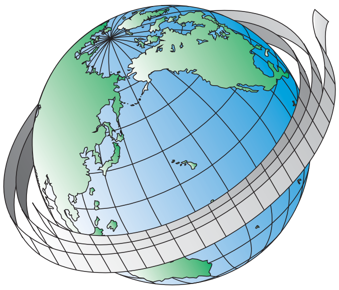
Hisamitsu Pharmaceutical Co., Inc.

ANNUAL REPORT 2009

For the Fiscal Year Ended February 28, 2009

Corporate Vision

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



More than a half century has elapsed since the launching of Salonpas, and about 20 billion pieces have been sold in last twenty years.

Approx. 1.3 million kilometers, encircling the earth 31 times.

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

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

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

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

Forward-looking statements:
Statements in this annual report concerning current plans, forecasts, strategies, beliefs, and other forward-looking information related to Hisamitsu Pharmaceutical Co., Ltd., other than those of historical fact, are forecasts of future business performance based on the judgments of management at Hisamitsu Pharmaceutical Co., Ltd. in light of currently available information. Accordingly, please refrain from making investment decisions based solely on forecasts of business performance in this annual 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 ¥97.81=U.S.$1.00, the approximate rate of exchange on February 28, 2009.

Contents

Consolidated Financial Highlights

Fiscal year (FY) to:		2/05	2/06	2/07	2/08	**2/09**
Sales	(¥ million)	83,545	102,665	109,791	119,061	**124,655**
Operating income	(¥ million)	21,495	22,770	26,134	29,071	**32,532**
Ordinary income	(¥ million)	21,871	24,159	27,001	30,204	**32,476**
Net income	(¥ million)	12,873	14,448	15,847	18,663	**19,120**
Net assets	(¥ million)	80,868	90,520	103,966	113,929	**124,105**
Total assets	(¥ million)	111,063	136,584	141,143	149,750	**167,642**
Net assets per share	(¥)	891.33	1,020.26	1,164.05	1,276.16	**1,391.49**
EPS	(¥)	141.30	159.75	178.74	210.45	**215.61**
Diluted EPS	(¥)	—	—	—	—	**—**
Equity ratio	(%)	72.8	66.3	73.1	75.6	**73.6**
ROE	(%)	17.1	16.9	16.4	17.2	**16.2**
P/E	(x)	15.6	17.3	20.0	15.9	**13.8**
Operating cash flow	(¥ million)	20,130	23,114	12,228	25,722	**22,382**
Investing cash flow	(¥ million)	(4,755)	(18,606)	(11,804)	(11,911)	**(15,927)**
Financing cash flow	(¥ million)	(1,267)	(303)	(9,580)	(7,479)	**(5,467)**
Cash and equivalents at year-end	(¥ million)	31,477	35,623	26,510	32,706	**33,356**
Employees (average temporary staff)	(People)	1,541 (290)	1,671 (295)	1,629 (353)	1,752 (297)	**1,890** **(288)**

Notes: 1. Sales do not include consumption tax.
2. Diluted EPS is not listed due to the absence of residual securities.
3. Net assets have been calculated since FY 2/07 based on the Accounting Standards for the Presentation of Net Assets in the Balance Sheets (Corporate Accounting Standard No. 5) and the Application Guidelines for Accounting Standards for the Presentation of Net Assets in the Balance Sheets (Corporate Accounting Standard Application Guideline No. 8).

To Our Stakeholders

I would like to provide an overview of our operations and financial results for the year to February 28, 2009 (FY 2/09).

The ethical pharmaceutical industry continued to face a challenging business environment amid ongoing efforts to curb healthcare expenditures, notably the promotion of generic drugs. We have responded to these circumstances by working to provide medical institutions with pertinent scientific information about our ethical pharmaceuticals, particularly our mainstay anti-inflammatory pain relief patches. We have also sought to promote sales of over-the-counter (OCT) pharmaceuticals, mainly anti-inflammatory pain relief patches, amid a slumping market. Our research and development efforts have focused on research in areas of specialty and on the development of new topical and transdermal products. In our production facilities, we have upgraded equipment to raise efficiency and improve quality, and have sought to maintain and increase ISO 14001 certifications to help protect the global environment. In our cable television broadcasting and other businesses, group companies have worked to improve earnings by enhancing the services provided to our customers.

As a result of these business activities, groupwide sales grew 4.7% year-on-year, or ¥5,594 million, to ¥124,655 million; ordinary income grew 7.5%, or ¥2,271 million, to ¥32,476 million; and net income grew 2.4%, or ¥457 million, to ¥19,120 million.

NAKATOMI Hirotaka
President & CEO

Milestone

1847
Komatsuya founded.
Emblem of "Komatsuya"

1903
Hisamitsu & Co. (Saburo Nakatomi, representative) established

1934
SALONPAS
introduced to the market

1937
SALONPAS
begins overseas export

1988
MOHRUS
introduced to the market

1995
MOHRUS TAPE
introduced to the market

2003
Hisamitsu's
corporate logo mark renewed

2007
The 160th anniversary
of the company's founding

2008
SALONPAS PAIN RELIEF PATCH
SALONPAS ARTHRITIS PAIN
approved as the first OTC topical analgestic patch by FDA

Hisamitsu Pharmaceutical was founded in the mid-19th century under the name of Komatsuya. The company went on to create a large variety of health-related products, and has been the organization responsible for the promotion of new ideas based on its comprehensive system encompassing research, development, manufacturing, and sales. Salonpas was in fact introduced in 1934, and with its outright effectiveness achieved the position of market leadership it continues to hold today. Salonpas was developed through the application of Asahi Mankinko, the prototype therapeutic patch or that we introduced back in 1903. Just as its market launch signaled a high level of refinement, the product has evolved considerably since then, thanks to the comments of everyday users. Moreover, it has served to expand the culture of patch treatment, in which therapeutic patches are promoted as safe and easy to use. Diversity has become a key word in terms of culture and lifestyle today, yet unfortunately this has brought forth new health concerns associated with increased stress and reduced exercise.The company went on to create a large variety of health-related products, and has been the organization responsible for the promotion of new ideas based on its comprehensive system encompassing research, development, manufacturing, and sales. Salonpas was in fact introduced in 1934, and with its outright effectiveness achieved the position of market leadership it continues to hold today. Salonpas was developed through the application of Asahi Mankinko

Overview of Operations

1. Overview of Operations

(1) Operating results

The operating environment for the ethical pharmaceutical industry remained challenging due to ongoing efforts to curb healthcare expenditures, including measures to promote generic drug use, and the April 2008 round of national health insurance drug price cuts. We have responded by working to provide medical institutions with targeted scientific information about our ethical pharmaceuticals, particularly our mainstay anti-inflammatory pain relief patches. We have also worked to launch and promote sales of OTC pharmaceuticals, especially our anti-inflammatory pain relief patches, amid a slumping market. Our research and development efforts have focused on research in our specialty areas and on the development of new products with novel local or systemic effects. At our production facilities, we have continued to upgrade equipment to raise efficiency and improve quality, and have sought to maintain and increase ISO 14001 certifications to help protect the global environment. In our cable television broadcasting and other businesses, group companies have worked to improve earnings by enhancing the services provided to our customers.

As a result of these business activities, consolidated sales grew 4.7% year on year, or ¥5,594 million, to ¥124,655 million; ordinary income grew 7.5%, or ¥2,271 million, to ¥32,476 million; and net income grew 2.4%, or ¥457 million, to ¥19,120 million.

Pharmaceuticals and related products

The pharmaceuticals and related products segment, particularly the ethical pharmaceuticals business, faced an extremely uncertain business environment during FY 2/09 amid national efforts to curb healthcare expenditures. We responded to these circumstances by providing medical institutions with appropriate and detailed scientific information about our products, particularly our anti-inflammatory pain relief patches. While collecting and supplying information on efficacy and safety, we sought to expand our market share for a variety of products, including our mainstay product Mohrus Tape 20mg, a ketoprofen transdermal patch; Mohrus Tape L 40mg, a double-sized version of the Mohrus Tape patch; Mohrus Pap 30mg, a ketoprofen transdermal patch; Mohrus Pap 60mg, a ketoprofen transdermal patch that can be applied to a large area; Estrana Tape 0.72mg, an estradiol transdermal patch; and HMT, a transdermal patch containing the bronchodilator tulobuterol.

In the OTC business, sales competition in the domestic market remained fierce. We sought to increase sales by expanding and developing our customer base through existing product improvements and new product launches, including our mainstay anti-inflammatory pain relief patches, Butenalock for athlete's foot, and Lifecella beauty masks. During FY 2/09, we launched two new anti-inflammatory pain relief patches: Salonpas EX containing 3.5% indomethacin and Air Salonpas DX containing 3.0% felbinac. We also expanded our Feitas brand line-up with the addition of Feitas Sip, Feitas Gel, Feitas Tick EX, and Feitas L Onkan products. Under the Lifecella brand, we launched three new beauty masks—Ryojun Hada, Tomei Hada, and Tsuyasaki Hada—in a bid to develop new customer segments.

Overview of Operations

As a result of these efforts, sales in the pharmaceuticals and other products segment rose 4.9% year on year, or ¥5,637 million, to ¥121,767 million.

Cable television broadcasting and other businesses

In our cable and television broadcasting business, we completed preparations for terrestrial digital broadcasting and sought to acquire customers for cable television and cable Internet services by expanding our service area.
We also worked to improve earnings in other businesses, including the production and sale of laboratory animals, by expanding sales channels, improving customer services, and streamlining operations. Nevertheless, sales in the cable television broadcasting and other businesses segment fell 1.5% year on year, or ¥43 million, to ¥2,888 million.

(2) Cash flows

Cash provided by operating activities totaled ¥22,382 million, a decrease of ¥3,339 million year on year, due mainly to a rise in the increase in notes and accounts receivable and an increase in income taxes paid, and despite an increase in net income before taxes.

