KOBAYASHI Pharmaceutical Co., Ltd.

Annual Report 2011

Year Ended March 31, 2011

あったらいいな® をカタチにする

Creativity and Innovation

あったらいいな
をカタチにする
You Make a Wish and We Make it Happen.

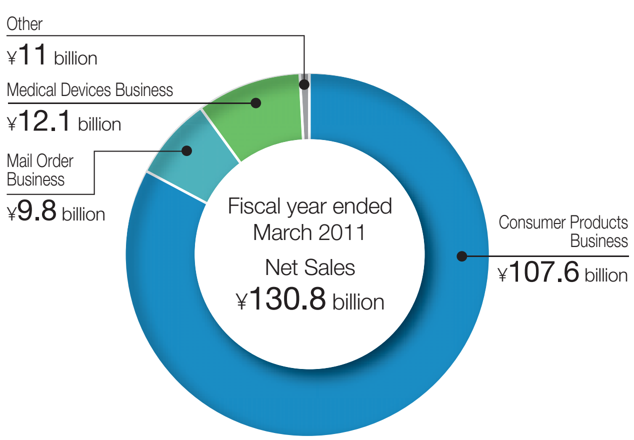
Continually Providing Innovative Healthcare and Lifestyle Solutions

Discovering, creating and providing solutions that meet the latent needs of our customers

The Kobayashi Pharmaceutical Group has produced a series of "products that lead to new markets" which greatly contribute to the health, comfort and convenience of people and society, under the slogan of "You Make a Wish and We Make it Happen."

Moving forward, we will continue to display the spirit of innovation and originality in our work processes and develop products from a customer-centric perspective. This, coupled with our pursuit of manufacturing high quality products that fulfill the high expectations of our customers, will enable the Kobayashi Pharmaceutical Group to continue to create and cultivate new markets.

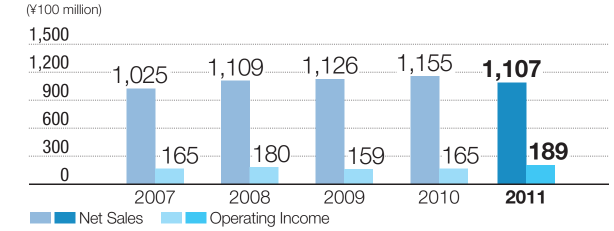
Breakdown of Net Sales



Consumer Products Business

The Consumer Products Business is engaged in the planning, research, development, manufacturing and sales of proprietary products, with approximately 140 brands under management separated into 7 categories, such as deodorizing air fresheners, OTC pharmaceuticals and oral hygiene products.

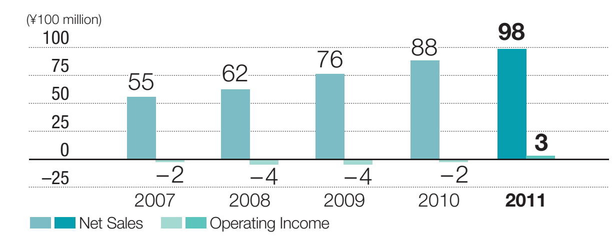
Net Sales / Operating Income



Mail Order Business

The Mail Order Business involves the sale of products such as nutritional supplements and skincare products via mail order. In the fiscal year ended March 31, 2011, the business was branched off as a new business segment from the Consumer Products segment.

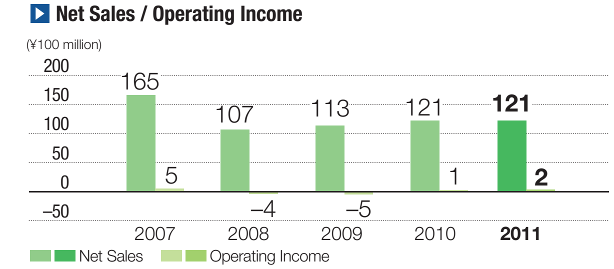
Net Sales / Operating Income



Medical Devices Business

The Medical Devices Business is operated by the three entities of Kobayashi Medical Co., Ltd., eVent Medical, Inc., and joint venture company Medicon Inc. in importing and selling outstanding medical devices from overseas to university hospitals and local base hospitals within Japan.

Net Sales / Operating Income



New products launched in the fiscal year ended March 2011

Shoshugen Aroma

>> P.15

Ofuro de Hot Charge

>> P.16

Shirt Cool

>> P.16

Komure Care

>> P.18

Feminina Chitsu Candida Jyo

>> P.18

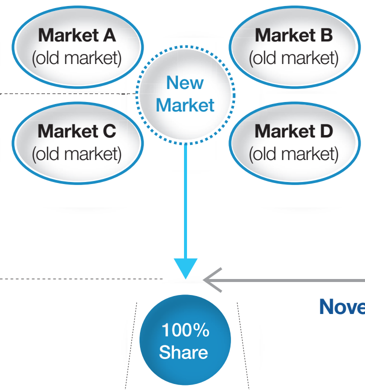
Caesar Ojisan no Akai Propolis

>> P.21

Continuing to Maintain a High Market Share and High Profitability through Creating and Expanding New Markets

Generating New Markets

First, we discover a niche located between two market segments where we see a clear latent need.



