

FINANCIAL REPORT 2019

For the Fiscal Year Ended February 28, 2019

Hisamitsu®



Hisamitsu Pharmaceutical Co., Inc.

Company Mission

Promoting Patch Treatment Culture Worldwide

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

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

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

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

Forward-looking statements:

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

Note:

Amounts in US dollars are included solely for convenience and are translated at a rate of ¥110.87=U.S.\$1.00, the approximate rate of exchange on February 28, 2019.

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Consolidated Financial Highlights

Years ended the last day of February

	(Millions of yen)					(Thousands of U.S. dollars)	
	Fiscal 2015	Fiscal 2016	Fiscal 2017	Fiscal 2018	Fiscal 2019	Fiscal 2019	
Net sales	156,791	161,895	145,962	148,466	143,408	1,293,479	
Operating profit	20,574	27,774	26,343	26,940	22,278	200,938	
Ordinary profit	28,489	28,008	28,179	28,245	24,647	222,305	
Profit attributable to owners of parent	18,784	17,784	20,395	19,119	19,204	173,212	
Comprehensive income	32,244	15,299	21,156	22,852	15,969	144,034	
Net assets	222,054	226,095	229,205	245,227	248,161	2,238,306	
Total assets	285,440	284,954	278,820	299,913	297,512	2,683,431	
Net assets per share (yen and dollars)	2,580.02	2,657.41	2,724.00	2,912.83	2,981.63	26.89	
Profit per share (yen and dollars)	219.28	208.81	241.27	228.52	230.08	2.08	
Diluted profit per share (yen and dollars)	—	208.76	241.15	228.35	229.86	2.07	
Shareholders' equity ratio (%)	77.4	79.0	81.7	81.3	82.8	—	
Return on equity (ROE) (%)	9.0	8.0	9.0	8.1	7.8	—	
Price-earnings ratio (PER) (times)	20.4	23.6	25.0	33.9	23.9	—	
Net cash provided by operating activities	23,232	30,923	19,910	30,453	15,772	142,257	
Net cash (used in) provided by investing activities	(8,945)	(3,912)	1,070	(1,378)	(39,302)	(354,487)	
Net cash used in financing activities	(7,036)	(11,616)	(18,402)	(7,153)	(13,347)	(120,384)	
Cash and cash equivalents at end of period	88,614	103,940	105,610	126,569	88,782	800,776	
Number of employees [average temporary staff]	2,942 [626]	2,900 [583]	2,751 [630]	2,823 [899]	2,792 [636]	— [—]	

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

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

3. "Royalty income," which had previously been presented under non-operating income, has been included in and presented under "Net sales" starting from the fiscal year under review. The amount during and before fiscal 2018 reflect this change in presentation method.

To Our Investors

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

We hereby report the overview of operations and financial results for the 117th fiscal year (from March 1, 2018 to February 28, 2019).

Ethical pharmaceuticals in the domestic market posted a decrease in revenue, as our mainstay product, MOHRUS[®] TAPE, was affected by government measures to control medical costs. In the OTC pharmaceuticals business, sales increased mainly for our mainstay product, Salonpas[®], and Feitas[®] series, as well as Allegra[®] FX.

In overseas markets, ethical pharmaceuticals suffered a decrease in revenue due to the impact of generic drug sales. The OTC pharmaceuticals business posted an increase in revenue thanks to the increase in sales of Salonpas[®] and other products.

The Company continues to enhance its profile overseas, as Euromonitor International certified Salonpas[®] for the second consecutive year as the worldwide leading brand in terms of share of sales in the category of pain relief and anti-inflammatory patches in the OTC pharmaceuticals market, and Hisamitsu Pharmaceutical as the worldwide leading company in terms of share of sales. In the United States as well, the Salonpas[®] brand won the top share of sales in the OTC pharmaceutical pain relief and anti-inflammatory patch market.

These business activities led to consolidated results as follows. Net sales decreased 3.4% year on year to ¥143,408 million, operating profit decreased 17.3% year on year to ¥22,278 million, ordinary profit decreased 12.7% year on year to ¥24,647 million, and profit attributable to owners of parent increased 0.4% year on year to ¥19,204 million.

We ask for our investors' continued support and encouragement.

NAKATOMI, Hiroataka
Chairman

NAKATOMI, Kazuhide
President & CEO



Medical Products



Products for Oversea Markets



Over the Counter Products

Overview of Operations

Management Policy, Business Environment, Key Challenges, etc.

Any forward looking statements are based on our judgments at the end of FY2/19.

(1) Basic management policy

The Group has actively pursued its business activities under the basic policy of “customer first” since its establishment and upholds the corporate philosophy of “improving quality of life of people around the world” through creating, formulating, manufacturing and marketing pharmaceuticals and other products. Under this philosophy, in Japan as well as overseas, we provide products that precisely meet customer needs, actively seek to create new customers and strive to enhance enterprise value.

(2) Management targets

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

(3) Medium- to long-term management strategy and key challenges

We expect the ethical pharmaceuticals business in Japan to witness continued efforts to curb healthcare expenditures, including strengthened measures to promote the use of generic drugs and additional National Health Insurance drug reimbursement price cuts for long listed products, against a backdrop of a rapidly aging population. In response to this difficult business environment, we are stepping up efforts to provide medical institutions with scientific information and seek to develop new topical and systemic pharmaceutical products that meet the needs of medical institutions and their patients. Furthermore, we strive to grow further with an aim to improve our profitability as well as enhance our sales, production and R&D capabilities.

For OTC pharmaceuticals business in Japan, amid a prolonged market slump and intensifying competition, we seek to expand sales of Pain relief and anti-inflammatory patch and respond to the needs of our customers by improving existing products and developing new products.

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

Especially, in the U.S. ethical pharmaceutical market, we plan to enhance our R&D function at our business base Noven by combining our areas of strength in technology, as well as strengthening our manufacturing.

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

Overview of Operations

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 FY2/19.

1) Legal and regulatory risks

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

2) Risks from side effects

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

3) Research and development risks

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

4) Manufacturing and procurement risks

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

5) Environmental risks

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

6) Intellectual property risks

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

7) Litigation risks

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

8) Other risks

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

Overview of Operations

Management's Analysis of Financial Position, Operating Results and Cash Flows

The summary of the financial position, operating results and cash flows (hereinafter referred to as "Business Results") of the Group (the Company and its consolidated subsidiaries, and equity-method affiliates) in the fiscal year under review and details of the perception, analysis and deliberation of the status of Business Results from management's perspective are as follows.

Any forward-looking statements are based on our judgments at the end of FY2/19.

Starting from FY2/19, "Royalty income" has been presented under "Net sales," and comparison and analysis with the previous fiscal year have been conducted using the amount after reclassification that reflect this change in the presentation method.

(1) Significant accounting policies and estimates

The consolidated financial statements of the Group have been prepared based on accounting standards generally accepted in Japan. For the accounting policies used in the preparation of these consolidated financial statements, the application method thereof and assessment of the estimates see "Significant Accounting Policies Concerning the Preparation of Consolidated Financial Statements."

(2) Details of the analysis and deliberation of the status of Business Results from management's perspective

1) Business Results

(Financial position)

Assets totaled ¥297,512 million at the end of FY2/19, a decrease of ¥2,401 million from the previous year, due mainly to a decrease in cash and deposits of ¥6,905 million, an increase in securities of ¥6,187 million, an increase in notes and accounts receivable - trade of ¥4,776 million, and a decrease in investment securities of ¥3,649 million.

Liabilities totaled ¥49,350 million at the end of FY2/19, a decrease of ¥5,335 million from the previous year, due mainly to decreases in income taxes payable of ¥4,023 million, and in accounts payable - other of ¥1,342 million.

Net assets totaled ¥248,161 million at the end of FY2/19, an increase of ¥2,933 million from the previous year, due mainly to an increase in retained earnings of ¥12,344 million, and a decrease in treasury shares of ¥6,176 million.

(Operating results)

"Pharmaceuticals" is the Company's sole reportable segment, whose performance for the fiscal year under review is as follows.

Net sales decreased 3.4% year on year, or ¥5,057 million, to ¥143,408 million.

In the ethical pharmaceuticals business in the domestic market, revenue decreased 8.4% year on year due to the continuing impact of the measures to promote the use of generic drugs in addition to the revision of the National Health Insurance drug prices in April 2018. In the OTC pharmaceuticals business, despite the continuing harsh sales competition, revenue increased 6.2% year on year thanks to the strong sales of products such as the Feitas[®] series and Allegra[®] FX, in addition to our mainstay product, Salonpas[®].

Meanwhile, in the overseas markets, ethical pharmaceuticals posted a decrease of 14.0% year on year in revenue due to the impact of generic drugs and the appreciating yen. In the OTC pharmaceuticals business, revenue increased 10.3% year on year, thanks mainly to the increase in sales of the subsidiaries in the United States and Vietnam, despite the impact of the appreciating yen.

Overview of Operations

Operating profit decreased 17.3% year on year, or ¥4,661 million, to ¥22,278 million. This was mainly due to the decrease in net sales. Selling, general and administrative expenses increased 0.9% year on year, or ¥564 million, to ¥66,401 million.

Ordinary profit decreased 12.7% year on year, or ¥3,598 million, to ¥24,647 million. This is attributable mainly to the decrease in operating profit.

Profit attributable to owners of parent increased 0.4% year on year, or ¥85 million, to ¥19,204 million. This is attributable mainly to the decrease in income taxes despite the decrease in ordinary profit.

Pharmaceuticals

The Pharmaceuticals segment, particularly the ethical pharmaceuticals business in Japan, faced an uncertain environment during FY2/19 due to further measures to curb healthcare expenditures.

We responded to the situation by providing medical institutions with appropriate and detailed scientific information about our products, particularly our transdermal patches. While collecting and supplying information on efficacy and safety, we engaged in activities to promote the proper use of our products, including MOHRUS[®] TAPE, MOHRUS[®] PAP XR and MOHRUS[®] PAP, transdermal pain relief and anti-inflammatory patches containing ketoprofen; ESTRANA[®] TAPE, transdermal estradiol patch; Fentos[®] Tape, transdermal pain management patch containing fentanyl citrate that has significant analgesic effects; NORSPAN[®] TAPE, transdermal pain management patch containing buprenorphine; and NEOXY[®] TAPE, transdermal overactive bladder treatment patch containing oxybutynin hydrochloride.

We began marketing the ALLESAGA[®] TAPE, transdermal allergic rhinitis treatment patch, in April 2018, and the new 0.5mg dose of Fentos[®] Tape, transdermal pain management patch, in December 2018.

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

We launched the new packages of the therapeutic drug for athlete's foot, Butenalock[®] Vα Cream 18 g and Butenalock[®] Vα Liquid 18 ml in March 2018; the miscellaneous goods, Butenalock[®] Antiseptic and Antibacterial Spray, the <Cool type> analgesic anti-inflammatory gel patch Nobinobi[®] Salonsip[®] Fα and the analgesic anti-inflammatory plaster Salonpas[®] 120 Sheets, in April 2018; the newly -packaged <Cool type> analgesic anti-inflammatory gel patch Nobinobi[®] Salonsip[®] F in May 2018; the <Warm type> tape with diclofenac sodium Feitas[®] Zα Dicsas[®] Onkan and the Feitas[®] Zα Dicsas[®] Onkan Oban Size in September 2018; and the allergic rhinitis drug Allegra[®] FX 56 Tablets in January 2019.

Additionally, in the overseas business, Salonpas[®] brand was certified for the second consecutive year as having the number one share of sales worldwide in the OTC pharmaceuticals market pain relief and anti-inflammatory patch category by Euromonitor International, and Hisamitsu Pharmaceutical was certified for having the number one share of sales worldwide in the same category and awarded the certificates on May 18, 2018.

The Salonpas[®] brand is also actively engaged in sales promotion activities overseas and has captured the top share of sales (cumulative sales amount from January 2018 to December 2018) in the pain relief and anti-inflammatory patch market of the OTC pharmaceuticals market in the United States (Information Resources, Inc.).

Overview of Operations

(Cash flows)

Cash and cash equivalents at the end of FY2/19 totaled ¥88,782 million, a decrease of ¥37,786 million from the end of the previous fiscal year.

Net cash provided by operating activities totaled ¥15,772 million (¥30,453 million provided in the previous fiscal year), due mainly to profit before income taxes of ¥25,673 million, depreciation of ¥5,742 million and income taxes paid of ¥9,339 million.

Net cash used in investing activities totaled ¥39,302 million (¥1,378 million used in the previous fiscal year), due mainly to increase in time deposits of ¥36,218 million and purchase of property, plant and equipment of ¥3,626 million.

Net cash flows used in financing activities totaled ¥13,347 million (¥7,153 million used in the previous fiscal year), due mainly to cash dividends paid of ¥6,882 million and purchase of treasury shares of ¥6,176 million.

