Hisamitsu

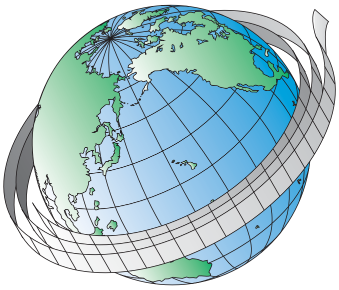
Hisamitsu Pharmaceutical Co., Inc.

Annual Report 2008

For the Fiscal Year Ended February 28, 2008

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.

Note: Amounts in US dollars are included solely for convenience and are translated at a rate of ¥104.78=U.S.$1.00, the approximate rate of exchange on February 29, 2008.

Contents

Consolidated Financial Highlights

Fiscal year (FY) to:		2/04	2/05	2/06	2/07	**2/08**
Sales	(¥ million)	74,588	83,545	102,665	109,791	**119,061**
Operating income	(¥ million)	17,989	21,495	22,770	26,134	**29,071**
Ordinary income	(¥ million)	18,388	21,871	24,159	27,001	**30,204**
Net income	(¥ million)	10,822	12,873	14,448	15,847	**18,663**
Net assets	(¥ million)	69,453	80,868	90,520	103,966	**113,929**
Total assets	(¥ million)	97,218	111,063	136,584	141,143	**149,750**
Net assets per share	(¥)	765.23	891.33	1,020.26	1,164.05	**1,276.16**
EPS	(¥)	118.77	141.30	159.75	178.74	**210.45**
Diluted EPS	(¥)	—	—	—	—	**—**
Equity ratio	(%)	71.4	72.8	66.3	73.1	**75.6**
ROE	(%)	16.7	17.1	16.9	16.4	**17.2**
P/E	(x)	11.9	15.6	17.3	20.0	**15.9**
Operating cash flow	(¥ million)	7,696	20,130	23,114	12,228	**25,722**
Investing cash flow	(¥ million)	(2,258)	(4,755)	(18,606)	(11,804)	**(11,911)**
Financing cash flow	(¥ million)	(2,397)	(1,267)	(303)	(9,580)	**(7,479)**
Cash and equivalents at year-end	(¥ million)	17,417	31,477	35,623	26,510	**32,706**
Employees (average temporary staff)	(People)	1,432 (355)	1,541 (290)	1,671 (295)	1,629 (353)	**1,752** **(297)**

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 29, 2008 (FY 2/08).

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 8.4% year on year, or ¥9,269 million, to ¥119,061 million; ordinary income grew 11.9%, or ¥3,203 million, to ¥30,204 million; and net income grew 17.8%, or ¥2,815 million, to ¥18,663 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

Overview of Operations

1. Overview of Operations

(1) Operating results

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 OTC 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, consolidated sales grew 8.4% year on year, or ¥9,269 million, to ¥119,061 million; ordinary income grew 11.9%, or ¥3,203 million, to ¥30,204 million; and net income grew 17.8%, or ¥2,815 million, to ¥18,663 million.

Pharmaceuticals and related products

The pharmaceuticals and related products segment, particularly the ethical pharmaceuticals business, faced an extremely uncertain business environment during FY 2/08 amid national efforts to curb healthcare expenditures. We responded to these circumstances by providing medial institutions with appropriate and detailed scientific information about our products, particularly our anti-inflammatory pain relief patches. While collecting and supplying information on efficacy and safety, we sought to expand our market share for a variety of products, including our mainstay product Mohrus Tape, a ketoprofen transdermal patch; Mohrus Tape L, a double-sized version of the Mohrus Tape patch; Mohrus Pap 30mg, a ketoprofen transdermal patch; Mohrus Pap 60mg, and ketoprofen transdermal patch that can be applied to a large area; Naboal Pap 70 and Naboal Pap 140, one-a-day patches containing diclofenac sodium; and HMT, a transdermal bronchodilator tulobuterol tape.

In the OTC business, sales competition in the domestic market remained fierce, and we sought to increase sales by expanding our customer base through improvement in the brand image of mainstay products, including Salonpas, Air Salonpas, Salonsip, Feitas, and Butenalock. We released several new products during the year in an effort to respond to the diverse needs of our customers and cultivate new demand, including: Feitas L, which is twice the size of the original Feitas to treat pain in the lower back and other large areas with one patch; Feitas Hot, which retains the same efficacy as Felbinac while providing continuous acute stimulation by promoting blood circulation through heat; Salonpas Lotion, which responds to widespread demand for a lotion that makes it easier to apply Salonpas for soothing stimulation; the Butenalock V series, which adds four additional ingredients, including an antipruritic, to the main ingredient butenafine hydrochloride, a strong disinfectant for the cause of athlete’s foot; Butenalock V Air, which targets especially itchy athlete’s foot through the

Overview of Operations

cooling sensation of a jet spray; and Ganryo Alfirst EX, an eye drop that is effective in treating allergy symptoms.

As a result of these efforts, sales in the pharmaceuticals and other products segment rose 8.8% year on year, or ¥9,374 million, to ¥116,129 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 3.5% year on year, or ¥105 million, to ¥2,931 million.

(2) Cash flows

Cash provided by operating activities totaled ¥25,722 million, an increase of ¥13,493 million year on year, due mainly to an increase in net income before taxes, increase in accounts payable, increase in other current liabilities, and decrease in accounts receivable.

Cash used in investing activities totaled ¥11,911 million, an increase of ¥106 million year on year, due mainly to an increase in payments for the purchase of tangible fixed assets, increase in payments for the purchase of intangible fixed assets, increase in proceeds from the sale and redemption of securities, and decrease in payments for term deposits.

