

Annual Report 2016

Year Ended March 31, 2016



Creativity and Innovation





"You Make a Wish and We Make it Happen"

Guided by the brand slogan, "You Make a Wish and We Make it Happen," the Kobayashi Pharmaceutical Group supplies pharmaceuticals, oral care products, nutritional supplements, deodorizing air fresheners, household products and a wide range of other items.







Breath Care



Netsusama Sheet



Ekitai Bluelet Okudake



Oheya no Shoshugen

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Forward-looking Statements

Plans, strategies, beliefs and other statements concerning future business operations of the Kobayashi Pharmaceutical Group included in this annual report are forward-looking statements based not on historical facts but on management's assumptions and beliefs in light of information currently available.

These forward-looking statements include risks, known and unknown, and uncertainties. Actual management achievements and business results may therefore

differ significantly from forecasts in this annual report.

Kobayashi Pharmaceutical in Numbers

Net sales

¥137.2

Operating income

¥18.3

*Results for fiscal 2016

Operating income to net sales ratio

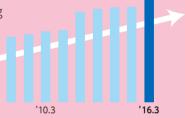
13.3%

We have secured large market shares and achieved high margins by developing unique products and creating new markets, guided by our brand slogan, "You Make a Wish and We Make it Happen."

More details on pages 6, 9, 25

18 straight years of profit growth Our unique products have helped us secure large market shares and high margins, supporting sustained bottom-line growth.





¥13.5 billion

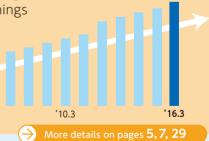
¥96.0

More details on pages **5**, **7**

17
successive years of dividend hikes

We are returning profits to shareholders through successive dividend hikes in line with earnings performance.





More details on pages 5, 7, 29

Approaching 100 years in business

Kobayashi Pharmaceutical will celebrate its centenary next year. We have achieved sustained growth by adapting our business and management structure to the changing times.





 \ominus

More details on pages 3, 63



Net sales (¥ million) 300,000 •

Kobayashi Pharmaceutical has grown by changing its business structure in step with the times

250,000 • Launched Sawaday, a toilet air freshener 200 000 • 1994 Launched Netsusama Sheet, a cooling gel sheet for the forehead 150,000 • Launched Bluelet, 1894 a toilet bowl cleaner Launched 10 types of proprietary pharmaceuticals 100,000 • Launched Nodonool. a sore throat spray 1967 **POINT** Launched Ammeltz, Kobavashi Pharmaceutical an external anti-inflammatory founded for stiff shoulders 50,000 Kobayashi Pharmaceutical's predecessor company founded 1886 1970.9 1980.9 Net sales Domestic Consumer Products Business Overseas Consumer Products Business ■ Direct Marketing Business ■ Medical Devices Business ■ Other Business ■ Wholesale Business

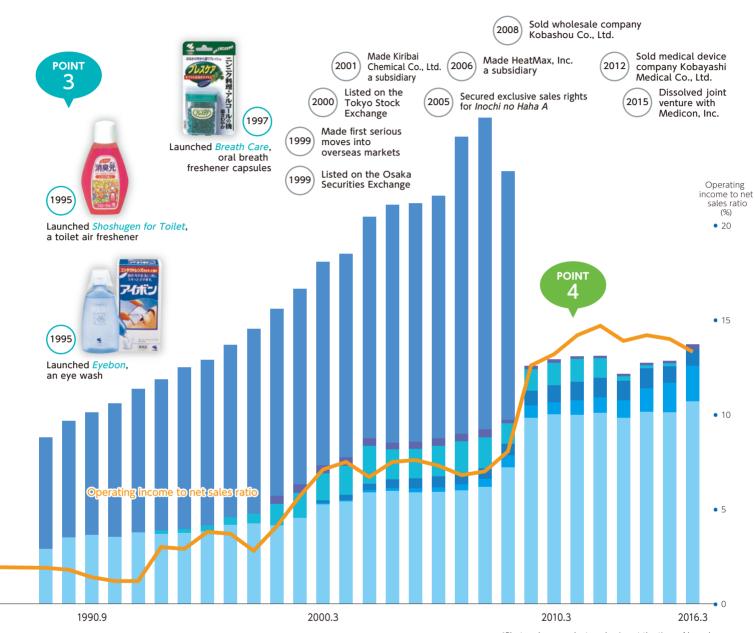


Started operations as a wholesaler

Kobayashi Pharmaceutical was founded to sell general merchandise and cosmetics. Seeing opportunities in the pharmaceutical sector, the Company reinforced its business by moving into drug wholesaling.



The Company's era as a manufacturer began with the launch of *Ammeltz*, *Bluelet* and *Sawaday*, which are still core brands today.



*Photos show product packaging at the time of launch.
*Fiscal 1994 was a six-month transitional period due to a change in fiscal year-end. Figures have been adjusted to reflect a 12-month period.



The Company subsequently launched *Nodonool*, *Netsusama Sheet*, *Shoshugen*, *Eyebon* and *Breath Care*, brands that continue to support earnings to this day. At this point, sales growth is being driven by the manufacturing business. The first serious moves are made into overseas markets.



Targeted management resources on strategic business fields

The Company exits its original business of wholesaling to concentrate management resources on manufacturing operations, which offer greater growth potential. This strategic refocus leads to a large improvement in the operating income to net sales ratio. M&A strategy is also stepped up.

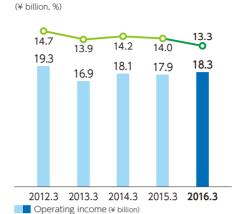
Financial Highlights (Years ended March 31)

Net Sales

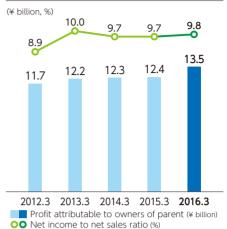
(¥ billion) 131.2 121.5 127.3 128.3

2012.3 2013.3 2014.3 2015.3 **2016.3**

Operating Income Operating Income to Net Sales Ratio



Profit Attributable to Owners of Parent Net Income to Net Sales Ratio



2011.3

	Operating income to net sales ratio (%)			t income to net sales rat
	2007.3	2008.3	2009.3	2010.3
For the year			Millions of yen	
Net sales	257,022	228,826	125,693	129,184

For the year			Millions of yen		
Net sales	257,022	228,826	125,693	129,184	130,824
Cost of sales	172,304	147,638	57,013	57,295	56,184
Gross profit	84,717	81,187	68,679	71,889	74,640
Selling, general and administrative expenses	66,688	62,611	52,861	54,848	56,019
Operating income	18,029	18,576	15,818	17,041	18,621
Profit before income taxes	16,038	15,800	16,270	14,553	13,178
Profit attributable to owners of parent	8,297	8,504	8,853	9,250	9,336
Cash flows from operating activities	8,833	12,192	12,849	15,319	13,168
Free cash flows*1	(2,970)	5,767	11,467	10,618	4,789
Depreciation and amortization	3,375	3,765	4,214	4,257	4,155
Capital expenditures*2	2,229	2,895	3,468	3,562	2,347
Research and development costs	2,476	2,813	3,361	3,962	4,069
At year-end			Millions of yen		
Current assets	102,102	66,069	73,172	85,209	88,837
Property, plant and equipment, net	22,279	15,236	17,618	14,779	14,156
Current liabilities	77,028	37,940	39,834	39,025	34,525
Long-term liabilities	10,291	7,286	9,011	8,344	8,488
Net assets	77,236	77,182	76,364	84,603	91,343
Total assets	164,555	122,409	125,210	131,972	134,356
Working capital*3	25,074	28,128	33,337	46,184	54,312
Interest-bearing debt	3,414	726	645	1,708	26
Per share data			Yen		
Net income	200.77	205.62	215.89	225.88	227.98
Cash dividends	50.00	54.00	58.00	62.00	66.00
Payout ratio(%)	24.9	26.3	26.9	27.4	28.9
Cash flows*4	207.7	286.7	302.2	360.3	309.7
Net assets	1,799.87	1,863.24	1,861.14	2,061.79	2,226.42
Financial ratios			%		
Gross profit to net sales ratio	33.0	35.5	54.6	55.6	57.1
Operating income to net sales ratio	7.0	8.1	12.6	13.2	14.2
Net income to net sales ratio	3.2	3.7	7.0	7.2	7.1
Current ratio	132.6	174.1	183.7	218.3	257.3
ROA	9.5	10.9	12.4	13.3	14.3
ROE	11.7	11.2	11.5	11.5	10.6
Equity ratio	45.2	63.0	60.9	64.0	67.9
Debt-equity ratio (times)*5	0.05	0.01	0.01	0.02	0.0003
PER (times)*6	22.3	18.7	15.1	17.0	16.9

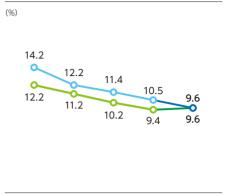
Total Assets / Net Assets / Equity Ratio

Cash Dividends per Share / Payout Ratio

ROA / ROE







2012.3	3 2013.3	2014.3	2015.3	2016.3
OO ROA	OO ROE			

2016.3 Thousands of U.S. dollars*7

1,217,705

510,454

707,251

545,199

162,052

166,445

119,507

127,165

30,138

27,263

38,321

51,376 Thousands of U.S. dollars*7

1,068,043

152,529

323,767

1,260,410 1,677,299

744,276

1,606 U.S. dollars*7

2.94

0.85

2.99

93,122

YoY change

6.9

5.1

8.2

10.3

1.9

(6.5)

8.2

(7.2)

(0.7)

9.4

3.8

7.3

1.6

(3.1)

1.7

1.4 4.7

8.4

6.7

(7.2)

344.5

18.1

(68.9)

2012.3 2013.3 2014.3 2015.3	2016.3	
Millions of yen		
131,167 121,532 127,294 128,345	137,211	
54,636 51,732 54,194 54,719	57,518	
76,531 69,800 73,100 73,626	79,693	
57,233 52,896 54,977 55,709	61,433	
19,298 16,904 18,123 17,917	18,260	
19,822 18,854 19,667 20,057	18,755	
11,726 12,177 12,307 12,449	13,466	
17,250 9,243 13,513 15,445	14,329	
14,321 (17,363) 6,554 10,905	3,396	
3,232 2,970 3,097 3,095	3,072	
2,213 3,174 4,003 3,656	4,318	
4,386 4,545 4,930 5,289	5,789	
Millions of yen		
102,538 94,354 105,615 115,991	120,347	
13,628 13,730 14,945 16,023	17,187	
37,791 34,477 34,217 35,891	36,482	
8,221 7,757 9,749 10,829	10,493	
101,879 114,873 126,953 139,611	142,023	
147,890 157,107 170,919 186,331	188,998	
64,747 59,876 71,398 80,100	83,865	
5 4 6 41	181	
Yen		
286.36 297.37 300.55 305.46	331.11	
78.00 82.00 86.00 90.00	96.00	
27.2 27.6 28.6 29.5	29.0	
405.7 217.3 317.8 363.2	337.0	
2,484.08 2,805.27 3,098.32 3,423.54	3,532.11	
%		,
58.3 57.4 57.4 57.4	58.1	,
14.7 13.9 14.2 14.0	13.3	
8.9 10.0 9.7 9.7	9.8	
271.3 273.7 308.7 323.2	329.9	,
14.2 12.2 11.4 10.5	9.6	,
12.2 11.2 10.2 9.4	9.6	,
68.8 73.1 74.2 74.8	75.1	,
0.00005 0.00004 0.00005 0.00029	0.00127	
14.5 15.3 19.8 28.2	29.8	

^{31.35} 3.2 *1 Cash flows from operating activities + Cash flows from investing activities

^{*2} Increase in property, plant, and equipment and intangible assets as shown in Segment Information in the Notes to Consolidated Financial Statements.

^{*3} Current assets - Current liabilities

^{*4} Cash flows from operating activities / Number of shares issued

^{*5} Interest-bearing debt / Shareholders' equity

^{*6} Current share price / Earnings per share

Japanese yen amounts have been converted into US dollars, for convenience only, at the rate of ¥112.68 / US\$1.00 on March 31, 2016.

A Message from the President



Fiscal 2016 Results

Record profits and an 18th straight year of bottom-line growth

In fiscal 2016, ended March 31, 2016, net sales rose a strong 6.9% year on year, supported by solid sales of new products, growth in the Overseas Business and firm inbound demand from overseas visitors to Japan.

Operating income rose only slightly year on year due to aggressive investment in marketing to support future growth, but we reported another year of record profits and the 18th consecutive fiscal year of bottom-line growth, partly reflecting gains on the sale of shares in medical device joint venture Medicon, Inc.

The Kobayashi Pharmaceutical Group aims to consistently increase returns for shareholders. In line with this thinking, we paid a full-year dividend of ± 96.00 per share for fiscal 2016, an increase of ± 6.00 from the previous fiscal year. This marked the 17th consecutive year of dividend hikes.

Actively investing in our business to generate sustained growth

Representative Director, President and Chief Operating Officer

Akihiro Kobayashi

Major Products that Contributed to Sales in Fiscal 2016









Kaoru Stick Parfum

for (

Growth Drivers

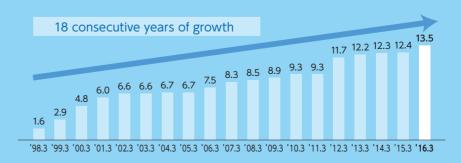
1 Developing and expanding the market for medicated skincare products

OTC pharmaceuticals and skincare products are two distinct markets. OTC products are used to treat pain, itchiness and other similar conditions, while skincare products help to keep skin healthy and beautiful. Medicated skincare products sit between

Fiscal 2016 Results (Billions of yen)

	Fiscal 2016	YoY change
Net Sales	¥137.2	+6.9%
Operating Income	18.3	+1.9%
Profit attributable to owners of parent	13.5	+8.2%

Profit Attributable to Owners of Parent (Billions of yen)



those two markets and are mainly used to treat skin conditions such as blemishes and rashes, rather than pain and itchiness. Targeting this area as a new market category, we are launching medicated skincare products to develop and expand the market.

Medicated skincare products



2 Focusing on Kampo and herbal medicines

Sales of our Kampo (Chinese herbal medicines) and herbal medicines topped ¥10 billion for the first time in fiscal 2016. Our first product in this category was *Urinaru*, a treatment to reduce the frequency of nighttime urination launched in September 2003. Since then, we have created a portfolio of 20 Kampo and herbal medicine brands. To reinforce our production system for these products, we have built a new plant in Anhui Province, China to separate Kampo extracts from herbal ingredients. Going forward, we will focus on developing new Kampo and herbal medicines to drive sales growth.

3 Rapidly launching OTC pharmaceuticals overseas

The Group's overseas operations continue to grow steadily. In fiscal 2016, net sales in our Overseas Business surged 22.8% year on year to ¥19.0 billion, accounting for 13.8% of consolidated net sales, an increase of 1.7 percentage points year on year.

Launching OTC pharmaceuticals will be crucial to expanding our operations overseas. The whole Group is currently exploring ways of rapidly rolling out OTC products in overseas markets, including possible M&A deals.

4 Investing in Growth

Investing in growth will remain a key policy going forward. We plan to invest aggressively in various business fields to drive the Group's growth well into the future.

In research and development, we aim to develop highly effective new healthcare products. To achieve that goal, we have started research efforts that bring together our knowledge of medicinal plant extracts and effective microorganisms and our accumulated expertise in fermentation and immunity research.

We are also investing to strengthen our production system, such as the new Kampo extract plant in Anhui Province in China and a new wing at our plant in Sendai, Japan.

We will also actively seek M&A opportunities. Our aim is to identify partners that are a good fit for the Group, regardless of whether they are in Japan or overseas. Specifically, we are looking for products with the potential for significant sales growth using our marketing and sales capabilities, and companies with which we can generate synergies by combining our assets.

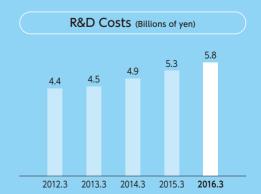
Continued Profit Growth

Targeting a 19th consecutive year of bottom-line growth

The fiscal period ending December 31, 2016 is a nine-month transitional period from April to December due to a change in our fiscal year-end. However, despite the shorter period, we are aiming for profit attributable to owners of parent in excess of the level achieved in the 12 months of fiscal 2016 and a 19th consecutive period of bottom-line growth.

I would like to take this opportunity to thank all our shareholders for their support and understanding. I hope we can continue to count on your support in the years ahead.





A Big Fish in a Small Pond

We identify hidden ponds (markets) and then grow them so they are big enough for large fish (sales). This allows us to secure high market shares and high profit margins.

New product concepts

Competition is severe in ponds where everyone comes to fish

We identify undiscovered ponds (markets)



Speed

We beat other competitors to the market

Small ponds are good when nobody else is fishing



Easy to understand

We grow the ponds so they are big enough for large fish (sales)



Idea Meetings



A venue for product development teams to present and thoroughly discuss new product ideas with the President every month

Rapid commercialization through parallel product development, research and production preparation

Average time for product development:

13 months
(excluding OTC pharmaceuticals)



Product name and packaging designs help consumers know straight away what the product does



Clearly communicate product concept in 15-second TV commercials

Big Fish in Small Pond strategy helps us secure large market shares



Eye wash



Women's health medicine



Deodorizing air freshener



Toilet bowl cleaner



Cooling gel sheet for the forehead

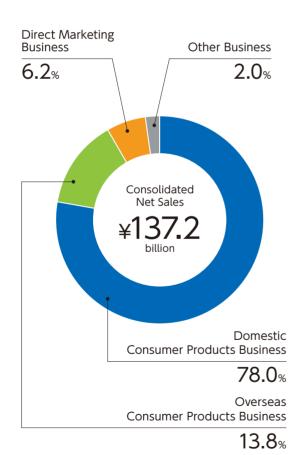
*Domestic market share (Kobayashi Pharmaceutical data) *Fiscal 2016

Kobayashi Pharmaceutical Snapshot

Guided by its slogan "You Make a Wish and We Make it Happen," the Kobayashi Pharmaceutical Group develops, manufactures and sells a range of unique products.

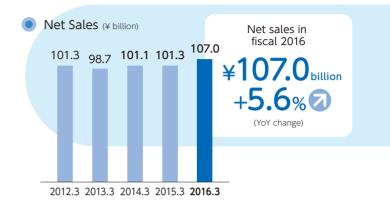
The Group's operations are focused on the Domestic Consumer Products Business, the Overseas Consumer Products Business, and the Direct Marketing Business.