(Reference) Cash flow-related indicators

	FY2/15	FY2/16	FY2/17	FY2/18	FY2/19
Shareholders' equity ratio	77.4	79.0	81.7	81.3	82.8
Shareholders' equity ratio based on market price	134.0	146.3	181.2	215.9	152.8
Ratio of interest-bearing liabilities to cash flow	0.10	0.08	0.11	0.07	0.12
Interest coverage ratio	673.0	936.1	499.5	935.7	800.5

Shareholders' equity ratio (%): Shareholders' equity/total assets

Shareholders' equity ratio based on market price (%): Market capitalization/total assets

Ratio of interest-bearing liabilities to cash flow (years): Interest-bearing liabilities/operating cash flow

Interest coverage ratio: Operating cash flow/interest payments

Notes: 1. All indicators are calculated on a consolidated basis.

2. Market capitalization is calculated by multiplying the closing share price at the end of the fiscal year by the number of shares outstanding at the end of the fiscal year (excluding treasury shares).

3. The figure for operating cash flow refers to cash flows from operating activities reported on the consolidated statements of cash flows. Interest-bearing liabilities are all liabilities reported on the consolidated balance sheet that are subject to interest payments. Interest payments refer to interest expenses paid reported on the consolidated statements of cash flows.

Overview of Operations

2) Sales results

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

Business segment	(Millions of yen)	YoY (%)	(Thousands of U.S. dollars)
	Sales Fiscal 2019		Sales Fiscal 2019
Pharmaceuticals	139,960	(3.5)	1,262,379
Other businesses	3,447	1.7	31,090
Total	143,408	(3.4)	1,293,479

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

Customer	(Millions of yen)				(Thousands of U.S. dollars)
	Sales Fiscal 2018	% of total	Sales Fiscal 2019	% of total	Sales Fiscal 2019
Alfresa Holdings Corporation	22,003	14.8	20,400	14.2	183,999
MEDIPAL HOLDINGS CORPORATION	21,944	14.8	20,224	14.1	182,412

2. The foregoing figures do not include consumption tax.

3) Capital liquidity and resources

In procuring funds, the Group upholds the basic policy of securing the liquidity required for smooth business activities as well as ensuring soundness and security of finances, and engages in effective and flexible financing taking into account the market environment and other factors. The demand for funds arises mainly as research and development investments and capital expenditures for the expansion and development of business, in addition to operating costs including the manufacturing costs, product procurement, research and development expenses, and sales expenses. Internal funds are allocated as the source of these funds.

4) Management policy, management strategies, objective benchmarks to determine the achievement status of management goals, etc.

Under the "6th Medium-term Management Policy for FY2017-FY2021" announced on April 7, 2017, we have set our targets for fiscal 2021 of achieving a return on equity (ROE) of 8% or more.

In the fiscal year under review, our ROE was 7.8% (a decrease of 0.3% year on year).

The key challenges in achieving this target are as stated in "Overview of Operations, Management Policy, Business Environment, Key Challenges, etc."

Overview of Operations

Important Business Agreements

Joint sales agreement

(1) We concluded an agreement with Kyowa Hakko Kirin Co., Ltd. (now Kyowa Kirin Co., Ltd.: headquarters: Chiyoda-ku, Tokyo) on June 18, 2008 on joint sales in Japan of Fentos[®] Tape, transdermal pain management patch.

1) Counterparty to the agreement

Kyowa Hakko Kirin Co., Ltd. (now Kyowa Kirin Co., Ltd.)

2) Agreement details

Contract on the joint sales within Japan with Kyowa Hakko Kirin Co., Ltd. (now Kyowa Kirin Co., Ltd.) of Fentos[®] Tape, a transdermal pain management patch that Hisamitsu Pharmaceutical has acquired manufacturing and marketing approval for.

3) Compensation

Compensation commensurate with a one-time contract payment.

Distribution agreement

(1) We concluded an agreement with Kyowa Hakko Kirin Co., Ltd. (now Kyowa Kirin Co., Ltd.: headquarters; Chiyoda-ku, Tokyo) on February 5, 2019 on sales in Japan of the transdermal Parkinson's disease treatment patch (Development code: HP-3000).

1) Counterparty to the agreement

Kyowa Hakko Kirin Co., Ltd. (now Kyowa Kirin Co., Ltd.)

2) Agreement details

Contract on the distribution of the transdermal Parkinson's disease treatment patch (Development code: HP-3000) in Japan.

3) Compensation

Compensation commensurate with a one-time contract payment and subsequent milestone payment at the time approval is obtained and milestone payments commensurate with sales.

Note: On December 11, 2018, the Company and Mundipharma K.K. (headquarters: Minato-ku, Tokyo) agreed to transfer the distribution rights of NORSPAN[®] TAPE, transdermal pain management patch to Mundipharma K.K., and to terminate the sales by the Company as of February 28, 2019.

Overview of Operations

Research and Development

Pharmaceuticals

Our R&D program is centered on the development of patch products that targets the needs of medical institutions.

For ethical pharmaceuticals in Japan, ALLESAGA[®] TAPE, transdermal allergic rhinitis treatment patch (active pharmaceutical ingredient: emedastine fumarate) was listed on the National Health Insurance drug price listing on April 18, 2018, and is currently on sale. Approval was received for the application for partial changes related to the addition of a new 0.5 mg dose of Fentos[®] Tape, transdermal pain management patch on July 2, 2018, and it was listed on the National Health Insurance drug price listing on November 28, 2018, and is currently on sale. Phase 3 clinical trials of the Fentos[®] Tape (development code: HFT-290) in opioid analgesic naive patients have been concluded and an application is being prepared. Application for manufacturing and marketing approval of HP-3000, transdermal Parkinson's disease treatment patch (active pharmaceutical ingredient: ropinirole hydrochloride) was submitted on September 28, 2018. We are also preparing for phase 3 clinical trials of HP-3000 as treatment for idiopathic restless legs syndrome. Phase 3 clinical trials of HP-3150, transdermal pain treatment NSAID patch for cancer pain relief, is currently being implemented. We are also preparing to for phase 3 clinical trials of HP-3150 for lower back pain. Phase 2 clinical trials for HP-5070, transdermal primary local hyperhidrosis treatment drug are under way.

For the U.S. ethical pharmaceuticals, application for generic approval have been submitted for HP-1010 (active pharmaceutical ingredient: lidocaine), transdermal postherpetic neuralgia treatment patch. New drug application for HP-3070 (active pharmaceutical ingredient: asenapine maleate), transdermal schizophrenia treatment patch, has been submitted. Phase 2 clinical trials of HP-5000 (active pharmaceutical ingredient: Diclofenac sodium), transdermal pain treatment NSAID patch, is currently being implemented. We have commenced phase 3 clinical trials for ATS (active pharmaceutical ingredient: d-amphetamine), transdermal attention deficit hyperactivity disorder treatment patch.

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

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

Other businesses

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

As a result of the foregoing, research and development expenses totaled ¥13,032 million in FY2/19.

Capital Expenditures

Capital investment totaled ¥4,034 million in FY2/19.

In the Pharmaceutical segment, we mainly invested in the building and manufacturing equipment, etc. of the Tosu and Utsunomiya Plants resulting in capital investment of ¥1,502 million.

In other businesses, we mainly invested to expand bandwidth to provide digital capabilities to our subscribers, resulting in capital investment of ¥112 million.

In FY2/19, there was no disposal or removal of equipment that could impact production capacity.

Corporate Governance and Internal Auditing

Corporate Governance

(1) Basic approach to corporate governance

1) Corporate governance structure

We consider corporate governance as the framework for transparent, fair, prompt and resolute decision-making with due consideration to the interests of its stakeholders including shareholders, customers, employees and local communities and position the improvement of corporate governance to be an important task. To this end, we have placed priority on creating an organization capable of responding quickly to changes in the business environment and have implemented structural reforms.

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

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

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

We are structured as a company with a board of corporate auditors, comprising 12 directors (including 2 outside directors) and 4 corporate auditors (including 2 outside corporate auditors) as of May 27, 2019.

In the area of corporate governance, we reduced the number of directors as a way to clarify the responsibilities and authority of management and speed up decision-making and business execution. But in order to further reinforce and enhance our management structure in conjunction with the expansion of the organization, we changed the articles of incorporation to increase the number of directors from 10 or less to 12 or less, at the annual general meeting of shareholders held on May 23, 2013. Furthermore, we appointed 2 outside directors at the annual general meeting of shareholders held on May 21, 2015 to further reinforce corporate governance.

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

Important management decisions are made based on the deliberation by the Management Advisory Council comprising key directors and executive officers, etc. as needed, and particularly important resolutions are debated and decided by the board of directors.

As we stated above, we have worked to enhance management oversight and to separate, decentralize, and strengthen decision making functions and business execution functions.

To better facilitate fair auditing, we switched to an auditing system in which 2 of the 4 corporate auditors comprise outside corporate auditors at the annual general meeting of shareholders held on May 26, 2004.

Corporate auditors attend meetings of the board of directors, regularly convene meetings of the board of corporate auditors, and receive audit reports from the independent auditor as needed. The independence of our 2 outside corporate auditors from the company has been ensured and we believe that a structure sufficiently capable of monitoring management has been established.

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

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

Corporate Governance and Internal Auditing

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

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

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

Internal auditing and audit by board of corporate auditors

We established the Internal Audit Department (3 persons in charge) as an internal audit division. The Internal Audit Department is responsible for auditing the business activities of Hisamitsu Pharmaceutical and group companies to ensure that these activities are effective and appropriate and that they comply with relevant laws and the articles of incorporation, reporting to the board of directors and the board of corporate auditors, promoting mutual cooperation, reporting to relevant business division managers and directors, and providing support and advice as needed to improve internal control.

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

Outside directors and outside corporate auditors

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

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

Our 2 outside directors are ICHIKAWA Isao and FURUKAWA Teijiro. ICHIKAWA Isao has gained overall management experience and knowledge through his past career experience such as executive vice president and representative director of a listed company. FURUKAWA Teijiro has gained deep insight with regard to our particular business through his experience in important positions at the Ministry of Health and Welfare.

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

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

Outside corporate auditors regularly attend meetings of the board of directors and meetings of the board of corporate auditors. We believe that a structure sufficiently capable of auditing management has been established.

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

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

Corporate Governance and Internal Auditing

2) Risk management systems

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

Compliance Promotion Committee and Compliance Promotion Office (Chair and head of office: Director)

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

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

Crisis Management Committee (Chair: President & CEO)

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

Privacy Protection Committee (Chair: Director)

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

Disclosure Policy Team (Chair: President & CEO)

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

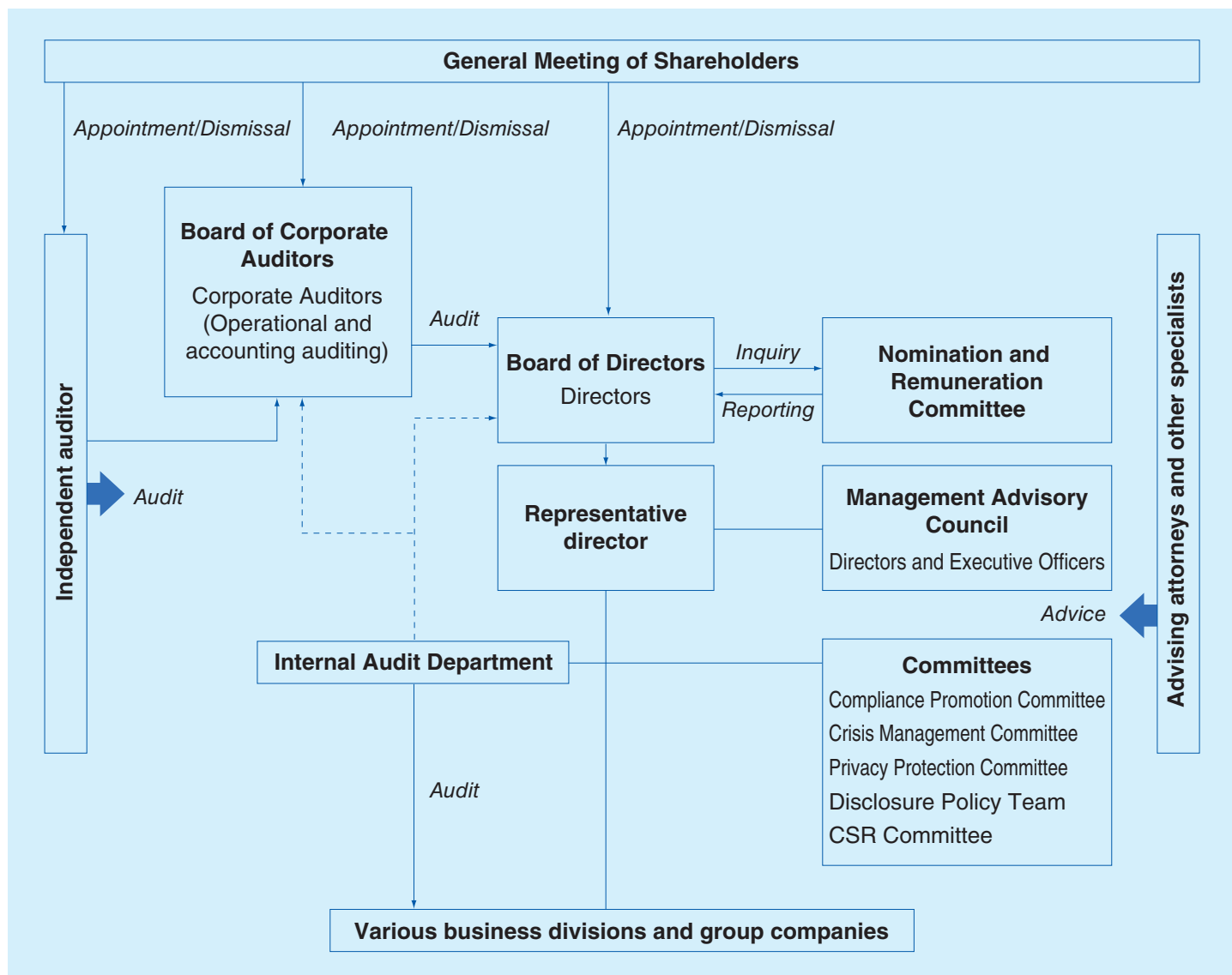
We strive to actively disclose information to enhance management transparency and seek to promote smooth communication with shareholders and investors through our investor relations activities.