Cash used in investing activities totaled ¥15,927 million, an increase of ¥4,016 million year on year, due mainly to an increase in payments for the purchases of marketable securities.
Cash used in financing activities totaled ¥5,467 million, a decrease of ¥2,011 million year on year, due mainly to a decrease in outflow from repayments of long-term borrowings.

As a result of the foregoing, cash and cash equivalents at the end of the fiscal year totaled ¥33,356 million, an increase of ¥650 million from the beginning of the fiscal year.

(3) Sales

A breakdown of sales by business segment in FY 2/09 is provided below.

Business segment	(Millions of yen)	YoY (%)
Pharmaceuticals and related products	¥ 121,767	4.9
Topical analgesic products	111,580	5.6
Other topical and transdermal products	4,178	(1.5)
Others	6,007	(3.5)
Cable television broadcasting	1,805	(1.6)
Other businesses	1,083	(1.3)
Total	¥ 124,655	4.7

Notes: 1. Sales to main customers and percentage to total sales

Overview of Operations

Customer	FY 2/08 Sales (¥ million)	FY 2/08 % of total	FY 2/09 Sales (¥ million)	FY 2/09 % of total
Mediceo Paltac Holdings Co., Ltd.	27,885	23.4	28,887	23.2
Alfresa Holdings Corporation	17,653	14.8	19,043	15.3

Mediceo Paltac Holdings Co., Ltd. made Kobashou, Inc. a wholly owned subsidiary on January 1, 2008. Figures for FY 2/07 have been adjusted to enable comparison after the change. Alfresa Holdings Corporation made CS Yakuhin Co., Ltd. and Ryuyaku Co., Ltd. wholly owned subsidiaries on October 1, 2007. Figures for FY 2/07 have been adjusted to enable comparison after the change.

2. The foregoing figures do not include consumption tax.

2. Key Challenges

Pharmaceuticals and related products

We expect the ethical pharmaceuticals business to face continued efforts to curb pharmaceutical expenditures, including reductions in national health insurance prices, amid the rapid aging of Japanese society. In response to this difficult business environment, we are stepping up efforts to provide medical institutions with scientific information and we seek to develop new topical and transdermal products that meet the needs of medical institutions and their patients.

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

In overseas business, we are working to establish our brand in terms of trademarks, designs, manufacturing technology, and quality control systems, and to further augment overseas manufacturing facilities and promote overseas clinical trials. Continuing to recognize our mission and responsibility as a pharmaceutical company, we aim to create a more robust business base and manufacturing structure, and to accelerate the development of new products by concentrating research in areas of specialty.

Cable television broadcasting and other businesses

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

Overview of Operations

Basic policy on control of the company

(1) Overview of our basic policy

We believe any entity with control over decision-making related to the company's financial and business affairs must have an understanding of the source of the company's enterprise value and be able to consistently maintain and improve this enterprise value and the common interests of shareholders. We believe any decision on how to respond to a proposed acquisition that would transfer control over the company should ultimately be based on the wishes of individual shareholders. We are not opposed to large purchases of the company's stock, provided that it contributes to enterprise value and the common interests of shareholders.

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

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

(2) Specific initiatives to achieve our basic policy

1) Specific initiatives to achieve our basic policy

Since launching a pharmaceutical business in 1847, our company has worked hard to improve the health of people by providing pharmaceutical products, mainly pain relieving patches. External patches that are easy for anyone to apply to promote healing are consistent with the current interest in improving therapeutic drugs and quality of life, and they are also representative of Japan's therapeutic culture, which is well respected around the world. We pursue our business as a mission to convey to the world the effectiveness and resulting excitement of this therapeutic patch culture.

Since releasing Salonpas in 1934, we have successfully developed and marketed a variety of pharmaceutical patch products, including the OTC pharmaceutical Salonsip and the ethical pharmaceuticals Mohrus Pap and Mohrus Tape, by concentrating on the creation of new drugs and new drug preparations based on our accumulated expertise and experience

Overview of Operations

and the support of our customers. We have also created products in new areas other than anti-inflammatory pain relief, including the external antifungal drug Volley and the hormone replacement patch Estrana, and are expanding our business internationally by conducting sales, pursuing research and development, and acquiring approvals in various countries around the world.

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

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

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

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

We are also actively pursuing licensing activities, including an agreement with Mundipharma International Limited for the exclusive distribution in Japan of Norspan, a buprenorphine patch to treat noncancerous moderate to severe back pain and chronic osteoarthritis pain.

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

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

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

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

Our board of directors voted at a meeting held on March 27, 2008 to adopt takeover defense measures to counter large purchases of the company's stock. These takeover defenses apply to purchases of the company's stock with the objective or result of a specific shareholder group owning 20% or more of the voting rights. Purchasers are required to follow certain procedures in providing shareholders, the company's board of directors, and an independent committee with information on which to base their decision. If the purchaser fails to comply with these procedures or if the purchase will damage the company's enterprise value and the common interests of shareholders, then the company can pursue countermeasures against the purchaser in the form of a gratis allotment of share acquisition rights or other appropriate countermeasure that the board of directors is permitted to take based on the Companies Act, other laws, and the company's articles of incorporation.

Whether countermeasures based on these takeover defenses are adopted is ultimately a decision of the board of directors, but to ensure the proper use of these takeover defenses and objective, rational, and impartial decisions by the company's board of directors, we established a committee independent from the board of directors and will give utmost respect to the opinions of this committee.

These takeover defenses were effective from March 27, 2008 until the conclusion of the annual meeting of shareholders on May 22, 2008, but upon approval by shareholders at this annual meeting, the effective period was extended until the conclusion of the annual meeting of shareholders for the fiscal year ending on February 28, 2011. Additionally, these takeover defenses shall be terminated immediately if the board of directors comprising directors appointed at a general meeting of shareholders decides to terminate these defenses.

(3) Board of directors opinion and reasoning for the foregoing initiatives

1) Specific initiatives to achieve our basic policy

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

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

These takeover defenses comply in their content with our basic policy and are intended to ensure objectivity and rationality in the decisions of the board of directors. Further, these defenses were adopted to ensure and enhance the company's enterprise value and the common interests of shareholders, and are not intended to maintain the position of the company's directors.

3. 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 FY 2/09.

(1) Legal and regulatory risks

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

(2) Risks from side effects

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

(3) Research and development risks

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

(4) Manufacturing and procurement risks

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

(5) Environmental risks

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

(6) Intellectual property risks

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

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

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

4. Important Business Agreements

Joint sales agreement

We concluded an agreement with Kyowa Hakko Kogyo Co., Ltd. (headquarters: Chiyoda-ku, Tokyo; company name currently Kyowa Hakko Kirin Co., Ltd.) on June 18, 2008 on joint sales in Japan of a transdermal sustained-release drug for the treatment of cancer pain, which is currently under development by Hisamitsu Pharmaceutical.

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

(2) Agreement details
Contract on the joint sale within Japan of a transdermal sustained-release drug for cancer pain (development code: HFT-290) currently under development by Hisamitsu Pharmaceutical.

(3) Compensation
A one-time payment of $1,000 million for a distribution license fee will be recorded as extraordinary profits.

Co-promotion agreement

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

(1) Counterparty to the agreement
Banyu Pharmaceutical Co., Ltd.

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

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

Overview of Operations

Distribution agreement

We concluded an exclusive contract with Mundipharma International Limited of Switzerland on August 6, 2007, for the Japanese distribution rights to BTDS, a transdermal sustained-release pain relief patch. The agreement includes a one-time payment at the conclusion of the contract and subsequent milestone payments based on development progress and sales.

5. Research and Development

Pharmaceuticals and related products

For ethical pharmaceuticals in Japan, we have filed an NDA for HFT-290, a transdermal sustained-release drug for the treatment of cancer pain. We have concluded a joint sales agreement on HFT-290 in Japan with Kyowa Hakko Kirin Co., Ltd.

We have completed Phase III trials to demonstrate the analgesic effects of KPT-220 (generic name: ketoprofen) and have now filed an application for approval of the additional indication of rheumatoid arthritis pain for the anti-inflammatory pain relief patch Mohrus Tape.

Mundipharma International Limited has now filed an NDA in Japan for BTDS, a transdermal sustained-release pain relief patch, for which we have concluded an in-licensing agreement.

We are currently conducting Phase II trials on HTU-520, a patch to treat Tinea unguium, and on HOB-294, a patch to treat overactive bladder.

In the United States, we are developing the ethical external-use anti-inflammatory pain reliever HKT-500 (generic name: ketoprofen) as one of our overseas strategic products. We have conducted Phase III trials and are currently analyzing the results. We have also filed for the approval of the generic product HFG-512 for the relief of chronic pain.

For OTC pharmaceuticals, having received approval from the US Food and Drug Administration for the external-use anti-inflammatory pain reliever FS-67 (generic name: methyl salicylate, L-menthol), we are now preparing to start postmarketing clinical studies in pediatric patients.

To expand the potential of transdermal treatments, we are working to improve our commercialization technologies through in-house development of platform technologies and joint development with external organizations.

Cable television broadcasting and other businesses

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

We conduct some research and development in other businesses, but because the amount is limited, it does not merit special mention.
As a result of the foregoing, research and development expenditures totaled ¥9,615 million in FY 2/09.

6. Analysis of Financial Position and Operating Results

(1) Analysis of financial position in FY 2/09

1) Assets
Assets totaled ¥167,642 million at the end of FY 2/09, an increase of ¥17,891 million from the previous year, due mainly to cash and deposits increasing by ¥3,224 million to ¥39,354 million as a result of sales growth and notes and accounts receivable increasing by ¥8,108 million to ¥39,415 million.