Net Sales Breakdown (fiscal 2016)



*Excluding inter-segment sales

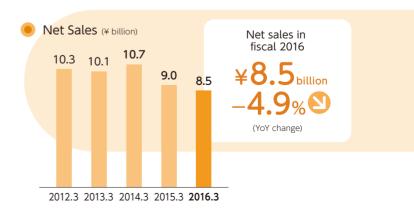
Domestic Consumer Products Business



Overseas Consumer Products Business



Direct Marketing Business



A portfolio of around 140 brands in 8 categories: OTC pharmaceuticals, oral hygiene products, food products, sanitary products, deodorizing air fresheners, household sundries, skincare and body warmers.



Eyebon

An eye wash solution that flushes out protein buildup, dust and other fine particles.



Breath Care

Oral breath freshener capsules that refresh bad breath originating from the stomach.



Netsusama Sheet

Cooling gel sheet for the forehead containing cooling beads



Ekitai Bluelet Okudake

A toilet deodorizer and freshener placed in toilet tank sinks.



Oheya no Shoshugen

A powerful air freshener that eliminates annoying indoor odors.

Focused on the sale of body warmers, cooling gel sheets and other products in three main markets: the United States, China and Southeast Asia.



Hothands

A body warmer product sold in the United States.



Be KOOOL

A cooling gel sheet sold in the United States.



Nuan Bao Bao

A body warmer product sold in China.



New Anmeiru

An anti-inflammatory product sold in Hong Kong



KOOL FEVER

A cooling gel sheet sold in Singapore.

Involved in the sale of nutritional supplements, skincare products and other items over the phone and online.



Slim Tochutsubu

A nutritional supplement for healthy diet support



Nattokinase & DHA & EPA

A nutritional supplement containing Nattokinase with 2,000 FU activity and blood thinners DHA and EPA.



Hifmid

A range of skincare products that complement basic skin functions.



Aloe Ikumo Eki

A medicated tonic that promotes hair growth.

Domestic Consumer Products Business

Fiscal 2016 Results

Net Sales

¥107.0 billion +5.6% ✓

Operating Income

¥17.0 billion +4.3%

Sales by Products Category

Fiscal 2016 net sales

Healthcare products

¥48.6 billion (+10.9% YoY)

Strong demand for new products, OTC pharmaceuticals (including Kampo and herbal medicines) and nutritional supplements and rising inbound demand

Key factors

Household products

¥**48.0** billion (+4.2% YoY)

Firm sales of new products and deodorizing air fresheners and support from inbound demand

Skincare products

¥**4.7** billion (+8.2% YoY)

Robust demand for mainstay brands *Keshimin* and *Eaude Muge*

Body warmers

¥**5.6** billion (-20.0% YoY)

Sales affected by warm winter

Results Highlights







Domestic Business Strategy

Developing and Cultivating New Products

The Kobayashi Pharmaceutical Group has achieved sustained growth by developing unique products and creating new markets to secure large market shares and high margins.

New ideas are the lifeblood of product development. Personnel in our product development and marketing teams are always on the lookout for new product ideas that address issues faced by consumers and satisfy their needs. Every month they attend Idea Meetings, where they present new product concepts to the President and thoroughly discuss their potential. In this way, we are steadily working toward one of our key management

targets: achieve a new product contribution rate of 10% (the percentage of net sales generated by new products).

We also focus on cultivating new products after they have been launched. From our portfolio of new products, we select "strategic launch products" that receive intensive support for six months after launch in the form of in-store sales area development and sales promotion campaigns. This is supported by Groupwide efforts to ensure the products take hold in the market, such as TV advertising, product improvements, expanded product lineups and cost reduction.

Medicated skincare products

OTC pharmaceuticals and skincare products are two distinct markets. OTC products are used to treat pain, itchiness and other similar conditions, while skincare products help to keep skin healthy and beautiful.

Medicated skincare products sit between those two markets and are mainly used to treat mild skin conditions such as small scars and rashes, rather than pain and itchiness. Targeting this area as a new market category, we are rolling out new medicated skincare products such as *Attonon*, a cream that helps improve scars, *Ninocure*, a treatment for skin rashes on upper arms, and *Saiki*, a lotion for dry skin.

Sales of medicated skincare products totaled roughly ¥2.0 billion in fiscal 2016. Going forward, we will work to create and expand markets for

medicated skincare products by expanding our lineup. In April 2016 we launched *Senacure* to treat back rashes and in September we plan to roll out *Curerea* for face rashes.



Deodorizing air fresheners

In recent years, consumers are increasingly choosing deodorizing air fresheners to match their tastes in fragrance and design. We are focusing on developing products that address this trend. These new products, which sell at higher prices than conventional deodorizers, are seeing strong demand.

Bluelet, a toilet bowl cleaner that was launched 47 years ago, registered record sales of ¥15.1 billion in fiscal 2016. Japan's toilet care product market is changing all the time, so we are adapting our products in response to the latest trends. We are currently focusing on promoting Bluelet Stampy, a stamp-type gel product that can also be used for tankless toilets.

Deodorizing air fresheners with sophisticated fragrances and designs



Overseas Consumer Products Business

Fiscal 2016 Results

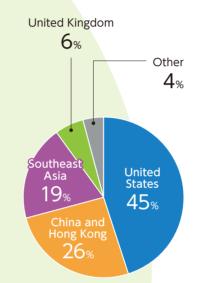
Net Sales

¥19.0 billion +22.8%

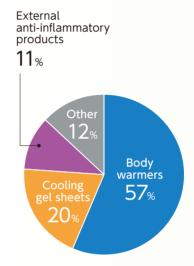
Operating Income (after goodwill amortization)

¥0.76 billion +40.9% ✓

Sales Breakdown by Region



Sales Breakdown by Product



Results Highlights





Strategy

Building a Global Brand

Sales in the overseas business have been growing at a double-digit pace since fiscal 2013. In fiscal 2016, overseas sales totaled ¥19.0 billion, roughly double the level three years earlier, and accounted for 13.8% of consolidated net sales. This growth has been driven by body warmers in the United States and China and by *Netsusama Sheet*, a cooling gel sheet for the forehead, and *Ammeltz*, an external anti-inflammatory for stiff shoulders, in Southeast Asia.

We are targeting further sales growth by creating new lifestyle choices tailored to each country and region in six global brands — body warmers, *Netsusama Sheet*, *Ammeltz*, oral care, skincare and household products.



China

Initiatives to grow sales

Sales in China surged 40% year on year in fiscal 2016. Chinese consumers are mainly buying our stick-on type body warmers for cold weather, but sales of functional body warmers designed to ease period pain, sore shoulders and other ailments are also growing strongly. We plan to upgrade packaging and expand in-store sales areas to drive sales growth.

Parents in China are becoming increasingly protective about their infants and children. This is driving sales of our infant and child *Netsusama Sheet*, cooling gel sheets for the forehead. Going forward, we plan to develop new sales channels and reinforce in-store sales promotions to increase awareness of our products in China.

Functional body warmers



Functional body warmers for period pain



Functional body warmers for sore shoulders

OTC pharmaceuticals

Aiming to launch OTC pharmaceuticals in markets worldwide

We plan to launch new OTC pharmaceutical products and expand sales of existing products to accelerate growth in our overseas business. Starting in March 2016, we launched *Eyebon*, eye wash, in South Korea and *Ninocure*, a cream for arm rashes, in Hong Kong. We are now working to increase sales of those products.



We are currently looking at potential M&A deals and other approaches to help us launch OTC pharmaceuticals in China, other markets in Asia and the United States. This is a priority objective for the whole Group.



March 2016 Eyebon launched in South Korea



April 2016 Ninocure launched in Hong Kong

Direct Marketing Business

Fiscal 2016 Results

Net Sales

Operating Income

¥8.5 billion -4.9%

(YoY change)



Main Products



Slim Tochutsubu



Nattokinase & DHA & EPA



Shiitagen – α



Hifmid



Aloe Ikumo Eki

Direct Marketing Business Strategy

Actively investing in advertising to grow sales

This business has faced a challenging operating environment since consumption tax was raised in Japan in April 2014. However, in the second half of fiscal 2016, sales rose year on year and the business is now back on a growth track. That reflects heavy spending on advertising and a large contribution from the introduction of a new system that enables consumers to receive regular deliveries of any product in our direct marketing range.

We will continue to actively invest in advertising in order to attract new customers. We will also use our regular delivery service to make sure we retain those customers. We believe this will translate into a positive cycle of rising sales, supporting a more stable growth trend.

Looking further ahead, we aim to generate growth by investing heavily in basic material research and by reinforcing development to help us create more distinctive products.



Building Stakeholder Confidence Aimed at Maximizing Corporate Value

Corporate Governance Framework

The Kobayashi Pharmaceutical Group constantly strives to maximize corporate value. In this pursuit, it is of major importance to earn the trust of our stakeholders, including shareholders and investors. Therefore, we are committed to enhancing our corporate governance through developing a system that ensures transparent management practices and undertaking timely and appropriate information disclosure.

Enhancing Management Transparency

Monitoring Management from Multiple Viewpoints

The Kobayashi Pharmaceutical Group has adopted an executive officer system to separate management from business operations, and implements a wide range of measures in order to ensure transparency in management.

Board of Directors

We have selected outside directors since 2008 with the purpose of strengthening the board of directors' supervisory function. The board of directors consists of nine directors, including three* outside directors, and constantly monitors the status of business operations by meeting monthly or when necessary to determine important matters concerning the management of the company and to check deliberations made at the Group Officers Meeting (GOM). Board of directors meetings are also attended by all four audit and supervisory board members, including the two outside members. The Company's outside directors and outside audit and supervisory board members actively participate in discussions and fulfill their oversight role from an independent perspective.

Principal Activities of Outside Directors and Outside Audit and Supervisory Board Members in Fiscal 2016

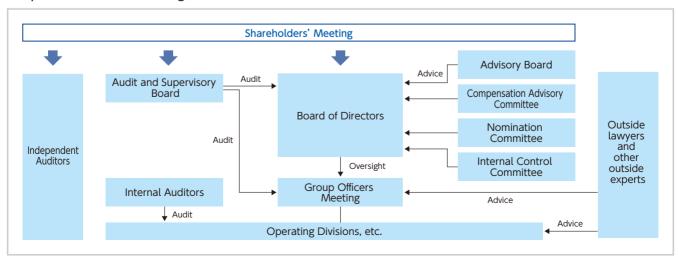
Title	Name	Principal Activities
Outside	Haruo Tsuji	Attended 15 of 15 board of directors meetings
Directors	Kunio Ito	Attended 15 of 15 board of directors meetings
Outside Audit and	Ryuji Sakai	Attended 15 of 15 board of directors meetings Attended 14 of 14 audit and supervisory board meetings
Supervisory Board Members	Yoko Hatta	Attended 11 of 11 board of directors meetings Attended 10 of 10 audit and supervisory board meetings

Note: For Yoko Hatta, the table shows the number of meetings attended since her appointment as Audit and Supervisory Board Member on June 26, 2015.

Group Officers Meeting (GOM)

The GOM consists of executive officers and other personnel who meet four times each month to review significant matters relating to business operations.

Corporate Governance Organization



^{*} Kaori Sasaki was appointed as an outside director on June 29, 2016.

Advisory Board

As a supporting arm to the board of directors and GOM, the Advisory Board, consisting of outside directors, the Chairman, the Vice Chairman, the President and relevant directors, meets half-yearly. The Advisory Board provides guidance on significant business issues and management policy, which is in turn reflected in the daily management of the Group.

Compensation Advisory Committee

The Compensation Advisory Committee ensures transparency and impartiality in the determination process for director compensation and consists of outside experts, outside directors, the Vice Chairman and relevant directors.

Nomination Committee

The Nomination Committee ensures transparency and impartiality in the selection process of directors and executive officers, and consists of outside experts, outside directors, the President and relevant directors.

Internal Control Committee

The Internal Control Committee consists of principal directors, who deliberate primarily on basic issues relating to compliance and the development of internal control systems. The committee also formulates the basic plan for internal control and oversees the internal control management framework.

Audit and Supervisory Board

Kobayashi Pharmaceutical has an audit and supervisory board with four members. To ensure management transparency, the Company has appointed two outside members to the board who do not maintain a capital or business relationship with the Group. Statutory members of the audit and supervisory board attend principal meetings, have access to required records, and conduct interviews of operating divisions in order to monitor management to identify business risk as early as possible.

"LA & LA" — Utilizing Employee Feedback

We actively provide opportunities referred to internally as "LA & LA" (Looking Around & Listening Around) for employees to convey their views and opinions directly to management to fulfill our commitment to developing an organizational climate in which all employees can openly share their opinion. Kobayashi Pharmaceutical believes this culture is a significant part of corporate governance.

Information Disclosure

Pursuing Timely and Easy-to-Understand Disclosure

Kobayashi Pharmaceutical strives to provide timely disclosure of corporate data and information in order for shareholders and investors to form an accurate assessment of the Company. Our corporate website is also extensively used to disseminate the latest information, provide commentary on business strategy and product lineups, and the timely disclosure of important information related to financial filings.

Internal Control Systems and Compliance

The Kobayashi Pharmaceutical Group is actively building internal frameworks to adhere to relevant laws and regulations, such as ensuring that appropriate financial statements are prepared and that operations comply with stipulations of the Companies Act and Financial Instrument and Exchange Act of Japan. In addition, we conduct a variety of educational training programs to ensure that all board members, executive officers and employees comply with laws and regulations as well as follow a strict code of corporate conduct and ethics.

Internal Control System

Strengthening Internal Control for Expansion of Overseas Business

The Internal Control Committee has met quarterly since it was established in May 2007. Chaired by the President, this committee oversees the Kobayashi Pharmaceutical Group's internal control system and compliance framework, while also seeking the advice of outside attorney advisors. Based on its work, the committee issues recommendations and advice on measures concerning internal controls.

In fiscal 2016, the committee worked to reinforce internal control systems to complement the Group's response to the Corporate Governance Code. Also, to further enhance internal control, Kobayashi Pharmaceutical (Hong Kong) Co., Ltd. and Hefei Kobayashi Daily Products Co., Ltd. were included within the scope of Groupwide internal control audits.

*Basic Policy on Internal Control Systems http://www.kobayashi.co.jp/corporate/governance/policy/index.html

Compliance

Compliance training that focuses on continuity

We provide educational training on compliance issues to employees and board members, executive officers and employees, with a focus on continuity in learning, in order to enhance compliance awareness and understanding among our people.

Educational training through the In-house Newsletter and intranet

Since September 2006, we have used the Kobayashi Pharmaceutical In-house Newsletter to highlight compliance issues that employees need to be aware of in their business activities and to share information about general compliance trends in the industry. Since July 2011, we have been providing monthly Compliance e-Learning Sessions over our intranet for all eligible employees, board members and executive officers.

Fiscal 2016 e-Learning Sessions

Month Held	Theme
April 2015	Whistle-blowing and contact points
May 2015	Handling and managing personal information (1)
June 2015	Handling and managing personal information (2)
July 2015	Preventing insider trading
August 2015	Corporate defense basics
September 2015	Pharmaceutical Affairs Law
October 2015	Social security and tax number system
November 2015	Emails from suspicious addresses
December 2015	Software usage
January 2016	Diversity
February 2016	Act against Unjustifiable Premiums and Misleading Representations
March 2016	Compliance awareness evaluation testing

Compliance Survey and Group Training Sessions

In fiscal 2016, we surveyed all employees in Japan about compliance. Based on the results of the survey, we conducted a total of 20 compliance group training sessions for 877 employees at Toyama Kobayashi Pharmaceutical Co., Ltd., Sendai Kobayashi Pharmaceutical Co., Ltd. and eight other business sites.

Whistleblower System

The Kobayashi Pharmaceutical Group established the Employee Consulting Center in January 2003 both internally

and externally in a law office as a special hotline for employees to anonymously report compliance violations or ask general questions on compliance issues. In May 2013, the Group also established an external hotline for overseas employees at a law office. To ensure these whistleblower systems work effectively, we regularly conduct employee training and use In-house newsletters to increase awareness about the Employee Consulting Center, which has led to an increase in the number of employees seeking advice.

Risk Management Framework

We incorporate opinions of external experts not only into our management meetings, but also other committees such as the Internal Control Committee, in defining the business risks each year and conducting and auditing the action plans.

Management of Business Risks

Reducing Business Risks Based on Three Themes

In fiscal 2016, we focused on mitigating risk based on three main themes: global corporate governance, labor management at affiliated companies and compliance with laws and regulations (Pharmaceuticals Affairs Law, Act against Unjustifiable Premiums and Misleading Representations). To ensure the solid execution of risk management, our progress on the action plan was reported to the Internal Control Committee to receive feedback. As a result, measures such as adding checks to daily business activities and implementing training were taken.

Business Continuity Plan

Bolstering Our Ability to Respond to Emergencies

In 2008, we began bolstering our measures to deal with disasters, accidents and pandemics to better manage risks to our businesses. This culminated in spring 2010 with the creation of a business continuity plan addressing aggressive influenza strains. In 2011, we drew up a business continuity plan on disasters, given our experiences from the Great East Japan Earthquake. In this regard, we are carefully preparing ourselves for emergencies by constantly revising our business continuity plan every year.

Directors, Audit and Supervisory Board Members and Executive Officers (As of June 29, 2016)





Kazumasa Kobayashi Chairman of the Board and Chief Executive Officer



Yutaka Kobayashi Vice Chairman of the Board



Akihiro Kobayashi Representative Director, President and Chief Operating Officer



Takashi Tsujino Senior Managing Director and Executive Vice President Senior General Manager Product Development and Marketing Headquarters



Satoshi Yamane Senior Executive Director Senior General Manager Corporate Administration Headquarters



Susumu Horiuchi Executive Director Senior General Manager Sales Division



Haruo Tsuji Outside Director



Kunio Ito Outside Director



Kaori Sasaki Outside Director

Audit and Supervisory Board Members



Hiroshi Goto Audit and Supervisory Board Member



Kazuyuki Katsuki Audit and Supervisory Board Member



Ryuji Sakai Outside Audit and Supervisory Board Member



Yoko Hatta Outside Audit and Supervisory Board Member

Executive Officers Toshio Namba Executive Officer Senior General Manager QA, RA, Pharmacovigilance and Consumer Relations Division

Naoki Ayabe Executive Officer General Manager of the Metropolitan Area Sales Division Tetsuji Nishioka Executive Officer Senior General Manager Manufacturing Division

Fujito Owaki Executive Officer Senior General Manager Healthcare Division Product Development and Marketing Headquarters Kenichiro Tanaka Executive Officer Deputy Senior General Manager Sales Division General Manager of the Regional Area Sales Division

Nobuya Matsuoka Executive Officer Senior General Manager Central Research Institute Product Development and Marketing Headquarters Kazuhito Miyanishi Executive Officer Senior General Manager International Business Division

Note: The Company uses the executive officer system.