CSR Committee (Chair: Director)

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

Corporate Governance and Internal Auditing

Corporate governance structure



Corporate Governance and Internal Auditing

3) Executive compensation

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

(Millions of yen)						
Fiscal 2019						
Category	Total compensation	Total compensation by type				Number of officers to be paid
		Basic compensation	Stock options	Bonuses	Retirement benefits	
Directors (Excluding Outside Directors)	383	290	93	—	—	10
Corporate Auditors (Excluding Outside Corporate Auditors)	39	39	—	—	—	2
Outside Officers	34	34	—	—	—	4

(Thousands of U.S. dollars)						
Fiscal 2019						
Category	Total compensation	Total compensation by type				Number of officers to be paid
		Basic compensation	Stock options	Bonuses	Retirement benefits	
Directors (Excluding Outside Directors)	3,454	2,616	839	—	—	10
Corporate Auditors (Excluding Outside Corporate Auditors)	352	352	—	—	—	2
Outside Officers	307	307	—	—	—	4

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

(Millions of yen)						
Fiscal 2019						
Name (Category of executive)	Total consolidated compensation	Category of company	Total compensation by type			
			Basic compensation	Stock options	Bonuses	Retirement benefits
NAKATOMI, Hirotaka (Chairman)	177	The filing company	126	51	—	—

(Thousands of U.S. dollars)						
Fiscal 2019						
Name (Category of executive)	Total consolidated compensation	Category of company	Total compensation by type			
			Basic compensation	Stock options	Bonuses	Retirement benefits
NAKATOMI, Hirotaka (Chairman)	1,596	The filing company	1,136	460	—	—

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

Not applicable.

Corporate Governance and Internal Auditing

d) Policy on deciding amount of executive compensation

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

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

4) Accounting auditing

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

Audit company providing auditing services

Audit company	Certified public accountants providing auditing services	Assisting personnel
KPMG AZSA LLC	Designated limited liability partner and engagement partner	TAJIMA Yoshiro
	Designated limited liability partner and engagement partner	TOKUNAGA Hideki

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

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

Acquisition of treasury stock

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

Interim dividends

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

6) Resolutions to appoint or remove directors

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

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

Corporate Governance and Internal Auditing

7) Special resolutions of the general meeting of shareholders

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

(2) Compensation for auditing

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

Category	(Millions of yen)				(Thousands of U.S. dollars)	
	Fiscal 2018		Fiscal 2019		Fiscal 2019	
	Compensation for audit certification services	Compensation for non-auditing services	Compensation for audit certification services	Compensation for non-auditing services	Compensation for audit certification services	Compensation for non-auditing services
The filing company	50	22	50	—	451	—
Subsidiaries	3	—	4	—	36	—
Total	53	22	54	—	487	—

2) Breakdown of other important compensation

FY2018

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

FY2019

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

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

FY2018

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

FY2019

Not applicable.

4) Policy on setting compensation for auditing services

Not applicable.

Financial Section

Dividend Policy

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

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

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

In FY2/19, we paid a year-end dividend of ¥41.25 per share including an interim dividend of ¥41.25 per share, which makes an annual dividend of ¥82.5 per share.

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

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

Note: Dividends from retained earnings with a record date in Fiscal 2019 are as follows.

Resolution date	(Millions of yen)	(Yen)	(Thousands of U.S. dollars)	(U.S. dollars)
	Total dividends	Dividends per share	Total dividends	Dividends per share
October 10, 2018 Board of directors resolution	3,452	41.25	31,136	0.37
May 23, 2019 Annual general meeting of shareholders resolution	3,411	41.25	30,766	0.37

Financial Section

Consolidated Balance Sheets

February 28, 2018 and February 28, 2019

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2018	Fiscal 2019	Fiscal 2019
Assets			
Current assets			
Cash and deposits	117,189	110,283	994,706
Notes and accounts receivable - trade	35,185	39,961	360,431
Securities	14,759	20,946	188,924
Merchandise and finished goods	10,142	8,519	76,838
Work in process	453	470	4,239
Raw materials and supplies	6,375	6,769	61,053
Deferred tax assets	3,840	2,151	19,401
Other	2,359	4,766	42,987
Allowance for doubtful accounts	(239)	(299)	(2,697)
Total current assets	190,065	193,569	1,745,910
Non-current assets			
Property, plant and equipment			
Buildings and structures, net (Notes 2 and 3)	15,955	14,816	133,634
Machinery, equipment and vehicles, net (Notes 2 and 3)	6,869	6,658	60,052
Tools, furniture and fixtures, net (Notes 2 and 3)	1,909	1,781	16,064
Land (Notes 2 and 4)	12,628	12,348	111,374
Leased assets, net	81	91	821
Construction in progress	2,619	3,860	34,816
Total property, plant and equipment	40,064	39,556	356,778
Intangible assets			
Sales rights	1,596	68	613
Software	359	203	1,831
Other	2,144	1,718	15,496
Total intangible assets	4,100	1,990	17,949
Investments and other assets			
Investment securities (Note 1)	57,169	53,520	482,728
Long-term bank cash	210	691	6,233
Net defined benefit asset	3,090	3,165	28,547
Deferred tax assets	353	388	3,500
Other	5,076	4,843	43,682
Allowance for doubtful accounts	(216)	(215)	(1,939)
Total investments and other assets	65,683	62,394	562,767
Total non-current assets	109,847	103,942	937,512
Total assets	299,913	297,512	2,683,431

Financial Section

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2018	Fiscal 2019	Fiscal 2019
Liabilities			
Current liabilities			
Notes and accounts payable - trade	7,709	8,290	74,772
Electronically recorded obligations - operating	6,202	5,864	52,891
Short-term loans payable (Note 2)	1,461	1,361	12,276
Lease obligations	29	26	235
Accounts payable - other	7,278	5,936	53,540
Income taxes payable	4,891	868	7,829
Provision for sales returns	106	101	911
Provision for bonuses	1,674	1,629	14,693
Other	5,584	6,275	56,598
Total current liabilities	34,938	30,354	273,780
Non-current liabilities			
Long-term loans payable (Note 2)	504	433	3,905
Lease obligations	64	70	631
Deferred tax liabilities for land revaluation (Note 4)	1,670	1,660	14,972
Deferred tax liabilities	6,153	5,756	51,917
Net defined benefit liability	7,297	7,465	67,331
Other	4,055	3,610	32,561
Total non-current liabilities	19,747	18,996	171,336
Total liabilities	54,686	49,350	445,116
Net assets			
Shareholders' equity			
Capital stock	8,473	8,473	76,423
Capital surplus	5,914	5,914	53,342
Retained earnings	236,342	248,687	2,243,050
Treasury shares	(34,709)	(40,886)	(368,774)
Total shareholders' equity	216,021	222,189	2,004,050
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	19,101	17,009	153,414
Revaluation reserve for land (Note 4)	3,814	3,790	34,184
Foreign currency translation adjustment	5,088	3,581	32,299
Remeasurements of defined benefit plans	(325)	(97)	(875)
Total accumulated other comprehensive income	27,679	24,284	219,031
Share acquisition rights	299	392	3,536
Non-controlling interests	1,227	1,295	11,680
Total net assets	245,227	248,161	2,238,306
Total liabilities and net assets	299,913	297,512	2,683,431

Financial Section

Consolidated Statements of Income

Years ended February 28, 2018 and February 28, 2019

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2018	Fiscal 2019	Fiscal 2019
Net sales	148,466	143,408	1,293,479
Cost of sales (Notes 2 and 3)	55,688	54,727	493,614
Gross profit	92,777	88,680	799,856
Selling, general and administrative expenses (Notes 1 and 2)	65,836	66,401	598,909
Operating profit	26,940	22,278	200,938
Non-operating income			
Interest income	493	800	7,216
Dividend income	724	763	6,882
Share of profit of entities accounted for using equity method	129	619	5,583
Other	456	399	3,599
Total non-operating income	1,803	2,582	23,289
Non-operating expenses			
Interest expenses	32	19	171
Foreign exchange losses	426	178	1,605
Loss on sales of accounts receivable	18	—	—
Other	20	17	153
Total non-operating expenses	498	214	1,930
Ordinary profit	28,245	24,647	222,305
Extraordinary income			
Gain on disposal of non-current assets (Note 4)	0	0	0
Gain on sales of investment securities	487	1,312	11,834
Total extraordinary income	487	1,312	11,834
Extraordinary losses			
Loss on disposal of non-current assets (Note 5)	15	72	649
Impairment loss (Note 6)	1,023	138	1,245
Loss on sales of shares of subsidiaries	—	74	667
Total extraordinary losses	1,038	285	2,571
Profit before income taxes	27,694	25,673	231,559
Income taxes - current	9,261	4,688	42,284
Income taxes - deferred	(893)	1,605	14,476
Total income taxes	8,367	6,294	56,769
Profit	19,327	19,378	174,781
Profit attributable to non-controlling interests	207	174	1,569
Profit attributable to owners of parent	19,119	19,204	173,212

Financial Section

Consolidated Statements of Comprehensive Income

Years ended February 28, 2018 and February 28, 2019

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2018	Fiscal 2019	Fiscal 2019
Profit	19,327	19,378	174,781
Other comprehensive income			
Valuation difference on available-for-sale securities	4,453	(1,915)	(17,272)
Foreign currency translation adjustment	(1,833)	(1,546)	(13,944)
Remeasurements of defined benefit plans, net of tax	791	215	1,939
Share of other comprehensive income of entities accounted for using equity method	113	(163)	(1,470)
Total other comprehensive income (Note 1)	3,525	(3,409)	(30,748)
Comprehensive income	22,852	15,969	144,034
Comprehensive income attributable to			
Comprehensive income attributable to owners of parent	22,662	15,833	142,807
Comprehensive income attributable to non-controlling interests	189	135	1,218

Financial Section

Consolidated Statements of Changes in Shareholders' Equity

Years ended February 28, 2018 and February 28, 2019

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

	(Millions of yen)							
	Accumulated other comprehensive income							
	Valuation difference on available-for-sale securities	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Share acquisition rights	Non-controlling interests	Total net assets
Balance at March 1, 2017	14,531	3,685	6,904	(1,115)	24,007	203	1,097	229,205
Changes of items during period								
Dividends of surplus								(6,862)
Profit attributable to owners of parent								19,119
Reversal of revaluation reserve for land								(128)
Purchase of treasury shares								(3)
Net changes of items other than shareholders' equity	4,569	128	(1,815)	789	3,672	95	129	3,897
Total changes of items during period	4,569	128	(1,815)	789	3,672	95	129	16,022
Balance at February 28, 2018	19,101	3,814	5,088	(325)	27,679	299	1,227	245,227

Financial Section

(Millions of yen)					
Shareholders' equity					
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at March 1, 2018	8,473	5,914	236,342	(34,709)	216,021
Changes of items during period					
Dividends of surplus			(6,883)		(6,883)
Profit attributable to owners of parent			19,204		19,204
Reversal of revaluation reserve for land			23		23
Purchase of treasury shares				(6,176)	(6,176)
Net changes of items other than shareholders' equity					—
Total changes of items during period	—	—	12,344	(6,176)	6,167
Balance at February 28, 2019	8,473	5,914	248,687	(40,886)	222,189

