Hisamitsu®

Salonpas®

# FINANCIAL REPORT 2011

For the Fiscal Year Ended February 28, 2011

Hisamitsu Pharmaceutical Co., Inc.

# Corporate Vision

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

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

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

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

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

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

Note: Amounts in US dollars are included solely for convenience and are translated at a rate of ¥81.71=U.S.$1.00, the approximate rate of exchange on February 28, 2011.

# Contents

# Consolidated Financial Highlights

Years ended the last day of February

| | (Millions of yen) | | | | | (Thousands of U.S. dollars) |
|---|---|---|---|---|---|---|
| | Fiscal 2007 | Fiscal 2008 | Fiscal 2009 | Fiscal 2010 | Fiscal 2011 | Fiscal 2011 |
| Net sales | 109,791 | 119,061 | 124,655 | 129,834 | 137,184 | 1,678,913 |
| Operating income | 26,134 | 29,071 | 32,532 | 28,585 | 28,193 | 345,037 |
| Ordinary income | 27,001 | 30,204 | 32,476 | 31,231 | 33,236 | 406,756 |
| Net income | 15,847 | 18,663 | 19,120 | 18,423 | 20,956 | 256,468 |
| Net assets | 103,966 | 113,929 | 124,105 | 130,976 | 141,222 | 1,728,332 |
| Total assets | 141,143 | 149,750 | 167,642 | 193,551 | 194,787 | 2,383,882 |
| Net assets per share (yen and dollars) | 1,164.05 | 1,276.16 | 1,391.49 | 1,500.92 | 1,618.69 | 19.81 |
| Net income per share (yen and dollars) | 178.74 | 210.45 | 215.61 | 210.78 | 241.80 | 2.96 |
| Diluted net income per share (yen and dollars) | — | — | — | — | — | — |
| Shareholders' equity ratio (%) | 73.1 | 75.6 | 73.6 | 67.2 | 72.0 | — |
| Return on equity (ROE) (%) | 16.4 | 17.2 | 16.2 | 14.5 | 15.5 | — |
| Price-earnings ratio (PER) (times) | 20.0 | 15.9 | 13.8 | 15.4 | 13.6 | — |
| Net cash provided by operating activities | 12,228 | 25,722 | 22,382 | 20,498 | 36,342 | 444,768 |
| Net cash used in investing activities | (11,804) | (11,911) | (15,927) | (32,547) | (8,248) | (100,942) |
| Net cash provided by (used in) financing activities | (9,580) | (7,479) | (5,467) | 4,899 | (15,659) | (191,641) |
| Cash and cash equivalents, end of year | 26,510 | 32,706 | 33,356 | 26,232 | 37,654 | 460,825 |
| Number of employees [average temporary staff] | 1,629 [353] | 1,752 [297] | 1,890 [288] | 2,562 [369] | 2,635 [415] | — |

Notes: 1. Net sales do not include consumption tax.
2. Diluted net income per share is not listed due to the absence of residual securities.

# To Our Stakeholders

The market environment during the fiscal year ended February 28, 2011 for ethical pharmaceutical industry in Japan remained severe due to the impact of the April 2010 round of national health insurance drug price cuts and also the government's stance of curtailing health spending, including strengthened measures to promote the use of generic drugs.

In the ethical pharmaceuticals business, we have responded to these conditions by launching products in new areas and providing medical institutions with targeted scientific information. In the OTC pharmaceutical business, we have worked to promote sales through launches of new products, especially our anti-inflammatory pain relief patches. In research and development activities with Noven Pharmaceuticals, which was acquired two years ago, we have improved cooperation in efforts to speed up product development.

As a result of such efforts, consolidated net sales grew 5.7% year on year, to ¥137,184 million. Operating income declined 1.4% year on year to ¥28,193 million, ordinary income increased 6.4% year on year to ¥33,236 million, and net income grew 13.7% year on year to ¥20,956 million.

NAKATOMI, Hirotaka
President & CEO

Medical Products

For Export

Over the Counter Products

# Overview of Operations

## Operating results

Although the Japanese economy showed some signs of a recovery after the worldwide economic downturn triggered by the U.S. financial crisis, the effect of global financial instability remained severe, with a slowdown in employment and consumption. In addition, the situation in the Middle East has become unstable over the past year, causing new concerns over supplies of crude oil and raw materials.

The operating environment for the ethical pharmaceutical industry in Japan remained severe, due to the impact of the April 2010 round of national health insurance drug price cuts and also the government's stance of curtailing healthcare spending, including strengthened measures to promote generic drug use.

In Japan, we have responded to these conditions by launching new products in new areas of the ethical pharmaceuticals, particularly our mainstay anti-inflammatory pain relief patches, and providing medical institutions with scientific information that precisely corresponds to their needs.

We have also worked to launch and promote sales of OTC pharmaceuticals, especially our anti-inflammatory pain relief patches, amid continued stagnating consumption in the OTC market and tough sales competition.

Our research and development efforts have focused on research in our specialty areas and on the development of new products with novel local or systemic effects.

Further, in research and development activities carried out with Noven Pharmaceuticals, Inc. ("Noven"), which was acquired two years ago, we have developed cooperation, including personnel exchanges and strived to speed up product development.

As for our production facilities, at the Tosu and Utsunomiya plants, we carried on our initiatives to help protect the global environment as ISO 14001 (international environmental management standard) certified factories. In addition to improving the efficiency of manufacturing processes, we continued introducing solar power generation, switching from a heavy oil boiler to a natural gas boiler, introducing sodium sulfur (NAS) batteries to reduce the consumption of resources, and taking steps to reduce our environmental footprint by saving energy and reducing waste. We have also established Energy Management Committee and promoted environmental conservation activities across the company.

The Company and employees took part in community service programs such as the "Japan Red Cross Society street collections for its overseas programs," and supported nonprofit organizations through the "Hisamitsu Hot Heart Club," in which the company matches donations deducted from employees' and directors' salaries.

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

In our cable television broadcasting and other businesses, group companies worked to improve earnings by enhancing the services they provide to customers.

As a result of these business activities, consolidated net sales grew 5.7% year on year, or 7,350 million, to ¥137,184 million. Operating income declined 1.4% year on year, or ¥391 million, to ¥28,193 million. Ordinary income increased 6.4% year on year, or ¥2,005 million, to ¥33,236 million; and net income grew 13.7% year on year, or ¥2,532 million, to ¥20,956 million.

# Overview of Operations

## Results by business segment

***Pharmaceuticals and related products***

The pharmaceuticals and related products segment, particularly the ethical pharmaceuticals business, faced an extremely uncertain business environment during FY 02/2011 amid national efforts to curb healthcare expenditures. We responded to these circumstances by providing medical institutions with appropriate and detailed scientific information about our products, particularly our anti-inflammatory pain relief patches. While collecting and supplying information on efficacy and safety, we sought to expand our market share for a variety of products, including our mainstay product Mohrus Tape®, a ketoprofen transdermal patch; Mohrus® Pap, a ketoprofen transdermal patch; Estrana® Tape, an estradiol transdermal patch; and HMT, a transdermal patch containing the bronchodilator tulobuterol.

In April 2010, we obtained approval for Fentos® Tape, a transdermal sustained-release cancer pain relief patch that was our first narcotic product, and commenced sales in June. Fentos® Tape is a narcotic ethical pharmaceutical product developed as a transdermal patch of fentanyl citrate, as synthetic narcotic that exhibits significant analgesic effects, using Hisamitsu Pharmaceutical's transdermal drug delivery system (TDDS). This patch has drug release properties suitable for a single daily application.

In February 2011, approval was received to add the effects related to "pain and inflammation relief for acute disorders and symptoms (muscle pain, swelling and pain due to external injuries)" to the transdermal pain reliever and anti-inflammatory Mohrus Tape®. We believe that with the recent addition of "acute disorders" to "chronic disorders", Mohrus Tape can contribute to pain relief treatments for even more patients.

Also in February 2011, Mundipharma K.K. received a marketing approval for NORSPAN® Tape, a buprenorphine patch. NORSPAN® Tape is a pharmaceutical indicated for analgesia of chronic pain associated with osteoarthritis and low back pain not being controlled sufficiently with non-opioid analgesics. In 2007, we acquired the exclusive distribution right of NORSPAN® Tape in Japan from Mundipharma K.K.

In the OTC pharmaceutical business, we worked to pioneer a new user base through launches of new products, including our mainstay anti-inflammatory pain relief patches. We have worked towards acquiring new users, releasing the Hisamitsu® ICE TOWEL in March 2010, COCOSALO® in June 2010, Air Salonpas® Jet $\alpha$ in July 2010, and DecoDeco Cool® Strong in December 2010.

Overseas, we began to export Salonpas® Pain Relief Patch - the only OTC pain relief patch in the world that has obtained approval from the US Food and Drug Administration (FDA) - to five additional countries.

In the US ethical pharmaceuticals market, sales of the Fentanyl Transdermal System, a transdermal sustained-release patch for the management of chronic pain, commenced in March 2010, following the approval from the FDA in October 2009.

As a result of these efforts, net sales in the pharmaceutical and related products segment grew 5.4% year on year, or ¥6,832 million, to ¥133,237 million.

# Overview of Operations

***Cable television broadcasting and other businesses***

In our cable and television broadcasting business, we sought to acquire customers for cable television and cable Internet services by expanding our service area and enhancing the contents. As part of such efforts, we have established “Happy Tosu Vision” in March 2010 as a substation of CRCC Media Co., Ltd.

We also worked to improve earnings in other businesses, including the production and sales of laboratory animals, by expanding sales channels, improving customer services, and streamlining operations.

As a result, net sales in the cable television broadcasting and other businesses grew 15.1% year on year, or ¥517 million, to ¥3,946 million.

## Net sales by regional segment

***Japan***

Net sales in Japan increased 0.0% year on year, or ¥57 million, to ¥122,042 million, and operating income decreased 4.5% year on year, or ¥1,541 million, to ¥32,470 million.

***North America***

Net sales in North America grew 176.0% year on year, or ¥6,917 million, to ¥10,847 million, and operating loss in North America shrank 18.2% year on year, or ¥995 million, to ¥4,477 million.

***Other***

Net sales in other regions expanded 9.6% year on year, or ¥375 million, to ¥4,294 million, and operating income increased 1.2% year on year, or ¥1 million, to ¥141 million.

# Overview of Operations

## Sales results

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

| | (Millions of yen) | YoY (%) | (Millions of yen) | YoY (%) | (Thousands of U.S. dollars) |
|---|---|---|---|---|---|
| Business segment | Fiscal 2010 | | **Fiscal 2011** | | **Fiscal 2011** |
| Pharmaceuticals and related products | 126,404 | 3.8 | **133,237** | **5.4** | **1,630,608** |
| Topical analgesic products | 113,581 | 1.8 | **112,438** | **(1.0)** | **1,376,062** |
| Other topical and transdermal products | 3,549 | (15.0) | **3,579** | **0.8** | **43,801** |
| Others | 9,273 | 54.4 | **17,220** | **85.7** | **210,745** |
| Cable television broadcasting | 2,128 | 17.9 | **2,869** | **34.8** | **35,112** |
| Other businesses | 1,300 | 20.1 | **1,076** | **(17.2)** | **13,169** |
| Total | 129,834 | 4.2 | **137,184** | **5.7** | **1,678,913** |

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

| | (Millions of yen) | | | | (Thousands of U.S. dollars) |
|---|---|---|---|---|---|
| Customer | Sales Fiscal 2010 | % of total | Sales **Fiscal 2011** | % of total | **Fiscal 2011** |
| Medipal Holdings Corporation | 28,717 | 22.1 | **27,724** | **20.2** | **339,298** |
| Alfresa Holdings Corporation | 23,957 | 18.5 | **24,050** | **17.5** | **294,334** |

Alfresa Holdings Corporation made Tampei Nakata Co., Ltd. a wholly-owned subsidiary as of October 1, 2010. The amounts stated above for the previous fiscal year have been recalculated to allow comparison after the change.

2. The foregoing figures do not include consumption tax.

## Key Challenges

***Pharmaceuticals and related products***

We expect the ethical pharmaceuticals business to face continued efforts to curb pharmaceutical expenditures, including a 6.5% across-the-board National Health Insurance drug reimbursement price cut in April 2010 and strengthened measures to promote use of generic drugs, against a backdrop of a rapidly aging population. In response to this difficult business environment, we are stepping up efforts to provide medical institutions with scientific information and we seek to develop new topical and transdermal products that meet the needs of medical institutions and their patients. Furthermore, we strive to grow further with an aim to improve our profitability as well as enhance our sales and R&D capabilities.

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

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

Especially, in the U.S. ethical pharmaceutical market, we plan to enhance our R&D capability at our business base Noven Pharmaceuticals by combining our areas of strength in technology, as well as building a manufacturing and sales network.

# Overview of Operations

Continuing to recognize our mission and responsibility as a pharmaceutical company, we aim to create a more robust business base and manufacturing structure, and to accelerate the development of new products by concentrating research in areas of specialty.

***Cable television broadcasting and other businesses***

In the cable television broadcasting and other businesses, including the production and sale of laboratory animals, our group companies are working to expand their businesses and provide precise services to their customers while further improving earnings by streamlining management and bolstering their corporate structure.

