

FINANCIAL REPORT 2018

For the Fiscal Year Ended February 28, 2018

Hisamitsu®



Hisamitsu Pharmaceutical Co., Inc.

Company Mission

Promoting Patch Treatment Culture Worldwide

“To bring the benefits of patch treatment to the world”

“To convey the surprise, relief, and moving of patches”

We have placed our hopes and dreams in the word, “Salonpathy®” , and have been using our world-class transdermal treatment systems to develop pain relieving and anti-inflammation products, introducing them globally, and contributing to personal health all over the world.

To meet the people’s need for a “healthy, safe, and comfortable livelihood” , we will concentrate and specialize in creating new medicinal products and formulations based on transdermal drug delivery systems (TDDS), the core of our competitive strength. We set “improving quality of life of people around the world” as our basic principle and will make the best effort to expand our business operations worldwide. Our mission is to “bring patch culture to the world” .

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 ¥107.37=U.S.\$1.00, the approximate rate of exchange on February 28, 2018.

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Consolidated Financial Highlights

Years ended the last day of February

	(Millions of yen)					(Thousands of U.S. dollars)	
	Fiscal 2014	Fiscal 2015	Fiscal 2016	Fiscal 2017	Fiscal 2018	Fiscal 2018	
Net sales	150,635	156,743	161,852	145,925	147,870	1,377,200	
Operating profit	19,123	20,527	27,730	26,306	26,345	245,366	
Ordinary profit	28,910	28,489	28,008	28,179	28,245	263,062	
Profit attributable to owners of parent	21,357	18,784	17,784	20,395	19,119	178,066	
Comprehensive income	34,448	32,244	15,299	21,156	22,852	212,834	
Net assets	196,308	222,054	226,095	229,205	245,227	2,283,943	
Total assets	251,852	285,440	284,954	278,820	299,913	2,793,266	
Net assets per share (yen and dollars)	2,281.40	2,580.02	2,657.41	2,724.00	2,912.83	27.13	
Profit per share (yen and dollars)	249.30	219.28	208.81	241.27	228.52	2.13	
Diluted profit per share (yen and dollars)	—	—	208.76	241.15	228.35	2.13	
Shareholders' equity ratio (%)	77.6	77.4	79.0	81.7	81.3	—	
Return on equity (ROE) (%)	11.8	9.0	8.0	9.0	8.1	—	
Price-earnings ratio (PER) (times)	19.1	20.4	23.6	25.0	33.9	—	
Net cash provided by operating activities	35,845	23,232	30,923	19,910	30,453	283,627	
Net cash (used in) provided by investing activities	(5,843)	(8,945)	(3,912)	1,070	(1,378)	(12,834)	
Net cash used in financing activities	(6,476)	(7,036)	(11,616)	(18,402)	(7,153)	(66,620)	
Cash and cash equivalents at end of period	77,780	88,614	103,940	105,610	126,569	1,178,812	
Number of employees [average temporary staff]	2,949 [625]	2,942 [626]	2,900 [583]	2,751 [630]	2,823 [899]	— [—]	

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

2. Diluted profit per share for fiscal 2014 and fiscal 2015 is not listed due to the absence of residual securities.

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 116th fiscal year (from March 1, 2017 to February 28, 2018).

Ethical pharmaceuticals in the domestic market posted a decrease in revenue, as our mainstay product, MOHRUS[®] TAPE, was affected by government measures to control medical costs. In the OTC pharmaceuticals business, sales increased mainly for our mainstay product, SALONPAS[®], and new products, namely Feitas[®], Z Dicsas[®], Shippu, Nobinobi[®], Salonsip[®], FH, and Allegra[®] FX Junior also made a contribution, thus leading to an increase in revenue.

In overseas markets, ethical pharmaceuticals suffered a decrease in revenue due to such factors as a drop in sales of Minivelle[®]. The OTC pharmaceuticals business posted an increase in revenue thanks to aggressive sales promotion, especially of the Salonpas[®] brand.

During the fiscal year under review, the popularity of Salonpas[®] rose to a new height: Euromonitor International certified Salonpas[®] as the worldwide leading brand in terms of share of sales in the category of analgesic anti-inflammatory adhesive patches in the OTC pharmaceuticals market, and in the United States as well, the Salonpas[®] brand won the top share of sales in the OTC pharmaceutical topical analgesic anti-inflammatory patch market.

These business activities led to consolidated results as follows. Net sales increased 1.3% year on year to ¥147,870 million, operating profit increased 0.2% year on year to ¥26,345 million, ordinary profit increased 0.2% year on year to ¥28,245 million, and profit attributable to owners of parent decreased 6.3% year on year to ¥19,119 million.

We ask for our investors' continued support and encouragement.

NAKATOMI, Hirotaka
Chairman & CEO

NAKATOMI, Kazuhide
President & COO



Medical Products



Products for Oversea Markets



Over the Counter Products

Overview of Operations

Operating results

The Japanese economy during the fiscal year under review remained on a gradual recovery track due to strong corporate earnings, backed by a stable global economy despite increasing uncertainty in the international situation.

The operating environment for the ethical pharmaceutical industry in Japan became even more severe as policies to curtail healthcare spending were promoted against the backdrop of growing social security expenditures.

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, Kyushu head office and Utsunomiya factory carried on initiatives to help protect the global environment as “ISO 14001” (International Environmental Management Standard) certified business sites.

Specifically, in compliance with environment-related laws and conventions, we reduced waste and energy usage including the usage of electricity and heavy oil by improving the efficiency of our manufacturing processes, method of product transport and air conditioning equipment, while at the same time making efforts to reduce our environmental footprint through maintaining 99% or more recycle rate and manufacturing environmentally friendly products.

The Energy Management Committee also monitored the changes in our energy usage and proactively promoted energy conservation activities at our factories and offices to reduce the emission of greenhouse gases (GHG).

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 47 organizations through the “Hisamitsu Pharmaceutical Co., Inc. Hot Heart Club” program, in which the Company makes matching donations deducted from employees’ and directors’ salaries.

In the aftermath of the Northern Kyushu Heavy Rainfall in July 2017, we engaged in support activities such as donating relief money, as well as calling for charity through events organized by the Company.

Hisamitsu Springs, a women’s volleyball team, concluded a partnership agreement with Saga Prefecture with the aim of creating a shared sense of unity and a vibrant environment in the community through Hisamitsu Springs, based on the concept of “Super League” that was announced by Japan Volleyball League Organization. The Hisamitsu Springs is the first V Premier League women’s team to conclude the partnership agreement since the announcement of the concept.

In February 2018, Hisamitsu Pharmaceutical Co., Inc. signed a Tokyo 2020 Official Partner agreement in the category of External Pain Relief Products with the Tokyo Organising Committee of the Olympic and Paralympic Games. For the coming Olympic and Paralympic Games Tokyo 2020, 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 FY2018 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 products, including MOHRUS[®] TAPE, MOHRUS[®] PAP XR and MOHRUS[®] PAP, Transdermal, Pain relief and anti-inflammatory patch containing ketoprofen; ESTRANA[®] TAPE, Transdermal, Estradiol patch; Fentos[®] Tape, Transdermal, Pain Management patch containing fentanyl citrate that has significant analgesic effects; NORSPAN[®] TAPE, Transdermal, Pain Management patch containing buprenorphine; and NEOXY[®] TAPE, Transdermal, Overactive bladder treatment patch containing oxybutynin hydrochloride.

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

We began marketing the transdermal pain relief and anti-inflammatory patch, Feitas[®] Z Dicsas[®] Shippu, which is better fit and easier to peel off, in July 2017; Transdermal, pain relief and anti-inflammatory patch, Nobinobi[®] salonsip[®] FH with increased l-menthol and capsicum extract in September 2017; and a switch OTC allergic nasal inflammation medicine for internal use Allegra[®] FX Junior in November 2017.

In the overseas business, Salompas[®] brand was certified as having the number one share of sales worldwide in the OTC pharmaceuticals market pain relief and anti-inflammatory patch category by Euromonitor International and we were awarded the certificate on May 18, 2017.

Salompas[®] brand is engaged in active sales promotion overseas as well, achieving the largest share of sales in the OTC pain relief and anti-inflammatory patch market of the U.S. (Information Resources, Inc., based on the total sales during January to December 2017.)