(Millions of yen)								
Accumulated other comprehensive income								
	Valuation difference on available-for-sale securities	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Share acquisition rights	Non-controlling interests	Total net assets
Balance at March 1, 2018	19,101	3,814	5,088	(325)	27,679	299	1,227	245,227
Changes of items during period								
Dividends of surplus								(6,883)
Profit attributable to owners of parent								19,204
Reversal of revaluation reserve for land								23
Purchase of treasury shares								(6,176)
Net changes of items other than shareholders' equity	(2,092)	(23)	(1,507)	228	(3,394)	93	67	(3,234)
Total changes of items during period	(2,092)	(23)	(1,507)	228	(3,394)	93	67	2,933
Balance at February 28, 2019	17,009	3,790	3,581	(97)	24,284	392	1,295	248,161

Financial Section

(Thousands of U.S. dollars)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at March 1, 2018	76,423	53,342	2,131,704	(313,060)	1,948,417
Changes of items during period					
Dividends of surplus			(62,082)		(62,082)
Profit attributable to owners of parent			173,212		173,212
Reversal of revaluation reserve for land			207		207
Purchase of treasury shares				(55,705)	(55,705)
Net changes of items other than shareholders' equity					—
Total changes of items during period	—	—	111,338	(55,705)	55,624
Balance at February 28, 2019	76,423	53,342	2,243,050	(368,774)	2,004,050

(Thousands of U.S. dollars)

	Accumulated other comprehensive income							
	Valuation difference on available-for-sale securities	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Share acquisition rights	Non-controlling interests	Total net assets
Balance at March 1, 2018	172,283	34,401	45,892	(2,931)	249,653	2,697	11,067	2,211,843
Changes of items during period								
Dividends of surplus								(62,082)
Profit attributable to owners of parent								173,212
Reversal of revaluation reserve for land								207
Purchase of treasury shares								(55,705)
Net changes of items other than shareholders' equity	(18,869)	(207)	(13,592)	2,056	(30,612)	839	604	(29,169)
Total changes of items during period	(18,869)	(207)	(13,592)	2,056	(30,612)	839	604	26,454
Balance at February 28, 2019	153,414	34,184	32,299	(875)	219,031	3,536	11,680	2,238,306

Financial Section

Consolidated Statements of Cash Flows

Years ended February 28, 2018 and February 28, 2019

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2018	Fiscal 2019	Fiscal 2019
Cash flows from operating activities			
Profit before income taxes	27,694	25,673	231,559
Depreciation	6,005	5,742	51,790
Impairment loss	1,023	138	1,245
Loss (gain) on sales of shares of subsidiaries	—	74	667
Increase (decrease) in net defined benefit liability	284	227	2,047
Increase (decrease) in provision for bonuses	(13)	(17)	(153)
Increase (decrease) in allowance for doubtful accounts	(71)	64	577
Increase (decrease) in provision for sales returns	(27)	(4)	(36)
Interest and dividend income	(1,217)	(1,563)	(14,098)
Interest expenses	32	19	171
Foreign exchange losses (gains)	69	126	1,136
Share of loss (profit) of entities accounted for using equity method	(129)	(619)	(5,583)
Loss (gain) on sales of investment securities	(487)	(1,312)	(11,834)
Loss (gain) on disposal of non-current assets	15	72	649
Decrease (increase) in notes and accounts receivable - trade	667	(5,310)	(47,894)
Decrease (increase) in inventories	485	1,310	11,816
Decrease (increase) in other current assets	(41)	(892)	(8,045)
Increase (decrease) in notes and accounts payable - trade	(316)	649	5,854
Increase (decrease) in other current liabilities	1,795	(897)	(8,091)
Other, net	412	184	1,660
Subtotal	36,180	23,665	213,448
Interest and dividend income received	1,240	1,465	13,214
Interest expenses paid	(32)	(19)	(171)
Income taxes paid	(6,935)	(9,339)	(84,234)
Net cash provided by (used in) operating activities	30,453	15,772	142,257

Financial Section

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2018	Fiscal 2019	Fiscal 2019
Cash flows from investing activities			
Decrease (increase) in time deposits	(300)	(36,218)	(326,671)
Decrease (increase) in long-term time deposits	(22)	(484)	(4,365)
Purchase of property, plant and equipment	(3,131)	(3,626)	(32,705)
Proceeds from sales of property, plant and equipment	82	291	2,625
Purchase of intangible assets	(209)	(37)	(334)
Decrease (increase) in short-term investment securities	2,072	(530)	(4,780)
Purchase of investment securities	(691)	(353)	(3,184)
Proceeds from sales and redemption of investment securities	804	1,898	17,119
Collection of loans receivable	6	6	54
Collection of investments in capital	11	—	—
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	—	(247)	(2,228)
Net cash provided by (used in) investing activities	(1,378)	(39,302)	(354,487)
Cash flows from financing activities			
Increase (decrease) in short-term loans payable	(100)	(100)	(902)
Repayments of long-term loans payable	(71)	(71)	(640)
Dividends paid to non-controlling interests	(59)	(68)	(613)
Purchase of treasury shares	(2)	(6,176)	(55,705)
Cash dividends paid	(6,855)	(6,882)	(62,073)
Other, net	(64)	(48)	(433)
Net cash provided by (used in) financing activities	(7,153)	(13,347)	(120,384)
Effect of exchange rate change on cash and cash equivalents	(963)	(908)	(8,190)
Net increase (decrease) in cash and cash equivalents	20,959	(37,786)	(340,814)
Cash and cash equivalents at beginning of period	105,610	126,569	1,141,598
Cash and cash equivalents at end of period (Note 1)	126,569	88,782	800,776

Financial Section

Basis of Preparation of Consolidated Financial Statements

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

Significant Accounting Policies Concerning the Preparation of Consolidated Financial Statements

Fiscal 2019 (March 1, 2018 – February 28, 2019)

1. Scope of consolidation

Consolidated subsidiaries: 18

Names of consolidated subsidiaries:

- CRCC Media Co., Ltd.
- Saga City-Vision Co., Ltd.
- Taiyo 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 Italia S.r.l.
- Hisamitsu Vietnam Pharmaceutical Co., Ltd.
- Hisamitsu Pharmaceutical Technology Consulting (Beijing) Co., Ltd.
- Hisamitsu Pharmaceutical (China) Co., Ltd.
- Hisamitsu Pharmaceutical (Hong Kong) Co., Ltd
- P.T. Hisamitsu Pharma Indonesia
- 3 other companies

Change in the scope of consolidation

Hisamitsu Italia S.r.l. has been included in the scope of consolidation due to its establishment. Additionally, Kyudo Co., Ltd. has been excluded from the scope of consolidation due to the transfer of its shares.

2. Investments accounted for under the equity method

Equity-method affiliates: 3

Names of companies:

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

Financial Section

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

The fiscal years of the 14 overseas consolidated subsidiaries end on December 31. Since there is less than three months' difference between that date and the end of the consolidated fiscal year, we use financial statements as of the date of the end of the fiscal years of the consolidated subsidiaries. We make the required consolidated adjustments if any major transactions occur between the end of the fiscal years of the consolidated subsidiaries and end of the consolidated fiscal year.

4. Accounting policies

(1) Valuation standards and methods for significant assets

1) Securities

a) *Held-to-maturity bonds*

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

b) *Available-for-sale securities*

i) Securities with market value

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

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

ii) Securities without market value

Valued at cost, determined by the moving average method.

2) Inventories

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

(2) Depreciation methods for significant depreciable assets

1) Property, plant and equipment (excluding leased assets)

a) *Company and domestic consolidated subsidiaries*

Mainly the declining balance method.

b) *Overseas consolidated subsidiaries*

Mainly the straight-line method.

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

Measured by the straight-line method.

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

3) Leased assets

For finance lease transactions other than those for which the right of ownership of the leased assets transfers to the lessee at the end of the lease period, depreciation is calculated by the straight-line method based on the assumption that the useful life equals the lease term and the residual value equals zero.

Financial Section

(3) Standards for significant reserves and allowances

1) Allowance for doubtful accounts

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

a) General receivables

Based on historical bad debt experience.

b) Receivables at risk of default and in bankruptcy reorganization

Based on an assessment of the financial position.

2) Provision for sales returns

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

3) Provision for bonuses

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

(4) Accounting method for retirement benefits

The Company and certain subsidiaries, to prepare for the payment of retirement benefits to employees, record a provision at an amount deemed to arise at the end of the fiscal year under review based on estimated retirement benefit obligations and pension assets at the end of the consolidated fiscal year.

1) Method of attributing estimated retirement benefits to periods

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

2) Treatment of actuarial differences

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

3) Simplified method for small companies

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

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

Assets and liabilities denominated in foreign currencies are translated into yen using the spot exchange rate for final day of the fiscal year, and translation differences are booked as gains or losses. Note that the assets and liabilities of overseas consolidated subsidiaries and other like entities are translated into yen using the spot exchange rate for final day of the fiscal year, while revenues and expenses are translated using the average exchange rate for the period, and these translation differences are booked on “Foreign currency translation adjustment” and “Non-controlling interests” under Net assets.

Financial Section

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

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

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

Treatment of Consumption Tax etc.

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

Financial Section

Unapplied Accounting Standards, etc.

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

(1) Outline

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

Step 1: Identify the contract with the customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations

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

(2) Scheduled date of adoption

We are currently considering the adoption date.

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

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

Changes in Presentation Methods

Compensation based on the results of the Company’s research and development including distribution rights and royalties had previously been presented under non-operating income or extraordinary income in the Consolidated Statements of Income. However, starting from the fiscal year under review, they have been included in “Net sales,” as they are expected to occur on a recurring basis and due to their increasing monetary significance. The Consolidated Financial Statements for the previous fiscal year have been reclassified in order to reflect this change in the presentation method.

As a result, “Royalty income” of ¥595 million under non-operating income in the Consolidated Statements of Income in the previous fiscal year has been reclassified and included under “Net sales.”

Financial Section

Notes to Consolidated Financial Statements

Fiscal 2018 (March 1, 2017 – February 28, 2018) and Fiscal 2019 (March 1, 2018 – February 28, 2019)

CONSOLIDATED BALANCE SHEETS

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

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2018	Fiscal 2019	Fiscal 2019
Investment securities (stocks)	5,810	5,914	53,342

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

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2018	Fiscal 2019	Fiscal 2019
<i>Pledged assets</i>			
Buildings and structures	734 (book value)	674 (book value)	6,079 (book value)
Machinery, equipment and vehicles	1 (book value)	0 (book value)	0 (book value)
Tools, furniture and fixtures	65 (book value)	44 (book value)	397 (book value)
Land	59 (book value)	59 (book value)	532 (book value)
Total	859 (book value)	778 (book value)	7,017 (book value)
<i>Assets provided for factory foundation mortgage</i>			
Buildings and structures	708 (book value)	650 (book value)	5,863 (book value)
Machinery, equipment and vehicles	1 (book value)	0 (book value)	0 (book value)
Tools, furniture and fixtures	65 (book value)	44 (book value)	397 (book value)
Total	775 (book value)	695 (book value)	6,269 (book value)
<i>Liabilities related to the above assets</i>			
Short-term loans payable	149	99	893
Long-term loans payable	349	299	2,697
Total	498	399	3,599
<i>Liabilities provided for factory foundation mortgage</i>			
Short-term loans payable	144	94	848
Long-term loans payable	315	271	2,444
Total	460	365	3,292

(Note 3) Advanced depreciation of government subsidies is ¥5,832 million in both FY2/18 and FY2/19.

These figures are deducted from the consolidated balance sheets.

(Note 4) Application of the Land Revaluation Law

Land used for business purposes has been revalued in accordance with the “Act on revaluation of land” (Law No. 34, promulgated on March 31, 1998) and the “Law Partially Amending the Act on Revaluation of Land” (revision of March 31, 1999). The portion of the revaluation gain equivalent to corporation tax and other taxes with tax bases linked to corporate profits has been presented under liabilities as “Deferred tax liabilities for land revaluation,” while the net sum after this transfer to the deferred tax liability account is presented under Net assets as “Revaluation reserve for land.”

Financial Section

Revaluation method

The land value used as the basis for calculation of the tax base under the Land Value Tax, stipulated in Article 16 of the Land Value Tax Law (Law No. 69 of 1991), has been calculated by making rational adjustments to the price calculated by the method determined and publicly announced by the Commissioner of the National Tax Agency, as stipulated in Article 2.4 of the “Regulations for Applying the Land Revaluation Law” (Government Ordinance No. 119 of 1998, promulgated March 31, 1998).

Revaluation date

February 28, 2001

The market value of commercial land revalued in accordance with Article 10 of the Land Revaluation Law at the end of FY2/18 and FY2/19 was ¥3,366 million and ¥3,072 million lower than the book value after revaluation.

