

Notice Concerning Establishment of The Kobayashi Foundation and Disposal and Acquisition of Treasury Stock

We would like to announce that at the board of directors' meeting held on February 1, 2017, we passed a resolution to establish The Kobayashi Foundation (hereinafter called "the Foundation"); to dispose treasury stock (hereinafter called "disposal of the treasury stock") by allocation to a third party; and to acquire treasury stock (hereinafter called "acquisition of the treasury stock") as per the provisions of Article 156 of the Companies Act, applied by replacing the phrases pursuant to the provisions of Item 3, Article 165 of the Act.

The disposal of the treasury stock will be implemented subject to its approval by the Company's shareholders in an ordinary general meeting in March 2017, while the acquisition of the treasury stock will be performed subject to its approval in the above-mentioned shareholder meeting.

1. Establishment of the Foundation

(1) Purpose

The purpose of the Foundation is to improve people's lives and contribute to enhancing the "comfort" of the entire society by providing assistance or awarding research and activities widely and consistently, regardless of whether by individuals or groups, that work for "You make a wish and we make it happen" in the areas of health (disease prevention, measures for lifestyle-related diseases, etc.) and welfare (support for the socially vulnerable and the poor).

(2) General information about the Foundation

(1) Name	The Kobayashi Foundation
(2) Address	1-7-27 Roppongi Minato-ku, Tokyo
(3) Director	Akihiro Kobayashi
(4) Activity	To provide assistance and award research and activities that work for "You make a wish and we make it happen" in the areas of health and welfare
(5) Financial resources	About 40 million yen per year * We will use the money we receive as a beneficiary of the Trust, the buyer of treasury stock, mentioned below in Section 2, for the activities of the Foundation.
(6) Date of establishment	May 2017 (planned)

2. Disposal of the treasury stock

<Overview of disposal>

(1) Number of shares to be sold	850,000 shares of common stock of the Company
(2) Disposal price	1 yen per share
(3) Proceeds from disposal	850,000 yen
(4) Method of solicitation or disposal	Allocation to a third party
(5) Buyer (planned)	The Master Trust Bank of Japan, Ltd.
(6) Date of disposal	To be determined
(7) Other	The disposal of the treasury stock will be performed subject to a special resolution concerning advantageous placement at an ordinary general meeting of the Company's shareholders in March 2017. The date and other matters concerning the disposal will be determined at a board of directors' meeting to be held after the said meeting of shareholders.

3. Purpose and reason for the disposal

We have worked to realize our management principle, "To provide great "comfort" to people and the society," by offering a wide variety of products including pharmaceuticals, air fresheners, skin care products, nutritional supplements, and sundry articles under the brand slogan, "You Make a Wish and We Make It Happen."

Given the rapidly aging population and environmental changes, extending life expectancy has become a major social issue. Additionally, problems concerning poverty and gap issues of the socially vulnerable (people with disabilities, single-parent families, etc.) are becoming more serious. In an effort to reinforce our environment, society, and governance initiatives, we have implemented various corporate social responsibility (CSR) activities such as providing food assistance to single-mother families, support for training guide dogs, and reconstruction assistance in earthquake-affected areas.

The Foundation, which will be established during the Company's 100th anniversary commemoration, will aim to enrich people's lives and contribute to enhancing the "comfort" of the entire society by providing assistance or awarding research and activities that work for "You make a wish and we make it happen" in the areas of health and welfare. We believe these activities will help the Kobayashi Pharmaceutical Group grow sustainably and improve corporate values in the medium and long term.

To support the Foundation's social contribution activities consistently, we will create a third-party benefit trust (hereinafter called "the Trust") with Mitsubishi UFJ Trust and Banking Corporation as a trustee, The Master Trust Bank of Japan, Ltd. as a joint trustee, and the Foundation as a beneficiary. The Trust will acquire shares of the Company and pay trust income comprising dividends on the Company's shares to the Foundation. The Foundation will use this income to carry out its activities.

The treasury stock will be disposed to the Trust, which will be created to provide funds for the social contribution activities of the Foundation.

4. Proceeds from the disposal, use of the proceeds, and when to use them (plan)

(1) Amount of proceeds

(1)	Total amount to be paid	850,000 yen
(2)	Estimated placement cost	0 yen
(3)	Net proceeds	850,000 yen

(2) Specific use of the proceeds

We plan to use the aforementioned net proceeds to pay for expenses involved in developing the trust scheme, such as attorney fees.

5. Rationality of the use of the proceeds

We plan to use the proceeds to pay for expenses required to develop the trust scheme, such as attorney's fee. These expenses are essential to the development of the scheme, and we believe the use of the proceeds is reasonable.