Four directors--Akihiro Kobayashi, Takashi Tsujino, Satoshi Yamane, and Susumu Horiuchi--each concurrently serve as executive officers.

Creating workplaces where all employees can realize their potential

Harnessing Diversity

The Kobayashi Pharmaceutical Group aims to create engaging workplaces where all employees can fulfill their potential, regardless of age, gender, nationality or ability.

Empowering Women in the Workplace

Kobayashi Pharmaceutical is creating working environments that enable women to remain fully engaged at work while also raising children, such as putting in place a broad range of support systems to help them balance work and family life.

We have compiled the Family Friendly Book, which explains our leave systems in simple terms to alleviate any concerns employees might have about taking time off for childbirth and childcare. We also do our best to help employees on maternity and childcare leave return to work smoothly, such as keeping them informed by sending them bimonthly company magazines and Family Friendly Newsletters.

Family Friendly Newsletter



Family Friendly Book

The number of employees taking childcare leave is increasing each year. In fiscal 2016, 38 people (including three men) used the scheme, up from 20 people two years ago. Understanding of childcare leave is gradually spreading to all parts of the company, with employees in sales and technology development teams taking advantage of the scheme for the first time in April 2015. These efforts have helped us secure "Kurumin Mark" certification from the Ministry of Health, Labour and Welfare, which recognizes Kobayashi Pharmaceutical as a company that supports employees raising children. Going forward, we plan to encourage wider use of other schemes such as paternity leave and partner maternity leave as part of wider efforts to drive change in the way all our people work, not just female employees.

In recent years, we are aiming to increase the number

of women in our workforce by supporting a healthier work-life balance and hiring more female graduates, and we plan to create clearer career pathways for younger employees and provide them with management training. Our goal is to increase the ratio of women in management positions to 10% five years from now.



Kurumin Mark

Providing Job Opportunities for People with Disabilities

We established Kobayashi Pharmaceutical Challenged Co., Ltd. (Toyama City, Toyama Prefecture) in November 2011 to promote job opportunities for disabled people and provide them with a safe working environment.

The company initially employed two people with disabilities, mainly to provide on-site cleaning services for Toyama Kobayashi Pharmaceutical Co., Ltd. However, as employment systems have become more established within the Group, we are increasing the number of people we employ, adding more work sites and expanding the type of work they carry out. Currently, we employ 13 people with disabilities at the Toyama business site, seven at our Sendai site (part of Sendai Kobayashi Pharmaceutical Co., Ltd.), and five at our Sanda site (part of Kiribai Kobayashi Pharmaceutical Co., Ltd.) for a total of 25 people. Employees are mainly tasked with preparing raw materials for production, cleaning equipment, supporting production activities and supervising work uniforms.

By working closely with each business site, we aim to add new tasks and increase the number of people with disabilities employed by the Group.

Working to gain the trust of all stakeholders by contributing to society through our business activities

Contributing to Society

The Kobayashi Pharmaceutical Group is actively contributing to society through its business activities, in line with its brand slogan "You Make a Wish and We Make it Happen." Aiming to be a company trusted by all stakeholders, we are implementing

CSR activities in areas such as health, education, communities and the environment from the Group's unique perspective, as part of our broader efforts to make life more comfortable and help build a better society.

Providing Support for Single Mother Families

Tackling Child Poverty

Japan is regarded as a well-fed country, but the national child poverty rate is 16.3%*, meaning one in six children in Japan are struggling with the hidden issue of poverty. Many children in Japan still do not receive enough food to meet the basic requirements for healthy lives. This poverty can carry on into adulthood, leading to a cycle of poverty. This is one of the major challenges facing society today.

* National Livelihood Survey, Ministry of Health, Labour and Welfare

Aoitori Child Support Project Launched

In January 2016, we teamed up with an NPO called FoodBank YAMANASI to launch the Aoitori Child Support Project for single mother families. Our goal is to alleviate concerns children may have in their daily lives, give them hope for a brighter future and help them lead healthier lifestyles.

Once every two weeks, Kobayashi Pharmaceutical and the NPO deliver food items such as rice, canned food, curry, snacks and cup noodles to a total of 100 single mother households with more than 200 children. The food is delivered once a week during long school holidays when children do not receive school meals.

NPO FoodBank YAMANASI

FoodBank YAMANASI distributes food and other items donated by companies and the public free of charge to families in need. The NPO also emphasizes the importance of communication. Handwritten letters to the families are included in each delivery, and the families receive blank postcards to reply to the letters, giving them a chance to describe their everyday lives and their hopes and wishes.



A food package distributed to families in need





Kobayashi Pharmaceutical employee filling package

Improving Toilet Facilities at Elementary Schools

In Japan, toilet facilities in the home and commercial facilities have improved over the years, but many elementary schools still have toilets that are several decades old. Although many are dark and smelly, these problems cannot be rectified by cleaning alone. We conducted a survey of elementary school toilet facilities in 2012 and found that half of all children do not use school toilets for bowel movements, because old Japanese-style toilets are difficult to use or the school toilets are dirty and smelly.

In order to help resolve these issues, we have been working since 2010 to improve the conditions of school toilet facilities by making them more comfortable and easier to use for children.

In 2015, we implemented our fifth toilet renovation program at 12 elementary schools. The work included replacing Japanese-style toilets with Western ones and installing sheets around toilets to help reduce odors. Also, with many children shy about doing their bowel movements at school, we sent employees to each school after the refurbishments to run workshops that teach children about the importance of going to the toilet.

We plan to refurbish 20 more school toilet facilities across Japan in 2016, aiming at a total of 100 school toilets by 2017, the Company's 100th term.



Replacing Japanese-style toilets with Western ones





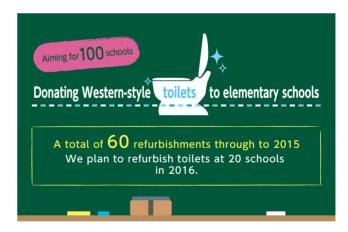
Sheets installed around toilets to help reduce odors



Refurbished toilet handover ceremony (Rokugo-higashi Elementary School, Shimada City, Shizuoka, 2015)







Providing Support for Guide Dog Training



Each year since 2010, Kobayashi Pharmaceutical has donated funds to The Eye Mate Inc., a public foundation that provides guide dog training. Our donations subsidize the cost of training programs for guide dogs, which help to improve the lives of people with visual impairments. Also, in 2011, we added donations to Eye Mate to our menu of shareholder benefits. Using this option, shareholders can donate funds to pay for the cost of training guide dogs.

We plan to continue these donation programs to ensure as many visually impaired people as possible have access to guide dogs.

A recipient of one of the guide dogs trained by Eye Mate

Consolidated Business Results

Net Sales

The Domestic Consumer Products Business (Domestic Business) launched 28 new products in the fiscal year under review and sales were supported by strong inbound demand from overseas visitors to Japan. The Overseas Consumer Products Business (Overseas Business) reported strong sales of products such as body warmers, *Netsusama Sheet*, a cooling gel sheet for the forehead, and *Ammeltz*, an external anti-inflammatory. As a result, the Company reported consolidated net sales of ¥137,211 million, an increase of 6.9% year on year.

Gross Profit

In the Domestic Business, OTC pharmaceuticals, food products and other items that generate high gross profits accounted for a higher ratio of sales in the fiscal year under review.

As a result, gross profit increased 8.2% year on year to \$79,693 million and the gross profit to net sales ratio improved 0.7 percentage points to 58.1%.

Operating Income

The Group invested aggressively in advertising in the Domestic Business, Overseas Business and the Direct Marketing Business. As a result, advertising expenses increased 26.4% year on year to ¥15,994 million and the ratio of advertising expenses to net sales ratio rose 1.8 percentage points to 11.7%. The Group also invested

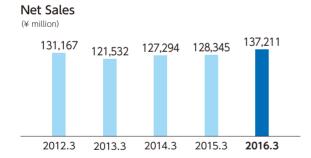
heavily in R&D to reinforce new product development, resulting in R&D costs of $\pm 5,789$ million, an increase of 9.4% year on year. The R&D costs to net sales ratio rose 0.1 percentage points to 4.2%. Due to the above factors, selling, general and administrative expenses increased 10.3% year on year to $\pm 61,433$ million.

As a result, operating income increased 1.9% year on year to ¥18,260 million and the operating income to net sales ratio declined 0.7 percentage points to 13.3%.

Profit Attributable to Owners of Parent

Profit before income taxes declined 6.5% year on year to ¥18,755 million, mainly reflecting gain on sales of shares of a subsidiary and an affiliate related to the sale of shares in former equity-method affiliate Medicon, Inc., a decrease in royalty income and equity in loss of an affiliate.

Profit attributable to owners of parent increased 8.2% year on year to ¥13,466 million, a record high for the Kobayashi Pharmaceutical Group. Fiscal 2016 also marked the 18th consecutive fiscal year of bottom-line growth. Net income per share rose ¥25.65 year on year to ¥331.11.



Advertising Expenses / Advertising Expenses to Net Sales Ratio Sales Promotions Expenses / Sales Promotions Expenses to Net Sales Ratio



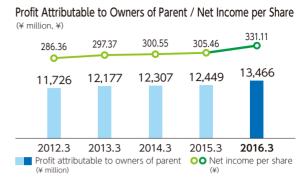




R&D Costs / R&D Costs to Net Sales Ratio



Operating Income / Operating Income to Net Sales Ratio (¥ million, %) 14.7 13.9 14 0 13 3 19.298 18,123 18,260 17.917 16,904 2012.3 2013.3 2014.3 2015.3 2016.3 Operating income OO Operating income to net sales ratio



Reportable Segment Business Results

Effective from the fiscal year under review, the Kobayashi Pharmaceutical Group reclassified its reportable business segments. The Consumer Products Business, Direct Marketing Business and Medical Devices Business were reclassified as the Domestic Consumer Products Business. Overseas Consumer Products Business and the Direct Marketing Business. Net sales by segment also include inter-segment sales and transfers, which amounted to ¥11,569 million in fiscal 2016.

		(Mittions of yen)	
Net Sales by Segment	2015.3	2016.3	
1. Domestic Consumer Products Business			
Sales to third parties	¥ 101,278	¥ 106,963	
Inter-segment sales and transfers	5,176	5,069	
Total	106,454	112,032	
2. Overseas Consumer Products Business			
Sales to third parties	15,469	18,998	
Inter-segment sales and transfers	1,877	1,875	
Total	17,346	20,873	
3. Direct Marketing Business			
Sales to third parties	8,978	8,539	
4. Other			
Sales to third parties	2,620	2,711	
Inter-segment sales and transfers	4,263	4,625	
Total	¥ 6,883	¥ 7,336	

(Millions of yen)

(Millions of ven)

Operating Income by Segment		2015.3	2016.3
1. Domestic Consumer Products Business	¥	16,317	¥ 17,019
2. Overseas Consumer Products Business		536	756
3. Direct Marketing Business		486	35
4. Other		420	497

1. Domestic Consumer Products Business

In the fiscal year under review, we launched a total of 28 new products in this business segment in order to create new markets and expand existing markets. Among those products, there were particularly strong contributions to sales from Naicitol Z, an obesity remedy with an active ingredient of 5,000mg, Saiki, a remedy for dry skin, Shouyou EX, a medicated toothpaste to prevent pyorrhea, Nattokinase EX, a nutrition supplementary food, Sawaday PINKPINK for CAR, a car deodorizing air freshener aimed at young women, and Sawaday Kaoru Stick Parfum, a quality fragrance for indoor use containing select scented oils.

There were also strong contributions to sales from a number of existing healthcare products, including Eyebon, an eye wash solution, Inochi No Haha, a women's health medicine, Ammeltz, an external anti-inflammatory, Sakamukea, a liquid bandage, Ito-Yoji dental floss, and the Yawaraka Shikan Brush for interdental use in the healthcare products category; Netsusama Sheet, a cooling gel sheet for the forehead, and Bluelet, a toilet bowl cleaner in the household products category; and the Keshimin skin series for spots and Eaude Muge, a medicated lotion, in the skincare products category.

As a result, net sales in the Domestic Consumer Products Business rose 5.2% year on year to ¥112,032 million and net sales to third parties increased 5.6% year on year to ¥106,963 million.

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Net Sales to Third Parties (by Category)

	2015.3		2016.3		Changes	
	Sales (Millions of yen)	% of Total Sales	Sales (Millions of yen)	% of Total Sales	Sales (Millions of yen)	Changes (%)
Healthcare products	¥ 43,854	43.3	¥ 48,632	45.5	¥ 4,777	10.9
Household products	46,077	45.5	48,034	44.9	1,956	4.2
Skincare	4,320	4.3	4,673	4.4	353	8.2
Body warmers	7,026	6.9	5,623	5.2	(1,402)	(20.0)
Total	¥ 101,278	100.0	¥ 106,963	100.0	¥ 5,685	5.6

Number of Profitable and Unprofitable Brands

We rigorously followed our own strict market launch standards for new products, taking steps such as conducting test marketing to assess the marketability of products. In addition, we tightened profitability control for existing brands and withdrew unprofitable brands from the market.

Trends in Number of Profitable and Unprofitable Brands

	2012.3	2013.3	2014.3	2015.3	2016.3
Profitable brands	98	101	104	93	101
Unprofitable brands	48	49	30	30	30

New Product Contribution Rate

We refer to the percentage of net sales generated by new products in the first fiscal year on the market as the new product contribution rate. In the fiscal year under review, we launched 28 new products. However, the combined new product contribution rate declined 1.0 percentage point year on year to 7.1%, partly reflecting sales growth for existing products driven by inbound demand from overseas visitors to Japan.

New Product Contribution Rate

(%)

	2012.3	2013.3	2014.3	2015.3	2016.3
New product contribution rate	5.5	7.9	7.5	8.1	7.1

2. Overseas Consumer Products Business

In this business segment, we sell products such as body warmers, *Netsusama Sheet*, a cooling gel sheet for the forehead, and *Ammeltz*, an external anti-inflammatory, mainly in the United States, China and Southeast Asia. During the fiscal year under review, we worked to grow sales by actively investing in advertising and sales promotion.

As a result, net sales in the Overseas Consumer Products Business rose 20.3% year on year to 20.873 million and net sales to third parties increased 22.8% year on year to 18.998 million.

Net Sales to Third Parties (by Area)

	201	15.3	201	6.3	Changes		
	Sales (Millions of yen)	% of Total Sales	Sales (Millions of yen)	% of Total Sales	Sales (Millions of yen)	Changes (%)	
United States	¥ 6,924	44.8	¥ 8,574	45.1	¥ 1,649	23.8	
China	3,610	23.3	5,072	26.7	1,461	40.5	
Southeast Asia	2,928	18.9	3,513	18.5	584	20.0	
Other	2,004	13.0	1,837	9.7	(166)	(8.3)	
Total	¥ 15,468	100.0	¥ 18,998	100.0	¥ 3,529	22.8	

3. Direct Marketing Business

This segment engages in mail order sales of nutritional supplements, skincare products and other items. In the fiscal year under review, we worked to attract new customers and encourage existing customers to make regular purchases by implementing sales promotion activities focused on advertising and direct mail.

Despite these efforts, net sales in the Direct Marketing Business declined 4.9% year on year to ¥8,539 million.

4. Other Business

Businesses in this segment include the medical devices business, transportation business, the manufacture and distribution of plastic containers, insurance agency operations, real estate management, and advertising planning and production. Although each company affiliated to this segment conducts business on a financially independent basis, the Group revised the delivery price of materials and services provided by companies in this segment as required.

As a result, net sales in the Other Business rose 6.6% year on year to ¥7,336 million.

Financial Position

Assets

Total assets as of the end of the fiscal year were ¥188,998 million, an increase of 1.4% compared with the end of the previous fiscal year.

Current assets rose 3.8% year on year to $\pm 120,347$ million, mainly reflecting an increase in cash and time deposits of $\pm 2,978$ million due to growth in profit attributable to owners of parent and other factors, and an increase in inventories of $\pm 1,467$ million, which was partly due to growth in body warmer inventories after a warm winter.

Property, plant and equipment, net increased 7.3% year on year to $\pm 17,187$ million.

Investments and other assets declined 5.3% year on year to \pm 51,464 million, mainly reflecting a drop in investments in securities of \pm 1,925 million due to the sale of shares in Medicon, Inc.

Liabilities

Total liabilities as of the end of the fiscal year were largely unchanged at ¥46,975 million, up 0.5% compared with the end of the previous fiscal year.

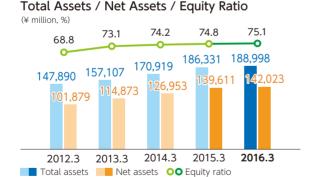
Current liabilities rose 1.6% year on year to \pm 36,482 million, mainly due to an increase in other accounts payable of \pm 1,694 million.

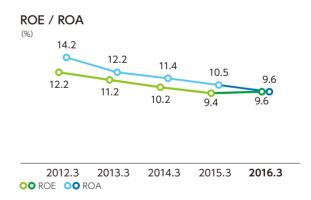
Long-term liabilities declined 3.1% year on year to \pm 10,493 million, mainly due to a drop in liability for retirement benefits of \pm 1,019 million.

Net Assets

Net assets as of the end of the fiscal year totaled ¥142,023 million, an increase of 1.7% compared with the end of the previous fiscal year. This mainly reflected growth in retained earnings due to an increase in profit attributable to owners of parent.

As a result, the equity ratio rose 0.3 percentage points to 75.1%. ROE increased 0.2 percentage points year on year to 9.6%, and ROA fell 0.9 percentage points to 9.6%.





Cash Flows

(¥ million)

Cash Flows from Operating Activities

Net cash provided by operating activities was $\pm 14,329$ million, a decline of 7.2% from the previous fiscal year. The main factors were profit before income taxes of $\pm 18,755$ million and depreciation and amortization of $\pm 3,072$ million.

Cash Flows from Investing Activities

Net cash used in investing activities was ¥10,933 million, an increase of 140.8% from the previous fiscal year. The main uses of cash were net payments for time deposits of ¥10,000 million and payments for purchases of property, plant and equipment of ¥3,382 million.

Cash Flows from Financing Activities

Net cash used in financing activities was ¥10,200 million, an increase of 97.8% from the previous fiscal year. The main uses of cash were increase in treasury stock of ¥8,110 million and dividends paid of ¥3,837 million.

As a result, cash and cash equivalents as of March 31, 2016 totaled ¥25,428 million, a decline of ¥6,971 million compared with the end of the previous fiscal year.