Next, we go about developing a new market by releasing a novel product designed to create new markets and transform the dreams of our customers into reality.

Market launch

Novel concept product

① Novel product that leads to new market

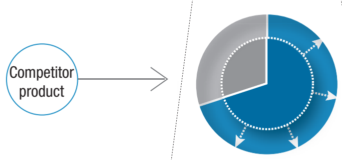
1969 *Bluelet*

A novel deodorizer and cleanser hung from the tank of a flush-toilet. We released *Bluelet* in anticipation of future demand during a time when less than 30% of Japanese households had a flush toilet. The novelty of this product's pleasant fragrance and blue colored water helped it to garner much attention.

Expanding Markets

First, prominent markets initially created by Kobayashi Pharmaceutical expand with the entrance of various competitors.

In response to this we expand our existing product lineup by releasing a new novel product(s) that outperforms competitors' offerings and helps to further expand demand.



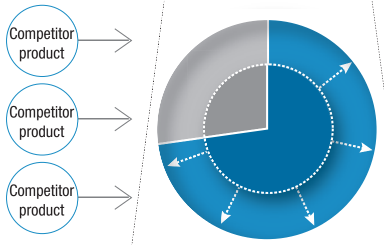
Market launch

Enhance convenience and user experience

② Product that stimulates consumer demand

1986 *Bluelet Okudake*

In order to eliminate the hassle of removing the toilet tank lid to hang the *Bluelet*, we launched a novel product featuring the same cleaning capabilities but in a package that can simply be placed in the sink of the toilet tank lid (a toilet design unique to Japan). *Bluelet Okudake* instantly became an essential item in every Japanese household.



Market launch

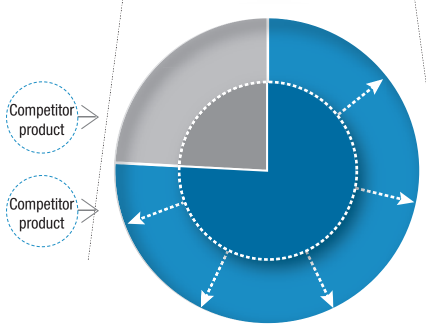
Expand the selection

1991 *Bluelet Dobon*

Amid growing diversification in toilet function and performance, Kobayashi Pharmaceutical developed *Bluelet Dobon*, a new addition to the successful *Bluelet* franchise placed inside the toilet tank. A colorless cleaner type was also added to the lineup to broaden the range of products on offer to customers.

Market Maturity

To increase market share and revitalize mature markets we introduce a variety of products that offer further value-added features, helping to expand and strengthen the brand.



Market launch

Further improve the brand's lineup

③ Products that expand and strengthen the brand

2001

Ekitai Bluelet Okudake

We developed a novel liquid-type *Bluelet* that cleans more effectively and with more foaming action. The product lineup was then expanded to include *Bluelets* featuring bleach cleaning power as well as *Bluelets* that come in a variety of different exciting fragrances, enabling consumers to customize their bathroom environment to their liking.

A Big Fish in a Small Pond

Be a large fish in a small pond rather than a small fish in a large pond. Expand the size of the pond while holding onto a commanding share and high profits.

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Founded as a Wholesaler, Transformed into a Developer and Manufacturer of Consumer Products and Pharmaceuticals

Kobayashi Pharmaceutical was established in 1886 as a wholesaler of Western liquors, cosmetics and general merchandise. Two years later, the company launched its pharmaceuticals division. In 1895, the company established the Proprietary Pharmaceutical Sales and Manufacturing Division with the purpose of creating medicines that would contribute to society's overall health. The division commenced the development and manufacture of 10 over-the-counter proprietary pharmaceuticals that included "*Tamushichinki*," a medicine for athlete's foot.

This marked the beginning of Kobayashi Pharmaceutical's unwavering ambition to continually meet the challenge of developing products that provide people and society with comfort.

Founder
Chubei Kobayashi

10 pharmaceuticals released in 1894

Originally founded as Kobayashi Seidaido, an unlimited general partnership

Forward-looking Statements

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

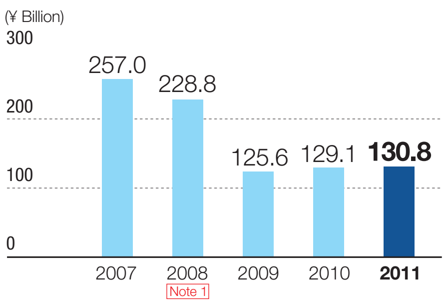
Actual management achievements and business results may therefore differ significantly from forecasts in this annual report.