Furthermore, we established Hisamitsu Pharmaceutical (China) Co., Ltd. in August 2017 and Hisamitsu Pharmaceutical (Hong Kong) Co., Ltd. in February 2018 in order to strengthen sales of our products, including Salompas[®].

As a result of these business activities, net sales of our group increased 1.3% year on year, or ¥1,945 million, to ¥147,870 million. Operating profit increased 0.2% year on year, or ¥39 million, to ¥26,345 million. Ordinary profit increased 0.2% year on year, or ¥66 million, to ¥28,245 million; and profit attributable to owners of parent decreased 6.3% year on year, or ¥1,275 million, to ¥19,119 million.

Overview of Operations

Sales results

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

Business segment	(Millions of yen)	YoY (%)	(Thousands of U.S. dollars)
	Sales Fiscal 2018		Sales Fiscal 2018
Pharmaceuticals	144,481	1.3	1,345,637
Other businesses	3,389	4.7	31,564
Total	147,870	1.3	1,377,200

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

Customer	(Millions of yen)				(Thousands of U.S. dollars)
	Sales Fiscal 2017	% of total	Sales Fiscal 2018	% of total	Sales Fiscal 2018
Alfresa Holdings Corporation	22,072	15.1	22,003	14.9	204,927
MEDIPAL HOLDINGS CORPORATION	22,416	15.4	21,944	14.8	204,377

2. The foregoing figures do not include consumption tax.

Overview of Operations

Management Policy, Business Environment, Key Challenges, etc.

Any forward looking statements are based on our judgments at the end of FY2/18.

(1) Basic management policy

The Group has actively pursued its business activities under the basic policy of “customer first” since its establishment and upholds the corporate philosophy of “Delivering a Better QOL (Quality of Life) to the World” through creating, formulating, manufacturing and marketing pharmaceuticals and other products. Under this philosophy, in Japan as well as overseas, we provide products that precisely meet customer needs, actively seek to create new customers and strive to enhance enterprise value.

(2) Management targets

Under the “6th Medium-term Management Policy for FY2017-FY2021” announced on April 7, 2017, we have set our targets for fiscal 2021 of achieving a return on equity (ROE) of 8% or more by making: 1) strategic investment; 2) investment in growth; 3) capital investments; and 4) investment to improve capital efficiency in the next five years.

(3) Medium- to long-term management strategy and 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 Pain relief and anti-inflammatory 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

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, Transdermal, Pain Management 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, Transdermal, Pain Management 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, Transdermal, Pain Management patch.

1) Counterparty to the agreement

Mundipharma K. K.

2) Agreement details

Contract acquiring the exclusive rights for distribution of NORSPAN[®] TAPE, Transdermal, Pain Management 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, approval has been received for ALLESAGA[®] TAPE, Transdermal, Allergic rhinitis treatment patch (development code: HP-3060, active pharmaceutical ingredient: emedastine fumarate) on January 19, 2018. On August 31, 2017, we submitted the supplemental new drug application for the addition of a new 0.5 mg dose of Fentos[®] Tape, Transdermal, Pain Management patch. We completed the phase 3 clinical trials of HP-3000 (active pharmaceutical ingredient: ropinirole hydrochloride), Transdermal, Parkinson's disease treatment patch and are preparing for submission of an application. We are also preparing for phase 3 clinical trials of HP-3000 as treatment for idiopathic restless legs syndrome. We have commenced phase 3 clinical trials of HP-3150, Transdermal, Pain Treatment NSAID patch for cancer pain relief. We are also preparing to for phase 3 clinical trials of HP-3150 for lower back pain.

For the U.S. ethical pharmaceuticals, application for generic approval have been submitted for HP-1010 (active pharmaceutical ingredient: lidocaine), Transdermal, postherpetic neuralgia treatment patch. We have completed the phase 3 clinical trials of HP-3070 (active pharmaceutical ingredient: asenapine maleate), Transdermal, Schizophrenia treatment patch, and are preparing for submission of an application. We have commenced phase 2 clinical trials of HP-5000 (active pharmaceutical ingredient: Diclofenac), Transdermal, Pain Treatment NSAID patch. We are preparing for phase 3 clinical trials for ATS (active pharmaceutical ingredient: d-amphetamine), Transdermal, Attention Deficit Hyperactivity Disorder treatment patch. We have suspended generic development of HP-1030 (active pharmaceutical ingredient: rivastigmine), Transdermal, dementia of the Alzheimer's type treatment patch.

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 ¥15,076 million in FY2/18.

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 25, 2018.

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 based on the deliberation by the Management Advisory Council comprising key directors and executive officers as needed, and particularly 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

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)						
Fiscal 2018						
Category	Total compensation	Total compensation by type				Number of officers to be paid
		Basic compensation	Stock options	Bonuses	Retirement benefits	
Directors (Excluding Outside Directors)	388	292	95	—	—	10
Corporate Auditors (Excluding Outside Corporate Auditors)	38	38	—	—	—	2
Outside Officers	34	34	—	—	—	4

(Thousands of U.S. dollars)						
Fiscal 2018						
Category	Total compensation	Total compensation by type				Number of officers to be paid
		Basic compensation	Stock options	Bonuses	Retirement benefits	
Directors (Excluding Outside Directors)	3,614	2,720	885	—	—	10
Corporate Auditors (Excluding Outside Corporate Auditors)	354	354	—	—	—	2
Outside Officers	317	317	—	—	—	4

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

(Millions of yen)						
Fiscal 2018						
Name (Category of executive)	Total consolidated compensation	Category of company	Total compensation by type			
			Basic compensation	Stock options	Bonuses	Retirement benefits
NAKATOMI, Hirotaka (Chairman & CEO)	178	The filing company	126	52	—	—

(Thousands of U.S. dollars)						
Fiscal 2018						
Name (Category of executive)	Total consolidated compensation	Category of company	Total compensation by type			
			Basic compensation	Stock options	Bonuses	Retirement benefits
NAKATOMI, Hirotaka (Chairman & CEO)	1,658	The filing company	1,174	484	—	—

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

Not applicable.

Corporate Governance and Internal Auditing

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 conducive 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	TAJIMA Yoshiro
	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.

Corporate Governance and Internal Auditing

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.

Category	(Millions of yen)				(Thousands of U.S. dollars)	
	Fiscal 2017		Fiscal 2018		Fiscal 2018	
	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	—	50	22	466	205
Subsidiaries	3	—	3	—	28	—
Total	53	—	53	22	494	205

2) Breakdown of other important compensation

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.

FY2018

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

FY2017

Not applicable.

FY2018

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

4) Policy on setting compensation for auditing services

Not applicable.

Financial Section

Analysis of Financial Position, Operating Results, and Cash Flows

(1) Analysis of financial position in Fiscal 2018

1) Assets

Assets totaled ¥299,913 million at the end of FY2/18, an increase of ¥21,093 million from the previous year, due mainly to an increase in cash and deposits of ¥36,909 million, a decrease in securities of ¥18,008 million, and an increase in investment securities of ¥7,180 million.

2) Liabilities

Liabilities totaled ¥54,686 million at the end of FY2/18, an increase of ¥5,071 million from the previous year, due mainly to increases in income taxes payable of ¥2,332 million, and in deferred tax liabilities of ¥2,242 million.

3) Net assets

Net assets totaled ¥245,227 million at the end of FY2/18, an increase of ¥16,022 million from the previous year, due mainly to increases in retained earnings of ¥12,127 million, and in valuation difference on available-for-sale securities of ¥4,569 million.

(2) Analysis of operating results in Fiscal 2018

1) Net sales

Net sales increased 1.3% year on year to ¥147,870 million. This increase is due mainly to an increase in revenue of the OTC pharmaceuticals business overseas backed by active sales promotion.

2) Operating profit

Operating profit increased 0.2% year on year to ¥26,345 million. This increase is attributable mainly to the increase in net sales.

3) Ordinary profit

Ordinary profit increased 0.2% year on year to ¥28,245 million. This is attributable mainly to the increase in royalty income.