CONSOLIDATED STATEMENTS OF INCOME

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

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2018	Fiscal 2019	Fiscal 2019
Advertising expenses	10,987	13,089	118,057
Sales promotion expenses	13,227	13,283	119,807
Freightage and packing expenses	2,681	2,832	25,543
Provision of allowance for doubtful accounts	(27)	49	442
Salaries and allowances	7,598	7,796	70,317
Provision for bonuses	863	836	7,540
Retirement benefit expenses	604	567	5,114
Business consignment expenses	335	721	6,503
Research and development expenses, of which:	15,076	13,032	117,543
Provision for bonuses	360	364	3,283
Retirement benefit expenses	208	193	1,741

(Note 2) General and administrative expenses include research and development expenses of ¥15,076 million and ¥13,032 million in FY2/18 and FY2/19, respectively.

Manufacturing costs do not include research and development expenses.

(Note 3) In FY2/18 and FY2/19, manufacturing costs include provision for bonuses of ¥460 million and ¥472 million and retirement benefit expenses of ¥325 million and ¥312 million, respectively.

Financial Section

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

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2018	Fiscal 2019	Fiscal 2019
Machinery, equipment and vehicles	0	0	0
Total	0	0	0

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

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2018	Fiscal 2019	Fiscal 2019
<i>Loss on retirement</i>			
Buildings and structures	5	15	135
Machinery, equipment and vehicles	1	12	108
Tools, furniture and fixtures	0	6	54
<i>Loss on sales</i>			
Land	8	38	343
Total	15	72	649

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

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

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

Purpose of use	Location	Type	Amount (Millions of yen)
Idle assets	Tosu-shi, Saga	Buildings and construction in progress	599
Idle assets	Tsukuba-shi, Ibaraki	Buildings and land	423

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

Fiscal 2019 (March 1, 2018–February 28, 2019)

The information is omitted, as its significance is low.

Financial Section

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2018	Fiscal 2019	Fiscal 2019
Valuation difference on available-for-sale securities:			
Amount arising during fiscal year under review	7,018	(1,142)	(10,300)
Reclassification adjustment amount:	(487)	(1,312)	(11,834)
Before tax effect adjustment	6,531	(2,454)	(22,134)
Tax effect amount	(2,077)	538	4,853
Valuation difference on available-for-sale securities	4,453	(1,915)	(17,272)
Foreign currency translation adjustment:			
Amount arising during fiscal year under review	(1,833)	(1,546)	(13,944)
Remeasurements of defined benefit plans, net of tax:			
Amount arising during fiscal year under review	759	(11)	(99)
Reclassification adjustment amount:	379	322	2,904
Before tax effect adjustment	1,138	310	2,796
Tax effect amount	(346)	(94)	(848)
Remeasurements of defined benefit plans, net of tax	791	215	1,939
Share of other comprehensive income of entities accounted for using equity method:			
Amount arising during fiscal year under review	113	(163)	(1,470)
Total other comprehensive income	3,525	(3,409)	(30,748)

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

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

1. Shares issued

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

2. Treasury shares

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

Reasons for changes

Shares increased for the following main reasons:

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

Financial Section

3. Subscription rights to shares

(Millions of yen)

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

4. Dividends

(1) Dividends paid

(Millions of yen)

(Yen)

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

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

(Millions of yen)

(Yen)

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

Fiscal 2019 (March 1, 2018–February 28, 2019)

1. Shares issued

(Shares)

Type of shares	Beginning of fiscal 2019	Increase	Decrease	End of fiscal 2019
Common stock	95,164,895	—	—	95,164,895

2. Treasury shares

(Shares)

Type of shares	Beginning of fiscal 2019	Increase	Decrease	End of fiscal 2019
Common stock	11,500,159	1,000,511	—	12,500,670

Reasons for changes

Shares increased for the following main reasons:

Increase from purchasing shares in less than one unit	345 shares
Increase from acquisition of treasury shares by resolution of the board of directors	1,000,000 shares
The Company portion of treasury shares acquired by equity method affiliates	166 shares

Financial Section

3. Subscription rights to shares

(Millions of yen)

Name of company	Breakdown	Type of shares	Number of shares			End of fiscal 2019	Balance at the end of the fiscal 2019
			Beginning of fiscal 2019	Increase	Decrease		
The filing company	Subscription rights to shares as stock option	—	—	—	—	—	392

4. Dividends

(1) Dividends paid

(Millions of yen)

(Yen)

Resolution	Type of shares	Total dividends	Dividends per share	Record date	Payment date
May 24, 2018 Annual general meeting of shareholders	Common stock	3,431	41.0	February 28, 2018	May 25, 2018
October 10, 2018 Board of Directors meeting	Common stock	3,452	41.25	August 31, 2018	November 7, 2018

(Thousands of U.S. dollars)

(U.S. dollars)

Resolution	Type of shares	Total dividends	Dividends per share	Record date	Payment date
May 24, 2018 Annual general meeting of shareholders	Common stock	30,946	0.37	February 28, 2018	May 25, 2018
October 10, 2018 Board of Directors meeting	Common stock	31,136	0.37	August 31, 2018	November 7, 2018

(2) Dividends with a record date in fiscal 2019 but a payment date in fiscal 2020

(Millions of yen)

(Yen)

Resolution	Type of shares	Source of dividend	Total dividends	Dividends per share	Record date	Payment date
May 23, 2019 Annual general meeting of shareholders	Common stock	Retained earnings	3,411	41.25	February 28, 2019	May 24, 2019

(Thousands of U.S. dollars)

(U.S. dollars)

Resolution	Type of shares	Source of dividend	Total dividends	Dividends per share	Record date	Payment date
May 23, 2019 Annual general meeting of shareholders	Common stock	Retained earnings	30,766	0.37	February 28, 2019	May 24, 2019

Financial Section

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2018	Fiscal 2019	Fiscal 2019
Cash and deposits	117,189	110,283	994,706
Cash equivalents included in short-term investment securities	12,631	17,934	161,757
Total	129,820	128,217	1,156,463
Term deposits longer than three months	(3,251)	(39,435)	(355,687)
Cash and cash equivalents	126,569	88,782	800,776

FINANCIAL INSTRUMENTS

1. Outline of financial instruments

(1) Policy for financial instruments

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

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

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

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

Payment terms of operating payables, such as notes and accounts payable – trade, electronically recorded obligations – operating, accounts payable – other, and income taxes payable are less than one year. Borrowings are mainly for funding required for corporate acquisitions and capital investment. Although operating payables and borrowings are exposed to liquidity risk, this risk is managed through methods such as preparing cash flow planning on a monthly basis.

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

Financial Section

2. Market values of financial instruments

Carrying amount, market value and unrealized gain/loss of the financial instruments are as follows:

Financial instruments whose market values are not readily determinable are excluded from the following table (See (Note 2)):

Fiscal 2018 (February 28, 2018)

	(Millions of yen)		
	Carrying amount	Market value	Unrealized gain (loss)
(1) Cash and deposits	117,189	117,189	—
(2) Notes and accounts receivable – trade	35,185	35,185	—
(3) Short-term investment securities and investment securities:			
(i) Held-to-maturity bonds	5,028	5,025	(2)
(ii) Available-for-sale securities	60,352	60,352	—
(iii) Stock of affiliated companies	2,235	1,870	(364)
(4) Long-term deposits	210	220	9
Total assets	220,201	219,844	(357)
(1) Notes and accounts payable – trade	7,709	7,709	—
(2) Electronically recorded obligations – operating	6,202	6,202	—
(3) Short-term loans payable	1,390	1,390	—
(4) Accounts payable – other	7,278	7,278	—
(5) Income taxes payable	4,891	4,891	—
(6) Long-term loans payable (*)	576	576	—
Total liabilities	28,049	28,049	—
Derivative transactions	—	—	—

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

Financial Section

Fiscal 2019 (February 28, 2019)

	(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	110,283	110,283	—	994,706	994,706	—
(2) Notes and accounts receivable – trade	39,961	39,961	—	360,431	360,431	—
(3) Short-term investment securities and investment securities:						
(i) Held-to-maturity bonds	5,218	5,216	(2)	47,064	47,046	(18)
(ii) Available-for-sale securities	62,596	62,596	—	564,589	564,589	—
(iii) Stock of affiliated companies	2,392	1,411	(980)	21,575	12,727	(8,839)
(4) Long-term deposits	691	732	41	6,233	6,602	370
Total assets	221,144	220,202	(941)	1,994,624	1,986,128	(8,487)
(1) Notes and accounts payable – trade	8,290	8,290	—	74,772	74,772	—
(2) Electronically recorded obligations – operating	5,864	5,864	—	52,891	52,891	—
(3) Short-term loans payable	1,290	1,290	—	11,635	11,635	—
(4) Accounts payable – other	5,936	5,936	—	53,540	53,540	—
(5) Income taxes payable	868	868	—	7,829	7,829	—
(6) Long-term loans payable (*)	504	504	—	4,546	4,546	—
Total liabilities	22,754	22,754	—	205,231	205,231	—
Derivative transactions	—	—	—	—	—	—

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

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

Assets

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

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

(3) Short-term investment securities and investment securities

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

(4) Long-term deposits

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

Liabilities

(1) Notes and accounts payable – trade, (2) Electronically recorded obligations – operating, (3) Short-term loans payable, (4) Accounts payable – other, and (5) Income taxes payable

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

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

Long-term loans payable with floating interest rates are recorded using book values because market values approximate book values as these rates reflect market interest rates over the short-term.

Financial Section

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

Category	(Millions of yen)		(Thousands of U.S. dollars)
	February 28, 2018	February 28, 2019	February 28, 2019
Unlisted equity securities	4,312	4,259	38,414

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

Note 3: Redemption schedule of monetary assets and securities with contractual maturities after the balance sheet date
Fiscal 2018 (February 28, 2018)

	(Millions of yen)			
	Due within one year	Due after one year but within five years	Due after five years but within ten years	Due after ten years
Cash and deposits	117,189	—	—	—
Notes and accounts receivable – trade	35,185	—	—	—
Short-term investment securities and investment securities:				
Held-to-maturity bonds	4,857	170	—	—
Long-term deposits	—	210	—	—
Total	157,232	381	—	—

Fiscal 2019 (February 28, 2019)

	(Millions of yen)				(Thousands of U.S. dollars)			
	Due within one year	Due after one year but within five years	Due after five years but within ten years	Due after ten years	Due within one year	Due after one year but within five years	Due after five years but within ten years	Due after ten years
Cash and deposits	110,283	—	—	—	994,706	—	—	—
Notes and accounts receivable – trade	39,961	—	—	—	360,431	—	—	—
Short-term investment securities and investment securities:								
Held-to-maturity bonds	5,107	110	—	—	46,063	992	—	—
Available-for-sale securities with contractual maturities								
Negotiable certificates of deposit	5,000	—	—	—	45,098	—	—	—
Long-term deposits	—	691	—	—	—	6,233	—	—
Total	160,353	802	—	—	1,446,316	7,234	—	—

Financial Section

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

Fiscal 2018 (February 28, 2018)

	(Millions of yen)			
	Due within one year	Due after one year but within five years	Due after five years but within ten years	Due after ten years
Long-term loans payable	71	285	219	—
Total	71	285	219	—

Fiscal 2019 (February 28, 2019)

	(Millions of yen)				(Thousands of U.S. dollars)			
	Due within one year	Due after one year but within five years	Due after five years but within ten years	Due after ten years	Due within one year	Due after one year but within five years	Due after five years but within ten years	Due after ten years
Long-term loans payable	71	285	147	—	640	2,571	1,326	—
Total	71	285	147	—	640	2,571	1,326	—

SECURITIES

1. Held-to-maturity bonds

Fiscal 2018 (February 28, 2018)

Category	(Millions of yen)		
	Carrying amount	Market value	Difference
<i>Market value higher than carrying amount</i>	226	226	0
<i>Market value lower than carrying amount</i>	4,801	4,799	(2)
Total	5,028	5,025	(2)

Fiscal 2019 (February 28, 2019)

Category	(Millions of yen)			(Thousands of U.S. dollars)		
	Carrying amount	Market value	Difference	Carrying amount	Market value	Difference
<i>Market value higher than carrying amount</i>	285	285	0	2,571	2,571	0
<i>Market value lower than carrying amount</i>	4,933	4,930	(2)	44,494	44,466	(18)
Total	5,218	5,216	(2)	47,064	47,046	(18)

Financial Section

2. Available-for-sale securities

Fiscal 2018 (February 28, 2018)

Category	(Millions of yen)		
	Carrying amount	Acquisition cost	Difference
<i>Carrying amount higher than acquisition cost:</i>			
(1) Stocks	50,142	23,825	26,316
(2) Bonds	—	—	—
(3) Other	—	—	—
Subtotal	50,142	23,825	26,316
<i>Carrying amount lower than acquisition cost:</i>			
(1) Stocks	309	316	(7)
(2) Bonds	—	—	—
(3) Other	9,901	9,901	—
Subtotal	10,210	10,218	(7)
Total	60,352	34,044	26,308

Fiscal 2019 (February 28, 2019)

