Creativity and Innovation

Annual Report 2009

Year Ended March 31, 2009

KOBAYASHI Pharmaceutical Co.,Ltd.

あったらいいな®をカタチにする

You make a wish and we make it happen

Group Brand Charter

Our mission is to not only make products that our customers want now but to also develop new and innovative products for our customer's future needs.

True to our brand slogan of "You make a wish and we make it happen," we will strive to research, develop, manufacture, and deliver products as quickly as possible.

Products and services will be developed to the highest standards and quality to exceed our customers' expectations.

Our dream is to share the small gifts from everyday life with people the world over.

We are committed to being an innovative, development focused company that contributes to society, builds lasting relationships with customers, and exceeds all expectations in customer satisfaction.

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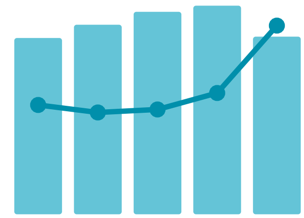
Overview of Kobayashi Pharmaceutical Group



Overview of Kobayashi Pharmaceutical Group

Message from the Management

Message from the Management

Overview of Operations

Overview of Operations

Aiming to be a Trustworthy Company

Aiming to be a Trustworthy Company

Financial Section

For the Year:	2004	2005	2006	2007	2008	**2009**
Net Sales	211,670	215,708	246,853	257,022	228,827	**125,693**
Cost of Sales (after provisions for returned products)	141,388	143,912	167,239	172,304	147,639	**57,014**
Gross Profit (after provisions for returned products)	70,282	71,796	79,614	84,718	81,188	**68,679**
Selling, General and Administrative Expenses	54,159	56,097	62,734	66,689	62,612	**52,861**
Operating Income	16,123	15,699	16,880	18,029	18,576	**15,818**
Income before Income Taxes and Minority Interests	11,825	12,770	14,010	16,038	15,800	**16,270**
Net Income	6,677	6,731	7,475	8,298	8,505	**8,853**
Per Share Data (Yen):						
Net Income	157.25	160.64	179.17	200.77	205.62	**215.89**
Cash Dividends	21.0	33.0	38.0	50.0	54.0	**58.0**
Cash Flows from Operating Activities	6,971	8,364	13,159	8,834	12,192	**12,849**
Free Cash Flows	4,613	4,428	6,744	(2,969)	5,767	**11,467**
Depreciation and Amortization Expenses	3,350	3,239	3,414	3,375	3,765	**4,214**
Capital Expenditures*1	2,441	5,021	2,797	2,229	2,895	**3,468**
R&D Expenses	2,010	2,115	2,378	2,476	2,813	**3,362**
At Year-end:						
Current Assets	80,031	86,705	98,906	102,102	66,069	**73,172**
Property, Plant and Equipment, Net	24,567	25,003	22,788	22,279	15,236	**17,618**
Current Liabilities	64,298	65,007	72,040	77,028	37,941	**39,835**

Financial Section

Consolidated Financial Highlights

Years ended March 31

(Millions of yen)

For the Year:	2007	2008	2009	Change (%)
Net Sales	¥ 257,022	¥ 228,827	¥ 125,693	(45.1) Point
Operating Income	18,029	18,576	15,818	(14.8) Point
Net Income	8,298	8,505	8,853	4.1
Per Share Data (Yen):				
Net Income	200.77	205.62	215.89	5.0
Net Assets	1,799.87	1,863.24	1,861.14	(0.1)
Cash Dividends	50.00	54.00	58.00	7.4
At Year-end:				
Total Assets	164,556	122,410	125,210	2.3
Total Net Assets	77,236	77,183	76,364	(1.1)
Working Capital*	25,074	28,128	33,337	18.5
Ratios (%):				**Change (Point)**
Operating Income to Net Sales Ratio	7.0	8.1	12.6	4.5 Point
Net Income to Net Sales Ratio	3.2	3.7	7.0	3.3 Point
ROA	5.2	5.9	7.2	1.3
ROE	11.7	11.2	11.5	0.3
Equity	45.2	63.0	60.9	(2.1)

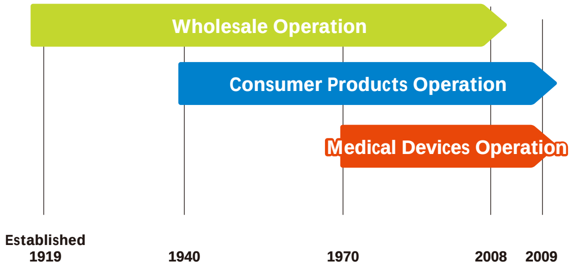
* Working capital = Current assets – Current liabilities

Point

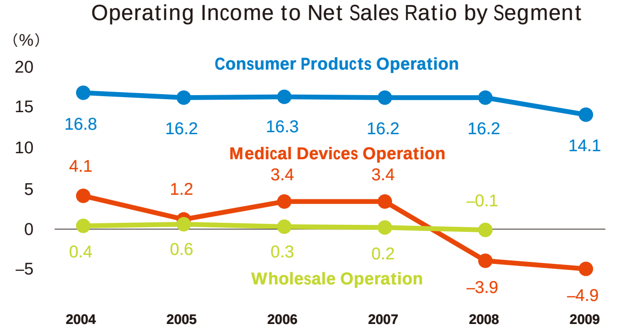
1. Wholesale Operation was Excluded from Consolidation, Leading to Lower Net Sales

The stock swap completed in January 2008 resulted in Wholesale Operation being excluded from the scope of consolidation. Consequently, net sales for the year ended March 2009, declined substantially, but profitability improved markedly.

A Shift to a Two Principal Businesses Structure of Consumer Products and Medical Devices Operations



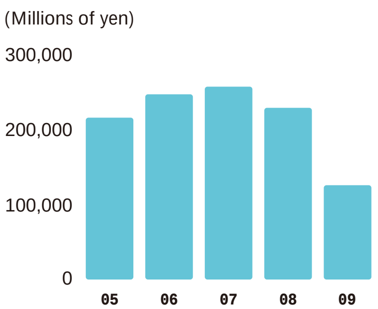
Operating Income to Net Sales Ratio by Segment



2. New Accounting Standard Pushes Down Operating Income (But Profit Increases Substantiality)

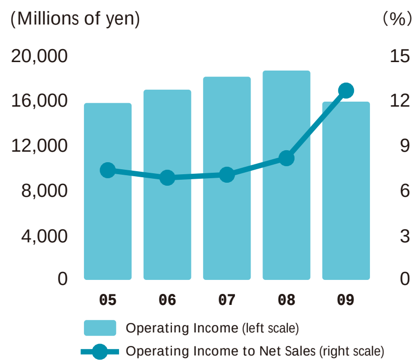
With the Accounting Standard for Measurement of Inventories becoming applicable from the fiscal year ended March 2009, it is now required that the loss on disposal or write-offs of inventories be recorded as the cost of sales instead of as other expenses. Thus, operating income declined. However, had the same accounting standard been applicable to the fiscal year ended March 2008, that year's operating income would have been ¥14.7 billion, making the operating income of the fiscal year under review higher by ¥1.1 billion, or 7.4%.

Net Sales
¥125,693 million



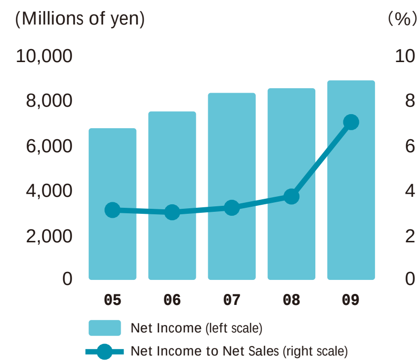
Operating Income
¥15,818 million

Operating Income to Net Sales Ratio
12.6%

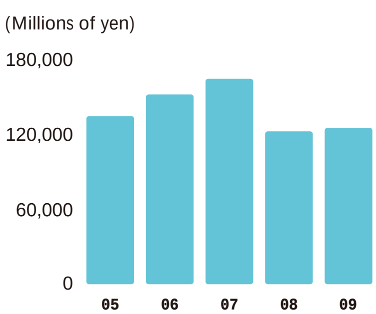


Net Income
¥8,853 million

Net Income to Net Sales Ratio
7.0%

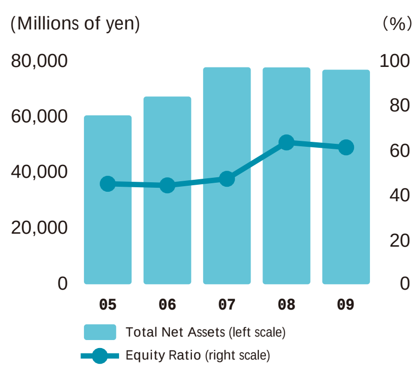


Total Assets
¥125,210 million

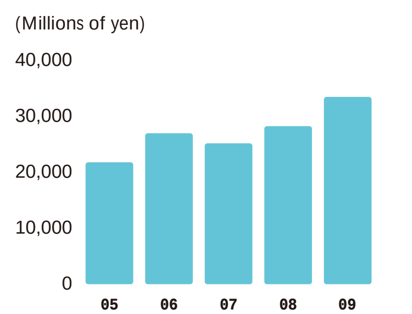


Total Net Assets
¥76,364 million

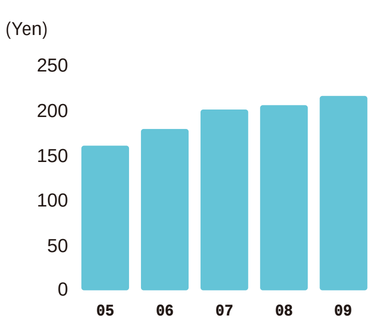
Equity Ratio
60.9%



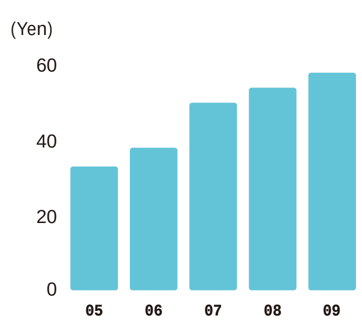
Working Capital
¥33,337 million



Net Income per Share
¥215.89

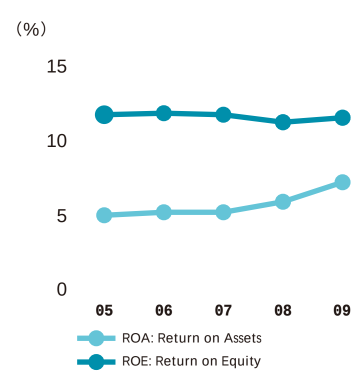


Cash Dividends per Share
¥58.00



ROA
7.2%

ROE
11.5%

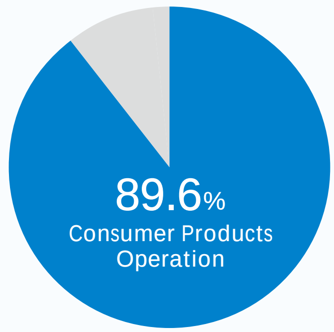


Business Composition of Kobayashi Pharmaceutical Group

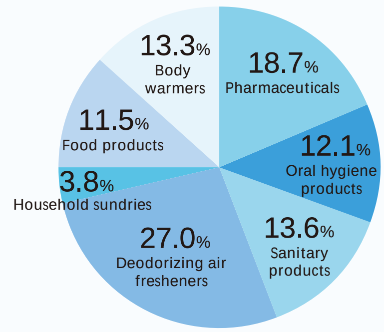
Consumer Products Operation

The Consumer Products Operation undertakes the manufacture and sale of deodorizing air fresheners, pharmaceuticals, oral hygiene products and other products, which all together account for approximately 90% of consolidated net sales. The Operation pursues a development focused business model, where we develop new products to give a concrete shape to consumers' wishes for something new and something different, and cultivate new markets for such products. At present, products are classified into seven categories, consisting of some 160 distinct brands.

For details see pages 12-15



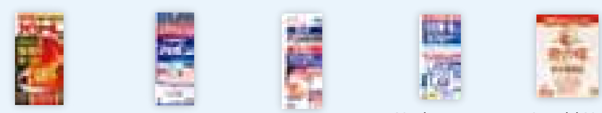
Consolidated Net Sales Composition



Segment Sales by Category

Pharmaceuticals

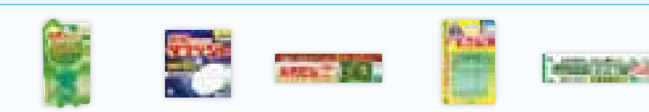
Chinese herbal medicine preparations, ophthalmic agents, external anti-inflammatory/analgesics, oral antiseptics, medication for women's health, etc.



Nicitol 85 · *Eyebon* · *Ammeltz* · *Nodo nu-ru Spray* · *Inochi No Haha*

Oral hygiene products

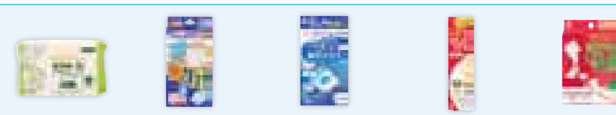
Oral breath freshener, denture cleanser, toothpaste, interdental cleaners, denture adhesive, etc.



Breath Care · *Tough Dent* · *Shouyou* · *Itoyouji* · *Tough Grip*

Sanitary products

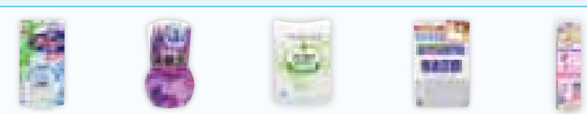
Sanitary sheets, cooling gel sheets for forehead, disposable masks, skin toner, etc.



Sarasarty · *Netsusama Sheet* · *Nodo nu-ru nure masuku* · *Keshimin* · *Asewaki Patto*

Deodorizing air fresheners

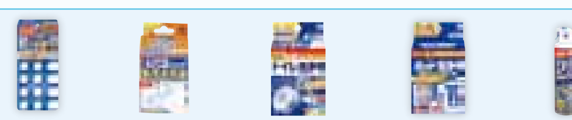
Toilet tank cleanser, deodorizing air fresheners for rooms, deodorizing air fresheners for toilets, etc.



Bluelet · *Shoshugen* · *Kaori Kaoru Sawaday* · *Mukou Kukan* · *Toire Sono Ato Ni*

Household sundries

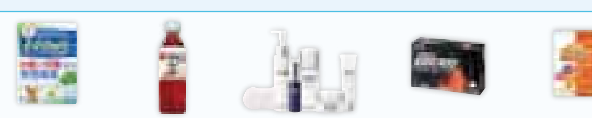
Drain and water outlet cleaners, kettle cleaners, spectacle cleaners, etc.



Kantan-senjo-maru · *Megane cleaner* · *Toilet-senjo-chu* · *Pot-senjo-chu* · *Air Conditioner-senjo-chu*

Food products

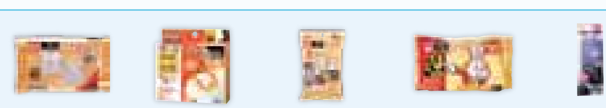
Nutritional supplements, cosmetics, etc.



Easy Fiber · *Tochucha* · *hifmid* · *EDICARE* · *Glucosamine & Collagen*

Body warmers

Body warmers, etc.

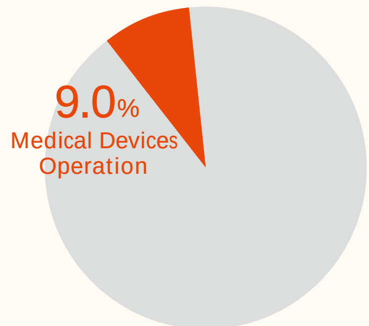


Kiribai Haru · *Ketsuryu Kaizen* · *Haru Kutsushita* · *New Hand Warmers* · *Ashi No Hienai Kutsushita*

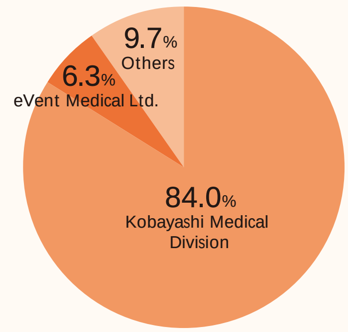
Medical Devices Operation

The Medical Devices Operation is comprised of the Kobayashi Medical Division in Japan, which imports and markets medical devices for use in medical establishments nationwide, including university hospitals, and eVent Medical Ltd. of the U.S., which manufactures and markets ventilators abroad. The entire operation accounts for approximately 10% of consolidated net sales. In-house product development is also being advanced by Kobayashi Medical Division in Japan, and our current in-house product development ratio stands at approximately 15%.

For details see pages 16-17



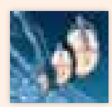
Consolidated Net Sales Composition



Segment Sales by Category

Kobayashi Medical Division

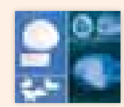
Orthopedics, surgical and operating rooms, pulmonology and anesthesiology, brain surgery and otology fields



ACUMED

CONMED

Inspiron



Ceratite®

eVent Medical Ltd.

Ventilators

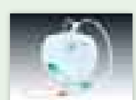
Inspiration LS

Inspiration Infant

Equity-method affiliate

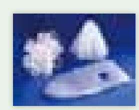
Medicon, Inc.

Urology, gastroenterology, gastroenterological surgery, vascular surgery, cardiovascular internal medicine, anesthesiology, radiology fields, etc.

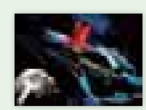


Bard I.C. Silver Foley Tray (Complete Care)

Bard X-Port isp (Groshong catheter type)



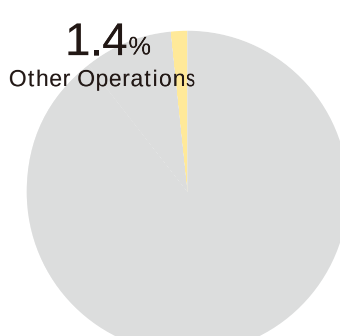
Bard Mesh Plug



Bard Vascular Stent (LUMINEXX3)

Other Operations

We are also engaged in transportation, manufacturing and sales of synthetic resin containers, insurance agency, real estate management, and advertising and planning operations to support our two main businesses, the Consumer Products and Medical Devices Operations.



Consolidated Net Sales Composition

To Our Stakeholders

Kobayashi Pharmaceutical: constantly evolving as we strive to meet our customers' wishes

Chairman and Chief Executive Officer

Kazumasa Kobayashi

Maintaining a constant sense of urgency regarding becoming complacent

As Chairman and Chief Executive Officer I must be a decision-maker who is intimately involved with all aspects of business and strategy that affect the long-term direction of the Kobayashi Pharmaceutical Group, including M&A and special business projects. The transfer of the Wholesale Operation through the stock swap with Mediceo Paltac Holdings Co., Ltd. in January 2008 was demonstrative of my role as a decision-maker. We were facing challenges due to retaining the Wholesale Operation, where scale merits affected overall sustainability, and a lack of understanding regarding the Consumer Products Operation (manufacturing), which achieves high profitability compared to competitors. It did, however, require great strength of will to come to the final decision to transfer control of the Wholesale Operation to another company, given that the wholesale business accounted for more than half of group sales and was also the business on which the Company was founded. I came to this final decision after duly considering the merits for the future of the Group and its stakeholders, including our shareholders and employees in the Wholesale Operation.

The release of the consolidated business results for the fiscal year ended March 2009 is the first time that the effects of the transfer over an entire business year can be seen. Although sales have almost halved, the operating income to net sales ratio has improved significantly, and we have thus been able to achieve earnings growth in net income for the 11th consecutive year. This result is no mean feat in itself, but I believe we still have a large number of outstanding issues to address. It is necessary for us to further enhance new product development, with a view to opening more niche markets, which are vitally important to our company. In addition, there is still a great deal of growth potential in the overseas and mail-order shopping sectors. At first glance our company may seem to be continuing along a steady growth track in terms of business results, but this is no reason to grow complacent, and I believe that we should maintain a constant sense of urgency as we identify challenges and go about our business.

All employees pursuing "outstanding customer orientation" in the midst of an ever-evolving business environment

The mantra that Kobayashi Pharmaceutical Group constantly strives to fulfill is "You make a wish and we make it happen," based on "outstanding customer orientation." This is the philosophy I have steadfastly and thoroughly applied for more than 30 years in business, since I became president of the Company. Moving forward, by channeling our energies into manufacturing operations that embody this management policy, we will work to realize even greater profitability. To do this we must of course achieve growth from the management resources we currently possess, and also move to incorporate external resources. The M&A strategy I envisage is not one that simply aims to expand business scale by acquiring businesses with a successful track record. Rather, we should set our sights on the many business and companies that, even if small, have the potential to synergize with our own business strategies, and create further value under the management of the Kobayashi Pharmaceutical Group.