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Cash Flows	2015.3	2016.3	Chan	ges
	Amount (Millions of yen)	Amount (Millions of yen)	Amount (Millions of yen)	Changes (%)
Cash flows from operating activities	¥ 15,445	¥ 14,329	(1,116)	(7.2)
Cash flows from investing activities	(4,540)	(10,933)	(6,393)	140.8
Free cash flows*	10,905	3,396	(7,509)	(68.9)
Cash flows from financing activities	(5,156)	(10,200)	(5,044)	97.8
Cash and cash equivalents at the end of the year	32,399	25,428	(6,971)	(21.5)

^{*}Free cash flows: Cash flows from operating activities + Cash flows from investing activities

Shareholder Returns

Dividends

The Kobayashi Pharmaceutical Group's basic policy is to consistently pay stable dividends to shareholders while maintaining a sound business structure and actively investing in businesses with growth potential. The Group aims to increase shareholder returns by paying dividends that reflect consolidated results.

In line with that policy, the Company paid a fiscal 2016 dividend of ¥96.00 per share, an increase of ¥6.00 year on year, comprising an interim dividend of ¥48.00 and a year-end dividend of ¥48.00. The Company has now raised the dividend for 17 consecutive fiscal years. The payout ratio was 29.0%.



*The Company conducted a 1.5-for-1 stock split in fiscal 2004.

Change in Fiscal Year

The Company changed its fiscal year from March 31 to December 31. Consequently, the fiscal period ending December 31, 2016 will be a nine-month transitional period from April 1, 2016 to December 31, 2016 for the Company and consolidated subsidiaries with March fiscal year-ends. For consolidated subsidiaries with December fiscal year-ends, there will be a 12-month fiscal year from January 1, 2016 to December 31, 2016.

Scope of Consolidation

In fiscal 2016, ended March 31, 2016, the Kobayashi Pharmaceutical Group had 33 consolidated subsidiaries (15 in Japan and 18 overseas).

By reportable segment, the Group has seven companies in the Domestic Consumer Products Business, 19 companies in the Overseas Consumer Products Business and seven companies in the Other Business.

Risk Factors

1. Highly Competitive Business Environment

The Kobayashi Pharmaceutical Group aims to differentiate itself from rival companies by developing new products and services that satisfy customer needs. This is crucial as the Group's main products target retail consumers. However, we are susceptible to intensifying price-based competition triggered by the launch of competing products by rivals. In response, we may have to increase development costs for new products, or advertising and sales promotion expenses to stimulate demand. These and other factors could affect the Group's operating results and financial position.

2. Highly Susceptible to Sales of New Products

The Group pursues aggressive product development activities as part of its strategy for spurring growth and launching new products every year in the spring and fall. However, delays in developing or bringing new products to market, sales of competing products, and other factors may have an impact on sales of the Group's new products, which could in turn affect the Group's operating results and financial position.

Risk Concerning Inability to Reap Anticipated Benefits of Mergers and Alliances

While enhancing product lineups through mergers and acquisitions (M&A) and business alliances, the Group is also striving to expand its sales regions in pursuit of a broader range of new markets both in Japan and overseas. However, these M&As and alliances are subject to uncertainties. The Group may be unable to reap the anticipated benefits of M&As and alliances or may be forced to change its business strategies due to unforeseen post-merger or alliance events. This could affect the Group's operating results and financial position.

4. Legal Constraints

The Group's products include OTC pharmaceuticals, quasipharmaceuticals, cosmetics, medical devices, and more. The Group's operating results and financial position could be affected if the development or launch of products is subject to sanctions or other measures under Japan's Pharmaceutical and Medical Device Act or other relevant laws and regulations.

5. Product Liability Risk

The Group's products include OTC pharmaceuticals, quasipharmaceuticals, cosmetics, medical devices, foods, and more. Any health problems caused to consumers as a result of quality defects in these products may result in significant damage to the Group, which could affect the Group's operating results and financial position.

6. Changes in Raw Material Prices

The Group's Domestic Consumer Products Business, Overseas Consumer Products Business and Direct Marketing Business are exposed to the risk of changes in raw material prices. Despite ongoing cost reductions, the Group's operating results and financial condition may be affected by a sharp rise in raw material prices triggered by surging crude oil prices and other factors.

7. Impact of Inclement Weather

Sales of some of the Group's products, such as body warmers, hay fever-related products, and cold remedies, are highly susceptible to and prone to be impacted by seasonal factors such as temperatures and airborne pollen counts. Trends in sales of these products could therefore affect the Group's operating results and financial position.

8. Impact from Natural Disasters

The Group's manufacturing bases are located throughout Japan. As such, if a natural disaster such as an earthquake or a large typhoon should strike an area or areas in which these bases are located, the Group's management and financial performance could be affected.

9. Overseas Business Risk

The Group's trading transactions involving products and raw materials are subject to fluctuations in exchange rates. However, the Group reduces their impact on operating results mainly by hedging foreign currency risk through forward exchange transactions. The Group does not engage in derivative transactions for speculative purposes. Line items denominated in foreign currencies, including the net sales, expenses, assets and liabilities of consolidated overseas subsidiaries, are converted into yen for the purpose of preparing consolidated financial statements. In the event of a large change in the prevailing exchange rate on the conversion date, there will be a substantial corresponding change in the yen value of such line items. The Group is also exposed to the risk of changes in regulations by foreign governments, as well as economic conditions. These and other factors could affect the Group's operating results and financial position.

10. Information Management and System Risk

The Group holds large volumes of information mainly as part of its Direct Marketing Business, including personal information. For this reason, the Group has established an internal information management system in conjunction with enhancing in-house training programs and information management. However, the Group's operating results and financial position could be affected by a loss of public trust caused by a leak of information.

11. Intellectual Property Risk

Third-party infringement of intellectual property rights, including the Group's brands and related trademarks, may result in large damages to the Group. Furthermore, the inadvertent infringement of the intellectual property rights of a third party by the Group may also have adverse consequences. These and other factors could impact the Group's operating results and financial position.

12. Share Price Fluctuation

Most of the investment securities owned by the Kobayashi Pharmaceutical Group are listed, and therefore have a risk of share price fluctuation. Any losses or declines in valuation gains for securities, based on the market prices of the fiscal year-ends, may impact the business results and financial status of the Kobayashi Pharmaceutical Group.

Consolidated Financial Statements

Consolidated Balance Sheet

Kobayashi Pharmaceutical Co., Ltd. and Consolidated Subsidiaries March 31, 2016

	Millions	Thousands of U.S. dollars (Note 1)	
	2016	2015	2016
Assets			
Current assets:			
Cash and time deposits (Notes 3, 13 and 14)	¥ 61,428	¥ 58,449	\$ 545,154
Trade notes and accounts receivable (Note 14)	36,089	35,969	320,279
Securities (Notes 3, 4 and 14)	4,500	4,500	39,936
Inventories:			
Commodities and finished goods	10,379	8,996	92,110
Work in process	778	774	6,905
Raw materials and supplies	2,796	2,716	24,814
Total inventories	13,953	12,486	123,829
Deferred income taxes (Note 11)	2,772	2,724	24,601
Other current assets	1,681	1,910	14,918
Allowance for doubtful accounts	(76)	(47)	(674)
Total current assets	120,347	115,991	1,068,043
Property, plant and equipment:			
Buildings and structures (Note 5)	18,724	18,520	166,170
Machinery, equipment and vehicles (Note 5)	9,769	9,109	86,697
Tools, furniture and fixtures (Note 5)	6,157	6,056	54,641
Land	3,381	3,381	30,005
Construction in progress	1,564	549	13,880
Leased assets (Note 8)	988	1,023	8,768
Total property, plant and equipment	40,583	38,638	360,161
Accumulated depreciation	(23,396)	(22,615)	(207,632)
Property, plant and equipment, net	17,187	16,023	152,529
Investments and other assets:			
Investments in securities (Notes 4 and 14):			
Unconsolidated subsidiaries and affiliates	387	3,931	3,435
Other	39,269	37,650	348,500
Total investments in securities	39,656	41,581	351,935
Deferred income taxes (Note 11)	322	319	2,858
Goodwill (Note 18)	3,542	4,024	31,434
Software	1,078	972	9,567
Other intangible assets (Note 5)	715	587	6,345
Investment properties, net (Note 6)	2,992	3,026	26,553
Asset for retirement benefits (Note 9)	_	287	_
Other assets (Notes 13 and 14)	3,298	3,655	29,269
Allowance for doubtful accounts	(139)	(134)	(1,234)
Total investments and other assets	51,464	54,317	456,727
Total assets (Note 18)	¥188,998	¥186,331	\$1,677,299

See accompanying notes to consolidated financial statements

	Millions	of yen	Thousands of U.S. dollars (Note 1)		
	2016	2015	2016		
Liabilities and Net Assets					
Current liabilities:					
Short-term loans (Notes 7 and 14)	¥ 181	¥ 41	\$ 1,606		
Trade notes and accounts payable (Note 14)	7,142	10,240	63,383		
Electronically recorded obligations-operating (Note 14)	6,519	3,282	57,854		
Current portion of lease obligations (Notes 8 and 14)	67	82	595		
Income taxes payable (Notes 11 and 14)	1,789	3,192	15,877		
Other accounts payable (Note 14)	14,418	12,724	127,955		
Provision for sales returns	1,478	1,273	13,117		
Accrued bonuses	1,997	1,916	17,723		
Asset retirement obligations (Note 10)	24	19	213		
Other current liabilities (Note 14)	2,867	3,122	25,444		
Total current liabilities	36,482	35,891	323,767		
Long-term liabilities:					
Lease obligations (Notes 8 and 14)	619	513	5,493		
Deferred income taxes (Note 11)	3,184	2,684	28,257		
Liability for retirement benefits (Note 9)	4,478	5,497	39,741		
Provision for retirement benefits for directors and audit	32	27	284		
& supervisory board members Asset retirement obligations (Note 10)	87	90	772		
Other long-term liabilities	2,093	2,018	18,575		
Total long-term liabilities	10,493	10,829	93,122		
Total liabilities	46,975	46,720	416,889		
Contingent liabilities (Note 13)	40,575	40,720	410,005		
Net Assets					
Shareholders' equity (Note 12):					
Common stock:					
Authorized — 170,100,000 shares					
Issued — 42,525,000 shares in 2016 and 2015	3,450	3,450	30,618		
Capital surplus	4,954	4,219	43,965		
Retained earnings	137,486	127,858	1,220,146		
Treasury stock, at cost	(13,180)	(6,208)	(116,968)		
Total shareholders' equity	132,710	129,319	1,177,761		
Accumulated other comprehensive income:	132,710	129,519	1,177,701		
Unrealized holding gain on securities (Note 4)	8,862	7,554	78,646		
Unrealized floss) gain on deferred hedges (Note 15)	(39)	1,361	(346)		
Translation adjustments	1,668	1,874	14,803		
Retirement benefit liability adjustments (Note 9)	(1,328)	(711)	(11,786)		
Total accumulated other comprehensive income	9,163	10,078	81,317		
Stock acquisition rights	9,103 75	191	666		
Non-controlling interests	75 75	23	666		
Total net assets	142,023	139,611	1,260,410		
Total liabilities and net assets	¥188,998	¥186,331	\$1,677,299		
ו טנמנ נומטונונובט מווע ווכנ מטטבנט	+100,330	±100,331	\$1,U//,Z33		

Consolidated Statement of Income

Kobayashi Pharmaceutical Co., Ltd. and Consolidated Subsidiaries Year ended March 31, 2016

	Millions	Thousands of U.S. dollars (Note 1)	
_	2016	2015	2016
Net sales (Note 18)	¥137,211	¥128,345	\$1,217,705
Cost of sales (Note 9)	57,518	54,719	510,454
Gross profit	79,693	73,626	707,251
Selling, general and administrative expenses:			
Sales promotions	9,653	8,557	85,667
Freight and storage	5,629	5,508	49,956
Advertising	15,994	12,658	141,942
Provision for allowance for doubtful accounts	18	20	160
Salaries and bonuses	9,778	9,381	86,777
Net pension cost (Note 9)	621	635	5,511
Provision for retirement benefits for directors and audit & supervisory board members	4	3	35
Taxes and dues other than income taxes	404	293	3,585
Depreciation and amortization (Note 18)	635	711	5,635
Amortization of goodwill (Note 18)	485	454	4,304
Office rent and other rental charges	1,455	1,405	12,913
External service fees	4,800	4,697	42,599
Research and development costs	5,789	5,289	51,376
Other	6,168	6,098	54,739
Fotal selling, general and administrative expenses	61,433	55,709	545,199
Operating income	18,260	17,917	162,052
Other income (expenses):			
Interest and dividend income (Note 18)	638	552	5,662
Equity in loss of an affiliate (Note 18)	(607)	(151)	(5,387)
Interest expense (Note 18)	(34)	(23)	(302)
Sales discounts	(688)	(690)	(6,106)
Foreign currency exchange (loss) gain, net	(222)	143	(1,970)
Royalty income	328	720	2,911
Loss on disposal or sales of property, plant and equipment, net	(77)	(81)	(683)
Loss on impairment of fixed assets (Notes 5 and 18)	(127)	(20)	(1,127)
Gain on sales of investment in an affiliate	1,379	(20)	12,238
Gain on sales of investments in securities (Note 4)	8	1,014	71
Loss on defective inventories	(195)	(24)	(1,731)
Reversal of provision for loss on business liquidation	(155)	180	(1,751)
Loss on business transfer	(110)	100 —	(976)
Compensation income	(110)	155	(970)
Loss on impairment of investment in a subsidiary	(50)	155	(444)
Other, net	252	365	2,237
_	18,755		
Profit before income taxes	10,/33	20,057	166,445
ncome taxes (Note 11):	4.016	F 011	42.620
Current	4,916	5,911	43,628
Deferred	384	1,698	3,408
	5,300	7,609	47,036
Profit	13,455	12,448	119,409
Profit (loss) attributable to:			
Non-controlling interests	(11)	(1)	(98)
Owners of parent (Note 16)	¥ 13,466	¥ 12,449	\$ 119,507

See accompanying notes to consolidated financial statements

Consolidated Statement of Comprehensive Income Kobayashi Pharmaceutical Co., Ltd. and Consolidated Subsidiaries Year ended March 31, 2016

	Millions (Thousands of U.S. dollars (Note 1)	
	2016	2015	2016
Profit	¥13,455	¥12,448	\$119,409
Other comprehensive (loss) income (Note 17):			
Unrealized holding gain on securities	1,310	2,184	11,626
Unrealized (loss) gain on deferred hedges	(188)	127	(1,668)
Translation adjustments	(210)	2,248	(1,864)
Retirement benefit liability adjustments	(474)	75	(4,207)
Share of other comprehensive (loss) income of an affiliate accounted for by the equity method	(1,355)	269	(12,025)
Total other comprehensive (loss) income	(917)	4,903	(8,138)
Comprehensive income	¥12,538	¥17,351	\$111,271
Comprehensive income (loss) attributable to:			
Owners of parent	¥12,553	¥17,351	\$111,404
Non-controlling interests	(15)	(0)	(133)

See accompanying notes to consolidated financial statements

Consolidated Statement of Changes in Net Assets

Kobayashi Pharmaceutical Co., Ltd. and Consolidated Subsidiaries Year ended March 31, 2016

	_					Λ	1illions of ye	en				
	Numbers of shares issued (Thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized holding gain on securities	Unrealized gain on deferred hedges	Translation adjustments	Retirement benefit liability adjustments	Stock acquisition rights	Minority interests	Total net assets
Balance at April 1, 2014	42,525	¥3,450	¥4,219	¥118,732	¥(4,706)	¥5,370	¥ 1,044	¥ (374)	¥ (865)	¥83	¥ 0	¥126,953
Cumulative effects of changes in accounting policies		_	_	230	_	_	_	_	_	_	_	230
Restated balance at April 1, 2014	42,525	3,450	4,219	118,962	(4,706)	5,370	1,044	(374)	(865)	83	0	127,183
Profit attributable to owners of parent for the year		_	_	12,449	_	_	_	_	_	_	_	12,449
Cash dividends		_	_	(3,553)	_	_	_	_	_	_	_	(3,553)
Purchase of treasury stock		_	_	_	(1,502)	_	_	_	_	_	_	(1,502)
Other changes		_	_	_	_	2,184	317	2,248	154	108	23	5,034
Balance at April 1, 2015	42,525	3,450	4,219	127,858	(6,208)	7,554	1,361	1,874	(711)	191	23	139,611
Profit attributable to owners of parent for the year		_	_	13,466	_	_	_	_	_	_	_	13,466
Cash dividends		_	_	(3,838)	_	_	_	_	_	_	_	(3,838)
Purchase of treasury stock		_	_	_	(8,002)	_	_	_	_	_	_	(8,002)
Disposal of treasury stock		_	735	_	1,030	_	_	_	_	_	_	1,765
Other changes			_			1,308	(1,400)	(206)	(617)	(116)	52	(979)
Balance at March 31, 2016	42,525	¥3,450	¥4,954	¥137,486	¥(13,180)	¥8,862	¥ (39)	¥1,668	¥(1,328)	¥75	¥75	¥142,023

	Thousands of dollars (Note 1)										
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized holding gain on securities	Unrealized gain on deferred hedges	Translation adjustments	Retirement benefit liability adjustments	Stock acquisition rights	Minority interests	Total net assets
Balance at April 1, 2015	\$30,618	\$37,442	\$1,134,700	\$ (55,094)	\$67,039	\$12,078	\$16,631	\$ (6,310)	\$1,695	\$204	\$1,239,003
Profit attributable to owners of parent for the year	_	_	119,507	_	_	_	_	_	_	_	119,507
Cash dividends	_	_	(34,061)	_	_	_	_	_	_	_	(34,061)
Purchase of treasury stock	_	_	_	(71,015)	_	_	_	_	_	_	(71,015)
Disposal of treasury stock	_	6,523	_	9,141	_	_	_	_	_	_	15,664
Other changes	_	_	_	_	11,607	(12,424)	(1,828)	(5,476)	(1,029)	462	(8,688)
Balance at March 31, 2016	\$30,618	\$43,965	\$1,220,146	\$(116,968)	\$78,646	\$ (346)	\$14,803	\$(11,786)	\$ 666	\$666	\$1,260,410

Consolidated Statement of Cash Flows

Kobayashi Pharmaceutical Co., Ltd. and Consolidated Subsidiaries Year ended March 31, 2016