6. Rationality of the disposal terms

(1) Basis for calculation of amount to be paid and its details

The Foundation believes that it can contribute to enhancing the "comfort" of the entire society by providing assistance or awarding research and activities widely and consistently to individuals or groups that work for "You make a wish and we make it happen" in the areas of health and welfare to enrich people's lives.

We believe that assisting the Foundation's social contribution activities will benefit us in the medium and long term and with regard to CSR activities. The purpose of the disposal of the treasury stock is to support the Foundation's social contribution activities, and the funds raised will be used to develop the trust scheme as mentioned in Section 4 (2). Therefore, we believe that the disposal price of 1 yen per share is reasonable. Since the disposal of the treasury stock is an advantageous placement for the Foundation, it will be implemented subject to the special resolution concerning advantageous placement at the ordinary general meeting of the Company's shareholders in March 2017.

(2) Basis for judging whether the number of shares to be sold and the scope of dilution of shares are reasonable

The Foundation believes that it can contribute to enhancing the "comfort" of the entire society by providing assistance or awarding research and activities widely and consistently to individuals or groups that work for "You make a wish and we make it happen" in the areas of health and welfare to enrich people's lives.

In implementing the Foundation's activities in a consistent manner, we believe that the number of shares to be sold, which will be used to support these activities, is reasonable. Additionally, since shares of the treasury stock to be sold in this trust scheme are less likely to flow into the equity market for a while, the effect of such disposal on the secondary market would be minimal. Thus, we believe the number of shares to be sold is reasonable.

Moreover, the scope of dilution of shares due to the disposal of the treasury stock is limited to 1.00% (rounded to the nearest hundredth, the percentage of voting rights represented by the shares proposed to be sold in the total voting rights (787,819) was 1.08% as of December 31, 2016) of the number of outstanding shares (85,050,000 shares), and we plan to acquire more treasury stock than the number of treasury stock shares to be sold, as explained in Section 12. Acquisition of treasury stock, subject to the approval of the disposal of the treasury stock at the aforementioned ordinary general meeting in March 2017, in order to avoid dilution of shares. Hence, we believe the scope of dilution of shares is reasonable.

7. Reason for selection of buyer, etc.

(1) Overview of buyer

- 1) Name: The Master Trust Bank of Japan, Ltd.
- 2) Overview of the trust agreement

Type of trust	Money in trust other than individually operated designated money trust (third-party benefit trust)
Purpose of trust	To provide common stock dividends issued by the settlor to the beneficiary as trust income and to help the Foundation implement social contribution activities
Settlor	Kobayashi Pharmaceutical Co., Ltd.
Trustee	Mitsubishi UFJ Trust and Banking Corporation (Joint trustee: The Master Trust Bank of Japan, Ltd.)
Beneficiary	The Kobayashi Foundation
Beneficiary's agent	Disinterested third party
Date of trust agreement	To be determined
Trust period	To be determined

Note: In exercising voting rights, The Master Trust Bank of Japan, Ltd. shall follow the instructions of the beneficiary's agent, who is a third-party external organization that focuses on improving long-term corporate values to secure stable dividends, which will be used for the activities of the Foundation, the beneficiary. Details of a trust agreement to be signed with the trustee, Mitsubishi UFJ Trust and Banking Corporation, will be determined hereafter.

(2) Reason for selection of buyer

We selected Mitsubishi UFJ Trust and Banking Corporation as a trustee for the purpose described in Section 3. Purpose and reason of disposal as it has excellent credentials for, and abundant experience in, trust services. The Master Trust Bank of Japan, Ltd. will handle trust administration as a joint trustee based on a trust agreement between the Company and Mitsubishi UFJ Trust and Banking Corporation, and will be responsible for the custody/settlement of trust assets. Thus, The Master Trust Bank of Japan, Ltd. was selected as a buyer.

(3) Buyer's policy for holding of shares

The Master Trust Bank of Japan, Ltd., the buyer, will provide trust income, comprising the Company's dividends, to the Foundation in accordance with the trust agreement.

The Trust, based on the trust agreement to be concluded, will hold the shares to be sold, except when it is difficult to carry out the purpose of the Trust. When terminating the Trust, trust assets will be provided as is to the beneficiary.

The Master Trust Bank of Japan, Ltd. will exercise the voting rights associated with shares the Trust will obtain from the disposal of the treasury stock.

The Company will obtain a written pledge from The Master Trust Bank of Japan, Ltd., the buyer, stating that it agrees to promptly notify the Company, in writing, of the name and address of the transferee, the number of shares transferred, and the date, price, reason and method of transfer, upon transfer of all or part of the shares to be sold; to inform the Tokyo Stock Exchange, Inc. of this reported information; and to the reported information being made open for public inspection for two years from the record date.