4) Profit attributable to owners of parent

Profit attributable to owners of parent decreased 6.3% year on year to ¥19,119 million. This decrease is due mainly to the posting of gain on discontinuation of joint sales agreement and gain on transfer of manufacturing and marketing approval under extraordinary income in the previous term. Consequently, profit per share totaled ¥228.52 in FY2/18, and return on equity was 8.1%.

Financial Section

(3) Analysis of cash flows in Fiscal 2018

Cash and cash equivalents at the end of the FY2/18 totaled ¥126,569 million, an increase of ¥20,959 million from the end of the previous fiscal year.

1) Cash flows from operating activities

Net cash provided by operating activities totaled ¥30,453 million (¥19,910 million provided in the previous fiscal year), due mainly to profit before income taxes (¥27,694 million), depreciation (¥6,005 million), and income taxes paid (¥6,935 million).

2) Cash flows from investing activities

Net cash used in investing activities totaled ¥1,378 million (¥1,070 million provided in the previous fiscal year), due mainly to purchase of property, plant and equipment (¥3,131 million) and decrease in short-term investment securities (¥2,072 million).

3) Cash flows from financing activities

Net cash used in financing activities totaled ¥7,153 million (¥18,402 million used in the previous fiscal year), due mainly to cash dividends paid (¥6,855 million).

Capital Expenditures

Capital investment totaled ¥2,548 million in FY2/18.

In the Pharmaceutical segment, we mainly invested in the building and manufacturing equipment, etc. of the Tosu and Utsunomiya factory resulting in capital investment of ¥955 million.

In other businesses, we mainly invested to expand bandwidth to provide digital capabilities to our subscribers, resulting in capital investment of ¥106 million.

In FY2/18, 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 FY2/18, we paid a year-end dividend of ¥41 per share including an interim dividend of ¥41 per share, which makes an annual dividend of ¥82 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 2018 are as follows.

Resolution date	(Millions of yen)	(Yen)	(Thousands of U.S. dollars)	(U.S. dollars)
	Total dividends	Dividends per share	Total dividends	Dividends per share
October 10, 2017 Board of directors resolution	3,431	41.0	31,955	0.38
May 24, 2018 Annual general meeting of shareholders resolution	3,431	41.0	31,955	0.38

Financial Section

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 FY2/18.

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.

Financial Section

Consolidated Balance Sheets

February 28, 2017 and February 28, 2018

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2017	Fiscal 2018	Fiscal 2018
Assets			
Current assets			
Cash and deposits	80,280	117,189	1,091,450
Notes and accounts receivable - trade	36,087	35,185	327,699
Securities	32,767	14,759	137,459
Merchandise and finished goods	10,615	10,142	94,458
Work in process	441	453	4,219
Raw materials and supplies	6,631	6,375	59,374
Deferred tax assets	2,960	3,840	35,764
Other	2,628	2,359	21,971
Allowance for doubtful accounts	(315)	(239)	(2,226)
Total current assets	172,097	190,065	1,770,187
Non-current assets			
Property, plant and equipment			
Buildings and structures, net (Notes 2 and 3)	16,979	15,955	148,598
Machinery, equipment and vehicles, net (Notes 2 and 3)	8,178	6,869	63,975
Tools, furniture and fixtures, net (Notes 2 and 3)	1,972	1,909	17,780
Land (Notes 2 and 4)	13,138	12,628	117,612
Leased assets, net	42	81	754
Construction in progress	2,718	2,619	24,392
Total property, plant and equipment	43,031	40,064	373,140
Intangible assets			
Sales rights	2,612	1,596	14,864
Software	572	359	3,344
Other	2,788	2,144	19,968
Total intangible assets	5,973	4,100	38,186
Investments and other assets			
Investment securities (Note 1)	49,989	57,169	532,449
Long term-bank cash	200	210	1,956
Net defined benefit asset	2,284	3,090	28,779
Deferred tax assets	512	353	3,288
Other	4,948	5,076	47,276
Allowance for doubtful accounts	(216)	(216)	(2,012)
Total investments and other assets	57,718	65,683	611,744
Total non-current assets	106,722	109,847	1,023,070
Total assets	278,820	299,913	2,793,266

Financial Section

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2017	Fiscal 2018	Fiscal 2018
Liabilities			
Current liabilities			
Notes and accounts payable - trade	8,005	7,709	71,798
Electronically recorded obligations - operating	6,375	6,202	57,763
Short-term loans payable (Note 2)	1,561	1,461	13,607
Lease obligations	22	29	270
Accounts payable - other	6,264	7,278	67,784
Income taxes payable	2,559	4,891	45,553
Provision for sales returns	134	106	987
Provision for bonuses	1,708	1,674	15,591
Other	5,793	5,584	52,007
Total current liabilities	32,425	34,938	325,398
Non-current liabilities			
Long-term loans payable (Note 2)	576	504	4,694
Lease obligations	32	64	596
Deferred tax liabilities for land revaluation (Note 4)	1,614	1,670	15,554
Deferred tax liabilities	3,911	6,153	57,307
Net defined benefit liability	7,028	7,297	67,961
Other	4,025	4,055	37,767
Total non-current liabilities	17,189	19,747	183,915
Total liabilities	49,614	54,686	509,323
Net assets			
Shareholders' equity			
Capital stock	8,473	8,473	78,914
Capital surplus	5,914	5,914	55,081
Retained earnings	224,214	236,342	2,201,192
Treasury shares	(34,705)	(34,709)	(323,265)
Total shareholders' equity	203,897	216,021	2,011,931
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	14,531	19,101	177,899
Revaluation reserve for land (Note 4)	3,685	3,814	35,522
Foreign currency translation adjustment	6,904	5,088	47,388
Remeasurements of defined benefit plans	(1,115)	(325)	(3,027)
Total accumulated other comprehensive income	24,007	27,679	257,791
Subscription rights to shares	203	299	2,785
Non-controlling interests	1,097	1,227	11,428
Total net assets	229,205	245,227	2,283,943
Total liabilities and net assets	278,820	299,913	2,793,266

Financial Section

Consolidated Statements of Income

Years ended February 28, 2017 and February 28, 2018

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2017	Fiscal 2018	Fiscal 2018
Net sales	145,925	147,870	1,377,200
Cost of sales (Notes 2 and 3)	53,155	55,688	518,655
Gross profit	92,770	92,182	858,545
Selling, general and administrative expenses (Notes 1 and 2)	66,464	65,836	613,169
Operating profit	26,306	26,345	245,366
Non-operating income			
Interest income	292	493	4,592
Dividend income	675	724	6,743
Royalty income	37	595	5,542
Share of profit of entities accounted for using equity method	471	129	1,201
Other	557	456	4,247
Total non-operating income	2,034	2,398	22,334
Non-operating expenses			
Interest expenses	39	32	298
Foreign exchange losses	8	426	3,968
Loss on sales of accounts receivable	21	18	168
Other	91	20	186
Total non-operating expenses	160	498	4,638
Ordinary profit	28,179	28,245	263,062
Extraordinary income			
Gain on disposal of non-current assets (Note 4)	13	0	0
Gain on sales of investment securities	0	487	4,536
Gain on discontinuation of joint sales agreement	1,303	—	—
Gain on transfer of manufacturing and marketing approval	2,914	—	—
Total extraordinary income	4,231	487	4,536
Extraordinary losses			
Loss on disposal of non-current assets (Note 5)	71	15	140
Impairment loss (Note 6)	2,354	1,023	9,528
Total extraordinary losses	2,426	1,038	9,668
Profit before income taxes	29,984	27,694	257,931
Income taxes - current	7,287	9,261	86,253
Income taxes - deferred	2,155	(893)	(8,317)
Total income taxes	9,443	8,367	77,927
Profit	20,541	19,327	180,004
Profit attributable to non-controlling interests	146	207	1,928
Profit attributable to owners of parent	20,395	19,119	178,066

Financial Section

Consolidated Statements of Comprehensive Income

Years ended February 28, 2017 and February 28, 2018

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2017	Fiscal 2018	Fiscal 2018
Profit	20,541	19,327	180,004
Other comprehensive income			
Valuation difference on available-for-sale securities	1,119	4,453	41,473
Revaluation reserve for land	85	—	—
Foreign currency translation adjustment	(1,454)	(1,833)	(17,072)
Remeasurements of defined benefit plans, net of tax	838	791	7,367
Share of other comprehensive income of entities accounted for using equity method	26	113	1,052
Total other comprehensive income (Note 1)	614	3,525	32,830
Comprehensive income	21,156	22,852	212,834
Comprehensive income attributable to			
Comprehensive income attributable to owners of parent	21,008	22,662	211,065
Comprehensive income attributable to non-controlling interests	147	189	1,760