2) Liabilities
Liabilities totaled ¥43,536 million at the end of FY 2/09, an increase of ¥7,715 million from the previous year, due mainly to notes and accounts payable increasing by ¥3,128 million to ¥13,062 million as a result of raw material purchases in response to sales growth, other payables increasing by ¥2,237 million to ¥9,936 million, and income taxes payable increasing by ¥1,857 million to ¥8,838 million.

3) Net assets
Net assets totaled ¥124,105 million at the end of FY 2/09, an increase of ¥10,176 million from the previous year, due mainly to dividend payments of ¥5,455 million, valuation adjustments on marketable securities decreasing by ¥2,481 million, and net income of ¥19,120 million.

(2) Analysis of operating results in FY 2/09

1) Sales
Sales grew 4.7% year on year to ¥124,655 million. As a result of focusing on expanding sales of mainstay products, Mohrus Tape L was up 124.7% to contribute to overall sales growth.

2) Operating income
Operating income grew 11.9% year on year to ¥32,532 million as a result of holding the rise in the cost of sales ratio to 1.7 percentage points by raising productivity and reducing manufacturing costs, and limiting growth in selling, general and administrative expenses by reducing research and development expenditures.

3) Ordinary income

Ordinary income grew 7.5% year on year to ¥32,476 million as a result of foreign exchange losses.

4) Net income

Net income grew 2.4% year on year to ¥19,120 million as a result of revenues from distribution license fees and valuation adjustments on marketable securities. Consequently, earnings per share totaled ¥215.61 in FY 2/09, and return on equity was 16.2%.

7. Capital Expenditures

Capital expenditures totaled ¥5,843 million in FY 2/09, due mainly to augmenting and expanding production and research equipment.

In the pharmaceuticals and related products business, we mainly augmented production equipment at the Tosu plant and production equipment at the Utsunomiya plant, and expanded research equipment at the formulation research laboratories, requiring capital expenditures of ¥2,301 million.

In the cable television broadcasting business, we mainly invested to expand bandwidth to provide digital capabilities to our subscribers, resulting in capital expenditures of ¥389 million.

We did not sell or remove any equipment that would affect production capacity in FY 2/09.

Corporate Governance and Internal Auditing

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 FY 2/09 we paid an interim dividend of ¥31.5 per share and a year-end dividend of ¥31.5 per share, for an annual dividend of ¥63 per share.

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

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

Note: Dividends in FY 2/09 are as follows.

Resolution date	Total dividends (¥ million)	Dividends per share (¥)
October 9, 2008 Board of directors resolution	2,794	31.5
May 26, 2009 General meeting of shareholders resolution	2,793	31.5

Corporate Governance

(1) Basic approach to corporate governance

We have prepared basic internal control policies to enhance management transparency and ensure compliance, and we consider the improvement of corporate government 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 office system

Corporate Governance and Internal Auditing

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.

(2) Corporate organization and internal control systems

Directors, executive officers, and auditors

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

We reduced the number of directors from 13 to nine at the annual general meeting of shareholders on May 22, 2003, and to bolster our management structure further, we changed the articles of incorporation to reduce the number of directors from 13 or fewer to 10 or fewer at the annual general meeting of shareholders on May 25, 2006. In March 2003, we introduced an executive officer system to improve the speed, transparency, and strategic focus of business decisions.

Important management decisions are made by the Management Advisory Council comprising key directors and executive officers, and important resolutions are debated and decided by the board of directors. We introduced an executive officer system in March 2003 with the goals of accelerating management decisions and improving their transparency and strategic focus. We have also worked to enhance management oversight and to separate, decentralize, and strengthen decision-making functions and business execution functions.

To better facilitate fair auditing, we switched to an auditing system in which two of the four auditors comprise outside auditors at the annual general meeting of shareholders on May 26, 2004. To bolster management oversight further and strengthen our auditing system, we changed the articles of incorporation to increase the number of auditors from four or fewer to six or fewer at the annual general meeting of shareholders on May 25, 2006.

Auditors attend meetings of the board of directors, regularly convene meetings of the board of auditors, and receive audit reports from the independent auditor as needed. Our two outside auditors do not have any business relationships or other interests with the company.

Resolutions to appoint or remove directors

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

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

Corporate Governance and Internal Auditing

Acquisition of treasury shares

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 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.

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.

Internal auditing

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

Independent auditing

We have concluded an auditing contract with KPMG AZSA & Co. 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 & Co. and their designated and engagement partners. We also receive advice as needed from advisory lawyers related to routine legal matters.

Audit certification

In compliance with article 193-1-2 of the Financial Instruments and Exchange Law, KPMG AZSA & Co. audited the consolidated and non-consolidated financial statements for the previous fiscal year (March 1, 2007 to February 29, 2008) and the 106th fiscal period (March 1, 2007 to February 29, 2008), as well as for this fiscal year (March 1, 2008 to February 28, 2009) and the 107th fiscal period (March 1, 2008 to February 28, 2009).

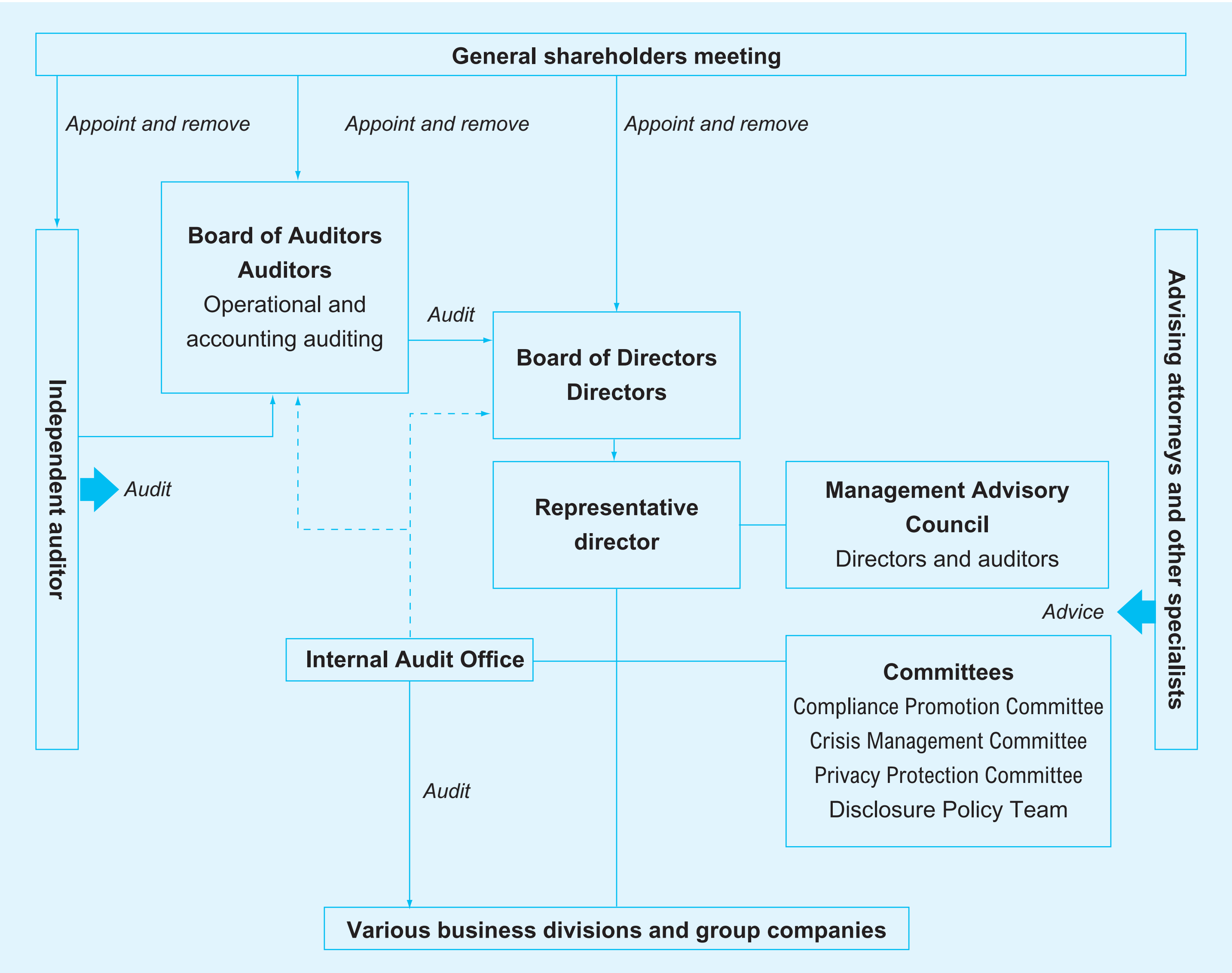
Corporate Governance and Internal Auditing

Audit company providing auditing services

Audit company	Certified public accountants providing auditing services		Assisting personnel	
KPMG AZSA & Co.	Designated and Engagement Partner	Hiromi Kimura	CPAs	5
KPMG AZSA & Co.	Designated and Engagement Partner	Yoshihide Takehisa	Other	10

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

Corporate governance structure



Corporate Governance and Internal Auditing

(3) 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.
Various committees

Compliance Promotion Committee and Compliance Promotion Office

We prepared the Hisamitsu Corporate Charter in June 2002 and established the Compliance Promotion Committee and Compliance Promotion Office, both headed by a director of public relations and human resources, 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, established a permanent Crisis Management Committee to operate in normal times, and conduct training of committee members as needed.

Privacy Protection Committee (Chair: Director of Human Resources)

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

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.

Corporate Governance and Internal Auditing

(4) Executive compensation

The company's directors and auditors receive the following compensation.

Directors	¥278 million
Auditors	¥39 million (including ¥11 million for outside auditors)

Notes: 1. Includes retirement allowances for retired directors.
2. Directors' compensation does not include employee salaries for directors who also serve as employees.
3. There are no outside directors.