***Basic policy on control of the company***

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

***1) Specific initiatives to achieve our basic policy***

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

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

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

# Overview of Operations

## Important Business Agreements

***Joint sales agreement***

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

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

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

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

***Co-promotion agreement***

We concluded an agreement with MSD K.K. (headquarters: Chiyoda-ku, Tokyo; formerly called Banyu Pharmaceutical Co., Ltd.) on January 23, 2009, on co-promotion within Japan of the MSD-manufactured and marketed drug Fosamac® for osteoporosis.

**(1) Counterparty to the agreement**
MSD K.K.

**(2) Agreement details**
Contract on co-promotion within Japan of the MSD-manufactured and marketed drug Fosamac® for osteoporosis.

**(3) Compensation**
Compensation commensurate with the results of the co-promotion.

***Distribution agreement***

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

**(1) Counterparty to the agreement**
Mundipharma K. K.

**(2) Agreement details**

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

**(3) Compensation**

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

## Research and Development

***Pharmaceuticals and related products***

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

For ethical pharmaceuticals in Japan, we independently developed and obtained approval for Fentos® Tape (development code: HFT-290), a transdermal sustained-release cancer pain relief patch. Currently phase 3 trials are underway for medical additional indications of chronic non-cancer pain relief for the Fentos® Tape. For Mohrus Tape®(development code: KPT-220; generic name: ketoprofen), a transdermal analgesic anti-inflammatory patch, approval was obtained for additional indications of pain and inflammation relief for acute disorders and symptoms (muscle pain, swelling and pain due to external injuries). For NORSPAN® Tape (development code: BTDS), a transdermal sustained-release pain relief patch introduced to us by Mundipharma K.K., the Mundipharma K.K. has obtained approval. Currently phase 3 trials are underway for HTU-520 (generic name: terbinafine hydrochloride), a patch to treat Tinea unguium. Currently phase 3 trials are underway for HOB-294 (generic name: oxybutynin hydrochloride), a patch to treat an overactive bladder.

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

In the U.S. ethical pharmaceutical market, although phase 3 trials were conducted for HKT-500 (generic name: ketoprofen), a transdermal analgesic anti-inflammatory patch, development has been cancelled. Noven is currently conducting phase 3 trials for Mesafem (generic name: paroxetine hydrochloride), an oral preparation for vasomotor symptom treatment.

For OTC pharmaceuticals, the transdermal analgesic anti-inflammatory Salonpas® Pain Relief Patch (development code: FS-67; generic name: methyl salicylate, ℓ-menthol) is undergoing post-sale clinical trials with pediatric patients following the request received from the FDA.

In addition to development of our own fundamental technologies, we utilise Noven's transdermal delivery system (TDDS) technology to improve the value of developed products and to conduct joint development with external organizations, working towards improvement of commercialization technologies to expand the possibilities of transdermal absorption.

***Cable television broadcasting and other businesses***

We do not conduct research and development in our cable television broadcasting business.

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

As a result of the foregoing, research and development expenses totaled ¥13,809 million in FY2/11.

# Corporate Governance and Internal Auditing

## Corporate Governance

### (1) Basic approach to corporate governance

#### 1) Corporate governance structure

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

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

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

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

We are structured as a company with a Board of Corporate Auditors, comprising 10 directors and 6 corporate auditors (including 3 outside corporate auditors) as of May 27, 2011.

In the area of corporate governance, we reduced the number of directors and introduced an executive officer system to clarify the responsibilities and authority of management and speed up decision-making and business execution.

To bolster our management structure further, we changed the articles of incorporation to reduce the number of directors from 13 or less to 10 or less at the annual general meeting of shareholders on May 25, 2006. In March 2003, we introduced an executive officer system to improve the speed, transparency, and strategic focus of business decisions.

To clarify management responsibilities of directors and construct a management structure that can respond to changes in management environments, the term of directors was changed from 2 years to 1 year at the annual general meeting of shareholders held on May 26, 2011.

Important management decisions are made by the Management Advisory Council comprising key directors and executive officers, and important resolutions are debated and decided by the board of directors. We introduced an executive officer system in March 2003 with the goals of accelerating management decisions and improving their transparency and strategic focus.

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

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

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

# Corporate Governance and Internal Auditing

***Internal auditing and audit by Board of Corporate Auditors***

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

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

**Outside Directors and Outside Corporate Auditors**

Our three outside corporate auditors are ONO Keinosuke, ICHIKAWA Isao, and TOKUNAGA Tetsuo. ONO Keinosuke has gained scholarly knowledge related to management through his past career experience as a professor of a graduate school of business. ICHIKAWA Isao has gained management experience and insight through his past career experience as executive vice president and representative director of a listed company. TOKUNAGA Tetsuo has gained overall management experience and knowledge through his past career experience as executive vice president and representative director of a listed company, etc.

Outside corporate auditors regularly attend meetings of the Board of Directors and meetings of the Board of Corporate Auditors. We believe that a structure sufficiently capable of auditing management has been established. In consideration of the efficiency and flexibility of the business decision making process, no outside directors have been appointed. There is no conflict of interests between our outside corporate auditors and the company.

### 2) Risk management systems

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

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

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

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

# Corporate Governance and Internal Auditing

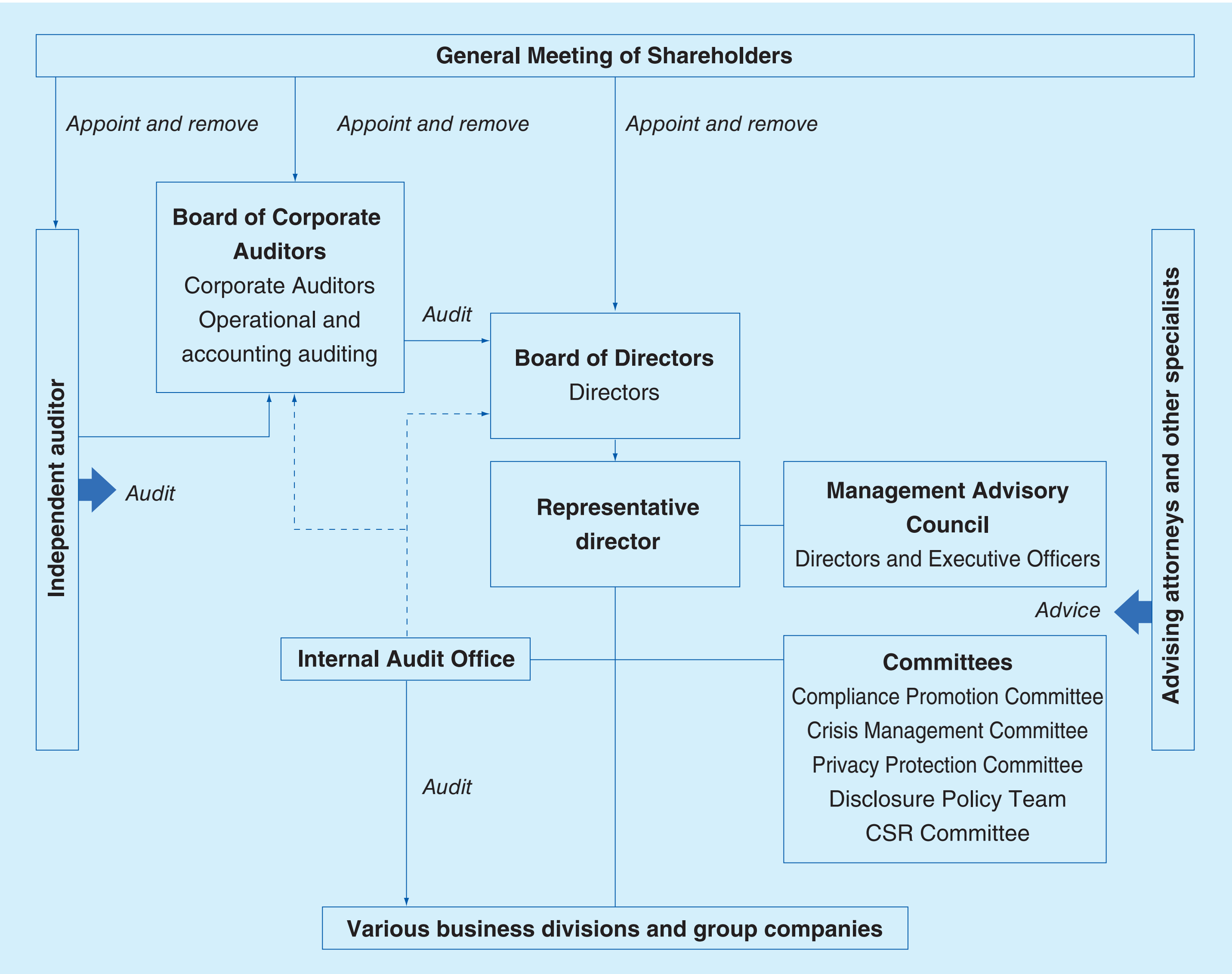
***Crisis Management Committee (Chair: President & CEO)***

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

***Privacy Protection Committee (Chair: Director of Human Resources)***

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

***Corporate governance structure***



# Corporate Governance and Internal Auditing

***Disclosure Policy Team (Chair: President & CEO)***

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

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

***CSR Committee (Chair: Production Environment Division Manager)***

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

### 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 2011 | | | | | |
|---|---|---|---|---|---|---|
| Category | Total compensation | Total compensation by type | | | | Number of officers to be paid |
| | | Basic compensation | Stock options | Bonuses | Retirement benefits | |
| Directors (Excluding Outside Directors) | 285 | 265 | — | — | 20 | 10 |
| Corporate Auditors (Excluding Outside Corporate Auditors) | 32 | 28 | — | — | 4 | 2 |
| Outside Officers | 15 | 13 | — | — | 1 | 2 |

(Thousands of U.S. dollars)

| | Fiscal 2011 | | | | | |
|---|---|---|---|---|---|---|
| Category | Total compensation | Total compensation by type | | | | Number of officers to be paid |
| | | Basic compensation | Stock options | Bonuses | Retirement benefits | |
| Directors (Excluding Outside Directors) | 3,488 | 3,243 | — | — | 245 | 10 |
| Corporate Auditors (Excluding Outside Corporate Auditors) | 392 | 343 | — | — | 49 | 2 |
| Outside Officers | 184 | 159 | — | — | 12 | 2 |

**B. Total consolidated compensation paid to executive of the filing company**

This item is not stated as there are no executives with consolidated compensation exceeding ¥100 million.

**C. Material disclosures on employee salaries for directors who also serve as employees.**

Not applicable.

**D. Policy on deciding amount of executive compensation**

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

Corporate Auditors' compensation is determined at the Board of Corporate Auditors meeting within the range approved at the annual general meeting of shareholders.

### 4) Accounting Auditing

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

***Audit company providing auditing services***

| Audit company | Certified public accountants providing auditing services | | Assisting personnel |
|---|---|---|---|
| KPMG AZSA LLC | Designated limited liability partner and engagement partner | Hiromi Kimura | 2 CPAs & 10 others |
| | Designated limited liability partner and engagement partner | Yoshihide Takehisa | |
| | Designated limited liability partner and engagement partner | Akihisa Sada | |

Notes: A statement on the years of continuous audit service is omitted because all 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

(1) 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.

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

### 7) Special resolutions of the general meeting of shareholders

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

### (2) Remuneration for Auditing

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

| Category | (Millions of yen) Fiscal 2010 | | **Fiscal 2011** | | (Thousands of U.S. dollars) **Fiscal 2011** | |
|---|---|---|---|---|---|---|
| | Compensation for audit certification services | Compensation for non-auditing services | Compensation for audit certification services | Compensation for non-auditing services | Compensation for audit certification services | Compensation for non-auditing services |
| The company | 52 | — | **52** | **5** | **636** | **61** |
| Subsidiaries | 4 | — | **4** | **—** | **49** | **—** |
| Total | 57 | — | **57** | **5** | **698** | **61** |

***2) Breakdown of other important compensation***

**FY2/10**

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

**FY2/11**

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

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

**FY2/10**

Not applicable.

**FY2/11**

We have commissioned the audit company with financial due diligence support business, which is a non-auditing service as stipulated in Article 2, Paragraph 1 of the Certified Public Accountants Act.

***4) Policy on setting compensation for auditing services***

Not applicable.

## Analysis of Financial Position, Operating Results, and Cash Flows

### (1) Analysis of financial position at the end of Fiscal 2011

***1) Assets***

Assets totaled ¥194,787 million at the end of FY2/11, an increase of ¥1,236 million from the previous year, due mainly to increases of ¥6,251 million in cash and deposits and of ¥5,380 million in short-term investment securities, despite a decrease of ¥5,464 million in notes and accounts receivable-trade.

***2) Liabilities***

Liabilities totaled ¥53,564 million at the end of FY2/11, a decrease of ¥9,009 million from the previous year, due mainly to a decrease in short-term loans payable of ¥4,428 million and a decrease in long-term loans payable of ¥5,053 million.

***3) Net assets***

Net assets totaled ¥141,222 million at the end of FY2/11, an increase of ¥10,246 million from the previous year, due mainly to an increase in retained earnings of ¥14,973 million and a decrease in foreign currency translation adjustment of ¥4,981 million.