Consolidated Financial Highlights   Years ended March 31

	2002	2003	2004	2005	2006
For the Year			Millions of yen		
Net Sales	¥204,647	¥210,922	¥211,670	¥215,708	¥246,852
Cost of sales	139,404	141,675	141,388	143,912	167,239
Gross profit	65,242	69,247	70,282	71,795	79,613
Selling, General and Administrative Expenses	51,613	53,394	54,159	56,096	62,734
Operating Income	13,629	15,852	16,123	15,698	16,879
Income before Income Taxes and Minority Interests	10,923	12,839	11,825	12,769	14,009
Net Income	6,595	6,605	6,677	6,730	7,474
Cash Flows from Operating Activities	4,038	12,046	6,971	8,364	13,159
Free Cash Flows [1]	(2,893)	11,770	4,613	4,428	6,745
Depreciation and Amortization	2,598	3,480	3,350	3,239	3,414
Capital Expenditures [2]	4,329	2,631	2,441	5,020	2,797
Research and Development Costs	1,778	1,785	2,010	2,115	2,377
At Year-end			Millions of yen		
Current Assets	72,758	77,315	80,030	86,704	98,906
Property, Plant and Equipment, Net	28,301	27,758	24,567	25,003	22,788
Current Liabilities	62,644	65,925	64,297	65,007	72,040
Long-term Liabilities	13,218	9,936	9,093	8,959	10,175
Total Net Assets [3]	44,427	49,267	54,454	60,116	66,811
Total Assets	120,855	125,679	128,326	134,629	151,945
Working Capital [4]	10,114	11,390	15,733	21,697	26,866
Interest-bearing Debt	9,194	7,859	5,417	3,034	1,633
Per Share Data			Yen		
Net Income	232.64	231.25	157.25	160.64	179.17
Cash Dividends	18.5	21.0	21.0	33.0	38.0
Net Assets	1,567.12	1,747.98	1,307.16	1,443.30	1,617.10
Financial Ratios			%		
Gross Profit to Net Sales Ratio	31.9	32.8	33.2	33.3	32.3
Operating Income to Net Sales Ratio	6.7	7.5	7.6	7.3	6.8
Net Income to Net Sales Ratio	3.2	3.1	3.2	3.1	3.0
Current Ratio	116.1	117.3	124.5	133.4	137.3
ROA [5]	10.7	10.5	11.1	10.8	10.6
ROE	15.9	14.1	12.9	11.7	11.8
Equity Ratio	36.8	39.2	42.4	44.7	44.0
Debt-equity Ratio (times) [6]	0.21	0.16	0.10	0.05	0.02

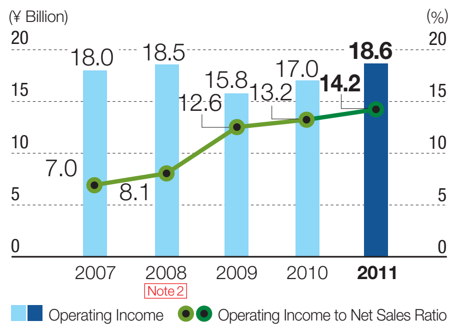
1 Free cash flows = Cash flows from operating activities + Cash flows from investing activities.
2 Capital expenditures as shown in Segment Information in the Notes to Consolidated Financial Statements.
3 Total Net Assets in 2006 and preceding years does not include minority interests.
4 Working capital: Current assets at the fiscal year-end minus Current liabilities.
5 Return on assets = Net profit before income tax net income / Average total assets ×100
6 Debt-equity ratio: Interest-bearing debt at the fiscal year-end divided by Shareholders' equity.

Net Sales

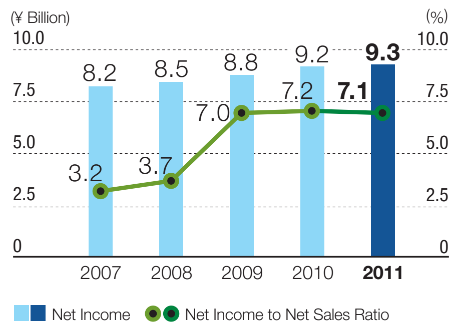


Note 1. The removal of the Wholesale Operation from the scope of consolidation in a stock swap in January 2008 resulted in a significant drop in sales, however the impact on income was minimal.