Category	(Millions of yen)			(Thousands of U.S. dollars)		
	Carrying amount	Acquisition cost	Difference	Carrying amount	Acquisition cost	Difference
<i>Carrying amount higher than acquisition cost:</i>						
(1) Stocks	44,921	20,887	24,034	405,168	188,392	216,776
(2) Bonds	—	—	—	—	—	—
(3) Other	—	—	—	—	—	—
Subtotal	44,921	20,887	24,034	405,168	188,392	216,776
<i>Carrying amount lower than acquisition cost:</i>						
(1) Stocks	1,836	2,016	(180)	16,560	18,183	(1,624)
(2) Bonds	—	—	—	—	—	—
(3) Other	15,838	15,838	—	142,852	142,852	—
Subtotal	17,675	17,855	(180)	159,421	161,044	(1,624)
Total	62,596	38,743	23,853	564,589	349,445	215,144

Financial Section

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

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

Category	(Millions of yen)		
	Sales	Total gains on sales	Total losses on sales
Stocks	801	487	—
Bonds	—	—	—
Other	—	—	—
Total	801	487	—

Fiscal 2019 (March 1, 2018–February 28, 2019)

Category	(Millions of yen)			(Thousands of U.S. dollars)		
	Sales	Total gains on sales	Total losses on sales	Sales	Total gains on sales	Total losses on sales
Stocks	2,573	1,312	—	23,207	11,834	—
Bonds	—	—	—	—	—	—
Other	—	—	—	—	—	—
Total	2,573	1,312	—	23,207	11,834	—

Financial Section

RETIREMENT BENEFITS

1. Overview of retirement benefit plans

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

Corporate pension plan

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

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

Lump sum retirement allowance

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

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

2. Defined benefit plans

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

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2018	Fiscal 2019	Fiscal 2019
Beginning balance of retirement benefit obligations:	17,448	17,395	156,895
Service costs	907	907	8,181
Interest costs	68	68	613
Actuarial differences incurred	(572)	(111)	(1,001)
Payment of retirement benefits	(435)	(486)	(4,384)
Other	(21)	(98)	(884)
Ending balance of retirement benefit obligations	17,395	17,673	159,403

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

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2018	Fiscal 2019	Fiscal 2019
Beginning balance of pension assets:	12,704	13,188	118,950
Expected return on plan assets	215	224	2,020
Actuarial differences incurred	186	(123)	(1,109)
Employer contributions	359	365	3,292
Payment of retirement benefits	(278)	(279)	(2,516)
Ending balance of pension assets	13,188	13,374	120,628

Financial Section

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

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2018	Fiscal 2019	Fiscal 2019
Retirement benefit obligations for funded plans	10,097	10,208	92,072
Pension assets	(13,188)	(13,374)	(120,628)
	(3,090)	(3,165)	(28,547)
Retirement benefit obligations for unfunded plans	7,297	7,465	67,331
Net amount of liabilities and assets in consolidated balance sheets	4,207	4,299	38,775
Net defined benefit liability	7,297	7,465	67,331
Net defined benefit asset	(3,090)	(3,165)	(28,547)
Net amount of liabilities and assets in consolidated balance sheets	4,207	4,299	38,775

(4) Breakdown of retirement benefit expenses

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2018	Fiscal 2019	Fiscal 2019
Service costs	907	907	8,181
Interest costs	68	68	613
Expected return on plan assets	(215)	(224)	(2,020)
Amortization of actuarial differences	379	322	2,904
Retirement benefit expenses for defined benefit plans	1,138	1,073	9,678

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

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

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2018	Fiscal 2019	Fiscal 2019
Actuarial differences	1,138	310	2,796

(6) Remeasurements of defined benefit plans

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

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2018	Fiscal 2019	Fiscal 2019
Unrecognized actuarial differences	439	128	1,155

Financial Section

(7) Pension assets

1) Breakdown by main items of pension assets

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

	Fiscal 2018	Fiscal 2019
Bonds	54%	53%
Stocks	27%	29%
General account	10%	9%
Other	9%	9%
Total	100%	100%

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

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

(8) Basis for actuarial calculation

	Fiscal 2018	Fiscal 2019
Discount rate	0.4%	0.4%
Long-term expected rate of return on plan assets	1.7%	1.7%

Financial Section

MATTERS RELATED TO STOCK OPTIONS, ETC

1. Expenses related to stock options and its items

	(Millions of yen)		(Thousands of U.S.dollars)
	Fiscal 2018	Fiscal 2019	Fiscal 2019
Expenses for stock option as compensation of selling, general and administrative expenses	95	93	839

2. Description, scale and transition of stock options

(1) Description of stock options

	Hisamitsu Pharmaceutical Co., Inc. The first subscription rights to shares	Hisamitsu Pharmaceutical Co., Inc. The second subscription rights to shares
Resolution date	July 10, 2015	July 8, 2016
Classification and number of persons to be granted	10 directors of the Company	10 directors of the Company
Class and number of shares	Common stock of 35,800 shares	Common stock of 17,900 shares
Date of grant	July 27, 2015	July 25, 2016
Vesting conditions	No vesting conditions are applied.	No vesting conditions are applied.
Requisite service period	—	—
Exercise period	From July 28, 2015 to July 27, 2065	From July 26, 2016 to July 25, 2066
	Hisamitsu Pharmaceutical Co., Inc. The third subscription rights to shares	Hisamitsu Pharmaceutical Co., Inc. The fourth subscription rights to shares
Resolution date	July 7, 2017	July 6, 2018
Classification and number of persons to be granted	10 directors of the Company	10 directors of the Company
Class and number of shares	Common stock of 21,900 shares	Common stock of 12,500 shares
Date of grant	July 25, 2017	July 24, 2018
Vesting conditions	No vesting conditions are applied.	No vesting conditions are applied.
Requisite service period	—	—
Exercise period	From July 26, 2017 to July 25, 2067	From July 25, 2018 to July 24, 2068

(2) Scale and transition of stock options

The following is applicable to the stock options prevalent in the fiscal year under review (FY2/19), whereby the number of stock options is converted into number of shares.

Financial Section

(i) Number of stock options

(Shares)

	Hisamitsu Pharmaceutical Co., Inc. The first subscription rights to shares	Hisamitsu Pharmaceutical Co., Inc. The second subscription rights to shares	Hisamitsu Pharmaceutical Co., Inc. The third subscription rights to shares	Hisamitsu Pharmaceutical Co., Inc. The fourth subscription rights to shares
Date of resolution	July 10, 2015	July 8, 2016	July 7, 2017	July 6, 2018
Prior to vesting:				
End of fiscal 2018	—	—	—	—
Granted	—	—	—	12,500
Expired	—	—	—	—
Vested	—	—	—	12,500
Outstanding prior to vesting	—	—	—	—
Post-vesting:				
End of fiscal 2018	35,800	17,900	21,900	—
Vested	—	—	—	12,500
Exercised	—	—	—	—
Expired	—	—	—	—
Outstanding prior to exercise	35,800	17,900	21,900	12,500

(ii) Unit price information

(Yen)

	Hisamitsu Pharmaceutical Co., Inc. The first subscription rights to shares	Hisamitsu Pharmaceutical Co., Inc. The second subscription rights to shares	Hisamitsu Pharmaceutical Co., Inc. The third subscription rights to shares	Hisamitsu Pharmaceutical Co., Inc. The fourth subscription rights to shares
Date of resolution	July 10, 2015	July 8, 2016	July 7, 2017	July 6, 2018
Exercise price	1	1	1	1
Average share price at the time of exercise	—	—	—	—
Fair valuation unit price as at the grant date	3,796	5,032	4,463	7,328

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

(1) Valuation method used: Black-Scholes model

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

Share price volatility (Note 1)	27.826%
Expected remaining period (Note 2)	10 years
Expected dividends (Notes 3)	¥82 per share
Risk-free interest rate (Note 4)	0.080%

Notes: 1. Calculated based on the actual share price over a ten-year period (from July 2008 to July 2018).

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

3. Based on the actual dividend paid for FY2/18.

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

Financial Section

TAX EFFECT ACCOUNTING

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

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2018	Fiscal 2019	Fiscal 2019
<i>Deferred tax assets:</i>			
Net defined benefit liability	2,066	2,182	19,681
Provision for directors' retirement benefits (long-term accounts payable)	398	398	3,590
Accrued enterprise tax	281	47	424
Allowance for doubtful accounts	128	142	1,281
Inventories	100	74	667
Excess depreciation	744	732	6,602
Valuation losses on memberships	186	142	1,281
Loss on valuation of investment securities	780	666	6,007
Provision for bonuses	449	433	3,905
Outsourced research and development	2,377	713	6,431
Other	4,295	4,700	42,392
Sub-total deferred tax assets	11,808	10,234	92,306
Valuation allowance	(3,214)	(3,198)	(28,845)
Total deferred tax assets	8,594	7,036	63,462
<i>Deferred tax liabilities:</i>			
Net defined benefit asset	(929)	(929)	(8,379)
Valuation difference on available-for-sale securities	(7,598)	(7,059)	(63,669)
Other	(2,026)	(2,264)	(20,420)
Total deferred tax liabilities	(10,554)	(10,252)	(92,469)
Net deferred tax assets	(1,960)	(3,216)	(29,007)

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 2018	Fiscal 2019	Fiscal 2019
Current assets: deferred tax assets	3,840	2,151	19,401
Non-current assets: deferred tax assets	353	388	3,500
Non-current liabilities: deferred tax liabilities	(6,153)	(5,756)	(51,917)

Financial Section

2. Breakdown by main items that caused major differences in statutory tax rate and income tax rate after application of tax effect accounting

	Fiscal 2018 (February 28, 2018)	Fiscal 2019 (February 28, 2019)
Statutory tax rate	—	30.7%
(Reconciliation)		
Non-deductible expenses, such as entertainment expenses	—	0.5%
Special tax exemption for experimental research and development	—	(3.8)%
Effects of tax rate differences between the parent company and consolidated subsidiaries	—	(2.9)%
Share of (profit) loss of entities accounted for using equity method	—	(0.7)%
Other	—	0.7%
Income tax rate after application of tax effect accounting	—	24.5%

Note: Because the difference in the statutory tax rate and the income tax after the application of tax effect accounting is less than five percent of the statutory tax rate, notes for Fiscal 2018 are omitted.

INVESTMENT AND RENTAL PROPERTY

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

SEGMENT INFORMATION

1. Outline of reportable segments

The Company engages in business activities primarily in research and development, manufacturing, purchase, and sales of pharmaceuticals, where “Pharmaceuticals” is the concerned reportable segment.

“Pharmaceuticals” is conducting business related to ethical and OTC pharmaceuticals both in Japan and overseas.

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

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

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

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

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

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

Financial Section

RELATED INFORMATION

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

1. Information by product/service segment

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

2. Information by geographic segment

(1) Net sales

(Millions of yen)

Japan	USA	Other	Total
103,799	27,883	16,783	148,466

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

(2) Property, plant and equipment

(Millions of yen)

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

3. Information by significant customer

(Millions of yen)

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

Fiscal 2019 (March 1, 2018 – February 28, 2019)

1. Information by product/service segment

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

2. Information by geographic segment

(1) Net sales

(Millions of yen)

Japan	USA	Other	Total
99,360	26,765	17,282	143,408

(Thousands of U.S. dollars)

Japan	USA	Other	Total
896,185	241,409	155,876	1,293,479

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

Financial Section

(2) Property, plant and equipment

(Millions of yen)

Japan	USA	Other	Total
29,854	7,267	2,434	39,556

(Thousands of U.S. dollars)

Japan	USA	Other	Total
269,270	65,545	21,954	356,778

3. Information by significant customer

(Millions of yen)

Name of customers	Net sales	Related segment
Alfresa Holdings Corporation	20,400	Pharmaceuticals
MEDIPAL HOLDINGS CORPORATION	20,224	Pharmaceuticals

(Thousands of U.S. dollars)

Name of customers	Net sales	Related segment
Alfresa Holdings Corporation	183,999	Pharmaceuticals
MEDIPAL HOLDINGS CORPORATION	182,412	Pharmaceuticals

Information on the impairment loss of non-current assets by reportable segment

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

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

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

Information on the gain on negative goodwill by reportable segment

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

RELATED PARTY INFORMATION

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

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

Fiscal 2019 (March 1, 2018–February 28, 2019)

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

Financial Section

PER SHARE INFORMATION

	(Yen)		(U.S. dollars)
	Fiscal 2018	Fiscal 2019	Fiscal 2019
Net assets per share	2,912.83	2,981.63	26.89
Profit per share	228.52	230.08	2.08
Diluted profit per share	228.35	229.86	2.07

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

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2018	Fiscal 2019	Fiscal 2019
Profit per share:			
Profit attributable to owners of parent	19,119	19,204	173,212
Amount not attributable to common shareholders	—	—	—
Profit attributable to owners of parent attributable to common stock	19,119	19,204	173,212
Average common stock during year (Thousands of shares)	83,665	83,468	—
Diluted profit per share:			
Adjusted profit attributable to owners of parent	—	—	—
Increase in common stock (Thousands of shares)	64	81	—
(Subscription rights to shares (Thousands of shares))	(64)	(81)	—
Outline of residual securities that were not included in calculating diluted profit per share as they had no dilutive effect	—	—	—

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

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2018	Fiscal 2019	Fiscal 2019
Total net assets	245,227	248,161	2,238,306
Amount deducted from total net assets:	1,526	1,687	15,216
(Subscription rights to shares)	(299)	(392)	(3,536)
(Non-controlling interests)	(1,227)	(1,295)	(11,680)
Net assets attributable to common stock as at the end of the fiscal year	243,700	246,473	2,223,081
Common stock used in calculating net assets per share as at the end of the fiscal year (Thousands of shares)	83,664	82,664	—

SIGNIFICANT SUBSEQUENT EVENTS

Not applicable.