	Millions	Thousands of U.S. dollars (Note 1)	
	2016	2015	2016
Cash flows from operating activities: Profit before income taxes	¥ 18,755	¥ 20,057	\$ 166,445
Adjustments for:	+ 10,755	÷ 20,037	\$ 100,445
Depreciation and amortization	3,072	3,095	27,263
Loss on impairment of investment in a subsidiary	50	_	444
Loss on impairment of fixed assets	127	20	1,127
Increase (decrease) in allowance for doubtful accounts	38	(15)	337
Decrease in liability for retirement benefits	(1,809) 287	(215)	(16,054)
Decrease (increase) in asset for retirement benefits Interest and dividend income	(638)	(84) (552)	2,547 (5,662)
Interest and dividend meaning	34	23	302
Equity in loss of an affiliate	607	151	5,387
Gain on sales of investment in an affiliate	(1,379)	_	(12,238)
Gain on sales of investments in securities	(8)	(1,014)	(71)
Loss on disposal or sales of property, plant and equipment Compensation income	81	81 (155)	719
Changes in operating assets and liabilities:		(133)	
Increase in trade notes and accounts receivable	(282)	(908)	(2,503)
Increase in inventories	(1,535)	(1,652)	(13,623)
Increase in trade notes and accounts payable	164	1,930	1,455
Increase (decrease) in other accounts payable	1,883 (706)	(701) 830	16,711
(Decrease) increase in consumption taxes payable Decrease in provision for loss on business liquidation	(706)	(180)	(6,266)
Other, net	1,319	388	11,706
Subtotal	20,060	21,099	178,026
Interest and dividends received	705	589	6,257
Interest paid Proceeds from compensation	(19)	(17) 155	(169)
Income taxes paid	(6,417)	(6,381)	(56,949)
Net cash provided by operating activities	14,329	15,445	127,165
Cash flows from investing activities:			
Payments for time deposits	(83,000)	(67,500)	(736,599)
Proceeds from time deposits	73,000	65,500	647,852
Proceeds from redemption of securities	_	1,000	_
Payments for purchases of property, plant and equipment	(3,382)	(3,100)	(30,014)
Proceeds from sales of property, plant and equipment Payments for purchases of intangible assets	20 (666)	24 (578)	177 (5,911)
Payments for purchases of investments in securities	(23)	(21)	(204)
Proceeds from sales of investments in securities	339	56	3,009
(Increase) decrease in other assets, net	(64)	71	(568)
Proceeds from sales investment in an affiliate	2,962	_	26,287
Other, net	(119)	(4,540)	(1,056)
Net cash used in investing activities	(10,933)	(4,540)	(97,027)
Cash flows from financing activities:			
Increase in short-term loans, net	140	35	1,242
Dividends paid	(3,837)	(3,553)	(34,052)
Increase in treasury stock Proceeds from disposal of treasury stock	(8,110) 1,625	(1,502)	(71,974) 14,421
Decrease in lease obligations	(94)	(150)	(834)
Proceeds from non-controlling interests	76	14	675
Net cash used in financing activities	(10,200)	(5,156)	(90,522)
Effect of exchange rate changes on cash and cash equivalents	(167)	752	(1,481)
Net (decrease) increase in cash and cash equivalents	(6,971)	6,501	(61,865)
Cash and cash equivalents at the beginning of the year	32,399	25,898	287,531
Cash and cash equivalents at the end of the year (Note 3)	¥ 25,428	¥ 32,399	\$ 225,666

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements

Kobayashi Pharmaceutical Co., Ltd. and Consolidated Subsidiaries Year ended March 31, 2016

1. Basis of Presentation of Consolidated Financial Statements

The accompanying consolidated financial statements of KOBAYASHI PHARMACEUTICAL CO., LTD. (the "Company") and its consolidated subsidiaries (collectively, the "Group") have been prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a format which is more familiar to readers outside Japan. In addition, certain notes included herein are not required under accounting principles generally accepted in Japan but are presented as additional information.

The U.S. dollar amounts included in the accompanying consolidated financial statements and the notes are presented solely for convenience and are translated, as a matter of arithmetic computation only, at $\pm 112.68 = U.S. \pm 1.00$, the approximate exchange rate in effect on March 31, 2016. This translation should not be construed as a representation that Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

2. Summary of Significant Accounting Policies

(a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries. All significant intercompany transactions and accounts have been eliminated in consolidation. Investments in affiliates (companies over which the Company has the ability to exercise significant influence) are, with certain minor exceptions, accounted for by the equity method.

Goodwill is amortized principally by the straight-line method over a twenty-year period. Minor differences are charged or credited to income in the year of acquisition.

The balance sheet date of certain consolidated subsidiaries is December 31. Any significant differences in intercompany accounts and transactions arising from intervening intercompany transactions during the period from January 1 through March 31 have been adjusted, if necessary.

In addition, the balance sheet date of one domestic consolidated subsidiary is June 30. For consolidation purposes, the financial statements of the subsidiary were prepared as of and for the year ended March 31.

(b) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the year-end date of the financial statements and the reported amounts of revenues and expenses for the reporting period. The actual results could differ from these estimates.

(c) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits with banks withdrawable on demand, and short-term investments which are readily convertible to cash subject to an insignificant risk of any change in their value and which were purchased with an original maturity of three months or less.

(d) Foreign currency translation

Revenue and expenses denominated in foreign currencies are translated into Japanese yen at the exchange rates prevailing at the respective transaction dates. All monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the rates of exchange in effect at the balance sheet date except for those items covered by forward foreign exchange contracts and currency options.

The balance sheet accounts of the overseas consolidated subsidiaries are translated into Japanese yen at the rates of exchange in effect at the balance sheet date except that the components of net assets excluding non-controlling interests are translated at their historical exchange rates. Revenue and expense accounts are translated at the average rates of exchange in effect during the year. Differences resulting from translating the financial statements of the overseas subsidiaries have not been included in the determination of profit, but are presented as "Translation adjustments" and "Non-controlling interests" in the consolidated financial statements.

(e) Investments in securities

Securities are classified into three categories: trading securities, held-to-maturity debt securities, or other securities. Trading securities, consisting of debt and marketable equity securities, are stated at fair value. Gain or loss, both realized and unrealized, is credited or charged to income. Held-to-maturity debt securities are stated at amortized cost. Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, reported as a separate component of

accumulated other comprehensive income. Cost of securities sold is determined by the moving average method. Non-marketable securities classified as other securities are stated at cost determined by the moving average method.

If the fair value of other securities has declined significantly and the impairment in value is not deemed temporary, these securities are written down to fair value and the resulting loss is charged to income as incurred.

(f) Inventories

Commodities and raw materials are stated principally at the lower of cost, determined by the moving average method, or net selling value. Finished goods, work in process and supplies are principally stated at the lower of cost, determined by the average method, or net selling value.

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

Property, plant and equipment are stated at cost. The Company and its domestic consolidated subsidiaries calculate depreciation by the declining-balance method except for buildings (other than structures attached to the buildings) acquired after March 31, 1998, to which the straight-line method is applied. The overseas consolidated subsidiaries calculate depreciation by the straight-line method.

(h) Leased assets

Leased assets under finance lease transactions which do not transfer ownership to the lessee are capitalized and depreciated over the respective lease terms by the straight-line method assuming a nil residual value.

(i) Allowance for doubtful accounts

The Company and its domestic consolidated subsidiaries provide an allowance for doubtful accounts principally at an amount based on their historical bad debt ratio. In addition, an additional allowance is provided at an estimate of uncollectible amounts with respect to certain specific doubtful receivables. Overseas consolidated subsidiaries provide an allowance for doubtful accounts based on estimate of uncollectible amounts with the current status.

(j) Provision for sales returns

The Company and certain consolidated subsidiaries provide a provision for sales returns at the estimated amount in order to cover possible future losses on the return of products.

(k) Accrued bonuses

The Company and certain consolidated subsidiaries provide accrued bonuses for the future payment of employees' bonuses based on the estimated amount of bonus payments.

(l) Provision for loss on business liquidation

The Company records a reserve to cover losses arising from a business liquidation to be carried out by the Company at the estimated amount of such losses.

(m) Liability for retirement benefits

The liability for retirement benefits for employees of the Company and certain domestic consolidated subsidiary represents the projected benefit obligation in excess of the fair value of the pension plan assets. The estimated benefit is attributed to each period by the benefit formula method over the estimated years of service of the eligible employees.

Certain domestic consolidated subsidiaries have adopted a simplified method of calculation. Under this simplified method, the liability for retirement benefits for employees is stated at 100% of the amount which would be required to be paid if all eligible employees voluntarily retired at the balance sheet date (the "simplified method").

Prior service cost is being amortized by the straight-line method over ten years, which is shorter than the average remaining years of service of the eligible employees.

Actuarial differences are amortized in the year following the year in which the differences are recognized by the straight-line method over ten years, which is shorter than the average remaining years of service of eligible employees.

(n) Provision for retirement benefits for directors and audit & supervisory board members

Directors and audit & supervisory board members of certain domestic consolidated subsidiaries (collectively, "officers") are customarily entitled, subject to shareholders' approval, to lump-sum payments under an unfunded retirement allowances plan. Provision for retirement benefits for officers have been made at an estimated amount based on the consolidated subsidiaries' internal regulations.

The Company decided to abolish the retirement allowances plan for officers at the Board of Directors meeting held on February 12, 2009. At the annual general shareholders' meeting held on June 26, 2009, a proposal was then subsequently approved to provide

retirement allowances for these officers when they retire.

(o) Income taxes

Deferred income taxes have been recognized with respect to the differences between financial reporting and the tax bases of the assets and liabilities. Deferred income taxes are measured at the rates expected to apply to the period when each asset or liability is realized, based on the tax rates that will be in effect as of the balance sheet date or are to be subsequently effective.

(p) Research and development costs and computer software

Research and development costs are charged to income when incurred.

Expenditures relating to computer software developed for internal use are charged to income when incurred, except if they contribute to the generation of future income or cost savings. Such expenditures are capitalized as assets and are amortized over their respective estimated useful lives, customarily five years.

(q) Distribution of retained earnings

Under the Companies Act, the distribution of retained earnings with respect to a given financial period can be made by resolution of the Board of Directors meeting held subsequent to the close of the financial period. The accounts for that period do not, therefore, reflect such appropriations (see Note 20).

(r) Derivatives and hedging activities

Derivative financial instruments, which include forward foreign exchange contracts and currency options, are used to offset the Group's risk of exposure to fluctuation in currency exchange rates.

Derivatives are carried at fair value with any changes in unrealized gain or loss credited or charged to income, except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss, net of the applicable income taxes, is deferred as a separate component of accumulated other comprehensive income. When forward foreign exchange contracts or currency options meet certain criteria, receivables and payables covered by the contract are translated at the contracted rates ("allocation method").

The Company evaluates the effectiveness of their hedging activities by reference to the accumulated gain or loss on each hedging instrument and on the related underlying hedged item from the commencement of the hedges.

(Changes in Accounting Policies)

Accounting Standard for Business Combinations

Effective from the year ended March 31, 2016, the Company and its domestic consolidated subsidiaries adopted "Revised Accounting Standard for Business Combinations" (Accounting Standards Board of Japan ("ASBJ") Statement No. 21 issued on September 13, 2015, and hereinafter "Business Combinations Accounting Standard"), "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22 issued on September 13, 2015, and hereinafter "Consolidated Accounting Standard"), and "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No.7 issued on September 13, 2015, and hereinafter "Business Divestitures Accounting Standard"). With the application of the above standards, any differences resulting from changes in ownership interests in its subsidiaries are recorded in capital surplus as long as the parent company retains control over the subsidiaries and acquisition related costs are charged to expenses for the period in which the costs are incurred. With regard to business combinations conducted on or after the beginning of the fiscal year ended March 31, 2016, the revised allocation of acquisition costs arising from settlement of provisional accounting treatment is reflected in the consolidated financial statements for the period in which the business combination occurs. In addition, the presentation method of net income was changed and "minority interests" were changed to "non-controlling interests." Certain reclassifications were made to the previous year's consolidated financial statements to reflect these changes in presentation.

"Business Combinations Accounting Standard" and related guidance were applied in accordance with the transitional treatment specified in Section 58-2(4) of "Accounting Standard for Business Combinations," Section 44-5(4) of "Accounting Standard for Consolidated Financial Statements," and Section 57-4(4) of "Accounting Standard for Business Divestitures," with prospective application of these accounting standards effective from April 1, 2015.

The effect of these changes on the Company's consolidated financial statements as of and for the year ended March 31, 2016 was immaterial.

(Standards Issued but Not Yet Effective) Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, March 28, 2016)

(a) Overview

The accounting treatment on recoverability of deferred tax assets still basically follows the framework of the "Audit Treatment Regarding Judgment of the Recoverability of Deferred Tax Assets" outlined in the Japanese Institute of Certified Public Accountants Audit Committee Report No. 66, a framework for estimating deferred tax assets by classifying companies into five categories and calculating the amount according to those categories, but the ASBJ has made the following necessary revisions on certain treatment.

- (1) Accounting treatments of companies that do not satisfy any of the category requirements for Category I through Category V.
- (2) Category requirements for Category II and Category III.
- (3) Accounting treatments related to future deductible temporary differences which cannot be scheduled in companies that qualify as Category II.
- (4) Accounting treatments related to reasonably estimated period of future pre-adjusted taxable income in companies that qualify as Category III.
- (5) Accounting treatments of companies that satisfy the category requirements for Category IV but qualify as Category III.

(b) Scheduled date of adoption

The above revisions are scheduled to be applied from the beginning of the following fiscal year.

(c) Impact of adopting revised accounting standards and guidance

The Company is currently evaluating the effect of adopting this revised implementation guidance on its consolidated financial statements.

3. Cash and Cash Equivalents

Reconciliations between the balances of cash and time deposits in the accompanying consolidated balance sheet as of March 31, 2016 and 2015 and the balances of cash and cash equivalents in the accompanying consolidated statement of cash flows for the years then ended were as follows:

	Millions	Millions of yen		
	2016	2015	2016	
Cash and time deposits	¥ 61,428	¥ 58,449	\$ 545,154	
Time deposits over three months	(40,500)	(30,550)	(359,424)	
Securities maturing within three months	4,500	4,500	39,936	
Cash and cash equivalents	¥ 25,428	¥ 32,399	\$ 225,666	

4. Securities and Investments in Securities

- (a) Securities classified as "Other securities" as of March 31, 2016 and 2015 were summarized as follows:
- (1) Securities whose carrying value exceeds their acquisition cost

		Millions of yen					
		2016			2015		
	Acquisition cost	Carrying value	Unrealized gain	Acquisition cost	Carrying value	Unrealized gain	
Equity securities	¥ 7,116	¥18,899	¥11,783	¥ 6,980	¥17,230	¥10,250	
Debt securities	19,299	20,109	810	19,343	20,043	700	
	¥26,415	¥39,008	¥12,593	¥26,323	¥37,273	¥10,950	

	Thousands of U.S. dollars			
	2016			
	Acquisition cost	Carrying value	Unrealized gain	
Equity securities	\$ 63,152	\$167,723	\$104,571	
Debt securities	171,273	178,461	7,188	
	\$234,425	\$346,184	\$111,759	

(2) Securities whose acquisition cost exceeds their carrying value

	Millions of yen							
	2016			2015				
	Acquisitio	on cost	Carrying	value	Unrealized loss	Acquisition cost	Carrying value	Unrealized loss
Equity securities	¥	40	¥	37	¥(3)	¥ 161	¥ 153	¥(8)
Other	4	,500	4	,500	_	4,500	4,500	_
	¥4	,540	¥4	,537	¥(3)	¥4,661	¥4,653	¥(8)

	Thousands of U.S. dollars				
	2016				
	Acquisit	ion cost	Carryin	g value	Unrealized loss
Equity securities	\$	355	\$	328	\$(27)
Other	39	9,936	3	9,936	_
	\$40,291		\$40	0,264	\$(27)

(3) Securities whose market value is not determinable

	Million	s of yen	Thousands of U.S. dollars	
	2016	2015	2016	
Unlisted equity securities	¥223	¥223	\$1,979	

(b) Proceeds from sales, and gross realized gain on other securities with fair value

	Million	Millions of yen 2016		s of yen
	20			016
	Proceeds from sales	Gross realized gain	Proceeds from sales	Gross realized gain
Equity securities	¥15	¥8	\$133	\$71
	¥15	¥8	\$133	\$71

There were no proceeds from sales, or gross realized gain on other securities with fair value for the year ended March 31, 2015.

5. Loss on Impairment of Fixed Assets

The Company and its consolidated subsidiaries group their property, plant and equipment and intangible assets for business use at each business segment unit and these are defined as the smallest identifiable group of assets generating cash inflows. The head office building, central laboratories and certain other assets are grouped as one common asset group. Idle assets which are not anticipated to be utilized in the future are classified as individual cash-generating units.

For the years ended March 31, 2016 and 2015, the carrying values of production facilities, which are not anticipated to be utilized in the future, and trademark rights and other intangible assets, which future cash flow is not expected, have been reduced to their respective recoverable amounts and loss on impairment of fixed assets was recognized in the consolidated statement of income.

The recoverable amounts of production facilities, trademark rights and other intangible assets are based on the higher amount of net selling value or value in use. For the years ended March 31, 2016 and 2015, the carrying values of the production facilities, trademark rights and other intangible assets were reduced to zero because future cash flow was not expected.

Loss on impairment of fixed assets for the years ended March 31, 2016 and 2015 was summarized as follows:

		2016		
Location	Description	Classification	Millions of yen	Thousands of U.S. dollars
Osaka and other	Production facilities	Machinery, equipment and other	¥ 30	\$ 266
Osaka	Other	Trademark rights	39	346
Osaka	Other	Other intangible assets	58	515
			¥127	\$1,127

		2015	
Location	Description	Classification	Millions of yen
Osaka and other	Production facilities	Machinery, equipment and other	¥20
			¥20

6. Investment Properties

The Company and certain consolidated subsidiaries own rental properties (including land) in Osaka prefecture and other areas.

Rental income from these properties amounted to ± 290 million (\$2,574 thousand) and ± 285 million, and rental cost amounted to ± 70 million (\$621 thousand) and ± 76 million for the years ended March 31, 2016 and 2015, respectively.

The carrying value on the consolidated balance sheet as of March 31, 2016 and 2015, and corresponding fair value of those properties were as follows:

	Millic	ns of yen	
	Carrying value		Fair value
April 1, 2015	Net change	March 31, 2016	March 31, 2016
¥3,917	¥(34)	¥3,883	¥4,847
	Millic	ns of yen	
	Carrying value		Fair value
April 1, 2014	Net change	March 31, 2015	March 31, 2015
¥3,951	¥(34)	¥3,917	¥4,594
	Thousands	of U.S. dollars	
	Carrying value		Fair value
April 1, 2015	Net change	March 31, 2016	March 31, 2016
\$34,762	\$(302)	\$34,460	\$43,016

The carrying value represents the acquisition cost less accumulated depreciation and cumulative impairment loss.

