914**	**25,888**
Total extraordinary income	2	**4,231**	**37,589**
Extraordinary loss:			
Loss on disposal of non-current assets (Note 5)	89	**71**	**631**
Impairment loss	—	**2,354**	**20,913**
Total extraordinary loss	89	**2,426**	**21,553**
Profit before income taxes	27,922	**29,984**	**266,382**
Income taxes—current	10,823	**7,287**	**64,739**
Income taxes—deferred	(829)	**2,155**	**19,145**
Total income taxes	9,993	**9,443**	**83,893**
Profit	17,929	**20,541**	**182,489**
Profit attributable to non-controlling interests	145	**146**	**1,297**
Profit attributable to owners of parent	17,784	**20,395**	**181,192**

Consolidated Statements of Comprehensive Income

Years ended February 29, 2016 and February 28, 2017

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2016	**Fiscal 2017**	**Fiscal 2017**
Profit	17,929	**20,541**	**182,489**
Other comprehensive income:			
Valuation difference on available-for-sale securities	296	**1,119**	**9,941**
Revaluation reserve for land	177	**85**	**755**
Foreign currency translation adjustment	(926)	**(1,454)**	**(12,918)**
Remeasurements of defined benefit plans, net of tax	(2,158)	**838**	**7,445**
Share of other comprehensive income of entities accounted for using equity method	(18)	**26**	**231**
Total other comprehensive income (Note 1)	(2,629)	**614**	**5,455**
Comprehensive income	15,299	**21,156**	**187,953**
Comprehensive income attributable to:			
Comprehensive income attributable to owners of the parent	15,198	**21,008**	**186,638**
Comprehensive income attributable to non-controlling interests	101	**147**	**1,306**

Consolidated Statements of Changes in Shareholders' Equity

Years ended February 29, 2016 and February 28, 2017

	(Millions of yen)				
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance as at March 1, 2015	8,473	8,396	199,990	(21,854)	195,006
Cumulative effects of changes in accounting policies			20		20
Restated balance	8,473	8,396	200,011	(21,854)	195,026
Dividends of surplus			(7,069)		(7,069)
Profit attributable to owners of parent			17,784		17,784
Reversal of revaluation reserve for land					—
Purchase of treasury shares				(4,179)	(4,179)
Disposal of treasury shares					—
Net changes of items other than shareholders' equity					—
Total changes of items during the period	—	—	10,714	(4,179)	6,534
Balance as at February 29, 2016	8,473	8,396	210,725	(26,033)	201,561

	(Millions of yen)							
	Accumulated other comprehensive income							
	Valuation difference on available-for-sale securities:	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Subscription rights to shares	Non-controlling interests	Total net assets
Balance as at March 1, 2015	13,087	3,459	9,243	225	26,016	—	1,031	222,054
Cumulative effects of changes in accounting policies								20
Restated balance	13,087	3,459	9,243	225	26,016	—	1,031	222,075
Dividends of surplus								(7,069)
Profit attributable to owners of parent								17,784
Reversal of revaluation reserve for land								—
Purchase of treasury shares								(4,179)
Disposal of treasury shares								—
Net changes of items other than shareholders' equity	279	177	(882)	(2,160)	(2,585)	101	(30)	(2,514)
Total changes of items during the period	279	177	(882)	(2,160)	(2,585)	101	(30)	4,020
Balance as at February 29, 2016	13,367	3,637	8,360	(1,934)	23,430	101	1,000	226,095

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance as at March 1, 2016	8,473	8,396	210,725	(26,033)	201,561
Cumulative effects of changes in accounting policies					—
Restated balance	8,473	8,396	210,725	(26,033)	201,561
Dividends of surplus			(6,943)		(6,943)
Profit attributable to owners of parent			20,935		20,395
Reversal of revaluation reserve for land			37		37
Purchase of treasury shares				(11,153)	(11,153)
Disposal of treasury shares		(2,482)		2,483	1
Net changes of items other than shareholders' equity					—
Total changes of items during the period	—	(2,482)	13,489	(8,671)	2,335
Balance as at February 28, 2017	8,473	5,914	224,214	(34,705)	203,897

(Millions of yen)

	Accumulated other comprehensive income							
	Valuation difference on available-for-sale securities:	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Subscription rights to shares	Non-controlling interests	Total net assets
Balance as at March 1, 2016	13,367	3,637	8,360	(1,934)	23,430	101	1,000	226,095
Cumulative effects of changes in accounting policies								—
Restated balance	13,367	3,637	8,360	(1,934)	23,430	101	1,000	226,095
Dividends of surplus								(6,943)
Profit attributable to owners of parent								20,395
Reversal of revaluation reserve for land								37
Purchase of treasury shares								(11,153)
Disposal of treasury shares								1
Net changes of items other than shareholders' equity	1,164	48	(1,456)	819	576	101	96	774
Total changes of items during the period	1,164	48	(1,456)	819	576	101	96	3,110
Balance as at February 28, 2017	14,531	3,685	6,904	(1,115)	24,007	203	1,097	229,205

Financial Section

	(Thousands of U.S. dollars)				
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance as at March 1, 2016	75,275	74,591	1,872,113	(231,281)	1,790,698
Cumulative effects of changes in accounting policies					—
Restated balance	75,275	74,591	1,872,113	(231,281)	1,790,698
Dividends of surplus			(61,683)		(61,683)
Profit attributable to owners of parent			185,990		181,192
Reversal of revaluation reserve for land			329		329
Purchase of treasury shares				(99,085)	(99,085)
Disposal of treasury shares		(22,050)		22,059	9
Net changes of items other than shareholders' equity					—
Total changes of items during the period	—	(22,050)	119,838	(77,034)	20,744
Balance as at February 28, 2017	75,275	52,541	1,991,951	(308,324)	1,811,452

	(Thousands of U.S. dollars)							
	Accumulated other comprehensive income							
	Valuation difference on available-for-sale securities:	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Subscription rights to shares	Non-controlling interests	Total net assets
Balance as at March 1, 2016	118,754	32,312	74,271	(17,182)	208,156	897	8,884	2,008,662
Cumulative effects of changes in accounting policies								—
Restated balance	118,754	32,312	74,271	(17,182)	208,156	897	8,884	2,008,662
Dividends of surplus								(61,683)
Profit attributable to owners of parent								181,192
Reversal of revaluation reserve for land								329
Purchase of treasury shares								(99,085)
Disposal of treasury shares								9
Net changes of items other than shareholders' equity	10,341	426	(12,935)	7,276	5,117	897	853	6,876
Total changes of items during the period	10,341	426	(12,935)	7,276	5,117	897	853	27,630
Balance as at February 28, 2017	129,096	32,738	61,336	(9,906)	213,282	1,803	9,746	2,036,292

Consolidated Statements of Cash Flows

Years ended February 29, 2016 and February 28, 2017

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2016	**Fiscal 2017**	**Fiscal 2017**
Cash flows from operating activities			
Profit before income taxes	27,922	**29,984**	**266,382**
Depreciation	7,477	**6,438**	**57,196**
Amortization of goodwill	1,068	**930**	**8,262**
Impairment loss	—	**2,354**	**20,913**
Increase (decrease) in net defined benefit liability	275	**288**	**2,559**
Increase (decrease) in provision for bonuses	(310)	**(186)**	**(1,652)**
Increase (decrease) in allowance for doubtful accounts	(41)	**29**	**258**
Increase (decrease) in provision for sales returns	(48)	**7**	**62**
Interest and dividend income	(800)	**(967)**	**(8,591)**
Interest expenses	32	**39**	**346**
Foreign exchange losses (gains)	178	**5**	**44**
Gain on transfer of manufacturing and marketing approval	—	**(2,914)**	**(25,888)**
Share of (profit) loss of entities accounted for using equity method	11	**(471)**	**(4,184)**
Loss (gain) on sales of investment securities	—	**0**	**0**
Loss (gain) on disposal of non-current assets	86	**58**	**515**
Decrease (increase) in notes and accounts receivable—trade	8,626	**1,371**	**12,180**
Decrease (increase) in inventories	(605)	**(2,262)**	**(20,096)**
Decrease (increase) in other current assets	(46)	**(586)**	**(5,206)**
Increase (decrease) in notes and accounts payable—trade	(3,868)	**421**	**3,740**
Increase (decrease) in other current liabilities	(189)	**(4,677)**	**(41,551)**
Other, net	(1,083)	**330**	**2,932**
Subtotal	38,686	**30,194**	**268,248**
Interest and dividend income received	818	**984**	**8,742**
Interest expenses paid	(33)	**(39)**	**(346)**
Income taxes paid	(8,548)	**(11,228)**	**(99,751)**
Net cash provided by (used in) operating activities	30,923	**19,910**	**176,883**