Financial Section

Supplementary Schedule

Supplementary schedule of bonds payable

Not applicable.

Supplementary schedule of loans payable

Category	(Millions of yen)		(Thousands of U.S. dollars)		Average interest rate (%)	Due date
	Balance at the beginning of Fiscal 2019	Balance at the end of Fiscal 2019	Balance at the beginning of Fiscal 2019	Balance at the end of Fiscal 2019		
Short-term loans	1,390	1,290	12,537	11,635	0.38	—
Current portion of long-term loans	71	71	640	640	0.64	—
Current portion of long-term lease obligation	29	26	262	235	—	—
Long-term loans (excluding current portion)	504	433	4,546	3,905	0.64	March 2020 to March 2026
Lease obligation (excluding current portion)	64	70	577	631	—	March 2020 to September 2025
Other interest-bearing liabilities	—	—	—	—	—	—
Total	2,061	1,891	18,589	17,056	—	—

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

2. The average interest rate on lease obligations is not listed, mainly because lease obligations are stated in the consolidated balance sheet mainly as a total before deduction of the equivalent of interest contained in the total lease payment.

3. Long-term loans and lease obligations (both excluding current portion) within five years after the consolidated balance sheet date are as follows:

Category	(Millions of yen)			
	Due after one year but within two years	Due after two years but within three years	Due after three years but within four years	Due after four years but within five years
Long-term loans	65	77	71	71
Lease obligations	25	24	7	4

Category	(Thousands of U.S. dollars)			
	Due after one year but within two years	Due after two years but within three years	Due after three years but within four years	Due after four years but within five years
Long-term loans	586	695	640	640
Lease obligations	225	216	63	36

Supplementary schedule of asset retirement obligations

Not applicable.

Financial Section

Other

Quarterly consolidated financial information for Fiscal 2019

	(Millions of yen)			
(Cumulative)	Three months ended May 31, 2018	Six months ended August 31, 2018	Nine months ended November 30, 2018	Fiscal 2019
Net sales	33,507	69,400	102,587	143,408
Profit before income taxes	4,449	12,221	17,621	25,673
Profit attributable to owners of parent	3,452	9,158	13,329	19,204
Profit per share (yen)	41.27	109.46	159.35	230.08

	(Thousands of U.S. dollars)			
(Cumulative)	Three months ended May 31, 2018	Six months ended August 31, 2018	Nine months ended November 30, 2018	Fiscal 2019
Net sales	302,219	625,958	925,291	1,293,479
Profit before income taxes	40,128	110,228	158,934	231,559
Profit attributable to owners of parent	31,136	82,601	120,222	173,212
Profit per share (U.S. dollars)	0.37	0.99	1.44	2.08

	(Yen)			
(Quarterly)	First quarter	Second quarter	Third quarter	Fourth quarter
Profit per share	41.27	68.19	49.89	70.84

	(U.S. dollars)			
(Quarterly)	First quarter	Second quarter	Third quarter	Fourth quarter
Profit per share	0.37	0.62	0.45	0.64

Note: "Royalty income," which had been previously been presented under non-operating income, has been included in and presented under "Net sales" starting from the end of the fiscal year under review. The amount from the three months ended May 31, 2018, to the nine months ended November 30, 2018 reflect this change in presentation method.

Corporate Information

Stock Information

(1) Total number of shares

1) Total number of shares

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

2) Shares issued

Type of shares	Shares issued at year end Fiscal 2019 (February 28, 2019)	Shares issued on filing date (May 27, 2019)	Names of listing stock exchanges or registered securities dealers associations	Details
Common stock	95,164,895	95,164,895	Tokyo Stock Exchange (First Section) Nagoya Stock Exchange (First Section) Fukuoka Stock Exchange	All voting shares, standard shares with unlimited rights (Voting units: 100 shares)
Total	95,164,895	95,164,895	—	—

(2) Status of share subscription rights to shares

1) Details of stock option system

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

The description of the relevant system is as follows.

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

	As of the end of the fiscal year under review (February 28, 2019)	As at the end of the month preceding the filing date (April 30, 2019)
Number of subscription rights to shares (Units)	358 (Note 1)	Same as left
Class of shares to be issued upon exercise of subscription rights to shares	Common stock	Same as left
Number of shares to be issued upon exercise of subscription rights to shares (Shares)	35,800 (Notes 1, 2)	Same as left
Cash payment upon exercise of subscription rights to shares (yen)	1	Same as left
Exercise period of subscription rights to shares	July 28, 2015 to July 27, 2065	Same as left
Price of the shares to be issued upon exercise of subscription rights to shares, and the amount to be incorporated into capital stock (yen)	Price of shares issued: 3,797 Amount to be incorporated into capital stock: 1,899 (Note 3)	Same as left
Conditions for the exercise of subscription rights to shares	(Note 4)	Same as left
Matters concerning the transfer of subscription rights to shares	Acquisition of subscription rights to shares by transfer shall be subject to the approval based on the resolution of the board of directors of the Company.	Same as left
Matters concerning the issuance of subscription rights to shares associated with organizational restructuring	(Note 5)	Same as left

Corporate Information

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

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

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

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

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

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

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

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

3. (1) The amount of an increase in capital associated with the issuance of shares as a result of the exercise of subscription rights to shares, shall be half of the maximum amount of an increase in capital stock calculated in accordance with Article 17-1 of the Company Accounting Ordinance, where any fraction less than ¥1 resulting therefrom shall be rounded up.
- (2) The amount of an increase in additional paid-in capital associated with the issuance of shares as a result of the exercise of subscription rights to shares, shall be calculated by subtracting the amount of an increase in capital stock described in (1) above, from the maximum amount of an increase in capital stock, etc., also described in (1) above.
4. (1) A holder of subscription rights to shares shall, on or after the day following the date of loss of his/her position as a director, be entitled to exercise the subscription rights to shares allotted to him/her based on such loss.
- (2) In the event of death of a holder of subscription rights to shares, only if all of the subscription rights to shares held by such holder are succeeded by one person who is his spouse, child, parents or sibling among all his heirs (hereinafter such heir who succeed the subscription rights to shares shall be called the “successor”), the successor shall be entitled to exercise subscription rights to shares.
- (3) Once having abandoned subscription rights to shares, a holder of subscription rights to shares shall not be entitled to exercise such subscription rights to shares.

Corporate Information

- (4) A holder of subscription rights to shares must exercise the whole of the subscription rights to shares allotted to him/her at once (subscription rights to shares remaining after the partial abandonment, if such partial abandonment is conducted).
5. In the event the Company engages in a merger (referring only to the merger in which the Company is an absorbed company), absorption-type or incorporation-type company split (referring only to the company split in which the Company is a split company), or share exchange or share transfer (referring only to the share exchange or share transfer in which the Company becomes a wholly-owned subsidiary) (hereinafter collectively an “organizational restructuring”), the Company shall issue subscription rights to shares in the stock company listed in (a) to (e) of Article 236-1, Item 8 of the Companies Act (hereinafter the “restructured company”) in the respective type of the aforementioned organizational restructuring, to the holder of subscription rights to shares who holds the subscription rights to shares remaining immediately prior to the effective date of such organizational restructuring (hereinafter the “residual subscription rights to shares”) the Company engages in (effective date of the absorption-type merger in the case of an absorption-type merger; date of establishment of the new stock company created as a result of the incorporation-type merger in the case of an incorporation-type merger; effective date of the absorption-type company split, in the case of an absorption-type company split; date of establishment of the new stock company created as a result of the incorporation-type company split in the case of an incorporation-type company split, effective date of the share exchange in the case of a share exchange; the date of establishment of the wholly-owned parent created as a result of the share transfer, in the case of the share transfer; hereinafter the same shall apply). However, the aforementioned issuance shall be subject to the creation of provisions to the effect that the subscription rights to shares in the restructured company be issued in accordance with the items as follows in the absorption-type merger agreement, incorporation-type merger agreement, absorption-type company split agreement, incorporation-type company split plan, share exchange agreement or share transfer plan.
- (1) Number of the subscription rights to shares in the restructured company to be issued
Subscription rights in the restructured company shall be issued to each holder of subscription rights to shares, in the same number as the number of residual subscription rights to shares held by each such holder.
- (2) Type of shares in the restructured company to be issued upon exercise of subscription rights to shares
Common stock of the restructured company.
- (3) Number of shares in the restructured company to be issued upon exercise of subscription rights to shares
It shall be determined in the same manner as described in 1. and 2. above, in consideration of the conditions for the organizational restructuring.
- (4) The value of asset to be contributed at the time of the exercise of subscription rights to shares
The value of asset to be contributed at the time of the exercise of each subscription right to shares to be issued, shall be the amount calculated by multiplying the post-restructuring exercise price as determined as follows, by the number of shares in the restructured company to be issued upon exercise of the subscription rights to shares as determined in (3) above. The post-restructuring exercise price shall be ¥1 for each share in the restructured company, which can be granted upon exercise of each subscription right to shares issued.
- (5) Period during which the subscription rights to shares can be exercised
It shall be the period beginning on the inception date of the period prescribed in the aforementioned “Exercise period of subscription rights to shares,” or the effective date of the organizational restructuring, whichever later, ending on the expiry date of the period prescribed in the aforementioned “Exercise period of subscription rights to shares.”
- (6) Matters concerning capital stock and additional paid-in capital, in the case of issuance of shares upon exercise of subscription rights to shares
It shall be decided in the same manner as described in 3. above.

-
- (7) Restriction on the acquisition of subscription rights to shares by transfer
Acquisition of subscription rights to shares by transfer shall require the approval based on the resolution of the board of directors of the restructured company (“general meeting of shareholders” if the restructured company is not a company with board of directors).
- (8) Terms of acquisition of subscription rights to shares
It shall be decided in the way described as follows.
Upon the approval at general meeting of shareholders of the Company on the proposals (i), (ii), (iii), (iv) and (v) as follows (or upon the resolution of the board of directors of the Company, if resolution of the general meeting of shareholders is not required), the Company shall be entitled to acquire the subscription rights to shares without compensation on the date as separately specified by the board of directors of the Company.
- (i) Proposal for the approval of the merger agreement in which the Company becomes the absorbed company
 - (ii) Proposal for the approval of the company split agreement in which the Company becomes the split company, or on the plan for such company split
 - (iii) Proposal for the approval of the share exchange agreement or plan for the share transfer, in which the Company becomes a wholly-owned subsidiary
 - (iv) Proposal for the approval of the amendment to the Company’s articles of incorporation to create new provisions to the effect that that acquisition of all of the shares issued by the Company by transfer, shall require the approval of the Company.
 - (v) Proposal for the approval of the amendment to the Company’s articles of incorporation to create provisions to the effect that that acquisition of the type of shares to be delivered upon exercise of subscription rights to shares by means of transfer, shall require the approval of the Company, or the provisions that govern the acquisition of all shares of such type based on the resolution of general meeting of shareholders of the Company.
- (9) Other conditions for the exercise of subscription rights to shares
It shall be decided in the same manner as described in 4. above.

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

	As of the end of the fiscal year under review (February 28, 2019)	As at the end of the month preceding the filing date (April 30, 2019)
Number of subscription rights to shares (Units)	179 (Note 1)	Same as left
Class of shares to be issued upon exercise of subscription rights to shares	Common stock	Same as left
Number of shares to be issued upon exercise of subscription rights to shares (Units)	17,900 (Notes 1, 2)	Same as left
Cash payment upon exercise of subscription rights to shares (yen)	1	Same as left
Exercise period of subscription rights to shares	July 26, 2016 to July 25, 2016	Same as left
Price of the shares to be issued upon exercise of subscription rights to shares, and the amount to be incorporated into capital stock (yen)	Price of shares issued: 5,033 Amount to be incorporated into capital stock: 2,517 (Note 3)	Same as left
Conditions for the exercise of subscription rights to shares	(Note 4)	Same as left
Matters concerning the transfer of subscription rights to shares	Acquisition of subscription rights to shares by transfer shall be subject to the approval based on the resolution of the board of directors of the Company.	Same as left
Matters concerning the issuance of subscription rights to shares associated with organizational restructuring	(Note 5)	Same as left

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

Directors of the Company (excluding outside directors): 10 persons; 179 subscription rights to shares
Number of shares to be issued upon exercise of each subscription right to shares (hereinafter "number of shares granted") shall be 100.