Operating Income / Operating Income to Net Sales Ratio



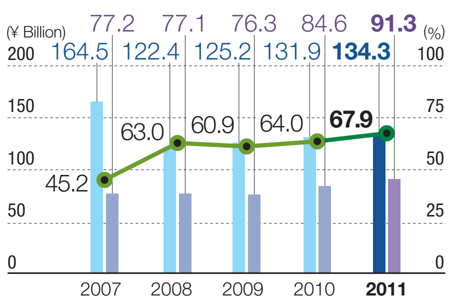
Net Income / Net Income to Net Sales Ratio



Note 2. "Accounting Standards for Measurement of Inventories" has been applied since fiscal 2009. As a result, the valuation of inventory and the valuation/disposal loss have been booked as cost of sales rather than as non-operating expenses and extraordinary losses, which led to a decline in operating income.

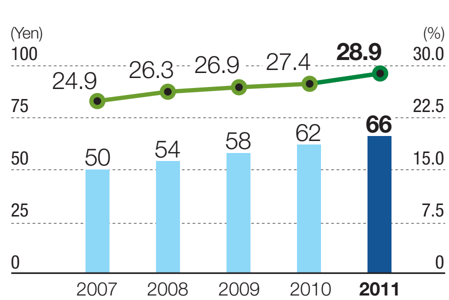
2007	2008	2009	2010	2011	% Change	2011
		Millions of yen				Thousands of U.S. dollars
¥257,022	¥228,826	¥125,693	¥129,184	**¥130,824**	1.3	**$1,573,349**
172,304	147,638	57,013	57,295	**56,184**	(1.9)	**675,694**
84,717	81,187	68,679	71,889	**74,640**	3.8	**897,655**
66,688	62,611	52,861	54,848	**56,019**	2.1	**673,710**
18,029	18,576	15,818	17,041	**18,621**	9.3	**223,945**
16,038	15,800	16,270	14,553	**13,178**	(9.4)	**158,485**
8,297	8,504	8,853	9,250	**9,336**	0.9	**112,279**
8,833	12,192	12,849	15,319	**13,168**	(14.0)	**158,364**
(2,970)	5,767	11,467	10,618	**4,789**	(54.9)	**57,595**
3,375	3,765	4,214	4,257	**4,155**	(0.2)	**49,970**
2,229	2,895	3,468	3,562	**2,346**	(34.1)	**28,214**
2,476	2,813	3,361	3,962	**4,069**	2.7	**48,936**
		Millions of yen			%	Thousands of U.S. dollars
102,102	66,069	73,172	85,209	**88,837**	4.3	**1,068,394**
22,279	15,236	17,618	14,779	**14,156**	(0.4)	**170,247**
77,028	37,940	39,834	39,025	**34,525**	(11.5)	**415,213**
10,291	7,286	9,011	8,344	**8,488**	1.7	**102,081**
77,236	77,182	76,364	84,603	**91,343**	8.0	**1,098,533**
164,555	122,409	125,210	131,972	**134,356**	1.8	**1,615,827**
25,074	28,128	33,337	46,184	**54,312**	17.6	**653,181**
3,414	726	645	1,708	**25**	(98.5)	**313**
		Yen			%	U.S. dollars
200.77	205.62	215.89	225.88	**227.98**	0.9	**2.74**
50.0	54.0	58.0	62.0	**66.0**	6.5	**0.79**
1,799.87	1,863.24	1,861.14	2,061.79	**2,226.42**	8.0	**26.78**
		%				
33.0	35.5	54.6	55.6	**57.1**		
7.0	8.1	12.6	13.2	**14.2**		
3.2	3.7	7.0	7.2	**7.1**		
132.6	174.1	183.7	218.3	**257.3**		
9.5	10.9	12.4	13.3	**14.3**		
11.7	11.2	11.5	11.5	**10.6**		
45.2	63.0	60.9	64.0	**67.9**		
0.05	0.01	0.01	0.02	**0.0003**		

Total Assets / Total Net Assets / Equity Ratio



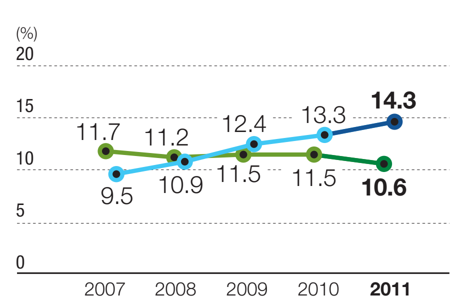
Total Assets Total Net Assets Equity Ratio

Cash Dividends per Share / Payout Ratio



Cash Dividends per Share Payout Ratio

ROE / ROA



ROE ROA

We will continue to maximize the value of the Kobayashi Pharmaceutical brand through our corporate brand management initiatives

Now is the Time to Galvanize Our Spirit of Creativity and Innovation

On behalf of everyone at the Kobayashi Pharmaceutical Group we would like to extend our deepest condolences to those who lost their lives as a result of the Great East Japan Earthquake of March 11, 2011. We would also like to offer our sympathies to those affected by this terrible disaster and our sincerest hope for the speedy recovery of the disaster-affected areas.