Financial Section

Consolidated Statements of Changes in Shareholders' Equity

Years ended February 28, 2017 and February 28, 2018

	(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
Changes of items during period					
Dividends of surplus			(6,943)		(6,943)
Profit attributable to owners of parent			20,395		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 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 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
Changes of items during period								
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 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

(Millions of yen)					
Shareholders' equity					
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance as at March 1, 2017	8,473	5,914	224,214	(34,705)	203,897
Changes of items during period					
Dividends of surplus			(6,862)		(6,862)
Profit attributable to owners of parent			19,119		19,119
Reversal of revaluation reserve for land			(128)		(128)
Purchase of treasury shares				(3)	(3)
Disposal of treasury shares					—
Net changes of items other than shareholders' equity					—
Total changes of items during period	—	—	12,127	(3)	12,124
Balance as at February 28, 2018	8,473	5,914	236,342	(34,709)	216,021

(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, 2017	14,531	3,685	6,904	(1,115)	24,007	203	1,097	229,205
Changes of items during period								
Dividends of surplus								(6,862)
Profit attributable to owners of parent								19,119
Reversal of revaluation reserve for land								(128)
Purchase of treasury shares								(3)
Disposal of treasury shares								—
Net changes of items other than shareholders' equity	4,569	128	(1,815)	789	3,672	95	129	3,897
Total changes of items during period	4,569	128	(1,815)	789	3,672	95	129	16,022
Balance as at February 28, 2018	19,101	3,814	5,088	(325)	27,679	299	1,227	245,227

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, 2017	78,914	55,081	2,088,237	(323,228)	1,899,013
Changes of items during period					
Dividends of surplus			(63,910)		(63,910)
Profit attributable to owners of parent			178,066		178,066
Reversal of revaluation reserve for land			(1,192)		(1,192)
Purchase of treasury shares				(28)	(28)
Disposal of treasury shares					—
Net changes of items other than shareholders' equity					—
Total changes of items during period	—	—	112,946	(28)	112,918
Balance as at February 28, 2018	78,914	55,081	2,201,192	(323,265)	2,011,931

(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, 2017	135,336	34,321	64,301	(10,385)	223,591	1,891	10,217	2,134,721
Changes of items during period								
Dividends of surplus								(63,910)
Profit attributable to owners of parent								178,066
Reversal of revaluation reserve for land								(1,192)
Purchase of treasury shares								(28)
Disposal of treasury shares								—
Net changes of items other than shareholders' equity	42,554	1,192	(16,904)	7,348	34,199	885	1,201	36,295
Total changes of items during period	42,554	1,192	(16,904)	7,348	34,199	885	1,201	149,222
Balance as at February 28, 2018	177,899	35,522	47,388	(3,027)	257,791	2,785	11,428	2,283,943

Financial Section

Consolidated Statements of Cash Flows

Years ended February 28, 2017 and February 28, 2018

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2017	Fiscal 2018	Fiscal 2018
Cash flows from operating activities			
Profit before income taxes	29,984	27,694	257,931
Depreciation	6,438	6,005	55,928
Amortization of goodwill	930	—	—
Impairment loss	2,354	1,023	9,528
Increase (decrease) in net defined benefit liability	288	284	2,645
Increase (decrease) in provision for bonuses	(186)	(13)	(121)
Increase (decrease) in allowance for doubtful accounts	29	(71)	(661)
Increase (decrease) in provision for sales returns	7	(27)	(251)
Interest and dividend income	(967)	(1,217)	(11,335)
Interest expenses	39	32	298
Foreign exchange losses (gains)	5	69	643
Gain on transfer of manufacturing and marketing approval	(2,914)	—	—
Share of (profit) loss of entities accounted for using equity method	(471)	(129)	(1,201)
Loss (gain) on sales of investment securities	0	(487)	(4,536)
Loss (gain) on disposal of non-current assets	58	15	140
Decrease (increase) in notes and accounts receivable—trade	1,371	667	6,212
Decrease (increase) in inventories	(2,262)	485	4,517
Decrease (increase) in other current assets	(586)	(41)	(382)
Increase (decrease) in notes and accounts payable—trade	421	(316)	(2,943)
Increase (decrease) in other current liabilities	(4,677)	1,795	16,718
Other, net	330	412	3,837
Subtotal	30,194	36,180	336,966
Interest and dividend income received	984	1,240	11,549
Interest expenses paid	(39)	(32)	(298)
Income taxes paid	(11,228)	(6,935)	(64,590)
Net cash provided by (used in) operating activities	19,910	30,453	283,627

Financial Section

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2017	Fiscal 2018	Fiscal 2018
Cash flows from investing activities			
Decrease (increase) in time deposits	582	(300)	(2,794)
Decrease (increase) in long term-time deposits	(73)	(22)	(205)
Purchase of property, plant and equipment	(3,125)	(3,131)	(29,161)
Proceeds from sales of property, plant and equipment	54	82	764
Purchase of intangible assets	(74)	(209)	(1,947)
Decrease (increase) in short-term investment securities	909	2,072	19,298
Purchase of investment securities	(493)	(691)	(6,436)
Proceeds from sales and redemption of investment securities	3	804	7,488
Collection of loans receivable	7	6	56
Collection of investments in capital	—	11	102
Proceeds from transfer of manufacturing and marketing approval	3,280	—	—
Net cash provided by (used in) investing activities	1,070	(1,378)	(12,834)
Cash flows from financing activities			
Increase (decrease) in short-term loans payable	(115)	(100)	(931)
Repayments of long-term loans payable	(78)	(71)	(661)
Dividends paid to non-controlling interests	(50)	(59)	(550)
Purchase of treasury shares	(11,153)	(2)	(19)
Proceeds from disposal of treasury shares	1	—	—
Cash dividends paid	(6,944)	(6,855)	(63,845)
Other, net	(60)	(64)	(596)
Net cash provided by (used in) financing activities	(18,402)	(7,153)	(66,620)
Effect of exchange rate change on cash and cash equivalents	(909)	(963)	(8,969)
Net increase (decrease) in cash and cash equivalents	1,669	20,959	195,204
Cash and cash equivalents at beginning of period	103,940	105,610	983,608
Cash and cash equivalents at end of period (Note 1)	105,610	126,569	1,178,812

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 2018 (March 1, 2017 – February 28, 2018)

1. Scope of consolidation

Consolidated subsidiaries: 18

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.
- Hisamitsu Pharmaceutical (China) Co., Ltd.
- Hisamitsu Pharmaceutical (Hong Kong) Co., Ltd.
- P.T. Hisamitsu Pharma Indonesia
- 3 other companies

Change in the scope of consolidation

Hisamitsu Pharmaceutical (China) Co., Ltd and Hisamitsu Pharmaceutical (Hong Kong) Co., Ltd have been included in the scope of consolidation due to their establishment.

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.

Financial Section

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

The fiscal years of the 13 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) Property, plant and equipment (excluding leased assets)

a) *Company and domestic consolidated subsidiaries*

Mainly the declining balance method.

b) *Overseas consolidated subsidiaries*

Mainly the straight-line method.

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

Measured by the straight-line method.

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

3) Leased assets

For finance lease transactions other than those for which the right of ownership of the leased 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.

Financial Section

(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 “Foreign currency translation adjustment” and “Non-controlling interests” under Net assets.

Financial Section

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

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

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

Treatment of Consumption Tax etc.

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

Financial Section

Unapplied Accounting Standards, etc.

- “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 30, 2018)
- “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30, March 30, 2018)

(1) Outline

A comprehensive accounting standard for revenue recognition. Revenue is recognized by applying the following five steps.

Step 1: Identify the contract with the customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations

Step 5: Recognize revenue when or as the performance obligation is satisfied

(2) Scheduled date of adoption

We are currently considering the adoption date.

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

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

Additional Information

- Application of Implementation Guidance on Recoverability of Deferred Tax Assets

The Company has adopted the “Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26, March 28, 2016) from the fiscal year under review.