### (2) Analysis of operating results in Fiscal 2011

***1) Net sales***

Net sales grew 5.7% year on year to ¥137,184 million. This increase is attributable mainly to the contribution to sales made by Noven from the beginning of FY2/11, which was acquired in August 2009.

***2) Operating income***

Operating income fell 1.4% year on year to ¥28,193 million. This decrease is attributable mainly to the increase in cost of sales ratio and R&D expenses following the NHI drug price cuts and inclusion of Noven as a consolidated subsidiary.

***3) Ordinary income***

Ordinary income rose 6.4% year on year to ¥33,236 million. This increase is attributable mainly to an increase in equity in earnings of affiliates.

***4) Net income***

Net income grew 13.7% year on year to ¥20,956 million as a result of income received from distribution license fees. Consequently, net income per share totaled ¥241.80 in FY2/11, and return on equity was 15.5%.

### (3) Analysis of cash flows in Fiscal 2011

Cash and cash equivalents at the end of the FY2/11 totaled ¥37,654 million, an increase of ¥11,422 million from the beginning of the fiscal year.

***1) Net Cash provided by (used in) operating activities***

Net cash provided by operating activities totaled ¥36,342 million (¥20,498 million provided at the end of the previous fiscal year), due mainly to income before taxes and minority interests (¥36,104 million), interest and dividends received (¥5,954 million), and income taxes paid (¥11,796 million).

***2) Net Cash provided by (used in) investment activities***

Net cash used in investment activities totaled ¥8,248 million (¥32,547 million used at the end of the previous fiscal year), due mainly to payments for purchases of tangible fixed assets (¥5,947 million) and payments for purchases of investment securities (¥2,428 million).

***3) Net cash provided by (used in) financing activities***

Net cash used in financing activities totaled ¥15,659 million (¥4,899 million provided at the end of the previous fiscal year), due mainly to outflow from decrease in short-term loans payable (¥4,549 million), outflow from repayment of long-term loans payable (¥5,216 million) and cash dividends paid (¥5,980 million).

## Capital Expenditures

Capital investment totaled ¥4,381 million in FY2/11, due mainly to augmenting and expanding production and research equipment.

In the pharmaceuticals and related products business, we mainly augmented and expanded production equipment at the Tosu plant and the Utsunomiya plant, and expanded research equipment at the Tosu Laboratories, requiring capital investment of ¥3,597 million.

In the cable television broadcasting business, we mainly invested to expand bandwidth to provide digital capabilities to our subscribers, resulting in capital investment of ¥663 million.

We did not sell or remove any equipment that would affect production capacity in FY2/11.

## 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 FY2/11 we paid an interim dividend of ¥35 per share and a year-end dividend of ¥35 per share, for an annual dividend of ¥70 per share.

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

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

Note: Dividends in Fiscal 2011 are as follows.

| | (Millions of yen) | (Yen) | (Thousands of U.S. dollars) | (U.S. dollars) |
|---|---|---|---|---|
| Resolution date | Total dividends | Dividends per share | Total dividends | Dividends per share |
| October 4, 2010<br>Board of directors resolution | 3,034 | 35 | 37,131 | 0.43 |
| May 26, 2011<br>General meeting of shareholders resolution | 3,034 | 35 | 37,131 | 0.43 |

## 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 FY2/11.

### (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 ligation if another company violates our intellectual property rights. Earnings could be adversely affected by the process and outcome of such actions.

### (7) Litigation risks

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

### (8) Other risks

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

## Consolidated Balance Sheets

February 28, 2010 and 2011

| | (Millions of yen) | | (Thousands of U.S. dollars) |
|---|---|---|---|
| | Fiscal 2010 | **Fiscal 2011** | **Fiscal 2011** |
| **(Assets)** | | | |
| **Current assets** | | | |
| Cash and deposits | 26,935 | **33,186** | **406,144** |
| Notes and accounts receivable-trade | 42,324 | **36,860** | **451,108** |
| Short-term investment securities | — | **5,380** | **65,843** |
| Merchandise and finished goods | 7,279 | **6,198** | **75,854** |
| Work-in-process | 481 | **333** | **4,075** |
| Raw materials and supplies | 4,511 | **4,770** | **58,377** |
| Deferred tax assets | 2,258 | **3,620** | **44,303** |
| Other | 2,577 | **2,786** | **34,096** |
| Allowance for doubtful accounts | (267) | **(241)** | **(2,949)** |
| Total current assets | 86,100 | **92,896** | **1,136,899** |
| **Noncurrent assets** | | | |
| **Tangible fixed assets, net** | | | |
| Buildings and structures (Notes 2, 3) | 20,082 | **18,825** | **230,388** |
| Machinery, equipment and vehicles (Notes 2, 3) | 9,692 | **7,452** | **91,201** |
| Tools, furniture and fixtures (Note 2) | 2,347 | **2,223** | **27,206** |
| Land (Notes 2, 4) | 12,438 | **12,422** | **152,025** |
| Lease assets | 177 | **454** | **5,556** |
| Construction in progress | 1,479 | **2,882** | **35,271** |
| Total tangible fixed assets | 46,218 | **44,260** | **541,672** |
| **Intangible fixed assets** | | | |
| Goodwill | 7,902 | **6,268** | **76,710** |
| Software | 117 | **85** | **1,040** |
| Temporary account for intangible fixed assets | 2,823 | **2,813** | **34,427** |
| Other | 4,912 | **3,774** | **46,188** |
| Total intangible fixed assets | 15,756 | **12,943** | **158,402** |
| **Investments and other assets** | | | |
| Investment securities (Note 1) | 31,979 | **31,799** | **389,169** |
| Long-term loans receivable | 62 | **—** | **—** |
| Long-term deposits | 2,150 | **2,000** | **24,477** |
| Prepaid pension cost | 4,853 | **4,581** | **56,064** |
| Deferred tax assets | 3,829 | **3,833** | **46,910** |
| Other | 2,741 | **2,603** | **31,857** |
| Allowance for doubtful accounts | (140) | **(131)** | **(1,603)** |
| **Total investments and other assets** | 45,475 | **44,686** | **546,885** |
| **Total noncurrent assets** | 107,450 | **101,890** | **1,246,971** |
| **TOTAL ASSETS** | 193,551 | **194,787** | **2,383,882** |

| | (Millions of yen) | | (Thousands of U.S. dollars) |
|---|---|---|---|
| | Fiscal 2010 | **Fiscal 2011** | **Fiscal 2011** |
| **(Liabilities)** | | | |
| **Current liabilities** | | | |
| Notes and accounts payable-trade | 14,669 | **11,279** | **138,037** |
| Short-term loans payable (Note 2) | 10,484 | **6,055** | **74,104** |
| Lease obligations | 35 | **103** | **1,261** |
| Accounts payable | 8,463 | **7,192** | **88,019** |
| Income taxes payable | 4,878 | **10,239** | **125,309** |
| Allowance for sales returns | 237 | **176** | **2,154** |
| Provision for bonuses | 1,381 | **1,499** | **18,345** |
| Other | 2,674 | **2,729** | **33,399** |
| Total current liabilities | 42,825 | **39,275** | **480,663** |
| **Noncurrent liabilities** | | | |
| Long-term loans payable (Note 2) | 8,142 | **3,089** | **37,804** |
| Lease obligations | 145 | **375** | **4,589** |
| Deferred tax liabilities on revaluation (Note 4) | 2,164 | **2,164** | **26,484** |
| Deferred tax liabilities | 3,027 | **1,968** | **24,085** |
| Provision for retirement benefits | 4,716 | **4,910** | **60,091** |
| Provision for directors' retirement benefits | 1,174 | **1,200** | **14,686** |
| Other | 378 | **579** | **7,086** |
| Total noncurrent liabilities | 19,749 | **14,288** | **174,862** |
| **TOTAL LIABILITIES** | 62,574 | **53,564** | **655,538** |
| **NET ASSETS** | | | |
| **Shareholders' equity** | | | |
| Capital stock | 8,473 | **8,473** | **103,696** |
| Capital surplus | 8,396 | **8,396** | **102,754** |
| Retained earnings | 132,298 | **147,272** | **1,802,374** |
| Treasury stock | (18,521) | **(18,525)** | **(226,716)** |
| Total shareholders' equity | 130,647 | **145,616** | **1,782,107** |
| **Valuation and translation adjustments** | | | |
| Valuation difference on available-for-sale securities | (780) | **(564)** | **(6,902)** |
| Revaluation reserve for land (Note 4) | 3,188 | **3,189** | **39,028** |
| Foreign currency translation adjustment | (2,968) | **(7,949)** | **(97,283)** |
| Total valuation and translation adjustments | (560) | **(5,324)** | **(65,157)** |
| **Minority interests** | 889 | **930** | **11,382** |
| **TOTAL NET ASSETS** | 130,976 | **141,222** | **1,728,332** |
| **TOTAL LIABILITIES AND NET ASSETS** | 193,551 | **194,787** | **2,383,882** |

## Consolidated Statements of Income

Years ended February 28, 2010 and 2011

| | (Millions of yen) | | (Thousands of U.S. dollars) |
|---|---|---|---|
| | Fiscal 2010 | **Fiscal 2011** | **Fiscal 2011** |
| **Net sales** | 129,834 | **137,184** | **1,678,913** |
| **Cost of sales** (Notes 2, 3) | 42,659 | **47,697** | **583,735** |
| **Gross profit** | 87,174 | **89,486** | **1,095,166** |
| **Selling, general and administrative expenses** (Notes 1, 2) | 58,589 | **61,292** | **750,116** |
| **Operating income** | 28,585 | **28,193** | **345,037** |
| **Non-operating income** | | | |
| Interest income | 96 | **59** | **722** |
| Dividends income | 291 | **356** | **4,357** |
| Development license revenues | 182 | **137** | **1,677** |
| Equity in earnings of affiliates | 1,901 | **4,539** | **55,550** |
| Other | 445 | **357** | **4,369** |
| Total non-operating income | 2,918 | **5,448** | **66,675** |
| **Non-operating expenses** | | | |
| Interest expenses | 108 | **125** | **1,530** |
| Foreign exchange losses | 58 | **131** | **1,603** |
| Loss on sales of receivables | 29 | **23** | **281** |
| Other | 75 | **125** | **1,530** |
| Total non-operating expenses | 272 | **406** | **4,969** |
| **Ordinary income** | 31,231 | **33,236** | **406,756** |
| **Extraordinary income** | | | |
| Government subsidies | 310 | **19** | **233** |
| Gain on disposals of fixed assets (Note 4) | — | **7** | **86** |
| Reversal of allowance for doubtful accounts | 24 | **34** | **416** |
| Distribution license fees | — | **3,000** | **36,715** |
| R&D expenses received | 710 | **—** | **—** |
| Gain on licensing rights to develop drugs | 225 | **—** | **—** |
| Other | 87 | **39** | **477** |
| Total extraordinary income | 1,357 | **3,099** | **37,927** |
| **Extraordinary loss** | | | |
| Loss on disposals of fixed assets (Note 5) | 73 | **83** | **1,016** |
| Advanced depreciation deduction of fixed assets | 294 | **9** | **110** |
| Impairment loss (Note 6) | 191 | **—** | **—** |
| Loss on valuation of investment securities | 181 | **138** | **1,689** |
| Total extraordinary loss | 740 | **231** | **2,827** |
| **Income before taxes and minority interests** | 31,848 | **36,104** | **441,855** |
| Income taxes-current | 12,858 | **17,121** | **209,534** |
| Income taxes-deferred | 426 | **(2,146)** | **(26,264)** |
| Total income taxes | 13,284 | **14,975** | **183,270** |
| Minority interests | 139 | **173** | **2,117** |
| **Net income** | 18,423 | **20,956** | **256,468** |