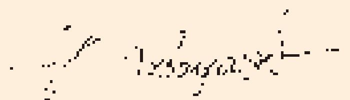
The Group now finds itself in a business environment that is changing fast with economic stagnation, the emergence of private brands, the enactment of the revised Pharmaceutical Affairs Act and other challenges. It is in times like these that I believe it is my responsibility to work to maximize the power and prowess of all employees as we move forward as one under our group management policy.

August 2009
Kazumasa Kobayashi
Chairman and Chief Executive Officer

Interview with the President

Carrying through further transformation as we aim for a “Strong Kobayashi Pharmaceutical Group” based on the core Consumer Products and Medical Devices Operations

President and Chief Operating Officer



Q What responsibilities do you, President Yutaka Kobayashi, have within the Kobayashi Pharmaceutical Group?

As Chief Operating Officer my responsibility is to conduct the daily affairs of the Group.

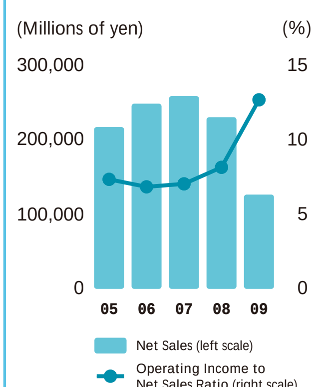
In particular, I have an overall picture of all processes relating to new product development, which lies at the core of business growth, and I make final judgments on the launch of newly developed products. I am therefore responsible for consolidated business results, which are a direct result of the decisions made during the course of daily business operations.

Q Please give us an overview of the fiscal year ended March 2009, which was the first full business year since the Wholesale Operation was deconsolidated.

Operating results for the fiscal year ended March 2009 saw a year-on-year drop in net sales, falling 45.1% to ¥125,693 million, due to the deconsolidation of the Wholesale Operation. However, net income for the same period rose 4.1% to ¥8,853 million, marking the 11th consecutive year of earnings growth since the introduction of consolidated settlement reporting. In today’s severe business environment, dubbed the “recession of the century,” consumer preferences continued along a best-quality, low-cost trajectory. In such an environment, one of the major factors that enabled us to post an increase in net income was the effect of not merely concentrating our efforts on new products, but also engaging in marketing plans that aimed to vitalize existing product lines where the Group has a high market share. During the fiscal year ended March 31, 2009, we formulated marketing plans for 85 products, and with in-house sales and marketing teams and retail stores working in three-way cooperation, we engaged in in-store sales promotion activities over a concentrated period in conjunction with a series of television commercials. Given that the higher the market share of the product, the higher the contribution to income, this promotion resulted in a significant boost to consolidated operating results.

In addition, following the deconsolidation of the Wholesale Operation—the business on which the Company was founded—in January 2008, our operating income to net sales ratio soared from 8.1% in the previous year to 12.6%. This is a high level even in comparison with other companies in the same industry, but what was not reflected in financial charts and the like was the change witnessed in employee consciousness within the Group. By moving to focus on our Consumer Products and Medical Devices Operations I feel that we have aroused a stronger consciousness than before in our employees to engage earnestly in efforts to enhance sales and product development capacity.

Net Sales
Operating Income to Net Sales Ratio



Group Management Strategy

Aim for a "Strong Kobayashi Pharmaceutical Group"

1. Strengthening of Total Optimization
Promote total optimization revolving around the introduction of the profit-centered approach, and continue to produce profits

2. Strengthening of Efficient Management
Actively make investments required for growth and make all-out efforts to reduce costs, disposal, inventories and expenses

3. Strengthening of Global Strategy
Globalization is a part of the growth strategy

4. Strengthening of Corporate Brand Management
The core of growth lies in the enhancement of the corporate brand

Q Please explain the background of the management policy for the fiscal year ending March 2010 to "Aim for a Strong Kobayashi Pharmaceutical Group" and its implications.

Through the deconsolidation of the Wholesale Operation, we have created a structure that is free to focus management resources on the Consumer Products and Medical Devices Operations, where we can capitalize on our corporate strengths. However, given the fact that we are currently in a significant transitional period, with issues of a declining birthrate, aging society, and changes in the values of customers appearing domestically, together with changes in the distribution environment, unless we pursue further transformation of our business, I believe that it will not be possible to achieve growth in the future.

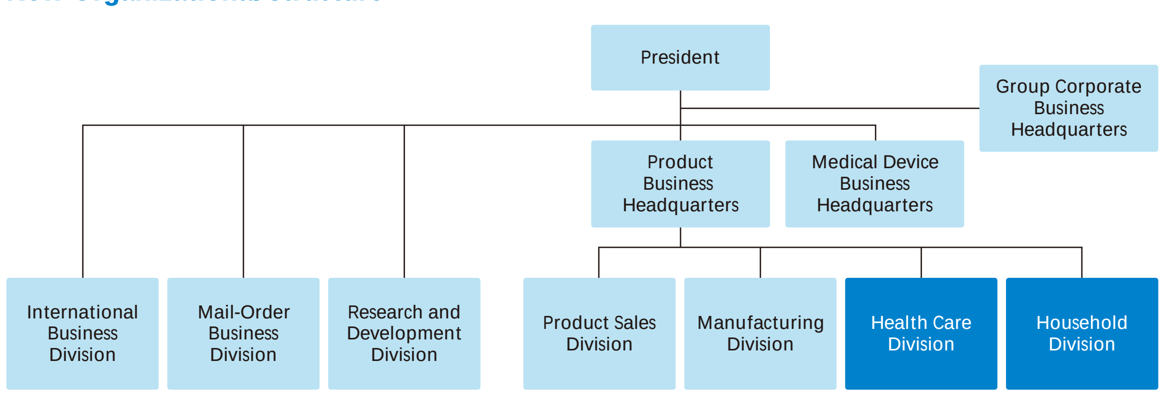
The management policy for the fiscal year ending March 2010 is to "Aim for a Strong Kobayashi Pharmaceutical Group." This statement incorporates the meaning that each and every employee will work hard to fulfill their designated mission or responsibilities, thus gaining consumer trust in our high product quality. This will in turn lead to increased corporate value and the creation of a sound, firm financial structure. As our management stance is to ensure that our aggressive business posture does not falter and continues to achieve growth in any business environment, we will actively engage in investment that is required for growth. On the other hand, we have made our policy very clear that we will not under any circumstances engage in non-urgent or unnecessary investment, and we will realize efficient management by thorough implementation of cost, disposal, inventory and expenses reduction measures. In so doing, we will ensure profitability through the effective and efficient use of limited resources.

Q The Company has been restructured from an in-house company system to a business division system. What do you hope the effects of this restructuring will be?

Formerly, our concept was that each in-house company, be it in sales, manufacturing or research and development, would demonstrate the highest level of performance according to its designated function, leading to growth for the entire Kobayashi Pharmaceutical Group. It is true that an in-house company system boosts expertise in each individual function, leading to the development and market launch of better products. However, it is also the case that when attempting brand renewal or working to reduce manufacturing costs it proved difficult to reconcile the business vectors of the in-house companies, thus making maximization of results difficult to achieve.

The recent corporate restructuring has seen organizational reform within product businesses aimed at clarification of business responsibility and speedier decision-making. The Health Care Division and Household Division, have both been placed under the Product Business Headquarters and a structure has been created whereby each business division takes responsibility for management and profitability of designated brands, from product development to

New Organizational Structure



sales. Marketing, research, development and technology development have been merged and by combining these vectors towards attainment of Group management targets we have created a solid management base that will continue to generate income.

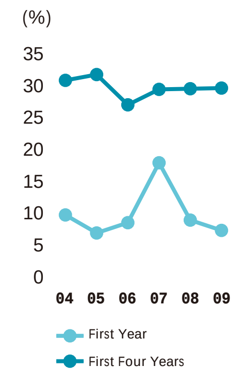
Q Please tell us about efforts being made in the Consumer Products Operation, which forms the core of operating results.

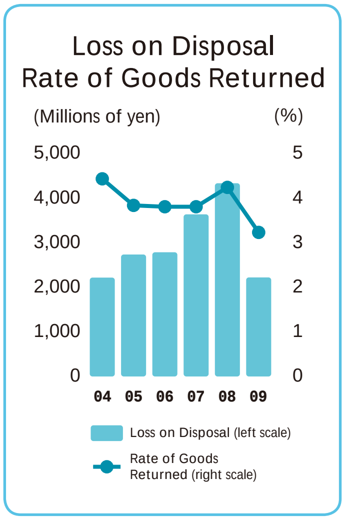
The impact of the global economic recession has heightened defensiveness in purchasing behavior among consumers, and tendencies to reduce the number of items purchased or look for cheaper items are becoming more pronounced. In this environment, unless product concepts are clear and products are priced to reflect their value, they will not lead to consumer purchases. For this reason, it is imperative to engage tirelessly in idea generation activities that are a source of growth potential and strengthen marketing efforts.

Twenty-five years ago, we established the Employee Proposal System which we collect ideas for new products from all of our employees. Each year, we receive approximately 15,000 ideas, and the quality of these is growing each year. In addition, each month development teams from the marketing office responsible for development in six different categories make "idea presentations" to top management, including myself. Very often when you take a fresh look at some of the ideas previously gathered, you find that many ideas that may have been ahead of their time and did not lead to commercial products in previous years are now in tune with current consumer needs.

We have set a Group target for new products to account for 10% of consolidated net sales in their first year and to account for 35% by their fourth year. However, in the fiscal year ended March 2009 the results stood at 7.4% for first year sales and 29.5% for fourth year sales, and are still quite a ways off our targets. I intend to ensure that we further strengthen our marketing capacity, already one of our company's biggest strengths, and work to improve the contribution ratio of new products.

New Products as a Percentage of Net Sales





Q You have greatly improved rates of goods returned and the loss on disposal to stand at the lowest rates in six years. Please tell us of the specific efforts you engaged in to achieve this result.

In the latter half of the fiscal year ended March 2008, we established market introduction standards for new products, based on thorough implementation of the concept that we would work to "sell the items that we can sell," not "the items that we want to sell." To begin with, we implemented a "package test" to confirm whether the product concept was clearly and understandably expressed in the product packaging. Products that passed this test were then subject to "test sales," where new planned products were placed on store shelves, being lined up to ascertain whether consumer reaction is positive or not. Only products that exceeded the specified standards were selected for nationwide sale. In addition, by using point-of-sale (POS) data gained from test sales—for example the distribution of leaflets or analysis of changes in sales figures depending on in-store product positioning—we created elaborate demand forecasts, which we used to reduce waste and disposal.

As a result of these efforts in the fiscal year ended March 2009, the rates of goods returned fell a full percentage point year-on-year, from 4.2% to 3.2%. The loss on disposal was reduced from ¥4.3 billion last year to ¥2.2 billion this year, a ¥2.1 billion reduction. We will continue to make further efforts to reduce disposal and waste.

Q Tell us about priority areas in the Consumer Products Operation.

The area that has been forecast to post growth in the future is healthcare, which includes the OTC pharmaceutical product market encompassing lifestyle-related diseases, physical discomfort and aging. The Company is proceeding with aggressive investments in these areas, and in spring 2006, we launched *Nicitol 85*, a Chinese herbal medicine for oral use that is effective in treating obesity by helping to break down and burn abdominal fat. Sales during this fiscal year totaled ¥5.1 billion and the product gained a high degree of recognition. In March 2009, the anti-obesity medication *Visrrat Gold a* was launched as a new concept Chinese herbal medicine that boosts the body's metabolization of fat, promoting the burning of excess body fat. Taking advantage of our pioneering position in this area, we will aim to further develop the market for obesity treatment products.

In addition, the revised Pharmaceutical Affairs Act went into effect in June 2009, and retail outlets such as supermarkets and convenience stores are moving aggressively to launch sales of pharmaceutical products. We believe that with our large product pipeline exposure to many retail outlets through sales of daily goods, this change in the law will provide us with a significant advantage over standard pharmaceutical companies. By boosting our provision of product information and proposals for in-store shelf displays, we will move forward to expand our sales opportunities in this area.

Q Under the recent corporate restructuring, the International Business Division was placed under the direct control of the President. What developments are you considering for the future?

As the phenomena of declining birthrate, aging society and declining population in Japan, I believe that further development of the Kobayashi Pharmaceutical Group cannot be achieved without expansion of overseas business. In the fiscal year ended March 2009, the net sales for international business accounted for a mere 7% of the Group total, and I recognize that strengthening our overseas business is the single most pressing challenge for the time being. In close collaboration with the executive director who has been tasked with overseas business, we will work together to tenaciously search for business partners with strong selling capacity and detailed knowledge of the local marketing situation.

We will focus on the high-growth countries of Asia and the BRIC countries, and I feel that of these, one of the most promising is China. It is in close proximity to Japan and has a large wealthy class. As such, it is where we will engage in aggressive investment.

Q Tell us about the efforts being made in the Medical Devices Operation, the other pillar of the Group's business.

In the Medical Devices Operation, we are moving to boost efficiency through selection and focus.

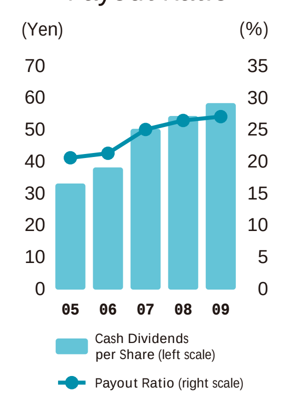
In the Kobayashi Medical Division, net sales for the fiscal year ended March 2009 rose 7.5% year-on-year to ¥9.5 billion. The business environment was a tough one, with intensifying competition in the domestic market, and the added impact of lowering of National Health Insurance (NHI) reimbursement prices. However, our strategy of focusing on our strengths in surgery room electrosurgical generators and in the orthopedic field yielded results. In addition to enhancing our product line-up in existing areas such as surgical and operating rooms, pulmonology and orthopedics, we will engage in aggressive activities to advance product development of our own *Kobamed* brand. With regard to eVent Medical, a ventilator manufacturer that was converted into a subsidiary in November 2006, issues such as delays in deployment plans in the U.S. resulted in net sales being down 15.1% year-on-year at ¥730 million. We will work to bring eVent into profitability in the near term through development of new products, construction of a U.S. sales network and efforts to boost brand recognition.

Q Finally, please tell us about the policy regarding profit sharing with shareholders.

We plan to actively share profit with our shareholders, based on the premise of increasing dividends and maintaining a certain minimum payout ratio. For the fiscal year ended March 2009, we increased the annual dividend from ¥54 to ¥58 per share. We will consider share buybacks as needed as part of our capital policy to prepare to flexibly respond to changes in the operating environment.

At the same time, we will share profits while building up adequate internal reserves to sustain high growth rates. We will use these funds to make investments in mergers and acquisitions—a key focus of our growth strategies—and to aggressively expand overseas.

Cash Dividends per Share
Payout Ratio



Overview of Operations

Consumer Products Operation Business Model

We work to develop products that anticipate potential consumer desires, identifying wishes before the consumers notice these wishes themselves. Through easy-to-understand marketing, we heighten recognition among consumers and cultivate niche markets.

1. Development of an idea

Idea development by research & development members

- By category
- By brand

Idea proposal system

- 15,000 ideas proposed every year (new products)

2. Assessment of the idea & selection of candidates for development

Idea meeting
Idea presentation

Held every month

- Quick decision making by the President

Research

- Assessment of the idea
- Evaluation based on customer needs and marketability

Collecting ideas to make our customers' wishes come true

One of our single greatest characteristics is that we launch product development not from a mere technological perspective, but from an understanding of consumer needs. Teams, including developers and brand managers, work in categories and work together to propose ideas for new products from their own individual standpoints. Additionally, any employee is free to access the company intranet to propose an idea, and every year we collect around 15,000 proposals from employees.

Identifying the marketability of ideas through research

Ideas for new products in each category are presented at monthly Idea Meetings, attended by top management, including the president, where decisions are made on whether to proceed with development. By concentrating development of products purely on ideas that are truly desired by consumers, we are able to reduce development time and handle costs more efficiently.

An example of "You make a wish and we make it happen" in practice: Creating a market for cooling gel sheets through the *Netsusama Sheet*

The standard method of dealing with fevers due to colds, etc., has always been to cool the forehead using a wet towel or ice cubes. Our *Netsusama Sheet* launched in 1994 was based on the ground-breaking concept of attaching a sheet to the forehead. This concept won popularity among consumers, and *Netsusama Sheet* went on to become one of our hit products.

Consumer dissatisfaction expressed through questionnaires:

- A wet towel soon becomes warm.
- It is difficult to use ice cubes and you must prepare them in advance.
- Towels and ice, etc., soon fall off your forehead.

Providing new value with the *Netsusama Sheet*, which provides easy cooling power

- Sticks to the forehead and doesn't fall off even when you turn over in your sleep
- Prolonged cooling effect from the gel sheets, which have water among their ingredients
- Can easily be used to deal with the sudden onset of fever by simply peeling off the transparent film

3. Product development & process management

Concurrent development process

Kobayashi's original development process, where various development-related works proceed concurrently

Research & development

Trial production & preparation for production

Sales & promotion planning

Quality guarantee

Development Committee

Ultimate decision making meeting for product development hosted by the President

4. Market testing

Marketing test

Production/sales forecasts

Product improvement

Assessment & preparation for nationwide sales

Launch

Bi-annual launch (spring and autumn) of new products

Speedy product development takes an average of 13 months* from concept to shop shelf

In order to beat our rivals in bringing new products to the market, we employ a concurrent development method, whereby the various processes involved in product development are advanced simultaneously. Brand, R&D, and technology managers are all involved from the idea generation stage, and by proceeding with development using this variety of expertise, we are able to realize precise and effective development based on thorough knowledge of needs, markets, formulas and designs.

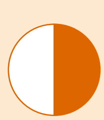
* Excluding pharmaceuticals

Marketing to boost the hit ratio of new products

We engage in diligent efforts to ensure that merely by looking at product packaging or hearing the product name it is obvious what the product is to be used for. We implement package tests, which confirm whether the product concept has been incorporated in packaging, and test sales, which confirm in-store sales results in comparison to our own existing brands and those of our rivals. Only after products have cleared these predetermined criteria do we make a decision on a national scale product launch.

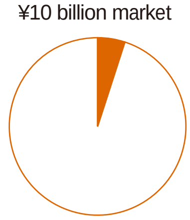
The key to high earnings is maintaining a high share of niche markets

Big fish in a small pond
¥1 billion market



50%=¥500 million

Small fish in a big pond
¥10 billion market



5%=¥500 million

As a development focused company, we seek to make our customers' wishes happen and also to secure first-mover advantages by cultivating new markets. Being "a big fish in a small pond" means "maintaining a high share and high profitability in the niche markets that we have cultivated."

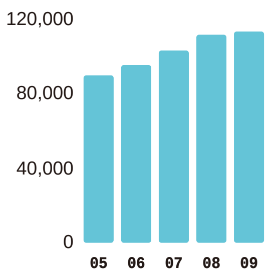
Competitors entering a market category that we have cultivated help to draw an increasing number of consumers to the category, creating a virtuous cycle where sales of our products increase as the market expands.

Consequently, we have achieved a high operating income to net sales ratio (12.6% in the year ended March 2009) relative to our peers.

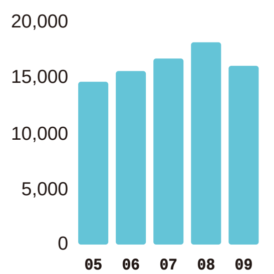
Consumer Products Operation

In addition to further strengthening our position on striving to meet customers' wishes, we are pushing for further growth through active investment in fields where future market expansion is anticipated.

Net Sales



Operating Income



* Operating income decreased due to the loss on disposal or write-offs of inventories being recorded as the cost of sales in the fiscal year ended March 2009. Had the same accounting standards been applicable in the previous year, operating income in the fiscal year ended March 2009 would have been 9.8% higher.