(5) Auditor compensation

The company's independent auditor KPMG AZSA & Co. receives the following compensation.
Compensation for services stipulated in Article 2-1 of the Certified Public Accountants Law: ¥33 million
Compensation for other services: ¥9 million

Note: Services other than those stipulated in Article 2-1 of the Certified Public Accountants Law (non-auditing services) comprise advisory services for preparing an internal control system for financial reporting.

Corporate Information

Stock Information

(1) Total number of shares

1) Total number of shares

Type of shares	Total authorized shares
Ordinary shares	380,000,000
Total	380,000,000

2)Shares issued and outstanding

Type of shares	Shares outstanding at end-FY 2/09 (February 28, 2009)	Shares outstanding on filing date (May 27, 2009)	Names of listing stock exchanges or registered securities dealers associations	Details
Ordinary shares	95,164,895	95,164,895	Tokyo Stock Exchange (First Section) Osaka Securities Exchange (First Section) Nagoya Stock Exchange (First Section) Fukuoka Stock Exchange	All voting shares, standard shares with unlimited rights (Share units: 100 shares)
Total	95,164,895	95,164,895	—	—

(2) Status of share subscription rights

Not applicable.

(3) Details of rights plans

Not applicable.

(4) Changes in shares outstanding, common stock, and other items

Date	Change in shares outstanding (Shares)	Shares outstanding (Shares)	Change in common stock (¥ million)	Common stock (¥ million)	Change in additional paid-in capital (¥ million)	Additional paid-in capital (¥ million)
July 5, 2002(Note)	—	95,164,895	—	8,473	−6,123	2,118

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, 2009

Category	Status of shares (investment unit comprises 100 shares)								Shares under one unit (shares)
	National and local government	Financial institutions	Securities companies	Other corporations	Foreign shareholders		Individuals and other	Total	
					Non-individuals	Individuals			
Shareholders (entities)	—	61	41	191	316	1	6,858	7,468	—
Shares owned (units)	—	497,032	3,413	150,881	125,645	10	174,176	951,157	49,195
Ratio (%)	—	52.26	0.36	15.86	13.21	0.00	18.31	100.00	—

Notes: 1. A total of 6,466,791 treasury shares are listed as 64,667 units in the individuals and other column and as 91 shares in the shares under one unit column. The 6,466,791 treasury share figure is the number of shares listed in the shareholder registry.

2. The other corporations column includes three units owned under the name of the Japan Securities Depository Center Inc.

Corporate Information

(6) Principal shareholders

As of February 28, 2009

Name	Address	Shares owned (thou shares)	Percentage of shares outstanding (%)
Japan Trustee Service Bank, Ltd. (trust account)	1-8-11 Harumi, Chuo-ku, Tokyo	6,190	6.50
Nippon Life Insurance Company	1-6-6 Marunouchi, Chiyoda-ku, Tokyo	6,108	6.42
The Master Trust Bank of Japan, Ltd. (trust account)	2-11-3 Hamamatsu-cho, Minato-ku, Tokyo	4,757	5.00
The Nomura Trust and Banking Co., Ltd. (The Bank of Tokyo-Mitsubishi UFJ, Ltd. pension trust account)	2-2-2 Otemachi, Chiyoda-ku, Tokyo	4,387	4.61
Japan Trustee Service Bank, Ltd. (Resona Trust & Banking Co., Ltd. retrust account, The Nishi-Nippon City Bank, Ltd. pension trust account)	1-8-11 Harumi, Chuo-ku, Tokyo	4,370	4.59
The Bank of Saga, Ltd.	2-7-20 Tojin, Saga	4,106	4.31
Fukuoka Bank	2-13-1 Tenjin, Chuo-ku, Fukuoka	3,871	4.07
Japan Trustee Service Bank, Ltd. (trust account 4G)	1-8-11 Harumi, Chuo-ku, Tokyo	2,977	3.13
Japan Trustee Service Bank, Ltd. (The Sumitomo Trust & Banking Co., Ltd. retrust account, Sumitomo Mitsui Banking Corporation pension trust account)	1-8-11 Harumi, Chuo-ku, Tokyo	2,064	2.17
Japan Trustee Service Bank, Ltd. (Resona, Trust & Banking Co., Ltd. retrust account, Resona Bank, Limited pension trust account)	1-8-11 Harumi, Chuo-ku, Tokyo	2,000	2.10
Total		40,833	42.91

Notes: 1. The number of the foregoing shares related to fiduciary services is as follows.
Japan Trustee Service Bank, Ltd.: 17,602,000 shares
The Master Trust Bank of Japan, Ltd.: 4,757,000 shares
The Nomura Trust and Banking Co., Ltd. 4,387,000 shares
2. In addition to the shares listed above, the company owns 6,466,000 treasury shares (6.80%).

(7) Status of voting rights

1) Shares issued

As of February 28, 2009

	Shares	Voting rights	Details
Shares without voting rights	—	—	—
Shares with limited voting rights (treasury shares, etc.)	—	—	—
Shares with limited voting rights (other)	—	—	—
Shares with full voting rights (treasury shares, etc.)	(Treasury shares) Ordinary shares 6,466,700	—	Standard shares with unlimited rights
	(Cross-held shares) Ordinary shares 64,000	—	Same as above
Shares with full voting rights (other)	Ordinary shares 88,585,000	885,850	Same as above
Shares less than one unit	Ordinary shares 49,195	—	Same as above
Total shares issued	95,164,895	—	—
Total voting rights of shareholders	—	885,850	—

Note: 1. Ordinary shares in the shares with full voting rights (other) section include 300 shares with three voting rights held under the name of Japan Securities Depository Center, Inc.
2. The shares with less than one unit section includes 91 treasury shares held by the company.

2) Treasury shares and cross-held shares

As of February 28, 2009

Shareholders	Address	Shares held under own name	Shares held under the name of others	Total shares held	Ratio to shares outstanding (%)
(Treasury shares) Hisamitsu Pharmaceutical Co., Ltd.	408 Tashiro Daikan-machi, Tosu-shi Saga	6,466,700	—	6,466,700	6.79
(Cross-held shares) Maruto Co., Ltd.	892-1 Hikata Ogori-shi, Fukuoka	23,000	41,000	64,000	0.07
Total	—	6,489,700	41,000	6,530,700	6.86

Note: 1. Reason for holding shares under the name of others

Reason	Name	Address
Jointly held shares in shareholding company	Hisamitsu Pharmaceutical Torihikisaki Mochikabukai	Tashiro Daikan-machi, Tosu-shi Saga

(8) Stock option plans

Not applicable.

Acquisition of Treasury Shares

Share types Acquisition of common stock according to articles 155-3 and 155-7 of the Companies Act

(1) Acquisition based on a resolution by the general meeting of shareholders

Not applicable.

(2) Acquisition based on a resolution by the board of directors

Not applicable.

(3) Acquisition not based on a resolution by the general meeting of shareholders or the board of directors

	Shares	Total value (¥)
Treasury shares acquired during FY 2/08	14,533	66,768,650
Treasury shares acquired during FY 2/09	171	494,850

Note: Treasury shares acquired during FY 2/09 do not include shares acquired for less than one unit between May 1, 2009 and the filing date of this annual securities report.

(4) Treatment and holding of acquired treasury shares

	FY 2/08		FY 2/09	
	Shares	Total amount (¥ thousand)	Shares	Total amount (¥ thousand)
Acquired treasury shares that were offered to subscribers	—	—	—	—
Acquired treasury shares that were retired	—	—	—	—
Acquired treasury shares that were transferred in relation to merger, share exchange, or corporate separation	—	—	—	—
Other	—	—	—	—
Held treasury shares	6,466,791	—	7,466,962	—

Note: Treasury shares acquired during FY 2/09 do not include shares acquired for less than one unit between May 1, 2009 and the filing date of this annual securities report.

Financial Section

Fiscal 2009
(March 1, 2008 – February 28, 2009)

Consolidated Balance Sheets

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2008	Fiscal 2009	Fiscal 2009
		(to February 28, 2009)	
		Value	
(Assets)			
I Current assets			
Cash and deposits	¥ 36,129	¥ 39,354	$ 402,351
Trade notes and accounts	31,307	39,415	402,978
Marketable securities	2,332	4,169	42,624
Inventories	8,635	9,180	93,860
Deferred tax assets	1,345	2,133	21,811
Others	909	975	9,969
Allowance for doubtful accounts	(171)	(217)	(2,224)
Total current assets	80,488	95,009	971,372
II Fixed assets			
1 Property, plant and equipment			
Buildings and structures (Note 2,3)	16,668	15,971	163,289
Machinery, equipment and vehicles (Note 2)	7,023	6,589	67,365
Tools, furniture and fixtures (Note 2)	2,052	2,287	23,383
Land (Note 4)	11,374	11,389	116,449
Construction in progress	3,181	4,088	41,800
Tangible fixed assets total	40,299	40,325	412,288
2 Intangible assets			
Goodwill	4,216	2,102	21,490
Software	38	19	199
Temporary account for intangible fixed assets	—	2,704	27,655
Others	1,209	13	140
Total intangible assets	5,464	4,840	49,486
3 Investments and other assets			
Investment securities (Note 1)	14,872	13,465	137,664
Long-term loans receivable	512	361	3,693
Long-term deposits	—	1,900	19,425
Prepaid pension expenses	3,853	5,346	54,657
Deferred tax assets	2,154	4,588	46,907
Others	2,263	1,960	20,044
Allowance for doubtful accounts	(159)	(154)	(1,577)
Total investments and other assets	23,497	27,466	280,815
Total fixed assets	69,262	72,632	742,590
Total assets	¥ 149,750	¥ 167,642	$ 1,713,963

Financial Section

Fiscal 2009
(March 1, 2008 – February 28, 2009)