## Consolidated Statements of Changes in Shareholders' Equity

Years ended February 28, 2010 and 2011

| | (Millions of yen) | | (Thousands of U.S. dollars) |
|---|---|---|---|
| | Fiscal 2010 | **Fiscal 2011** | **Fiscal 2011** |
| Shareholders' equity | | | |
| Common stock | | | |
| Balance at February 28, 2010 | 8,473 | **8,473** | **103,696** |
| Changes of items during the period | | | |
| Total changes of items during the period | — | **—** | |
| Balance at February 28, 2011 | 8,473 | **8,473** | **103,696** |
| Capital surplus | | | |
| Balance at February 28, 2010 | 8,396 | **8,396** | **102,754** |
| Changes of items during the period | | | |
| Total changes of items during the period | — | **—** | |
| Balance at February 28, 2011 | 8,396 | **8,396** | **102,754** |
| Retained earnings | | | |
| Balance at February 28, 2010 | 119,650 | **132,298** | **1,619,116** |
| Changes of items during the period | | | |
| Cash dividends | (5,775) | **(5,982)** | **(73,210)** |
| Net income | 18,423 | **20,956** | **256,468** |
| Revaluation reserve for land | — | **(0)** | **(11)** |
| Total changes of items during the period | 12,648 | **14,973** | **183,246** |
| Balance at February 28, 2011 | 132,298 | **147,272** | **1,802,374** |
| Treasury stock | | | |
| Balance at February 28, 2010 | (12,571) | **(18,521)** | **(226,667)** |
| Changes of items during the period | | | |
| Purchase of treasury stock | (5,949) | **(4)** | **(49)** |
| Total changes of items during the period | (5,949) | **(4)** | **(49)** |
| Balance at February 28, 2011 | (18,521) | **(18,525)** | **(226,716)** |
| Total shareholders' equity | | | |
| Balance at February 28, 2010 | 123,948 | **130,647** | **1,598,911** |
| Changes of items during the period | | | |
| Cash dividends | (5,775) | **(5,982)** | **(73,210)** |
| Net income | 18,423 | **20,956** | **256,468** |
| Purchase of treasury stock | (5,949) | **(4)** | **(49)** |
| Revaluation reserve for land | — | **(0)** | **(11)** |
| Total changes of items during the period | 6,698 | **14,969** | **183,197** |
| Balance at February 28, 2011 | 130,647 | **145,616** | **1,782,107** |

| | (Millions of yen) | | (Thousands of U.S. dollars) |
|---|---|---|---|
| | Fiscal 2010 | **Fiscal 2011** | **Fiscal 2011** |
| Valuation and translation adjustments | | | |
| Valuation difference on available-for-sale securities | | | |
| Balance at February 28, 2010 | (2,154) | **(780)** | **(9,546)** |
| Changes of items during the period | | | |
| Net changes of items other than shareholders' equity | 1,373 | **215** | **2,631** |
| Total changes of items during the period | 1,373 | **215** | **2,631** |
| Balance at February 28, 2011 | (780) | **(564)** | **(6,902)** |
| Revaluation reserve for land | | | |
| Balance at February 28, 2010 | 3,188 | **3,188** | **39,016** |
| Changes of items during the period | | | |
| Net changes of items other than shareholders' equity | — | **0** | **11** |
| Total changes of items during the period | — | **0** | **11** |
| Balance at February 28, 2011 | 3,188 | **3,189** | **39,028** |
| Foreign currency translation adjustments | | | |
| Balance at February 28, 2010 | (1,596) | **(2,968)** | **(36,324)** |
| Changes of items during the period | | | |
| Net changes of items other than shareholders' equity | (1,371) | **(4,981)** | **(60,959)** |
| Total changes of items during the period | (1,371) | **(4,981)** | **(60,959)** |
| Balance at February 28, 2011 | (2,968) | **(7,949)** | **(97,283)** |
| Total valuation and translation adjustments | | | |
| Balance at February 28, 2010 | (561) | **(560)** | **(6,854)** |
| Changes of items during the period | | | |
| Net changes of items other than shareholders' equity | 1 | **(4,764)** | **(58,304)** |
| Total changes of items during the period | 1 | **(4,764)** | **(58,304)** |
| Balance at February 28, 2011 | (560) | **(5,324)** | **(65,157)** |
| Minority interests | | | |
| Balance at February 28, 2010 | 719 | **889** | **10,880** |
| Changes of items during the period | | | |
| Net changes of items other than shareholders' equity | 170 | **40** | **490** |
| Total changes of items during the period | 170 | **40** | **490** |
| Balance at February 28, 2011 | 889 | **930** | **11,382** |
| Total net assets | | | |
| Balance at February 28, 2010 | 124,105 | **130,976** | **1,602,937** |
| Changes of items during the period | | | |
| Cash dividends | (5,775) | **(5,982)** | **(73,210)** |
| Net income | 18,423 | **20,956** | **256,468** |
| Purchase of treasury stock | (5,949) | **(4)** | **(49)** |
| Revaluation reserve for land | — | **(0)** | **(11)** |
| Net changes of items other than shareholders' equity | 171 | **(4,723)** | **(57,802)** |
| Total changes of items during the period | 6,870 | **10,246** | **125,395** |
| Balance at February 28, 2011 | 130,976 | **141,222** | **1,728,332** |

## Consolidated Statements of Cash Flows

Years ended February 28, 2010 and 2011

| | (Millions of yen) | | (Thousands of U.S. dollars) |
|---|---|---|---|
| | Fiscal 2010 | **Fiscal 2011** | **Fiscal 2011** |
| **Cash flows from operating activities** | | | |
| Income before taxes and minority interests | 31,848 | **36,104** | **441,855** |
| Depreciation and amortization | 5,255 | **6,374** | **78,008** |
| Impairment loss | 191 | **—** | **—** |
| Amortization of goodwill | 2,369 | **779** | **9,534** |
| In-process R&D expenses associated with company acquisition | 1,270 | **—** | **—** |
| Increase (decrease) in provision for retirement benefits | 154 | **198** | **2,423** |
| Increase (decrease) in provision for directors' retirement benefits | 2 | **26** | **318** |
| Increase (decrease) in provision for bonuses | 74 | **185** | **2,264** |
| Increase (decrease) in allowance for doubtful accounts | 34 | **(29)** | **(355)** |
| Increase (decrease) in provision for sales returns | 24 | **(61)** | **(747)** |
| Interest and dividends income | (388) | **(415)** | **(5,079)** |
| Interest expenses | 108 | **125** | **1,530** |
| Foreign exchange losses (gains) | 15 | **71** | **869** |
| Equity in losses (earnings) of affiliates | (1,901) | **(4,539)** | **(55,550)** |
| Subsidy income | (310) | **(19)** | **(233)** |
| Loss (gain) on sales of investment securities | (87) | **(39)** | **(477)** |
| Loss (gain) on valuation of investment securities | 181 | **138** | **1,689** |
| Loss (gain) on disposal of tangible fixed assets | 73 | **83** | **1,016** |
| Decrease (increase) in notes and accounts receivable-trade | (1,369) | **5,140** | **62,905** |
| Decrease (increase) in inventories | (1,279) | **702** | **8,591** |
| Decrease (increase) in other current assets | (280) | **(568)** | **(6,951)** |
| Increase (decrease) in notes and accounts payable-trade | 857 | **(3,184)** | **(38,967)** |
| Increase (decrease) in other current liabilities | (2,794) | **494** | **6,046** |
| Other, net | 604 | **742** | **9,081** |
| Sub-total | 34,655 | **42,310** | **517,807** |
| Interest and dividends received | 2,781 | **5,954** | **72,867** |
| Interest expenses paid | (108) | **(125)** | **(1,530)** |
| Income taxes paid | (16,829) | **(11,796)** | **(144,364)** |
| Net cash provided by (used in) operating activities | 20,498 | **36,342** | **444,768** |

| | (Millions of yen) | | (Thousands of U.S. dollars) |
|---|---|---|---|
| | Fiscal 2010 | **Fiscal 2011** | **Fiscal 2011** |
| **Cash flows from investment activities** | | | |
| Net decrease (increase) in time deposits | 6,152 | **(259)** | **(3,170)** |
| Decrease (increase) in long-term deposits | (250) | **150** | **1,836** |
| Payments for purchase of tangible fixed assets | (6,849) | **(5,947)** | **(72,782)** |
| Proceeds from sales of tangible fixed assets | 0 | **37** | **453** |
| Payments for purchase of intangible fixed assets | (201) | **(217)** | **(2,656)** |
| Payments for purchase of marketable securities | (3,002) | **—** | **—** |
| Proceeds from sales and redemptions of marketable securities | 6,330 | **—** | **—** |
| Payments for purchase of investment securities | (2,354) | **(2,428)** | **(29,715)** |
| Proceeds from sales and redemption of investment securities | 222 | **189** | **2,313** |
| Payments of loans receivable | — | **(9)** | **(110)** |
| Collection of loans receivable | 112 | **216** | **2,643** |
| Proceeds from subsidy | 202 | **19** | **233** |
| Purchase of investments in subsidiaries resulting in change in scope of consolidation (Note 2) | (32,900) | **—** | **—** |
| Other, net | (9) | **—** | **—** |
| Net cash provided by (used in) investment activities | (32,547) | **(8,248)** | **(100,942)** |
| **Cash flows from financing activities** | | | |
| Increase (decrease) in short-term loans payable | 4,435 | **(4,549)** | **(55,673)** |
| Proceeds from long-term loans payable | 15,000 | **270** | **3,304** |
| Repayment of long-term loans payable | (2,731) | **(5,216)** | **(63,836)** |
| Proceeds from stock issuance to minority shareholders | — | **2** | **24** |
| Cash dividends paid to minority shareholders | (37) | **(114)** | **(1,395)** |
| Purchase of treasury stock | (5,948) | **(3)** | **(37)** |
| Cash dividends paid | (5,773) | **(5,980)** | **(73,186)** |
| Other, net | (45) | **(67)** | **(820)** |
| Net cash provided by (used in) financing activities | 4,899 | **(15,659)** | **(191,641)** |
| **Effect of exchange rate changes on cash and cash equivalents** | 25 | **(1,011)** | **(12,373)** |
| **Net increase (decrease) in cash and cash equivalents** | (7,124) | **11,422** | **139,787** |
| **Cash and cash equivalents, beginning of year** | 33,356 | **26,232** | **321,038** |
| **Cash and cash equivalents, end of year (Note 1)** | 26,232 | **37,654** | **460,825** |

## 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; hereinafter, Regulations for Consolidated Financial Statements).

However, the consolidated financial statements for Fiscal 2010 (March 1, 2009 – February 28, 2010) were prepared based on the Regulations for Consolidated Financial Statements prior to revision, whereas the consolidated financial statements for Fiscal 2011 (March 1, 2010 – February 28, 2011) were prepared based on the Regulations for Consolidated Financial Statements after revision.

## Significant Accounting Policies Concerning the Preparation of Consolidated Financial Statements

**Fiscal 2011 (March 1, 2010 – February 28, 2011)**

### *I. Scope of consolidation*

**(a) Consolidated subsidiaries: 17**

Names of consolidated subsidiaries:

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

**(b) Non-consolidated subsidiaries: 2**

Names of non-consolidated subsidiaries:

Kokusai Pappu-zai Kenkyusho Co., Ltd.
Taiyo Kaihatsu Co., Ltd.

***Reason why non-consolidated subsidiaries have been excluded from the scope of consolidation***

Non-consolidated subsidiaries have been excluded from the scope of consolidation because they are small, and neither their total assets, net sales, net income (proportion attributable to the Group) nor retained earnings (proportion attributable to the Group) would have a material impact on the consolidated financial statements.

### *II. Investments accounted for under the equity method*

**(a) Equity-method non-consolidated subsidiaries: 0**

**(b) Equity-method affiliates: 2**
Maruto Sangyo Co., Ltd.
Novogyne Pharmaceuticals

***Reason why non-consolidated subsidiaries have not been accounted for under the equity method***
The above non-consolidated subsidiaries have not been accounted for under the equity method because their impacts on items such as net income and retained earnings is negligible, and is not material in the context of the total. There are no affiliated companies for which the equity method is not being used.

### *III. Information concerning business years, etc., of consolidated subsidiaries*

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

### *IV. Accounting standards*

**A. Valuation standards and methods for significant assets**
**1. Securities**
*a) Held-to-maturity bonds*
Valued under amortized cost method.

*b) Available-for-sale securities*
1) 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.
2) 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).

**B. Depreciation methods for significant depreciable assets**

**1. Tangible fixed assets (excluding lease assets)**

*a) Company and domestic consolidated subsidiaries*

Mainly the declining balance method.

*b) Overseas consolidated subsidiaries*

Mainly straight-line method.

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

Measured by the straight line method.

Within intangible fixed assets, software for internal use is depreciated over its useful life (5 years) using the straight line method.

**3. Lease assets**

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

**C. Standards for significant reserves and allowances**

**1. Allowance for doubtful accounts**

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

*a) General receivables*

Based on historical bad debt experience.

*b) Receivables at risk of default and in bankruptcy reorganization*

Based on an assessment of the financial position.

**2. Provision for sales returns**

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

**3. Provision for bonuses**

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

**4. Provision for retirement benefits**

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

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

***Change in accounting policy***

The Company adopted “Partial Amendments to Accounting Standard for Retirement Benefits (Part3)” (ASBJ Statement No.19; July 31, 2008) from FY2/11. This change has no impact on profit and loss.

**5. Provision for directors’ retirement benefits**

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

**D. Translation of significant foreign currency denominated assets and liabilities used in preparing the financial statements of consolidated companies on which the consolidated financial statements are based**

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

**E. 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.

### *V. Valuation of assets and liabilities of consolidated subsidiaries*

Assets and liabilities of consolidated subsidiaries are valued using the full market value method.

### *VI. Information concerning goodwill and negative goodwill amortization.*

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

### *VII. Scope of funds in the Consolidated Statements of Cash Flows*

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

## Changes in Presentation

***Consolidated balance sheet***

Because “long-term loans receivable” are no longer material, they have been included in “other” of “investments and other assets” from FY2/11. Long-term loans receivable in FY2/11 totaling ¥1 million were recorded under “other.”