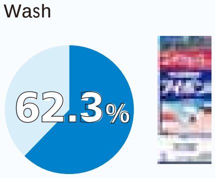
New products launched in spring 2009

Visrrat Gold a · *Tenshi-no-mimikaki* · *Toilet-senjo-chu Sabotta Ring* · *Shoshu Suikomu* · *Irui No Shoshu Shabon*

Dental Dr. Curve Interdental Toothbrush · *Sarasarty SoLaLa♪* · *Netsusama Hinnyari Hair Band* · *Megane Cleaner Awa Shampoo*

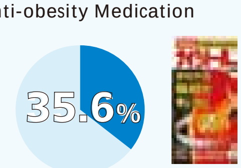
Market Share of Principal Brands (Pie Chart)

Eye Wash



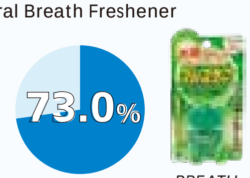
Eyebon

Anti-obesity Medication



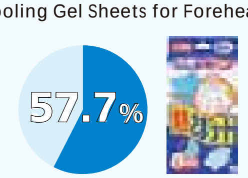
Nicitol 85

Oral Breath Freshener



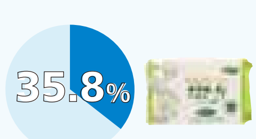
BREATH CARE

Cooling Gel Sheets for Forehead



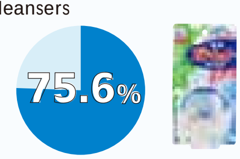
Netsusama Sheet

Sanitary Sheets



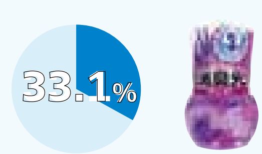
Sarasarty

Deodorizing Toilet Bowl Cleansers



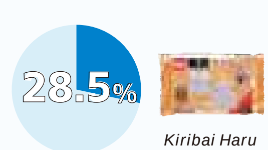
Bluelet

Deodorizing Air Fresheners



Shoshugen

Body Warmers



Kiribai Haru

Source: Kobayashi Pharmaceutical's research

Focus on the Healthcare Market

Future growth is anticipated in areas connected with such key themes as lifestyle-related disease, physical discomfort and aging, and the Company is investing aggressively in these areas. In terms of lifestyle-related diseases, metabolic syndrome has become a social problem, and many companies are looking to enter the market in this area. Kobayashi Pharmaceutical led the industry with the launch of *Nicitol 85* in spring of 2006, which was followed by *Visrrat Gold a* in spring of 2009. Going forward, we will continue to develop new healthcare products.

Strengthening the Mail-order Business

The mail-order business has been positioned as a future growth field. In April 2009 through an organizational restructuring, we placed the Mail-Order Business Division under the direct control of the president, and we will move to further accelerate business development. We are developing this area based on current products such as nutritional supplements, and the skincare brands *hifmid* and *Real Labo*. Our strict standards as a pharmaceutical company in selecting ingredients, and decisions on composition and configuration give them high reliability, which has been a major factor in differentiating our products in the market, leading to a steady rise in sales. We will continue to strengthen efforts meant to emphasize to customers our focus on quality and reliability as a pharmaceutical company, something which is difficult to put across in a store environment.

Strengthening the Foundations of Overseas Business

Currently we are aggressively developing our business in the U.S., China and the U.K., and moving forward, we are looking to further strengthen our overseas business foundations in Asia as a whole and the BRIC countries.

One pillar of our overseas strategy is expanding the number of sales channels for body warmers. In November 2006, we made HeatMax, Inc., a wholly owned subsidiary. HeatMax not only boasts the No. 1 market share in the U.S. body warmer market, but also focuses on the field of therapeutic body warmers by aggressively pursuing sales of its own brand, as well as OEM products sold through major drugstore chains and volume retailers. By further leveraging HeatMax's distribution network and high profit margins, we anticipate further expansion of U.S. business. Additionally, in China, which continues to experience high economic growth, the markets for deodorizing air fresheners, body warmers, and other consumer products continue to expand steadily. Also, in China and elsewhere in East Asia, we are reinforcing our sales structure and increasing sales.

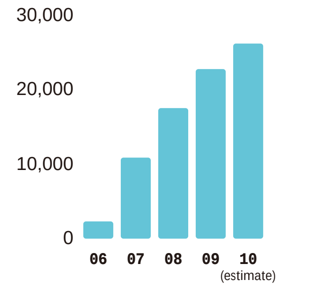
M&A Strategy

As a means of achieving future growth, the pursuit of M&A is another vital component in combination with new product development. We are identifying and considering M&A that will not merely expand the scale of our business, but also work in synergy with existing businesses to further accelerate the growth of the companies we purchase.

In the domestic and overseas markets, against the backdrop of consumers becoming increasingly health-oriented, we will target healthcare-related companies and brands for which market expansion is anticipated.

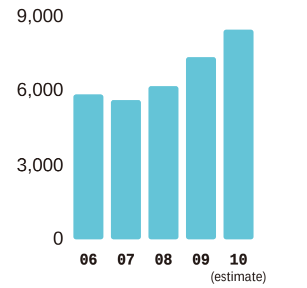
Market for Anti-obesity Medication

(Millions of yen)



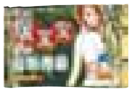
Net Sales of Mail-order Business

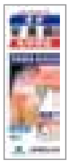
(Millions of yen)

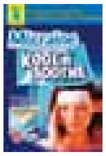


Products Sold Overseas


HOT HANDS


Nuan Bao Bao


AMMELTZ

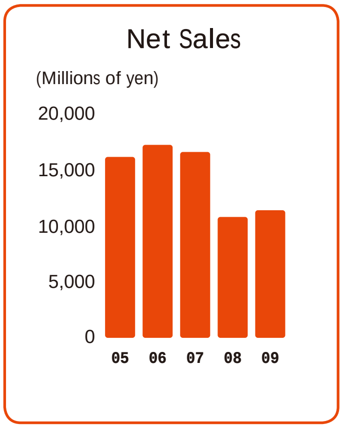

Kool'n' Soothe

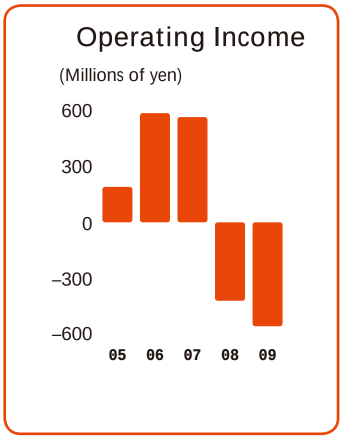
Major M&As
(subsidiaries, trademarks)

2001	Kiribai Chemical Co., Ltd.
2002	*Tochucha*
2005	*Inochi No Haha A*
2006	HeatMax, Inc.
2009	*Visrrat Gold a*

Medical Devices Operation

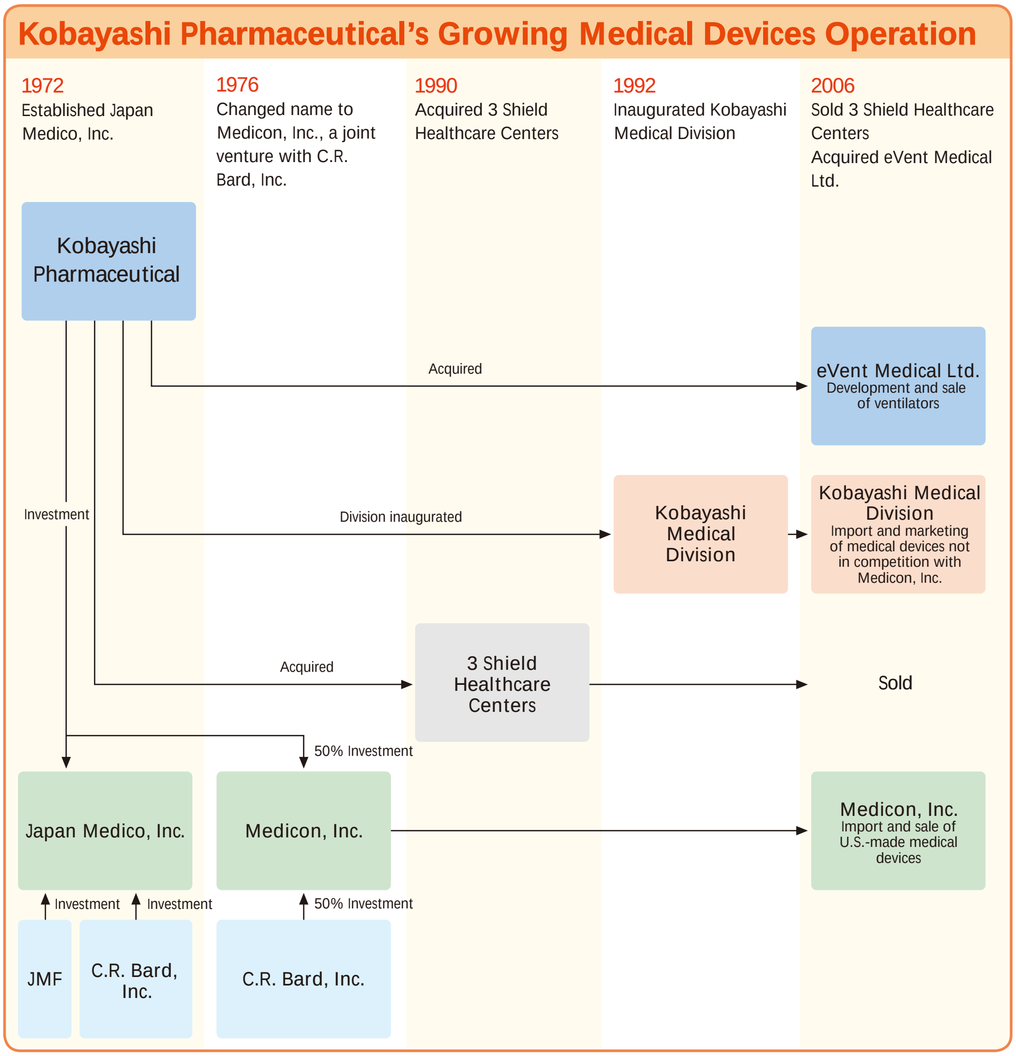
We are advancing our Medical Devices Operation as both a trading company and a manufacturer, ensuring that all our business activities are founded on safety, reliability and trust.





Overview of Medical Devices Operation

The Medical Devices Operation comprises Kobayashi Medical Division, eVent Medical Ltd., an overseas subsidiary, and Medicon, Inc., a joint venture with C.R. Bard, Inc. of the U.S. The Kobayashi Medical Division principally handles medical devices in the fields of orthopedics, surgical and operating rooms, pulmonology and brain surgery and otology, and imports and sells leading-edge medical devices from abroad into Japan. We also develop products required by medical institutions in Japan under our own *Kobamed* brand. Since its founding, eVent has worked to develop, manufacture, and sell reliable ventilators that are easy for clinicians to use and trouble-free. Medicon imports and sells leading-edge medical instruments and devices developed by C.R. Bard, focusing on the urological and gastrointestinal fields.



Global Expansion through eVent

Consolidated subsidiary eVent develops, manufactures, and sells reliable ventilators that are easy for clinicians to use and trouble-free. It has already built a sales network encompassing many countries in Europe, Asia, and the U.S., which is already reaping results. With regard to the existing "Inspiration" line, eVent continues to implement upgrades and improvements to hardware and software, and make efforts to boost product usability and quality. In addition, eVent is currently working on development of new lost cost products with high functionality, and global launch and deployment is planned from autumn 2009, focusing predominantly on emerging countries where needs for low cost and highly functional products are greatest. eVent is also phasing in sales in Japan through the Kobayashi Medical Division, and aims to expand uptake of its own-brand ventilators.

Ventilators targeting international markets
Inspiration LS (left)
Inspiration Infant (right)

Establishing Profitability through Selectivity and Concentration

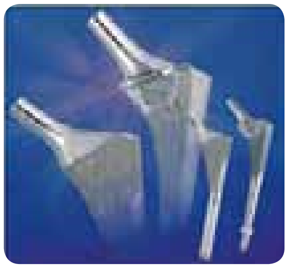
Kobayashi Medical Division has established a product development center in order to add manufacturing capabilities to its expanding trading company functions. The center launched our own *Kobamed* brand in order to offer products designed for the Japanese market. Products launched under this brand to date include the KIPEX hip prosthesis system.

We achieved an increase in net sales by 7.5% for the fiscal year ended March 2009, and will continue to promote our manufacturing capability in order to further increase sales and profits. We will continue selecting and concentrating on the most promising products to gain the top market share by narrowing the focus of our brand, even within Kobayashi Medical Division's specialist domains. In doing so, we will aim to become a more profitable enterprise.

By department, in the orthopedic department, in addition to our existing Acumed brand, we will utilize the Company's strengths by focusing on our proprietary KIAPEX and other products and enhancing products used for upper and lower limb fractures. We will also work to strengthen our business in the future in the area of anesthesiology and respiratory care, concentrating on the Parker Flex-Tip Tracheal Tube, sales of which were launched in autumn 2008. In addition, we are focusing on electrosurgical generators for operating room equipment, and Custom Cerapest for neurosurgery and otolaryngology, with the goal of becoming No. 1 in each field.

Brands Focused on by the Kobayashi Medical Division

Orthopedics

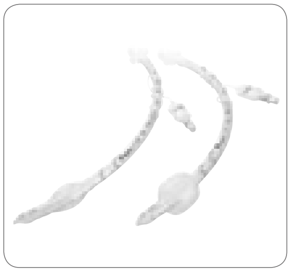


KOBAYASHI Pharmaceutical Co., Ltd.
Kobamed KIAPEX
Bipolar hip prosthesis system

Surgical and operating rooms

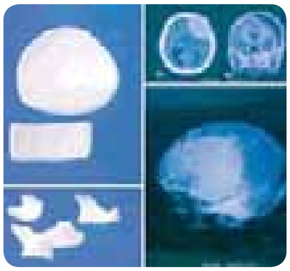
CONMED Corporation
System 5000™
Electrosurgical generator

Pulmonology and anesthesiology



Parker Medical, Inc.
Parker Flex-Tip Tracheal Tube
Tracheal tube

Brain surgery and otology



NGK Spark Plug Co., Ltd.
Ceratite®
Custom-made bone prostheses

Overview of Operations

Kobayashi Pharmaceutical Group's Approach to CSR

The fulfillment of our role as a member of society involves various factors such as the provision of safe and reassuring products and services, and giving due consideration to our employees, who are responsible for these products and services. In addition, companies are able to contribute to local communities and to find solutions to social problems in a way that individuals and other organizations cannot. The Kobayashi Pharmaceutical Group aims to fulfill these roles as a group that is trusted by society.

Quality Assurance Framework

In order to provide people and society with outstanding comfort, it is essential to ensure robust product quality. At the Kobayashi Pharmaceutical Group, we ensure that each and every employee is fully aware that quality is the lifeblood of the Company and we have developed a framework to assure quality. However, the level of quality demanded by our customers and society continues to rise every year. Given these circumstances, we are never complacent about our current quality assurance framework, as we work actively to detect changes in society quickly and advance our framework.

Development (Product Design) Stage

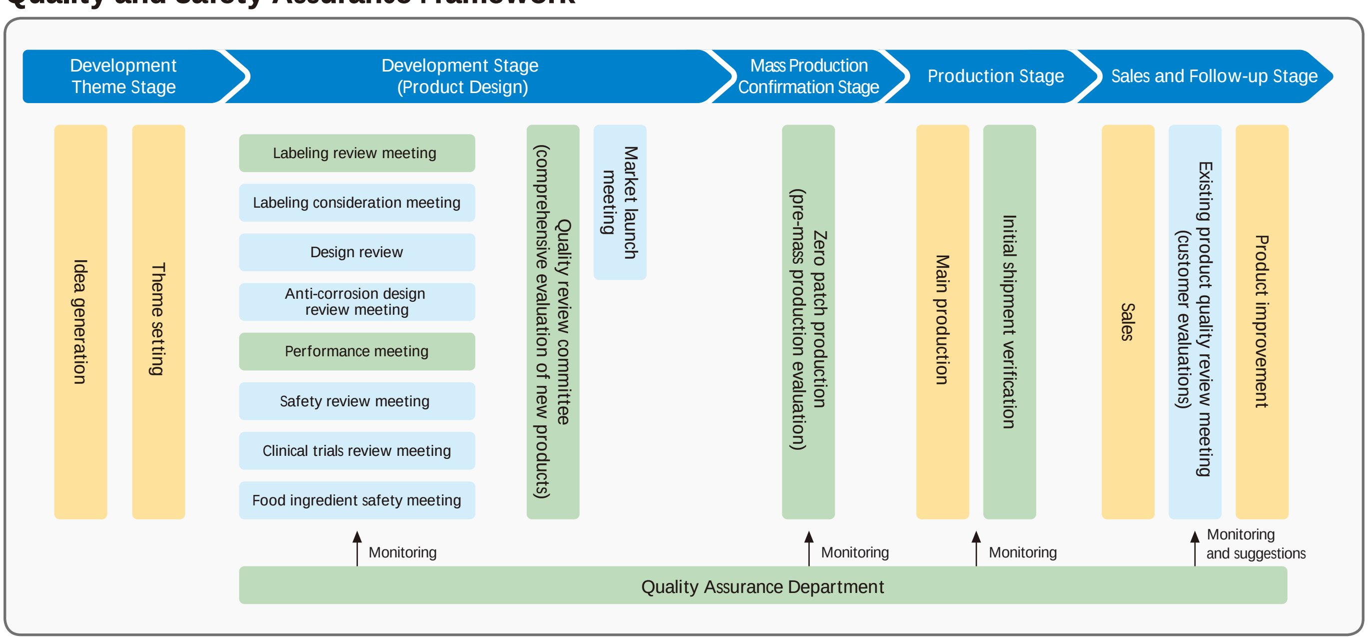
We place particular importance on product design as a means of establishing quality products and services that are trusted by our customers and society. This is due to the fact that if there is a problem with design, no matter how precisely other processes thereafter are implemented, it will ultimately not be possible to prevent quality issues.

Items that lead to significant quality issues are dealt with individually in the form of a review meeting. By having a number of people recognize and confirm quality issues from all angles, we conduct development speedily yet with due diligence and care.

Mass Production Confirmation and Production Stages

In the mass production confirmation stage, when a product is transferred from the development to the production stage, we establish production criteria through which we can ensure stable quality in mass production. This is an extremely important phase, as it is at this point that the production criteria are created from which all production will be implemented. In order to ensure that stable production is maintained throughout the production phase, we engage in various efforts, including the creation of operating manuals, the adjustment of equipment and machinery, the training of employees, and environmental improvements. We also engage proactively in improvement actions, working on a daily basis to improve quality.

Quality and Safety Assurance Framework



Sales and Follow-up Stage

After the launch of a product, our customers contact the Customer Consulting Office with a variety of inquiries or observations. These views are a real asset as each represents a valuable opinion on a point that we may not have noticed ourselves. Once a month, we hold a review meeting on existing product quality, at which customer opinions are provided to the design teams. These opinions are useful in improving product quality, for example changing the shape of containers and altering package labeling.

Reduction of Overtime Work

Since 2008 we have been implementing a project, headed by the president of the Company himself, which aims to reduce overtime work. We have established "leave work early days," when all employees leave the office by 7 p.m. The results of this project are posted on the company intranet, and by making the results easy to access and visualize, we have also achieved a natural boost in awareness of the project among employees.

In addition, while management and executive level employees are, as a matter of course, given training on labor management, they are also encouraged to actively and continuously discuss working practices that strengthen both the individual and society.

We believe that working practices that take into account such operational efficiency will contribute to helping employees refresh themselves in body and soul and improve the work-life balance. We will continue to engage positively in such activities.

Social Contribution Activities

Donation of Wheelchairs

Kobayashi Pharmaceutical has donated a total of 85 wheelchairs to public-sector care facilities through the auspices of regional social welfare councils throughout Japan. From the fiscal year ended March 2009, we have been donating one wheelchair for every ¥100 million generated in consolidated net income. Representatives of the facilities receiving the wheelchairs have expressed words of appreciation for our scheme. On the occasion of the presentation of the wheelchairs we were able to learn more about the current necessity for wheelchairs, due to increasing loans to public facilities and for use in homes for the elderly, etc. Based on these experiences, Kobayashi Pharmaceutical Group plans to continue its wheelchair donations in the future.

Osaka: Todomatsu-en

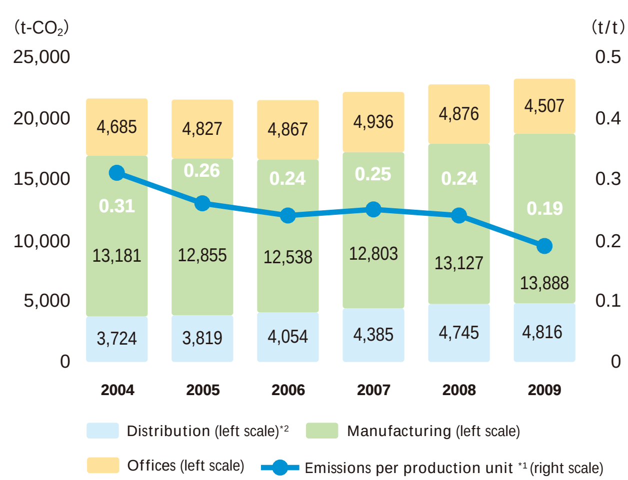
Tokyo: Kashiwa-en, Kita-Shinjuku

Environmental Initiatives

It is essential that the volumes of greenhouse gases we emit are controlled, as a means of preventing global warming. At Kobayashi Pharmaceutical Group, we are making efforts to reduce CO_2, the gas among greenhouse gases that is generated in the largest quantities in the course of our business activities.