We believe that today represents an ideal time to galvanize the spirit of creativity and innovation that has been with us since our founding, and to seek to fulfill the management philosophy embodied in our vision of "Providing People and Society with Comfort."

Although the fiscal year ended March 31, 2011 revealed signs of recovery in individual consumption, the period was a severe one for Japan's economy as a strong sense of uncertainty surrounded employment and personal income. In addition, the Great East Japan Earthquake left its mark on the economy. In the aftermath of the earthquake and tsunami, the Kobayashi Pharmaceutical Group was forced to temporarily cease operations at Sendai Kobayashi Pharmaceutical Co., Ltd., which manufactures various core products including deodorizing air fresheners and OTC pharmaceuticals, and faced difficulty in obtaining certain raw materials.

However, as a manufacturer and seller of OTC pharmaceuticals and daily necessities with a mission to provide a stable supply of products, we exerted efforts to restore our production lines and find alternative procurement routes and partners. As a result, we were

Kazumasa Kobayashi
Chairman and Chief Executive Officer

Yutaka Kobayashi
President and Chief Operating Officer

able to gradually restore affected production lines starting in the first half of April 2011, with Group-wide production returning to normal by the beginning of June 2011.

Despite this challenging operating environment, the Group's consolidated net sales were up 1.3% year on year to ¥130,800 million, while net income rose 0.9% to ¥9,300 million, marking the thirteenth consecutive year of income growth.

The key to unlocking further growth can be found in international markets. As such, the Group has positioned the International Business as one of its core fields, and is making efforts to expand this business. Moving forward, we will need to make a significant leap to an even more sophisticated form of corporate brand management to create conditions in international markets by which consumers trust our products because they are made by the Kobayashi Pharmaceutical Group.

Enhancing the Kobayashi Pharmaceutical Brand both in Japan and Overseas

Since 2003, our corporate brand management initiatives have focused on maximizing corporate value not only by raising the brand visibility of individual products, but also by enhancing the value of our corporate brand and thereby boosting the credibility of the Kobayashi Pharmaceutical Group as a company.

Although the Group retains many products that have a high market share and that individually enjoy strong brand visibility, consumers are often unaware that these products are made by Kobayashi Pharmaceutical. In other words, we face the major challenge that the company name Kobayashi Pharmaceutical does not always align with our products in the minds of consumers.

In 2003 we launched corporate brand management initiatives to create conditions by which customers choose our products based not only on evaluation of our new products and businesses, but also on the trust and credibility associated with the Kobayashi Pharmaceutical brand.

During this fiscal period, the Group successfully expanded its core Mail Order Business and in the process generated momentum for future growth. A major factor for this success is our pursuit of the superior quality made possible by the stringent quality management practices found in domestic pharmaceutical companies, as well as our earning customers' trust in our products because they are made by Kobayashi Pharmaceutical.

Kobayashi Pharmaceutical Group Management Policy for the Fiscal Year Ending March 31, 2012

<Basic Policy>

Under the spirit of "Jikko Ketsujitsu" the Kobayashi Pharmaceutical Group will remain aware of its goals and targets, and will evolve into a group with true management execution capabilities through its tenacious commitment to continuously produce results.

<4 Key Policies>

1. **Pursue Customer-centric Quality**
2. **Achieve Planned Targets**
3. **Achieve Rapid Progress in our International Business**
4. **Practice Credible Management**

Fostering True Management Execution Capabilities under the Spirit of "Jikko Ketsujitsu"

We have defined long-term goals for our core Mail Order Business and other businesses, including International Business. This represents our commitment to take on the challenges embodied by the spirit of "Jikko Ketsujitsu," with the goal of unlocking new growth avenues.

The concept of "Jikko Ketsujitsu" refers to the determination to tenaciously produce and achieve results while remaining aware of our goals and targets. This also embodies the continual implementation of the Plan-Do-Check-Act (PDCA) cycle, which includes stringent inspections and improvements. By building on this "Jikko Ketsujitsu" process, we hope to become a corporate group with true management execution capabilities, and in the process build a solid business structure capable of continuous growth.

Under the basic policy of "Jikko Ketsujitsu," we have developed four pillars of management for the fiscal year ending March 31, 2012: "Pursue Customer-centric Quality," "Achieve Planned Targets," "Achieve Rapid Progress in our International Business," and "Practice Credible Management." "Pursue Customer-centric Quality" calls for us to improve quality from every angle under the slogan "Quality is the Lifeblood of the Company," to become a company that provides delight going beyond safety, security, and satisfaction. "Achieve Planned Targets" means surefire execution in management under clear goals to achieve our planned targets. "Achieve Rapid Progress in our International Business" calls for bold, innovative initiatives to achieve a major leap forward in growth through collective Group-wide efforts. Finally, we will adhere to compliance best practices in order to safeguard against corporate brand damage and will make efforts to "Practice Credible Management."