## Additional Information

**Fiscal 2010 (March 1, 2009–February 28, 2010) and Fiscal 2011 (March 1, 2010–February 28, 2011)**

### CONSOLIDATED BALANCE SHEETS

*1 Investment securities for non-consolidated subsidiaries and affiliated companies are as follows.

| | (Millions of yen) | | (Thousands of U.S. dollars) |
|---|---|---|---|
| | Fiscal 2010 | **Fiscal 2011** | **Fiscal 2011** |
| Investment securities (stocks) | 16,242 | **13,592** | **166,344** |

*2 Assets pledged as collateral are as follows.

| | | | |
|---|---|---|---|
| *Pledged assets* | | | |
| Buildings and structures | 748 (book value) | **736 (book value)** | **9,007** |
| Machinery, equipment and vehicles | 28 (book value) | **13 (book value)** | **159** |
| Tools, furniture and fixtures | 109 (book value) | **90 (book value)** | **1,101** |
| Land | — | **59 (book value)** | **722** |
| Total | 886 (book value) | **900 (book value)** | **11,015** |
| Assets provided for factory foundation mortgage | | | |
| Buildings and structures | 487 (book value) | **461 (book value)** | **5,642** |
| Machinery, equipment and vehicles | 5 (book value) | **3 (book value)** | **37** |
| Tools, furniture and fixtures | 108 (book value) | **90 (book value)** | **1,101** |
| Total | 600 (book value) | **555 (book value)** | **6,792** |

| | | | |
|---|---|---|---|
| *Liabilities related to the above assets* | | | |
| Short-term loans payable | 149 | **119** | **1,456** |
| Long-term loans payable | 456 | **407** | **4,981** |
| Total | 605 | **526** | **6,437** |
| Liabilities provided for factory foundation mortgage | | | |
| Short-term loans payable | 67 | **54** | **661** |
| Long-term loans payable | 223 | **169** | **2,068** |
| Total | 291 | **223** | **2,729** |

*3 Advanced depreciation of government subsidies is ¥1,210 million and ¥1,220 million in FY2/10 and FY2/11, respectively. This figure is not included in the consolidated balance sheets.

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

Revaluation method

The land value used as the basis for calculation of the tax base under the Land Value Tax, stipulated in Article 16 of the Land Value Tax Law (Law No. 69 of 1991), has been calculated by making rational adjustments to the price calculated by the method determined and publicly announced by the Commissioner of the National Tax Agency, as stipulated in Article 2.4 of the "Regulations for Applying the Land Revaluation Law" (Government Ordinance No. 119 of 1998, promulgated 31 March 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 FY2/10 and FY2/11 was ¥2,292 million and ¥2,810 million lower than the book value after revaluation.

## CONSOLIDATED STATEMENTS OF INCOME

*1 Main items and the amounts under "Selling, general and administrative expenses" are as follows.

| | (Millions of yen) | | (Thousands of U.S. dollars) |
|---|---|---|---|
| | Fiscal 2010 | **Fiscal 2011** | **Fiscal 2011** |
| Advertising expenses | 9,039 | **8,581** | **105,018** |
| Sales promotion expenses | 12,431 | **11,702** | **143,214** |
| Packing and transportation expenses | 2,531 | **2,399** | **29,360** |
| Provision of allowance for doubtful accounts | 21 | **10** | **122** |
| Salaries and allowances | 6,883 | **6,875** | **84,139** |
| Provision for bonuses | 527 | **921** | **11,272** |
| Provision for retirement benefits | 538 | **449** | **5,495** |
| Provision for directors' retirement benefits | 82 | **26** | **318** |
| Amortization of goodwill | 2,369 | **779** | **9,534** |
| Business consignment expenses | — | **3,127** | **38,269** |
| Research and development expenses, of which: | 10,447 | **13,809** | **169,000** |
| Provision for bonuses | 164 | **267** | **3,268** |
| Provision for retirement benefits | 179 | **148** | **1,811** |

*2 General and administrative expenses include research and development expenses of ¥10,447 million and ¥13,809 million in FY2/10 and FY2/11, respectively.

Manufacturing costs do not include research and development expenses.

*3 In FY2/10 and FY2/11, manufacturing costs include provision for bonuses of ¥248 million and ¥350 million and provision for retirement benefits of ¥319 million and ¥266 million, respectively.

*4 Breakdown of gains on disposals of fixed assets

| | (Millions of yen) | (Thousands of U.S. dollars) |
|---|---|---|
| *Gain on sales* | **Fiscal 2011** | **Fiscal 2011** |
| Machinery, equipment and vehicles | **7** | **86** |
| Total | **7** | **86** |

*5 Breakdown of losses on the disposal of fixed assets

| | (Millions of yen) | | (Thousands of U.S. dollars) |
|---|---|---|---|
| *Loss on retirement* | Fiscal 2010 | **Fiscal 2011** | **Fiscal 2011** |
| Buildings and structures | 41 | **29** | **355** |
| Machinery, equipment and vehicles | 4 | **38** | **465** |
| Tools, furniture and fixtures | 27 | **14** | **171** |
| Total | 73 | **82** | **1,004** |
| | | | |
| *Loss on sales* | | | |
| Land | — | **1** | **12** |
| Total | — | **1** | **12** |

*6 Our Group posted impairment losses on the assets below during fiscal 2010.

| | | | (Millions of yen) |
|---|---|---|---|
| Idle property | Assets | Place | Fiscal 2010 |
| | Buildings and structures | Tosu-shi, Saga | 76 |
| | Machinery, equipment and vehicles | Tosu-shi, Saga | 115 |
| Total | | | 191 |

Our Group categorizes assets into assets for business use, rental assets, and idle assets.

We booked impairment losses on the above idle assets, because we have no plans for their future use, and their recoverable value has diminished sharply.

We have assessed their recoverable value based on reasonable estimates of their net sales.

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY)

Fiscal 2010 (March 1, 2009–February 28, 2010)

### 1. Shares issued

| Type of shares | End of fiscal 2009 | Increase | Decrease | End of fiscal 2010 |
|---|---|---|---|---|
| Common stock | 95,164,895 | — | — | 95,164,895 |

### 2. Treasury shares

| Type of shares | End of fiscal 2009 | Increase | Decrease | End of fiscal 2010 |
|---|---|---|---|---|
| Common stock | 6,492,238 | 2,001,208 | — | 8,493,446 |

***Reasons for changes***

Shares increased for the following main reasons

| | |
|---|---|
| Acquisition in compliance with the Articles of Association under the provisions of Paragraph 2, Article 165 of the Companies Act | 2,000,000 shares |
| Increase from purchasing shares in less than one unit | 885 shares |
| Company portion of treasury shares purchased by equity method affiliates | 323 shares |

### 3. Dividends

### (1) Dividends paid

| Resolution | Type of shares | Total dividends (millions of yen) | Dividends per share (yen) | Record date | Payment date |
|---|---|---|---|---|---|
| May 26, 2009 Annual general meeting of shareholders | Common stock | 2,793 | 31.5 | February 28, 2009 | May 27, 2009 |
| September 30, 2009 Board of Directors meeting | Common stock | 2,981 | 34 | August 31, 2009 | November 2, 2009 |

| Resolution | Type of shares | Total dividends (Thousands of U.S. dollars) | Dividends per share (U.S. dollar) | Record date | Payment date |
|---|---|---|---|---|---|
| May 26, 2009 Annual general meeting of shareholders | Common stock | 34,182 | 0.39 | February 28, 2009 | May 27, 2009 |
| September 30, 2009 Board of Directors meeting | Common stock | 36,483 | 0.42 | August 31, 2009 | November 2, 2009 |

### (2) Dividends with a record date in fiscal 2010 but a payment date in fiscal 2011

| Resolution | Type of shares | Source of dividend | Total dividends (million of yen) | Dividends per share (yen) | Record date | Payment date |
|---|---|---|---|---|---|---|
| May 26, 2010 Annual general meeting of shareholders | Common stock | Retained earnings | 2,947 | 34 | February 28, 2010 | May 27, 2010 |

| Resolution | Type of shares | Source of dividend | Total dividends (Thousands of U.S. dollars) | Dividends per share (U.S. dollar) | Record date | Payment date |
|---|---|---|---|---|---|---|
| May 26, 2010 Annual general meeting of shareholders | Common stock | Retained earnings | 36,067 | 0.42 | February 28, 2010 | May 27, 2010 |

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Fiscal 2011 (March 1, 2010–February 28, 2011)

### 1. Shares issued

| Type of shares | End of fiscal 2010 | Increase | Decrease | End of fiscal 2011 |
|---|---|---|---|---|
| Common stock | 95,164,895 | — | — | 95,164,895 |

### 2. Treasury shares

| Type of shares | End of fiscal 2010 | Increase | Decrease | End of fiscal 2011 |
|---|---|---|---|---|
| Common stock | 8,493,446 | 1,311 | — | 8,494,757 |

***Reasons for changes***

Shares increased for the following main reasons

| | |
|---|---|
| Increase from purchasing shares in less than one unit | 991 shares |
| Company portion of treasury shares purchased by equity method affiliates | 320 shares |

### 3. Dividends

#### (1) Dividends paid

| Resolution | Type of shares | Total dividends (millions of yen) | Dividends per share (yen) | Record date | Payment date |
|---|---|---|---|---|---|
| May 26, 2010 Annual general meeting of shareholders | Common stock | 2,947 | 34 | February 28, 2010 | May 27, 2010 |
| October 4, 2010 Board of Directors meeting | Common stock | 3,034 | 35 | August 31, 2010 | November 8, 2010 |

| Resolution | Type of shares | Total dividends (Thousands of U.S. dollars) | Dividends per share (U.S. dollar) | Record date | Payment date |
|---|---|---|---|---|---|
| May 26, 2010 Annual general meeting of shareholders | Common stock | 36,067 | 0.42 | February 28, 2010 | May 27, 2010 |
| October 4, 2010 Board of Directors meeting | Common stock | 37,131 | 0.43 | August 31, 2010 | November 8, 2010 |

#### (2) Dividends with a record date in fiscal 2011 but a payment date in fiscal 2012

| Resolution | Type of shares | Source of dividend | Total dividends (Millions of yen) | Dividends per share (yen) | Record date | Payment date |
|---|---|---|---|---|---|---|
| May 26, 2011 Annual general meeting of shareholders | Common stock | Retained earnings | 3,034 | 35 | February 28, 2011 | May 27, 2011 |

| Resolution | Type of shares | Source of dividend | Total dividends (Thousands of U.S. dollars) | Dividends per share (U.S. dollar) | Record date | Payment date |
|---|---|---|---|---|---|---|
| May 26, 2011 Annual general meeting of shareholders | Common stock | Retained earnings | 37,131 | 0.43 | February 28, 2011 | May 27, 2011 |

## CONSOLIDATED STATEMENTS OF CASH FLOWS

***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 2010 | **Fiscal 2011** | **Fiscal 2011** |
| Cash and deposits | 26,935 | **33,186** | **406,144** |
| Short-term investment securities | — | **5,380** | **65,843** |
| Total | 26,935 | **38,567** | **471,999** |
| Term deposits longer than three months | (703) | **(912)** | **(11,161)** |
| Cash and cash equivalents | 26,232 | **37,654** | **460,825** |

*2 Breakdown of assets and liabilities of newly consolidated company by acquisition of shares
A breakdown of assets and liabilities acquired by the consolidation of Noven Pharmaceuticals following the acquisition of shares at the start of consolidation, and the relationship between the acquisition price of the shares and expenditure associated with the acquisition are as follows:

| | (Millions of yen) |
|---|---|
| | Fiscal 2010 |
| Current assets | 11,584 |
| Noncurrent assets | 28,768 |
| Goodwill | 8,702 |
| Current liabilities | (5,012) |
| Noncurrent liabilities | (3,846) |
| Foreign exchange adjustment account | 1,416 |
| Acquisition amount of subsidiary | 41,611 |
| Stake acquired in previous years | (1,915) |
| Subsidiary's cash and cash equivalents | (6,795) |
| Balance | 32,900 |

## LEASE TRANSACTIONS

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

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

| | (Millions of yen) | | |
|---|---|---|---|
| | Fiscal 2010 | | |
| | Purchase value equivalent | Accumulated depreciation equivalent | Book value equivalent |
| Machinery, equipment and vehicles | 403 | 183 | 220 |
| Tools, furniture and fixtures | 1,017 | 588 | 429 |
| Software | 41 | 23 | 17 |
| Total | 1,462 | 795 | 667 |

| | (Millions of yen) | | | (Thousands of U.S. dollars) | | |
|---|---|---|---|---|---|---|
| | **Fiscal 2011** | | | **Fiscal 2011** | | |
| | Purchase value equivalent | Accumulated depreciation equivalent | Book value equivalent | Purchase value equivalent | Accumulated depreciation equivalent | Book value equivalent |
| Machinery, equipment and vehicles | **403** | **280** | **122** | **4,932** | **3,427** | **1,493** |
| Tools, furniture and fixtures | **959** | **687** | **271** | **11,737** | **8,408** | **3,317** |
| Software | **41** | **30** | **10** | **502** | **367** | **122** |
| Total | **1,404** | **999** | **405** | **17,183** | **12,226** | **4,957** |

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

### 2. Book value equivalent of future lease payments

| | (Millions of yen) | | (Thousands of U.S. dollars) |
|---|---|---|---|
| | Fiscal 2010 | **Fiscal 2011** | **Fiscal 2011** |
| Within one year | 259 | **228** | **2,790** |
| Over one year | 407 | **176** | **2,154** |
| Total | 667 | **405** | **4,957** |

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

### 3. Lease payments and depreciation equivalent

| | (Millions of yen) | | (Thousands of U.S. dollars) |
|---|---|---|---|
| | Fiscal 2010 | **Fiscal 2011** | **Fiscal 2011** |
| Lease payments | 297 | **259** | **3,170** |
| Depreciation equivalent | 297 | **259** | **3,170** |

### 4. Method of calculating depreciation equivalent

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

## FINANCIAL INSTRUMENTS

### 1. Outline of financial instruments

#### (1) Policy for financial instruments

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

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

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

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

Payment terms of operating payables, such as notes and accounts payable-trade, accounts payable, and income taxes payable are less than one year. Loans were mainly used to procure the funds needed for mergers and acquisitions. 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.