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2016	**Fiscal 2017**	**Fiscal 2017**
Cash flows from investing activities			
Decrease (increase) in time deposits	1,737	**582**	**5,171**
Decrease (increase) in long term-time deposits	25	**(73)**	**(649)**
Purchase of property, plant and equipment	(5,052)	**(3,125)**	**(27,763)**
Proceeds from sales of property, plant and equipment	54	**54**	**480**
Purchase of intangible assets	(97)	**(74)**	**(657)**
Decrease (increase) in short-term investment securities	(1,737)	**909**	**8,076**
Purchase of investment securities	(806)	**(493)**	**(4,380)**
Proceeds from sales and redemption of investment securities	—	**3**	**27**
Collection of loans receivable	11	**7**	**62**
Proceeds from the liquidation of subsidiaries and affiliates	1,952	**—**	**—**
Proceeds from transfer of manufacturing and marketing approval (Note 2)	—	**3,280**	**29,140**
Net cash provided by (used in) investing activities	(3,912)	**1,070**	**9,506**
Cash flows from financing activities			
Increase (decrease) in short-term loans payable	45	**(115)**	**(1,022)**
Proceeds from long-term loans payable	244	**—**	**—**
Repayment of long-term loans payable	(370)	**(78)**	**(693)**
Dividends paid to non-controlling interests	(132)	**(50)**	**(444)**
Purchase of treasury shares	(4,178)	**(11,153)**	**(99,085)**
Proceeds from disposal of treasury shares	—	**1**	**9**
Cash dividends paid	(7,067)	**(6,944)**	**(61,692)**
Other, net	(158)	**(60)**	**(533)**
Net cash provided by (used in) financing activities	(11,616)	**(18,402)**	**(163,486)**
Effect of exchange rate change on cash and cash equivalents	(67)	**(909)**	**(8,076)**
Net increase (decrease) in cash and cash equivalents	15,326	**1,669**	**14,828**
Cash and cash equivalents at beginning of period	88,614	**103,940**	**923,419**
Cash and cash equivalents at end of period (Note 1)	103,940	**105,610**	**938,255**

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 2017 (March 1, 2016 – February 28, 2017)

1. Scope of consolidation

Consolidated subsidiaries: 16

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
3 other companies

For the fiscal year under review, one of the consolidated subsidiaries has been excluded from the scope of consolidation due to liquidation.

2. Investments accounted for under the equity method

Equity-method affiliates: 3

Names of companies:

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

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

The fiscal years of the 11 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 policies

(1) Valuation standards and methods for significant assets

1) Securities

a) Held-to-maturity bonds

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

b) Available-for-sale securities

i) Securities with market value

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

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

ii) Securities without market value

Valued at cost, determined by the moving average method.

2) Inventories

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

(2) Depreciation methods for significant depreciable assets

1) Tangible fixed assets (excluding lease assets)

a) Company and domestic consolidated subsidiaries

Mainly the declining balance method.

b) Overseas consolidated subsidiaries

Mainly the 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.

(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.

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) Accounting method 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.

1) Method of attributing estimated retirement benefits to periods

In the calculation of retirement benefit obligations, estimated retirement benefits are attributed to the periods up to the end of the consolidated fiscal year using the benefit formula basis.

2) Treatment of actuarial differences

Actuarial differences are amortized starting in the next consolidated fiscal year using the straight-line method over a fixed number of years (five years) that is less than the average remaining years of service of employees when incurred.

3) Simplified method for small companies

Certain consolidated subsidiaries apply the simplified method to calculate net defined benefit liability and retirement benefit expenses, where retirement benefit obligations are assumed to be equal to the benefits payable upon the voluntary retirement of all employees at fiscal year-end.

(5) Translation of significant foreign currency denominated assets and liabilities

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 consolidated 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 Non-controlling Interests under Net Assets.

(6) 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.

(7) 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.

(8) 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.

Changes in Accounting Policies

Adoption of the Accounting Standard for Business Combinations

Effective as of the fiscal year under review, the “Accounting Standard for Business Combinations” (ASBJ Statement No. 21; September 13, 2013; hereinafter the “Business Combinations Accounting Standard”), the “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22; September 13, 2013; hereinafter the “Consolidated Accounting Standard”) and the “Accounting Standard for Business Divestitures” (ASBJ Statement No. 7; September 13, 2013; hereinafter the “Business Divestitures Accounting Standard”) have been adopted, whereby differences from changes to the Company’s ownership interest in its subsidiaries while retaining its control have been recorded as capital surplus, while acquisition-related expenses have been recorded as expenses for the consolidated fiscal year when incurred. Moreover, for business combinations to be performed after the beginning of the fiscal year under review, the method has been changed to reflect the review of allocated acquisition cost due to finalization of the provisional accounting treatment on the consolidated financial statements for the consolidated fiscal year to which the date of the business combination belongs. In addition, changes in the presentation of net income have been made, as well as a change in presentation from minority interests to non-controlling interests. In order to reflect such changes in presentation, the consolidated financial statements for the previous fiscal year have been reclassified.

On the consolidated statements of cash flows for the fiscal year under review, cash flows from purchase or sales of shares of subsidiaries not resulting in change in the scope of consolidation has been presented in “cash flows from financing activities,” and cash flows from acquisition-related expenses of shares of subsidiaries resulting in the change in the scope of consolidation or expenses related to purchase or sales of shares of subsidiaries not resulting in the change in the scope of consolidation has been presented in “cash flows from operating activities.”

The adoption of the Business Combinations Accounting Standard, etc. is in accordance with the transitional treatments set forth in paragraph 58-2 (4) of the Business Combinations Accounting Standard, paragraph 44-5 (4) of the Consolidated Accounting Standard, and paragraph 57-4 (4) of the Business Divestitures Accounting Standard, and they have been adopted prospectively from the beginning of the fiscal year under review.

There are no impacts on the consolidated financial statements for the fiscal year under review.

Unapplied Accounting Standards, etc.

• “Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26, March 28, 2016)

(1) Outline

With respect to the recoverability of deferred tax assets, necessary revisions are made to the following treatments primarily based on the framework proposed under the Implementation Guidance on Recoverability of Deferred Tax Assets provided in the JICPA Audit Committee Report No. 66 in which companies are classified into five categories and the recoded amount of deferred tax assets are estimated according to such classification.

(i) Treatment of entities that do not meet any of the classification requirements for Category 1 through Category 5
(ii) Classification requirements for Category 2 and Category 3
(iii) Treatment of future deductible temporary difference that cannot be scheduled for entities classified as Category 2
(iv) Treatment of the reasonably estimable period of the taxable income before adding or deducting future temporary difference for entities classified as Category 3
(v) Treatment of entities that meet the classification requirements for Category 4 but which also qualifies as either Category 2 or Category 3

(2) Scheduled date of adoption

We plan to adopt them from the beginning of FY2/18.

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

The impact of adoption is currently being evaluated in preparing consolidated financial statements.

Notes to Consolidated Financial Statements

Fiscal 2016 (March 1, 2015 – February 29, 2016) and Fiscal 2017 (March 1, 2016 – February 28, 2017)

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 2016	**Fiscal 2017**	**Fiscal 2017**
Investment securities (stocks)	4,856	**5,544**	**49,254**

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

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2016	**Fiscal 2017**	**Fiscal 2017**
Pledged assets			
Buildings and structures	945 (book value)	**794 (book value)**	**7,054**
Machinery, equipment and vehicles	6 (book value)	**1 (book value)**	**9**
Tools, furniture and fixtures	107 (book value)	**86 (book value)**	**764**
Land	59 (book value)	**59 (book value)**	**524**
Total	1,119 (book value)	**941 (book value)**	**8,360**
Assets provided for factory foundation mortgage			
Buildings and structures	827 (book value)	**766 (book value)**	**6,805**
Machinery, equipment and vehicles	6 (book value)	**1 (book value)**	**9**
Tools, furniture and fixtures	107 (book value)	**86 (book value)**	**764**
Total	941 (book value)	**855 (book value)**	**7,596**
Liabilities related to the above assets			
Short-term loans payable	78	**249**	**2,212**
Long-term loans payable	647	**398**	**3,536**
Total	726	**647**	**5,748**
Liabilities provided for factory foundation mortgage			
Short-term loans payable	66	**244**	**2,168**
Long-term loans payable	605	**360**	**3,198**
Total	672	**605**	**5,375**

(Note 3) Advanced depreciation of government subsidies is ¥5,832 million in both FY2/16 and FY2/17.
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 FY2/16 and FY2/17 was ¥3,266 million and ¥3,644 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 2016	**Fiscal 2017**	**Fiscal 2017**
Advertising expenses	10,005	**9,661**	**85,830**
Sales promotion expenses	17,648	**13,740**	**122,068**
Freightage and packing expenses	2,702	**2,687**	**23,872**
Provision of allowance for doubtful accounts	(23)	**16**	**142**
Salaries and allowances	11,085	**8,553**	**75,986**
Provision for bonuses	997	**836**	**7,427**
Retirement benefit expenses	281	**691**	**6,139**
Amortization of goodwill	1,068	**930**	**8,262**
Business consignment expenses	974	**443**	**3,936**
Research and development expenses, of which:	14,965	**14,378**	**127,736**
Provision for bonuses	346	**346**	**3,074**
Retirement benefit expenses	95	**233**	**2,070**

(Note 2) General and administrative expenses include research and development expenses of ¥14,965 million and ¥14,378 million in FY2/16 and FY2/17, respectively.
Manufacturing costs do not include research and development expenses.