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2008	Fiscal 2009	Fiscal 2009
		(to February 28, 2009)	
		Value	
(Liabilities)			
I Current liabilities			
Trade notes and accounts	¥ 9,933	¥ 13,062	$ 133,545
Short-term borrowings (Note 2)	1,038	1,047	10,706
Accounts payable	7,699	9,936	101,594
Income taxes payable	6,980	8,838	90,362
Allowance for sales returns	157	213	2,182
Provision for bonuses	808	844	8,631
Others	988	704	7,199
Total current liabilities	27,606	34,646	354,221
II Long-term liabilities			
Long-term borrowings (Note 2)	842	881	9,016
Deferred tax liabilities on revaluation (Note 4)	2,164	2,164	22,125
Employees' severance and retirement benefits	4,071	4,554	46,569
Directors' and corporate auditors' retirement benefits	1,102	1,172	11,985
Others	35	117	1,198
Total long-term liabilities	8,215	8,890	90,895
Total liabilities	35,821	43,536	445,116
I Shareholders' equity			
Common stock	8,473	8,473	86,635
Capital surplus	8,396	8,396	85,843
Retained earnings	106,010	119,650	1,223,292
Treasury stock	(12,504)	(12,571)	(128,532)
Total shareholders' equity	110,376	123,948	1,267,238
II Valuation and translation adjustments			
Valuation adjustment on other marketable securities	326	(2,154)	(22,023)
Land revaluation adjustment (Note 4)	3,188	3,188	32,599
Foreign currency translation adjustments	(712)	(1,596)	(16,320)
Total valuation and translation adjustments etc.	2,803	(561)	(5,744)
III Minority interests	750	719	7,352
Total net assets	113,929	124,105	1,268,846
Total liabilities and net assets	¥ 149,750	¥ 167,642	$ 1,713,963

Financial Section

Fiscal 2009
(March 1, 2008 – February 28, 2009)

Consolidated Statements of Income

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2008	Fiscal 2009	Fiscal 2009
	(March 1, 2007 to February 28, 2009)		
	Value		
I Net sales	¥ 119,061	¥ 124,655	$ 1,274,467
II Cost of sales (Note 2, 3)	36,101	39,884	407,773
Gross profit	82,960	84,771	866,693
III Selling, general and administrative expenses (Note 1, 2)	53,888	52,239	534,087
Operating income	29,071	32,532	332,605
IV Non-operating income			
Interest received	152	237	2,424
Dividend income	170	241	2,464
Amortization of negative goodwill	24	—	—
Equity in earnings of affiliated companies	264	42	429
Development license revenues	193	114	1,169
Other	616	685	7,004
V Non-operating expenses			
Interest expenses	21	19	200
Foreign exchange losses	90	1,194	12,213
Loss on sales of receivables	45	53	547
Others	130	108	1,106
Recurring income	30,204	32,476	332,032
VI Extraordinary income			
Reversal of allowance for doubtful accounts	5	4	42
Gain on liquidation of affiliates	—	53	551
Gain on return of welfare pension fund substitutional portion	701	701	7,174
Distribution license fees	—	1,000	10,223
Others	—	94	969
VII Extraordinary losses			
Loss on disposals of fixed assets (Note 4)	121	515	5,270
Advanced depreciation deduction of property, plant and equipment	—	92	
Asset impairment losses (Note 5)	292	—	—
Loss on liquidation of affiliates	5	—	—
Loss on sales of investment securities	130	0	3
Book loss on investment securities	22	1,509	15,436
Additional severance benefits	133	—	—
Others	—	4	43
Net income	30,206	32,208	329,293
Corporate, other taxes	11,521	14,584	149,112
Income taxes: deferred	(44)	(1,564)	(15,995)
Minority interests (deduction)	66	67	692
Net income	¥ 18,663	¥ 19,120	$ 195,483

Financial Section

Fiscal 2009
(March 1, 2008 – February 28, 2009)

Statement of Changes in Consolidated Shareholders' Equity

	Shareholders' equity					
	Common Stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Total shareholders' equity (Thousands of U.S. dollars)
Balance, February 29, 2008 (Millions of yen)	8,473	8,396	106,010	(12,504)	110,376	1,128,475
Changes during fiscal term						
Final dividends paid from retained earnings			(2,661)		(2,661)	(27,209)
Interim dividends paid from retained earnings			(2,794)		(2,794)	(28,569)
Net income			19,120		19,120	195,483
Purchases of treasury stock				(67)	(67)	(692)
Surplus decrease due to change in the scope of equity method			(24)		(24)	(249)
Total changes during fiscal term (Millions of yen)	—	—	13,640	(67)	13,572	138,763
Balance,February 28, 2009 (Millions of yen)	8,473	8,396	119,650	(12,571)	123,948	1,267,238

	Valuation and translation adjustments etc.						
	Other Marketable securities Valuation gains (losses)	Land revaluation adjustment	Foreign currency translation adjustments account	Total valuation and translation adjustments etc.	Minority interests	Total net assets	Total net assets (Thousands of U.S. dollars)
Balance, February 29, 2008 (Millions of yen)	327	3,188	(712)	2,803	750	113,929	1,164,805
Changes during fiscal term							
Final dividends paid from retained earnings						(2,661)	(27,209)
Interim dividends paid from retained earnings						(2,794)	(28,569)
Net income						19,120	195,483
Purchases of treasury stock						(67)	(692)
Surplus decrease due to change in the scope of equity method						(24)	(249)
Changes during fiscal term in items not included in shareholders' equity (net)	(2,481)	—	(883)	(3,365)	(31)	(3,396)	(34,721)
Total changes during fiscal term (Millions of yen)	(2,481)	—	(883)	(3,365)	(31)	10,176	104,041
Balance, February 28, 2009 (Millions of yen)	(2,154)	3,188	(1,596)	(561)	719	124,105	1,268,846

Financial Section

Fiscal 2009
(March 1, 2008 – February 28, 2009)

Consolidated Statements of Cash Flows

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2008	Fiscal 2009	Fiscal 2009
	(March 1, 2007 to February 28, 2009)		
	Value		
I Cash flows from operating activities			
Income before income taxes	¥ 30,206	¥ 32,208	$ 329,293
Depreciation and amortization	3,429	4,765	48,726
Asset impairment losses	292	—	—
Amortization of goodwill	2,114	2,114	21,617
Amortization of negative goodwil	(24)	—	—
Reduction in provision for employees' severance and retirement benefits	(306)	505	5,163
Increase in provision for corporate officers' retirement benefits	(64)	70	718
Increase in provision for bonuses	120	35	360
Reduction in provision for doubtful accounts	9	41	425
Reduction in provision for sales returns	(10)	56	575
Interest and dividend income	(323)	(478)	(4,888)
Interest expenses	21	19	200
Foreign currency gains	92	23	244
Equity in losses of affiliated companies (Negative sign denotes earnings)	(264)	(42)	(429)
Loss on disposal of shares in affiliates	5	—	—
Losses on sales of investment securities	130	0	3
Book loss on investment securities	22	1,509	15,436
Loss on disposal of fixed assets	121	515	5,270
Additional severance benefits	133	—	—
Increase in notes and accounts receivable	(2,916)	(8,416)	(86,050)
Increase in inventories	279	(784)	(8,021)
Increase in other current assets	178	(105)	(1,078)
Contributions in kind	621	—	—
Increase in notes and accounts payable (Negative sign denotes decrease)	946	3,330	34,050
Increase in other current liabilities (Negative sign denotes decrease)	750	693	7,093
Others	(820)	(1,665)	(17,038)
Subtotal	34,745	34,397	351,671
Interest and dividends received	316	758	7,749
Interest paid	(21)	(19)	(200)
Additional severance benefits	(133)	—	—
Income taxes paid	(9,184)	(12,752)	(130,380)
Cash flows from operating activities	¥ 25,722	¥ 22,382	$ 228,840

Financial Section

Fiscal 2009
(March 1, 2008 – February 28, 2009)

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2008	Fiscal 2009	Fiscal 2009
	(March 1, 2007 to February 29, 2008)		
	Value		
II Cash flows from investing activities			
Outflow resulting from change in balance of term deposits	¥ (569)	¥ (2,901)	$ (29,670)
Expenditure associated with increase or decrease of long-term deposits	—	(1,300)	(13,291)
Payments for purchases of tangible fixed assets	(8,365)	(4,475)	(45,752)
Payments for purchases of fixed intangible assets	0	20	204
Proceeds from sales of fixed intangible assets	(1,197)	(1,511)	(15,456)
Payments for purchases of marketable securities	(7,074)	(10,794)	(110,360)
Proceeds from sales and redemptions of marketable securities	8,291	9,247	94,547
Payments for purchases of investment securities	(3,546)	(4,558)	(46,610)
Proceeds from sales and redemptions of investment securities	170	65	669
Outflow from loans extended	(16)	(17)	(182)
Proceeds from loan repayments	396	206	2,113
Outflow on purchases of shares in subsidiaries	0	—	—
Others	—	92	948
Cash flows from investing activities	(11,911)	(15,927)	(162,838)
III Cash flows from financing activities			
Inflow (Negative sign denotes outflow) from change in short-term borrowings	(27)	124	1,272
Proceeds from long-term borrowings	59	245	2,509
Outflow from repayments of long-term borrowings	(2,677)	(279)	(2,860)
Dividend payments to minority investors	(34)	(48)	(491)
Outflow from purchases of treasury stock	(8	(66)	(682)
Cash dividends paid	(4,790)	(5,433)	(55,553)
Others	—	(9)	(97)
Cash flows from financing activities	(7,479)	(5,467)	(55,903)
IV Translation adjustment cash & equivalents	(135)	(337)	(3,452)
V Increase in cash and cash equivalents (Negative sign denotes decrease)	6,196	650	6,645
VI Balance of cash and cash equivalents at beginning of year	26,510	32,706	334,391
VII Balance of cash and cash equivalents at end of year (Note 1)	¥ 32,706	¥ 33,356	$ 341,037

Financial Section

Fiscal 2009
(March 1, 2008 – February 28, 2009)

Consolidated Financial Statements

1. Basis of preparation of consolidated financial statements

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

However, the consolidated financial statements for FY 2/08 (March 1, 2007 – February 29, 2008) were prepared based on the Regulations for Consolidated Financial Statements prior to revision, whereas the consolidated financial statements for FY 2/09 (March 1, 2008 – February 28, 2009) were prepared based on the Regulations for Consolidated Financial Statements after revision.