### (3) Market values of financial instruments

Carrying amount, market value and unrealized gain/loss of the financial instruments as of February 28, 2011 are as follows: Financial instruments whose market values are not readily determinable are excluded from the following table (See (Note 2)):

| | (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 | **33,186** | **33,186** | **—** | **406,144** | **406,144** | **—** |
| (2) Notes and accounts receivable-trade | **36,860** | **36,860** | **—** | **451,108** | **451,108** | **—** |
| (3) Short-term investment securities and investment securities | | | | | | |
| Available-for-sale securities | **22,956** | **22,956** | **—** | **280,945** | **280,945** | **—** |
| Stock of affiliated companies | **1,329** | **663** | **(666)** | **16,265** | **8,114** | **(8,151)** |
| (4) Long-term deposits | **2,000** | **1,967** | **(32)** | **24,477** | **24,073** | **(392)** |
| Total assets | **96,332** | **95,634** | **(698)** | **1,178,950** | **1,170,408** | **(8,542)** |
| (1) Notes and accounts payable-trade | **11,279** | **11,279** | **—** | **138,037** | **138,037** | **—** |
| (2) Short-term loans payable | **770** | **770** | **—** | **9,424** | **9,424** | **—** |
| (3) Accounts payable | **7,192** | **7,192** | **—** | **88,019** | **88,019** | **—** |
| (4) Income taxes payable | **10,239** | **10,239** | **—** | **125,309** | **125,309** | **—** |
| (5) Long-term loans payable (*) | **8,375** | **8,380** | **5** | **102,497** | **102,558** | **61** |
| Total liabilities | **37,856** | **37,861** | **5** | **463,297** | **463,358** | **61** |
| Derivative transactions | **—** | **—** | **—** | **—** | **—** | **—** |

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

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

Assets

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

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

(3) Short-term investment securities and investment securities

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

(4) Long-term deposits

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

Liabilities

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

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

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

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

Note 2: Financial instruments whose market values are not readily determinable

| Category | (Millions of yen) | (Thousands of U.S. dollars) |
|---|---|---|
| | Carrying amount | |
| Unlisted equity securities | 12,812 | 156,798 |
| Other | 81 | 991 |

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

| | (Millions of yen) | | | | (Thousands of U.S. dollars) | | | |
|---|---|---|---|---|---|---|---|---|
| | Within one year | One to five years | Five to ten years | Over ten years | Within one year | One to five years | Five to ten years | Over ten years |
| Cash and deposits | **33,186** | — | — | — | **406,144** | — | — | — |
| Notes and accounts receivable-trade | **36,860** | — | — | — | **451,108** | — | — | — |
| Short-term investment securities and investment securities: | | | | | | | | |
| Available-for-sale securities with contractual maturities: | | | | | | | | |
| Negotiable certificates of deposit | **2,500** | — | — | — | **30,596** | — | — | — |
| Other | — | — | **505** | **341** | — | — | **6,180** | **4,173** |
| Long-term deposits | — | **2,000** | — | — | — | **24,477** | — | — |
| Total | **72,547** | **2,000** | **505** | **341** | **887,860** | **24,477** | **6,180** | **4,173** |

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

| | (Millions of yen) | | | | (Thousands of U.S. dollars) | | | |
|---|---|---|---|---|---|---|---|---|
| | Within one year | One to five years | Five to ten years | Over ten years | Within one year | One to five years | Five to ten years | Over ten years |
| Long-term loans payable | **5,285** | **3,034** | **28** | **26** | **64,680** | **37,131** | **343** | **318** |
| Total | **5,285** | **3,034** | **28** | **26** | **64,680** | **37,131** | **343** | **318** |

### *Additional information*

The Company adopted the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10; March 10, 2008) and "Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19; March 10, 2008) from FY2/11.

## SECURITIES

Fiscal 2010 (March 1, 2009–February 28, 2010)

### 1. Held-to-maturity bonds with market value

(Millions of yen)

| | Fiscal 2010 | | |
|---|---|---|---|
| Category | Carrying amount | Market value | Difference |
| Market value higher than carrying amount | | | |
| (1) Government and municipal bonds, etc. | — | — | — |
| (2) Corporate bonds | — | — | — |
| (3) Other | — | — | — |
| Subtotal | — | — | — |
| Market value lower than carrying amount | | | |
| (1) Government and municipal bonds, etc. | — | — | — |
| (2) Corporate bonds | — | — | — |
| (3) Other | — | — | — |
| Subtotal | — | — | — |
| Total | — | — | — |

### 2. Available-for-sale securities with market value

(Millions of yen)

| | Fiscal 2010 | | |
|---|---|---|---|
| Category | Acquisition cost | Carrying amount | Difference |
| Carrying amount higher than acquisition cost | | | |
| (1) Stocks | 3,769 | 4,673 | 903 |
| (2) Bonds | — | — | — |
| (3) Other | — | — | — |
| Subtotal | 3,769 | 4,673 | 903 |
| Carrying amount lower than acquisition cost | | | |
| (1) Stocks | 12,829 | 10,551 | (2,278) |
| (2) Bonds | — | — | — |
| (3) Other | — | — | — |
| Subtotal | 12,829 | 10,551 | (2,278) |
| Total | 16,599 | 15,225 | (1,374) |

Note: In FY2/11, we applied write-downs to shares with a market value included in the Available-for-sale securities item, such that we recorded a ¥181 million loss on valuation of investment securities.

For the write-downs, we applied write-downs to all shares where the market price had fallen 50% or more of the acquisition cost at the end of FY2/11 and to some shares where the market price had fallen 30–50% of the acquisition cost at the end of FY2/11, based on comprehensive estimates of recoverability for each investment.

### 3. Available-for-sale securities sold during fiscal 2010

| Fiscal 2010 (Millions of yen) | | |
|---|---|---|
| Sale value | Profit from sale | Loss from sale |
| 222 | 87 | — |

### 4. Main securities without market value

(Millions of yen)

| Details | Fiscal 2010 |
|---|---|
| | Carrying amount |
| Available-for-sale securities | |
| (1) Unlisted stocks | 510 |
| (2) Trust beneficiary certificates, etc. | — |
| Total | 510 |
| Stock in subsidiaries and affiliated companies | |
| (1) Stock in subsidiaries | 48 |
| (2) Stock in affiliated companies | 16,194 |
| Total | 16,242 |

### 5. Held-to-maturity bonds to be redeemed after the balance sheet date

(Millions of yen)

| | Fiscal 2010 | | | |
|---|---|---|---|---|
| Category | Within one year | One to five years | Five to ten years | Over ten years |
| (1) Corporate bonds | — | — | — | — |
| (2) Other | — | — | — | — |

Fiscal 2011 (March 1, 2010–February 28, 2011)

**1. Available-for-sale securities (February 28, 2011)**

| | (Millions of yen) | | | (Thousands of U.S. dollars) | | |
|---|---|---|---|---|---|---|
| | Fiscal 2011 | | | Fiscal 2011 | | |
| Type | Carrying amount | Acquisition cost | Difference | Carrying amount | Acquisition cost | Difference |
| Acquisition cost higher than on consolidated balance sheets | | | | | | |
| (1) Stocks | **5,795** | **4,299** | **1,496** | **70,922** | **52,613** | **18,309** |
| (2) Bonds | — | — | — | — | — | — |
| (3) Other | — | — | — | — | — | — |
| Subtotal | **5,795** | **4,299** | **1,496** | **70,922** | **52,613** | **18,309** |
| Acquisition cost lower than on consolidated balance sheets | | | | | | |
| (1) Stocks | **11,779** | **14,445** | **(2,665)** | **144,156** | **176,784** | **(32,615)** |
| (2) Bonds | — | — | — | — | — | — |
| (3) Other | **5,380** | **5,380** | — | **65,843** | **65,843** | — |
| Subtotal | **17,160** | **19,825** | **(2,665)** | **210,011** | **242,626** | **(32,615)** |
| Total | **22,956** | **24,124** | **(1,168)** | **280,945** | **295,239** | **(14,294)** |

**2. Available-for-sale securities sold during fiscal 2011 (March 1, 2010–February 28, 2011)**

| | (Millions of yen) | | | (Thousands of U.S. dollars) | | |
|---|---|---|---|---|---|---|
| | **Fiscal 2011** | | | **Fiscal 2011** | | |
| Type | Sale value | Profit from sale | Loss from sale | Sale value | Profit from sale | Loss from sale |
| (1) Stocks | **189** | **39** | — | **2,313** | **477** | — |
| (2) Bonds | — | — | — | — | — | — |
| (3) Other | — | — | — | — | — | — |
| Total | **189** | **39** | — | **2,313** | **477** | — |

**3. Impairment loss on securities (March 1, 2010–February 28, 2011)**

In FY2/11, the Group recognized an impairment loss of ¥138 million on stocks under available-for-sale securities.

Note that when the market value at the end of FY2/11 declines more than approximately 30% of its acquisition cost, the market value is considered to have diminished sharply. An impairment loss is recognized when the market value declines more than 50% of its acquisition cost, as it is not considered possible for market value to be recovered. When the market value declines between 30% and 50% of the acquisition cost, the amount considered to be necessary, taking into account the recoverability in light of the market value and the financial position of the issuer of the security, is recognized as an impairment loss.

## DERIVATIVE TRANSACTIONS

Fiscal 2010 (March 1, 2009–February 28, 2010)

**1. Transaction information**

***1) Transaction details and reason for use***

The Group uses interest rate swap transactions to avoid risks of future fluctuations in interest rates. The Group also uses forward foreign exchange transactions in connection with foreign currency-denominated transactions, to avoid risks of future fluctuations in foreign exchange rates.

***2) Transaction policies***

Foreign currency-related derivative transactions are undertaken in connection with foreign currency transactions to hedge against risks of fluctuations in foreign exchange rates. Forward foreign exchange transactions are used only up to the value of the transactions to which they relate, or less.

Interest rate-related derivative transactions are undertaken in connection with interest on corporate bonds to avoid risks of interest rate fluctuations. Interest rate swap transactions are used only up to the value of the bond interest payments to which they relate, or less. Interest rate swap transactions and interest rate swaption transactions are also used to avoid risks of future rises in interest rates on borrowings, only up to the value of the expected interest payments to which they relate, or less.

The Group's policy is not to engage in derivative transactions for speculative purposes.

***3) Transaction risks***

All forward foreign currency transactions, interest rate swap transactions, and interest rate swaption transactions entered into by the corporate group relate to actual demand, and because all counterparties in derivatives transactions are Japanese banks with strong credit standing, we consider the so-called credit risk - i.e. risk that counterparties will default on transactions – to be minimal.

***4) Transaction risk management***

Execution and administration of the corporate group's derivatives transactions are undertaken by the Finance Department after authorization by the Board of Directors or the General Manager of the Finance Department, depending on the importance of the transaction, and details are appropriately reported to the Board of Directors.

**2. Transaction market value, etc.**

**Fiscal 2010 (March 1, 2009 – February 28, 2010)**

No relevant transactions during FY2/10.

**Fiscal 2011 (March 1, 2010 – February 28, 2011)**

1) Derivative transactions to which hedge accounting is not applied

Not applicable.

2) Derivative transactions to which hedge accounting is applied

Not applicable.