(Note 3) In FY2/16 and FY2/17, manufacturing costs include provision for bonuses of ¥435 million and ¥437 million and retirement benefit expenses of ¥165 million and ¥404 million, respectively.

(Note 4) Breakdown of gain on disposal of non-current assets

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2016	**Fiscal 2017**	**Fiscal 2017**
Buildings and structures	—	**0**	**0**
Machinery, equipment and vehicles	1	**—**	**—**
Tools, furniture and fixtures	0	**—**	**—**
Land	1	**12**	**107**
Total	2	**13**	**115**

(Note 5) Breakdown of loss on disposal of non-current assets

	(Millions of yen)		(Thousands of U.S. dollars)
Loss on retirement	Fiscal 2016	**Fiscal 2017**	**Fiscal 2017**
Buildings and structures	6	**25**	**222**
Machinery, equipment and vehicles	66	**32**	**284**
Tools, furniture and fixtures	8	**1**	**9**
Lease assets	2	**—**	**—**
Loss on sales			
Buildings and structures	—	**0**	**0**
Land	5	**12**	**107**
Total	89	**71**	**631**

(Note 6) For the fiscal year under review, the Group recorded impairment loss on the following assets.

Purpose of use	Location	Type	Amount (Millions of yen)	Amount (Thousands of U.S. dollars)
Business assets	U.S.	Goodwill	**2,354**	**20,913**

The Group's business assets are grouped based on business units on which the Group can reasonably perform profit and loss management, and rental assets and idle assets are grouped by individual assets. For determining an indication of impairment loss, each consolidated subsidiary is determined as one unit.

For the goodwill recorded with the acquisition of Noven Pharmaceuticals, Inc., our U.S. subsidiary, as a result of the impairment test during the review of the business structure of the company, the entire amount of goodwill was impaired. The recoverable amount was measured based on the value in use and calculated by discounting future cash flows by 10.7%.

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 2016	**Fiscal 2017**	**Fiscal 2017**
Valuation difference on available-for-sale securities:			
Amount arising during fiscal year under review	(409)	**1,046**	**9,293**
Reclassification adjustment amount:	17	**(0)**	**(0)**
Before tax effect adjustment	(392)	**1,045**	**9,284**
Tax effect amount	689	**74**	**657**
Valuation difference on available-for-sale securities	296	**1,119**	**9,941**
Revaluation reserve for land:			
Tax effect amount	177	**85**	**755**
Foreign currency translation adjustment:			
Amount arising during fiscal year under review	(926)	**(1,454)**	**(12,918)**
Remeasurements of defined benefit plan, net of tax:			
Amount arising during fiscal year under review	(3,151)	**611**	**5,428**
Reclassification adjustment amount:	(29)	**645**	**5,730**
Before tax effect adjustment	(3,180)	**1,256**	**11,158**
Tax effect amount	1,021	**(418)**	**(3,714)**
Remeasurements of defined benefit plan, net of tax	(2,158)	**838**	**7,445**
Share of other comprehensive income of entities accounted for using equity method:			
Amount arising during fiscal year under review	(18)	**26**	**231**
Total other comprehensive income	(2,629)	**614**	**5,455**

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Fiscal 2016 (March 1, 2015 – February 29, 2016)

1. Shares issued

(Shares)

Type of shares	Beginning of fiscal 2016	Increase	Decrease	End of fiscal 2016
Common stock	95,164,895	—	—	95,164,895

2. Treasury shares

(Shares)

Type of shares	Beginning of fiscal 2016	Increase	Decrease	End of fiscal 2016
Common stock	9,497,715	1,001,071	—	10,498,786

Reasons for changes

Shares increased for the following main reasons:

Increase from acquisition of treasury shares by resolution of the board of directors	1,000,000 shares
Increase from purchasing shares in less than one unit	818 shares
The Company portion of treasury shares acquired by equity method affiliates	253 shares

3. Subscription rights to shares

Name of company	Breakdown	Type of shares	Number of shares: Beginning of fiscal 2016	Increase	Decrease	End of fiscal 2016	Balance at the end of the fiscal 2016
The filing company	Subscription rights to shares as stock option	—	—	—	—	—	101

4. Dividends

(1) Dividends paid

Resolution	Type of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Payment date
May 21, 2015 Annual general meeting of shareholders	Common stock	3,642	42.5	February 28, 2015	May 22, 2015
October 9, 2015 Board of Directors meeting	Common stock	3,427	40.0	August 31, 2015	November 10, 2015

(2) Dividends with a record date in fiscal 2016 but a payment date in fiscal 2017

Resolution	Type of shares	Source of dividend	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Payment date
May 26, 2016 Annual general meeting of shareholders	Common stock	Retained earnings	3,472	41.0	February 29, 2016	May 27, 2016

Fiscal 2017 (March 1, 2016 – February 28, 2017)

1. Shares issued

(Shares)

Type of shares	Beginning of fiscal 2017	Increase	Decrease	End of fiscal 2017
Common stock	95,164,895	—	—	95,164,895

2. Treasury shares

(Shares)

Type of shares	Beginning of fiscal 2017	Increase	Decrease	End of fiscal 2017
Common stock	10,498,786	2,000,794	1,000,000	11,499,580

Reasons for changes

Shares increased for the following main reasons:

Increase from acquisition of treasury shares by resolution of the board of directors	2,000,000 shares
Increase from purchasing shares in less than one unit	573 shares
The Company portion of treasury shares acquired by equity method affiliates	221 shares
Decrease from disposal of treasury shares by resolution of the general meeting of shareholders	1,000,000 shares

3. Subscription rights to shares

Name of company	Breakdown	Type of shares	Number of shares: Beginning of fiscal 2017	Increase	Decrease	End of fiscal 2017	Balance at the end of the fiscal 2017
The filing company	Subscription rights to shares as stock option	—	—	—	—	—	203

4. Dividends

(1) Dividends paid

Resolution	Type of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Payment date
May 26, 2016 Annual general meeting of shareholders	Common stock	3,472	41.0	February 29, 2016	May 27, 2016
October 11, 2016 Board of Directors meeting	Common stock	3,470	40.5	August 31, 2016	November 8, 2016

Resolution	Type of shares	Total dividends (Thousands of U.S. dollars)	Dividends per share (U.S. dollars)	Record date	Payment date
May 26, 2016 Annual general meeting of shareholders	Common stock	30,846	0.36	February 29, 2016	May 27, 2016
October 11, 2016 Board of Directors meeting	Common stock	30,828	0.36	August 31, 2016	November 8, 2016

(2) Dividends with a record date in fiscal 2017 but a payment date in fiscal 2018

Resolution	Type of shares	Source of dividend	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Payment date
May 25, 2017 Annual general meeting of shareholders	Common stock	Retained earnings	3,431	41.0	February 28, 2017	May 26, 2017

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 25, 2017 Annual general meeting of shareholders	Common stock	Retained earnings	30,482	0.36	February 28, 2017	May 26, 2017

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 2016	**Fiscal 2017**	**Fiscal 2017**
Cash and deposits	81,584	**80,280**	**713,220**
Cash equivalents included in short-term investment securities	25,909	**28,419**	**252,479**
Total	107,494	**108,699**	**965,698**
Term deposits longer than three months	(3,553)	**(3,089)**	**(27,443)**
Cash and cash equivalents	103,940	**105,610**	**938,255**

(Note 2) Breakdown of main items of assets and liabilities related to transfer of business with cash and cash equivalents as consideration

The following is the breakdown of assets and liabilities due to the transfer of rights of approval for manufacture and commercial sale of Noven Pharmaceuticals, Inc., our U.S. subsidiary, and the transfer price of business and gain on transfer of business.