In manufacturing divisions, due to the addition of Kiribai Kobayashi Pharmaceutical Co., Ltd. to consolidated results for the fiscal year ended March 2009, the volume of total emissions rose by 761 tons. However, per production unit, our emissions fell 20.7% year-on-year. If Kiribai Kobayashi Pharmaceutical Co., Ltd. is excluded, we achieve a reduction in overall emissions of 273 tons, or 1.7% per production unit, achieving our target.

CO_2 Emissions Volume



*1 Emissions per production unit
A means of linking regulation of CO_2 emissions to the level of manufacturing activity, rather than specifying total emission volume. At Kobayashi Pharmaceutical the emissions volume from manufacturing is calculated based on production weighting.

*2 Distribution figures are estimates for the fiscal years ended March 2004 to 2008.

Corporate Governance

Enhancing Management Transparency and Soundness and Long-term Corporate Value

The Kobayashi Pharmaceutical Group aims to win the support of all stakeholders, including customers, shareholders, business partners, employees and local communities, namely by reinforcing management supervision and observing corporate ethics and thus enhancing transparency and soundness, and enables the Company to adhere to its fundamental management philosophy of continuously and sustainably increasing corporate value. Moreover, we aim to raise corporate value further by establishing robust corporate governance to ensure that the Company is better able to adapt rapidly to changes in the ever-evolving business environment.

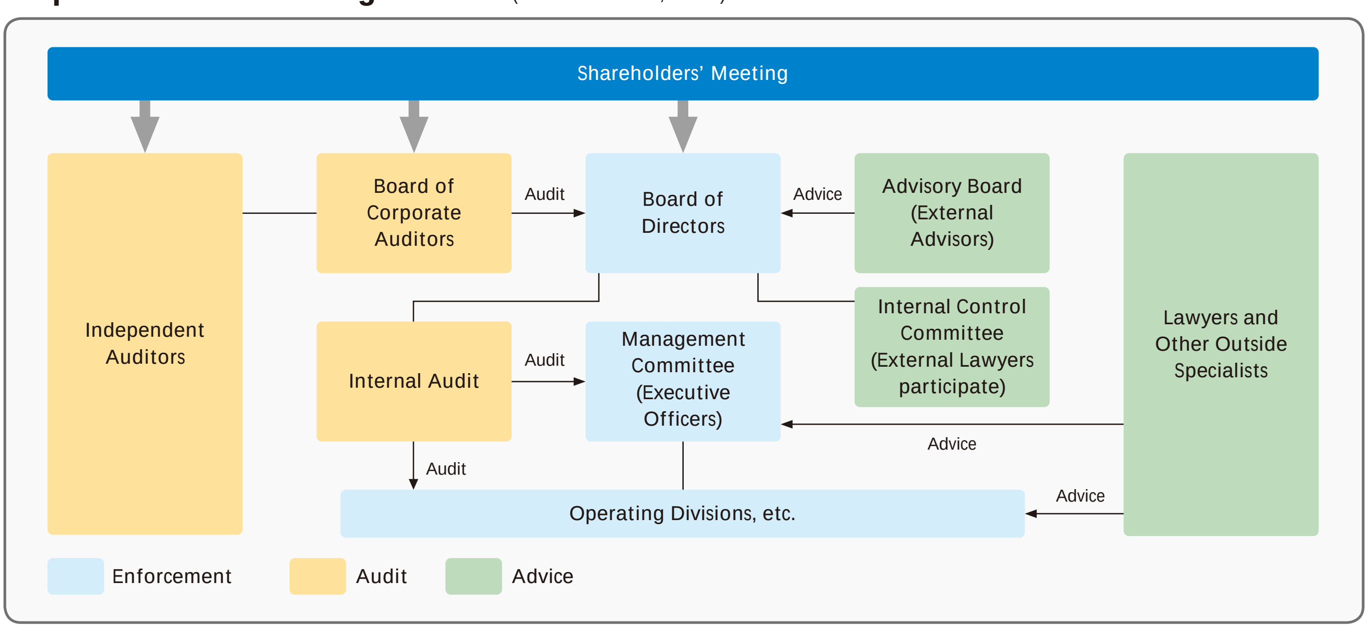
Establishing a Framework for Corporate Governance

In June 2000, the management structure of Kobayashi Pharmaceutical was reshaped to promote the separation of management and business execution functions. Reforms included the adoption of an executive officer system and an "in-house company system." Furthermore, in April 2004, the Company introduced a system whereby executive officers execute business operations under the president and general managers of operating divisions, while the Board of Directors, headed by the chairman, oversees these activities. Through the establishment of this framework, the Company has accelerated business execution by executive officers, as well as reinforcing the monitoring functions, and thus realized both management speed and transparency. In addition, the number of directors has been reduced to an optimal level to revitalize the Board of Directors.

The Board of Directors holds regular monthly meetings and special meetings as necessary. The Board decides on important matters relating to management and other issues required by law and regulations, and regularly monitors the execution of operations. In addition, in June 2008, the Company appointed one outside director, further bolstering the ability to oversee and audit business execution. The Company's auditors attend important meetings such as management meetings, as well as hold periodical meetings with the representative directors to grasp the status of business execution, thereby further reinforcing monitoring functions. Moreover, an internal audit division independent from the business execution divisions monitors items such as business processes, thus evaluating and inspecting their adequacy. For major group companies, the auditor and the internal audit division work together to conduct periodical audits.

In the fiscal year ended March 31, 2009, with the introduction of internal control and management based on the Financial Instruments and Exchange Act, Kobayashi Pharmaceutical has been working on the establishment and strengthening of its governance framework in order to maintain the credibility of its financial reporting.

Corporate Governance Organization (As of March 31, 2009)



Compliance

Working on Various Measures, Based on Our Code of Conduct on Legal Compliance and Emphasis on Ethics

As a matter of course, companies are required to follow various laws, but they also have a responsibility to act ethically. Therefore, not only must our business activities be "compliant with various laws," but they must also be "adequate from the viewpoint of the public or society, as well as from a common sense standpoint." Given these requirements imposed upon us by society, we must conduct our management activities cognizant not only of internal views and opinions, but also of those outside of the Kobayashi Pharmaceutical Group. We take external viewpoints into consideration through the act of management, namely by appointing outside directors and requesting external experts to attend various meetings. Moreover, we conduct training with a focus on increasing ethical standards among our employees, as well as other measures.

Compliance Structure

In April 2003, Kobayashi Pharmaceutical established a Compliance Committee that reports directly to the Board of Directors. The president of the Company chairs this committee, which, with the assistance of outside legal counsel, supervises the compliance system of the entire Kobayashi Pharmaceutical Group. In addition to offering advance and guidance on measures to be taken, the Committee promotes and strengthens awareness of compliance-related matters across all Group activities. In May 2007, the name was changed to the Internal Control Committee, and it took charge of overseeing internal control systems as stipulated in the Companies Act and the Financial Instruments and Exchange Act, and ensuring that the Group is in compliance with the relevant laws.

Compliance Training

In the fiscal year ended March 2009, all directors and managers attended compliance training.

In training for directors, we covered topics related to actual business execution, such as internal controls mandated by the Companies Act, the Financial Instruments and Exchange Act, and, the Law for Preventing Unjustifiable Extra or Unexpected Benefit and Misleading Representation. We also included issues arising in everyday execution as well as recent case studies.

In training for managers, we covered topics such as employee-generated scandals, workplace environments that can potentially lead to corporate scandals, and ethical codes to be followed in relation to product quality and labeling, as well as full implementation of legal procedures required in business operations, based on cases which could potentially occur, together with case studies of incidents that had actually occurred in the past. By using past cases and other material, attendees were able to imagine actual scenarios in everyday business operations, making the training more practical. Group discussions also helped make the training more meaningful, with managers sharing the issues and challenges that they face in their respective workplaces. We will continue conducting training using actual cases and other materials.

Training for directors

Training for managers

Education via the Group Newsletter and Intranet

Commencing in the fiscal year ended March 2007, the Group newsletter has included a regular column entitled "You, Me, and Compliance," which seeks to enhance employees' awareness of compliance issues. In addition, beginning in February 2007, we have successively distributed video case studies using the Group intranet. On top of this, we publish commentaries covering compliance-related news, and are striving to raise greater awareness of these issues.

Employee Consulting Centers

In January 2003, Employee Consulting Centers were established both inside and outside the Group (in a legal counsel's office) to give employees a venue for consultation and asking questions about compliance-related issues. In April 2006, we expanded the coverage of these Centers from all current employees of the Kobayashi Pharmaceutical Group to include retired employees as well as business partner company employees, and have increased the number of external legal counsel offices from 1 to 2. During the fiscal year ended March 2009, we established a toll-free number to facilitate consultation and reporting, and revised the year-old internal poster to further deepen awareness.

Employee Consulting Centers poster

Aiming to be a Trustworthy Company

Corporate Brand Management

With the brand slogan, "You make a wish and we make it happen," Kobayashi Pharmaceutical is implementing corporate brand management aimed at enhancing corporate value.

Formulation of a Group Brand Charter to Realize Our Management Philosophy and Improve the Value of Our Brand

Based on the concept of "becoming a company with value for even more customers (stakeholders)," since 2003 we have been engaging in corporate brand management efforts. Corporate value varies for each stakeholder, but we believe that the source of this value lies with our customers. Providing satisfaction to more customers through our products and services leads to improved earning performance, which leads to the provision of satisfaction for other stakeholders, including shareholders and employees. We believe that thoroughly engaging in efforts to realize outstanding customer orientation forms the core of corporate brand management activities.

Based on this concept, we created our Group Brand Charter after thorough discussions among the various Business Operations Headquarters and group companies. The Group Brand Charter is an expression of the vision of all Group employees and our corporate character, as well as our relations of trust with society and our customers, our hopes and our corporate philosophy.

Establishment of Three New Areas for Focused Challenge

In the fiscal year ended March 2008, we launched the Group-wide Corporate Brand Project. Having identified and set out our concept for corporate brand and corporate value improvement, as detailed in Chart 1, we set about formulating challenges and proposals.

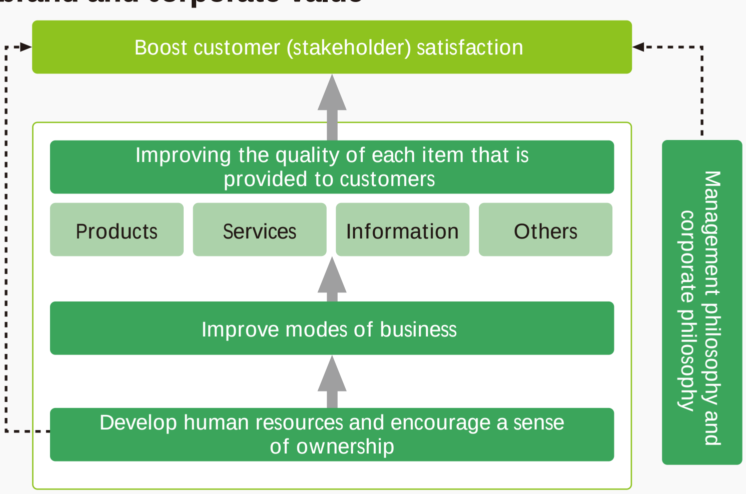
During the fiscal year ended March 31, 2009, we implemented questionnaire surveys targeting consumers, business partners and employees, as a means of gaining an even greater insight into awareness outside the Company. Based on proposals from the company-wide project and these questionnaires we have established the following three specific areas to focus on as we move to improve our corporate brand.

Pursue quality in product manufacturing
Deepen bonds with customers
Boost confidence among employees

Based on the belief that boosting customer trust lies at the root of brand power, we will focus on these three areas, creating specific action plans that we will put into practice.

In engaging in these efforts, we seek to be able to provide even more attractive products and services to our customers. In order for employees to make a contribution to customers and to society, each and every employee will move forward a step at a time in the course of their own work.

(Chart 1) Concepts for improving corporate brand and corporate value



Group Brand Charter

Our mission is to not only make products that our customers want now but to also develop new and innovative products for our customer's future needs.

True to our brand slogan of "You make a wish and we make it happen," we will strive to research, develop, manufacture, and deliver products as quickly as possible.

Products and services will be developed to the highest standards and quality to exceed our customers' expectations.

Our dream is to share the small gifts from everyday life with people the world over.

We are committed to being on innovate, development focused company that contributes to society, builds lasting relationships with customers, and exceeds all expectations in customer satisfaction.

Directors, Corporate Auditors and Officers

As of June 26, 2009

Directors

Kazumasa Kobayashi
Chairman and Chief Executive Officer

Yutaka Kobayashi
President and Chief Operating Officer

Akihiro Kobayashi
Senior Executive Director
Senior General Manager
Product Business Headquarters

Jyoji Miki
Senior Executive Director
General Manager
Household Division
Product Business Headquarters

Masaaki Tanaka
Executive Director
General Manager
International Business Division

Takashi Tsujino
Executive Director
General Manager
Health Care Division
Product Business Headquarters

Satoshi Yamane
Director
Senior General Manager
Group Corporate Business Headquarters

Haruo Tsuji
Outside Director

Corporate Auditors

Toshiyuki Morii
Statutory Auditor

Masahiro Hiraoka
Statutory Auditor

Hiroshi Hayashi
Outside Auditor

Ryuji Sakai
Outside Auditor

Senior Executive Officer

Susumu Horiuchi
General Manager
Product Sales Division
Product Business Headquarters

* The Company introduced the executive officer system. Six directors—Yutaka Kobayashi, Akihiro Kobayashi, Jyoji Miki, Masaaki Tanaka, Takashi Tsujino, and Satoshi Yamane—each concurrently serve as executive officers.

Executive Officers

Hiroshi Nomoto
President
Kiribai Chemical Co., Ltd.

Takafumi Sakaguchi
President
Kobayashi Medical Company

Hidetsugu Yamamoto
President
Business System Center

Kunio Moriya
General Manager of the Tokyo Metropolitan Area
Product Sales Division
Product Business Headquarters

Toshio Nanba
General Manager
Research and Development Division

Tetsushi Nishioka
General Manager
Manufacturing Division

Management's Discussion and Analysis

"You make a wish and we make it happen"

The Kobayashi Pharmaceutical Group follows a management policy that defines the Company's mission as providing people and society with comfort through continuous "Creativity and Innovation." We will continue to work toward realizing the concept of our brand slogan, "You make a wish and we make it happen," by providing products and services for the health, comfort and happiness of all stakeholders.

Kobayashi Pharmaceutical is committed to the ongoing pursuit of "Something New, Something Different" through the development of products and services that meet consumer needs in the current age of rapid change and intensifying competition. We believe that this process is the driving force behind growth, and through this pursuit, we will work to raise stakeholder satisfaction by increasing the Group's corporate value.

Scope of Consolidation and Application of the Equity Method

Kobayashi Pharmaceutical has 25 consolidated subsidiaries (12 in Japan and 13 overseas) and 2* affiliates in Japan accounted for by the equity method. The Company classifies its business activities into three segments: the Consumer Products Operation (14 consolidated subsidiaries and 1 equity-method affiliate); the Medical Devices Operation (4 consolidated subsidiaries and 1 equity-method affiliate); and Other Operations (7 consolidated subsidiaries).

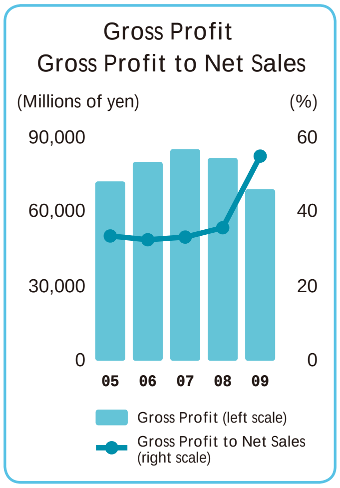
* As Itoh Kanpo Pharmaceutical Co., Ltd. is no longer an equity method affiliate as of April 28, 2009, currently Kobayashi Pharmaceutical has only one equity-method affiliate in Japan.

Overview of Consolidated Business Results

In the fiscal year ended March 31, 2009, the Japanese economy was impacted by the financial crisis that originated with the subprime loan issue in the U.S. This resulted in the further spread among consumers of a defensive and savings-oriented sentiment, backed also by the worsening of companies' business results and the sluggish growth of employees' income, also caused by the financial crisis.

Under these circumstances, the Kobayashi Pharmaceutical Group fully exercised its management philosophy of "Creativity and Innovation," uncovering the potential needs of customers by providing products and services that create new markets, as well as working on activating the existing markets by providing products and services with newly added value.

Kobashou Co., Ltd., which operated the Wholesale Operation, became a wholly-owned subsidiary of Mediceo Paltac Holdings Co., Ltd., through a share swap in January 2008. The Group's net sales have declined as a result of this removal from the scope of consolidation. As for income, operating income declined while net income increased due to the application of the "Accounting Standards for Measurement of Inventories" starting from this fiscal year, which changed the valuation of inventory and the accounting procedures for valuation and disposal loss of inventory, impacting the cost of sales.



Net Sales

The Consumer Products Operation recorded an increase in net sales, mainly due to the contribution of new products and to stronger sales of our main existing products. Net sales also grew for the Medical Devices Operation, thanks to the strategy of placing a selective focus on certain products in the orthopedics and surgery room fields.

However, since the Wholesale Operation which used to generate approximately 60% of net sales was removed from the scope of consolidation, net sales for the fiscal year ended March 31, 2009 declined 45.1% year-on-year to ¥125,693 million.

Gross Profit and Operating Income

With the application of the "Accounting Standards for Measurement of Inventories" starting from this fiscal year, the valuation of inventory and the valuation/disposal loss have been booked at the cost of the sales level rather than the other expenses level. With the Wholesale Operation being removed from the scope of consolidation, cost of sales (after provisions for returned products) declined 61.4% year-on-year to ¥57,014 million, and gross profit (after provisions for returned products) declined 15.4% year-on-year to ¥68,679 million. Selling, general and administrative expenses declined 15.6% year-on-year to ¥52,861 million. As a result, operating income declined 14.8% year-on-year to ¥15,818 million. However, if the same "Accounting Standards for Measurement of Inventories" had been applied in the previous fiscal year, operating income for the previous fiscal year would have been ¥14,734 million, in which case this fiscal year's operating income would have seen a 7.4% (¥1,084 million) growth.

Moreover, the gross profit to net sales ratio has improved from the previous fiscal year's 35.5% to 54.6%, and the operating income to net sales ratio has improved from 8.1% in the previous fiscal year to 12.6%. This is mainly due to the Wholesale Operation, which had relatively low profit margins, being removed from the scope of consolidation.

Income before Income Taxes and Net Income

Other income was ¥452 million, up from the previous fiscal year which saw a loss of ¥2,776 million. This improvement is mainly attributable to the "Accounting Standards for Measurement of Inventories" starting to be applied from this fiscal year, and the loss on disposal or write-offs of inventory being booked at the cost of sales level instead of the other income (expenses) level.

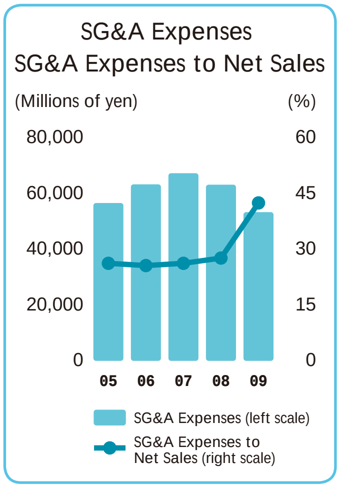
As a result, income before income taxes and minority interests grew by 3.0% year-on-year to ¥16,270 million, and net income increased 4.1% year-on-year to ¥8,853 million.

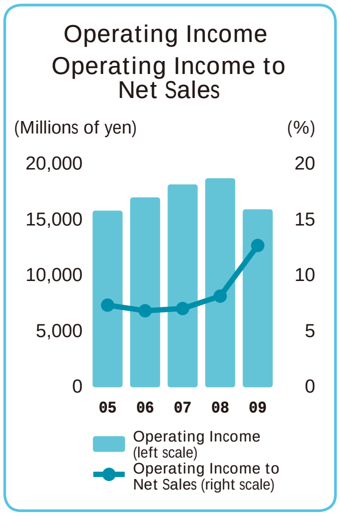
Net income per share grew 5.0%, from ¥205.62 in the previous fiscal year to ¥215.89.