## RETIREMENT BENEFITS

### 1. Overview of retirement benefit plans

*Corporate pension plan:*

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

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

*Lump sum retirement allowance:*

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

### 2. Retirement benefit obligations

| | (Millions of yen) | | (Thousands of U.S. dollars) |
|---|---|---|---|
| | Fiscal 2010 | **Fiscal 2011** | **Fiscal 2011** |
| (1) Retirement benefit obligations | (10,981) | **(11,369)** | **(139,138)** |
| (2) Pension assets | 8,703 | **9,239** | **113,071** |
| (3) Subtotal (1) + (2) | (2,277) | **(2,129)** | **(26,056)** |
| (4) Unrecognized actuarial differences | 2,414 | **1,800** | **22,029** |
| (5) Total (3) + (4) | 137 | **(329)** | **(4,026)** |
| (6) Prepaid pension costs | (4,853) | **(4,581)** | **(56,064)** |
| (7) Provision for retirement benefits (5) + (6) | (4,716) | **(4,910)** | **(60,091)** |

### 3. Retirement benefit costs

| | (Millions of yen) | | (Thousands of U.S. dollars) |
|---|---|---|---|
| | Fiscal 2010 | **Fiscal 2011** | **Fiscal 2011** |
| (1) Service costs | 476 | **521** | **6,376** |
| (2) Interest costs | 208 | **216** | **2,643** |
| (3) Expected return on plan assets | (228) | **(252)** | **(3,084)** |
| (4) Amortization of actuarial differences | 580 | **394** | **4,822** |
| (5) Retirement benefit expenses | 1,037 | **880** | **10,770** |

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

### 4. Basis for calculating retirement benefit obligations

| | |
|---|---|
| (1) Allocation of expected retirement benefits | Straight-line method |
| (2) Discount rate | 2.00% |
| (3) Expected return on plan assets | 2.90% |

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

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

## TAX EFFECT ACCOUNTING

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

| | (Millions of yen) | | (Thousands of U.S. dollars) |
|---|---|---|---|
| | Fiscal 2010 | **Fiscal 2011** | **Fiscal 2011** |
| Deferred tax assets | | | |
| Provision for retirement benefits | 1,883 | **1,960** | **23,987** |
| Provision for directors' retirement benefits | 474 | **485** | **5,936** |
| Accrued enterprise tax | 372 | **712** | **8,714** |
| Allowance for doubtful accounts | 179 | **158** | **1,934** |
| Valuation difference on available-for-sale securities | 514 | **597** | **7,306** |
| Inventories | 495 | **252** | **3,084** |
| Excess depreciation | 906 | **797** | **9,754** |
| Intangible fixed assets | 3,136 | **3,138** | **38,404** |
| Valuation losses on memberships | 322 | **322** | **3,941** |
| Loss on valuation of investment securities | 599 | **555** | **6,792** |
| Provision for bonuses | 391 | **384** | **4,700** |
| Outsourced research and development | 502 | **1,760** | **21,540** |
| Other | 1,124 | **937** | **11,467** |
| Sub-total deferred tax assets | 10,903 | **12,062** | **147,620** |
| Valuation allowance | (853) | **(850)** | **(10,403)** |
| Total deferred tax assets | 10,050 | **11,212** | **137,217** |
| Deferred tax liabilities | | | |
| Stock and investments in affiliated companies | (4,194) | **(3,135)** | **(38,367)** |
| Prepaid pension costs | (1,962) | **(1,852)** | **(22,666)** |
| Other | (834) | **(739)** | **(9,044)** |
| Total deferred tax liabilities | (6,990) | **(5,727)** | **(70,089)** |
| Net deferred tax assets | 3,060 | **5,485** | **67,128** |

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 2010 | **Fiscal 2011** | **Fiscal 2011** |
| Current assets – deferred tax assets | 2,258 | **3,620** | **44,303** |
| Noncurrent assets – deferred tax assets | 3,829 | **3,833** | **46,910** |
| Noncurrent liabilities – deferred tax liabilities | (3,027) | **(1,968)** | **(24,085)** |

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

| | Fiscal 2010 | **Fiscal 2011** |
|---|---|---|
| Statutory tax rate | 40.4% | **40.4%** |
| (Adjustments) | | |
| Non-deductible expenses, such as entertainment expenses | 1.4% | **1.2%** |
| Non-taxable income, such as dividend income | (0.2)% | **(0.2)%** |
| Special tax exemption for experimental research and development | (2.8)% | **(2.4)%** |
| In-process R&D associated with merger R&D expenses | 1.6% | **—** |
| Valuation reserve | 2.7% | **—** |
| Amortization of goodwill | — | **2.1%** |
| Other | (1.4)% | **0.4%** |
| Income tax rate after application of tax effect accounting | 41.7% | **41.5%** |

## INVESTMENT AND RENTAL PROPERTY

**Fiscal 2011 (March 31, 2010 – February 28, 2011)**

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

***Additional information***

The Company adopted "Accounting Standard for Disclosures about Fair Value of Investment and Rental Property" (ASBJ Statement No. 20; November 28, 2008) and "Guidance on Accounting Standard for Disclosures about Fair Value of Investment and Rental Property" (ASBJ Guidance No. 23; November 28, 2008) from FY2/11.

## SEGMENT INFORMATION

***Business segment information***

The Company and its consolidated subsidiaries, in consideration of the types of products sold and their qualitative similarities, operate the three business segments of "pharmaceuticals and related products," "cable television broadcasting," and "other businesses." Segment information is omitted because "pharmaceuticals and related products" account for more than 90% of the total sales, operating income, and assets of all business segments.

### *Geographic segment information*

Fiscal 2010 (March 1, 2009 – February 28, 2010)

(Millions of yen)

| | Japan | North America | Other | Total | Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| Net sales and operating income (loss) | | | | | | |
| Net sales | | | | | | |
| Sales to third parties | 121,984 | 3,930 | 3,918 | 129,834 | — | 129,834 |
| Intra-sales and transfer | 1,541 | — | 277 | 1,818 | (1,818) | — |
| Total Sales | 123,526 | 3,930 | 4,195 | 131,652 | (1,818) | 129,834 |
| Operating expenses | 89,513 | 9,403 | 4,055 | 102,973 | (1,725) | 101,248 |
| Operating Income (loss) | 34,012 | (5,473) | 139 | 28,679 | (93) | 28,585 |
| Assets | 188,595 | 46,856 | 3,786 | 239,238 | (45,687) | 193,551 |

**Fiscal 2011 (March 1, 2010 – February 28, 2011)**

(Millions of yen)

| | Japan | North America | Other | Total | Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| Net sales and operating income (loss) | | | | | | |
| Net sales | | | | | | |
| Sales to third parties | **122,042** | **10,847** | **4,294** | **137,184** | **—** | **137,184** |
| Intra-sales and transfer | **1,761** | **173** | **288** | **2,224** | **(2,224)** | **—** |
| Total Sales | **123,804** | **11,021** | **4,582** | **139,408** | **(2,224)** | **137,184** |
| Operating expenses | **91,333** | **15,499** | **4,441** | **111,273** | **(2,283)** | **108,990** |
| Operating Income (loss) | **32,470** | **(4,477)** | **141** | **28,134** | **59** | **28,193** |
| Assets | **194,431** | **42,919** | **4,607** | **241,958** | **(47,171)** | **194,787** |

**Fiscal 2011 (March 1, 2010 – February 28, 2011)**

(Thousands of U.S. dollars)

| | Japan | North America | Other | Total | Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| Net sales and operating income (loss) | | | | | | |
| Net sales | | | | | | |
| Sales to third parties | **1,493,599** | **132,750** | **52,552** | **1,678,913** | **—** | **1,678,913** |
| Intra-sales and transfer | **21,552** | **2,117** | **3,525** | **27,218** | **(27,218)** | **—** |
| Total Sales | **1,515,163** | **134,879** | **56,076** | **1,706,131** | **(27,218)** | **1,678,913** |
| Operating expenses | **1,117,770** | **189,683** | **54,351** | **1,361,804** | **(27,940)** | **1,333,864** |
| Operating Income (loss) | **397,381** | **(54,791)** | **1,726** | **344,315** | **722** | **345,037** |
| Assets | **2,379,525** | **525,260** | **56,382** | **2,961,180** | **(577,298)** | **2,383,882** |

Geographic segments:

1. North America ..........America
2. Other ........................Brazil, Vietnam, Indonesia, and others

***Overseas Sales***

Fiscal 2010 (March 1, 2009 – February 28, 2010)

Because overseas sales account for under 10% of consolidated net sales, this item is not stated.

**Fiscal 2011 (March 1, 2010 – February 28, 2011)**

| | (Millions of yen) | | | (Thousands of U.S. dollars) | | |
|---|---|---|---|---|---|---|
| | North America | Other | Total | North America | Other | Total |
| Overseas sales | 9,979 | 7,693 | 17,672 | 122,127 | 94,150 | 216,277 |
| Consolidated net sales | — | — | 137,184 | — | — | 1,678,913 |
| Ratio of overseas sales to consolidated net sales (%) | 7.3 | 5.6 | 12.9 | 7.3 | 5.6 | 12.9 |

Geographic segments:

1. North America ..........America
2. Other ........................Brazil, Vietnam, Indonesia, and others
3. Overseas sales consist of sales conducted by the Company and its subsidiaries in countries or regions outside Japan.

## RELATED PARTY INFORMATION

Fiscal 2010 (March 1, 2009 – February 28, 2010)

Not applicable.

**Fiscal 2011 (March 1, 2010 – February 28, 2011)**

Not applicable.

## BUSINESS COMBINATION

Fiscal 2010 (March 1, 2009 – February 28, 2010)

**Purchase method**

**1. Name and business of acquired company, main reason for merger, date of merger, legal form of merger and name of company post-merger and percentage of voting rights acquired**

***1) Name and business of acquired company:***

Noven Pharmaceuticals, Inc.
Pharmaceutical manufacture and sales

***2) Main reasons for merger***

Hisamitsu Pharmaceuticals has a strong presence in Japan's pharmaceuticals market with its transdermal delivery system (TDDS) technology represented by the MOHRUS range as its main source of competitiveness. Developing business infrastructure for development, manufacture, and sales overseas (especially in the U.S.) is a priority for the company to achieve further growth.

Noven Pharmaceuticals has proprietary DOT Matrix® TDDS technology in the U.S. market, and has established a substantial presence in central nervous system and gynecological treatments. We took an equity stake in Noven Pharmaceuticals in 2001 to deepen the strategic alliance between the two companies, and continued to explore how we could move into the U.S. market. We concluded that making Noven Pharmaceuticals a subsidiary was the best way to enhance the corporate value of the two companies.

For us, the acquisition of Noven Pharmaceuticals' is a key strategic investment that not only provides business infrastructure in the U.S., but also allows us to establish the Hisamitsu brand in the U.S. and strengthens our growth prospects by maximizing the value of products developed by leveraging the two companies' TDDS technologies.

Noven Pharmaceuticals will play a key role in our U.S. pharmaceuticals business and is positioned as our strategic business development base. We are committed to making a greater contribution to doctors, healthcare professionals, and most of all patients in Japan as a true global company.

***3) Merger date:***

August 28, 2009

***4) Legal form of merger***

Cash offer for shares

***5) Name of company post-merger:***

Noven Pharmaceuticals, Inc.

***6) Percentage of voting rights acquired: 100%***

**2. Earnings period of acquired company included in consolidated financial statements:**
September 1, 2009 – December 31, 2009

**3. Acquisition price and breakdown**
Acquisition price: 41,611 million yen in cash

**4. Amount of goodwill accrued, goodwill amortization method and amortization period**
***1) Amount of goodwill: 8,702 million yen***

***2) Reasons for accrual of goodwill:***
Since the acquisition price exceeded the net value calculated from acquired assets and liabilities, the difference has been recorded as goodwill.

***3) Goodwill amortization method and period:***
Amortized equally over 10 years

**5. Assets and liabilities received on merger date, and broad breakdown**

| | (Millions of yen) |
|---|---|
| Current assets | 11,584 |
| Noncurrent assets | 28,768 |
| Current liabilities | (5,012) |
| Noncurrent liabilities | (3,846) |

**6. Value allocated to, and treated as R&D expenses, etc., and expense category**
R&D expenses 1,270 million yen

**7. Estimated impact on consolidated profit and loss statement of merger assuming it was completed on the first day of fiscal 2010**

| | (Millions of yen) |
|---|---|
| Sales | 6,705 |
| Operating income/loss | (2,712) |
| Ordinary income | 219 |

The above estimated impact figures are calculated from values recorded in Noven Pharmaceuticals' consolidated profit and loss statement adjusted for goodwill amortization, etc. These figures have not been certified by an auditor.

## PER SHARE INFORMATION

| | (Yen) | | (U.S. dollars) |
|---|---|---|---|
| | Fiscal 2010 | **Fiscal 2011** | **Fiscal 2011** |
| Net assets per share | 1,500.92 | **1,618.69** | **19.81** |
| Net income per share | 210.78 | **241.80** | **2.96** |

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

Note: Basis of calculation

### 1. Net assets per share

| | (Millions of yen) | | (Thousands of U.S. dollars) |
|---|---|---|---|
| | Fiscal 2010 | **Fiscal 2011** | **Fiscal 2011** |
| Total net assets in the consolidated balance sheets | 130,976 | **141,222** | **1,728,332** |
| Net assets attributable to common shareholders | 130,087 | **140,291** | **1,716,938** |
| Main differences<br>Minority interests | 889 | **930** | **11,382** |
| Common stock issued (Thousands of shares) | 95,164 | **95,164** | — |
| Common stock held in treasury (Thousands of shares) | 8,493 | **8,494** | — |
| Common stock used in calculating net assets per share (Thousands of shares) | 86,671 | **86,670** | — |

### 2. Net income per share

| | (Millions of yen) | | (Thousands of U.S. dollars) |
|---|---|---|---|
| | Fiscal 2010 | **Fiscal 2011** | **Fiscal 2011** |
| Net income | 18,423 | **20,956** | **256,468** |
| Amount not attributable to common shareholders | — | — | — |
| Net income attributable to common shareholders | 18,423 | **20,956** | **256,468** |
| Average common stock during year (Thousands of shares) | 87,410 | **86,670** | — |

## SIGNIFICANT SUBSEQUENT EVENTS

**Fiscal 2011 (March 1, 2010 – February 28, 2011)**

**1. Acquisition of treasury stock in compliance with the Articles of Association under the provisions of Paragraph 2, Article 165 of the Companies Act In**

Accordance with Article 156 of the Companies Act replacing the phrases pursuant to the provisions of Paragraph 3, Article 165 of the Companies Act, a resolution was made at the meeting of the Board of Directors held on March 15, 2011 to acquire treasury stock as described below.