The significant components of net changes in carrying value for the years ended March 31, 2016 and 2015 were due to the net effect of decreases related to depreciation in the amounts of ¥34 million (\$302 thousand) and ¥34 million for the years ended March 31, 2016 and 2015, respectively, and the increase related to repair work on buildings in the amount of ¥0 million (\$0 thousand) for the year ended March 31, 2016.

The fair value of the main properties is estimated based on a real estate appraisal report issued by independent real estate appraisers.

7. Short-Term Loans

The average interest rate on short-term bank loans as of March 31, 2015 and 2016 was 0.10%.

In order to achieve more efficient and flexible financing, the Company and certain consolidated subsidiaries have concluded line-of-credit agreements with certain financial institutions. The status of these as of March 31, 2016 and 2015 were summarized as follows:

	Millio	ns of yen	Thousands of U.S. dollars	
	2016	2015	2016	
Lines-of-credit	¥16,786	¥16,971	\$148,970	
Credit used	(4)	(2)	(35)	
Available credit	¥16,782	¥16,969	\$148,935	

8. Lease Transactions

(a) Finance lease transactions

The Group principally leases office facilities, consisting of buildings, which are used in the consumer products business.

Lease obligations related to finance lease transactions as of March 31, 2016 and 2015 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars	
	2016	2015	2016	
Finance lease obligations due in installments from 2017 through 2030	¥686	¥595	\$6,088	
Less current portion	(67)	(82)	(595)	
	¥619	¥513	\$5,493	

The aggregate annual maturities of finance lease obligations subsequent to March 31, 2016 were summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2017	¥ 67	\$ 595
2018	54	479
2019	53	470
2020	52	461
2021	51	453
2022 and thereafter	409	3,630
Total	¥686	\$6,088

(b) Operating lease transactions

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2016 for non-cancelable operating leases were summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2017	¥ 193	\$ 1,713
2018 and thereafter	939	8,333
Total	¥1,132	\$10,046

9. Retirement Benefits for Employees

(a) Outline of retirement benefits for employees

Pension plans of the Company and certain consolidated subsidiary include defined benefit corporate pension plans, retirement benefit plans and defined contribution pension plans. The retirement benefit plans provide for lump-sum payments to eligible employees who terminate their services determined by reference to current rate of pay, length of service and the conditions under which termination occurs. Certain consolidated subsidiaries calculate the liability for retirement benefits based on the simplified method.

(b) Defined benefit plans

(1) The changes in the retirement benefit obligation are outlined as follows (except for plans for which the simplified method is applied):

	Millions of yen		Thousands of U.S. dollars	
	2016	2015	2016	
Retirement benefit obligation at beginning of year	¥9,486	¥9,852	\$84,185	
Cumulative effects of changes in accounting policies	_	(357)	_	
Service cost	473	486	4,198	
Interest cost	127	97	1,127	
Actuarial differences	1,241	(11)	11,013	
Prior service cost	(400)	_	(3,550)	
Benefits paid	(519)	(575)	(4,606)	
Other	2	(6)	18	
Retirement benefit obligation at end of year	¥10,410	¥9,486	\$92,385	

(2) The changes in plan assets at fair value are outlined as follows:

	Millions	Millions of yen	
	2016	2015	2016
Plan assets at fair value at beginning of year	¥5,180	¥4,928	\$45,971
Expected return on plan assets	104	99	923
Actuarial differences	56	(3)	497
Contributions paid by the employer	1,516	321	13,454
Benefits paid	(207)	(161)	(1,837)
Other	(5)	(4)	(45)
Plan assets at fair value at end of year	¥6,644	¥5,180	\$58,963

(3) The change in liability for retirement benefits calculated by the simplified method is outlined as follows:

	Millions	Millions of yen	
	2016	2015	2016
Liability for retirement benefits at beginning of year	¥ 903	¥ 937	\$8,014
Retirement benefit expenses	152	150	1,349
Benefits paid	(343)	(258)	(3,044)
Other	_	74	_
Liability for retirement benefits at end of year	¥ 712	¥ 903	\$6,319

(4) Reconciliations of the ending balance of the retirement benefit obligation and plan assets at fair value to liability for retirement benefits recognized in the consolidated balance sheet are outlined as follows:

	Millions of yen		Thousands of U.S. dollars	
	2016	2015	2016	
Funded retirement benefit obligation	¥10,267	¥ 4,893	\$ 91,116	
Plan assets at fair value	(6,644)	(5,180)	(58,963)	
	3,623	(287)	32,153	
Unfunded retirement benefit obligation	855	5,497	7,588	
Net amount of liabilities and assets recognized in the consolidated balance sheet	4,478	5,210	39,741	
Liability for retirement benefits	4,478	5,497	39,741	
Net amount of liabilities and assets recognized in the consolidated balance sheet	¥ 4,478	¥ 5,210	\$ 39,741	

(5) The components of retirement benefit expenses are outlined as follows:

	Millions of yen		Thousands of U.S. dollars	
	2016	2015	2016	
Service cost	¥ 473	¥486	\$4,198	
Interest cost	127	97	1,127	
Expected return on plan assets	(104)	(99)	(923)	
Amortization of actuarial differences	169	169	1,499	
Amortization of prior service cost	(30)	_	(266)	
Retirement benefit expenses calculated by the simplified method	152	150	1,349	
Retirement benefit expenses	¥ 787	¥803	\$6,984	

(6) The balance of retirement benefit liability adjustments recognized in other comprehensive (loss) income (before tax effect) for the years ended March 31, 2016 and 2015 is outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Actuarial differences	¥(1,021)	¥180	\$(9,061)
Prior service cost	368	_	3,266
Total	¥ (653)	¥180	\$(5,795)

(7) The balance of retirement benefit liability adjustments recognized in accumulated other comprehensive income (before tax effect) as of March 31, 2016 and 2015 is outlined as follows:

	Millions	of yen	Thousands of U.S. dollars	
	2016	2015	2016	
Unrecognized actuarial differences	¥2,283	¥1,262	\$20,261	
Unrecognized prior service cost	(368)	_	(3,266)	
Total	¥1,915	¥1,262	\$16,995	

(8) The plan assets by major category consist of the following:

	2016	2015
Bonds	21%	21%
General accounts	77	78
Other	2	1
Total	100%	100%

The expected long-term rate of return on plan assets is determined as a result of consideration of both the portfolio allocation at present and in the future, and long-term expected rate of return from multiple plan assets.

(9) The assumptions used in accounting for the defined corporate benefit plans were as follows:

	2016	2015
Discount rates	0.1% - 0.3%	0.5% - 1.5%
Expected long-term rate of return on plan assets	2.0%	2.0%

(c) The contributions by the Company and certain consolidated subsidiaries to the defined contribution plans for the years ended March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Contributions to defined contribution pension plans	¥166	¥160	\$1,473

10. Asset Retirement Obligations

Asset retirement obligations are the result of legal obligations for the removal of leasehold improvements and the restoration of premises to their original conditions upon termination of leases.

Asset retirement obligations are measured based on the estimated useful life of 10 years and the discount rate of a 10-year Japanese government bond at the commencement of the lease contract.

Changes in the balance of asset retirement obligations for the years ended March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2016	2015	2016	
Asset retirement obligations at beginning of year	¥109	¥121	\$967	
Liabilities incurred for leased buildings	10	_	89	
Decrease due to settlement of asset retirement liabilities	(9)	(13)	(80)	
Accretion expense	1	1	9	
Asset retirement obligations at end of year	¥111	¥109	\$985	

11. Income Taxes

The Company and its domestic subsidiaries are subject to several taxes based on income which, in the aggregate, resulted in statutory tax rates of approximately 33.06% and 35.59% for the years ended March 31, 2016 and 2015, respectively. The overseas subsidiaries are subject to the income taxes of their respective countries of domicile.

Reconciliations of the differences between the statutory tax rates and the effective tax rates in the accompanying consolidated statement of income for the years ended March 31, 2016 and 2015 were as follows:

	2016	2015
Statutory tax rates	33.06%	35.59%
Tax loss carryforwards of consolidated subsidiaries	0.21	0.61
Valuation allowances	(0.17)	2.46
Utilization of tax loss carryforwards	(0.36)	(0.16)
Consolidated adjustment for gain on sales of investment in an affiliate	2.75	_
Tax credits on research and development costs and other	(5.03)	(3.18)
Expenses not deductible for tax purposes	0.51	0.56
Equity in loss of an affiliate	1.07	0.27
Nontaxable dividend income	(5.34)	(0.27)
Change in statutory tax rates	0.59	1.57
Other	0.97	0.48
Effective tax rates	28.26%	37.93%

The tax effects of the temporary differences which gave rise to a significant portion of the deferred tax assets and liabilities as of March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars	
_	2016	2015	2016	
Deferred tax assets:				
Liability for retirement benefits	¥ 1,391	¥ 1,627	\$ 12,345	
Tax loss carryforwards	714	465	6,337	
Accrued bonuses	602	626	5,343	
Provision for retirement benefits for directors and audit & supervisory board members	9	8	80	
Accrued expenses	1,343	1,534	11,919	
Accrued enterprise taxes	185	232	1,642	
Unrealized intercompany profits	213	183	1,890	
Loss on impairment of fixed assets	578	579	5,130	
Loss on disposal or write-offs of inventories	153	257	1,358	
Allowance for doubtful accounts	112	141	994	
Other	1,142	1,133	10,133	
Gross deferred tax assets	6,442	6,785	57,171	
Valuation allowance	(2,096)	(2,192)	(18,602)	
Total deferred tax assets	4,346	4,593	38,569	
Deferred tax liabilities:				
Unrealized holding gain on securities	(3,729)	(3,390)	(33,094)	
Forward foreign currency exchange contracts	_	(73)	_	
Other	(791)	(850)	(7,020)	
Total deferred tax liabilities	(4,520)	(4,313)	(40,114)	
Net deferred tax (liabilities) assets	¥ (174)	¥ 280	\$ (1,545)	

Net deferred tax assets in the above table were analyzed as follows:

	Millions of yen		Thousands of U.S. dollars	
	2016	2015	2016	
Current assets — deferred income taxes	¥ 2,772	¥ 2,724	\$ 24,601	
Investments and other assets — deferred income taxes	322	319	2,858	
Current liabilities — deferred income taxes	(84)	(79)	(747)	
Long-term liabilities — deferred income taxes	(3,184)	(2,684)	(28,257)	
	¥ (174)	¥ 280	\$ (1,545)	

The "Act to Partially Revise the Income Tax Act and Others, etc." (Act No.15 of 2016) and the "Act to Partially Revise the Local Tax Act and Others, etc." (Act No.13 of 2016) were promulgated on March 29, 2016 and, as a result, the Company and its domestic subsidiaries are subject to a reduction in the corporate tax rate for fiscal years beginning on or after April 1, 2016.

In line with these revisions, the statutory tax rates used to calculate the Company's deferred tax assets and liabilities were changed from 32.29% to 30.81%, and to 30.58% for temporary differences expected to be realized or settled in the fiscal year beginning on or after April 1, 2016 and for the temporary differences expected to be realized or settled from the fiscal year beginning on or after April 1, 2018, respectively.

As a result of this change, net deferred tax assets (after offsetting deferred tax liabilities) increased by ¥53 million (\$470 thousand), income taxes-deferred increased by ¥120 million (\$1,065 thousand), unrealized holding (loss) gain on securities increased by ¥207 million (\$1,837 thousand), unrealized (loss) gain on deferred hedges decreased by ¥1 million (\$9 thousand) and retirement benefit liability adjustments decreased by ¥33 million (\$293 thousand) as of and for the year ended March 31, 2016.

12. Shareholders' Equity

The Companies Act of Japan (the "Act") provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors meeting if certain conditions are met.

Retained earnings include the legal reserve provided in accordance with the provisions of the Law. The legal reserve of the Company included in retained earnings amounted to ¥340 million (\$3.017 thousand) as of March 31, 2016 and 2015.

Stock-based compensation plan

As of March 31, 2016, the Company had one stock option plan: the 2013 stock option plan. The 2013 stock option plan (the 2013 plan) was approved at the annual general meeting of the shareholders of the Company held on June 27, 2013. The 2013 plan provides for granting options to purchase 452,600 shares of common stock to directors and certain key employees of the Company, and directors and certain key employees of certain consolidated subsidiaries. The exercise price was ¥5,751 (\$51) per share as of March 31, 2016. This exercise price is subject to adjustment in certain cases which include stock splits. The options became exercisable on July 1, 2015 and expire on June 30, 2018. Stock option expense included in cost of sales for the years ended March 31, 2016 and 2015, amounted to ¥1 million (\$9 thousand) and ¥5 million, respectively, and stock option expense included in selling, general and administrative expenses for the years ended March 31, 2016 and 2015 amounted to ¥22 million (\$195 thousand) and ¥103 million, respectively. Gain on reversal of stock acquisition rights recorded for the year ended 2016 amounted to ¥0 million (\$0 thousand).

Information regarding stock option activity for the Company's stock options was as follows:

	The 2013 plan	
Number of stock options (Unvested):		
Outstanding as of March 31, 2015	443,200	
Granted	_	
Forfeited	3,000	
Vested	440,200	
Outstanding as of March 31, 2016	_	
Number of stock options (Vested):		
Outstanding as of March 31, 2015	_	
Vested	440,200	
Exercised	282,500	
Forfeited	3,800	
Outstanding as of March 31, 2016	153,900	
	Yen	U.S. dollars
Exercise price	¥5,751	\$51.04
Average price at exercise	¥9,457	\$83.93
Fair value of options as of the grant date	¥ 493	\$ 4.38

Because it is difficult to reasonably estimate the number of stock options that will be forfeited, the estimation reflects the actual number of forfeited.

Common stock and treasury stock

Movements in shares of common stock in issue and treasury stock for the years ended March 31, 2016 and 2015 were summarized as follows:

		Number of shares					
		2016					
	April 1, 2015	Increase	Decrease	March 31, 2016			
Common stock	42,525,000	_	_	42,525,000			
Treasury stock	1,807,775	833,038	282,500	2,358,313			

The increase in treasury stock was due to purchases of treasury stock approved by the Board of Directors of 832,800 shares and purchases of less than one voting unit of 238 shares for the year ended 2016, and the decrease in treasury stock was due to the exercise of 282,500 shares under the 2013 stock option plan.

		Number of shares						
		2015						
	April 1, 2014	Increase	Decrease	March 31, 2015				
Common stock	42,525,000	_	_	42,525,000				
Treasury stock	1,577,025	230,750	_	1,807,775				

The increase in treasury stock was due to purchases of treasury stock approved by the Board of Directors of 230,500 shares and purchases of less than one voting unit of 250 shares for the year ended 2015.

13. Contingent Liabilities, Guarantees and Pledged Assets

As of March 31, 2016 and 2015, the Company had the following contingent liability:

	Millions	of yen	Thousands of U.S. dollars	
	2016	2015	2016	
Recourse obligation under factoring transactions	_	¥825	_	

In addition, as of March 31, 2016 and 2015, the Company was committed to providing debt guarantees as follows:

	Million	s of yen	Thousands of U.S. dollars	
	2016	2015	2016	
Bank loans of small and medium-sized enterprises in areas affected by the Great East Japan Earthquake	¥36	¥41	\$319	

A summary of the assets pledged as collateral as of March 31, 2016 and 2015, was as follows:

	Millions	s of yen	Thousands of U.S. dollars	
	2016	2015	2016	
Time deposits	¥50	¥50	\$444	
Security deposits	80	80	710	

Time deposits were pledged as collateral for the debt guarantees.

Security deposits were deposited in order to utilize an extension system for payment due dates of customs duties and consumption taxes

14. Financial Instruments

(a) Overview

(1) Policy for financial instruments

The Group manages funds through highly liquid and safe financial assets. Furthermore, the Group principally utilizes its own funds for its funding needs.

(2) Types of financial instruments and related risk

Trade notes and accounts receivable, are exposed to credit risk in relation to customers. In addition, the Group is exposed to foreign currency exchange risk arising from trade receivables denominated in foreign currencies.

Securities and investments in securities are exposed to market risk. Those securities are mainly composed of national government guaranteed bonds, local government bonds, interest-bearing national government bonds and the shares of common stock of other companies with which the Group has business relationships.

Trade notes, accounts payable and electronically recorded obligations, have payment due dates within four months. Although the Group is exposed to foreign currency exchange risk arising from those payables denominated in foreign currencies, forward foreign currency exchange contracts and option contracts are arranged to hedge the risk.

Loans and lease obligations are raised principally for the purpose of making capital investments or working capital.

Regarding derivative transactions, the Group enters into forward foreign currency exchange contracts and option contracts to reduce the foreign currency exchange risk arising from the trade payables denominated in foreign currencies. Further information regarding the method of hedge accounting, hedging instruments and hedged items, hedging policy, and the assessment of the effectiveness of hedging activities can be found in Note 2(r).

(3) Risk management for financial instruments

(i) Monitoring of credit risk (the risk that customers or counterparties may default)

In accordance with the internal policies of the Group for managing credit risk arising from receivables, each related division monitors the credit worthiness of their main customers periodically, and monitors due dates and outstanding balances by customer. In addition, the Group makes efforts to identify and mitigate risks of bad debt from customers experiencing financial difficulties.

The Group also believes that the credit risk of derivatives is insignificant as the Group enters into derivative transactions only with financial institutions with high credit ratings.

(ii) Monitoring of market risks (the risks arising from fluctuations in foreign exchange rates, interest rates and others)

For trade payables denominated in foreign currencies, the Group identifies the foreign currency exchange risk by each currency on a monthly basis and enters into forward foreign exchange contracts and option contracts to hedge such risk.

For securities and investments in securities, the Group periodically reviews the fair values of such financial instruments and the financial position of the issuers. In addition, the Group continuously reviews market conditions and its business relationships with those companies to decide whether the shares should be retained or disposed of.

In conducting derivative transactions, the division in charge of each derivative transaction follows the internal policies, which set forth delegation of authority and maximum upper limit on positions, and obtains approval from the finance director.

(iii) Monitoring of liquidity risk (the risk that the Group may not be able to meet its obligations on the scheduled due dates)

Based on reports from each division, the Group prepares and updates its cash flow plans on a timely basis to manage liquidity risk.

(4) Supplementary explanation of the estimated fair value of financial instruments

The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair value. In addition, the notional amounts of derivatives in Note 15. "Derivatives and Hedging Activities" are not necessarily indicative of the actual market risk involved in derivative transactions.