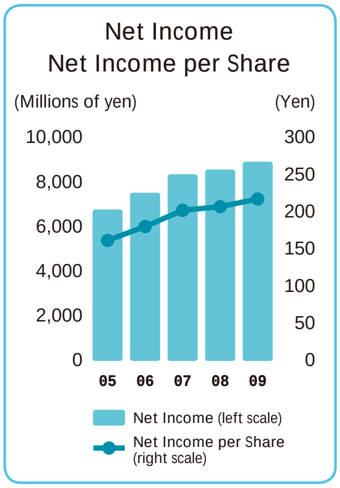
Segment Information

The Kobayashi Pharmaceutical Group classifies its business activities into three segments: the Consumer Products Operation, the Medical Devices Operation and Other Operations.

Net sales by segment include inter-group sales and transfers, which amounted to ¥32,879 million in the fiscal year ended March 31, 2008 and ¥5,534 million in the fiscal year ended March 31, 2009.







Financial Section

Net Sales and Operating Income (Loss) by Segment

Net Sales

(Millions of yen)

Consumer Products Operation	2005	2006	2007	2008	2009
Sales to third parties	67,525	68,869	71,717	84,707	112,594
Inter-group sales and transfers	21,749	25,908	30,786	26,213	27
	89,274	94,777	102,503	110,920	112,621
Wholesale Operation					
Sales to third parties	128,356	156,934	164,839	131,603	–
Inter-group sales and transfers	–	0	1	360	–
	128,356	156,934	164,840	131,963	–
Medical Devices Operation					
Sales to third parties	16,056	17,127	16,496	10,729	11,325
Other Operations					
Sales to third parties	3,771	3,923	3,970	1,788	1,774
Inter-group sales and transfers	8,434	9,053	9,143	6,306	5,507
	12,205	12,976	13,113	8,094	7,281

Operating Income (Loss)

(Millions of yen)

	2005	2006	2007	2008	2009
Consumer Products Operation	14,493	15,447	16,560	18,005	15,911
Wholesale Operation	799	436	324	(131)	–
Medical Devices Operation	190	583	561	(419)	(555)
Other Operations	140	402	391	431	473

■ Consumer Products Operation

We launched 13 new consumer products (excluding nutritional supplements) in this segment, with the aim of creating new markets and expanding existing markets. Out of these new products, *Chikunain*, an OTC pharmaceuticals effective for chronic inflammation on nasal passages, medicated cosmetic water *Keshimin Eki*, which helps prevent blemishes and freckles, the taped sock *Aruku Tasuke*, which reduces the burden when walking and prevents the feet from getting tired, and *Nodo nu-ru nure masuku Hana ni Suutto*, which opens up the nasal passage and moisturizes the throat, contributed to our figures. On the other hand, major existing products such as *Bluelet*, the toilet tank cleanser that is one of our flagship brands, *Breath Care*, the breath freshener, *Shouyou*, the medical toothpaste which prevents periodontal disease and mail-order nutritional supplements, made a large contribution to both net sales and income.

Fiscal 2009 Net Sales and Operating Income

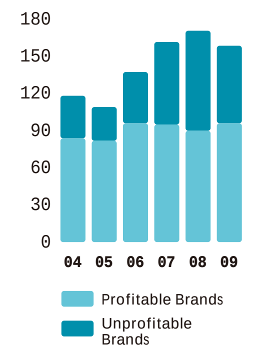
Net sales for the Consumer Products Operation in the fiscal year ended March 31, 2009 grew 1.5% year-on-year to ¥112,621 million. By category, net sales grew for the oral hygiene products, sanitary products and food products grew by 8.2%, 4.4% and 8.3% year-on-year respectively. Net sales for deodorizing air fresheners and household sundries were approximately in line with the previous fiscal year's figures. For pharmaceuticals and body warmers, net sales declined by 2.7% and 1.2% respectively. In terms of income, the "Accounting Standards for Measurement of Inventories" had an impact on the valuation of inventory as well as the changes in accounting procedures of the valuation/disposal of inventory had an impact on the cost of sales, operating income dropped 11.6% to ¥15,911 million.

Net Sales by Category

(Millions of yen)

	2008		2009		Changes	
	Sales	% of Total Sales	Sales	% of Total Sales	Amounts	Change (%)
Pharmaceuticals	21,702	19.6	21,117	18.7	(584)	(2.7)
Oral hygiene products	12,553	11.3	13,577	12.1	1,024	8.2
Sanitary products	14,714	13.3	15,368	13.6	654	4.4
Deodorizing air fresheners	30,578	27.6	30,383	27.0	(194)	(0.6)
Household sundries	4,265	3.8	4,247	3.8	(17)	(0.4)
Food products	11,991	10.8	12,982	11.5	991	8.3
Body warmers	15,116	13.6	14,942	13.3	(174)	(1.2)
Total	110,920	100.0	112,620	100.0	1,700	1.5

Number of Profitable and Unprofitable Brands



Trends in Number of Profitable and Unprofitable Brands

We have tightened our profitability control for existing brands, withdrawing some unprofitable products.

Moreover, we conducted test marketing in order to improve our hit ratio, and strictly followed our market launch standards for our new products. As a result, the number of unprofitable brands has decreased, while the number of profitable brands has increased.

	2004	2005	2006	2007	2008	2009
Profitable brands	83	81	95	94	89	95
Unprofitable brands	34	27	41	66	80	62

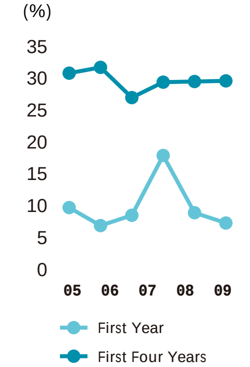
* The number of unprofitable brands includes certain new products.

New Products as a Percentage of Net Sales

(%)

	2004	2005	2006	2007	2008	2009
First year	9.8	7.0	8.6	17.9	9.0	7.4
First four years	30.7	31.6	26.9	29.3	29.4	29.5

New Products as a Percentage of Net Sales



Issues to be Addressed in the Fiscal Year Ending March 31, 2010

With the decline in consumer demand and the attraction towards low price, we have launched nine new products in order to meet the latent needs of customers, in order to stimulate demand through high value-added products. In the spring of 2009, we released *Visrrat Gold a*, which reduces access body fat by improving the body's metabolizing, the room deodorizer *Shoshu Suikomu*, which eliminates odors as air passes through a porous gel, the pleasant-feeling brush *Tenshi-no-mimikaki*, which provides an appropriate level of stimulation to the ear, and *Toilet-senjo-chu Sabotta Ring*, a bleaching agent cleanser for cleaning the black rings in toilet tanks. Moreover, we will continue to aggressively sell the existing brands through marketing plans set specifically for each brand.

On the other hand, we will continue to try to expand the overseas markets mainly our body warmers.

Based on these measures, net sales are expected to grow by 3.0% year-on-year in the fiscal year ending March 31, 2010 to ¥116,000 million.

Operating income is expected to be ¥16,400 million, a 3.1% increase compared to the fiscal year ended March 31, 2009.

Medical Devices Operation

The Kobayashi Medical Division, which leads the Medical Devices Operation, focused on selling surgical products such as electrosurgical generators, as well as on the orthopedics field, for which the market is hoped to expand in the future.

eVent Medical Ltd. in the U.S. aggressively promoted the ventilator in global markets, focusing mainly on the U.S. market.

Financial Section

Net Sales and Operating Income (Loss)

The Medical Devices Operation continued its domestic activities in the orthopedics and surgical and operating rooms fields, where market expansion can be expected, with the aim of raising brand awareness and expanding market share. As a result, net sales grew 5.6% year-on-year to ¥11,325 million.

As for net sales by category, net sales of Kobayashi Medical Division, with its strengths in orthopedics and surgical and operating rooms fields, increased 7.5% compared to the previous fiscal year, thanks to its strategy of focusing on certain products. For income, due to the continued investment in eVent Medical Ltd.'s (U.S.) ventilator business, operating loss was ¥555 million.

Net Sales by Category

(Millions of yen)

	2008		2009		Changes	
	Sales	% of Total Sales	Sales	% of Total Sales	Amount	Change (%)
Kobayashi Medical Division	8,847	82.5	9,507	84.0	660	7.5
eVent	868	8.1	719	6.3	(148)	(17.1)
Others	1,014	9.4	1,098	9.7	84	8.4
Total	10,729	100.0	11,325	100.0	596	5.6

Issues to be Addressed in the Fiscal Year Ending March 31, 2010

The Kobayashi Medical Division will further bolster its product lineups in existing fields, such as products related to the surgery room, ventilators and orthopedics. At the same time, it will aggressively pursue development of proprietary products. eVent Medical Ltd. (U.S.), meanwhile, will pursue the sales of ventilators globally but primarily in the U.S. As a result of these measures, we expect net sales to grow 6.0% year-on-year to ¥12,000 million.

Operating loss will be ¥100 million, a ¥455 million improvement compared to the fiscal year ended March 31, 2009.

■ Other Operations

Other operations, which include activities such as transportation, sales promotion and market research, are conducted to support the above two segments. Although each company conducts business on a financially independent basis, one of the objectives is to contribute to the profit of the above two business segments, and the Group reviewed the transfer values of the materials and services provided by companies in this segment.

As a result, net sales of other operations declined 10.0% year-on-year to ¥7,281 million, while operating income increased 9.6% year-on-year to ¥473 million.

Analysis of Financial Position

Assets

Total assets were ¥125,210 million as of March 31, 2009, an increase of 2.3% from the end of the previous fiscal year. Current assets increased 10.8% and came to ¥73,172 million. The main reasons for this increase were the increase in cash and time deposits by 32.9% (¥5,650 million), and the increase of trade notes and accounts receivable by 4.6% (¥1,208 million).

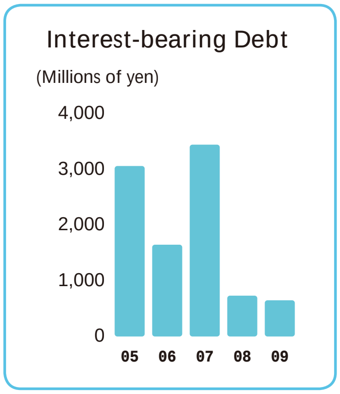
Property, plant and equipment, net, increased 15.6% to ¥17,618 million. This was mainly due to the application of new accounting standards, causing the leased assets to be booked on-balance.

Investments and other assets declined by 16.3% to ¥34,420 million. This was mainly caused by investments in securities declining by 25.7% (¥6,350 million).

Liabilities

Total liabilities as of March 31, 2009 were ¥48,846 million, up 8.0% from the end of the previous fiscal year. Current liabilities increased by 5.0% to ¥39,835 million. This was caused by the increase in accrued income taxes by 20.7% (¥765 million), as well as accrued expenses increasing by 4.2% (¥666 million). Short-term loans dropped by 36.2% to ¥463 million. Consequently, the current ratio improved by 9.6% and came to 183.7%.

Long-term liabilities were up 23.7% to ¥9,011 million. This was mainly due to the application of new accounting standards, causing the lease obligations to be booked on-balance.



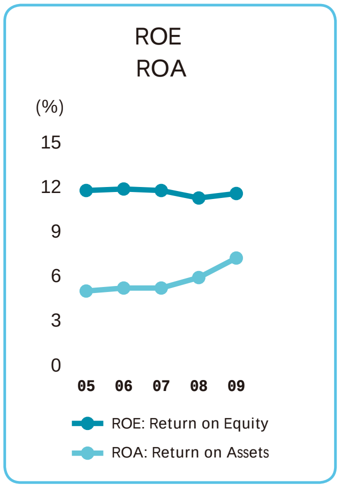
Net Assets

Net assets including minority interests as of March 31, 2009 came to ¥76,364 million, with retained earnings increasing by ¥6,548 million, while unrealized holding gain on securities declined ¥3,297 million and translation adjustment declined ¥2,638 million, respectively. Treasury stock, at cost, increased by ¥1,476 million to ¥4,706 million, due to acquisition conducted during the fiscal year. As a result, the equity ratio declined 2.1 percentage points from 63.0% to 60.9%. The return on equity (ROE) increased 0.3 percentage points from 11.2% to 11.5%. The ratio of net income to total assets (ROA) increased 0.3 percentage points from 6.9% to 7.2%.

Cash Flow Analysis

Cash Flows from Operating Activities

Net cash provided by operating activities was ¥12,849 million, a 5.4% increase compared with the previous fiscal year. The main factors were ¥16,270 million in income before income taxes and minority interests, ¥4,214 million in depreciation and amortization and ¥6,829 million in income tax paid.



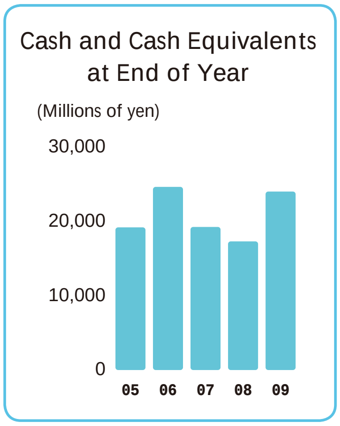
Cash Flows from Investment Activities

Net cash used in investment activities was ¥1,382 million, a 78.5% decrease from the previous fiscal year. This result was primarily due to ¥18,483 million used to purchase of short-term securities, ¥20,303 million in proceeds from redemption of short-term securities, ¥2,208 million in payments for purchases of property, plant and equipment, and ¥1,630 million for acquisition of investments in securities.

Cash Flows from Financing Activities

Net cash used in financing activities was ¥4,446 million, a 16.3% decrease compared with the previous fiscal year. Principal factors were ¥1,675 million used to purchase of treasury stock, and ¥2,305 million in dividends paid.

As a result of the above, cash and cash equivalents at end of year increased ¥6,649 million from a year earlier to ¥23,813 million.



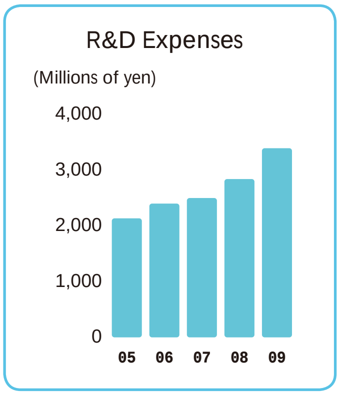
Financial Section

Cash Flows

(Millions of yen)

	2008	2009	Change (%)	
	Amount	Amount	Amount	Change (%)
Cash flows from operating activities	12,192	12,849	657	5.4
Cash flows from investing activities	(6,425)	(1,382)	5,043	(78.5)
Free cash flows	5,767	11,467	5,700	98.8
Cash flows from financing activities	(5,311)	(4,446)	865	(16.3)
Cash and cash equivalents at end of year	17,164	23,813	6,649	38.7

* Free cash flows = Cash flows from operating activities + Cash flows from investing activities



R&D Expenses

We believe that R&D underpins new product development, which is one of our core strengths. In the fiscal year ended March 31, 2009, the Consumer Products Operation developed 13 products, excluding nutritional supplements. These products, which will help consumers lead healthy and comfortable lives, were developed in six categories: pharmaceuticals, oral hygiene, sanitary products, deodorizing air fresheners, household sundries and food products.

In addition, the Medical Devices Operation worked aggressively to develop ventilators and jointly develop medical adhesives.

Consequently, R&D expenses included in selling, general and administrative expenses amounted to ¥3,361 million yen.

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.

(3) Risk Concerning Inability to Reap Anticipated Benefits of Mergers or Alliances

While enhancing product lineups through mergers and acquisitions, (M&A) and business alliances, the Group is 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 businesses are subject to the Pharmaceutical Affairs Act as well as other relevant laws and regulations. The Medical Devices Operation is particularly susceptible to reductions in NHI reimbursement prices. These and other factors could affect the Group's operating results and financial position.

(5) Product Liability Risk

The Group's products include pharmaceuticals, quasi-pharmaceuticals, cosmetics, medical equipment and foods. Any health problems caused to consumers or patients as a result of quality defects in these products may result in large damages to the Group. This could affect the Group's operating results and financial position.

(6) Changes in Raw Material Prices

The Group's Consumer Products Operation is 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 seasonal factors such as temperatures and airborne pollen counts, which could have a large impact on sales. Trends in sales of these products could therefore affect the Group's operating results and financial position.

(8) Overseas Business Risk

The Group's trading transactions, principally the import of medical devices, 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 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.

(9) Information Management and System Risk

The Group holds large volumes of information mainly as part of its mail-order shopping businesses, 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.

(10) 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.

(11) 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 Balance Sheets

Kobayashi Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
March 31, 2009 and 2008

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2009	**2008**	**2009**
Assets			
Current assets:			
Cash and time deposits *(Note 5)*	**¥ 22,814**	¥ 17,164	**$ 232,251**
Trade notes and accounts receivable	**27,439**	26,231	**279,334**
Securities *(Notes 5 and 6)*	**6,001**	5,799	**61,091**
Inventories:			
Commodities and finished goods	**10,503**	10,015	**106,923**
Work in process	**572**	720	**5,823**
Raw materials and supplies	**1,745**	1,618	**17,764**
	12,820	12,353	**130,510**
Deferred income taxes *(Note 13)*	**3,115**	3,199	**31,711**
Other current assets	**1,081**	1,326	**11,006**
Allowance for doubtful accounts	**(98)**	(3)	**(998)**
Total current assets	**73,172**	66,069	**744,905**
Property, plant and equipment:			
Land	**5,471**	5,245	**55,696**
Buildings and structures	**17,024**	16,989	**173,308**
Machinery, equipment and vehicles *(Note 14)*	**5,118**	4,739	**52,102**
Construction in progress	**314**	24	**3,197**
Leased assets *(Note 10)*	**2,611**	–	**26,580**
Other	**5,363**	5,168	**54,596**
	35,901	32,165	**365,479**
Accumulated depreciation	**(18,283)**	(16,929)	**(186,124)**
Property, plant and equipment, net	**17,618**	15,236	**179,355**
Investments and other assets:			
Investments in securities *(Note 6)*:			
Unconsolidated subsidiaries and affiliates	**6,521**	7,406	**66,385**
Other	**11,806**	17,271	**120,187**
	18,327	24,677	**186,572**
Deferred income taxes *(Note 13)*	**3,250**	985	**33,086**
Goodwill	**7,682**	10,675	**78,204**
Software	**918**	747	**9,345**
Other intangible assets	**1,444**	1,381	**14,700**
Other assets	**2,859**	2,713	**29,106**
Allowance for doubtful accounts	**(60)**	(73)	**(611)**
Total investments and other assets	**34,420**	41,105	**350,402**
Total assets	**¥ 125,210**	¥ 122,410	**$ 1,274,662**

Financial Section

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	**2008**	**2009**
Liabilities and Net Assets			
Current liabilities:			
Short-term loans *(Note 7)*	**¥ 463**	¥ 726	**$ 4,713**
Lease obligations *(Note 8)*	**647**	–	**6,587**
Trade notes and accounts payable	**15,533**	15,317	**158,129**
Accrued income taxes *(Note 13)*	**4,456**	3,691	**45,363**
Accrued expenses	**16,396**	15,730	**166,914**
Reserve for sales returns	**1,277**	1,245	**13,000**
Other current liabilities	**1,063**	1,232	**10,822**
Total current liabilities	**39,835**	37,941	**405,528**
Long-term liabilities:			
Long-term debt *(Note 7)*	**182**	–	**1,853**
Lease obligations *(Note 8)*	**1,503**	–	**15,301**
Accrued retirement benefits for employees *(Note 9)*	**4,678**	4,487	**47,623**
Accrued retirement benefits for directors and corporate auditors	**1,577**	1,451	**16,054**
Other liabilities	**1,071**	1,348	**10,903**
Total long-term liabilities	**9,011**	7,286	**91,734**
Total liabilities	**48,846**	45,227	**497,262**
Net Assets			
Shareholders' equity *(Note 12)*:			
Common stock:			
Authorized – 170,100,000 shares			
Issued – 42,525,000 shares in 2009 and 2008	**3,450**	3,450	**35,122**
Capital surplus	**4,219**	4,214	**42,950**
Retained earnings	**78,678**	72,130	**800,957**
Treasury stock, at cost	**(4,706)**	(3,230)	**(47,908)**
Total shareholders' equity	**81,641**	76,564	**831,121**
Valuation and translation adjustments:			
Unrealized holding (loss) gain on securities	**(1,726)**	1,571	**(17,571)**
Unrealized loss on deferred hedges	**(728)**	(691)	**(7,411)**
Translation adjustments	**(2,978)**	(340)	**(30,317)**
Total valuation and translation adjustments	**(5,432)**	540	**(55,299)**
Stock acquisition rights	**143**	63	**1,456**
Minority interests	**12**	16	**122**
Total net assets	**76,364**	77,183	**777,400**
Total liabilities and net assets	**¥ 125,210**	¥ 122,410	**$ 1,274,662**