(2) The company has prepared non-consolidated financial statements in accordance with the Regulations Concerning the Terminology, Forms and Preparation Methods of Non-Consolidated Financial Statements (Ministry of Finance Ordinance No. 59, 1963; hereinafter, Regulations for Non-Consolidated Financial Statements).

However, the non-consolidated financial statements for FY 2/08 (March 1, 2007 – February 29, 2008) were prepared based on the Regulations for Non-Consolidated Financial Statements prior to revision, whereas the non-consolidated financial statements for FY 2/09 (March 1, 2008 – February 28, 2009) were prepared based on the Regulations for Non-Consolidated Financial Statements after revision.

I.Scope of consolidation

(a) Consolidated subsidiaries: 10

Names of consolidated subsidiaries

Taiyo Co., Ltd
Kyudo Co., Ltd
Saga City-Vision Co., Ltd.
CRCC Media Co., Ltd.
Hisamitsu Agency Co., Ltd.
Hisamitsu America, Inc.
Hisamitsu Farmaceutica do Brasil Ltda.
Hisamitsu Vietnam Pharmaceutical Co., Ltd.
Hisamitsu UK Ltd.
P.T. Hisamitsu Pharma Indonesia

(b). Non-consolidated subsidiaries: 2

Names of non-consolidated subsidiaries
Kokusai Pappu-zai Kenkyusho Co., Ltd.
Taiyo Kaihatsu Co., Ltd.

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

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

II. Affiliates accounted for under the equity method

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

(b). Equity-method affiliates: 1
Maruto Co., Ltd.

Taiwan Hisamitsu Pharmaceutical Co., Ltd. was liquidated, so this company was excluded from the equity method affiliates from this fiscal year.

(Reason why non-consolidated subsidiaries have not been accounted for under the equity method)

The above non-consolidated subsidiaries have not been accounted for under the equity method because their impacts on items such as net income and retained earnings is negligible, and is not material in the context of the total.

There are no affiliated companies for which the equity method is not being used.

III. Fiscal years of consolidated subsidiaries

The following consolidated subsidiaries have fiscal year-end dates that differ from consolidated accounts.

Company	Year-end date
Hisamitsu America, Inc.	December 31
Hisamitsu Farmaceutica do Brasil Ltda.	December 31
Hisamitsu Vietnam Pharmaceutical Co., Ltd.	December 31
Hisamitsu UK Ltd.	December 31
P.T. Hisamitsu Pharma Indonesia	December 31

Since for the above consolidated subsidiaries the difference from the term end used in the consolidated accounts does not exceed three months, the financial statements of these consolidated subsidiaries as at their term ends have been used.

In any case where an important transaction has occurred between the term ends of these subsidiaries and the term end of the consolidated accounts, the necessary consolidation adjustments have been made.

IV. Accounting standards

A. Valuation standards and methods for significant assets

1. Securities

a) Held-to-maturity bonds
Valued under amortized cost method.
b) Other marketable securities
1) Securities with market value
Valued at market price, using the market price at the balance sheet date.
All valuation differences are directly charged or credited to shareholders' equity, and costs of securities sold are computed using the moving average method.
2) Securities without market value
Valued at cost, determined by the moving average method.

2. Inventories

a) Merchandise and finished products
Valued at cost, mainly using the period average method.
b) Raw materials, work in progress and supplies
At cost, mainly using the first-in first-out method.
(Change in accounting method)
Inventories were previously valued at cost using the first-in first-out method, but from the fiscal term under review, the companies' merchandise and finished goods have been valued at cost using the period average method. This change has been made along with the introduction of a new accounting system as part of a company-wide review of the business, and is intended to accelerate the calculation of payments and receipts, and to enable management to grasp period profits and losses more quickly. The monetary effect of this change is minimal.

B. Depreciation methods for significant depreciable assets

1. Property, plant and equipment

a) *Company and domestic consolidated subsidiaries*
(1) Acquired before March 31, 2007
Mainly the former declining balance method.
(2) Acquired after April 1, 2007
Mainly the declining balance method.
(Change in accounting method)

Changed to the method prescribed in the revised Corporation Tax Law for assets acquired after April 1, 2007 as a result of revisions of the Corporation Tax Law (Law Amending the Income Tax Law, March 30, 2007, Law No. 6 and Ordinance Amending the Income Tax Law Enforcement Ordinance, March 30, 2007, Ordinance No. 83). This change has a negligible impact on income.

Additional information

Beginning this fiscal year, items acquired prior to March 31, 2007, will be amortized in equal amounts up to the allowable limit for depreciation for five years starting in the next year after the end of amortization.
This change will have a minimal impact on profits and losses.

b) Overseas consolidated subsidiaries

Mainly straight-line method.

2. Intangible fixed assets and long-term prepaid expenses

Amortized using the straight line method
For usable lives, the same criteria as those stipulated in the Corporation Tax Law are used. Goodwill is amortized on a straight-line basis over 5 years.
Within intangible fixed assets, software used by the Company is depreciated over its useful life (5 years) using the straight line method.

C. Standards for significant reserves and allowances

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

a) General receivables

Based on historical bad debt experience.

b) Receivables at risk of default and in bankruptcy reorganization

Based on an assessment of the financial position.

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

4. Allowance for employee retirement benefits
The company and certain subsidiaries, to prepare for the payment of retirement benefits to employees, provide a reserve

at an amount based on estimated retirement benefit obligations and pension assets at the end of the consolidated fiscal year.

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

5. Allowance for directors and statutory auditors retirement benefits
The company makes a provision for estimated retirement payments to directors and statutory auditors in accordance with its internal regulations.

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

E. Treatment of significant lease transactions
With the exception of finance leases in which ownership of the leased assets is deemed to have passed to the lessee, leases are accounted for as operating lease transactions.

F. Other significant accounting policies used in the preparation of the consolidated financial statements
Treatment of Consumption Tax etc.
The accounts are prepared excluding Consumption Tax and Local Consumption Tax.

V. Valuation of assets and liabilities of consolidated subsidiaries

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

VI. Amortization of consolidation adjustments account

The consolidation adjustments account is amortized on a straight-line basis over 5 years. However, where sums are small, they are expensed in full in the term in which they are incurred.

VII. Note concerning treatment of income appropriation items.

Income appropriations in the consolidated statements of retained earnings are based on finalized income appropriations during the term.

VIII. Scope of funds in the Consolidated Statements of Cash Flows

Funds (cash & cash equivalents) in the Consolidated Statements of Cash Flows consist of cash in hand, demand deposits and easily realizable short-term investments with high liquidity and maturity dates not more than 3 months from the date of purchase, and which carry negligible risks of price fluctuation.

Changes In Accounting Policies

Consolidated Balance Sheets

The intangible assets suspense account exceeded 1/100th of total assets, so this was listed as a separate item from this fiscal year. The intangible assets suspense account for the previous fiscal year was ¥1,198 million included in the item Others.

Long-term deposits exceeded 1/100th of total assets, so this was listed as a separate item from this fiscal year. Long-term deposits for the previous fiscal year were ¥600 million and included in the item Others.

Additional Information

CONSOLIDATED BALANCE SHEETS

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

	(Millions of yen)
Investment securities (stocks)	¥1,200

*2 Assets pledged as collateral are as follows.

(Pledged assets)		
Buildings and structures	¥ 803	(book value)
Machinery, equipment, and vehicles	¥ 44	(book value)
Tools, furniture, and fixtures	¥ 127	(book value)
Total	¥ 975	(book value)
Assets provided for factory foundation mortgage		
Buildings and structures	¥ 512	(book value)
Machinery, equipment, and vehicles	¥ 6	(book value)
Tools, furniture, and fixtures	¥ 126	(book value)
Total	¥ 645	(book value)
	(Millions of yen)	
Liabilities related to the above assets		
Short-term borrowings	¥ 132	(book value)
Long-term borrowings	¥ 592	(book value)
Total	¥ 725	(book value)
Liabilities provided for factory foundation mortgage		
Short-term borrowings	¥ 55	
Long-term borrowings	¥ 278	
Total	¥ 333	

*3 Accelerated depreciation from government subsidies is ¥915 million. This figure is not included in the consolidated balance sheets.

*4 Application of the Land Revaluation Law

Land used for business purposes has been revalued in accordance with the “Act on revaluation of land” (Law 34 of 1998, promulgated on 31 March 1998) and the “Law Partially Amending the Act on Revaluation of Land” (revision of 31 March 1999). The portion of the revaluation gain equivalent to corporation tax and other taxes with tax bases linked to corporate profits has been recorded under liabilities as “Deferred tax liability related to revaluation,” while the net sum after this transfer to the deferred tax liability account is recorded under net assets as “Land revaluation adjustment”

Revaluation method

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

Revaluation date	February 28, 2001

The market value of commercial land revalued in accordance with Article 10 of the Land Revaluation Law at the end of fiscal 2009 was ¥1,877 million lower than the book value after revaluation.

CONSOLIDATED INCOME STATEMENT

*1 Main selling, general, and administrative expense items and amounts are as follows.