Financial Section

Notes to Consolidated Financial Statements

Fiscal 2017 (March 1, 2016 – February 28, 2017) and Fiscal 2018 (March 1, 2017 – February 28, 2018)

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 2017	Fiscal 2018	Fiscal 2018
Investment securities (stocks)	5,544	5,810	54,112

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

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2017	Fiscal 2018	Fiscal 2018
<i>Pledged assets</i>			
Buildings and structures	794 (book value)	734 (book value)	6,836 (book value)
Machinery, equipment and vehicles	1 (book value)	1 (book value)	9 (book value)
Tools, furniture and fixtures	86 (book value)	65 (book value)	605 (book value)
Land	59 (book value)	59 (book value)	550 (book value)
Total	941 (book value)	859 (book value)	8,000 (book value)
<i>Assets provided for factory foundation mortgage</i>			
Buildings and structures	766 (book value)	708 (book value)	6,594 (book value)
Machinery, equipment and vehicles	1 (book value)	1 (book value)	9 (book value)
Tools, furniture and fixtures	86 (book value)	65 (book value)	605 (book value)
Total	855 (book value)	775 (book value)	7,218 (book value)
<i>Liabilities related to the above assets</i>			
Short-term loans payable	249	149	1,388
Long-term loans payable	398	349	3,250
Total	647	498	4,638
<i>Liabilities provided for factory foundation mortgage</i>			
Short-term loans payable	244	144	1,341
Long-term loans payable	360	315	2,934
Total	605	460	4,284

(Note 3) Advanced depreciation of government subsidies is ¥5,832 million in both FY2/17 and FY2/18.

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 for land revaluation,” while the net sum after this transfer to the deferred tax liability account is presented under Net assets as “Revaluation reserve for land.”

Financial Section

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 FY2/17 and FY2/18 was ¥3,644 million and ¥3,366 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 2017	Fiscal 2018	Fiscal 2018
Advertising expenses	9,661	10,987	102,328
Sales promotion expenses	13,740	13,227	123,191
Freightage and packing expenses	2,687	2,681	24,970
Provision of allowance for doubtful accounts	16	(27)	(251)
Salaries and allowances	8,553	7,598	70,765
Provision for bonuses	836	863	8,038
Retirement benefit expenses	691	604	5,625
Amortization of goodwill	930	—	—
Business consignment expenses	443	335	3,120
Research and development expenses, of which:	14,378	15,076	140,412
Provision for bonuses	346	360	3,353
Retirement benefit expenses	233	208	1,937

(Note 2) General and administrative expenses include research and development expenses of ¥14,378 million and ¥15,076 million in FY2/17 and FY2/18, respectively.

Manufacturing costs do not include research and development expenses.

(Note 3) In FY2/17 and FY2/18, manufacturing costs include provision for bonuses of ¥437 million and ¥460 million and retirement benefit expenses of ¥404 million and ¥325 million, respectively.

Financial Section

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

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2017	Fiscal 2018	Fiscal 2018
Buildings and structures	0	—	—
Machinery, equipment and vehicles	—	0	0
Land	12	—	—
Total	13	0	0

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

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2017	Fiscal 2018	Fiscal 2018
<i>Loss on retirement</i>			
Buildings and structures	25	5	47
Machinery, equipment and vehicles	32	1	9
Tools, furniture and fixtures	1	0	0
<i>Loss on sales</i>			
Buildings and structures	0	—	—
Land	12	8	75
Total	71	15	140

(Note 6) The Group recorded impairment loss on the following assets.

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.

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

Purpose of use	Location	Type	Amount (Millions of yen)
Business assets	U.S.	Goodwill	2,354

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%.

Fiscal 2018 (March 1, 2017–February 28, 2018)

Purpose of use	Location	Type	Amount (Millions of yen)	Amount (Thousands of U.S. dollars)
Idle assets	Tosu-shi, Saga	Buildings and construction in progress	599	5,579
Idle assets	Tsukuba-shi, Ibaraki	Buildings and land	423	3,940

The above idle assets were written down to their recoverable amounts, as it became clear during the fiscal year under review that there were no prospects of future use. The idle assets in Tosu-shi, Saga Prefecture have been valued at their memorandum values, due to the difficulty of diverting or selling the assets. The recoverable amount of the idle assets in Tsukuba-shi, Ibaraki Prefecture is the net realizable value and has been measured based on a reasonably calculated value (e.g., real estate appraisal value).

Financial Section

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 2017	Fiscal 2018	Fiscal 2018
Valuation difference on available-for-sale securities:			
Amount arising during fiscal year under review	1,046	7,018	65,363
Reclassification adjustment amount:	(0)	(487)	(4,536)
Before tax effect adjustment	1,045	6,531	60,827
Tax effect amount	74	(2,077)	(19,344)
Valuation difference on available-for-sale securities	1,119	4,453	41,473
Revaluation reserve for land:			
Tax effect amount	85	—	—
Foreign currency translation adjustment:			
Amount arising during fiscal year under review	(1,454)	(1,833)	(17,072)
Remeasurements of defined benefit plans, net of tax:			
Amount arising during fiscal year under review	611	759	7,069
Reclassification adjustment amount:	645	379	3,530
Before tax effect adjustment	1,256	1,138	10,599
Tax effect amount	(418)	(346)	(3,223)
Remeasurements of defined benefit plans, net of tax	838	791	7,367
Share of other comprehensive income of entities accounted for using equity method:			
Amount arising during fiscal year under review	26	113	1,052
Total other comprehensive income	614	3,525	32,830

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

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

Financial Section

3. Subscription rights to shares

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

4. Dividends

(1) Dividends paid

Resolution	Type of shares	(Millions of yen)		(Yen)	
		Total dividends	Dividends per share	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

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

Resolution	Type of shares	Source of dividend	(Millions of yen)		(Yen)	
			Total dividends	Dividends per share	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

Fiscal 2018 (March 1, 2017–February 28, 2018)

1. Shares issued

Type of shares	(Shares)			
	Beginning of fiscal 2018	Increase	Decrease	End of fiscal 2018
Common stock	95,164,895	—	—	95,164,895

2. Treasury shares

Type of shares	(Shares)			
	Beginning of fiscal 2018	Increase	Decrease	End of fiscal 2018
Common stock	11,499,580	579	—	11,500,159

Reasons for changes

Shares increased for the following main reasons:

Increase from purchasing shares in less than one unit	362 shares
The Company portion of treasury shares acquired by equity method affiliates	217 shares

Financial Section

3. Subscription rights to shares

Name of company	Breakdown	Type of shares	Number of shares			End of fiscal 2018	Balance at the end of the fiscal 2018
			Beginning of fiscal 2018	Increase	Decrease		
The filing company	Subscription rights to shares as stock option	—	—	—	—	—	299

4. Dividends

(1) Dividends paid

Resolution	Type of shares	(Millions of yen)		Record date	Payment date
		Total dividends	Dividends per share		
May 25, 2017 Annual general meeting of shareholders	Common stock	3,431	41.0	February 28, 2017	May 26, 2017
October 10, 2017 Board of Directors meeting	Common stock	3,431	41.0	August 31, 2017	November 7, 2017

Resolution	Type of shares	(Thousands of U.S. dollars)		Record date	Payment date
		Total dividends	Dividends per share		
May 25, 2017 Annual general meeting of Shareholders	Common stock	31,955	0.38	February 28, 2017	May 26, 2017
October 10, 2017 Board of Directors meeting	Common stock	31,955	0.38	August 31, 2017	November 7, 2017

(2) Dividends with a record date in fiscal 2018 but a payment date in fiscal 2019

Resolution	Type of shares	Source of dividend	(Millions of yen)		Record date	Payment date
			Total dividends	Dividends per share		
May 24, 2018 Annual general meeting of shareholders	Common stock	Retained earnings	3,431	41.0	February 28, 2018	May 25, 2018

Resolution	Type of shares	Source of dividend	(Thousands of U.S. dollars)		Record date	Payment date
			Total dividends	Dividends per share		
May 24, 2018 Annual general meeting of shareholders	Common stock	Retained earnings	31,955	0.38	February 28, 2018	May 25, 2018

Financial Section

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 2017	Fiscal 2018	Fiscal 2018
Cash and deposits	80,280	117,189	1,091,450
Cash equivalents included in short-term investment securities	28,419	12,631	117,640
Total	108,699	129,820	1,209,090
Term deposits longer than three months	(3,089)	(3,251)	(30,278)
Cash and cash equivalents	105,610	126,569	1,178,812

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—other, 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.