Cash used in financing activities totaled ¥7,479 million, a decrease of ¥2,100 million year on year, due mainly to a decrease in the repayment of long-term debt.

As a result of the foregoing, cash and cash equivalents at the end of the fiscal year totaled ¥32,706 million, an increase of ¥6,196 million from the beginning of the fiscal year.

Overview of Operations

(3) Sales

A breakdown of sales by business segment in FY 2/08 is provided below.

Business segment	(Millions of yen)	YoY (%)
Pharmaceuticals and related products	¥ 116,129	8.8
Topical analgesic products	105,664	10.5
Other topical and transdermal products	4,242	7.2
Others	6,222	5.4
Cable television broadcasting	1,834	(0.5)
Other businesses	1,097	(8.1)
Total	¥ 119,061	8.4

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

	FY 2/07		FY 2/08	
Customer	Sales (¥ million)	% of total	Sales (¥ million)	% of total
Mediceo Paltac Holdings Co., Ltd.	26,025	23.7	27,885	23.4
Alfresa Holdings Corporation	15,600	14.2	17,653	14.8

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.

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.

Overview of Operations

(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 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 2/08.

(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 if we are unable to compensate through growth in sales volume or other means. We are similarly affected by a variety of regulations overseas.

(2) Risks from reliance on certain products

The four products Mohrus Tape, Mohrus Tape L, Mohrus Pap 30mg, and Mohrus Pap 60mg accounted for 65.7% of consolidated sales in FY 2/08. Consequently, earnings could be aversely affected if we are unable to adequately maintain the rights related to these products or if serious side-effects are revealed.

(3) Research and development risks

We conduct research and development into new products and new technology. 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

Distribution agreement

We concluded an exclusive contract with Mundipharma International Limited of Switzerland on August 6, 2007 for the exclusive distribution rights in Japan of Norspan, a buprenorphine patch to treat moderate to severe back pain and chronic osteoarthritis pain.

(1) Counterparty to the agreement

Mundipharma International Limited

(2) Agreement details

Acquire exclusive distribution rights in Japan for the buprenorphine patch Norspan.

(3) Acquisition price

One-time payment of $30 million and subsequent milestone payments based on development progress and sales.

Overview of Operations

5. Research and Development

Pharmaceuticals and related products

We conduct research and development based on the needs of medical practice, focusing on the development of external pharmaceuticals.

For ethical pharmaceuticals in Japan, we have been independently developing HFT-290, a transdermal-absorption continuous-action drug for the treatment of cancer pain. We have completed Phase III clinical trials and are now preparing to apply for approval.

We have been working to verify in Phase III clinical trials the analgesic effects of KPT-220 (generic name: ketoprofen), which is intended to provide additional effectiveness in relieving rheumatoid arthritis pain to the anti-inflammatory pain relief patch Mohrus Tape. We succeeded in showing a statistically significant difference between the drug and a placebo, and we have filed an application for approval.

The anti Parkinson’s drug HPL-509 (generic name: pergolide mesylate) was in Phase II clinical trials, but development has been suspended for the following reason. Revision of the package insert for oral pergolide and the removal of pergolide as a first-line drug for Parkinson’s patients created a need to assess market trends and for further baseline assessment of the safety of HPL-509 for oral pergolide.

We concluded an exclusive contract with Mundipharma International Limited for distribution rights in Japan for a patch to treat moderate to severe back pain and chronic osteoarthritis pain. Mundipharma has completed Phase III clinical trials in Japan and currently seeks to file an application for approval.

For OTC pharmaceuticals, we are working to develop new products, improve existing products, and add items with the goal of raising efficacy, safety, and usability.

For ethical pharmaceuticals overseas, we have been developing the external anti-inflammatory pain reliever HKT-500 (generic name: ketoprofen) as an overseas strategic product in the United States. We are currently conducting Phase III clinical trials to acquire approval. We have also applied for approval in the United States for the severe pain reliever HFG-512.

For OTC pharmaceuticals overseas, we have received approval from the US Food and Drug Administration of a new drug application for the external anti-inflammatory pain reliever FS-67 (generic name: methyl salicylate, L-menthol).

To expand the potential of transdermal treatments, we are working to improve our commercialization technology through independent development of basic technology and joint development with outside 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 ¥11,234 million in FY 2/08.

6. Analysis of Financial Position and Operating Results

(1) Analysis of financial position in FY 2/08

1) Assets

Assets totaled ¥149,750 million at the end of FY 2/08, an increase of ¥8,607 million from the previous year, due mainly to investment securities decreasing by ¥3,063 million to ¥14,872 million as a result of marking to market, cash and deposits increasing by ¥6,311 million to ¥36,129 million as a result of sales growth, and notes and accounts receivable increasing by ¥2,920 million to ¥31,307 million.

2) Liabilities

Liabilities totaled ¥35,851 million at the end of FY 2/08, a decrease of ¥1,355 million from the previous year, due mainly to notes and accounts payable increasing by ¥929 million to ¥9,933 million as a result of raw material purchases in response to sales growth, short-term borrowings decreasing by ¥2,429 million to ¥1,038 million as a result of repayment, and other payables decreasing by ¥1,555 million to ¥7,699 million.

3) Net assets

Net assets totaled ¥113,929 million at the end of FY 2/08, an increase of ¥9.963 million from the previous year, due mainly to dividend payments of ¥4,790 million, net unrealized holding gains on securities decreasing by ¥3,921 million, and net income of ¥18,663 million.

(2) Analysis of operating results in FY 2/08

1) Sales

Sales grew 8.4% year on year to ¥119,061 million. As a result of focusing on expanding sales of mainstay products, Mohrus Tape was up 6.3% and Mohrus Tape L was up 35.8% to contribute to overall sales growth.