See accompanying notes to consolidated financial statements

Financial Section

Consolidated Statements of Income

Kobayashi Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2009 and 2008

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2009	2008	**2009**
Net sales *(Note 15)*	**¥ 125,693**	¥ 228,827	**$ 1,279,579**
Cost of sales	**57,014**	147,639	**580,414**
Gross profit	**68,679**	81,188	**699,165**
Selling, general and administrative expenses:			
Sales promotions	**6,068**	5,727	**61,773**
Freight and storage	**4,637**	9,666	**47,206**
Advertising	**13,852**	13,607	**141,016**
Provision for allowance for doubtful accounts	**90**	179	**916**
Salaries and bonuses	**8,536**	11,390	**86,898**
Net pension cost	**752**	881	**7,656**
Provision for accrued retirement benefits for directors and corporate auditors	**125**	100	**1,273**
Taxes and dues other than income taxes	**280**	371	**2,850**
Depreciation and amortization	**715**	1,024	**7,279**
Amortization of goodwill	**1,340**	1,275	**13,641**
Office rent and other rental charges	**1,605**	2,231	**16,339**
External service fees	**4,936**	5,231	**50,249**
Research and development costs	**3,362**	2,813	**34,226**
Other	**6,563**	8,117	**66,813**
Total selling, general and administrative expenses	**52,861**	62,612	**538,135**
Operating income *(Note 15)*	**15,818**	18,576	**161,030**
Other income (expenses):			
Interest and dividend income	**368**	307	**3,746**
Equity in (losses) earnings of affiliates	**(163)**	197	**(1,659)**
Interest expense	**(124)**	(71)	**(1,262)**
Sales discounts	**(1,229)**	(1,253)	**(12,511)**
Exchange loss	**(87)**	(149)	**(886)**
Loss on disposal or write-offs of inventories	**–**	(4,293)	**–**
Gain on sales of property, plant and equipment	**18**	2	**183**
Royalty income	**608**	584	**6,190**
Loss on disposal of property, plant and equipment	**(98)**	(138)	**(998)**
Loss on impairment of fixed assets *(Note 14)*	**(41)**	(30)	**(417)**
Non-recurring expenses related to collection of products	**(79)**	–	**(804)**
Gain on sales of goodwill *(Note 4)*	**1,102**	1,277	**11,219**
Loss on devaluation of investments in subsidiaries and affiliated companies	**(143)**	(525)	**(1,456)**
Gain on exchange of shares *(Note 17)*	**–**	1,501	**–**
Gain on partial termination of defined benefit plans	**–**	216	**–**
Expenses for the 90th anniversary events	**–**	(390)	**–**
Gain on sales of investments in securities	**382**	–	**3,889**
Other, net	**(62)**	(11)	**(632)**
Income before income taxes and minority interests	**16,270**	15,800	**165,632**
Income taxes *(Note 13)*:			
Current	**7,596**	6,901	**77,329**
Deferred	**(175)**	396	**(1,781)**
	7,421	7,297	**75,548**
Minority interests	**4**	2	**41**
Net income	**¥ 8,853**	¥ 8,505	**$ 90,125**

See accompanying notes to consolidated financial statements

Financial Section

Consolidated Statements of Changes in Net Assets

Kobayashi Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2009 and 2008

		Millions of yen									
	Number of shares issued (Thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized holding (loss) gain on securities	Unrealized loss on deferred hedges	Translation adjustments	Stock acquisition rights	Minority interests	Total net assets
Balance at March 31, 2007	42,525	¥ 3,450	¥ 4,207	¥ 66,775	¥ (3,311)	¥ 2,815	¥ 292	¥ 201	¥ –	¥ 2,807	¥ 77,236
Net income for the year	–	–	–	8,505	–	–	–	–	–	–	8,505
Cash dividends	–	–	–	(3,184)	–	–	–	–	–	–	(3,184)
Purchases of treasury stock	–	–	–	–	(4)	–	–	–	–	–	(4)
Disposition of treasury stock	–	–	7	–	85	–	–	–	–	–	92
Increase in retained earnings resulting from exclusion of consolidated subsidiaries	–	–	–	34	–	–	–	–	–	–	34
Other changes	–	–	–	–	–	(1,244)	(983)	(541)	63	(2,791)	(5,496)
Balance at March 31, 2008	42,525	3,450	4,214	72,130	(3,230)	1,571	(691)	(340)	63	16	77,183
Net income for the year	**–**	**–**	**–**	**8,853**	**–**	**–**	**–**	**–**	**–**	**–**	**8,853**
Cash dividends	**–**	**–**	**–**	**(2,305)**	**–**	**–**	**–**	**–**	**–**	**–**	**(2,305)**
Purchases of treasury stock	**–**	**–**	**–**	**–**	**(1,675)**	**–**	**–**	**–**	**–**	**–**	**(1,675)**
Disposition of treasury stock	**–**	**–**	**5**	**–**	**199**	**–**	**–**	**–**	**–**	**–**	**204**
Other changes	**–**	**–**	**–**	**–**	**–**	**(3,297)**	**(37)**	**(2,638)**	**80**	**(4)**	**(5,896)**
Balance at March 31, 2009	**42,525**	**¥ 3,450**	**¥ 4,219**	**¥ 78,678**	**¥ (4,706)**	**¥ (1,726)**	**¥ (728)**	**¥ (2,978)**	**¥ 143**	**¥ 12**	**¥ 76,364**

	Thousands of dollars (Note 1)									
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized holding (loss) gain on securities	Unrealized loss on deferred hedges	Translation adjustments	Stock acquisition rights	Minority interests	Total net assets
Balance at March 31, 2008	$ 35,122	$ 42,899	$ 734,297	$ (32,882)	$ 15,993	$ (7,034)	$ (3,461)	$ 641	$ 162	$ 785,737
Net income for the year	**–**	**–**	**90,125**	**–**	**–**	**–**	**–**	**–**	**–**	**90,125**
Cash dividends	**–**	**–**	**(23,465)**	**–**	**–**	**–**	**–**	**–**	**–**	**(23,465)**
Purchases of treasury stock	**–**	**–**	**–**	**(17,052)**	**–**	**–**	**–**	**–**	**–**	**(17,052)**
Disposition of treasury stock	**–**	**51**	**–**	**2,026**	**–**	**–**	**–**	**–**	**–**	**2,077**
Other changes	**–**	**–**	**–**	**–**	**(33,564)**	**(377)**	**(26,856)**	**815**	**(40)**	**(60,022)**
Balance at March 31, 2009	**$ 35,122**	**$ 42,950**	**$ 800,957**	**$ (47,908)**	**$ (17,571)**	**$ (7,411)**	**$ (30,317)**	**$ 1,456**	**$ 122**	**$ 777,400**

See accompanying notes to consolidated financial statements

Financial Section

Consolidated Statements of Cash Flows

Kobayashi Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2009 and 2008

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2009	**2008**	**2009**
Cash flows from operating activities:			
Income before income taxes and minority interests	**¥ 16,270**	¥ 15,800	**$ 165,632**
Adjustments for:			
Depreciation and amortization	**4,214**	3,765	**42,899**
Loss on impairment of fixed assets	**41**	30	**417**
Increase (decrease) in allowance for doubtful accounts	**93**	(337)	**947**
Increase (decrease) in accrued retirement benefits	**200**	(948)	**2,036**
Interest and dividend income	**(368)**	(307)	**(3,746)**
Interest expense	**124**	71	**1,262**
Equity in losses (earnings) of affiliates	**163**	(197)	**1,659**
Loss on disposal or write-offs of inventories	**–**	4,293	**–**
Gain on sales of goodwill	**(1,102)**	(1,277)	**(11,219)**
Loss on disposal or sales of property, plant and equipment, net	**80**	138	**815**
Gain on exchange of shares	**–**	(1,501)	**–**
Loss on devaluation of investments in subsidiaries and affiliated companies	**143**	525	**1,456**
Gain on partial termination of defined benefit plan	**–**	(216)	**–**
Changes in operating assets and liabilities:			
Increase in trade notes and accounts receivable	**(1,692)**	(3,489)	**(17,225)**
Increase in inventories	**(722)**	(5,908)	**(7,350)**
Increase in trade notes and accounts payable	**427**	6,644	**4,347**
Increase in other payables	**652**	2,698	**6,637**
Increase (decrease) in consumption taxes payable	**32**	(61)	**327**
Other	**713**	(94)	**7,258**
Subtotal	**19,268**	19,629	**196,152**
Interest and dividends received	**580**	284	**5,905**
Interest paid	**(170)**	(63)	**(1,731)**
Income taxes paid	**(6,829)**	(7,658)	**(69,521)**
Net cash provided by operating activities	**12,849**	12,192	**130,805**
Cash flows from investing activities:			
Purchases of short-term securities	**(18,483)**	(21,477)	**(188,160)**
Proceeds from redemption of short-term securities	**20,303**	19,501	**206,688**
Payments for purchases of property, plant and equipment	**(2,208)**	(1,596)	**(22,478)**
Proceeds from sales of property, plant and equipment	**–**	9	**–**
Payments for purchases of intangible assets	**(583)**	(1,033)	**(5,935)**
Increase in investments in securities	**(1,630)**	(2,536)	**(16,594)**
Proceeds from sales of investments in securities	**383**	–	**3,899**
Increase in other assets	**(196)**	(388)	**(1,995)**
Increase in short-term loans receivable	**–**	(160)	**–**
Proceeds from sales of goodwill	**1,102**	1,277	**11,219**
Other	**(70)**	(22)	**(713)**
Net cash used in investing activities	**(1,382)**	(6,425)	**(14,069)**
Cash flows from financing activities:			
Decrease in short-term loans, net	**(164)**	(2,078)	**(1,670)**
Repayment of long-term debt	**–**	(136)	**–**
Proceeds from long-term debt	**207**	–	**2,107**
Dividends paid	**(2,305)**	(3,184)	**(23,465)**
Increase in treasury stock	**(1,675)**	(4)	**(17,052)**
Decrease in lease obligations	**(715)**	–	**(7,279)**
Other	**206**	91	**2,098**
Net cash used in financing activities	**(4,446)**	(5,311)	**(45,261)**
Effect of exchange rate changes on cash and cash equivalents	**(372)**	(27)	**(3,787)**
Net increase in cash and cash equivalents	**6,649**	429	**67,688**
Cash and cash equivalents at beginning of year	**17,164**	19,091	**174,733**
Decrease in cash and cash equivalents resulting from change in scope of consolidation *(Note 17)*	**–**	(2,356)	**–**
Cash and cash equivalents at end of year *(Note 5)*	**¥ 23,813**	¥ 17,164	**$ 242,421**

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements

Kobayashi Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2009 and 2008

1. Basis of Presentation of Consolidated Financial Statements

Kobayashi Pharmaceutical Co., Ltd. (the "Company") and its domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Corporation Law of Japan and the Financial Instruments and Exchange Act of Japan and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards. The Company's overseas subsidiaries maintain their accounts and records in conformity with generally accepted accounting principles prevailing in their respective countries of domicile.

The accompanying consolidated financial statements have been prepared based on the consolidated financial statements of the Company and its consolidated subsidiaries (collectively, the "Group") as required by the Financial Instruments and Exchange Act.

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 thereto are presented solely for convenience and are translated, as a matter of arithmetic computation only, at ¥98.23 = U.S.$1.00, the approximate exchange rate in effect on March 31, 2009. 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.

Certain reclassifications of previously reported amounts have been made to conform the consolidated financial statements for the year ended March 31, 2008 to the 2009 presentation. Such reclassifications had no effect on consolidated net income or net assets.

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.

The difference between the cost and the underlying net equity in investments in consolidated subsidiaries and affiliates accounted for on an equity basis is allocated to identifiable assets based on their fair value at their respective dates of acquisition. Goodwill and negative goodwill are 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 two domestic consolidated subsidiaries is September 30. For consolidation purposes, the financial statements of the subsidiaries were prepared as of and for the year ended March 31, 2009.

(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 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 minority 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 net income, but are presented as "Translation adjustments" in the consolidated balance sheets.

(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 net assets. Non-marketable securities classified as other securities are carried at cost.

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 weighted-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 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 subsidiaries calculate depreciation by the straight-line method.

(Supplemental information)
Effective the year ended March 31, 2009, the Company and its domestic consolidated subsidiaries have changed the useful lives of certain machinery and equipment as allowed under the revisions of the Corporation Tax Law of Japan. The effect of this change on consolidated operating results for the year ended March 31, 2009 was immaterial.

(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 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.

(j) Reserve for sales returns

The Company and certain domestic subsidiaries provide a reserve for sales returns based on the historical sales return ratio.

(k) Accrued retirement benefits

The Company and a domestic consolidated subsidiary have an unfunded defined retirement benefit plan and a non-contributory funded pension plan. All other domestic consolidated subsidiaries and certain overseas subsidiaries have unfunded defined retirement benefit plans for their employees. Certain overseas subsidiaries have defined contribution pension plan. The unfunded defined retirement benefit plans provide for lump-sum payments to eligible employees who terminate their services which are determined by reference to their current rate of pay, length of service and the conditions under which termination occurs.

Accrued retirement benefits for employees of the Company and a domestic consolidated subsidiary represent the estimated present value of the projected benefit obligation in excess of the fair value of the pension plan assets.

All other domestic consolidated subsidiaries have adopted a simplified method of calculation. Under this simplified method, accrued retirement benefits for employees are stated at 100% of the amount which would be required to be paid if all eligible employees voluntarily retired at the balance sheet date.

Prior service cost is being amortized by the straight-line method over ten years which is a shorter period than the average remaining years of service of the participants.

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

Directors and corporate auditors of the Company and certain domestic consolidated subsidiaries (collectively, “officers”) are customarily entitled, subject to shareholders’ approval, to lump-sum payments under an unfunded retirement allowances plan. Accrued retirement benefits for officers have been made at an estimated amount based on the Company’s and its consolidated subsidiaries’ internal regulations.

(Supplemental information)
The Company and a domestic subsidiary transferred a portion of their lump-sum retirement benefit plan to a defined contribution pension plan in June 2007, and adopted an accounting standard, “Accounting for the Transfer between Retirement Benefit plans” (Accounting Standards Board of Japan (ASBJ) Implementation Guidance No. 1), effective the year ended March 31, 2008. The effect of these changes was represented in the accompanying consolidated statement of income for the year ended March 31, 2008 as “Gain on partial termination of defined benefit plans” of ¥216 million.

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.

(l) Income taxes

Accrued income taxes are provided at the amount currently payable.

The Company and its consolidated subsidiaries have adopted interperiod income tax allocation by the asset and liability method. Deferred tax assets and liabilities are recognized for the expected tax consequences attributable to the temporary differences between the tax bases of the assets and liabilities and the amounts reported in the consolidated financial statements.

(m) 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 5 years.

(n) Distribution of retained earnings

Under the Corporation Law, the distribution of retained earnings with respect to a given financial period can be made by resolution of the Board of Directors at a meeting held subsequent to the close of the financial period. The accounts for that period do not, therefore, reflect such appropriations (see Note 19(a)).

(o) 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 is deferred as net assets. When a forward foreign exchange contract meets certain criteria, receivables and payables covered by the contract are translated at the contracted rates.

The Company evaluates the effectiveness of its 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 hedge.

3. Changes in Accounting Policies

(a) Changes in method of measuring inventories

Effective the year ended March 31, 2009, the Company and its domestic consolidated subsidiaries have adopted "Accounting Standard for Measurement of Inventories" (ASBJ Statement No.9 issued on July 5, 2006).

The effect of this change on consolidated operating results and segment information was immaterial for the year ended March 31, 2009.

In addition, due to the adoption of this accounting standard, loss on disposal or write-offs of inventories, which was previously included in other expenses, has been included in cost of sales. The effect of this change was to decrease consolidated operating income by ¥2,216 million ($22,559 thousand) from the amount that would have been recorded under the previous method. There was no impact on consolidated income before income taxes and minority interests.

(b) Application of accounting standard for lease transactions

Until the year ended March 31, 2008, finance leases, other than those which transferred the ownership of the leased assets to the lessee, were accounted for as operating leases.

Effective the year ended March 31, 2009, the Company and its consolidated subsidiaries have adopted "Accounting Standard for Lease Transactions" (ASBJ Statement No. 13 revised by the ASBJ on March 30, 2007) and the "Guidance on Accounting Standard for Lease Transactions" (ASBJ Guidance No. 16 revised by the ASBJ on March 30, 2007). Under the new accounting standard, lease transactions commencing on or after April 1, 2008 other than those in which the ownership of the leased assets is transferred to the lessee are accounted for as finance leases if substantially all of the benefits and risks of ownership have been transferred to the lessee.

Finance lease transactions commencing on or before March 31, 2008, other than those in which the ownership of the leased assets is transferred to the lessee, have been capitalized in the consolidated balance sheet at March 31, 2009, for which acquisition value is the aggregate future minimum lease payments subsequent to March 31, 2008.

The effect of this adoption on consolidated operating income and segment information for the year ended March 31, 2009 was immaterial.

4. Termination of a Joint Business

Revenue from sale of distribution rights:

In March 2002, the Company and Medtronic Sofamor Danek Inc. terminated their joint business in Japan. As a consequence, the Company has received in installments the proceeds from the sale of the distribution rights in Japan. This revenue has been recorded in the Company's books of account on a cash basis as follows:

	Thousands of U.S. dollars
In April 2002	$ 3,000
In April 2003	6,000
In April 2004	7,000
In April 2005	10,000
In April 2006	10,000
In April 2007	11,000
In April 2008	11,000

5. Cash and Cash Equivalents

A reconciliation of cash and time deposits in the accompanying consolidated balance sheets to cash and cash equivalents in the accompanying consolidated statements of cash flows at March 31, 2009 and 2008 is summarized as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2009	2008	**2009**
Cash and time deposits	**¥ 22,814**	¥ 17,164	**$ 232,251**
Short-term investments whose redemption dates are within three months of the dates of acquisition, included in "Securities"	**999**	–	**10,170**
Cash and cash equivalents	**¥ 23,813**	¥ 17,164	**$ 242,421**

6. Securities and Investments in Securities

Securities classified as "other securities" at March 31, 2009 and 2008 are summarized as follows:

(a) Securities whose carrying value exceeds their acquisition cost

	Millions of yen					
	2009			2008		
	Acquisition cost	Carrying value	Unrealized gain	Acquisition cost	Carrying value	Unrealized gain
Equities	**¥ 428**	**¥ 1,913**	**¥ 1,485**	¥ 10,803	¥ 13,691	¥ 2,888
Debt securities	**6,507**	**6,523**	**16**	2,496	2,504	8
	¥ 6,935	**¥ 8,436**	**¥ 1,501**	¥ 13,299	¥ 16,195	¥ 2,896

	Thousands of U.S. dollars		
	2009		
	Acquisition cost	Carrying value	Unrealized gain
Equities	**$ 4,357**	**$ 19,475**	**$ 15,118**
Debt securities	**66,243**	**66,405**	**162**
	$ 70,600	**$ 85,880**	**$ 15,280**

(b) Securities whose acquisition cost exceeds their carrying value

	Millions of yen					
	2009			2008		
	Acquisition cost	Carrying value	Unrealized loss	Acquisition cost	Carrying value	Unrealized loss
Equities	**¥ 11,585**	**¥ 6,924**	**¥ (4,661)**	¥ 1,111	¥ 850	¥ (261)
Debt securities	**1,510**	**1,510**	**(0)**	4,800	4,799	(1)
	¥ 13,095	**¥ 8,434**	**¥ (4,661)**	¥ 5,911	¥ 5,649	¥ (262)

	Thousands of U.S. dollars		
	2009		
	Acquisition cost	Carrying value	Unrealized loss
Equities	**$ 117,938**	**$ 70,488**	**$ (47,450)**
Debt securities	**15,372**	**15,372**	**(0)**
	$ 133,310	**$ 85,860**	**$ (47,450)**

(c) Securities whose market value is not determinable

	Millions of yen		*Thousands of U.S. dollars*
	2009	2008	2009
Unlisted equity securities	**¥ 937**	¥ 1,226	**$ 9,538**

(d) Redemption schedule subsequent to March 31, 2009 for other securities with maturities

	Millions of yen		*Thousands of U.S. dollars*	
	Due within one year or less	Due after one year through five years	Due within one year or less	Due after one year through five years
Debt securities	**¥ 6,001**	**¥ 2,032**	**$ 61,091**	**$ 20,686**

(e) Proceeds from sales of, and gross realized gain on, other securities

	Millions of yen		*Thousands of U.S. dollars*
	2009	2008	2009
Proceeds from sales	**¥ 383**	¥ –	**$ 3,899**
Gross realized gain	**382**	–	**3,889**

7. Short-Term Loans and Long-Term Debt

The average interest rates on short-term bank loans at March 31, 2009 and 2008 were 5.52% and 4.09%, respectively.