	(Millions of yen)	(Thousands of U.S. dollars)
Current assets	255	2,265
Noncurrent assets	394	3,500
Noncurrent liabilities	(546)	(4,851)
Transfer-related expenses	262	2,328
Gain on transfer of business	2,914	25,888
Transfer price of business	3,280	29,140
Proceeds from transfer of business	3,280	29,140

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. Borrowings are mainly for funding required for corporate acquisitions and capital investment. 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 2016 (February 29, 2016)

	(Millions of yen)		
	Carrying amount	Market value	Unrealized gain (loss)
(1) Cash and deposits	81,584	81,584	—
(2) Notes and accounts receivable—trade	37,638	37,638	—
(3) Short-term investment securities and investment securities:			
(i) Available-for-sale securities	73,533	73,533	—
(ii) Stock of affiliated companies	1,634	770	(864)
(4) Long-term deposits	129	131	2
Total assets	194,520	193,658	(862)
(1) Notes and accounts payable—trade	7,669	7,669	—
(2) Electronically recorded obligations—operating	6,347	6,347	—
(3) Short-term loans payable	1,605	1,605	—
(4) Accounts payable	7,012	7,012	—
(5) Income taxes payable	6,208	6,208	—
(6) Long-term loans payable (*)	726	731	4
Total liabilities	29,569	29,574	4
Derivative transactions	—	—	—

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

Fiscal 2017 (February 28, 2017)

	(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	**80,280**	**80,280**	**—**	**713,220**	**713,220**	**—**
(2) Notes and accounts receivable—trade	**36,087**	**36,087**	**—**	**320,602**	**320,602**	**—**
(3) Short-term investment securities and investment securities:						
(i) Available-for-sale securities	**76,472**	**76,472**	**—**	**679,389**	**679,389**	**—**
(ii) Stock of affiliated companies	**1,949**	**1,894**	**(55)**	**17,315**	**16,827**	**(489)**
(4) Long-term deposits	**200**	**205**	**5**	**1,777**	**1,821**	**44**
Total assets	**194,990**	**194,940**	**(49)**	**1,732,321**	**1,731,876**	**(435)**
(1) Notes and accounts payable—trade	**8,005**	**8,005**	**—**	**71,118**	**71,118**	**—**
(2) Electronically recorded obligations—operating	**6,375**	**6,375**	**—**	**56,636**	**56,636**	**—**
(3) Short-term loans payable	**1,490**	**1,490**	**—**	**13,237**	**13,237**	**—**
(4) Accounts payable	**6,264**	**6,264**	**—**	**55,650**	**55,650**	**—**
(5) Income taxes payable	**2,559**	**2,559**	**—**	**22,735**	**22,735**	**—**
(6) Long-term loans payable (*)	**647**	**647**	**—**	**5,748**	**5,748**	**—**
Total liabilities	**25,343**	**25,343**	**—**	**225,151**	**225,151**	**—**
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

MMFs 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 29, 2016	**February 28, 2017**	**February 28, 2017**
Unlisted equity securities	3,961	**4,334**	**38,504**

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 2016 (February 29, 2016)

	(Millions of yen)			
	Due within one year	Due after one year but within five years	Due after five years but within ten years	Due after ten years
Cash and deposits	81,584	—	—	—
Notes and accounts receivable—trade	37,638	—	—	—
Short-term investment securities and investment securities:				
Available-for-sale securities with contractual maturities	4,986	—	—	—
Long-term deposits	—	129	—	—
Total	124,209	129	—	—

Fiscal 2017 (February 28, 2017)

	(Millions of yen)				(Thousands of U.S. dollars)			
	Due within one year	Due after one year but within five years	Due after five years but within ten years	Due after ten years	Due within one year	Due after one year but within five years	Due after five years but within ten years	Due after ten years
Cash and deposits	**80,280**	**—**	**—**	**—**	**713,220**	**—**	**—**	**—**
Notes and accounts receivable—trade	**36,087**	**—**	**—**	**—**	**320,602**	**—**	**—**	**—**
Short-term investment securities and investment securities:								
Available-for-sale securities with contractual maturities	**4,348**	**—**	**—**	**—**	**38,628**	**—**	**—**	**—**
Long-term deposits	**—**	**200**	**—**	**—**	**—**	**1,777**	**—**	**—**
Total	**120,716**	**200**	**—**	**—**	**1,072,459**	**1,777**	**—**	**—**

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

Fiscal 2016 (February 29, 2016)

	(Millions of yen)			
	Due within one year	Due after one year but within five years	Due after five years but within ten years	Due after ten years
Short-term loans payable	1,605	—	—	—
Long-term loans payable	78	279	357	10
Total	1,683	279	357	10

Fiscal 2017 (February 28, 2017)

	(Millions of yen)				(Thousands of U.S. dollars)			
	Due within one year	Due after one year but within five years	Due after five years but within ten years	Due after ten years	Due within one year	Due after one year but within five years	Due after five years but within ten years	Due after ten years
Long-term loans payable	**71**	**285**	**290**	**—**	**631**	**2,532**	**2,576**	**—**
Total	**71**	**285**	**290**	**—**	**631**	**2,532**	**2,576**	**—**

SECURITIES

1. Available-for-sale securities

Fiscal 2016 (February 29, 2016)

	(Millions of yen)		
Category	Carrying amount	Acquisition cost	Difference
Carrying amount higher than acquisition cost:			
(1) Stocks	39,212	19,988	19,224
(2) Bonds	—	—	—
(3) Other	—	—	—
Subtotal	39,212	19,988	19,224
Carrying amount lower than acquisition cost:			
(1) Stocks	3,424	3,924	(499)
(2) Bonds	—	—	—
(3) Other	30,895	30,895	—
Subtotal	34,320	34,820	(499)
Total	73,533	54,808	18,724

Fiscal 2017 (February 28, 2017)

Category	Carrying amount (Millions of yen)	Acquisition cost (Millions of yen)	Difference (Millions of yen)	Carrying amount (Thousands of U.S. dollars)	Acquisition cost (Thousands of U.S. dollars)	Difference (Thousands of U.S. dollars)
Carrying amount higher than acquisition cost:						
(1) Stocks	**42,902**	**23,096**	**19,805**	**381,148**	**205,188**	**175,951**
(2) Bonds	—	—	—	—	—	—
(3) Other	—	—	—	—	—	—
Subtotal	**42,902**	**23,096**	**19,805**	**381,148**	**205,188**	**175,951**
Carrying amount lower than acquisition cost:						
(1) Stocks	**802**	**838**	**(35)**	**7,125**	**7,445**	**(311)**
(2) Bonds	—	—	—	—	—	—
(3) Other	**32,767**	**32,767**	—	**291,107**	**291,107**	—
Subtotal	**33,570**	**33,606**	**(35)**	**298,241**	**298,561**	**(311)**
Total	**76,472**	**56,702**	**19,769**	**679,389**	**503,749**	**175,631**

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

Fiscal 2016 (March 1, 2015 – February 29, 2016)

Not applicable.

Fiscal 2017 (March 1, 2016 – February 28, 2017)

Category	Sales (Millions of yen)	Total gains on sales (Millions of yen)	Total losses on sales (Millions of yen)	Sales (Thousands of U.S. dollars)	Total gains on sales (Thousands of U.S. dollars)	Total losses on sales (Thousands of U.S. dollars)
Stocks	**1**	**0**	—	**9**	**0**	—
Bonds	—	—	—	—	—	—
Other	—	—	—	—	—	—
Total	**1**	**0**	—	**9**	**0**	—

RETIREMENT BENEFITS

1. Overview of retirement benefit plans

The Company and consolidated subsidiaries have adopted funded and unfunded defined benefit plans, in order to prepare for the payment of retirement benefits to employees.

Corporate pension plan

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

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

Lump sum retirement allowance

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

For lump sum retirement allowance system of some consolidated subsidiaries, net defined benefit liability and retirement benefits expenses are calculated using the simplified method.

2. Defined benefit plans

(1) Reconciliation of beginning and ending balances of retirement benefit obligations

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2016	**Fiscal 2017**	**Fiscal 2017**
Beginning balance of retirement benefit obligations:	14,474	**17,290**	**153,607**
Cumulative effects of changes in accounting policies	(95)	**—**	**—**
Restated balance	14,378	**17,290**	**153,607**
Service costs	747	**966**	**8,582**
Interest costs	183	**68**	**604**
Actuarial differences incurred	2,414	**(366)**	**(3,252)**
Payment of retirement benefits	(423)	**(538)**	**(4,780)**
Other	(10)	**28**	**249**
Ending balance of retirement benefit obligations	17,290	**17,448**	**155,011**

(2) Reconciliation of beginning and ending balances of pension assets

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2016	**Fiscal 2017**	**Fiscal 2017**
Beginning balance of pension assets:	12,374	**12,074**	**107,267**
Expected return on plan assets	358	**350**	**3,109**
Actuarial differences incurred	(736)	**245**	**2,177**
Employer contributions	348	**352**	**3,127**
Payment of retirement benefits	(269)	**(317)**	**(2,816)**
Ending balance of pension assets	12,074	**12,704**	**112,864**

(3) Reconciliation of ending balance of retirement benefit obligations and pension assets with net defined benefit liability and net defined benefit asset recorded in the consolidated balance sheets