Overview of Operations

2) Operating income

Operating income grew 11.2% year on year to ¥29,071 million as a result of holding the rise in the cost of sales ratio to 0.3 percentage points by raising productivity and reducing manufacturing costs, and limiting growth in selling, general and administrative expenses by reducing advertising expenditures.

3) Ordinary income

Ordinary income grew 11.9% year on year to ¥30,204 million as a result of growth in operating income.

4) Net income

Net income grew 17.8% year on year to ¥18,663 million as a result of gains from the reversal of retirement benefit reserves and income tax adjustments. Consequently, earnings per share totaled ¥210.45 in FY 2/08, and return on equity was 17.2%.

7. Capital Expenditures

Capital expenditures totaled ¥6,356 million in FY 2/08, due mainly to augmenting production equipment.

In the pharmaceuticals and related products business, we mainly augmented production equipment at the Utsunomiya plant, requiring capital expenditures of ¥3,944 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 ¥311 million.

We did not sell or remove any equipment that would affect production capacity in FY 2/08.

Corporate Governance and Internal Auditing

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 repurchase and retire shares and conduct share splits 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 2/08 we paid an interim dividend of ¥30 per share and a year-end dividend of ¥30 per share, for an annual dividend of ¥60 per share. This resulted in a dividend payout ratio of 30.4%.

We use internal reserves for research and development activities in Japan and overseas and for making capital investment related to new products in an effort to further increase enterprise value.

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 2/08 are as follows.

Resolution date	Total dividends (¥ million)	Dividends per share (¥)
October 17, 2007 Board of directors resolution	2,661	30.0
May 22, 2008 General meeting of shareholders resolution	2,661	30.0

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 to clarify roles and responsibilities in business execution.

Corporate Governance and Internal Auditing

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.

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.

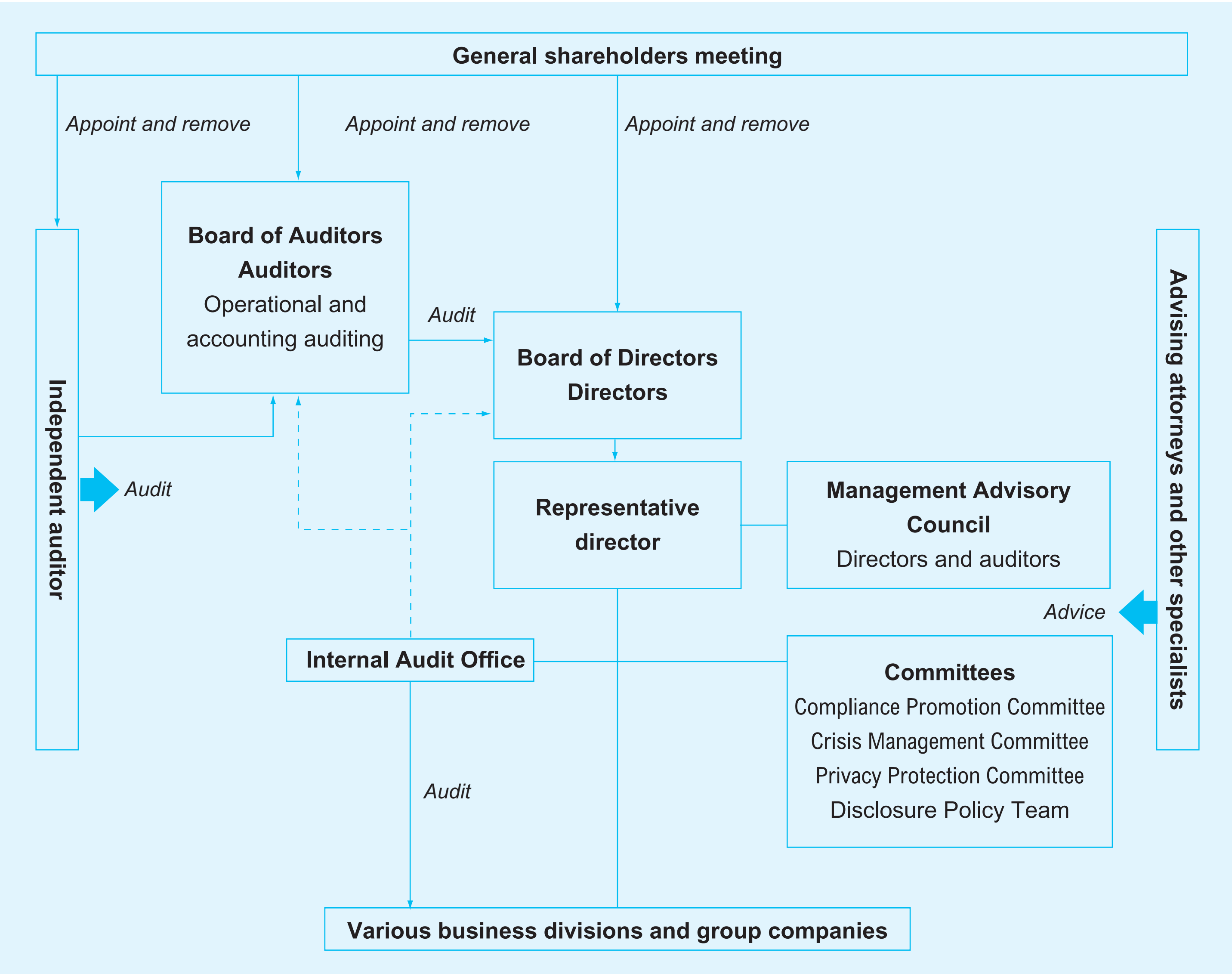
Audit company providing auditing services

Audit company	Certified public accountants providing auditing services		Assisting personnel	
KPMG AZSA & Co.	Designated and Engagement Partner	Yukimitsu Aoki	CPAs	2
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 and Internal Auditing

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	¥407 million
Auditors	¥54 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: ¥30 million

Compensation for other services: ¥7 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

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 2/08 (February 29, 2008)	Shares outstanding on filing date (May 23, 2008)	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
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 29, 2008

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)	—	78	31	177	178	1	6,834	7,299	—
Shares owned (units)	—	497,675	5,853	139,129	120,643	10	187,749	951,059	58,995
Ratio (%)	—	52.33	0.62	14.63	12.68	0.00	19.74	100.00	—

Notes: 1. A total of 6,452,258 treasury shares are listed as 64,522 units in the individuals and other column and as 58 shares in the shares under one unit column. The 6,452,258 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.