(4) Information regarding the presence of assets required for payment by the buyer

The Master Trust Bank of Japan, Ltd. will pay using the money, which is an asset of the Trust the Company plans to create.

8. Major shareholders and shareholding percentage after disposal

Before disposal (As of December 31, 2016)		After disposal
Akihiro Kobayashi	11.76%	Same as left
Kobayashi International Scholarship Foundation	7.61%	
Yukako Iue	6.56%	
State Street Bank And Trust Company 505223	6.44%	
Ikuko Watanabe	3.21%	
Ohtori Co., Ltd.	2.76%	
Japan Trustee Services Bank, Ltd. (trust accounts)	2.70%	
Forum Co., Ltd.	2.63%	
Teruhisa Miyata	2.59%	
The Master Trust Bank of Japan, Ltd. (trust accounts)	2.46%	

(Note) 1. This table shows the percentage of shares owned in the number of shares outstanding.

2. Treasury stock owned by the Company is not included.

9. Future prospects

While we believe the effect on the future financial results of the Company is minimal, any such event will be immediately disclosed.

10. Procedures in accordance with the corporate code of conduct

As the dilution rate of the shares in question is less than 25% and there is no change in controlling shareholders, we do not need to obtain the opinion of an independent third party and to confirm the intent of shareholders, as stipulated by Article 432 of the Securities Listing Regulations established by the Tokyo Stock Exchange, Inc.

11. Financial results and equity finance for the past three years

The Company changed the closing date from March 31 to December 31 in FY2016. Accordingly, the financial closing for the fiscal year ended December 2016 was irregular. We also conducted a 2-for-1 stock split (common stock) on July 1, 2016.

(1) Results for the past three years (consolidated)

(yen)	FY ended March 2015	FY ended March 2016	FY ended December 2016
Consolidated net sales	128,344 M	137,211 M	120,051 M
Consolidated operating income	17,917 M	18,260 M	17,409 M
Consolidated ordinary income	18,843 M	17,949 M	19,499 M
Net income attributable to owners of parent company	12,448 M	13,466 M	14,321 M
Consolidated net income per share	305.46	331.11	179.12
Dividend per share	90.00	96.00	52.00
Consolidated net assets per share	3,423.54	3,532.11	1,818.10

(2) Number of shares outstanding and number of dilutive shares (As of December 31, 2016)

	Number of shares (shares)	Percentage of shares outstanding (%)
Number of shares outstanding	85,050,000	100
Number of dilutive shares at the current conversion price (exercise price)	—	—
Number of dilutive shares at the lowest conversion price (exercise price)	—	—
Number of dilutive shares at the highest conversion price (exercise price)	—	—

* The number of dilutive shares does not include stock options.

(3) Recent stock price

1) Stock price for the past three years

(yen)	FY ended March 2015	FY ended March 2016	FY ended December 2016
Opening price	5,980	8,520	9,920
Highest price	8,930	10,660	5,610 (*)
Lowest price	5,750	7,820	4,205 (*)
Closing price	8,600	9,880	5,000 (*)

* Stock price after the 2-for-1 stock split

2) Stock price for the past six months

(yen)	July 2016	August	September	October	November	December
Opening price	4,580	4,880	4,765	5,320	5,490	4,995
Highest price	4,895	4,935	5,370	5,610	5,520	5,160
Lowest price	4,390	4,340	4,720	5,200	4,865	4,755
Closing price	4,885	4,805	5,260	5,490	5,010	5,000

3) Stock price as of the business day prior to the date of resolution for placement

(yen)	January 31, 2017
Opening price	5,000
Highest price	5,080
Lowest price	5,000
Closing price	5,030

(4) Equity finance for the past three years

Not applicable.

12. Acquisition of treasury stock

(1) Reason for acquisition

To avoid dilution of the stock value due to the disposal of the treasury stock mentioned in Section 2, to improve capital efficiency, and to implement an agile capital policy based on the managerial environment.

(2) Matters concerning acquisition

- 1) Type of stock to be acquired Common stock of the Company
- 2) Number of shares that can be acquired 1,000,000 shares (max)
(equal to 1.27% of total shares outstanding
[excluding treasury stock])
- 3) Total value of shares that can be acquired 5,000,000,000 yen (max)
- 4) Period of acquisition From the end of the ordinary general meeting of the Company's
shareholders in March 2017 to June 23, 2017
- 5) Method of acquisition Market buying by TSE
- 6) Other The acquisition of the treasury stock will be implemented
subject to approval of the meeting of shareholders as
mentioned in Section 2.

(Reference) Treasury stock owned as of December 31, 2016

Number of shares outstanding: 85,050,000 shares

Number of shares of treasury stock: 6,257,437 shares