Long-term debt at March 31, 2009 and 2008 is summarized as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2009	**2008**	**2009**
Loans from banks with average interest rates of 4.00%, due in 2010	**¥ 182**	¥ –	**$ 1,853**

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 at March 31, 2009 is summarized as follows:

	Millions of yen	*Thousands of U.S. dollars*
Lines-of-credit	**¥ 17,581**	**$ 178,978**
Credit used	**(540)**	**(5,497)**
Available credit	**¥ 17,041**	**$ 173,481**

8. Lease Obligations

Lease obligations at March 31, 2009 are summarized as follows:

	Millions of yen	*Thousands of U.S. dollars*
Finance lease obligations due in installments from 2011 through 2016	¥ 2,150	$ 21,888
Less current portion	(647)	(6,587)
	¥ 1,503	$ 15,301

The aggregate annual maturities of lease obligations subsequent to March 31, 2009 are summarized as follows:

Year ending March 31,	*Millions of yen*	*Thousands of U.S. dollars*
2010	¥ 647	$ 6,587
2011	537	5,467
2012	376	3,828
2013	296	3,013
2014	202	2,056
2015 and thereafter	92	937
	¥ 2,150	$ 21,888

9. Accrued Retirement Benefits for Employees

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the accompanying consolidated balance sheets at March 31, 2009 and 2008 for the Group's defined benefit plans:

	Millions of yen		*Thousands of U.S. dollars*
	2009	**2008**	**2009**
Projected benefit obligation	**¥ (9,271)**	¥ (8,856)	**$ (94,381)**
Fair value of pension plan assets	**4,395**	3,849	**44,742**
Unfunded retirement benefit obligation	**(4,876)**	(5,007)	**(49,639)**
Unrecognized prior service cost	**274**	342	**2,790**
Unrecognized actuarial differences	**746**	1,008	**7,594**
Net retirement benefit obligation	**(3,856)**	(3,657)	**(39,255)**
Prepaid pension cost	**(822)**	(830)	**(8,368)**
Accrued retirement benefits for employees	**¥ (4,678)**	¥ (4,487)	**$ (47,623)**

In June 2007, the Company and a domestic subsidiary transferred a portion of their lump-sum retirement benefit plan to a defined contribution pension plan. As a result of the transition, projected benefit obligation, unrecognized actuarial differences and accrued retirement benefits for employees decreased by ¥1,455 million, ¥237 million and ¥1,218 million, respectively, at March 31, 2008.

The pension plan assets which were transferred to the defined contribution pension plan amounted to ¥1,010 million. The Company and the domestic subsidiary plan to complete the transition over a period of 3 years. Accrued retirement benefits for employees of ¥755 million, which is planned to be transferred to the defined contribution pension plan, was reclassified to other current liabilities and other liabilities in the accompanying consolidated balance sheet at March 31, 2008.

The components of net pension cost for the years ended March 31, 2009 and 2008 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2009	**2008**	**2009**
Service cost	**¥ 594**	¥ 708	**$ 6,047**
Interest cost	**162**	163	**1,649**
Expected return on pension plan assets	**(79)**	(83)	**(804)**
Amortization:			
Prior service cost	**69**	68	**702**
Actuarial differences	**138**	102	**1,405**
Cost of contribution pension plan	**154**	–	**1,568**
Net pension cost	**¥ 1,038**	¥ 958	**$ 10,567**

The assumptions used in accounting for the above plans for the years ended March 31, 2009 and 2008 were as follows:

	2009	**2008**
Discount rate	**2.0%**	2.0%
Expected rate of return on plan assets	**2.0%**	2.0%

Financial Section

10. Leases

The Group principally leases production facilities, consisting of machinery, equipment, vehicles, furniture and fixtures, which are used in the consumer products operation business and facilities, consisting of furniture and fixtures, which are used in the medical devices operation business. The Group also leases software.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2009 for non-cancelable operating leases are summarized as follows:

Year ending March 31,	*Millions of yen*	*Thousands of U.S. dollars*
2010	¥ 135	$ 1,374
2011 and thereafter	281	2,861
Total	¥ 416	$ 4,235

The following *pro forma* amounts represent the acquisition cost and the related accumulated depreciation and accumulated loss on impairment of property leased to the Group at March 31, 2008, which would have been reflected in the accompanying consolidated balance sheets if finance leases other than those which transfer the ownership of the leased assets had been capitalized:

	Millions of yen
	2008
Machinery, equipment and vehicles:	
Acquisition cost	¥ 5,632
Accumulated depreciation	(3,209)
Accumulated loss on impairment of leased assets	(177)
	2,246
Furniture and fixtures:	
Acquisition cost	877
Accumulated depreciation	(538)
	339
Other:	
Acquisition cost	140
Accumulated depreciation	(55)
	85
Total	¥ 2,670

Allowance for loss on impairment of leased assets at March 31, 2008 amounted to ¥79 million.

Effective April 1, 2008, finance lease transactions commencing on or before March 31, 2008, other than those in which the ownership of the leased assets is transferred to the lessee, have been capitalized in the consolidated balance sheet at March 31, 2009, for which acquisition value is the aggregate future minimum lease payments subsequent to March 31, 2008.

Lease payments related to finance leases accounted for as operating leases and estimated depreciation and interest expense, which have not been reflected in the accompanying consolidated statement of income for the year ended March 31, 2008 are summarized as follows:

	Millions of yen
	2008
Lease expense	¥ 1,534
Reversal of allowance for loss on impairment of leased assets	68
Estimated depreciation expense	1,401
Estimated interest expense	78
Loss on impairment of leased assets	16

11. Derivatives and Hedging Activities

The Company utilizes forward foreign exchange contracts and currency options to reduce the risk of fluctuation in foreign exchange rates. The Company has established a control environment which includes policies and procedures for risk assessment and for the approval, reporting and monitoring of transactions involving derivatives. The Company does not hold or issue derivatives for speculative trading purposes. There were no open derivatives positions at March 31, 2009 and 2008.

12. Shareholders' Equity

The Corporation Law of Japan (the "Law") 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 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 ($3,461 thousand) and ¥340 million at March 31, 2009 and 2008, respectively.

Stock-based compensation plan

As of March 31, 2009, the Company had two stock option plans: the 2003 and 2007 stock option plans. The 2003 stock option plan (the 2003 plan) was approved at the annual general meeting of shareholders of the Company held on June 27, 2003. The 2003 plan provides for granting options to purchase 295,500 shares of common stock to directors, corporate auditors and certain key employees of the Company, and directors and certain key employees of certain consolidated subsidiaries. The exercise price was ¥3,051 ($31) per share at March 31, 2009. This exercise price is subject to adjustment in certain cases which include stock splits. The options became exercisable on July 1, 2005 and expired on June 30, 2008.

The 2007 stock option plan (the 2007 plan) was approved at the annual general meeting of shareholders of the Company held on June 28, 2007. The 2007 plan provides for granting options to purchase 260,800 shares of common stock to directors, corporate auditors and certain key employees of the Company, and directors and certain key employees of certain consolidated subsidiaries. The exercise price was ¥4,329 ($44) per share at March 31, 2009. This exercise price is subject to adjustment in certain cases which include stock splits. The options became exercisable on July 1, 2009 and are scheduled to expire on June 30, 2012.

Information regarding the Company's stock option plans was as follows:

	The 2003 plan	The 2007 plan
Number of options:		
Outstanding at March 31, 2007	**178,200**	**–**
Granted	**–**	**260,800**
Cancelled	**2,250**	**11,100**
Exercised	**29,850**	**–**
Outstanding at March 31, 2008	**146,100**	**249,700**
Granted	**–**	**–**
Cancelled	**79,050**	**2,700**
Exercised	**67,050**	**–**
Outstanding at March 31, 2009	**0**	**247,000**

	(Yen)	
Weighted average price of shares upon exercise during the year ended March 31, 2009	**¥ 3,488**	**¥ –**
Fair value of options as of the grant date	**–**	**645**

	(U.S. dollars)	
Weighted average price of shares upon exercise during the year ended March 31, 2009	**$ 35.51**	**$ –**
Fair value of options as of the grant date	**–**	**6.57**

Treasury stock

Movements in treasury stock for the years ended March 31, 2009 and 2008 are summarized as follows:

	Number of shares			
	2009			
	March 31, 2008	Increase	Decrease	March 31, 2009
Treasury stock	**1,143,617**	**501,051**	**67,100**	**1,577,568**

	Number of shares			
	2008			
	March 31, 2007	Increase	Decrease	March 31, 2008
Treasury stock	1,172,506	1,061	29,950	1,143,617

13. Income Taxes

The Company and its domestic subsidiaries are subject to several taxes based on income which, in the aggregate, resulted in a statutory tax rate of approximately 40.6% for the years ended March 31, 2009 and 2008. The overseas subsidiaries are subject to the income taxes of their respective countries of domicile.

A reconciliation of the differences between the statutory tax rate and the effective tax rates in the accompanying consolidated statements of income for the years ended March 31, 2009 and 2008 is as follows:

	2009	**2008**
Statutory tax rate	**40.6%**	40.6%
Tax loss carryforwards of consolidated subsidiaries	**3.6**	4.1
Valuation allowances	**0.9**	1.9
Utilization of tax loss carryforwards	**(0.4)**	(0.3)
Tax credits on research and development costs	**(2.8)**	(2.2)
Amortization of goodwill	**1.8**	2.0
Expenses not deductible for tax purposes	**1.3**	1.2
Equity in earnings of affiliates	**(0.4)**	(0.5)
Other	**1.0**	(0.6)
Effective tax rates	**45.6%**	46.2%

The tax effects of the temporary differences which gave rise to a significant portion of the deferred tax assets and liabilities at March 31, 2009 and 2008 are presented below:

	Millions of yen		*Thousands of U.S. dollars*
	2009	**2008**	**2009**
Deferred tax assets:			
Accrued retirement benefits for employees	**¥ 1,686**	¥ 1,738	**$ 17,164**
Net operating loss carryforwards	**1,328**	876	**13,519**
Reserve for employees' bonuses	**708**	691	**7,208**
Accrued retirement benefits for directors and statutory auditors	**640**	588	**6,515**
Accrued expenses	**844**	786	**8,592**
Accrued enterprise tax	**386**	328	**3,930**
Unrealized intercompany profits	**122**	99	**1,242**
Loss on impairment of fixed assets	**613**	642	**6,240**
Loss on disposal or write-offs of inventories	**511**	652	**5,202**
Unrealized holding loss on securities	**1,181**	–	**12,023**
Other	**1,258**	1,225	**12,807**
Gross deferred tax assets	**9,277**	7,625	**94,442**
Valuation allowance	**(2,477)**	(1,938)	**(25,217)**
Total deferred tax assets	**6,800**	5,687	**69,225**
Deferred tax liabilities:			
Unrealized holding gain on securities	**–**	(1,069)	**–**
Gain on exchange of shares	**(435)**	(434)	**(4,428)**
Total deferred tax liabilities	**(435)**	(1,503)	**(4,428)**
Net deferred tax assets	**¥ 6,365**	¥ 4,184	**$ 64,797**

14. Loss on Impairment of Fixed Assets

The Company and its domestic consolidated subsidiaries group their fixed 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.

For the years ended March 31, 2009 and 2008, the carrying value of leased assets and that of production facilities which are not anticipated to be utilized in the future, have been reduced to their respective recoverable amounts and a loss on impairment of fixed assets was recognized in the accompanying consolidated statements of income for the years then ended. The recoverable amounts of production facilities are measured based on value in use (the present value of future cash flows or their estimated selling price).

Loss on impairment of fixed assets for the years ended March 31, 2009 and 2008 are summarized as follows:

2009

Location	Description	Classification	*Millions of yen*	*Thousands of U.S. dollars*
Osaka and other	Production facilities	Machinery, equipment and other	**¥ 12**	**$ 122**
Osaka	Production facilities	Leased assets	**3**	**31**
–	Other	Goodwill	**26**	**264**
			¥ 41	**$ 417**

2008

Location	Description	Classification	*Millions of yen*
Osaka and other	Production facilities	Machinery, equipment and other	¥ 14
Osaka and other	Production facilities	Leased assets (currently accounted for as operating leases)	16
			¥ 30

Financial Section

15. Segment Information

The Company and its consolidated subsidiaries are engaged primarily in the manufacture and sale of products and wholesale operations principally in Japan.

Business Segment Information

The business segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2009 and 2008 is outlined as follows:

	Millions of yen					
	2009					
	Consumer Products Operation	Medical Devices Operation	Other Operations	Total	Eliminations or unallocable accounts	Consolidated
I. Sales and operating income (loss)						
Sales to third parties	**¥ 112,594**	**¥ 11,325**	**¥ 1,774**	**¥ 125,693**	**–**	**¥ 125,693**
Inter-group sales and transfers	**27**	**–**	**5,507**	**5,534**	**(5,534)**	**–**
Net sales	**112,621**	**11,325**	**7,281**	**131,227**	**(5,534)**	**125,693**
Operating expenses	**96,710**	**11,880**	**6,808**	**115,398**	**(5,523)**	**109,875**
Operating income (loss)	**¥ 15,911**	**¥ (555)**	**¥ 473**	**¥ 15,829**	**¥ (11)**	**¥ 15,818**
II. Total assets, depreciation and amortization, loss on impairment of fixed assets and capital expenditures						
Total assets	**¥ 71,214**	**¥ 11,534**	**¥ 4,080**	**¥ 86,828**	**¥ 38,382**	**¥ 125,210**
Depreciation and amortization	**3,557**	**420**	**135**	**4,112**	**102**	**4,214**
Loss on impairment of fixed assets	**12**	**26**	**3**	**41**	**–**	**41**
Capital expenditures	**3,111**	**223**	**70**	**3,404**	**64**	**3,468**

	Millions of yen						
	2008						
	Consumer Products Operation	Wholesale Operation	Medical Devices Operation	Other Operations	Total	Eliminations or unallocable accounts	Consolidated
I. Sales and operating income (loss)							
Sales to third parties	¥ 84,707	¥ 131,603	¥ 10,729	¥ 1,788	¥ 228,827	¥ –	¥ 228,827
Inter-group sales and transfers	26,213	360	–	6,306	32,879	(32,879)	–
Net sales	110,920	131,963	10,729	8,094	261,706	(32,879)	228,827
Operating expenses	92,915	132,094	11,148	7,663	243,820	(33,569)	210,251
Operating income (loss)	¥ 18,005	¥ (131)	¥ (419)	¥ 431	¥ 17,886	¥ 690	¥ 18,576
II. Total assets, depreciation and amortization, loss on impairment of fixed assets and capital expenditures							
Total assets	¥ 70,317	¥ –	¥ 12,382	¥ 3,994	¥ 86,693	¥ 35,717	¥ 122,410
Depreciation and amortization	3,024	245	341	74	3,684	81	3,765
Loss on impairment of fixed assets	30	–	–	–	30	–	30
Capital expenditures	2,158	275	351	37	2,821	74	2,895

	Thousands of U.S. dollars					
	2009					
	Consumer Products Operation	Medical Devices Operation	Other Operations	Total	Eliminations and unallocable accounts	Consolidated
I. Sales and operating income (loss)						
Sales to third parties	**$1,146,228**	**$ 115,291**	**$ 18,060**	**$1,279,579**	**$ –**	**$ 1,279,579**
Inter-group sales and transfers	**275**	**–**	**56,062**	**56,337**	**(56,337)**	**–**
Net sales	**1,146,503**	**115,291**	**74,122**	**1,335,916**	**(56,337)**	**1,279,579**
Operating expenses	**984,526**	**120,941**	**69,307**	**1,174,774**	**(56,225)**	**1,118,549**
Operating income (loss)	**$ 161,977**	**$ (5,650)**	**$ 4,815**	**$ 161,142**	**$ (112)**	**$ 161,030**
II. Total assets, depreciation and amortization, loss on impairment of fixed assets and capital expenditures						
Total assets	**$ 724,972**	**$ 117,418**	**$ 41,535**	**$ 883,925**	**$ 390,737**	**$ 1,274,662**
Depreciation and amortization	**36,211**	**4,276**	**1,374**	**41,861**	**1,038**	**42,899**
Loss on impairment of fixed assets	**122**	**264**	**31**	**417**	**–**	**417**
Capital expenditures	**31,670**	**2,270**	**713**	**34,653**	**652**	**35,305**

As described in Note 3(a), effective the year ended March 31, 2009, the Company and its domestic consolidated subsidiaries have adopted "Accounting Standard for Measurement of Inventories" (ASBJ Statement No.9 issued on July 5, 2006). The effect of this change was to decrease operating income in the "Consumer Products Operation" segment, the "Medical Devices Operation" segment and the "Other Operation" segment by ¥2,078 million ($21,154 thousand), ¥134 million ($1,364 thousand) and ¥4 million ($41 thousand), respectively, for the year ended March 31, 2009 over the corresponding amounts which would have been recorded under the previous method.

As described in Note 17, on January 1, 2008, the Company exchanged all of its shares of Kobashou Co., Ltd. for certain shares of Mediceo Paltac Holdings Co., Ltd. As a result of the exchange, Kobashou Co., Ltd. and its 5 consolidated subsidiaries became wholly-owned subsidiaries of Mediceo Paltac Holdings Co., Ltd. and were excluded from consolidation of the Company. As a result, the "Wholesale Operation" segment was excluded from segment information for the year ended March 31, 2009.

Geographic Segment Information

The geographic segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2009 and 2008 is outlined as follows:

	Millions of yen						
	2009						
	Japan	North America	Europe	Asia	Total	Eliminations and unallocable accounts	Consolidated
I. Sales and operating income (loss)							
Sales to third parties	**¥ 119,253**	**¥ 3,290**	**¥ 1,275**	**¥ 1,875**	**¥ 125,693**	**¥ –**	**¥ 125,693**
Inter-group sales and transfers	**1,092**	**17**	**43**	**1,346**	**2,498**	**(2,498)**	**–**
Net sales	**120,345**	**3,307**	**1,318**	**3,221**	**128,191**	**(2,498)**	**125,693**
Operating expenses	**103,753**	**3,988**	**1,428**	**3,211**	**112,380**	**(2,505)**	**109,875**
Operating income (loss)	**¥ 16,592**	**¥ (681)**	**¥ (110)**	**¥ 10**	**¥ 15,811**	**¥ 7**	**¥ 15,818**
II. Total assets							
Total assets	**¥ 86,750**	**¥ 13,031**	**¥ 760**	**¥ 1,654**	**¥ 102,195**	**¥ 23,015**	**¥ 125,210**

	Millions of yen						
	2008						
	Japan	North America	Europe	Asia	Total	Eliminations and unallocable accounts	Consolidated
I. Sales and operating income (loss)							
Sales to third parties	¥ 222,081	¥ 3,361	¥ 1,496	¥ 1,889	¥ 228,827	¥ –	¥ 228,827
Inter-group sales and transfers	718	176	211	1,086	2,191	(2,191)	–
Net sales	222,799	3,537	1,707	2,975	231,018	(2,191)	228,827
Operating expenses	203,051	4,246	1,961	3,144	212,402	(2,151)	210,251
Operating income (loss)	¥ 19,748	¥ (709)	¥ (254)	¥ (169)	¥ 18,616	¥ (40)	¥ 18,576
II. Total assets							
Total assets	¥ 82,731	¥ 14,801	¥ 827	¥ 1,704	¥ 100,063	¥ 22,347	¥ 122,410

	Thousands of U.S. dollars						
	2009						
	Japan	North America	Europe	Asia	Total	Eliminations and unallocable accounts	Consolidated
I. Sales and operating income (loss)							
Sales to third parties	**$ 1,214,018**	**$ 33,493**	**$ 12,980**	**$ 19,088**	**$ 1,279,579**	**$ –**	**$ 1,279,579**
Inter-group sales and transfers	**11,117**	**173**	**438**	**13,702**	**25,430**	**(25,430)**	**–**
Total sales	**1,225,135**	**33,666**	**13,418**	**32,790**	**1,305,009**	**(25,430)**	**1,279,579**
Operating expenses	**1,056,225**	**40,599**	**14,538**	**32,688**	**1,144,050**	**(25,501)**	**1,118,549**
Operating income (loss)	**$ 168,910**	**$ (6,933)**	**$ (1,120)**	**$ 102**	**$ 160,959**	**$ 71**	**$ 161,030**
II. Total assets							
Total assets	**$ 883,131**	**$ 132,658**	**$ 7,737**	**$ 16,838**	**$ 1,040,364**	**$ 234,298**	**$ 1,274,662**

As described in Note 3(a), effective the year ended March 31, 2009, the Company and its domestic consolidated subsidiaries have adopted "Accounting Standard for Measurement of Inventories" (ASBJ Statement No.9 issued on July 5, 2006). The effect of this change was to decrease operating income in the "Japan" segment, the "North America" segment, the "Europe" and the "Asia" segment by ¥2,154 million ($21,928 thousand), ¥33 million ($336 thousand), ¥14 million ($143 thousand) and ¥14 million ($143 thousand), respectively, for the year ended March 31, 2009 over the corresponding amounts which would have been recorded under the previous method.