(b) Estimated Fair Value of Financial Instruments

The carrying value of financial instruments on the consolidated balance sheet as of March 31, 2016 and 2015, the estimated fair value and difference are shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine the fair value (Please refer to Note (II) below).

			Millions	of yen			
_		2016		2015			
	Carrying value	Estimated fair value	Difference	Carrying value	Estimated fair value	Difference	
Assets							
(i) Cash and time deposits	¥ 61,428	¥ 61,428	¥ —	¥ 58,449	¥ 58,449	¥ —	
(ii) Trade notes and accounts receivable	36,089	36,089	_	35,969	35,969	_	
(iii) Securities and investments in securities	43,546	43,546	_	41,927	41,927	_	
(iv) Long-term loans receivable included in other assets	643	-	_	668	_	_	
Allowance for doubtful accounts (*1)	(1)	-	_	(1)	_	_	
	642	631	(11)	667	663	(4)	
Total assets	¥141,705	¥141,694	¥(11)	¥137,012	¥137,008	¥ (4)	
Liabilities							
(i) Trade notes and accounts payable	¥ 7,142	¥ 7,142	¥ —	¥10,240	¥10,240	¥ —	
(ii) Electronically recorded obligations-operating	6,519	6,519	_	3,282	3,282	_	
(iii) Short-term loans	181	181	_	41	41	_	
(iv) Other accounts payable	14,418	14,418	_	12,724	12,724	_	
(v) Current portion of lease obligations	67	67	0	82	82	(0)	
(vi) Income taxes payable	1,789	1,789	_	3,192	3,192	_	
(vii) Accrued consumption taxes, included in other current liabilities	751	751	_	1,476	1,476	_	
(viii) Lease obligations	619	620	1	513	508	(5)	
Total liabilities	¥31,486	¥31,487	¥ 1	¥31,550	¥31,545	¥ (5)	
Derivative transactions (*2)	¥ (56)	¥ (56)	¥ —	¥ 222	¥ 222	¥ —	

	Thousands of U.S. dollars				ollars
				2016	
	(Carrying value		stimated air value	Difference
Assets					
(i) Cash and time deposits	\$	545,154	\$	545,154	\$ —
(ii) Trade notes and accounts receivable		320,279		320,279	_
(iii) Securities and investments in securities		386,457		386,457	_
(iv) Long-term loans receivable included in other assets		5,706		_	_
Allowance for doubtful accounts (*1)		(8)		_	_
		5,698		5,600	(98)
Total assets	\$1	,257,588	\$1	1,257,490	\$ (98)
Liabilities					
(i) Trade notes and accounts payable	\$	63,383	\$	63,383	\$ —
(ii) Electronically recorded obligations-operating		57,854		57,854	_
(iii) Short-term loans		1,606		1,606	=
(iv) Other accounts payable		127,955		127,955	=
(v) Current portion of lease obligations		595		595	0
(vi) Income taxes payable		15,877		15,877	_
(vii) Accrued consumption taxes, included in other current liabilities		6,665		6,665	=
(viii) Lease obligations		5,493		5,502	(9)
Total liabilities	\$	279,428	\$	279,437	\$ (9)
Derivative transactions (*2)	\$	(497)	\$	(497)	<u> </u>

^(*1) Excluding allowances for doubtful accounts recorded individually for long-term loans receivable.

^(*2) Assets and liabilities arising from derivatives were shown at net value, and an amount in parentheses represented net liability position.

(1) Method to determine the estimated fair value of financial instruments and other matters related to derivative transactions.

Assets

- (i) Cash and time deposits and (ii) trade notes and accounts receivable

 Since these items are settled in a short period of time, their carrying values approximate the fair value.
- (iii) Securities and investments in securities

The fair values of equity securities are based on quoted market prices. The fair value of debt securities is based on either quoted market price or the price provided by the financial institutions making markets in these securities. For information on securities classified by holding purpose, please refer to Note 4.

(iv) Long-term loans receivable

The fair value of long-term loans receivable is based on the present value of the future cash flows discounted by the interest rate which is determined using an appropriate index including interest rates of government bonds plus a credit spread premium, classifying long-term loans receivable by credit risk status based on credit risk management and a certain remaining period. The fair value of probable specific bad debt is based on the present value of the estimated cash flows discounted by an interest rate described above or the estimated amounts collectable by the collaterals and guarantees.

Liabilities

- (i) Trade notes and accounts payable, (ii) electronically recorded obligations-operating (iv) other accounts payable, (vi) income taxes payable and (vii) accrued consumption taxes
 - Since these items are settled in a short period of time, their carrying values approximate the fair value.
- (iii) Short-term loans, (v) current portion of lease obligations and (viii) lease obligations

The fair value is based on the present value of the total of principal and interest discounted by the interest rate to be applied if a similar new borrowings or lease agreements were entered into.

Derivatives

Refer to Note 15. "Derivatives and Hedging Activities."

(2) Financial instruments for which it was extremely difficult to determine the fair value

	/VIIIIION	Thousands of U.S. dollars		
Type	2016	2015	2016	
Unlisted equity securities	¥610	¥4,154	\$5,414	

Because no quoted market price is available and it is extremely difficult to determine the fair value, the above financial instruments are not included in the preceding table on estimated fair value.

(3) The redemption schedules for monetary assets and debt securities with maturity dates as of March 31, 2016 and 2015 were summarized as follows:

_		20	16			20	15	
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
(i) Time deposits	¥ 61,424	¥ —	¥ —	¥ —	¥58,444	¥ —	¥ —	¥ —
(ii) Trade notes and accounts receivable (iii) Securities and investments in securities:	36,089	_	_	_	35,969	_	_	_
Government bonds (national and local)	_	7,123	11,941	_	_	_	19,064	_
Trust beneficiary right	4,500	_	_	_	4,500	_	_	_
(iv) Long-term loans receivable included in other assets	2	641	_	_	2	666	0	_
Total assets	¥102,015	¥ 7,764	¥11,941	¥ —	¥98,915	¥666	¥19,064	¥ —

		Thousands of	f U.S. dollars	
		20	16	
	Due in Due aft 1 year throug or less 5 year		Due after 5 years through 10 years	Due after 10 years
(i) Time deposits	\$545,119	\$ —	\$ —	\$ —
(ii) Trade notes and accounts receivable (iii) Securities and investments in securities:	320,279	_	_	_
Government bonds (national and local)	_	63,214	105,973	_
Trust beneficiary right	39,936	_	_	_
(iv) Long-term loans receivable included in other assets	17	5,689	_	_
Total assets	\$905,351	\$68,903	\$105,973	\$ —

⁽⁴⁾ The redemption schedule for lease obligations as of March 31, 2016 is disclosed in Note 8.

15. Derivatives and Hedging Activities

The notional amounts and the estimated fair value of the derivative instruments outstanding as of March 31, 2016 and 2015 were as follows:

(a) Derivatives for which hedge accounting is not applied

There were no derivative transactions which did not qualify for deferral hedge accounting as of March 31, 2016 and 2015.

(b) Derivatives for which hedge accounting is applied <u>Currency-related transactions</u>

			Millions of yen					
				2016			2015	
Method of hedge accounting	Description of transaction	Hedged items	Notional amount	Notional amount (over 1 year)	Estimated fair value	Notional amount	Notional amount (over 1 year)	Estimated fair value
	Forward foreign exchange contract	ts						
Allocation	Purchase:							
method for forward foreign exchange	U.S. dollars	Trade accounts payable	¥1,404	¥487	¥ (5)	¥2,037	¥607	¥220
contracts	Thai baht	Trade accounts payable	772	_	(51)	541	_	2
	Total		¥2,176	¥487	¥(56)	¥2,578	¥607	¥222

			Thousands of U.S. dollars			
				2016		
Method of hedge accounting	Description of transaction	Hedged items	Notional amount	Notional amount (over 1 year)	Estimated fair value	
	Forward foreign exchange contract	.S				
Allocation	Purchase:					
method for forward foreign exchange contracts	U.S. dollars	Trade accounts payable	\$12,460	\$4,322	\$ (44)	
	Thai baht	Trade accounts payable	6,851	_	(453)	
	Total	. ,	\$19,311	\$4,322	\$(497)	

The fair value of derivatives is based on the prices provided by financial institutions.

16. Amounts per Share

	Yen		U.S. dollars	
	2016	2015	2016	
Profit attributable to owners of parent:				
Basic	¥ 331.11	¥ 305.46	\$ 2.94	
Diluted	330.60	_	2.93	
Net assets	3,532.11	3,423.54	31.35	
Cash dividends	96.00	90.00	0.85	

Profit attributable to owners of parent per share has been computed based on the profit attributable to owners of parent available for distribution to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year, and diluted profit attributable to owners of parent has been computed based on profit attributable to owners of parent available for distribution to the shareholders and the weighted average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of shares of common stock to be issued upon the exercise of stock acquisition rights.

The amounts per share of net assets have been computed based on the net assets available for distribution to the shareholders of common stock and the number of shares of common stock outstanding at the year end.

Cash dividends per share represent the cash dividends proposed by the Board of Directors' meeting as applicable to the respective years together with the interim cash dividends paid.

17. Other Comprehensive (Loss) Income

Reclassification adjustments and tax effects allocated to each component of other comprehensive (loss) income for the years ended March 31, 2016 and 2015 were as follows:

	Millions	of yen	Thousands of U.S. dollars	
	2016	2015	2016	
Unrealized holding gain on securities:				
Amount arising during the year	¥ 1,656	¥2,739	\$ 14,696	
Reclassification adjustments for gain included in profit	(8)	_	(71)	
Amount before tax effect	1,648	2,739	14,625	
Tax effect	(338)	(555)	(2,999)	
Unrealized holding gain on securities	1,310	2,184	11,626	
Unrealized (loss) gain on deferred hedges:				
Amount arising during the year	(278)	188	(2,467)	
Amount before tax effect	(278)	188	(2,467)	
Tax effect	(90)	(61)	799	
Unrealized (loss) gain on deferred hedges	(188)	127	(1,668)	
Translation adjustments:				
Amount arising during the year	(210)	2,248	(1,864)	
Translation adjustments	(210)	2,248	(1,864)	
Retirement benefit liability adjustments:				
Amount arising during the year	(791)	11	(7,020)	
Reclassification adjustments for loss included in profit	138	169	1,225	
Amount before tax effect	(653)	180	(5,795)	
Tax effect	179	(105)	1,588	
Retirement benefit liability adjustments	(474)	75	(4,207)	
Share of other comprehensive (loss) income of an affiliate accounted for by the equity method:				
Amount arising during the year	(691)	268	(6,132)	
Reclassification adjustments for (gain) loss included in profit	(664)	1	(5,893)	
Share of other comprehensive (loss) income of an affiliate accounted for by the equity method	(1,355)	269	(12,025)	
Total other comprehensive (loss) income	¥ (917)	¥4,903	\$ (8,138)	

18. Segment Information

(a) Business Segment Information

(1) Outline of reportable segments

The Company's reportable segments are its structural units, for which separate financial information is available. These segments are subject to periodic review by the Board of Directors in order to assist decision making on the allocation business resources and assessment of business performance.

The Company sets up divisions by product and service under an operational headquarters. Each division formulates comprehensive domestic and overseas strategies for its products and services and conducts business activities according to these strategies.

The Company changed the reportable segments to the Domestic Consumer Products Business, Overseas Consumer Products Business, and Direct Marketing Business from the consumer products division, mail-order division, and medical devices division. Related to the revision of the internal management classification, the consumer products division was divided into the Domestic Consumer Products Business and Overseas Consumer Products Business, the mail-order division was re-named the Direct Marketing Business, and the medical devices division was included in other.

Segment information as of and for the year ended March 31, 2015 is disclosed using the new reportable segment classification.

The Domestic Consumer Products Business and Overseas Consumer Products Business manufacture and sell healthcare products, household products, skincare products and body warmers. The Direct Marketing Business sells nutritional supplement products and skin care products and similar items.

(2) Calculation methods used for sales, income or loss, assets, and other items on each reportable segment.

The accounting policies of the segments are substantially the same as those described in the significant accounting policies in Note 2. Reportable segment income represents ordinary income, which consists of operating income and nonoperating income/expenses. Intersegment sales and transfers are recorded at the same prices used in transactions with third parties.

(3) Information as to sales, income or loss, assets, and other items for each reportable segment for the years ended March 31, 2016 and 2015 were as follows:

								Millions	of yen							
		2016														
			Rep	ortable	segmei	nts										
	Cor	mestic nsumer oducts siness			Dire Marke Busin	eting	-	Γotal	Oth	ner	Т	otal	åа	tments nd ations	Cons	olidated
Net sales																
Sales to third parties	¥1	06,963	¥1	8,998	¥8	3,539	¥′	134,500	¥	2,711	¥1	37,211	¥	_	¥1	37,211
Inter-segment sales and transfers		5,069		1,875		_		6,944		4,625		11,569	(1	1,569)		_
Total	¥1	12,032	¥2	0,873	¥8	3,539	¥′	141,444	¥	7,336	¥1	48,780	¥(1	1,569)	¥1	37,211
Segment income	¥	16,600	¥	675	¥	40	¥	17,315	¥	909	¥	18,224	¥	(274)	¥	17,950
Segment assets	¥	64,713	¥2	1,362	¥1	,407	¥	87,482	¥	9,671	¥	97,153	¥ 9	1,845	¥1	88,998
Other items																
Depreciation and amortization	¥	1,740	¥	251	¥	45	¥	2,036	¥	152	¥	2,188	¥	399	¥	2,587
Amortization of goodwill		4		481		_		485		_		485		_		485
Interest income		35		16		1		52		251		303		(36)		267
Interest expense		_		36		_		36		33		69		(35)		34
Equity in loss of an affiliate		_		_		_		_		(607)		(607)		0		(607)
Increase in property, plant, and equipment and intangible assets		3,191		334		46		3,571		318		3,889		429		4,318

Notes:

- 1. "Other" consisted of business segments that were not included in reportable segments, such as medical devices, transportation, plastic container manufacture and sale, insurance agency, real estate management, and advertisement planning and creation.
- 2. Details of adjustments and eliminations were as follows:
 - (i) Segment income of ¥274 million (\$2,431 thousand), posted in adjustment reflects the eliminations of transactions between segments and income and expenses which are not allocable to the reportable segments.
 - (ii) Corporate assets included in the adjustments and eliminations of segment assets of ¥97,314 million (\$863,632 thousand) mainly consisted of extra funds for investment by the parent company (cash and securities), funds for long-term investment (investments in securities), and assets related to administrative departments.
 - (iii) Adjustments and eliminations of depreciation and amortization of ¥399 million (\$3,541 thousand) were the depreciation and amortization of the corporate assets.
 - (iv) Interest income of ¥36 million (\$319 thousand) and interest expenses of ¥35 million (\$310 thousand) posted in adjustment reflect the elimination of transactions between segments.
 - (v) Adjustments and eliminations of equity in loss of an affiliate of ¥0 million (\$0 thousand) corresponded to adjustment of inventories.
 - (vi) Adjustments and eliminations of increase in property, plant, and equipment and intangible assets of ¥429 million (\$3,807 thousand) were the increase of the corporate assets.
- 3. Segment income was adjusted for the ordinary income in the consolidated financial statements.
- 4. Increase in depreciation, property, plant and equipment and intangible assets included an increase in long-term prepaid expenses and amortization of long-term prepaid expenses.

Millions of yen

-				201	5			
		Reportable	e segments					
	Domestic Consumer Products Business	Overseas Consumer Products Business	Direct Marketing Business	Total	Other	Total	Adjustments and eliminations	Consolidated
Net sales			-					
Sales to third parties	¥101,278	¥15,469	¥8,978	¥125,725	¥ 2,620	¥128,345	¥ —	¥128,345
Inter-segment sales and transfers	5,176	1,877	_	7,053	4,263	11,316	(11,316)	_
Total	¥106,454	¥17,346	¥8,978	¥132,778	¥ 6,883	¥139,661	¥(11,316)	¥128,345
Segment income	¥ 16,111	¥ 542	¥ 491	¥ 17,144	¥ 1,801	¥ 18,945	¥ (102)	¥ 18,843
Segment assets	¥ 61,505	¥20,402	¥1,550	¥ 83,457	¥13,215	¥ 96,672	¥ 89,659	¥186,331
Other items								
Depreciation and amortization	¥ 1,901	¥ 159	¥ 35	¥ 2,095	¥ 138	¥ 2,233	¥ 408	¥ 2,641
Amortization of goodwill	10	444	_	454	_	454	_	454
Interest income	39	6	1	46	213	259	(29)	230
Interest expense	_	23	_	23	29	52	(29)	23
Equity in loss of affiliates	_	_	_	_	(153)	(153)	2	(151)
Investments in affiliates accounted for by the equity method	_	_	_	_	3,545	3,545	(1)	3,544
Increase in property, plant, and equipment and intangible assets	2,185	818	32	3,035	178	3,213	443	3,656

Notes:

- 1. "Other" consisted of business segments that were not included in reportable segments, such as medical devices, transportation, plastic container manufacture and sale, insurance agency, real estate management, and advertisement planning and creation.
- 2. Details of adjustments and eliminations were as follows:
 - (i) Segment income of ¥102 million posted in adjustment reflects the eliminations of transactions between segments and income and expenses which are not allocable to the reportable segments.
 - (ii) Corporate assets included in the adjustments and eliminations of segment assets of ¥94,586 million mainly consisted of extra funds for investment by the parent company (cash and securities), funds for long-term investment (investments in securities), and assets related to administrative departments.
 - (iii) Adjustments and eliminations of depreciation and amortization of ¥408 million were the depreciation and amortization of the corporate assets.
 - (iv) Interest income of ¥29 million and interest expenses of ¥29 million posted in adjustment reflect the elimination of transactions between segments.
 - (v) Adjustments and eliminations of equity in loss of an affiliate of ¥2 million corresponded to adjustment of inventories.
 - (vi) Adjustments and eliminations of investment in an affiliate accounted for by the equity method of ¥1 million were categorized as eliminations of the unrealized gain.
 - (vii) Adjustments and eliminations of increase in property, plant, and equipment and intangible assets of ¥443 million were the increase of the corporate assets.
- 3. Segment income was adjusted for the ordinary income in the consolidated financial statements.
- 4. Increase in depreciation, property, plant and equipment and intangible assets included an increase in long-term prepaid expenses and amortization of long-term prepaid expenses.