Thank you for your understanding and continued support of the Kobayashi Pharmaceutical Group.

August 2011

Chairman and
Chief Executive Officer

President and
Chief Operating Officer

We will focus on the Mail Order Business and International Business in order to secure further growth.

Q What were the results for the fiscal year ended March 31, 2011?

A We recorded our highest ever net income and achieved an increase in income and sales, despite a challenging operating environment.

In the fiscal year ended March 31, 2011, we achieved an increase in income and sales, despite the ongoing difficult operating environment. Although we were forced to temporarily suspend operations at Sendai Kobayashi Pharmaceutical Co., Ltd., which suffered damage in the Great East Japan Earthquake, and saw a rise in our cost percentage due to establishing ties with alternative raw material sourcing partners, net sales rose 1.3% year on year to ¥130,800 million, operating income increased 9.3% over the previous fiscal year to ¥18,600 million, ordinary income increased 11.4% year on year to ¥19,000 million, and net income was up 0.9% to ¥9,300 million. This marked our highest ever net income and our thirteenth consecutive fiscal year of income growth. In addition, we effectively increased our dividend per share for the twelfth consecutive fiscal year, to ¥66 per share (a ¥33 interim dividend and ¥33 year-end dividend).

We were able to sustain this growth primarily because we maintained and expanded the sales of our existing products, unearthed customer needs through new product development, and successfully expanded our Mail Order Business and International Business.

Yutaka Kobayashi President and Chief Operating Officer

Q How did each business segment perform?

A Profits realized in our two priority segments: Mail Order Business and International Business

In our mainstay Consumer Products Business, sales of new products and most of our existing high market share products performed robustly, but the *Nodonool Nure Mask*, a moist-type mask with filter, and the *Netsusama Sheet*, a cooling gel sheet for forehead, that saw significant growth in the previous fiscal year following concern over the outbreak of a new strain of influenza, witnessed a reversal and underperformed. In addition, the Mail Order Business was positioned as a separate segment in the fiscal year under review. As a result of these factors, net sales decreased 4.1% year on year to ¥110,700 million, while operating income rose 14.9% over the previous fiscal year to ¥18,900 million thanks to rationalization of our advertising expenses. In addition, compared with Consumer Products Business sales from the previous fiscal year discounting sales for the Mail Order Business as an independent segment, net sales rose 1.2% year on year to ¥1,300 million, while operating income rose 13.3% year on year to ¥2,200 million.

In the Medical Devices Business, in April 2010 we spun off the Kobayashi Medical Division, which until then was an operating division of Kobayashi Pharmaceutical, and advanced the concentration and selection of our business areas. As a result, we decided to turn our attention to the operation room-related and orthopedics field where demand is expected to grow in Japan. This is because we have determined that we must strengthen our competitiveness by further enhancing our expertise and production efficiency, to respond flexibly to the national government's efforts to reduce medical care costs and the official prices of medical devices. Based on the success of our measures, net sales rose 0.6% year on

Consolidated Earnings Trends

(¥100 million)

	Fiscal year ended March 31, 2010 Actual	Fiscal year ended March 31, 2011 Actual	Fiscal year ending March 31, 2012 Forecast
Net Sales	1,291	**1,308**	1,310
Operating Income	170	**186**	187
Ordinary Income	170	**190**	191
Net Income	92	**93**	100

year to ¥12,100 million, while operating income rose 75.2% year on year to ¥200 million, as the segment followed the previous fiscal year in posting higher income and sales.

In the Mail Order Business, one of our areas of focus, we launched a dedicated operating division in 2009 with functions that include marketing, research and development, technical development, and a dedicated call center, and quickly moved to develop new products and make new investments within the division. As a result, the Mail Order Business has grown to near ¥10,000 million in net sales, leading us to make it an independent operating segment beginning with the current fiscal year under review. Mail Order Business net sales rose 11.8% over the previous fiscal year to ¥9,800 million, while operating income totaled ¥300 million, as the business achieved a profit.

In our International Business, also an area of focus, sales were strong for our mainstay products of body warmers and *Netsusama Sheet*, as well as our *Ammeltz* external anti-inflammatory. As a result, net sales rose 19.5% year on year to ¥7,800 million, while operating income totaled ¥200 million, as the International Business recorded its first profit.

As for product disposal costs and return rate for the fiscal year under review, we controlled volumes and carefully analyzed previous results and market forecasts for new products, seasonal products, and exclusive products, which helped reduce disposal costs by approximately ¥900 million to achieve ¥2,000 million, while the product return rate fell 0.7 percentage points over the previous fiscal year to 2.6%.