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2016	**Fiscal 2017**	**Fiscal 2017**
Retirement benefit obligations for funded plans	10,472	**10,419**	**92,564**
Pension assets	(12,074)	**(12,704)**	**112,864**
	(1,602)	**(2,284)**	**(20,291)**
Retirement benefit obligations for unfunded plans	6,817	**7,028**	**62,438**
Net amount of liabilities and assets in consolidated balance sheets	5,215	**4,743**	**42,138**
Net defined benefit liability	6,817	**7,028**	**62,438**
Net defined benefit asset	(1,602)	**(2,284)**	**(20,291)**
Net amount of liabilities and assets in consolidated balance sheets	5,215	**4,743**	**42,138**

(4) Breakdown of retirement benefit expenses

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2016	**Fiscal 2017**	**Fiscal 2017**
Service costs	747	**966**	**8,582**
Interest costs	183	**68**	**604**
Expected return on plan assets	(358)	**(350)**	**(3,109)**
Amortization of actuarial differences	(29)	**645**	**5,730**
Retirement benefit expenses for defined benefit plans	542	**1,329**	**11,807**

(5) Remeasurements of defined benefit plans, net of tax

Items recorded in remeasurements of defined benefit plans (before related tax effects) are as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2016	**Fiscal 2017**	**Fiscal 2017**
Actuarial differences	(3,182)	**1,256**	**11,158**

(6) Remeasurements of defined benefit plans

Items recorded in remeasurements of defined benefit plans (before related tax effects) are as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2016	**Fiscal 2017**	**Fiscal 2017**
Unrecognized actuarial differences	2,834	**1,577**	**14,010**

(7) Pension assets

1) Breakdown by main items of pension assets

The proportions of main items to the total pension assets are as follows:

	Fiscal 2016	**Fiscal 2017**
Bonds	57%	**54%**
Stocks	29%	**31%**
General account	10%	**10%**
Other	4%	**5%**
Total	100%	**100%**

2) Long-term expected rate of return on plan assets

Long-term expected rate of return on plan assets is determined considering the current and projected pension asset allocations and the current and future long-term return rates expected from various assets that compose pension assets.

(8) Basis for actuarial calculation

	Fiscal 2016	**Fiscal 2017**
Discount rate	0.4%	**0.4%**
Long-term expected rate of return on plan assets	2.9%	**2.9%**

MATTERS RELATED TO STOCK OPTIONS, ETC

1. Expenses related to stock options and its items

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2016	**Fiscal 2017**	**Fiscal 2017**
Expenses for stock option as compensation of selling, general and administrative expenses	101	**101**	**897**

2. Description, scale and transition of stock options

(1) Description of stock options

	Hisamitsu Pharmaceutical Co., Inc. The first subscription rights to shares	Hisamitsu Pharmaceutical Co., Inc. The second subscription rights to shares
Resolution date	July 10, 2015	July 8, 2016
Classification and number of persons to be granted	10 directors of the Company	10 directors of the Company
Class and number of shares	Common stock of 35,800 shares	Common stock of 17,900 shares
Date of grant	July 27, 2015	July 25, 2016
Vesting conditions	No vesting conditions are applied.	No vesting conditions are applied.
Requisite service period	—	—
Exercise period	From July 28, 2015 to July 27, 2065	From July 26, 2016 to July 25, 2066

(2) Scale and transition of stock options

The following is applicable to the stock options prevalent in the fiscal year under review (FY2/17), whereby the number of stock options is converted into number of shares.

(i) Number of stock options

(Shares)

	Hisamitsu Pharmaceutical Co., Inc. The first subscription rights to shares	Hisamitsu Pharmaceutical Co., Inc. The second subscription rights to shares
Date of resolution	July 10, 2015	July 8, 2016
Prior to vesting:		
End of fiscal 2016	—	—
Granted	—	17,900
Expired	—	—
Vested	—	17,900
Outstanding prior to vesting	—	—
Post-vesting:		
End of fiscal 2016	35,800	—
Vested	—	17,900
Exercised	—	—
Expired	—	—
Outstanding prior to exercise	35,800	17,900

(ii) Unit price information

(yen)

	Hisamitsu Pharmaceutical Co., Inc. The first subscription rights to shares	Hisamitsu Pharmaceutical Co., Inc. The second subscription rights to shares
Date of resolution	July 10, 2015	July 8, 2016
Exercise price	1	1
Average share price at the time of exercise	—	—
Fair valuation unit price as at the grant date	3,796	5,032

3. Method for estimating fair valuation unit price of the stock options granted during the fiscal year under review

(1) Valuation method used: Black-Scholes model

(2) Main base number and the method for the estimation thereof

Share price volatility (Note 1)	27.754%
Expected remaining period (Note 2)	10 years
Expected dividends (Notes 3)	¥81 per share
Risk-free interest rate (Note 4)	(0.249)%

Notes: 1. Calculated based on the actual share price over a ten-year period (from July 2006 to July 2016).
2. Period from the grant date up to the estimated average timing of exercise.
3. Based on the actual dividend paid for FY2/16.
4. Japanese government bond yields corresponding to the expected remaining period.

TAX EFFECT ACCOUNTING

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

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2016	**Fiscal 2017**	**Fiscal 2017**
Deferred tax assets:			
Net defined benefit liability	1,838	**1,901**	**16,889**
Provision for directors' retirement benefits (long-term accounts payable)	419	**398**	**3,536**
Accrued enterprise tax	402	**178**	**1,581**
Allowance for doubtful accounts	154	**156**	**1,386**
Inventories	252	**233**	**2,070**
Excess depreciation	674	**625**	**5,553**
Intangible fixed assets	2,109	**170**	**1,510**
Valuation losses on memberships	195	**186**	**1,652**
Loss on valuation of investment securities	827	**784**	**6,965**
Provision for bonuses	649	**547**	**4,860**
Outsourced research and development	1,254	**1,263**	**11,221**
Other	5,846	**4,903**	**43,559**
Sub-total deferred tax assets	14,625	**11,349**	**100,826**
Valuation allowance	(2,780)	**(2,737)**	**(24,316)**
Total deferred tax assets	11,844	**8,611**	**76,501**
Deferred tax liabilities:			
Net defined benefit asset	(1,099)	**(966)**	**(8,582)**
Valuation difference on available-for-sale securities	(5,587)	**(5,513)**	**(48,978)**
Other	(2,821)	**(2,570)**	**(22,832)**
Total deferred tax liabilities	(9,508)	**(9,050)**	**(80,402)**
Net deferred tax assets	2,336	**(438)**	**(3,891)**

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 2016	**Fiscal 2017**	**Fiscal 2017**
Current assets: deferred tax assets	4,293	**2,960**	**26,297**
Noncurrent assets: deferred tax assets	2,056	**512**	**4,549**
Noncurrent liabilities: deferred tax liabilities	(4,014)	**(3,911)**	**(34,746)**

2. Breakdown by main items that caused major differences 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 percent of the statutory tax rate, notes for Fiscal 2016 and Fiscal 2017 are omitted.

3. Revisions to the amount of deferred tax assets and deferred tax liabilities due to changes in the rate of income taxes

With the approval at the Diet on March 29, 2016 of the "Act for Partial Amendment of the Income Tax Act, etc." as well as the "Act, etc. for Partial Amendment of Local Income Tax, etc.," statutory effective tax rate used for calculating deferred tax assets and deferred tax liabilities in the fiscal year under review (only for those likely to be eliminated on and after March 1, 2017), has been changed from the 32.1% applicable hitherto to 30.7% for those likely to be collected or paid during the period from March 1, 2017 to February 28, 2019, while to 30.5% for those likely to be collected or paid on or after March 1, 2019.

The impact of this change in tax rate is minor.

Business Combinations

Business divestiture

Noven Pharmaceuticals, Inc., our U.S. subsidiary (hereinafter, "Noven") has transferred the rights of approval for manufacture and commercial sale of "Brisdelle®," a non—hormonal oral preparation for moderate to severe vasomotor symptoms (VMS) associated with menopause and "Pexeva®," an antidepressant oral preparation to Sebela International Limited on July 25, 2016.

1. Outline of the business divestiture

(1) Name of the successor company

Sebela International Limited

(2) Detail of the divested business

Manufacture and commercial sales of "Brisdelle®" and "Pexeva®"

(3) Main reasons for the business divestiture

To further concentrate management resources on the patch business as part of business restructuring of Noven

(4) Date of the business divestiture

July 25, 2016

(5) Matters regarding the outline of transaction including its legal form

Transfer limiting consideration received to property such as cash

2. Outline of accounting treatments performed

(1) Amount of gain or loss on transfer

¥2,914 million

(2) Fair carrying amounts and breakdown of main items of assets and liabilities related to the business transferred

	(Millions of yen)	(Thousands of U.S. dollars)
Current assets	255	2,265
Noncurrent assets	394	3,500
Total assets	649	5,766
Noncurrent liabilities	546	4,851
Total liabilities	546	4,851

(3) Accounting treatment

The differences between the consideration for transfer and the equivalent of shareholders' equity related to the transferred business and the expenses associated with the transfer of business are recognized as gain on transfer of rights of approval for manufacture and commercial sale on the consolidated statements of income.