Financial Section

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 2017 (February 28, 2017)

	(Millions of yen)		
	Carrying amount	Market value	Unrealized gain (loss)
(1) Cash and deposits	80,280	80,280	—
(2) Notes and accounts receivable—trade	36,087	36,087	—
(3) Short-term investment securities and investment securities:			
(i) Available-for-sale securities	76,472	76,472	—
(ii) Stock of affiliated companies	1,949	1,894	(55)
(4) Long-term deposits	200	205	5
Total assets	194,990	194,940	(49)
(1) Notes and accounts payable—trade	8,005	8,005	—
(2) Electronically recorded obligations—operating	6,375	6,375	—
(3) Short-term loans payable	1,490	1,490	—
(4) Accounts payable—other	6,264	6,264	—
(5) Income taxes payable	2,559	2,559	—
(6) Long-term loans payable (*)	647	647	—
Total liabilities	25,343	25,343	—
Derivative transactions	—	—	—

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

Financial Section

Fiscal 2018 (February 28, 2018)

	(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	117,189	117,189	—	1,091,450	1,091,450	—
(2) Notes and accounts receivable—trade	35,185	35,185	—	327,699	327,699	—
(3) Short-term investment securities and investment securities:						
(i) Held-to-maturity bonds	5,028	5,025	(2)	46,829	46,801	(19)
(ii) Available-for-sale securities	60,352	60,352	—	562,094	562,094	—
(iii) Stock of affiliated companies	2,235	1,870	(364)	20,816	17,416	(3,390)
(4) Long-term deposits	210	220	9	1,956	2,049	84
Total assets	220,201	219,844	(357)	2,050,862	2,047,537	(3,325)
(1) Notes and accounts payable—trade	7,709	7,709	—	71,798	71,798	—
(2) Electronically recorded obligations—operating	6,202	6,202	—	57,763	57,763	—
(3) Short-term loans payable	1,390	1,390	—	12,946	12,946	—
(4) Accounts payable—other	7,278	7,278	—	67,784	67,784	—
(5) Income taxes payable	4,891	4,891	—	45,553	45,553	—
(6) Long-term loans payable (*)	576	576	—	5,365	5,365	—
Total liabilities	28,049	28,049	—	261,237	261,237	—
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

The market values of these assets are based on the quoted market price on applicable stock exchanges or the prices obtained from financial institutions. MMFs are recorded using book values because market values approximate book values because of their short-term maturities.

(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—other, 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.

Financial Section

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

Category	(Millions of yen)		(Thousands of U.S. dollars)
	February 28, 2017	February 28, 2018	February 28, 2018
Unlisted equity securities	4,334	4,312	40,160

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 2017 (February 28, 2017)

	(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	80,280	—	—	—
Notes and accounts receivable—trade	36,087	—	—	—
Short-term investment securities and investment securities:				
Available-for-sale securities with contractual maturities	4,348	—	—	—
Long-term deposits	—	200	—	—
Total	120,716	200	—	—

Fiscal 2018 (February 28, 2018)

	(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	117,189	—	—	—	1,091,450	—	—	—
Notes and accounts receivable—trade	35,185	—	—	—	327,699	—	—	—
Short-term investment securities and investment securities:								
Held-to-maturity bonds	4,857	170	—	—	45,236	1,583	—	—
Long-term deposits	—	210	—	—	—	1,956	—	—
Total	157,232	381	—	—	1,464,394	3,548	—	—

Financial Section

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

Fiscal 2017 (February 28, 2017)

	(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
Long-term loans payable	71	285	290	—
Total	71	285	290	—

Fiscal 2018 (February 28, 2018)

	(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	219	—	661	2,654	2,040	—
Total	71	285	219	—	661	2,654	2,040	—

SECURITIES

1. Held-to-maturity bonds

Fiscal 2017 (February 28, 2017)

Not applicable.

Fiscal 2018 (February 28, 2018)

Category	(Millions of yen)			(Thousands of U.S. dollars)		
	Carrying amount	Market value	Difference	Carrying amount	Market value	Difference
Market value higher than carrying amount	226	226	0	2,105	2,105	0
Market value lower than carrying amount	4,801	4,799	(2)	44,715	44,696	(19)
Total	5,028	5,025	(2)	46,829	46,801	(19)

Financial Section

2. Available-for-sale securities

Fiscal 2017 (February 28, 2017)

Category	(Millions of yen)		
	Carrying amount	Acquisition cost	Difference
<i>Carrying amount higher than acquisition cost:</i>			
(1) Stocks	42,902	23,096	19,805
(2) Bonds	—	—	—
(3) Other	—	—	—
Subtotal	42,902	23,096	19,805
<i>Carrying amount lower than acquisition cost:</i>			
(1) Stocks	802	838	(35)
(2) Bonds	—	—	—
(3) Other	32,767	32,767	—
Subtotal	33,570	33,606	(35)
Total	76,472	56,702	19,769

Fiscal 2018 (February 28, 2018)

Category	(Millions of yen)			(Thousands of U.S. dollars)		
	Carrying amount	Acquisition cost	Difference	Carrying amount	Acquisition cost	Difference
<i>Carrying amount higher than acquisition cost:</i>						
(1) Stocks	50,142	23,825	26,316	467,002	221,896	245,096
(2) Bonds	—	—	—	—	—	—
(3) Other	—	—	—	—	—	—
Subtotal	50,142	23,825	26,316	467,002	221,896	245,096
<i>Carrying amount lower than acquisition cost:</i>						
(1) Stocks	309	316	(7)	2,878	2,943	(65)
(2) Bonds	—	—	—	—	—	—
(3) Other	9,901	9,901	—	92,214	92,214	—
Subtotal	10,210	10,218	(7)	95,092	95,166	(65)
Total	60,352	34,044	26,308	562,094	317,072	245,022

Financial Section

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

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

Category	(Millions of yen)		
	Sales	Total gains on sales	Total losses on sales
Stocks	1	0	—
Bonds	—	—	—
Other	—	—	—
Total	1	0	—

Fiscal 2018 (March 1, 2017–February 28, 2018)

Category	(Millions of yen)			(Thousands of U.S. dollars)		
	Sales	Total gains on sales	Total losses on sales	Sales	Total gains on sales	Total losses on sales
Stocks	801	487	—	7,460	4,536	—
Bonds	—	—	—	—	—	—
Other	—	—	—	—	—	—
Total	801	487	—	7,460	4,536	—

Financial Section

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 2017	Fiscal 2018	Fiscal 2018
Beginning balance of retirement benefit obligations:	17,290	17,448	162,503
Service costs	966	907	8,447
Interest costs	68	68	633
Actuarial differences incurred	(366)	(572)	(5,327)
Payment of retirement benefits	(538)	(435)	(4,051)
Other	28	(21)	(196)
Ending balance of retirement benefit obligations	17,448	17,395	162,010

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

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2017	Fiscal 2018	Fiscal 2018
Beginning balance of pension assets:	12,074	12,704	118,320
Expected return on plan assets	350	215	2,002
Actuarial differences incurred	245	186	1,732
Employer contributions	352	359	3,344
Payment of retirement benefits	(317)	(278)	(2,589)
Ending balance of pension assets	12,704	13,188	122,828

Financial Section

(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 2017	Fiscal 2018	Fiscal 2018
Retirement benefit obligations for funded plans	10,419	10,097	94,039
Pension assets	(12,704)	(13,188)	(122,828)
	(2,284)	(3,090)	(28,779)
Retirement benefit obligations for unfunded plans	7,028	7,297	67,961
Net amount of liabilities and assets in consolidated balance sheets	4,743	4,207	39,182
Net defined benefit liability	7,028	7,297	67,961
Net defined benefit asset	(2,284)	(3,090)	(28,779)
Net amount of liabilities and assets in consolidated balance sheets	4,743	4,207	39,182