	(Millions of yen)
Advertising expenses	¥ 9,306
Sales promotion expenses	¥ 11,029
Packing and transportation expenses	¥ 2,595
Addition to allowance for doubtful accounts	¥ 51
Salaries and allowances	¥ 5,622
Addition to bonus reserve	¥ 504
Addition to allowance for employee retirement benefits	¥ 62
Addition to allowance for executive retirement benefits	¥ 95
Goodwill amortization	¥ 2,114
Research and development expenses	¥ 9,615
Addition to bonus reserve	¥ 152
Addition to allowance for employee retirement benefits	¥19

The addition to the allowance for employee retirement benefits is a negative figure because expected investment returns and actuarial gains were higher than service costs and interest costs.

General and administrative expenses include research and development expenses of 9,615 million. Manufacturing costs do not include research and development expenses.

*3 Manufacturing costs include an addition to the bonus reserve of ¥185 million and an addition to the allowance for employee retirement benefits of ¥54 million.

*4 Breakdown of losses on the disposal of fixed assets

(Loss on retirement)	(Millions of yen)
Buildings and structures	¥ 460
Machinery, equipment, and vehicles	¥ 37
Tools, furniture, and fixtures	¥ 17
Total	¥ 515

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS EQUITY

1. Shares outstanding

Type of shares	End of fiscal 2007	Increase	Decrease	End of fiscal 2008
Ordinary shares	95,164,895			95,164,895

2. Treasury shares

Type of shares End of fiscal 2007 Increase

Type of shares	End of fiscal 2007	Increase	Decrease	End of fiscal 2008
Ordinary shares	6,477,487	14,751	—	6,492,238

Reasons for changes

Shares increased for the following main reasons

Increase from purchasing shares in less than one unit	14,533 shares
Company portion of treasury shares purchased by equity method affiliates	218 shares

3. Dividends

(1) Dividends paid

Resolution	Type of shares	Total dividends (¥ million)	Dividends per share (¥)	Record date	Payment date
May 22, 2008 Annual general meeting of shareholders	Ordinary shares	2,661	30	February 29, 2008	May 23, 2008
October 9, 2008 Board of Directors meeting	Ordinary shares	2,794	31.5	August 31, 2008	November 4, 2008

(2) Dividends with a record date in fiscal 2008 but a payment date in fiscal 2009

Resolution	Type of shares	Source of dividend	Total dividends (¥ million)	Dividends per share (¥)	Record date	Payment date
May 26, 2009 Annual general meeting of shareholders	Ordinary shares	Retained earnings	2,793	31.5	February 28, 2009	May 27, 2009

CONSOLIDATED CASH FLOW STATEMENT

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

	(Millions of yen)
Cash and deposits	¥ 39,354
Securities	¥ 4,169
Total	¥ 43,523
Term deposits longer than three months	¥ (6,838)
Securities with maturities longer than three months	¥ (3,327)
Cash and cash equivalents	¥ 33,356

LEASE TRANSACTIONS

Lease transactions other than finance leases in which ownership of the leased asset is deemed to have passed to the lessee

1. Equivalent purchase value, equivalent accumulated depreciation, and equivalent year-end residual value of leased assets

(Millions of yen)

	Purchase value equivalent (¥ million)	Accumulated depreciation equivalent (¥ million)	Year-end balance at equivalent (¥ million)
Machinery, equipment and vehicles	¥ 421	¥ 102	¥ 319
Tools, furniture, and fixtures	1,187	580	606
Software	45	21	24
Total	¥ 1,654	¥ 704	¥ 950

2. Equivalent year-end balance of remaining lease payments

	(Millions of yen)
Within one year	¥ 291
Over one year	¥ 658
Total	¥ 950

3. Lease payments and equivalent depreciation

	(Millions of yen)
Lease payments	¥ 348
Equivalent depreciation	¥ 348

4. Method of calculating equivalent depreciation

SECURITIES

1. Held-to-maturity bonds with market value

(Millions of yen)

	Fiscal 2008 (February 29, 2008)			Fiscal 2009 (February 28, 2009)		
	Consolidated balance sheets value	Market value	Difference	Consolidated balance sheets value	Market value	Difference
Market value higher than on consolidated balance sheets						
(1) National and local government bonds, etc.	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —
(2) Corporate bonds	—	—	—	—	—	—
(3) Other	—	—	—	—	—	—
Subtotal	—	—	—	—	—	—
Market value lower than on consolidated balance sheets						
(1) National and local government bonds, etc.	—	—	—	—	—	—
(2) Corporate bonds	199	199	(0)	299	297	(2)
(3) Other	—	—	—	300	288	(11)
Subtotal	199	199	(0)	599	585	(14)
Total	¥ 199	¥ 199	¥ (0)	¥ 599	¥ 585	¥ (14)

2. Other securities with market value

(Millions of yen)

	Fiscal 2008 (February 29, 2008)			Fiscal 2009 (February 28, 2009)		
	Acquisition cost	Consolidated balance sheets value	Difference	Acquisition cost	Consolidated balance sheets value	Difference
Acquisition cost higher than on consolidated balance sheets						
(1) Stocks	¥ 4,206	¥ 6,101	¥ 1,894	¥ 1,305	¥ 1,622	¥ 356
(2) Bonds	—	—	—	—	—	—
(3) Other	—	—	—	—	—	—
Subtotal	4,206	6,101	1,894	1,305	1,622	356
Acquisition cost lower than on consolidated balance sheets						
(1) Stocks	¥ 8,218	¥ 6,838	¥ (1,379)	¥ 14,066	¥ 10,112	¥ (3,953)
(2) Bonds	—	—	—	—	—	—
(3) Other	—	—	—	—	—	—
Subtotal	8,218	6,838	(1,379)	14,066	10,112	(3,953)
Total	¥ 12,425	¥ 12,939	¥ 514	¥ 15,372	¥ 11,775	¥ (3,596)

Note: In this fiscal year, we applied write-downs to shares with a market value included in the Other marketable securities item, such that we recorded a ¥1,509 million loss on revaluation of investments in securities.

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

3. Main securities without market value

(Millions of yen)

Details	Fiscal 2008 (February 29, 2008)	Fiscal 2009 (February 28, 2009)
	Consolidated balance sheets value	Consolidated balance sheets value
Other securities		
(1) Unlisted stocks	¥ 396	¥ 489
(2) Trust beneficiary certificates, etc.	2,080	3,526
Total	2,476	4,015
Stock in subsidiaries and affiliated companies		
(1) Stock in subsidiaries	48	48
(2) Stock in affiliated companies	1,488	1,152
Total	¥ 1,536	¥ 1,200

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

Fiscal 2009 (March 1, 2008 – February 28, 2009)

	Within one year (¥ million)	One to five years (¥ million)	Five to 10 years (¥ million)	Over 10 years (¥ million)
(1) Corporate bonds	299	—	—	—
(2) Other	300	—	—	—

Fiscal 2008 (March 1, 2007 – February 29, 2008)

	Within one year (¥ million)	One to five years (¥ million)	Five to 10 years (¥ million)	Over 10 years (¥ million)
(1) Corporate bonds	200	—	—	—
(2) Other		—	—	—

DERIVATIVE TRANSACTIONS

1. Transaction information

1) Transaction details and reason for use

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

2) Transaction policies

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

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

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

3) Transaction risks

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

4) Transaction risk management

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

2. Transaction market value, etc.

Fiscal 2008 (March 1, 2007 – February 29, 2008)

No relevant transactions during fiscal 2008.

Fiscal 2009 (March 1, 2008 – February 28, 2009)

No relevant transactions during fiscal 2009.

RETIREMENT BENEFITS

Fiscal 2009 (March 1, 2008 – February 28, 2009)

1. Overview of retirement benefit plans

Corporate pension plan:

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

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

Lump sum retirement allowance:

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

2. Retirement benefit obligations

	(Millions of yen)
(1) Retirement benefit obligations	¥ (10,583)
(2) Pension assets	¥ 7,869
(3) Subtotal (1) + (2)	¥ (2,714)
(4) Unrecognized actuarial differences	¥ 3,505
(5) Total (3) + (4)	¥ 791
(6) Prepaid pension costs	¥ (5,346)
(7) Allowance for employee retirement benefits (5) + (6)	¥ (4,554)

3. Retirement benefit costs

	(Millions of yen)
(1) Service costs	¥ 457
(2) Interest costs	¥ 200
(3) Expected return on plan assets	¥ (304)
(4) Amortization of actuarial differences	¥ (222)
(5) Amortization of prior service costs	¥ (701)
(6) Retirement benefit costs	¥ (570)

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

4. Basis for calculating retirement benefit obligations

(1) Allocation of expected retirement benefits	Straight-line method
(2) Discount rate	2.00%
(3) Expected return on plan assets	
1) Corporate pension plan	2.90%
2) Qualified pension plan	2.30%

(4) Amortization period of prior service costs

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

(5) Amortization period of actuarial differences

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

TAX EFFECT ACCOUNTING

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

	(Millions of yen)
Deferred tax assets	
Allowance for employee retirement benefits	¥ 1,822
Allowance for executive retirement benefits	¥ 474
Accrued enterprise tax	¥ 671
Allowance for doubtful accounts	¥ 118
Net unrealized gains on other securities	¥ 1,436
Valuation losses on stock and investments in affiliated companies	¥ 133
Valuation losses on memberships	¥ 323
Net unrealized gains on investment securities	¥ 1,173
Bonus reserve	¥ 338
Outsourced research and development	¥ 942
Other	¥ 1,449
Total deferred tax assets	¥ 8,882
Deferred tax liabilities	
Prepaid pension costs	¥ (2,161)
Total deferred tax liabilities	¥ (2,161)
Net deferred tax assets	¥ 6,721

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

	(Millions of yen)
Statutory tax rate	40.4%
(Adjustments)	
Entertainment expenses excluded from income	1.5%
Dividend income excluded from income	(0.2)%
Per-capita inhabitants tax	0.0%
Special tax exemption for experimental research and development	(2.2)%
Other	(0.9)%
Income tax rate after application of tax effect accounting	40.4%

SEGMENT INFORMATION

Business segment information

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

Geographic segment information

Fiscal 2009 (March 1, 2008 – February 28, 2009)

Geographic segment information is omitted because Japan accounts for more than 90% of the total sales and assets of all geographic segments.