(6) Principal shareholders

As of February 29, 2008

Name	Address	Shares owned (thou shares)	Percentage of shares outstanding (%)
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	5,584	5.87
Japan Trustee Service Bank, Ltd. (trust account)	1-8-11 Harumi, Chuo-ku, Tokyo	5,325	5.60
The Nomura Trust and Banking Co., Ltd. (The Bank of Tokyo-Mitsubishi UFJ, Ltd. pension trust account)	2-2-2 Otemachi, Chiyoda-ku, Tokyo	4,387	4.61
Japan Trustee Service Bank, Ltd. (Resona 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	4,356	4.58
Fukuoka Bank	2-13-1 Tenjin, Chuo-ku, Fukuoka	4,201	4.42
Nipponkao Insurance	3-7-3 Kasumigaseki, Chiyoda-ku, Tokyo	2,101	2.21
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
State Street Bank and Trust Company (standing agent: Kabutocho Corporate Banking and Securities Business Division, Mizuho Corporate Bank, Ltd.)	6-7 Nihonbashi Kabutocho, Chuo-ku, Tokyo	2,056	2.16
Total		40,555	45.62

Notes: 1. The number of the foregoing shares related to fiduciary services is as follows.
Japan Trustee Service Bank, Ltd.: 11,759,000 shares
The Master Trust Bank of Japan, Ltd.: 5,584,000 shares
The Nomura Trust and Banking Co., Ltd. 4,387,000 shares
2. In addition to the shares listed above, the company owns 6,452,000 treasury shares (6.78%).

(7) Status of voting rights

1) Shares issued

As of February 29, 2008

	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 6,452,200	—	Standard shares with unlimited rights
	(Cross-held shares) Ordinary shares 63,500	—	Same as above
Shares with full voting rights (other)	Ordinary shares 88,590,200	885,902	Same as above
Shares less than one unit	Ordinary shares 58,995	—	Same as above
Total shares issued	95,164,895	—	—
Total voting rights of shareholders	—	885,902	—

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 58 treasury shares held by the company.

2) Treasury shares and cross-held shares

As of February 29, 2008

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	6,452,200	—	6,452,200	6.78
(Cross-held shares) Maruto Co., Ltd.	892-1 Hikata Ogori-shi, Fukuoka	23,000	40,500	63,500	0.07
Total	—	6,475,200	40,500	6,515,700	6.85

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. 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.

Corporate Information

Acquisition of Treasury Shares

(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	2,524	8,535,520
Treasury shares acquired during FY 2/09	224	846,640

Note: Treasury shares acquired during FY 2/09 do not include shares acquired for less than one unit between May 1, 2008 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	6,452,258	—	6,452,482	—

Note: Treasury shares held during FY 2/09 do not include shares acquired for less than one unit between May 1, 2008 and the filing date of this annual securities report.

Financial Section

Note: Amounts in US dollars are included solely for convenience and are translated at a rate of ¥104.78=U.S.$1.00, the approximate rate of exchange on February 29, 2008.

Financial Section

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

Consolidated Balance Sheets

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2007	Fiscal 2008	Fiscal 2008
		(to February 29, 2007)	
		Value	
(Assets)			
I Current assets			
Cash and deposits	¥ 29,817	¥ 36,129	$ 344,808
Trade notes and accounts	28,386	31,307	298,788
Marketable securities	3,111	2,332	22,266
Inventories	8,931	8,635	82,420
Deferred tax assets	1,251	1,345	12,846
Others	1,123	909	8,675
Allowance for doubtful accounts	(156)	(171)	(1,632)
Total current assets	72,466	80,488	768,717
II Fixed assets			
1 Property, plant and equipment			
Buildings and structures (Note 2,3)	13,445	16,668	159,076
Machinery, equipment and vehicles (Note 2)	11,354	11,374	108,551
Tools, furniture and fixtures (Note 2)	5,424	3,181	30,369
Land (Note 4)	38,497	40,299	384,615
Construction in progress			
Tangible fixed assets total			
2 Intangible assets			
Goodwill	6,331	4,216	40,237
Software	51	38	372
Others	21	1,209	11,538
Total intangible assets	6,403	5,464	52,147
3 Investments and other assets			
Investment securities (Note 1)	17,935	14,872	141,945
Long-term loans receivable	855	512	4,896
Prepaid pension expenses	2,877	3,853	36,772
Deferred tax assets	—	2,154	20,567
Others	2,271	2,263	21,598
Allowance for doubtful accounts	(164)	(159)	(1,517)
Total investments and other assets	23,775	23,497	224,261
Total fixed assets	68,676	69,262	661,023
Total assets	¥ 141,143	¥ 149,750	$ 1,429,194