3. Reportable segment that included the divested business

Pharmaceuticals

4. Approximate amount of gains or losses related to the divested business recorded on the consolidated statements of income for the fiscal year under review

	Cumulative (Millions of yen)	(Thousands of U.S. dollars)
Net sales	1,250	11,105
Operating income	266	2,363

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 2016 (March 1, 2015 – February 29, 2016)

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
112,957	**36,014**	**12,880**	**161,852**

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
33,208	**7,143**	**3,499**	**43,851**

3. Information by significant customer

(Millions of yen)

Name of customers	Net sales	Related segment
MEDIPAL HOLDINGS CORPORATION	**24,264**	Pharmaceuticals
Alfresa Holdings Corporation	**23,729**	Pharmaceuticals

Fiscal 2017 (March 1, 2016 – February 28, 2017)

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
104,957	**27,790**	**13,177**	**145,925**

(Thousands of U.S. dollars)

Japan	North America	Other	Total
932,454	**246,891**	**117,066**	**1,296,420**

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
33,153	**6,643**	**3,234**	**43,031**

(Thousands of U.S. dollars)

Japan	North America	Other	Total
294,536	**59,017**	**28,731**	**382,294**

3. Information by significant customer

	(Millions of yen)	(Thousands of U.S. dollars)	
Name of customers	Net sales	Net sales	Related segment
MEDIPAL HOLDINGS CORPORATION	**22,416**	**199,147**	Pharmaceuticals
Alfresa Holdings Corporation	**22,072**	**196,091**	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

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

RELATED PARTY INFORMATION

Fiscal 2016 (March 1, 2015 – February 29, 2016)

Because the item is not material, this item is not stated.

Fiscal 2017 (March 1, 2016 – February 28, 2017)

Transactions with related parties

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. (%)
Executive and their close family member	NAKATOMI Hirotaka	—	—	—	Chairman & CEO of the Company Chairman of the Nakatomi Memorial Foundation, an incorporated foundation	—

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)
Concurrently served as the chairman of a foundation	Disposal of treasury shares through third-party allotment (Note)	1	9	—	—	—

Note: Disposal of treasury shares through third-party allotment was performed in order to generate funds for the social contribution activities of the Nakatomi Memorial Foundation, an incorporated foundation, with the dividend of the Company (¥1 million for 1 million shares). As the issuance amount of ¥1 per share corresponds to advantageous placement, the issuance was performed with the approval at the Company's 114th annual general meeting of shareholders held on May 26, 2016.

PER SHARE INFORMATION

	(Yen)		(U.S. dollars)
	Fiscal 2016	**Fiscal 2017**	**Fiscal 2017**
Net assets per share	2,657.41	**2,724.00**	**24.20**
Net income per share	208.81	**241.27**	**2.14**
Diluted net income per share	208.76	**241.15**	**2.14**

Notes: 1. The basis for the calculation of net income per share and diluted net income per share is as follows.

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2016	**Fiscal 2017**	**Fiscal 2017**
Net income per share:			
Profit attributable to owners of parent	17,784	**20,395**	**181,192**
Amount not attributable to common shareholders	—	**—**	**—**
Profit attributable to owners of parent attributable to common stock	17,784	**20,395**	**181,192**
Average common stock during year (Thousands of shares)	85,166	**84,532**	**750,995**
Diluted net income per share:			
Adjusted profit attributable to owners of parent	—	**—**	**—**
Increase in common stock (Thousands of shares)	22	**44**	**391**
(Subscription rights to shares (Thousands of shares))	(22)	**(44)**	**(391)**
Outline of residual securities that were not included in calculating diluted net income per share as they had no dilutive effect		**—**	

2. The basis for the calculation of net assets per share is as follows.

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2016	**Fiscal 2017**	**Fiscal 2017**
Total net assets	226,095	**229,205**	**2,036,292**
Amount deducted from total net assets:	1,102	**1,301**	**11,558**
(Subscription rights to shares)	(101)	**(203)**	**(1,803)**
(Non-controlling interests)	(1,000)	**(1,097)**	**(9,746)**
Net assets attributable to common stock as at the end of the fiscal year	224,992	**227,904**	**2,024,733**
Common stock used in calculating net assets per share as at the end of the fiscal year (Thousands of shares)	84,666	**83,665**	**743,292**

SIGNIFICANT SUBSEQUENT EVENTS

Not applicable.

Supplementary Schedule

Supplementary schedule of bonds payable

Not applicable.

Supplementary schedule of loans payable

Category	Balance at the beginning of Fiscal 2017 (Millions of yen)	**Balance at the end of Fiscal 2017** (Millions of yen)	Balance at the beginning of Fiscal 2017 (Thousands of U.S. dollars)	**Balance at the end of Fiscal 2017** (Thousands of U.S. dollars)	Average interest rate (%)	Due date
Short-term loans	1,605	**1,490**	14,259	**13,237**	0.37	—
Current portion of long-term loans	78	**71**	693	**631**	0.64	—
Current portion of long-term lease obligation	33	**22**	293	**195**	—	—
Long-term loans (excluding current portion)	647	**576**	5,748	**5,117**	0.65	March 2018 to March 2026
Lease obligation (excluding current portion)	42	**32**	373	**284**	—	March 2018 to September 2022
Other interest-bearing liabilities	—	**—**	—	**—**	—	—
Total	2,407	**2,192**	21,384	**19,474**	—	—

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

2. 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.

3. 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	71	65	71	77
Lease obligations	14	6	5	4

(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	631	577	631	684
Lease obligations	124	53	44	36

Supplementary schedule of asset retirement obligations

Not applicable.

Other

Quarterly consolidated financial information for Fiscal 2017

(Millions of yen)

(Cumulative)	Three months ended May 31, 2016	Six months ended August 31, 2016	Nine months ended November 30, 2016	Fiscal 2017
Net sales	38,153	74,447	109,729	145,925
Profit before income taxes	6,859	13,812	27,031	29,984
Profit attributable to owners of parent	4,529	9,286	18,340	20,395
Net income per share (yen)	53.50	109.47	216.23	241.27

(Thousands of U.S. dollars)

(Cumulative)	Three months ended May 31, 2016	Six months ended August 31, 2016	Nine months ended November 30, 2016	Fiscal 2017
Net sales	338,957	661,398	974,849	1,296,420
Profit before income taxes	60,936	122,708	240,147	266,382
Profit attributable to owners of parent	40,236	82,498	162,935	181,192
Net income per share (U.S. dollars)	0.48	0.97	1.92	2.14

(Yen)

(Quarterly)	First quarter	Second quarter	Third quarter	Fourth quarter
Net income per share	53.50	55.96	106.77	24.56

(U.S. dollars)

(Quarterly)	First quarter	Second quarter	Third quarter	Fourth quarter
Net income per share	0.48	0.50	0.95	0.22

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

(Shares)

Type of shares	Shares issued at year end Fiscal 2016 (February 28, 2017)	Shares issued on filing date (May 26, 2017)	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

Subscription rights to shares issued pursuant to the Companies Act, are as follows.

The first subscription rights to shares (resolved on July 10, 2015, issued on July 27, 2015)

	As of the end of the fiscal year under review (February 28, 2017)	As at the end of the month preceding the filing date (April 30, 2017)
Number of subscription rights to shares (Units)	358 (Note 1)	Same as left
Of the above, number of treasury subscription rights to shares	—	—
Class of shares to be issued upon exercise of subscription rights to shares	Common stock	Same as left
Number of shares to be issued upon exercise of subscription rights to shares (Shares)	35,800 (Notes 1, 2)	Same as left
Cash payment upon exercise of subscription rights to shares (yen)	1	Same as left
Exercise period of subscription rights to shares	July 28, 2015 to July 27, 2065	Same as left
Price of the shares to be issued upon exercise of subscription rights to shares, and the amount to be incorporated into capital stock (yen)	Price of shares issued: 3,797 Amount to be incorporated into capital stock: 1,899 (Note 3)	Same as left
Conditions for the exercise of subscription rights to shares	(Note 4)	Same as left
Matters concerning the transfer of subscription rights to shares	Acquisition of subscription rights to shares by transfer shall be subject to the approval based on the resolution of the board of directors of the Company.	Same as left
Matters concerning substitute payment	—	—
Matters concerning the issuance of subscription rights to shares associated with organizational restructuring	(Note 5)	Same as left

Notes: 1. Class and number of allottees of subscription rights to shares, as well as number of subscription rights to shares to be allotted are as follows:

Directors of the Company (excluding outside directors): 10 persons; 358 subscription rights to shares

Number of shares to be issued upon exercise of each subscription right to shares (hereinafter "number of shares to be granted") shall be 100.