Overseas Sales Information

Overseas sales information has been omitted for the years ended March 31, 2009 and 2008 because overseas sales, consisting of export sales of the Company and its domestic consolidated subsidiaries and sales (other than exports to Japan) of overseas consolidated subsidiaries constituted less than 10% of total consolidated sales.

16. Related Party Transactions

Effective the year ended March 31, 2009, the Company has adopted a new accounting standard, "Accounting Standard for Related Party Disclosures" (ASBJ Statement No.11) and "Guidance on Accounting Standard for Related Party Disclosures" (ASBJ Guidance No. 13).

There were no changes in scope of disclosure for the year ended March 31, 2009 as a result of the adoption of this new standard.

Related party transactions for the years ended March 31, 2009 and 2008 were as follows:

			Millions of yen		*Thousand of U.S. dollars*
Type	Name of Related Parties	Nature of Transactions	**2009**	**2008**	**2009**
Director of the Company	Kazumasa Kobayashi	Contribution to the Kobayashi International Scholarship Foundation	¥ 10	¥ 10	$ 102
		Exercise of stock options	14	–	143
Director of the Company	Yutaka Kobayashi	Exercise of stock options	14	–	143

Kazumasa Kobayashi directly owned 0.24% and 0.22 % of the Company's shares at March 31, 2009 and 2008, respectively.

Yutaka Kobayashi directly owned 0.21% of the Company's shares at March 31, 2009.

The contribution amount for the years ended March 31, 2009 and 2008 was determined by examining the details of the transaction.

The Kobayashi International Scholarship Foundation owns 3 million shares (7.34%) and 3 million shares (7.26%) of the Company at March 31, 2009 and 2008, respectively.

"Exercise of stock options" represented the payment to the Company upon the exercise of stock options.

17. Overview of Demerger

On January 1, 2008, the Company exchanged all of its shares of Kobashou Co., Ltd. for certain shares of Mediceo Paltac Holdings Co., Ltd. As a result of the exchange, Kobashou Co., Ltd. and its 5 consolidated subsidiaries became wholly-owned subsidiaries of Mediceo Paltac Holdings Co., Ltd.

Kobashou Co., Ltd. was the largest wholesaler of over-the-counter drugs and healthcare-related goods in Japan. The exchange was made in response to significant changes in the business environment regarding the wholesale industry.

As a result of the exchange, the Company recorded ¥1,501 million for gain on exchange of shares in the accompanying consolidated statement of income for the year ended March 31, 2008.

The amounts of assets and liabilities of Kobashou Co., Ltd. and its 5 consolidated subsidiaries at December 31, 2007 were as follows:

	Millions of yen
Current assets	¥ 45,372
Fixed assets	4,562
Total assets	¥ 49,934
Current liabilities	¥ 44,825
Long-term liabilities	2,374
Total liabilities	¥ 47,199

The following information presents a summary of the results of operations for the period from April 1, 2007 to December 31, 2007 of Kobashou Co., Ltd. and its consolidated subsidiaries, which were included in the accompanying consolidated statement of income for the year ended March 31, 2008:

	Millions of yen
Net sales	¥ 131,963
Operating loss	¥ (131)

18. Amounts per Share

	Yen		*U.S. dollars*
	2009	2008	**2009**
Net income:			
Basic	**¥ 215.89**	¥ 205.62	**$ 2.20**
Diluted	**215.80**	205.42	**2.20**
Cash dividends	**58.00**	54.00	**0.59**
Net assets	**1,861.14**	1,863.24	**18.95**

Basic net income per share has been computed based on the net income available for distribution to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year. Diluted net income per share has been computed based on the net income available for distribution to the shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year after giving effect to the dilutive potential of the shares of common stock issuable upon the exercise of stock options issued by the Company. 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 as applicable to the respective years together with the interim cash dividends paid.

19. 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, 2009, was approved at the Board of Directors meeting held on May 25, 2009:

	Millions of yen	*Thousands of U.S. dollars*
Cash dividends (¥29.00 = $0.30 per share)	¥ 1,187	$ 12,084

(b) Sale of shares of a significant equity-method affiliate

Based on the resolution approved by the Board of Directors at a meeting held on April 15, 2009, the Company entered into an agreement to sell all of its shares in Itoh Kanpo Pharmaceutical Co., Ltd., an affiliate accounted for by the equity method, to Itoh Kanpo Pharmaceutical Co., Ltd. on April 20, 2009 and completed the sale on April 28, 2009. As a part of the Group's business strategy, management has decided to improve enterprise value by optimizing business resources and operating the Group's businesses more flexibly and efficiently.

Details of the affiliate are as follows:

Affiliate name	Itoh Kanpo Pharmaceutical Co., Ltd.
Main business of the affiliate	Manufacture, sales and export of pharmaceuticals, quasi pharmaceuticals, medical equipment, cosmetics and foods
Nature of transactions with the Company	Purchase of the Company's products
Purchases made by the Company for the year ended March 31, 2009	¥158 million ($1,608 thousand)
Common stock	¥2,085 million ($21,226 thousand)
Number of shares issued	66,000 shares
Number of shares owned by the Company and ownership ratio	22,050 shares (33.4%)

The Company sold all its shares in this affiliate for ¥3,500 million ($35,631 thousand) and will record loss on sales of investments in an affiliate of ¥1,456 million ($14,822 thousand) for the year ending March 31, 2010.

The effect of this sale will be to decrease consolidated income before income taxes and minority interests by ¥1,456 million ($14,822 thousand) and to increase consolidated net income by ¥104 million ($1,059 thousand) for the year ending March 31, 2010.

Ernst & Young ShinNihon LLC

Report of Independent Auditors

The Board of Directors
Kobayashi Pharmaceutical Co., Ltd.

We have audited the accompanying consolidated balance sheets of Kobayashi Pharmaceutical Co., Ltd. and consolidated subsidiaries as of March 31, 2009 and 2008, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Kobayashi Pharmaceutical Co., Ltd. and consolidated subsidiaries at March 31, 2009 and 2008, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Supplemental Information

As described in Note 19(b), the Company entered into an agreement to sell all of its shares in Itoh Kanpo Pharmaceutical Co., Ltd., an affiliate accounted for by the equity method, to Itoh Kanpo Pharmaceutical Co., Ltd. on April 20, 2009. The sale was subsequently completed on April 28, 2009.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2009 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1.

Ernst & Young ShinNihon LLC

Osaka, Japan
June 26, 2009

Financial Section

Six-year Consolidated Financial Summary

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

(Millions of yen)

For the Year:	2004	2005	2006	2007	2008	**2009**
Net Sales	211,670	215,708	246,853	257,022	228,827	**125,693**
Cost of Sales (after provisions for returned products)	141,388	143,912	167,239	172,304	147,639	**57,014**
Gross Profit (after provisions for returned products)	70,282	71,796	79,614	84,718	81,188	**68,679**
Selling, General and Administrative Expenses	54,159	56,097	62,734	66,689	62,612	**52,861**
Operating Income	16,123	15,699	16,880	18,029	18,576	**15,818**
Income before Income Taxes and Minority Interests	11,825	12,770	14,010	16,038	15,800	**16,270**
Net Income	6,677	6,731	7,475	8,298	8,505	**8,853**
Per Share Data (Yen):						
Net Income	157.25	160.64	179.17	200.77	205.62	**215.89**
Cash Dividends	21.0	33.0	38.0	50.0	54.0	**58.0**
Cash Flows from Operating Activities	6,971	8,364	13,159	8,834	12,192	**12,849**
Free Cash Flows	4,613	4,428	6,744	(2,969)	5,767	**11,467**
Depreciation and Amortization Expenses	3,350	3,239	3,414	3,375	3,765	**4,214**
Capital Expenditures*1	2,441	5,021	2,797	2,229	2,895	**3,468**
R&D Expenses	2,010	2,115	2,378	2,476	2,813	**3,362**
At Year-end:						
Current Assets	80,031	86,705	98,906	102,102	66,069	**73,172**
Property, Plant and Equipment, Net	24,567	25,003	22,788	22,279	15,236	**17,618**
Current Liabilities	64,298	65,007	72,040	77,028	37,941	**39,835**
Long-term Liabilities	9,094	8,960	10,175	10,292	7,286	**9,011**
Total Net Assets*2	54,454	60,116	66,812	77,236	77,183	**76,364**
Total Assets	128,326	134,629	151,945	164,556	122,410	**125,210**
Working Capital*3	15,733	21,698	26,866	25,074	28,128	**33,337**
Interest-bearing Debt	5,417	3,034	1,633	3,414	726	**645**
Financial Ratios (%):						
Gross Profit to Net Sales Ratio	33.2	33.3	32.3	33.0	35.5	**54.6**
Operating Income to Net Sales Ratio	7.6	7.3	6.8	7.0	8.1	**12.6**
Net Income to Net Sales Ratio	3.2	3.1	3.0	3.2	3.7	**7.0**
Current Ratio	124.5	133.4	137.3	132.6	174.1	**183.7**
ROE	12.9	11.7	11.8	11.7	11.2	**11.5**
ROA	5.3	5.1	5.2	5.2	5.9	**7.2**
Equity Ratio	42.4	44.7	44.0	45.2	63.0	**60.9**
Debt-equity Ratio (times)*4	0.10	0.05	0.02	0.05	0.01	**0.01**

*1. Capital expenditures as shown in Segment Information in the Notes to Consolidated Financial Statements.
*2. Total Net Assets in 2006 and preceding years does not include minority interests.
*3. Working capital: Current assets at the fiscal year-end minus Current liabilities.
*4. Debt-equity ratio: Interest-bearing debt at the fiscal year-end divided by Shareholders' equity.

History

1886	Founder Chubei Kobayashi established Kobayashi Seidaido, Ltd., an unlimited general partnership in the Monzen-cho district of Naka-ku, Nagoya. The Company sold general merchandise, cosmetics, and Western liquor.
1919	Established Kobayashi Daiyakubo, Ltd. in Nishi-ku, Osaka.
1940	Spun off the manufacturing unit of Kobayashi Daiyakubo, Ltd. to establish Kobayashi Pharmaceutical Co., Ltd.
1956	Kobayashi Daiyakubo Co., Ltd. and Kobayashi Pharmaceutical Co., Ltd. were merged and renamed Kobayashi Pharmaceutical Co., Ltd. Relocated the Head Office to Chuo-ku, Osaka.
1967	Launched *Ammeltz*, a treatment for sore shoulders.
1969	Launched *Bluelet*, a deodorizing toilet bowl cleanser that became the Company's first toiletries product.
1972	Formed partnership with C.R. Bard, Inc. of the U.S. to establish Medicon, Inc.
1975	Launched *Sawaday*, a deodorizing air freshener for toilets.
1982	Established Toyama Kobayashi Pharmaceutical Co., Ltd.
1990	Acquired Shield Healthcare Centers to enter the field of home nursing care services.
1993	Established Sendai Kobayashi Pharmaceutical Co., Ltd.
1998	Established Shanghai Kobayashi Friendship Daily Chemicals Co., Ltd. in China. Established Kobayashi Healthcare, Inc. in the U.S.
1999	Listed on the Second Section of the Osaka Securities Exchange. Conducted a 1.5-for-1 stock split.
2000	Introduced the in-house company and executive officer systems. Listed on the first sections of the Tokyo Stock Exchange and Osaka Securities Exchange. Spun-off the Trade Company to form Kobashou Co., Ltd.
2001	Established Kobayashi Healthcare Europe, Ltd. in U.K. Acquired Kiribai Chemical Co., Ltd.
2002	Sold all shares of Kobayashi Sofamor Danek K.K., following the dissolution of a joint venture agreement. Established Kobayashi Pharmaceutical (Hong Kong) Co., Ltd. in Hong Kong. Took over the *Tochucha* health food business of Hitachi Zosen Bio Corporation.
2003	Conducted a 1.5-for-1 stock split.
2004	Reorganized the Kobayashi Pharmaceutical Group into four business headquarters. Launched first product under the proprietary *Kobamed* brandname in the Medical Devices Operation.
2005	Formed an equity-based alliance with Itoh Kanpo Pharmaceutical Co., Ltd.
2006	Made eVent Medical Ltd. a subsidiary. Made Heatmax, Inc. a consolidated subsidiary.
2008	Kobashou Co., Ltd. and Mediceo Paltac Holdings Co., Ltd. conducted share exchange.
2009	Established Kiribai Kobayashi Pharmaceutical Co., Ltd. through the corporate division of Kiribai Chemical Co., Ltd. to consolidate the manufacturing of disposable body warmers.

Group Companies

(As of March 31, 2009)

Company	Location	Capital	Main Business
Domestic Consolidated Subsidiaries			
● Toyama Kobayashi Pharmaceutical Co., Ltd.	Toyama, Japan	¥100 million	Manufacturing of pharmaceuticals and other products
● Sendai Kobayashi Pharmaceutical Co., Ltd.	Yamato-cho, Kurokawa-gun, Miyagi, Japan	¥200 million	Manufacturing of pharmaceuticals and other products
● Ehime Kobayashi Pharmaceutical Co., Ltd.	Niihama, Ehime, Japan	¥77 million	Hygienic and paper goods manufacturing
● Kiribai Chemical Co., Ltd.	Yodogawa-ku, Osaka, Japan	¥49 million	Disposable body warmer sales
● Kiribai Kobayashi Pharmaceutical Co., Ltd.	Mita, Hyogo, Japan	¥49 million	Disposable body warmer manufacturing
▲ Kobayashi Pharmaceutical Plax Co., Ltd.	Toyama, Japan	¥95 million	Synthetic resin products manufacturing
▲ SP-Planning, Inc.	Chuo-ku, Osaka, Japan	¥10 million	Displays and model production
▲ Archer Corporation	Chuo-ku, Tokyo	¥10 million	Advertising, planning and creation
▲ Suehiro Sangyo Co., Ltd.	Yodogawa-ku, Osaka, Japan	¥15 million	Daily goods sales
▲ Kobayashi Pharmaceutical Life Service Co., Ltd.	Chuo-ku, Osaka, Japan	¥10 million	Insurance agency and real estate management
▲ Kobayashi Health Pharmaceutical Sales Co., Ltd.	Chuo-ku, Osaka, Japan	¥100 million	Marketing and sales promotion activities of pharmaceuticals and daily goods
▲ Kobayashi Pharmaceutical Distribution Co., Ltd.	Chuo-ku, Osaka, Japan	¥10 million	Transportation Services
Overseas Consolidated Companies			
● Kobayashi Healthcare, LLC.	Georgia, U.S.A.	US$5,110,000	Daily goods sales
● Kobayashi Healthcare Europe, Ltd.	London, U.K.	UK£14,081	Daily goods sales
● Shanghai Kobayashi Daily Chemicals Co., Ltd.	Shanghai, China	160,326,485RMB	Daily goods manufacturing and sales
● Shanghai Kobayashi Pharmaceutical Trading Co., Ltd.	Shanghai, China	10,282,250RMB	Mail-order sales within China
● Kobayashi Pharmaceutical (Hong Kong) Co., Ltd.	Hong Kong, China	HK$1,570,000	Daily goods sales
● HeatMax, Inc.	Georgia, U.S.A.	US$1,230,001	Disposable body warmer manufacturing and sales
● Mediheat, Inc.	Georgia, U.S.A.	US$10	Disposable body warmer manufacturing and sales
● Thermomax, Inc.	Georgia, U.S.A.	US$0	Disposable body warmer manufacturing and sales
● Kobayashi Healthcare of America, Inc.	Georgia, U.S.A.	US$6,200	Holding company
■ Kobayashi Pharmaceuticals of America, Inc.	California, U.S.A.	US$1	Information gathering on healthcare business and asset management
■ Kobayashi Medical America, LLC.	California, U.S.A.	US$23,180,000	Holding company
■ eVent Medical Ltd.	Galway, Ireland	Euro 2,660	Ventilator manufacturing and sales
■ eVent Medical Inc.	California, U.S.A.	US$0.1	Ventilator sales
Equity-Method Affiliates			
■ Medicon, Inc.	Chuo-ku, Osaka, Japan	¥160 million	Medical equipment and device import and sales
● Itoh Kanpo Pharmaceutical Co., Ltd.	Higashi Osaka, Osaka, Japan	¥2,085 million	Pharmaceuticals and food products manufacturing and sales

Notes: 1. The following companies are Specified Subsidiaries as defined by Japanese law: Toyama Kobayashi Pharmaceutical Co., Ltd.; Kiribai Chemical Co., Ltd.; Shanghai Kobayashi Daily Chemicals Co., Ltd.; Kobayashi Healthcare, LLC; and Kobayashi Medical America, LLC.

2. Kobayashi Pharmaceutical Co., Ltd., at a meeting of the Board of Directors held on April 15, 2009, resolved that all the shares it holds in Itoh Kanpo Pharmaceutical Co., Ltd. shall be transferred to Itoh Kanpo Pharmaceutical Co., Ltd. Under a share transfer agreement concluded on April 20, 2009, the transfer of the shares was completed on April 28, 2009. Following the completion of the share transfer, Itoh Kanpo Pharmaceutical Co., Ltd. was excluded from the scope of equity-method affiliates in the first quarter of the fiscal year ending on March 31, 2010.

● Consumer Products Operation ■ Medical Devices Operation ▲ Other Operations

Corporate Data / Investor Information

As of March 31, 2009

Corporate Data

Corporate Name:	KOBAYASHI PHARMACEUTICAL CO., LTD.
Foundation:	August 22, 1919
Head Office:	KDX Kobayashi Doshomachi Bldg., 4-10, Doshomachi 4-chome, Chuo-ku, Osaka 541-0045, Japan * Kobayashi Pharmaceutical moved its headquarters on August 17, 2009.
Representative Director:	Yutaka Kobayashi, President (Appointed president on June 29, 2004)
Number of Employees:	2,228 (Consolidated)
Consolidated Subsidiaries:	25
Non-consolidated Subsidiaries:	5
Affiliates Accounted for by the Equity Method:	2

Investor Information

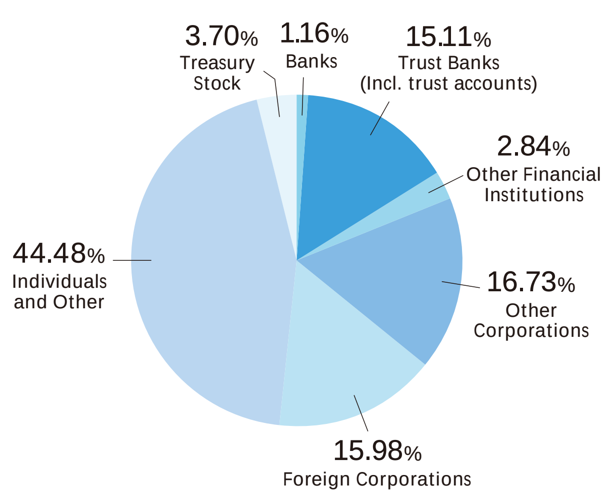
Common Stock:	¥3,450 million
Number of Shares Authorized:	170,100,000
Number of Shares Issued:	42,525,000
Number of Shareholders:	11,735
Stock Exchange Listing:	Tokyo Stock Exchange 1st Section, Osaka Securities Exchange 1st Section
Transfer Agent / Institution Managing Designated Share Accounts:	Mitsubishi UFJ Trust and Banking Corporation
Annual Shareholders' Meeting:	June
Investor Relations:	KOBAYASHI PHARMACEUTICAL CO., LTD. Corporate Communication Department TEL 81-6-6222-0142 FAX 81-6-6222-4261 E-mail info@kobayashi.co.jp URL http://www.kobayashi.co.jp/english/index.shtml

Major Shareholders

Name	Percentage of Total Shares Held (%)
Akihiro Kobayashi	11.3
Kobayashi International Scholarship Foundation	7.3
Yukako Iue	6.3
Japan Trustee Services Bank, Ltd. (trust accounts)	4.7
The Master Trust Bank of Japan, Ltd. (trust accounts)	4.5
Kobayashi Pharmaceutical Co., Ltd. (treasury stock)	–
Teruhisa Miyata	3.4
Ikuko Watanabe	3.4
Japan Trustee Services Bank, Ltd. (trust accounts 4G)	3.3
Ohtori Co., Ltd.	2.7

* The percentage of total shares held is calculated deducting 1,575,391 shares of treasury stock.

Shareholder Composition



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