Financial Section

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

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2007	Fiscal 2008	Fiscal 2008
		(to February 29, 2007)	
		Value	
(Liabilities)			
I Current liabilities			
Trade notes and accounts	¥ 9,004	¥ 9,933	$ 94,808
Short-term borrowings (Note 2)	3,467	1,038	9,906
Accounts payable	9,254	7,699	73,478
Income taxes payable	4,530	6,980	66,625
Allowance for sales returns	167	157	1,498
Provision for bonuses	688	808	7,721
Others	805	988	9,430
Total current liabilities	27,919	27,606	263,466
II Long-term liabilities			
Long-term borrowings (Note 2)	1,058	842	8,036
Deferred tax liabilities	415	-	-
Deferred tax liabilities on revaluation (Note 4)	2,164	2,164	20,653
Employees' severance and retirement benefits	4,384	4,071	38,853
Directors' and corporate auditors' retirement benefits	1,166	1,102	10,517
Consolidated adjustments account	—	—	—
Negative goodwill	23	—	—
Others	45	35	343
Total long-term liabilities	9,257	8,215	78,402
Total liabilities	37,176	35,821	341,868
I Shareholders' equity			
Common stock	8,473	8,473	80,874
Capital surplus	8,376	8,396	80,130
Retained earnings	92,137	106,010	1,011,739
Treasury stock	(12,501)	(12,504)	(119,336)
Total shareholders' equity	96,486	110,376	1,053,407
II Valuation and translation adjustments			
Valuation adjustment on other marketable securities	4,248	326	3,121
Land revaluation adjustment (Note 4)	3,188	3,188	30,425
Foreign currency translation adjustments	(692)	(712)	(6,795)
Total valuation and translation adjustments etc.	6,744	2,803	26,751
III Minority interests	735	750	7,158
Total net assets	103,966	113,929	1,087,316
Total liabilities and net assets	¥ 141,143	¥ 149,750	$ 1,429,194

Financial Section

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

Consolidated Statements of Income

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2007	Fiscal 2008	Fiscal 2008
	(March 1, 2007 to February 29, 2008)		
	Value		
I Net sales	¥ 109,791	¥ 119,061	$ 1,136,305
II Cost of sales (Note 2, 3)	32,903	36,101	344,541
Gross profit	76,888	82,960	791,764
III Selling, general and administrative expenses (Note 1, 2)	50,754	53,888	514,306
Operating income	26,134	29,071	277,458
IV Non-operating income			
Interest received			
Dividend income			
Foreign exchange gains			
Amortization of consolidated adjustment account			
Amortization of negative goodwill			
Equity in earnings of affiliated companies			
Sales compensasion			
Development license revenues			
Other	1,034	1,422	13,571
V Non-operating expenses			
Interest expenses		21	210
Foreign exchange losses		90	868
Equity in losses of affiliated companies		—	—
Loss on sales of receivables		45	429
Others	167	130	1,241
Recurring income	27,001	30,204	288,271
Gain on sales of fixed assets (Note 4)			
Government subsidies			
Reversal of allowance for doubtful accounts			
Gain on return of welfare pension fund substitutional portion			
Others	42	707	6,748
VII Extraordinary losses			
Loss on disposals of fixed assets (Note 5)			
Asset impairment losses (Note 6)			
Loss on liquidation of affiliates			
Loss on sales of investment securities			
Book loss on investment securities			
Additional severance benefits			
Others	1,125	705	6,729
Net income	25,917	30,206	288,290
Corporate, other taxes			
Income taxes: deferred	10,058	11,477	109,544
Minority interests (deduction)	11	66	630
Net income	¥ 15,847	¥ 18,663	$ 178,116

Financial Section

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

Consolidated Statements of Shareholders' Equity

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2007	Fiscal 2008	Fiscal 2008
		(to February 29, 2007)	
		Value	
(Net assets)			
I Shareholders' equity			
Common stock	¥ 8,473	¥ 8,473	$ 80,874
Capital surplus	8,376	8,396	80,130
Retained earnings	92,137	106,010	1,011,739
Treasury stock	(12,501)	(12,504)	(119,336)
Total shareholders' equity	96,486	110,376	1,053,407
II Valuation and translation adjustments			
Valuation adjustment on other marketable securities	4,248	326	3,121
Land revaluation adjustment (Note 4)	3,188	3,188	30,425
Foreign currency translation adjustments	(692)	(712)	(6,795)
Total valuation and translation adjustments etc.	6,744	2,803	26,751
III Minority interests	735	750	7,158
Total net assets	103,966	113,929	1,087,316
Total liabilities and net assets	¥ 141,143	¥ 149,750	$ 1,429,194

Consolidated Statements of Cash Flows

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2007	Fiscal 2008	Fiscal 2008
	(March 1, 2007 to February 29, 2008)		
	Value		
I Cash flows from operating activities			
Income before income taxes	¥ 25,917	¥ 30,206	$ 288,290
Depreciation and amortization	3,118	3,429	32,726
Asset impairment losses	154	292	2,787
Amortization of goodwill	2,129	2,114	20,185
Amortization of negative goodwil	(23)	(24)	(229)
Reduction in provision for employees' severance and retirement benefits	(157)	(306)	(2,930)
Increase in provision for corporate officers' retirement benefits	87	(64)	(611)
Increase in provision for bonuses	75	120	1,145
Reduction in provision for doubtful accounts	(156)	9	95
Reduction in provision for sales returns	(52)	(10)	(105)
Interest and dividend income	(192)	(323)	(3,092)
Interest expenses	41	21	210
Foreign currency gains	(31)	92	868
Equity in losses of affiliated companies (Negative sign denotes earnings)	0	(264)	(2,529)
Loss on disposal of shares in affiliates	—	5	48
Losses on sales of investment securities	116	130	1,241
Book loss on investment securities	—	22	210
Losses on sales of fixed assets	346	—	—
Loss on disposal of fixed assets	—	121	1,155
Additional severance benefits	506	133	1,269
Increase in notes and accounts receivable	(4,519)	(2,916)	(27,830)
Increase in inventories	(391)	279	2,672
Increase in other current assets	(453)	178	1,708
Contributions in kind	634	621	5,927
Increase in notes and accounts payable (Negative sign denotes decrease)	(1,145)	946	9,028
Increase in other current liabilities (Negative sign denotes decrease)	(2,041)	750	7,167
Bonuses paid to corporate officers	(59)	—	—
Others	240	(820)	(7,826)
Subtotal	24,143	34,745	331,609
Interest and dividends received	189	316	3,016
Interest paid	(34)	(21)	(210)
Additional severance benefits	(506)	(133)	(1,279)
Income taxes paid	(11,563)	(9,184)	(87,650)
Cash flows from operating activities	¥ 12,228	¥ 25,722	$ 245,486