Return on assets (ROA) for the fiscal year under review improved by 1 percentage point to 14.3% as a result of our comprehensive management of inventories, reduction in inventory assets, and 11.4% increase in ordinary income margin. Return on equity (ROE) declined 0.9 percentage points year on year to 10.6%, as retained earnings were up for the thirteenth consecutive year while net income rose slightly 0.9% and was on par with the previous fiscal year.

As costs related to the Great East Japan Earthquake, in the current fiscal year we have spent a total of ¥260 million for the disposal of damaged products and restoration costs for subsidiaries, and ¥250 million in funds to support disaster-affected areas, including ¥100 million in charitable donations and relief supplies.

Q What measures will you take to enhance the new product contribution rate?

A We will carefully select development themes and establish a new development structure grounded in our vision of "Concept + Alpha."

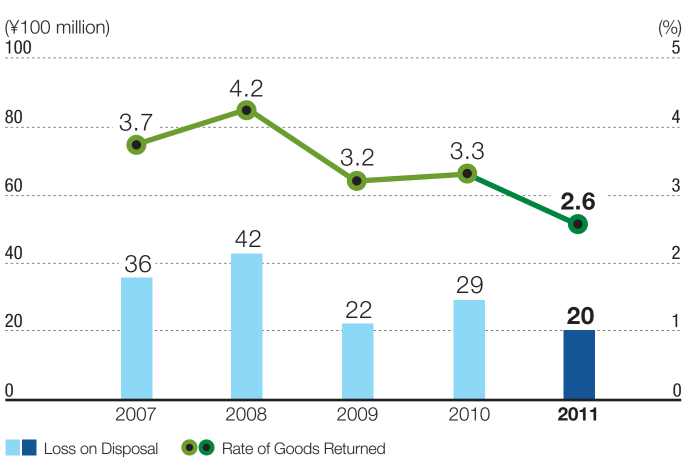
The new product contribution rate, or the ratio of new product sales to total sales, for the current fiscal year under review stood at its lowest on record at 5.3%. There were three reasons why this occurred.

First, the share of new product sales declined relatively due to a rise in total sales, including existing products.

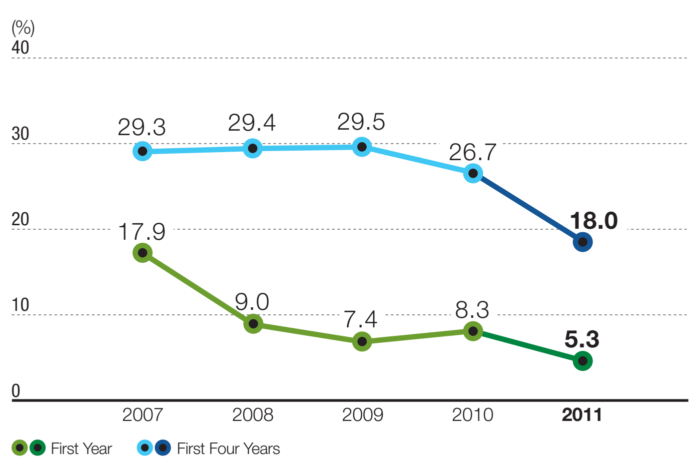
Second, it has become difficult to generate new markets through conventional concept-centered product development, due to the increasingly sophisticated nature and maturation of consumption. As a result, while focusing on concept work that identifies conventional niche market needs, moving forward we will pursue the addition of ideas and technologies from external experts in each segment. For example, by strengthening partnerships with prominent sourcing partners and tie-ups with academic research organizations, I would like us to develop solid products under the "Concept + Alpha" vision.

Third, we tightened our launch standards for the development of products in order to increase the ratio of hit products. Each year we formulate development themes and schedules for the forward three years in each category, but in recent years we have decided only to develop products that exceed certain stringent standards relating to feasibility and potential success. Moving forward, we will seek to enhance the new product contribution rate by carefully selecting development themes for the forward three years and bringing more hit products to market as scheduled.

Loss on Disposal / Rate of Goods Returned



Contribution Ratio of New Products



Q What is the management environment in the fiscal year ending on March 31, 2012 and what are your earnings forecasts?

A We will boldly confront an uncertain management environment and expect to exceed our sales and operating income for the fiscal year ended March 31, 2011.

Many uncertainties remain surrounding the management environment for the next fiscal year, such as the impact of the Great East Japan Earthquake, but we will calmly assess the situation and turn this crisis into an opportunity to boldly tackle new challenges.

Sendai Kobayashi Pharmaceutical Co., Ltd., which was damaged in the earthquake, gradually restarted operations in the first half of April 2011 and was able to return to normal manufacturing and shipment operations by the beginning of June 2011. Consequently, the decline in sales resulting from the shutdown was minimal. However, our cost percentage is currently on the rise. The reason for this is that although we have nearly completed our switchover from raw material sourcing partners that suffered damage in the earthquake and tsunami, our alternative sourcing partners do not enjoy the same capacity to take on large orders, and the increased number of sourcing partners has also increased costs. On the other hand, we have strengthened our business structure by moving forward with revisions to the specifications and formulas of products in order to reduce costs, and by decentralizing risks in the supply chain through the diversification of sourcing partners.