***1) Reason***

This treasury stock acquisition is being conducted in an effort to improve capital efficiency and deliver even more returns to shareholders, as we execute a flexible capital policy in response to changes in the business environment.

***2) Class of acquired shares***

Common stock

***3) Acquisition method***

Purchase in the open market

***4) Number of acquired shares***

1,000,000 shares

***5) Acquisition price of shares***

¥3,316 million

***6) Treasury stock acquisition period***

March 22, 2011 to April 20, 2011

**2. Impact of the Great East Japan Earthquake**

Our Utsunomiya Factory was affected by the Great East Japan Earthquake, which occurred on March 11, 2011. At the Utsunomiya Factory, some buildings and facilities were damaged, and product inventories also suffered some damage. We are doing our utmost to promptly make detailed estimates of the amount of damage and the impact on the business performance of the FY2/12.

## Supplementary Schedule

### Supplementary schedule of bonds payable

Not applicable.

### Supplementary schedule of loans payable

| | (Millions of yen) | | (Thousands of U.S. dollars) | (%) | |
|---|---|---|---|---|---|
| Category | Balance as of February 28, 2010 | **Balance as of February 28, 2011** | **Balance as of February 28, 2011** | Average interest rate | Due date |
| Short-term loans | 5,320 | **770** | **9,424** | 0.60 | — |
| Current position of long-term loans due within one year | 5,164 | **5,285** | **64,680** | 1.11 | — |
| Current position of long-term lease obligation due within one year | 35 | **103** | **1,261** | — | — |
| Long-term loans (excluding current portion) | 8,142 | **3,089** | **37,804** | 0.76 | March 1, 2012 to March 31, 2026 |
| Lease obligation (excluding current portion) | 145 | **375** | **4,589** | — | March 1, 2012 to January 31, 2017 |
| Other liabilities | — | **—** | **—** | — | — |
| Total | 18,808 | **9,624** | **117,782** | — | — |

Notes: 1. Average interest rate is the weighted average interest rate for the year-end balances of loans, etc.
2. Repayments of long-term loans due within one year, include ¥115 million in interest free loans from the Development Bank of Japan Inc.
3. The average interest rate on lease obligations is not listed, mainly because lease obligations are stated in the consolidated balance sheet mainly as a total before deduction of the equivalent of interest contained in the total lease payment.
4. Repayments of long-term loans (excluding those due within one year), include ¥341 million in interest free loans from the Development Bank of Japan Inc.
5. Yearly repayments of long-term loans and lease obligations (both excluding those due within one year) within five years after the consolidated balance sheet date are as follows:

| | | (Millions of yen) | | |
|---|---|---|---|---|
| Category | Due after one year but within two years | Due after two years but within three years | Due after three years but within four years | Due after four years but within five years |
| Long-term loans | 2,731 | 173 | 87 | 42 |
| Lease obligations | 104 | 104 | 86 | 75 |

| | | (Thousands of U.S. dollars) | | |
|---|---|---|---|---|
| Category | Due after one year but within two years | Due after two years but within three years | Due after three years but within four years | Due after four years but within five years |
| Long-term loans | 33,423 | 2,117 | 1,065 | 514 |
| Lease obligations | 1,273 | 1,273 | 1,053 | 918 |

## Other

Consolidated sales and income by quarter, Fiscal 2011

(Millions of yen)

| | First quarter (March 1 – May 31, 2010) | Second quarter (June 1 – August 31, 2010) | Third quarter (September 1 – November 30, 2010) | Fourth quarter (December 1 – February 28, 2011) |
|---|---|---|---|---|
| Net sales | 32,869 | 38,209 | 31,504 | 34,599 |
| Income before income taxes | 10,499 | 10,387 | 8,136 | 7,080 |
| Net income | 6,085 | 5,917 | 4,667 | 4,286 |
| Net income per share (yen) | 70.21 | 68.27 | 53.85 | 49.46 |

Consolidated sales and income by quarter, Fiscal 2011

(Thousands of U.S. dollars)

| | First quarter (March 1 – May 31, 2010) | Second quarter (June 1 – August 31, 2010) | Third quarter (September 1 – November 30, 2010) | Fourth quarter (December 1 – February 28, 2011) |
|---|---|---|---|---|
| Net sales | 402,264 | 467,617 | 385,559 | 423,437 |
| Income before income taxes | 128,491 | 127,120 | 99,572 | 86,648 |
| Net income | 74,471 | 72,415 | 57,117 | 52,454 |
| Net income per share (U.S. dollars) | 0.86 | 0.84 | 0.66 | 0.61 |

# Corporate Information

## Stock Information

### (1) Total number of shares

#### *1) Total number of shares*

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

#### *2) Shares issued*

| Type of shares | Shares issued at end-Fiscal 2011 (February 28, 2011) | Shares issued on filing date (May 27, 2011) | Names of listing stock exchanges or registered securities dealers associations | Details |
|---|---|---|---|---|
| Common stock | 95,164,895 | 95,164,895 | Tokyo Stock Exchange (First Section)<br>Nagoya Stock Exchange (First Section)<br>Fukuoka Stock Exchange | All voting shares, standard shares with unlimited rights (Voting units: 100 shares) |
| Total | 95,164,895 | 95,164,895 | — | — |

### (2) Status of share subscription rights to shares

Not applicable.

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

Not applicable.

### (4) Details of rights plans

Not applicable.

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

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

| | (Shares) | | (Thousands of U.S. dollars) | | | |
|---|---|---|---|---|---|---|
| Date | Change in shares issued | Shares issued | Change in common stock | Common stock | Change in additional paid-in capital | Additional paid-in capital |
| July 5, 2002 (Note) | — | 95,164,895 | — | 103,696 | (74,936) | 25,921 |

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, 2011

| Category | Status of shares (investment unit comprises 100 shares) | | | | | | | | Shares under one unit (shares) |
|---|---|---|---|---|---|---|---|---|---|
| | National and local government | Financial institutions | Securities companies | Other corporations | Foreign shareholders | | Individuals and other | Total | |
| | | | | | Non-individuals | Individuals | | | |
| Shareholders (entities) | — | 65 | 34 | 189 | 283 | 7 | 6,260 | 6,838 | — |
| Shares owned (units) | — | 449,866 | 9,160 | 162,659 | 136,818 | 22 | 192,643 | 951,168 | 48,095 |
| Ratio (%) | — | 47.30 | 0.96 | 17.10 | 14.39 | 0.00 | 20.25 | 100.00 | — |

Note: Treasury stock of 8,468,667 are listed as 84,686 units in the individuals and other column and as 67 shares in the shares under one unit column. The 8,468,667 treasury share figure is the number of shares listed in the shareholder registry.

### (7) Principal shareholders

As of February 28, 2011

| Name | Address | Shares owned (thousand shares) | Percentage of shares issued (%) |
|---|---|---|---|
| Japan Trustee Service Bank, Ltd. (trust account) | 1-8-11 Harumi, Chuo-ku, Tokyo | 5,482 | 5.76 |
| Nippon Life Insurance Company | 1-6-6 Marunouchi, Chiyoda-ku, Tokyo | 4,887 | 5.13 |
| 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 | 4.60 |
| Japan Trustee Service Bank, Ltd. (Resona Trust & Banking Co., Ltd. retrust account, The Nishi-Nippon City Bank, Ltd. pension trust account) | 1-8-11 Harumi, Chuo-ku, Tokyo | 4,370 | 4.59 |
| The Master Trust Bank of Japan, Ltd. (trust account) | 2-11-3 Hamamatsucho, Minato-ku, Tokyo | 4,304 | 4.52 |
| Fukuoka Bank | 2-13-1 Tenjin, Chuo-ku, Fukuoka | 3,871 | 4.06 |
| The Bank of Saga, Ltd. | 2-7-20 Tojin, Saga | 3,356 | 3.52 |
| BBH for Matthews Asian Growth and Income Fund | 2-7-1 Marunouchi, Chiyoda-ku, Tokyo | 2,563 | 2.69 |
| Japan Trustee Service Bank, Ltd. (The Sumitomo Trust & Banking Co., Ltd. retrust account, Sumitomo Mitsui Banking Corporation pension trust account) | 1-8-11 Harumi, Chuo-ku, Tokyo | 2,064 | 2.16 |
| Japan Trustee Service Bank, Ltd. (The Sumitomo Trust & Banking Co., Ltd. retrust account ; Resona Bank, Limited pension trust account) | 1-8-11 Harumi, Chuo-ku, Tokyo | 2,000 | 2.10 |
| Total | | 37,287 | 39.19 |

Notes: 1. The number of the foregoing shares related to fiduciary services is as follows.
Japan Trustee Service Bank, Ltd.: 13,916 thousand shares
The Master Trust Bank of Japan, Ltd.: 4,304 thousand shares
The Nomura Trust and Banking Co., Ltd.: 4,387 thousand shares
2. In addition to the shares listed above, the company owns treasury stock of 8,468,000 (8.90%).

# Corporate Information

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

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

# Corporate Information

## Group Companies

Our corporate group comprises Hisamitsu Pharmaceutical, 17 consolidated subsidiaries, two non-consolidated subsidiaries, and two 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 | Cable television broadcasting | 69.50 | 1 | 4 | Debt guarantees | — | — | Note 3 |
| Saga City-Vision Co., Ltd. | Saga, Saga | ¥605 million | Cable television broadcasting | 70.12 | — | 3 | Debt guarantees | — | — | |
| Taiyo Co., Ltd. | Tosu, Saga | ¥50 million | Other businesses | 100 | 1 | 3 | — | Agent for casualty insurance contracts for Hisamitsu | Hisamitsu leases land | |
| Kyudo Co., Ltd. | Tosu, Saga | ¥10 million | Other businesses | 100 | 1 | 2 | — | Provide laboratory animals and equipment to Hisamitsu | Hisamitsu leases land & buildings | |
| Hisamitsu Agency Co., Ltd. | Kurume, Fukuoka | ¥25 million | Other businesses | 100 (100) | — | 3 | — | Provide advertising agency services to Hisamitsu | Hisamitsu leases part of a lease building | |
| Hisamitsu U.S., Inc. | Delaware USA | USD 10 | Pharmaceuticals and related products | 100 | 1 | — | — | — | — | Note 3 |
| Hisamitsu America, Inc. | California, USA | USD 3,000,000 | Pharmaceuticals and related products | 100 (100) | 1 | 1 | Working capital loans | Selling products supplied by Hisamitsu | — | |
| Noven Pharmaceuticals, Inc. | Florida, USA | USD 10 | Pharmaceuticals and related products | 100 (100) | 2 | — | — | Hisamitsu outsources development | — | Note 3 |
| Hisamitsu Farmaceutica do Brasil Ltda. | Manaus, Brazil | BRL 15 million | Pharmaceuticals and related products | 100 | — | 4 | 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 | GPB 120,000 | Pharmaceuticals and related products | 100 | — | 2 | — | Hisamitsu outsources development | — | |
| Hisamitsu Vietnam Pharmaceutical Co., Ltd. | Bien Hoa, Vietnam | VND 258,775 million | Pharmaceuticals and related products | 100 | — | 3 | Debt guarantees | Manufacture and sell products in Vietnam, with some raw materials supplied by Hisamitsu | — | Note 3 |
| PT. Hisamitsu Pharma Indonesia | Surabaya, Indonesia | IDR 32,518 million | Pharmaceuticals and related products | 75 | — | 3 | — | Manufacture and sell products in Indonesia, with products and some raw materials supplied by Hisamitsu | — | |
| 5 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 | | | | | | | | | | | |
| Maruto Sangyo Co., Ltd. | Ogori, Fukuoka | ¥1,807 million | Other businesses | 39.76 | 1 | 2 | — | Supplies raw materials to Hisamitsu | — | | Note 4 |
| Novogyne Pharmaceuticals | USA | USD 45 million | Pharmaceuticals and related products | 49.0 (49.0) | — | — | — | — | — | | — |

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

## Management

| | |
|---|---|
| President & CEO | NAKATOMI, Hirotaka |
| Senior Managing Director | YOSHIDA, Tsukasa |
| Senior Managing Director | NAKATOMI, Kazuhide |
| Managing Director | HADATE, Hidenori |
| Managing Director | YOSHIDA, Minoru |
| Managing Director | NODA, Takehiko |
| Director | AKIYAMA, Tetsuo |
| Director | SUGIYAMA, Kousuke |
| Director | KABASHIMA, Mitsumasa |
| Director | TSURUDA, Toshiaki |

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

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

# Corporate Information

## Company Profile

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

Number of Employees

| Business segment | Employees (As of February 28, 2011) |
|---|---|
| Pharmaceuticals and related products | 2,488 (337) |
| Cable television broadcasting | 60 (33) |
| Other businesses | 87 (45) |
| Total | 2,635 (415) |

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

**Hisamitsu Pharmaceutical Co., Inc.**

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