Thousands of U.S. dollars

	Thousands of O.S. dollars									
		2016								
		Reportable	segments							
	Domestic Consumer Products Business	Overseas Consumer Products Business	Direct Marketing Business	Total	Other	Total	Adjustments and eliminations	Consolidated		
Net sales								_		
Sales to third parties	\$949,263	\$168,601	\$75,781	\$1,193,645	\$24,060	\$1,217,705	\$ —	\$1,217,705		
Inter-segment sales and transfers	44,986	16,640	_	61,626	41,045	102,671	(102,671)	_		
Total	\$994,249	\$185,241	\$75,781	\$1,255,271	\$65,105	\$1,320,376	\$(102,671)	\$1,217,705		
Segment income	\$147,320	\$ 5,990	\$ 355	\$ 153,665	\$ 8,067	\$ 161,732	\$(2,431)	\$ 159,301		
Segment assets	\$574,308	\$189,581	\$12,487	\$ 776,376	\$85,827	\$ 862,203	\$ 815,096	\$1,677,299		
Other items										
Depreciation and amortization	\$ 15,442	\$ 2,228	\$ 399	\$ 18,069	\$ 1,349	\$ 19,418	\$3,541	\$ 22,959		
Amortization of goodwill	35	4,269	_	4,304	_	4,304	_	4,304		
Interest income	310	142	9	461	2,228	2,689	(319)	2,370		
Interest expenses	_	319	_	319	293	612	(310)	302		
Equity in loss of an affiliate	_	_	_	_	(5,387)	(5,387)	0	(5,387)		
Increase in property, plant, and equipment and intangible assets	28,320	2,964	408	31,692	2,822	34,514	3,807	38,321		

(b) Related information

- (1) Geographical information
- (i) Net sales

	Millions	Thousands of U.S. dollars		
	2016	2015	2016	
Domestic	¥116,917	¥111,766	\$1,037,602	
Overseas	20,294	16,579	180,103	
Total	¥137,211	¥128,345	\$1,217,705	

Net sales were categorized by the geographical area of the customers.

(ii) Property, plant and equipment

	Millions	Thousands of U.S. dollars		
	2016	2015	2016	
Domestic	¥13,874	¥13,581	\$123,127	
Overseas	3,313	2,442	29,402	
Total	¥17,187	¥16,023	\$152,529	

(2) Information by major customers

	Millions of yen			
		2016		
	Sales	Sales Related segment		
PALTAC CORPORATION	¥61,260	Domestic Consumer Products Business		
ARATA CORPORATION	¥14,813	Domestic Consumer Products Business		
		Millions of yen		
		2015		
	Sales	Related segment		
PALTAC CORPORATION	¥56,397	Domestic Consumer Products Business		
ARATA CORPORATION	¥15,391	¥15,391 Domestic Consumer Products Business		
		Thousands of U.S. dollars		
		2016		
	Sales	Related segment		
PALTAC CORPORATION	\$543,663	Domestic Consumer Products Business		
ARATA CORPORATION	\$131,461	Domestic Consumer Products Business		

(c) Loss on impairment of fixed assets by reportable segment

Information on loss on impairment of fixed assets by reportable segment for the years ended March 31, 2016 and 2015 was as follows:

		Millions of yen					
		2016					
	Domestic Consumer Products Business	Overseas Consumer Products Business	Direct Marketing Business	Other	Adjustments and eliminations	Total	
Loss on impairment of fixed assets	¥126	¥1	¥ —	¥0	¥ —	¥127	
		Millions of yen					
			201	15			
	Domestic Consumer Products Business	Overseas Consumer Products Business	Direct Marketing Business	Other	Adjustments and eliminations	Total	
Loss on impairment of fixed assets	¥20	¥ —	¥ —	¥0	¥ —	¥20	
			Thousands of	U.S. dollars			
			201	16			
	Domestic Consumer Products Business	Overseas Consumer Products Business	Direct Marketing Business	Other	Adjustments and eliminations	Total	
Loss on impairment of fixed assets	\$1,118	\$9	\$ —	\$0	\$ —	\$1,127	

(d) Amortization of goodwill and remaining balance of goodwill by reportable segment

Information on amortization of goodwill and the remaining balance of goodwill by reportable segment as of and for the years ended March 31, 2016 and 2015 were as follows:

	Millions of yen 2016					
	Domestic Consumer Products Business	Overseas Consumer Products Business	Direct Marketing Business	Other	Adjustments and eliminations	Total
Amortization for the year	¥4	¥ 481	¥ —	¥ —	¥ —	¥ 485
Balance at the end of the year	_	3,542	_	_	_	3,542
			Millions	of yen		
			201	15		
	Domestic Consumer Products Business	Overseas Consumer Products Business	Direct Marketing Business	Other	Adjustments and eliminations	Total
Amortization for the year	¥10	¥ 444	¥ —	¥ —	¥ —	¥ 454
Balance at the end of the year	4	4,020	_	_	_	4,024
			Thousands of	U.S. dollars		
			201	16		
	Domestic Consumer Products Business	Overseas Consumer Products Business	Direct Marketing Business	Other	Adjustments and eliminations	Total
Amortization for the year	\$35	\$ 4,269	\$ —	\$ —	\$ —	\$ 4,304
Balance at the end of the year	_	31,434	_	_	_	31,434

19. Related Party Transactions

Information on a related party transaction between the Company and MEDICON, INC., a former affiliate of the Company, for the year ended March 31, 2016 was as follows:

	Millions of yen	Thousands of U.S. dollars
Details of transaction	2016	2016
Sales of investment in an affiliate	¥3,000	\$26,624
Gain on sales of investment in an affiliate	1,379	12,238

MEDICON, INC. is not considered to be a related party at March 31, 2016 because all the shares of MEDICON, INC. which the Company held were transferred to MEDICON, INC. on November 2, 2015.

Price was determined based on discussion with the counterparty by reference to the valuation conducted by third-party specialist.

Information on related party transactions between the Company and executive directors for the year ended March 31, 2016 were as follows:

		Millions of yen	Thousands of U.S. dollars
Name	Details of transaction	2016	2016
Yutaka Kobayashi	Exercise of stock acquisition rights	¥12	\$106
Satoshi Yamane	Exercise of stock acquisition rights	12	106

Yutaka Kobayashi and Satoshi Yamane directly owned 0.23% and 0.01% of the share of the Company, respectively.

20. Subsequent Events

(a) Appropriation of retained earnings

The following appropriation of retained earnings of the Company, which has not been reflected in the consolidated financial statements for the year ended March 31, 2016, was approved at the Board of Directors' meeting held on May 20, 2016:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥48.00 = \$0.43 per share)	¥1,928	\$17,110

(b) Stock split

At the Board of Directors' meeting held on May 9, 2016, the Company resolved that a stock split with an effective date of July 1, 2016 be conducted as follows, and take the stock split on July 1, 2016.

(1) Purpose

This stock split is to lower the market price of the Company's shares, improve the liquidity of the Company's shares and broaden the Company's investor base.

(2) Outline

(i) Method

Two ordinary shares shall be issued for each existing ordinary share to shareholders registered or recorded on the shareholders' register on the record date of June 30, 2016.

- (ii) Increase in the number of shares resulting from the stock split
 - 1) Issued shares before stock split:42,525,000 shares
 - 2) Additional shares resulting from stock split:42,525,000 shares
 - 3) Issued shares after stock split:85,050,000 shares
 - 4) Shares authorized for issuance after stock split: 340,200,000 shares
- (iii) Schedule

Public notice of record date: June 10, 2016
 Record date: June 30, 2016
 Effective date: July 1, 2016

(iv) Effect on amounts per share

Information on amounts per share as of and for the fiscal years ended March 31, 2016 and 2015, assuming that this stock split was conducted at the beginning of the fiscal year ended March 31, 2015 is as follows:

	2016	2015	2016
Net assets per share	¥1,766.06	¥1,711.77	\$15.67
Profit attributable to owners of parent :			
Basic	165.56	152.73	1.47
Diluted	165.30	_	1.47

Independent Auditor's Report



Ernst & Young ShinNihon LLC

Independent Auditor's Report

The Board of Directors KOBAYASHI PHARMACEUTICAL CO., LTD.

We have audited the accompanying consolidated financial statements of KOBAYASHI PHARMACEUTICAL CO., LTD. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2016, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of KOBAYASHI PHARMACEUTICAL CO., LTD. and its consolidated subsidiaries as at March 31, 2016, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 1.

June 29, 2016 Osaka, Japan Ernst & Young Shin Nihon LLC

1886	Founder Chubei Kobayashi established Kobayashi Seidaido, an unlimited partnership company, in Monzen- cho, Naka-ku, Nagoya	2002	Established Kobayashi Pharmaceutical (Hong Kong) Co., Ltd. in Hong Kong Made Shanghai Kobayashi Friendship Daily Chemicals Co.,
1894	The Company sold general merchandise and cosmetics Launched 10 types of proprietary pharmaceuticals		Ltd. into a wholly owned subsidiary and changed its name to Shanghai Kobayashi Daily Chemicals Co., Ltd.
	including <i>Daikomaru</i> , <i>Ichinichimaru</i> and <i>Tamushichinki</i>		Took over the health food business, mainly for Tochucha
1912	Established Kobayashi Daiyakubou, a limited partnership company, in Hiranomachi, Higashi-ku, Osaka	2003	(Eucommia leaf tea), from Hitachi Zosen Corporation Angel Ltd. renamed Ehime Kobayashi Pharmaceutical Co., Ltd.
1919	Incorporated as Kobayashi Daiyakubou, Co., Ltd. in Kyomachibori, Nishi-ku, Osaka through a merger involving	2004	Yutaka Kobayashi is appointed as the fifth president
	unlimited partnership company Kobayashi Seidaido and limited partnership company Kobayashi Daiyakubou	2005	Obtained exclusive sales rights for women's health medicine Inochi No Haha A from Sasaokayakuhin Corporation
	Kichitaro Kobayashi is appointed as the first president	2006	Made eVent Medical Ltd., a medical device manufacturer, into a subsidiary in Ireland
1939	Launched <i>Hakkiri</i> , a headache medicine		Made HeatMax, Inc., a body warmer manufacturer in the U.S.,
1940	Spun off the manufacturing unit of Kobayashi Daiyakubou, to establish Kobayashi Pharmaceutical Co., Ltd.	2000	into a subsidiary
	Juso Plant began operations in Higashi-yodogawa-ku, Osaka (currently Yodogawa-ku)	2008	Kobashou Co., Ltd. and Mediceo Paltac Holdings Co., Ltd. conducted share exchange
1948	Saburo Kobayashi is appointed as the second president		Spun off the manufacturing division of Kiribai Chemical Co., Ltd. to establish Kiribai Kobayashi Pharmaceutical Co., Ltd.
1956	Kobayashi Daiyakubou Co., Ltd. and Kobayashi Pharmaceutical Co., Ltd. were merged and renamed Kobayashi Pharmaceutical Co., Ltd.		Obtained trademark right for <i>Bisrat Gold</i> from Ishihara Chemical Co., Ltd.
	Relocated the Head Office to Dosho-machi, Higashi-ku, Osaka (currently Dosho-machi, Chuo-ku)	2009	Established Kobayashi Pharmaceutical (Singapore) Pte. Ltd. in Singapore
1958	Teruko Kobayashi is appointed as the third president	2010	Spun off medical device division into Kobayashi Medical Co., Ltd.
1967	Launched Ammeltz, an external anti-inflammatory	2011	Transferred all eVent Medical Ltd. shares in a management
1969	Launched <i>Bluelet</i> , a toilet bowl cleaner, and entered the household products market		buy-out Established Kobayashi Healthcare (Malaysia) Sdn. Bhd.
1972	Formed partnership with C.R. Bard, Inc. of the U.S. to establish medical devices importer Japan Medico, Inc. and enter the medical devices market		in Malaysia Established Kobayashi Pharmaceutical (Taiwan) Co., Ltd. in Taiwan
1975	Launched Sawaday, a toilet air freshener, and entered the deodorizing air fresheners market	2012	Made Grabber, Inc., a body warmer manufacturer in the U.S., a subsidiary
1976	Kazumasa Kobayashi is appointed as the fourth president		Established PT. Kobayashi Pharmaceutical Indonesia in
	Japan Medico, Inc. became Medicon, Inc., a joint venture company with C.R. Bard, Inc.		Indonesia Established Hefei Kobayashi Daily Products Co., Ltd. in China
1983	Established Toyama Kobayashi Pharmaceutical Co., Ltd. (Toyama City, Toyama Prefecture)		Transferred 80% of Kobayashi Medical Co., Ltd. (currently Japan Medicalnext Co., Ltd.) shares to Mitsubishi Corporation
1988	Angel Ltd. made a consolidated subsidiary of Kobayashi Pharmaceutical Co., Ltd. to acquire a manufacturing site (Niihama City, Ehime Prefecture)	2013	Made Rokuyo Pharmaceutical Co., Ltd., a pharmaceutical product, quasi-pharmaceutical product, and cosmetics manufacturer, into a subsidiary
1992	Established Kobayashi Medical, as part of the Medical Devices Business		Established Kobayashi Healthcare Australia Pty., Ltd. in Australia
1993	Established Sendai Kobayashi Pharmaceutical Co., Ltd. (Kurokawa-gun, Miyagi Prefecture)		Transferred all Japan Medicalnext Co., Ltd. shares to Mitsubishi Corporation
1996	Launched <i>Toughdent</i> , denture cleanser		Established Hefei Kobayashi Pharmaceutical Co., Ltd. in
1998	Established Shanghai Kobayashi Friendship Daily Chemicals Co., Ltd., a joint venture company in China		China Akihiro Kobayashi is appointed as the sixth president
	Established Kobayashi Healthcare, Inc. in the U.S.		Established Kobayashi Healthcare (Thailand) Co., Ltd.
1999	Listed on the Second Section of the Osaka Securities Exchange		in Thailand
	Launched nutritional supplements through the mail order sales channel	2015	Made Juju Cosmetics Co., Ltd., a cosmetics manufacturer, into a subsidiary
2000	Listed on the First Section of the Tokyo Stock Exchange and Osaka Securities Exchange	2015	Acquired <i>Ganyaku Hitifuku</i> brand from Hitifuku Pharmaceutical Co., Ltd. Dissolved its joint venture with U.S. company Bard
	Established the Central R&D Laboratory in Ibaraki City,		Dissolved its joint venture with U.S. company Bard International Inc. and sold all its shares to Medicon, Inc.
	Osaka Prefecture	2016	Acquired monascus purpureus business from GUNZE LIMITED
2001	Spun-off the Trade Company to form Kobashou Co., Ltd. Acquired Kiribai Chemical Co., Ltd., a body warmer		Made Perfecta Products, Inc., a U.S. company involved in the planning and sale of OTC pharmaceuticals and cosmetics,
2001	manufacturer, as a subsidiary (Yodogawa-ku, Osaka)		into a subsidiary.

Established Kobayashi Healthcare Europe, Ltd. in the U.K.

Corporate Data / Investor Information (As of March 31, 2016)

Corporate Data

Corporate Name: KOBAYASHI PHARMACEUTICAL CO., LTD.

Foundation: August 22, 1919

Head Office: KDX Kobayashi Doshomachi Bldg.,

4-4-10 Doshomachi, Chuo-ku, Osaka 541-0045, Japan

Representative Akihiro Kobayashi, President and

Director: Chief Operating Officer

Number of 2,804 (Consolidated)

Employees: 1,154 (Non-consolidated)

Consolidated

Subsidiaries: 33 (15 domestic, 18 overseas)

Group Companies

Domestic Consumer Products Business

Overseas Consumer Products Business

Other Business

Consolidated Subsidiaries [Domestic]

- Toyama Kobayashi Pharmaceutical Co., Ltd.
- Sendai Kobayashi Pharmaceutical Co., Ltd.
- Ehime Kobayashi Pharmaceutical Co., Ltd.
- Kiribai Chemical Co., Ltd.
- Kiribai Kobayashi Pharmaceutical Co., Ltd.
- Juju Cosmetics Co., Ltd.
- Kobayashi Pharmaceutical Value Support Co., Ltd.
- Kobayashi Pharmaceutical Global E-commerce Co., Ltd.
- Kobayashi Pharmaceutical Plax Co., Ltd.
- SP-Planning, Inc.
- Archer Corporation
- Suehiro Sangyo Co., Ltd.
- Kobayashi Pharmaceutical Life Service Co., Ltd.
- Kobayashi Pharmaceutical Distribution Co., Ltd.
- Kobayashi Pharmaceuticals of America, Inc.

Consolidated Subsidiaries [Overseas]

- Kobayashi Healthcare International Inc.
- Kobayashi Consumer Products LLC
- Kobayashi America Manufacturing LLC
- Kobayashi Healthcare, LLC
- Grabber, Inc.
- Mediheat, Inc.
- Kobayashi Healthcare Europe, Ltd.
- Shanghai Kobayashi Daily Chemicals Co., Ltd.
- Shanghai Kobayashi Pharmaceutical Business Co., Ltd.
- Hefei Kobayashi Daily Products Co., Ltd.
- Hefei Kobayashi Pharmaceutical Co., Ltd.
- Kobayashi Pharmaceutical (Hong Kong) Co., Ltd.
- Kobayashi Pharmaceutical (Taiwan) Co., Ltd.
- Kobayashi Pharmaceutical (Singapore) Pte. Ltd.
- Kobayashi Healthcare (Malaysia) Sdn. Bhd.
- PT. Kobayashi Pharmaceutical Indonesia
- Kobayashi Healthcare (Thailand) Co., Ltd.
- Kobayashi Healthcare Australia Pty., Ltd.

Investor Information

Common Stock:	¥3,450 million
Number of Shares Authorized:	170,100,000*
Number of Shares Issued:	42,525,000*
Number of Shareholders:	10,990
Stock Exchange Listing:	Tokyo Stock Exchange First Section
Transfer Agent/ Institution Managing Designated:	Mitsubishi UFJ Trust and Banking Corporation

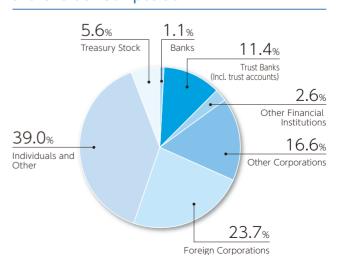
^{*}The Company conducted a 2-for-1 stock split on July 1, 2016.

Major Shareholders

Name	Percentage of Total Shares Held (%)
Akihiro Kobayashi	10.9
Kobayashi International Scholarship Foundation	7.1
Yukako lue	6.1
State Street Bank and Trust Company 505223	5.9
Ikuko Watanabe	3.0
Japan Trustee Services Bank, Ltd.	2.6
Ohtori Co., Ltd.	2.6
Forum Co., Ltd.	2.4
Teruhisa Miyata	2.4
The Master Trust Bank of Japan, Ltd. (trust accounts)	2.4

Note:

Shareholder Composition



The percentage of total shares held is calculated by deducting 2,358 thousand shares of treasury stock.



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