(4) Breakdown of retirement benefit expenses

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2017	Fiscal 2018	Fiscal 2018
Service costs	966	907	8,447
Interest costs	68	68	633
Expected return on plan assets	(350)	(215)	(2,002)
Amortization of actuarial differences	645	379	3,530
Retirement benefit expenses for defined benefit plans	1,329	1,138	10,599

(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 2017	Fiscal 2018	Fiscal 2018
Actuarial differences	1,256	1,138	10,599

(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 2017	Fiscal 2018	Fiscal 2018
Unrecognized actuarial differences	1,577	439	4,089

Financial Section

(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 2017	Fiscal 2018
Bonds	54%	54%
Stocks	31%	27%
General account	10%	10%
Other	5%	9%
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 2017	Fiscal 2018
Discount rate	0.4%	0.4%
Long-term expected rate of return on plan assets	2.9%	1.7%

Financial Section

MATTERS RELATED TO STOCK OPTIONS, ETC

1. Expenses related to stock options and its items

	(Millions of yen)		(Thousands of U.S.dollars)
	Fiscal 2017	Fiscal 2018	Fiscal 2018
Expenses for stock option as compensation of selling, general and administrative expenses	101	95	885

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	Hisamitsu Pharmaceutical Co., Inc. The third subscription rights to shares
Resolution date	July 10, 2015	July 8, 2016	July 7, 2017
Classification and number of persons to be granted	10 directors of the Company	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	Common stock of 21,900 shares
Date of grant	July 27, 2015	July 25, 2016	July 25, 2017
Vesting conditions	No vesting conditions are applied.	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	From July 26, 2017 to July 25, 2067

(2) Scale and transition of stock options

The following is applicable to the stock options prevalent in the fiscal year under review (FY2/18), 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	Hisamitsu Pharmaceutical Co., Inc. The third subscription rights to shares
Date of resolution	July 10, 2015	July 8, 2016	July 7, 2017
Prior to vesting:			
End of fiscal 2017	—	—	—
Granted	—	—	21,900
Expired	—	—	—
Vested	—	—	21,900
Outstanding prior to vesting	—	—	—
Post-vesting:			
End of fiscal 2017	35,800	17,900	—
Vested	—	—	21,900
Exercised	—	—	—
Expired	—	—	—
Outstanding prior to exercise	35,800	17,900	21,900

Financial Section

(ii) Unit price information

	Hisamitsu Pharmaceutical Co., Inc. The first subscription rights to shares	Hisamitsu Pharmaceutical Co., Inc. The second subscription rights to shares	Hisamitsu Pharmaceutical Co., Inc. The third subscription rights to shares
Date of resolution	July 10, 2015	July 8, 2016	July 7, 2017
Exercise price	1	1	1
Average share price at the time of exercise	—	—	—
Fair valuation unit price as at the grant date	3,796	5,032	4,463

(Yen)

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)	27.662%
Expected remaining period (Note 2)	10 years
Expected dividends (Notes 3)	¥81.5 per share
Risk-free interest rate (Note 4)	0.065%

Notes: 1. Calculated based on the actual share price over a ten-year period (from July 2007 to July 2017).

2. Period from the grant date up to the estimated average timing of exercise.

3. Based on the actual dividend paid for FY2/17.

4. Japanese government bond yields corresponding to the expected remaining period.

Financial Section

TAX EFFECT ACCOUNTING

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

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2017	Fiscal 2018	Fiscal 2018
<i>Deferred tax assets:</i>			
Net defined benefit liability	1,901	2,066	19,242
Provision for directors' retirement benefits (long-term accounts payable)	398	398	3,707
Accrued enterprise tax	178	281	2,617
Allowance for doubtful accounts	156	128	1,192
Inventories	233	100	931
Excess depreciation	625	744	6,929
Intangible assets	170	51	475
Valuation losses on memberships	186	186	1,732
Loss on valuation of investment securities	784	780	7,265
Provision for bonuses	547	449	4,182
Outsourced research and development	1,263	2,377	22,138
Other	4,903	4,243	39,518
Sub-total deferred tax assets	11,349	11,808	109,975
Valuation allowance	(2,737)	(3,214)	(29,934)
Total deferred tax assets	8,611	8,594	80,041
<i>Deferred tax liabilities:</i>			
Net defined benefit asset	(966)	(929)	(8,652)
Valuation difference on available-for-sale securities	(5,513)	(7,598)	(70,765)
Other	(2,570)	(2,026)	(18,869)
Total deferred tax liabilities	(9,050)	(10,554)	(98,296)
Net deferred tax assets	(438)	(1,960)	(18,255)

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 2017	Fiscal 2018	Fiscal 2018
Current assets: deferred tax assets	2,960	3,840	35,764
Non-current assets: deferred tax assets	512	353	3,288
Non-current liabilities: deferred tax liabilities	(3,911)	(6,153)	(57,307)

Financial Section

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 2017 and Fiscal 2018 are omitted.

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

In the US, on December 22, 2017, the tax reform bill to reduce the federal corporate income tax rate from 35% to 21% from January 1, 2018 was passed. In conjunction with this, the deferred tax assets and liabilities of U.S. subsidiaries for fiscal 2018 have been calculated using the statutory effective tax rates based on the tax rates after the reform.

As a result, deferred tax assets (after the deduction of deferred tax liabilities) decreased ¥389 million and income taxes - deferred increased ¥386 million.

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.

Financial Section

RELATED INFORMATION

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

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

(2) Property, plant and equipment

(Millions of yen)

Japan	North America	Other	Total
33,153	6,643	3,234	43,031

3. Information by significant customer

(Millions of yen)

Name of customers	Net sales	Related segment
MEDIPAL HOLDINGS CORPORATION	22,416	Pharmaceuticals
Alfresa Holdings Corporation	22,072	Pharmaceuticals

Fiscal 2018 (March 1, 2017 – February 28, 2018)

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
103,764	27,877	16,229	147,870

(Thousands of U.S. dollars)

Japan	North America	Other	Total
966,415	259,635	151,150	1,377,200

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

Financial Section

(2) Property, plant and equipment

(Millions of yen)

Japan	North America	Other	Total
30,596	6,670	2,798	40,064

(Thousands of U.S. dollars)

Japan	North America	Other	Total
284,959	62,122	26,059	373,140

3. Information by significant customer

(Millions of yen)

Name of customers	Net sales	Related segment
Alfresa Holdings Corporation	22,003	Pharmaceuticals
MEDIPAL HOLDINGS CORPORATION	21,944	Pharmaceuticals

(Thousands of U.S. dollars)

Name of customers	Net sales	Related segment
Alfresa Holdings Corporation	204,927	Pharmaceuticals
MEDIPAL HOLDINGS CORPORATION	204,377	Pharmaceuticals

Information on the impairment loss of non-current 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.

Financial Section

RELATED PARTY INFORMATION

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

Transactions with related parties

Type	Name of company, etc.	Location	Capital or investment (Millions of yen)	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)	Item	Balance at end of the fiscal year (Millions of yen)
Concurrently served as the chairman of a foundation	Disposal of treasury shares through third-party allotment (Note)	1	—	—

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.

Fiscal 2018 (March 1, 2017–February 28, 2018)

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

Financial Section

PER SHARE INFORMATION

	(Yen)		(U.S. dollars)
	Fiscal 2017	Fiscal 2018	Fiscal 2018
Net assets per share	2,724.00	2,912.83	27.13
Profit per share	241.27	228.52	2.13
Diluted profit per share	241.15	228.35	2.13

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

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2017	Fiscal 2018	Fiscal 2018
Profit per share:			
Profit attributable to owners of parent	20,395	19,119	178,066
Amount not attributable to common shareholders	—	—	—
Profit attributable to owners of parent attributable to common stock	20,395	19,119	178,066
Average common stock during year (Thousands of shares)	84,532	83,665	—
Diluted profit per share:			
Adjusted profit attributable to owners of parent	—	—	—
Increase in common stock (Thousands of shares)	44	64	—
(Subscription rights to shares (Thousands of shares))	(44)	(64)	—
Outline of residual securities that were not included in calculating diluted profit 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 2017	Fiscal 2018	Fiscal 2018
Total net assets	229,205	245,227	2,283,943
Amount deducted from total net assets:	1,301	1,526	14,213
(Subscription rights to shares)	(203)	(299)	(2,785)
(Non-controlling interests)	(1,097)	(1,227)	(11,428)
Net assets attributable to common stock as at the end of the fiscal year	227,904	243,700	2,269,722
Common stock used in calculating net assets per share as at the end of the fiscal year (Thousands of shares)	83,665	83,664	—

SIGNIFICANT SUBSEQUENT EVENTS

Not applicable.