2. In the event the Company conducts a stock split of the shares of its common stock (including a gratis allotment of its common stocks; hereinafter the same in every reference to stock splits), on and after the date on which subscription rights to shares are allotted (hereinafter the "allotment date"), or a reverse stock split, the number of shares granted shall be adjusted according to the following formula, and fractions less than one share resulting from the calculation shall be rounded down.

Number of shares granted after adjustment = Number of shares granted before adjustment × Ratio of stock splits or reverse stock splits

Number of shares granted after adjustment shall, in the case of a stock split, be applicable on and after the day following the record date thereof (if a record date is not established, effective date thereof), while in the case of a reverse stock split, effective date thereof. However, in the case where a stock split is conducted subject to the approval at the general meeting of shareholders, of a proposal to increase capital stock or additional paid-in-capital by reducing surplus, if a date prior to the conclusion of such general meeting of shareholders is set as the record date for the stock split, number of shares granted after adjustment shall, for the period on and after the day following the conclusion of such general meeting of shareholders, become applicable retroactively on such record date.

Subsequent to the allotment date, in the event of a need for an adjustment to the number of shares granted in association with a merger or company split of the Company or otherwise, the Company may make an adjustment to the number of shares granted as appropriate, within a reasonable extent.

In the event of an adjustment to the number of shares granted, within the period up to the day before the date on which the number of shares granted after adjustment becomes applicable, the Company shall notify each holder of subscription rights to shares registered in the original register of subscription rights to shares (hereinafter the "holder of subscription rights to shares"), of the matters required to be communicated thereto, via personal or public notice. However, if such personal or public notice cannot be delivered in the aforementioned period, it shall be delivered as soon as possible.

3. (1) The amount of an increase in capital associated with the issuance of shares as a result of the exercise of subscription rights to shares, shall be half of the maximum amount of an increase in capital stock calculated in accordance with Article 17-1 of the Company Accounting Ordinance, where any fraction less than ¥1 resulting therefrom shall be rounded up.

(2) The amount of an increase in additional paid-in capital associated with the issuance of shares as a result of the exercise of subscription rights to shares, shall be calculated by subtracting the amount of an increase in capital stock described in (1) above, from the maximum amount of an increase in capital stock, etc., also described in (1) above.

4. (1) A holder of subscription rights to shares shall, on or after the day following the date of loss of his/her position as a director, be entitled to exercise the subscription rights to shares allotted to him/her based on such loss.

(2) In the event of death of a holder of subscription rights to shares, only if all of the subscription rights to shares held by such holder are succeeded by one person who is his spouse, child, parents or sibling among all his heirs (hereinafter such heir who succeed the subscription rights to shares shall be called the "successor"), the successor shall be entitled to exercise subscription rights to shares. However, conditions and procedures for the exercise, etc., shall be based on the agreement on the allotment of subscription rights to shares, as concluded between the Company and the holder of subscription rights to shares subject to the resolution of the board of directors of the Company.

(3) Once having abandoned subscription rights to shares, a holder of subscription rights to shares shall not be entitled to exercise such subscription rights to shares.

(4) A holder of subscription rights to shares must exercise the whole of the subscription rights to shares allotted to him/her at once (subscription rights to shares remaining after the partial abandonment, if such partial abandonment is conducted).

5. In the event the Company engages in a merger (referring only to the merger in which the Company is an absorbed company), absorption-type or incorporation-type company split (referring only to the company split in which the Company is a split company), or share exchange or share transfer (referring only to the share exchange or share transfer in which the Company becomes a wholly-owned subsidiary) (hereinafter collectively an “organizational restructuring”), the Company shall issue subscription rights to shares in the stock company listed in (a) to (e) of Article 236-1, Item 8 of the Companies Act (hereinafter the “restructured company”) in the respective type of the aforementioned organizational restructuring, to the holder of subscription rights to shares who holds the subscription rights to shares remaining immediately prior to the effective date of such organizational restructuring (hereinafter the “residual subscription rights to shares”) the Company engages in (effective date of the absorption-type merger in the case of an absorption-type merger; date of establishment of the new stock company created as a result of the incorporation-type merger in the case of an incorporation-type merger; effective date of the absorption-type company split, in the case of an absorption-type company split; date of establishment of the new stock company created as a result of the incorporation-type company split in the case of an incorporation-type company split, effective date of the share exchange in the case of an share exchange; the date of establishment of the wholly-owned parent created as a result of the share transfer, in the case of the share transfer; hereinafter the same shall apply). However, the aforementioned issuance shall be subject to the creation of provisions to the effect that the subscription rights to shares in the restructured company be issued in accordance with the items as follows in the absorption-type merger agreement, incorporation-type merger agreement, absorption-type company split agreement, incorporation-type company split plan, share exchange agreement or share transfer plan.

(1) Number of the subscription rights to shares in the restructured company to be issued
Subscription rights in the restructured company shall be issued to each holder of subscription rights to shares, in the same number as the number of residual subscription rights to shares held by each such holder.

(2) Type of shares in the restructured company to be issued upon exercise of subscription rights to shares
Common stock of the restructured company.

(3) Number of shares in the restructured company to be issued upon exercise of subscription rights to shares
It shall be determined in the same manner as described in 1. and 2. above, in consideration of the conditions for the organizational restructuring.

(4) The value of asset to be contributed at the time of the exercise of subscription rights to shares
The value of asset to be contributed at the time of the exercise of each subscription right to shares to be issued, shall be the amount calculated by multiplying the post-restructuring exercise price as determined as follows, by the number of shares in the restructured company to be issued upon exercise of the subscription rights to shares as determined in (3) above. The post-restructuring exercise price shall be ¥1 for each share in the restructured company, which can be granted upon exercise of each subscription right to shares issued.

(5) Period during which the subscription rights to shares can be exercised
It shall be the period beginning on the inception date of the period prescribed in the aforementioned “Exercise period of subscription rights to shares,” or the effective date of the organizational restructuring, whichever later, ending on the expiry date of the period prescribed in the aforementioned “Exercise period of subscription rights to shares.”

(6) Matters concerning capital stock and additional paid-in capital, in the case of issuance of shares upon exercise of subscription rights to shares
It shall be decided in the same manner as described in 3. above.

(7) Restriction on the acquisition of subscription rights to shares by transfer
Acquisition of subscription rights to shares by transfer shall require the approval based on the resolution of the board of directors of the restructured company ("general meeting of shareholders" if the restructured company is not a company with board of directors).

(8) Terms of acquisition of subscription rights to shares
It shall be decided in the way described as follows.
Upon the approval at general meeting of shareholders of the Company on the proposals (i), (ii), (iii), (iv) and (v) as follows (or upon the resolution of the board of directors of the Company, if resolution of the general meeting of shareholders is not required), the Company shall be entitled to acquire the subscription rights to shares without compensation on the date as separately specified by the board of directors of the Company.
(i) Proposal for the approval of the merger agreement in which the Company becomes the absorbed company
(ii) Proposal for the approval of the company split agreement in which the Company becomes the split company, or on the plan for such company split
(iii) Proposal for the approval of the share exchange agreement or plan for the share transfer, in which the Company becomes a wholly-owned subsidiary
(iv) Proposal for the approval of the amendment to the Company's articles of incorporation to create new provisions to the effect that that acquisition of all of the shares issued by the Company by transfer, shall require the approval of the Company.
(v) Proposal for the approval of the amendment to the Company's articles of incorporation to create provisions to the effect that that acquisition of the type of shares to be delivered upon exercise of subscription rights to shares by means of transfer, shall require the approval of the Company, or the provisions that govern the acquisition of all shares of such type based on the resolution of general meeting of shareholders of the Company.

(9) Other conditions for the exercise of subscription rights to shares
It shall be decided in the same manner as described in 4. above.

The second subscription rights to shares (resolved on July 8, 2016, issued on July 25, 2016)

	As of the end of the fiscal year under review (February 28, 2017)	As at the end of the month preceding the filing date (April 30, 2017)
Number of subscription rights to shares (Units)	179 (Note 1)	Same as left
Of the above, number of treasury subscription rights to shares	—	—
Class of shares to be issued upon exercise of subscription rights to shares	Common stock	Same as left
Number of shares to be issued upon exercise of subscription rights to shares (Shares)	17,900 (Notes 1, 2)	Same as left
Cash payment upon exercise of subscription rights to shares (yen)	1	Same as left
Exercise period of subscription rights to shares	July 26, 2016 to July 25, 2066	Same as left
Price of the shares to be issued upon exercise of subscription rights to shares, and the amount to be incorporated into capital stock (yen)	Price of shares issued: 5,033 Amount to be incorporated into capital stock: 2,517 (Note 3)	Same as left
Conditions for the exercise of subscription rights to shares	(Note 4)	Same as left
Matters concerning the transfer of subscription rights to shares	Acquisition of subscription rights to shares by transfer shall be subject to the approval based on the resolution of the board of directors of the Company.	Same as left
Matters concerning substitute payment	—	—
Matters concerning the issuance of subscription rights to shares associated with organizational restructuring	(Note 5)	Same as left

Notes: 1. Class and number of allottees of subscription rights to shares, as well as number of subscription rights to shares to be allotted are as follows:

Directors of the Company (excluding outside directors): 10 persons; 179 subscription rights to shares

Number of shares to be issued upon exercise of each subscription right to shares (hereinafter "number of shares to be granted") shall be 100.