Overseas sales

Fiscal 2009 (March 1, 2008 – February 28, 2009)

Overseas sales information is omitted because they account for less than 10% of consolidated sales.

RELATED PARTY TRANSACTIONS

Fiscal 2009 (March 1, 2008 – February 28, 2009)

Executives and major individual shareholders

Category	Name	Address	Capital or investment (¥ million)	Business or profession	Voting rights ratio (%)	Relationship		Transaction	Transaction amount (¥ million)	Item	Year-end balance (¥ million)
						Concurrent positions	Business				
Executive	NAKATOMI Hirotaka	—	—	President & CEO of Hisamitsu Pharmaceutical Co., Inc., Chairman of Nakatomi Memorial Foundation	Direct: 0.76 Indirect: -	Concurrently a foundation chairman Other concurrent positions: None Secondments: None Transfers: None	—	Contributions to the Nakatomi Memorial Foundation	621	—	—

Transaction terms and policies for deciding transaction terms

Transaction amounts do not include consumption tax.

Contributions to the Nakatomi Memorial Foundation are third-party transactions.

SIGNIFICANT SUBSEQUENT EVENTS

Merger of consolidated subsidiary

Hisamitsu Pharmaceutical Co., Inc. merged consolidated subsidiary Hisamitsu Medical Co., Ltd. on April 1, 2007.

1. The name of the merged company or business, its business activities, legal format of merger, company name after merger, and a merger overview, including merger objective, is presented below.

(1) Name of merged company
Hisamitsu Medical Co., Ltd.
(2) Business activities
Intellectual property management
(3) Legal format of merger
Merger between jointly-controlled companies
(4) Company name after merger
Hisamitsu Pharmaceutical Co., Inc
(5) Merger overview, including objective
The merged company Hisamitsu Medical Co., Ltd. was the successor company when SSP Co., Ltd. spun off and sold its ethical pharmaceuticals business in April 2005. It was involved in managing intellectual property, including patents, trademarks, and know-how, and it seconded to the company executives and employees related to the ethical pharmaceuticals business (e.g., sales staff, researchers, and back-office personnel in medical information and other departments). However, Hisamitsu Medical merged with the company in an effort to concentrate the group's business resources and enhance efficiency.

2. Overview of accounting treatment

The merger was treated as a merger between jointly-controlled companies in accordance with the Accounting Standards for Business Combinations (Corporate Accounting Council, October 31, 2003) and the Application Guidelines for the Accounting Standards for Business Combinations and Accounting Standards for Business Divestitures.

PER SHARE INFORMATION

Fiscal 2008 (March 1, 2007 – February 29, 2008)		Fiscal 2009 (March 1, 2008 – February 28, 2009)	
Net assets per share	¥1,276.16	Net assets per share	¥1,391.49
Earnings per share	¥210.45	Earnings per share	¥215.61
Diluted earnings per share are not listed due to the absence of residual securities.		Diluted earnings per share are not listed due to the absence of residual securities.	

Note: Basis of calculation

1. Net assets per share

	Fiscal 2008 (March 1, 2007 – February 29, 2008)	Fiscal 2009 (March 1, 2008 – February 28, 2009)
Total net assets in the consolidated balance sheets (¥ million)	113,929	124,105
Net assets attributable to ordinary shareholders (¥ million)	113,179	123,386
Main differences (¥ million) Minority interests	750	719
Ordinary shares outstanding	95,164,000	95,164,000
Ordinary shares held in treasury	6,477,000	6,492,000
Ordinary shares used in calculating net assets per share	88,687,000	88,672,000

2. Earnings per share

	Fiscal 2008 (March 1, 2007 – February 29, 2008)	Fiscal 2009 (March 1, 2008 – February 28, 2009)
Net income (¥ million)	18,663	19,120
Amount not attributable to ordinary shareholders (¥ million)	—	—
Net income attributable to ordinary shareholders (¥ million)	18,663	19,120
Average ordinary shares during year	88,681,000	88,680,000

ADDITIONAL CONSOLIDATED INFORMATION

Bond information

Not applicable.

Borrowing information

	Balance at end of fiscal 2008 (¥ million)	Balance at end of fiscal 2009 (¥ million)	Average interest rate (%)	Repayment date
Short-term borrowings	762	885	0.90	—
Long-term borrowings due within one year	275	162	0.58	—
Lease liability due within one year	—	—	—	—
Long-term borrowings (excluding borrowings due within one year)	842	881	0.81	March 1, 2010 to January 31, 2017
Lease liability (exchange borrowings due within one year)	—	—	—	—
Other liabilities	—	—	—	—
Total	1,880	1,929	—	—

Notes:
1. Average interest rate shows the weighted average interest rate for year-end balances of borrowings, etc.
2. Long-term borrowings due within one year include ¥132 million in interest free loans from the Development Bank of Japan.
3. Long-term borrowings (excluding borrowings due within one year) include ¥ 592 million in interest free loans from the Development Bank of Japan.
4. The following long-term borrowings (excluding borrowings due within one year) are scheduled for repayment each year for five years from the consolidated balance sheet date.

	One to two years (¥ million)	Two to three years (¥ million)	Three to four years (million)	Four to five years (¥ million)
Long-term borrowings	166	213	202	171

(2) Other
Not applicable.

Corporate Data

Group Companies

Our corporate group comprises Hisamitsu Pharmaceutical, 10 consolidated subsidiaries, two non-consolidated subsidiaries, and two equity-method affiliates.

Name	Location	Capital or investment	Main business activities	Voting rights (%)	Relationship					Remarks
					Concurrent employees		Capital support from Hisamitsu	Business transactions	Other	
					Hisamitsu officers (Persons)	Hisamitsu employees (Persons)				
Consolidated subsidiaries										
Hisamitsu America, Inc.	Torrance, California, USA	USD 100,000	Pharmaceuticals and related products	100	1	—	—	Sell products supplied by Hisamitsu in the US	—	
Hisamitsu Farmaceutica do Brasil Ltda.	Manaus, Brazil	BRL 14 million	Pharmaceuticals and related products	100	—	3	Working capital loans	Manufacture and sell products in Brazil, with products and some raw materials supplied by Hisamitsu	—	Note 3
Hisamitsu Vietnam Pharmaceutical Co., Ltd.	Bien Hoa, Vietnam	VND 31,293 million	Pharmaceuticals and related products	100	—	4	—	Manufacture and sell products in Vietnam, with some raw materials supplied by Hisamitsu	—	
Saga City-Vision Co., Ltd.	Saga, Saga	¥603 million	Cable television broadcasting	69.41	1	2	Working capital loans and debt guarantees	Hisamitsu outsources advertising	—	
CRCC Media Co., Ltd.	Kurume, Fukuoka	¥830 million	Cable television broadcasting	63.93	1	3	Working capital loans and debt guarantees	Hisamitsu outsources advertising	—	
Taiyo Co., Ltd.	Tosu, Saga	¥10 million	Other businesses	100	1	3	—	Agent for casualty insurance contracts for Hisamitsu	Hisamitsu leases land	
Kyudo Co., Ltd.	Ueki-machi, Kamoto-gun, Kumamoto	¥10 million	Other businesses	100	1	2	—	Provide advertising agency services to Hisamitsu	Hisamitsu leases land & buildings	
Hisamitsu Agency Co., Ltd.	Kurume, Fukuoka	¥25 million	Other businesses	60 (60)	1	2	—	Provide advertising agency services to Hisamitsu	Hisamitsu leases part of a lease building	
Hisamitsu UK Ltd.	London, UK	GPB 120,000	Pharmaceuticals and related products	100	—	2	—	Hisamitsu outsources development	—	
PT. Hisamitsu Pharma Indonesia	Surabaya, Indonesia	IDR 32,518 million	Pharmaceuticals and related products	75	—	3	Working capital loans	Manufacture and sell products in Indonesia, with products and some raw materials supplied by Hisamitsu	—	

Corporate Data

Equity-method affiliates										
Maruto Co., Ltd.	Ogori, Fukuoka	¥1,807 million	Other businesses	39.75	1	2	Working capital loans		—	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 on the Fukuoka Stock Exchange and files financial statements.

5. Figures in parenthesis in the voting rights column indicate indirect ownership.

6. Key earnings information for the foregoing consolidated subsidiaries is not listed because sales at these companies account for less than 10% of consolidated sales (excluding internal sales between consolidated subsidiaries).

Corporate Data

Company Profile

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

Stock Information

Authorized shares	380,000,000
Shares outstanding	95,164,895
Shareholders	7,468
Stock exchange listings	First sections of the Tokyo Stock Exchange, Osaka Securities Exchange, and Nagoya Stock Exchange, and the Fukuoka Stock Exchange (stock code: 4530)
Stock registrar	Mitsubishi UFJ Trust and Banking Corporation 1-4-5 Marunouchi, Chiyoda-ku, Tokyo
Annual general meeting of shareholders	May each year
Ex dividend date	End of February (August 31 for interim dividend)
Record date	Record date for the annual general meeting of shareholders is the end of February. Report in advance if otherwise needed.
Newspaper for public announcements	Nihon Keizai Shimbun
Stock related inquiries	Stock Section, General Affairs Department, Kyushu Head Office 408 Tashiro Daikan-machi, Tosu-shi Saga Tel: +81 942-83-2101 Fax: +81 942-83-6119 Website: http://www.hisamitsu.co.jp

Number of Employees

As of February 28, 2009

Business segment	Employees
Pharmaceuticals and related products	1,756 (240)
Cable television broadcasting	43 (10)
Other businesses	91 (38)
Total	1,890 (288)

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

Hisamitsu Pharmaceutical Co., Inc.

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