Financial Section

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

	(Millions of yen)		(Thousands of U.S. dollars)
	Fiscal 2007	Fiscal 2008	Fiscal 2008
	(March 1, 2007 to February 29, 2008)		
	Value		
II Cash flows from investing activities			
Outflow resulting from change in balance of term deposits	¥ (2,353)	¥ (569)	$ (5,440)
Payments for purchases of tangible fixed assets	(5,638)	(8,365)	(79,843)
Proceeds from sales of tangible fixed assets	34	0	0
Payments for purchases of fixed intangible assets	(3)	(1,197)	(11,424)
Proceeds from sales of fixed intangible assets	49	—	—
Payments for purchases of marketable securities	(6,340)	(7,074)	(67,522)
Proceeds from sales and redemptions of marketable securities	5,579	8,291	79,128
Payments for purchases of investment securities	(3,314)	(3,546)	(33,842)
Proceeds from sales and redemptions of investment securities	55	170	1,632
Outflow from loans extended	(10)	(16)	(153)
Proceeds from loan repayments	129	396	3,788
Sales of shares in subsidiaries associated with change in scope of consolidation	6	—	—
Outflow on purchases of shares in subsidiaries	—	0	0
Cash flows from investing activities	(11,804)	(11,911)	(113,676)
III Cash flows from financing activities			
Inflow (Negative sign denotes outflow) from change in short-term borrowings	170	(27)	(258)
Proceeds from long-term borrowings	185	59	573
Outflow from repayments of long-term borrowings	(5,200)	(2,677)	(25,558)
Dividend payments to minority investors	(35)	(34)	(334)
Outflow from purchases of treasury stock	(9)	(8)	(86)
Cash dividends paid	(4,689)	(4,790)	(45,715)
Cash flows from financing activities	(9,580)	(7,479)	(71,378)
IV Translation adjustment cash & equivalents	43	(135)	(1,299)
V Increase in cash and cash equivalents (Negative sign denotes decrease)	(9,112)	6,196	59,133
VI Balance of cash and cash equivalents at beginning of year	35,623	26,510	253,016
VII Balance of cash and cash equivalents at end of year	¥ 26,510	¥ 32,706	$ 312,149

Financial Section

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

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 2/07 (March 1, 2006 – February 28, 2007) were prepared based on the Regulations for Consolidated Financial Statements prior to revision, whereas the consolidated financial statements for FY 2/08 (March 1, 2007 – February 29, 2008) 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 2/07 (March 1, 2006 – February 28, 2007) were prepared based on the Regulations for Non-Consolidated Financial Statements prior to revision, whereas 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 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

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

(b). Non-consolidated subsidiaries: 2

Names of non-consolidated subsidiaries
Kokusai Pappu-zai Kenkyusho Co., Ltd.
Taiyo Kaihatsu Co., Ltd.
The liquidation of RRF Kenkyusho Co., Ltd. was completed in fiscal 2008.

(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: 2

Taiwan Hisamitsu Pharmaceutical Co., Ltd.
Maruto Co., Ltd.

(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.
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

In the previous fiscal term, “Losses on sales of fixed assets” were included in the “Other” portion of cash flows from operating activities but because the monetary significance of this item has increased, from the fiscal term under review it is shown separately. “Losses on sales of fixed assets” in the previous fiscal term were ¥70 million.

In the previous fiscal term, “Contributions in kind” were included in the “Other” portion of cash flows from operating activities but because the monetary significance of this item has increased, from the fiscal term under review it is shown separately. “Contributions in kind” in the previous fiscal term were ¥616 million.
Consolidated income statement

Royalty income is listed as a separate category starting in fiscal 2008 because it accounted for more than 10% of non-operating income. Royalty income of ¥133 million was listed in the Other category in fiscal 2007.

Losses on the sale of accounts receivable is listed as a separate category starting in fiscal 2008 because it accounted for more than 10% of non-operating expenses. Losses on the sale of accounts receivable of ¥36 million was listed in the Other category in fiscal 2007.

Additional Information

CONSOLIDATED BALANCE SHEETS

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

	(Millions of yen)
Investment securities (stocks)	¥1,536

*2 Assets pledged as collateral are as follows.