2. Notes 2 through 5 are the same as the corresponding notes in the first subscription rights to shares.

(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	—	75,275	(54,398)	18,817

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, 2017

	Status of shares (Investment unit comprises 100 shares)								
					Foreign shareholders				
Category	National and local government	Financial institutions	Securities companies	Other corporations	Non-individuals	Individuals	Individuals and other	Total	Shares under one unit (Shares)
Shareholders (entities)	—	53	22	183	406	4	3,386	4,054	—
Shares owned (units)	—	447,281	8,208	184,636	113,053	13	198,030	951,221	42,795
Ratio (%)	—	47.02	0.86	19.41	11.89	0.00	20.82	100.00	—

Note: Treasury stock of 11,471,881 are listed as 114,718 units in the individuals and other column and as 81 shares in the shares under one unit column. The 11,471,881 treasury stock figure is the number of shares listed in the shareholder registry.

(7) Principal shareholders

As of February 28, 2017

Name	Address	Shares owned (thousand shares)	Percentage of shares outstanding (%)
Japan Trustee Service Bank, Ltd. (trust account)	1-8-11 Harumi, Chuo-ku, Tokyo	6,281	6.60
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 Master Trust Bank of Japan, Ltd. (trust account)	2-11-3 Hamamatsucho, Minato-ku, Tokyo	4,296	4.51
Nippon Life Insurance Company	1-6-6 Marunouchi, Chiyoda-ku, Tokyo	3,910	4.11
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
Hisamitsu Business Partners' Shareholding Association	408 Tashiro Daikan-machi, Tosu-shi Saga	2,165	2.28
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
TKY	1-12-3 Sasayama-machi, Kurume-shi, Fukuoka	1,834	1.93
Total		36,136	37.97

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

Japan Trustee Service Bank, Ltd.: 12,715 thousand shares

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

The Master Trust Bank of Japan, Ltd.: 4,296 thousand shares

2. In addition to the shares listed above, the company owns treasury stock of 11,471 thousand shares (12.05%).

(8) Details of stock option system

It was resolved at the annual general meeting of shareholders that the Company awards stock options as compensation for the Company's directors (excluding outside directors) in accordance with Article 361 of the Companies Act.

The description of the relevant system is as follows.

	Hisamitsu Pharmaceutical Co., Inc. The first subscription rights to shares	Hisamitsu Pharmaceutical Co., Inc. The second subscription rights to shares
Resolution date	July 10, 2015	July 8, 2016
Classification and number of persons to be granted	10 directors of the Company (excluding outside directors)	10 directors of the Company (excluding outside directors)
Class of shares to be issued upon exercise of subscription rights to shares	Provided in (2) Status of share subscription rights to shares	Provided in (2) Status of share subscription rights to shares
Number of shares	Same as the above	Same as the above
Cash payment upon exercise of subscription rights to shares	Same as the above	Same as the above
Exercise period of subscription rights to shares	Same as the above	Same as the above
Conditions for the exercise of subscription rights to shares	Same as the above	Same as the above
Matters concerning the transfer of subscription rights to shares	Same as the above	Same as the above
Matters concerning substitute payment	Same as the above	Same as the above
Matters concerning the issuance of subscription rights to shares accompanying organizational restructuring	Same as the above	Same as the above

(9) Stock Administration of the Filing Company

Fiscal year	From March 1 to end of February
Annual general meeting of shareholders	In May
Record date	End of February
Record date for distribution of surplus	End of August End of February
Number of shares constituting one unit	100 shares
Purchase of shares less than one unit	
Handling office	1-4-5 Marunouchi, Chiyoda-ku, Tokyo Securities Agency Division, Mitsubishi UFJ Trust and Banking Corporation
Transfer agent	1-4-5 Marunouchi, Chiyoda-ku, Tokyo Mitsubishi UFJ Trust and Banking Corporation
Transfer office	—
Purchasing fee	Free
Method of public notice	The Company's public notice shall be by electronic public notice. However, if electronic public notice is not available due to accident or other unavoidable reason, the public notice shall be posted on the *Nihon Keizai Shimbun*. The Company's electronic public notice is posted on our website at the following address: http://www.hisamitsu.co.jp/ir/koukoku.html
Shareholders' privileges	None

Notes: 1. For the Company's shares less than one unit, rights other than the following cannot be exercised:

1) The rights set out in each item of Article 189, Paragraph 2 of the Companies Act.
2) The right to claim pursuant to Article 166, Paragraph 1 of the Companies Act.
3) The right to receive an allotment of shares for subscription or subscription rights to shares for subscription.

Group Companies

Our corporate group comprises Hisamitsu Pharmaceutical, 16 consolidated subsidiaries, and 3 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	3	—	—	—	—	Note 3
Saga City-Vision Co., Ltd.	Saga, Saga	¥605 million	Other businesses	70.12	2	—	—	—	—	
Taiyo Co., Ltd.	Tosu, Saga	¥50 million	Other businesses	100	2	2	—	Agent for casualty insurance contracts for Hisamitsu	Hisamitsu leases land	
Kyudo Co., Ltd.	Tosu, Saga	¥10 million	Other businesses	100	2	1	—	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	1	—	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.	New Jersey, 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	—	—	Hisamitsu outsources development	—	Note 3
Hisamitsu Farmaceutica do Brasil Ltda.	Manaus, Brazil	BRL 15 million	Pharmaceuticals	100	—	3	Working capital loans	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	Working capital loans	Manufacture and sell products in Indonesia, with products and some raw materials supplied by Hisamitsu	—	
3 other companies	—	—	—	—	—	—	—	—	—	

Corporate Information

Name	Location	Capital or investment	Main business activities	Voting rights (%)	Relationship					Remarks
					Concurrent employees		Capital support from Hisamitsu	Business transactions	Other	
					Hisamitsu officers (Persons)	Hisamitsu employees (Persons)				
Equity-method affiliates										
Sanofi-Hisamitsu K.K.	Shinjuku Tokyo	¥250 million	Pharmaceuticals	49.0	2	2	—	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 merchandise of Hisamitsu	—	
Maruto Sangyo Co., Ltd.	Ogori, Fukuoka	¥1,807 million	Other businesses	39.8	1	2	—	Supplies raw materials to Hisamitsu	—	Note 4

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

	(Millions of yen)	(Thousands of U.S. dollars)
(1) Net sales	22,265	197,806
(2) Ordinary income	2,758	24,502
(3) profit attributable to owners of parent	1,262	11,212
(4) Net assets	48,575	431,548
(5) Total assets	57,251	508,627

Corporate Information

Management

Chairman & CEO	NAKATOMI Hirotaka
President & COO	NAKATOMI Kazuhide
Senior Managing Director	SUGIYAMA Kousuke
Managing Director	AKIYAMA Tetsuo
Director	HIGO Naruhito
Director	TSURUDA Toshiaki
Director	TAKAO Shinichiro
Director	SAITO Kyu
Director	TSUTSUMI Nobuo
Director	MURAYAMA Shinichi
Director	ICHIKAWA Isao
Director	FURUKAWA Teijiro

Standing Corporate Auditor	NAKATOMI Nobuyuki
Standing Corporate Auditor	HIRANO Munehiko
Corporate Auditor	ONO Keinosuke
Corporate Auditor	TOKUNAGA Tetsuo

Notes: 1. NAKATOMI Kazuhide, President & COO, is the first son of NAKATOMI Hirotaka, Chairman & CEO.
2. NAKATOMI Nobuyuki, Standing Corporate Auditor, is the younger brother of NAKATOMI Hirotaka, Chairman & CEO.
3. Directors ICHIKAWA Isao and FURUKAWA Teijiro are Outside Directors.
4. Corporate Auditors ONO Keinosuke and TOKUNAGA Tetsuo are Outside Corporate Auditors.

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, Chairman & CEO
Capital	¥8,473,839,816
Fiscal year	March 1–End of February
Number of employees	(As of February 28, 2017)

Business segment	Employees
Pharmaceuticals	2,609 (584)
Other businesses	142 (46)
Total	2,751 (630)

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 the employees column.

Hisamitsu Pharmaceutical Co., Inc.

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