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

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

	As of the end of the fiscal year under review (February 28, 2019)	As at the end of the month preceding the filing date (April 30, 2019)
Number of subscription rights to shares (Units)	219 (Note 1)	Same as left
Class of shares to be issued upon exercise of subscription rights to shares	Common stock	Same as left
Number of shares to be issued upon exercise of subscription rights to shares (Units)	21,900 (Notes 1, 2)	Same as left
Cash payment upon exercise of subscription rights to shares (yen)	1	Same as left
Exercise period of subscription rights to shares	July 26, 2017 to July 25, 2067	Same as left
Price of the shares to be issued upon exercise of subscription rights to shares, and the amount to be incorporated into capital stock (yen)	Price of shares issued: 4,464 Amount to be incorporated into capital stock: 2,232 (Note 3)	Same as left
Conditions for the exercise of subscription rights to shares	(Note 4)	Same as left
Matters concerning the transfer of subscription rights to shares	Acquisition of subscription rights to shares by transfer shall be subject to the approval based on the resolution of the board of directors of the Company.	Same as left
Matters concerning the issuance of subscription rights to shares associated with organizational restructuring	(Note 5)	Same as left

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

Directors of the Company (excluding outside directors): 10 persons; 219 subscription rights to shares
Number of shares to be issued upon exercise of each subscription right to shares (hereinafter "number of shares granted") shall be 100.

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

The fourth subscription rights to shares (resolved on July 6, 2018, issued on July 24, 2018)

	As of the end of the fiscal year under review (February 28, 2019)	As at the end of the month preceding the filing date (April 30, 2019)
Number of subscription rights to shares (Units)	125 (Note 1)	Same as left
Class of shares to be issued upon exercise of subscription rights to shares	Common stock	Same as left
Number of shares to be issued upon exercise of subscription rights to shares (Units)	12,500 (Notes 1, 2)	Same as left
Cash payment upon exercise of subscription rights to shares (yen)	1	Same as left
Exercise period of subscription rights to shares	July 25, 2018 to July 24, 2018	Same as left
Price of the shares to be issued upon exercise of subscription rights to shares, and the amount to be incorporated into capital stock (yen)	Price of shares issued: 7,329 Amount to be incorporated into capital stock: 3,665 (Note 3)	Same as left
Conditions for the exercise of subscription rights to shares	(Note 4)	Same as left
Matters concerning the transfer of subscription rights to shares	Acquisition of subscription rights to shares by transfer shall be subject to the approval based on the resolution of the board of directors of the Company.	Same as left
Matters concerning the issuance of subscription rights to shares associated with organizational restructuring	(Note 5)	Same as left

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

Directors of the Company (excluding outside directors): 10 persons; 125 subscription rights to shares
Number of shares to be issued upon exercise of each subscription right to shares (hereinafter "number of shares granted") shall be 100.

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

2) Details of rights plans

Not applicable.

3) Other 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) Changes in shares issued, capital stock, and other items

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

Date	(Shares)		Change in capital stock	(Thousands of U.S. dollars)		
	Change in shares issued	Shares issued		Capital stock	Change in additional paid-in capital	Additional paid-in capital
July 5, 2002 (Note)	—	95,164,895	—	76,423	(55,227)	19,103

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).

(5) Details of shareholders

As of February 28, 2019

Status of shares (Investment unit comprises 100 shares)

Category	National and local government	Financial institutions	Securities companies	Other corporations	Foreign shareholders			Total	Shares under one unit (Shares)
					Non-individuals	Individuals	Individuals and other		
Shareholders (entities)	—	47	33	182	446	4	3,855	4,567	—
Shares owned (units)	—	445,347	18,253	179,214	101,485	12	206,915	951,226	42,295
Ratio (%)	—	46.82	1.92	18.84	10.67	0.00	21.75	100.00	—

Note: Treasury stock of 12,472,588 are listed as 124,725 units in the individuals and other column and as 88 shares in the shares under one unit column. The 12,472,588 treasury stock figure is the number of shares listed in the shareholder registry.

(6) Principal shareholders

As of February 28, 2019

Name	Address	Shares owned (thousand shares)	Percentage of shares outstanding (excluding treasury stock) (%)
Japan Trustee Service Bank, Ltd. (trust account)	1-8-11 Harumi, Chuo-ku, Tokyo	6,527	7.89
The Master Trust Bank of Japan, Ltd. (trust account)	2-11-3 Hamamatsucho, Minato-ku, Tokyo	5,002	6.05
The Nomura Trust and Banking Co., Ltd. (MUFG Bank, Ltd. pension trust account)	2-2-2 Otemachi, Chiyoda-ku, Tokyo	4,387	5.31
Japan Trustee Service Bank, Ltd. (Resona Bank, Ltd. retrust account, The Nishi- Nippon City Bank, Ltd. pension trust account)	1-8-11 Harumi, Chuo-ku, Tokyo	4,370	5.28
Nippon Life Insurance Company	1-6-6 Marunouchi, Chiyoda-ku, Tokyo	3,910	4.73
The Bank of Fukuoka, Ltd.	2-13-1 Tenjin, Chuo-ku, Fukuoka	3,621	4.38
The Bank of Saga, Ltd.	2-7-20 Tojin, Saga	2,356	2.85
Hisamitsu Business Partners' Shareholding Association	408 Tashiro Daikan-machi, Tosu-shi Saga	2,280	2.76
SMBC Trust Bank Ltd. (Sumitomo Mitsui Banking Corporation pension trust account)	1-3-1 Nishi-Shimbashi, Minato-ku, Tokyo	2,064	2.50
TKY	1-12-3 Sasayama-machi, Kurume-shi, Fukuoka	1,834	2.22
Total		36,352	43.96

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

- Japan Trustee Service Bank, Ltd.: 10,897 thousand shares
- The Master Trust Bank of Japan, Ltd.: 5,002 thousand shares
- The Nomura Trust and Banking Co., Ltd.: 4,387 thousand shares
- SMBC Trust Bank Ltd.: 2,064 thousand shares

2. In addition to the shares listed above, the company owns treasury stock of 12,472 thousand shares.

(7) Stock Administration of the Filing Company

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

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

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

Corporate Information

Group Companies

Our corporate group comprises Hisamitsu Pharmaceutical, 18 consolidated subsidiaries, and 3 equity-method affiliates.

Name	Location	Capital or investment	Main business activities	Voting rights (%)	Relationship					Remarks
					Concurrent employees		Capital support from Hisamitsu	Business transactions	Other	
					Hisamitsu officers (Persons)	Hisamitsu employees (Persons)				
Consolidated subsidiaries										
CRCC Media Co., Ltd.	Kurume, Fukuoka	¥1,115 million	Other businesses	69.50	3	—	—	—	—	Note 3
Saga City-Vision Co., Ltd.	Saga, Saga	¥605 million	Other businesses	70.12	2	1	—	—	—	
Taiyo Co., Ltd.	Tosu, Saga	¥50 million	Other businesses	100	2	2	—	Agent for casualty insurance contracts for Hisamitsu	Hisamitsu leases land	
Hisamitsu Agency Co., Ltd.	Kurume, Fukuoka	¥25 million	Other businesses	100 (100)	1	1	—	Provide advertising agency services to Hisamitsu	Hisamitsu leases part of a lease building	
Hisamitsu U.S., Inc.	Delaware USA	USD 10	Pharmaceuticals	100	1	—	—	—	—	Note 3
Hisamitsu America, Inc.	New Jersey, USA	USD 3,000 thousands	Pharmaceuticals	100 (100)	1	1	—	Selling products supplied by Hisamitsu	—	
Noven Pharmaceuticals, Inc.	Florida, USA	USD 10	Pharmaceuticals	100 (100)	2	—	—	Hisamitsu outsources development	—	Note 3
Hisamitsu Farmaceutica do Brasil Ltda.	Manaus, Brazil	BRL 15 million	Pharmaceuticals	100	—	3	Working capital loans	Manufacture and sell products in Brazil, with products and some raw materials supplied by Hisamitsu	—	Note 3
Hisamitsu UK Ltd.	London, UK	GBP 120 thousands	Pharmaceuticals	100	—	2	—	Hisamitsu outsources development	—	
Hisamitsu Italia S.r.l.	Milan, Italy	EUR 10,000	Pharmaceuticals	100	1	2	—	Hisamitsu outsources development	—	
Hisamitsu Vietnam Pharmaceutical Co., Ltd.	Bien Hoa, Vietnam	VND 258,775 million	Pharmaceuticals	100	—	3	—	Manufacture and sell products in Vietnam, with products and some raw materials supplied by Hisamitsu	—	Note 3
Hisamitsu Pharmaceutical Technology Consulting (Beijing) Co., Ltd.	Beijing, China	CNY 1,206 thousand	Pharmaceuticals	100	2	1	—	Hisamitsu outsources medical marketing	—	
Hisamitsu Pharmaceutical (China) Co., Ltd.	Jiangsu, China	CNY 5,973 thousand	Pharmaceuticals	100	1	—	—	Selling products supplied by Hisamitsu	—	Note 3
Hisamitsu Pharmaceutical (Hong Kong) Co., Ltd.	Kowloon, Hong Kong	¥10 million	Pharmaceuticals	100	1	1	Working capital loans	Selling products supplied by Hisamitsu	—	
PT. Hisamitsu Pharma Indonesia	Surabaya, Indonesia	IDR 32,518 million	Pharmaceuticals	75	1	2	Working capital loans	Manufacture and sell products in Indonesia, with products and some raw materials supplied by Hisamitsu	—	
3 other companies	—	—	—	—	—	—	—	—	—	

Corporate Information

Name	Location	Capital or investment	Main business activities	Voting rights (%)	Relationship					Remarks
					Concurrent employees		Capital support from Hisamitsu	Business transactions	Other	
					Hisamitsu officers (Persons)	Hisamitsu employees (Persons)				
Equity-method affiliates										
Sanofi-Hisamitsu K.K.	Shinjuku Tokyo	¥250 million	Pharmaceuticals	49.0	1	3	—	Supplies merchandise to Hisamitsu	—	
Yutoku Pharmaceutical Ind. Co., Ltd.	Kashima, Saga	¥120 million	Pharmaceuticals	15.0	2	—	—	Manufacture and sell products with some products supplied by Hisamitsu, supply merchandise of Hisamitsu	—	
Maruto Sangyo Co., Ltd.	Ogori, Fukuoka	¥1,807 million	Other businesses	39.8	1	2	—	Supplies raw materials to Hisamitsu	—	Note 4

- Notes: 1. Main business activities column lists names of business segments.
 2. There are no companies in accounting insolvency that would significantly affect the consolidated financial statements.
 3. Specified subsidiary.
 4. Listed and files financial statements.
 5. Figures in parenthesis in the voting rights column indicate indirect ownership.
 6. Net sales of Noven Pharmaceuticals, Inc. (excluding internal sales among consolidated subsidiaries) accounted for more than 10% of consolidated sales and key earnings information is as follows. Noven Pharmaceuticals, Inc. prepares financial statements on a consolidated basis and thus the information below is also presented on a consolidated basis.

Key earnings information

	(Millions of yen)	(Thousands of U.S. dollars)
(1) Net sales	17,808	160,621
(2) Ordinary income	2,633	23,749
(3) profit attributable to owners of parent	2,024	18,256
(4) Net assets	28,596	257,924
(5) Total assets	36,660	330,658

Corporate Information

Management

Chairman	NAKATOMI Hirotaka	Standing Corporate Auditor	NAKATOMI Nobuyuki
President & CEO	NAKATOMI Kazuhide	Standing Corporate Auditor	HIRANO Munehiko
Senior Managing Director	SUGIYAMA Kousuke	Corporate Auditor	ONO Keinosuke
Managing Director	AKIYAMA Tetsuo	Corporate Auditor	TOKUNAGA Tetsuo
Director	HIGO Naruhito		
Director	TSURUDA Toshiaki		
Director	TAKAO Shinichiro		
Director	SAITO Kyu		
Director	TSUTSUMI Nobuo		
Director	MURAYAMA Shinichi		
Director	ICHIKAWA Isao		
Director	FURUKAWA Teijiro		

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

Company Profile

Company name	Hisamitsu Pharmaceutical Co., Inc.	
Founded	1847	
Established	May 22, 1944	
Head office	408 Tashiro Daikan-machi, Tosu, Saga	
Representative	NAKATOMI, Kazuhide, President & CEO	
Capital	¥8,473,839,816	
Fiscal year	March 1–End of February	
Number of employees	(As of February 28, 2019)	
	Business segment	Employees
	Pharmaceuticals	2,735 [629]
	Other businesses	57 [7]
	Total	2,792 [636]

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

Hisamitsu Pharmaceutical Co., Inc.

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For muscle ache, muscle fatigue
Third-class OTC drugs