(Pledged assets)		
Buildings and structures	¥ 858	(book value)
Machinery, equipment, and vehicles	¥ 68	(book value)
Tools, furniture, and fixtures	¥ 146	(book value)
Total	¥ 1,072	(book value)
Assets provided for factory foundation mortgage		
Buildings and structures	¥ 538	(book value)
Machinery, equipment, and vehicles	¥ 13	(book value)
Tools, furniture, and fixtures	¥ 145	(book value)
Total	¥ 696	(book value)
	(Millions of yen)	
Liabilities related to the above assets		
Short-term borrowings	¥ 125	(book value)
Long-term borrowings	¥ 725	(book value)
Total	¥ 850	(book value)
Liabilities provided for factory foundation mortgage		
Short-term borrowings	¥ 61	
Long-term borrowings	¥ 333	
Total	¥ 395	

*3 Accelerated depreciation from government subsidies is ¥823 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 2008 was ¥1,972 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	¥ 9,595
Sales promotion expenses	¥ 11,838
Packing and transportation expenses	¥ 2,444
Addition to allowance for doubtful accounts	¥ 21
Salaries and allowances	¥ 5,148
Addition to bonus reserve	¥ 485
Addition to allowance for employee retirement benefits	¥ (23)
Addition to allowance for executive retirement benefits	¥ 149
Goodwill amortization	¥ 2,114
Research and development expenses	¥ 11,234
Addition to bonus reserve	¥ 139
Addition to allowance for employee retirement benefits	¥ (7)

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 ¥11,234 million. Manufacturing costs do not include research and development expenses.

*3 Manufacturing costs include an addition to the bonus reserve of ¥181 million and an addition to the allowance for employee retirement benefits of −¥12 million.

*4 Breakdown of losses on the disposal of fixed assets

(Loss on retirement)	(Millions of yen)
Buildings and structures	¥ 64
Machinery, equipment, and vehicles	¥ 19
Tools, furniture, and fixtures	¥ 37
Total	¥ 121

*5 The group recorded the following asset impairment losses in fiscal 2008. (Millions of yen)

Use	Type	Location	Amount (¥m)
Idle assets	Buildings	Tsukuba, Ibaraki	292
Total			292

The group categorizes its assets into commercial assets, leased assets, and idle assets.

The company recorded impairment losses on the foregoing idle assets because it has no plans to use these assets and their recoverable value has fallen significantly.

Recoverable value is assessed using net sales value based on a reasonable estimate.

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS EQUITY

1. Shares outstanding

Type of shares	End of fiscal 2006	Increase	Decrease	End of fiscal 2007
Ordinary shares	95,164,895			95,164,895

2. Treasury shares

Type of shares End of fiscal 2006 Increase

Type of shares	End of fiscal 2006	Increase	Decrease	End of fiscal 2007
Ordinary shares	6,499,980	14,200	31,716	6,482,464

Reasons for changes

Shares increased for the following main reasons

Increase from purchasing shares in less than one unit	2,729 shares
Company portion of treasury shares purchased by equity method affiliates	11,471 shares

Shares decreased for the following main reasons

Company portion of treasury shares sold by equity method affiliates	31,716 shares

3. Dividends

(1) Dividends paid

Resolution	Type of shares	Total dividends (¥ million)	Dividends per share (¥)	Record date	Payment date
May 25, 2006 Annual general meeting of shareholders	Ordinary shares	2,838	32	February 28, 2006	May 26, 2006
October 11, 2006 Board of Directors meeting	Ordinary shares	1,863	21	August 31, 2006	November 7, 2006

(2) Dividends with a record date in fiscal 2007 but a payment date in fiscal 2008

Resolution	Type of shares	Source of dividend	Total dividends (¥ million)	Dividends per share (¥)	Record date	Payment date
May 24, 2007 Annual general meeting of shareholders	Ordinary shares	Retained earnings	2,129	24	February 28, 2008	May 25, 2007

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	¥ 36,129
Securities	¥ 2,332
Total	¥ 38,461
Term deposits longer than three months	¥ (3,973)
Securities with maturities longer than three months	¥ (1,781)
Cash and cash equivalents	¥ 32,706

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	¥ 233	¥ 171	¥ 62
Tools, furniture, and fixtures	1,328	627	700
Software	58	26	31
Total	¥ 1,620	¥ 825	¥ 794

2. Equivalent year-end balance of remaining lease payments

	(Millions of yen)
Within one year	¥ 230
Over one year	¥ 564
Total	¥ 794

3. Lease payments and equivalent depreciation

	(Millions of yen)
Lease payments	¥ 293
Equivalent depreciation	¥ 293

4. Method of calculating equivalent depreciation

Financial Section

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

SECURITIES

1. Held-to-maturity bonds with market value

(Millions of yen)

	Fiscal 2007 (February 28, 2007)			Fiscal 2008 (February 29, 2008)		
	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	898	898	0	—	—	—
Subtotal	898	898	0	—	—	—
Market value lower than on consolidated balance sheets						
(1) National and local government bonds, etc.	—	—	—	—	—	—
(2) Corporate bonds	1,499	1,496	(3)	199	199	(0)
(3) Other	—	—	—	—	—	—
Subtotal	1,499	1,496	(3)	199	199	(0)
Total	¥ 2,397	¥ 2,395	¥ (2)	¥ 199	¥ 199	¥ (0)

2. Other securities with market value

(Millions of yen)

	Fiscal 2007 (February 28, 2007)			Fiscal 2008 (February 29, 2008)		
	Acquisition cost	Consolidated balance sheets value	Difference	Acquisition cost	Consolidated balance sheets value	Difference
Acquisition cost higher than on consolidated balance sheets						
(1) Stocks	¥ 7,668	¥ 14,774	¥ 7,106	¥ 4,206	¥ 6,101	¥ 1,894
(2) Bonds	—	—	—	—	—	—
(3) Other	—	—	—	—	—	—
Subtotal	7,668	14,774	7,106	4,206	6,101	1,894
Acquisition cost lower than on consolidated balance sheets						
(1) Stocks	¥ 1,580	¥ 1,455	¥ (124)	¥ 8,218	¥ 6,838	¥ (1,379)
(2) Bonds	—	—	—	—	—	—
(3) Other	—	—	—	—	—	—
Subtotal	1,580	1,455	(124)	8,218	6,838	(1,379)
Total	¥ 9,248	¥ 16,230	¥ 6,982	¥ 12,425	¥ 12,939	¥ 514