Financial Section

Supplementary Schedule

Supplementary schedule of bonds payable

Not applicable.

Supplementary schedule of loans payable

Category	(Millions of yen)		(Thousands of U.S. dollars)		(%)	
	Balance at the beginning of Fiscal 2018	Balance at the end of Fiscal 2018	Balance at the beginning of Fiscal 2018	Balance at the end of Fiscal 2018	Average interest rate	Due date
Short-term loans	1,490	1,390	13,877	12,946	0.38	—
Current portion of long-term loans	71	71	661	661	0.64	—
Current portion of long-term lease obligation	22	29	205	270	—	—
Long-term loans (excluding current portion)	576	504	5,365	4,694	0.64	March 2019 to March 2026
Lease obligation (excluding current portion)	32	64	298	596	—	March 2019 to September 2022
Other interest-bearing liabilities	—	—	—	—	—	—
Total	2,192	2,061	20,415	19,195	—	—

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:

Category	(Millions of yen)			
	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	65	71	77	71
Lease obligations	21	20	19	2

Category	(Thousands of U.S. dollars)			
	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	605	661	717	661
Lease obligations	196	186	177	19

Supplementary schedule of asset retirement obligations

Not applicable.

Financial Section

Other

Quarterly consolidated financial information for Fiscal 2018

	(Millions of yen)			
(Cumulative)	Three months ended May 31, 2017	Six months ended August 31, 2017	Nine months ended November 30, 2017	Fiscal 2018
Net sales	36,081	73,463	109,553	147,870
Profit before income taxes	5,428	13,354	22,524	27,694
Profit attributable to owners of parent	3,674	9,386	15,840	19,119
Profit per share (yen)	43.92	112.19	189.33	228.52

	(Thousands of U.S. dollars)			
(Cumulative)	Three months ended May 31, 2017	Six months ended August 31, 2017	Nine months ended November 30, 2017	Fiscal 2018
Net sales	336,044	684,204	1,020,332	1,377,200
Profit before income taxes	50,554	124,374	209,779	257,931
Profit attributable to owners of parent	34,218	87,417	147,527	178,066
Profit per share (U.S. dollars)	0.41	1.04	1.76	2.13

	(Yen)			
(Quarterly)	First quarter	Second quarter	Third quarter	Fourth quarter
Profit per share	43.92	68.27	77.14	39.20

	(U.S. dollars)			
(Quarterly)	First quarter	Second quarter	Third quarter	Fourth quarter
Profit per share	0.41	0.64	0.72	0.37

Corporate Information

Stock Information

(1) Total number of shares

1) Total number of shares

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

2) Shares issued

Type of shares	Shares issued at year end Fiscal 2018 (February 28, 2018)	Shares issued on filing date (May 25, 2018)	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, 2018)	As at the end of the month preceding the filing date (April 30, 2018)
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

Corporate Information

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.

Corporate Information

- (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 a 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, 2018)	As at the end of the month preceding the filing date (April 30, 2018)
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 (Units)	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.

The third subscription rights to shares (resolved on July 7, 2017, issued on July 25, 2017)

	As of the end of the fiscal year under review (February 28, 2018)	As at the end of the month preceding the filing date (April 30, 2018)
Number of subscription rights to shares (Units)	219 (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 (Units)	21,900 (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, 2017 to July 25, 2067	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: 4,464 Amount to be incorporated into capital stock: 2,232 (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; 219 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

Date	(Shares)		Change in capital stock	(Millions of yen)		
	Change in shares issued	Shares issued		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

Date	(Shares)		Change in capital stock	(Thousands of U.S. dollars)		
	Change in shares issued	Shares issued		Capital stock	Change in additional paid-in capital	Additional paid-in capital
July 5, 2002 (Note)	—	95,164,895	—	78,914	(57,027)	19,726

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, 2018

Status of shares (Investment unit comprises 100 shares)

Category	National and local government	Financial institutions	Securities companies	Other corporations	Foreign shareholders			Total	Shares under one unit (Shares)
					Non-individuals	Individuals	Individuals and other		
Shareholders (entities)	—	53	22	178	433	4	3,185	3,875	—
Shares owned (units)	—	447,728	9,510	176,132	121,739	13	196,102	951,224	42,495
Ratio (%)	—	47.07	1.0	18.52	12.80	0.00	20.62	100.00	—

Note: Treasury stock of 11,472,243 are listed as 114,722 units in the individuals and other column and as 43 shares in the shares under one unit column. The 11,472,243 treasury stock figure is the number of shares listed in the shareholder registry.

(7) Principal shareholders

As of February 28, 2018

Name	Address	Shares owned (thousand shares)	Percentage of shares outstanding (%)
Japan Trustee Service Bank, Ltd. (trust account)	1-8-11 Harumi, Chuo-ku, Tokyo	6,314	6.64
The Master Trust Bank of Japan, Ltd. (trust account)	2-11-3 Hamamatsucho, Minato-ku, Tokyo	4,525	4.76
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
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	2,241	2.36
SMBC Trust Bank Ltd. (Sumitomo Mitsui Banking Corporation pension trust account)	1-3-1 Nishi-Shimbashi, Minato-ku, Tokyo	2,064	2.17
TKY	1-12-3 Sasayama-machi, Kurume-shi, Fukuoka	1,834	1.93
Total		36,474	38.33

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

Japan Trustee Service Bank, Ltd.: 10,684 thousand shares

The Master Trust Bank of Japan, Ltd.: 4,525 thousand shares

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

SMBC Trust Bank Ltd.: 2,064 thousand shares

2. In addition to the shares listed above, the company owns treasury stock of 11,472 thousand shares (12.06%).

(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	Hisamitsu Pharmaceutical Co., Inc. The third subscription rights to shares
Resolution date	July 10, 2015	July 8, 2016	July 7, 2017
Classification and number of persons to be granted	10 directors of the Company (excluding outside directors)	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	Provided in (2) Status of share subscription rights to shares
Number of shares	Same as the above	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	Same as the above
Exercise period of subscription rights to shares	Same as the above	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	Same as the above
Matters concerning the transfer of subscription rights to shares	Same as the above	Same as the above	Same as the above
Matters concerning substitute payment	Same as the above	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	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 <i>Nihon Keizai Shimbun</i> . 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.

Corporate Information

Group Companies

Our corporate group comprises Hisamitsu Pharmaceutical, 18 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 equipment 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	—	2	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	—	2	—	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	1	—	Hisamitsu outsources medical marketing	—	
Hisamitsu Pharmaceutical (China) Co., Ltd.	Jiangsu, China	CNY 5,973 thousand	Pharmaceuticals	100	1	—	—	Selling products supplied by Hisamitsu	—	Note 3
Hisamitsu Pharmaceutical (Hong Kong) Co., Ltd.	Kowloon, Hong Kong	¥10 million	Pharmaceuticals	100	1	—	—	Selling products supplied by Hisamitsu	—	
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	1	3	—	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	20,257	188,665
(2) Ordinary income	3,961	36,891
(3) profit attributable to owners of parent	2,498	23,265
(4) Net assets	27,039	251,830
(5) Total assets	35,656	332,085

Corporate Information

Management

Chairman & CEO	NAKATOMI Hirotaka	Standing Corporate Auditor	NAKATOMI Nobuyuki
President & COO	NAKATOMI Kazuhide	Standing Corporate Auditor	HIRANO Munehiko
Senior Managing Director	SUGIYAMA Kousuke	Corporate Auditor	ONO Keinosuke
Managing Director	AKIYAMA Tetsuo	Corporate Auditor	TOKUNAGA 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		

- 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, 2018)	
	Business segment	Employees
	Pharmaceuticals	2,686 (859)
	Other businesses	137 (40)
	Total	2,823 (899)

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.

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For muscle ache, muscle fatigue
Third-class OTC drugs

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