3. Main securities without market value

(Millions of yen)

Details	Fiscal 2007 (February 28, 2007)	Fiscal 2008 (February 29, 2008)
	Consolidated balance sheets value	Consolidated balance sheets value
Other securities		
(1) Unlisted stocks	¥ 364	¥ 396
(2) Free financial funds, etc.	—	—
(3) Trust beneficiary certificates, etc.	600	2,080
Total	964	2,476
Stock in subsidiaries and affiliated companies		
(1) Stock in subsidiaries	53	48
(2) Stock in affiliated companies	1,286	1,488
Total	¥ 1,340	¥ 1,536

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

Fiscal 2007 (March 1, 2006 – February 28, 2007)

	Within one year (¥ million)	One to five years (¥ million)	Five to 10 years (¥ million)	Over 10 years (¥ million)
(1) Corporate bonds	1,499	—	—	—
(2) Other	898	—	—	—

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 2007 (March 1, 2006 – February 28, 2007)

No relevant transactions during fiscal 2007.

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

No relevant transactions during fiscal 2008.

RETIREMENT BENEFITS

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

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	¥ (10,157)
(2) Pension assets	¥10,525
(3) Subtotal (1) + (2)	¥368
(4) Unrecognized prior service costs	¥114
(5) Unrecognized actuarial differences	¥ (701)
(6) Total (3) + (4) + (5)	¥ (218)
(7) Prepaid pension costs	¥ (3,853)
(8) Allowance for employee retirement benefits (6) + (7)	¥ (4,071)

3. Retirement benefit costs

	(Millions of yen)
(1) Service costs	¥461
(2) Interest costs	¥195
(3) Expected return on plan assets	¥ (323)
(4) Amortization of actuarial differences	¥ (368)
(5) Amortization of prior service costs	¥ (701)
(6) Retirement benefit costs	¥ (736)

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	¥ 1,623
Allowance for executive retirement benefits	¥ 445
Accrued enterprise tax	¥ 536
Allowance for doubtful accounts	¥ 85
Valuation losses on stock and investments in affiliated companies	¥ 134
Valuation losses on memberships	¥ 321
Net unrealized gains on investment securities	¥ 562
Bonus reserve	¥ 326
Outsourced research and development	¥ 294
Other	¥ 954
Total deferred tax assets	¥ 5,286
Deferred tax liabilities	
Net unrealized gains on other securities	¥ (228)
Prepaid pension costs	¥ (1,557)
Total deferred tax liabilities	¥ (1,786)
Net deferred tax assets	¥(3,500)

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	1.6%
Dividend income excluded from income	(0.2)%
Per-capita inhabitants tax	0.1%
Special tax exemption for experimental research and development	(3.8)%
Other	(0.1)%
Income tax rate after application of tax effect accounting	38.0%

Financial Section

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

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

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

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

RELATED PARTY TRANSACTIONS

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

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 2007 (March 1, 2006 – February 28, 2007)		Fiscal 2008 (March 1, 2007 – February 29, 2008)	
Net assets per share	¥1,164.05	Net assets per share	¥1,276.16
Earnings per share	¥178.74	Earnings per share	¥210.45
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 2007 (March 1, 2006 – February 28, 2007)	Fiscal 2008 (March 1, 2007 – February 29, 2008)
Total net assets in the consolidated balance sheets (¥ million)	103,966	113,929
Net assets attributable to ordinary shareholders (¥ million)	103,231	113,179
Main differences (¥ million) Minority interests	735	750
Ordinary shares outstanding	95,164,000	95,164,000
Ordinary shares held in treasury	6,482,000	6,477,000
Ordinary shares used in calculating net assets per share	88,682,000	88,687,000

2. Earnings per share

	Fiscal 2007 (March 1, 2006 – February 28, 2007)	Fiscal 2008 (March 1, 2007 – February 29, 2008)
Net income (¥ million)	15,847	18,663
Amount not attributable to ordinary shareholders (¥ million)	—	—
Net income attributable to ordinary shareholders (¥ million)	15,847	18,663
Average ordinary shares during year	88,661,000	88,681,000

ADDITIONAL CONSOLIDATED INFORMATION

Bond information

Not applicable.

Borrowing information

	Balance at end of fiscal 2007 (¥ million)	Balance at end of fiscal 2008 (¥ million)	Average interest rate (%)	Repayment date
Short-term borrowings	790	762	1.40	—
Long-term borrowings due within one year	2,677	275	1.63	—
Long-term borrowings (excluding borrowings due within one year)	1,058	842	0.44	March 1, 2009 to February 29, 2016
Total	4,526	1,880	1.00	—

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 ¥725 million in interest free loans from the Development Bank of Japan.
3. Long-term borrowings (excluding borrowings due within one year) include ¥725 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	166	145	133

(2) Other
Not applicable.

Corporate Data

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	100	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 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										
Taiwan Hisamitsu Pharmaceutical Co., Ltd.	Banqiao, Taiwan	TWD 15 million	Pharmaceuticals and related products	50	—	5	—		—	
Maruto Co., Ltd.	Ogori, Fukuoka	¥1,807 million	Other businesses	39.75	—	3	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).
7. Non-consolidated subsidiaries Kokusai Pappu-zai Kenkyusho Co., Ltd. and Taiyo Kaihatsu Co., Ltd. have discontinued business operations.

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	7,299
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 29, 2008

Business segment	Employees
Pharmaceuticals and related products	1,651 (222)
Cable television broadcasting	44 (9)
Other businesses	57 (66)
Total	1,752 (297)

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.

408 Tashiro Daikan-machi, Tosu, Saga
Tel: +81 942-83-2101
Fax:+81 942-83-6119

Website: http://www.hisamitsu.co.jp