Regarding our Japan business, we have forecast a drop in production volume due to a downturn in consumer mindsets in the disaster-affected areas and restrictions on power usage during the summer months, but our lineup of products to cope with the summer heat will likely see a boost in demand and help grow our sales. As for our International Business, we will shift to the sales-oriented measures noted below.

Based on the above, our outlook for fiscal 2012 shows that sales in the first half should fall below those from the current fiscal year under review, yet full-year sales should exceed those from the previous fiscal year, albeit slightly. As a result, we expect full-year net sales to total ¥131,000 million, up 0.1% year on year; operating income to rise 0.4% over fiscal 2011 to ¥18,700 million; ordinary income to be ¥19,100 million, up 0.5% year on year; and net income to total ¥10,000 million, a 7.1% increase over fiscal 2011, marking our fourteenth consecutive term of an increase in net income. We also plan to offer a dividend of ¥70 per share, up from ¥66 in the current fiscal year under review.

Q What areas will the Group focus on in development and investment allocation?

A We will grow our Mail Order Business and International Business, both of which are areas of focus.

Japan's aging society has heightened the need for healthcare. Given this, we see a potential for growth in OTC pharmaceuticals, in particular *kampo* (Chinese herbal medicines), where we can exert our strengths as a pharmaceutical company. As such, we are promoting research on the marketability and sales strategy of these healthcare products.

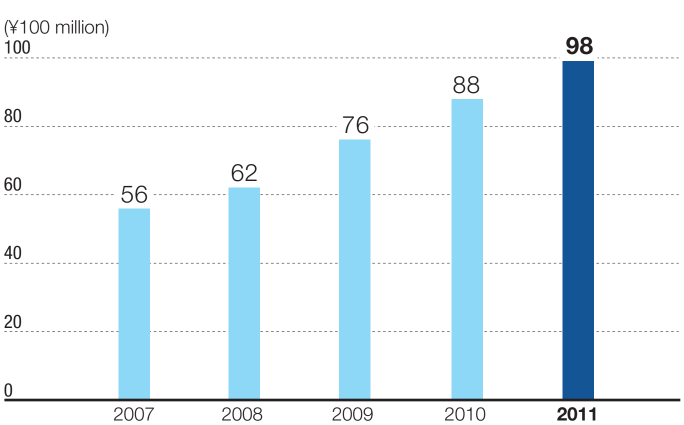
Although many *kampo* medicines yield noteworthy results and efficacy, there are still more that the public is generally unaware of due to their obscure names and lack of available information. If we can convey the results and efficacy of products toward particular symptoms in an easily understood and impactful way, then as with *Urinaru*, a remedy for dysuria, and *Naicitol 85*, our OTC pharmaceutical for obesity, we should be able to gain a wider customer base. Since *kampo* medicine is intended for improving health and helping prevent disease and sickness, its market can be expected to grow amidst an increasing social demand for reduction of medical care expenses. We will continue to devote efforts to product development and sales promotions based on this conviction.

Also, we will continue to prioritize our Mail Order Business and International Business as focus areas in which we will aim to realize growth.

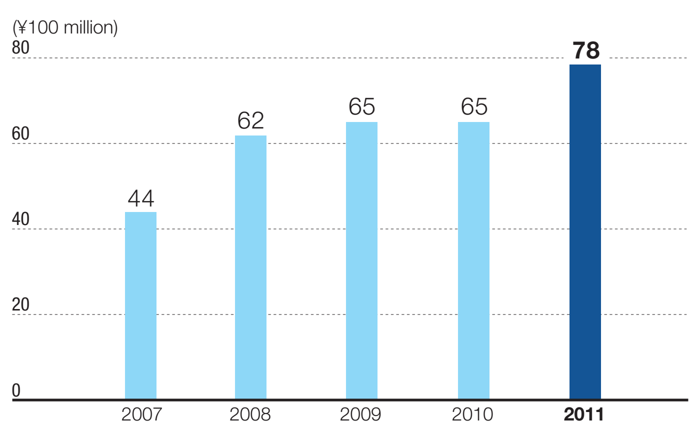
For our Mail Order Business, we have set a target of double-digit growth and a doubling of sales to ¥20,000 million over the next several years. We have developed two measures to achieve this target. First, we will increase the size of our membership club. Until now we have advertised mainly in newspapers, given the characteristics of our products and customer base. Moving forward, we will utilize a variety of media including newspapers, magazines, television, and websites in conjunction with the expansion of our product lineup and customer base. Secondly, we will address rising healthcare needs by paying close attention to OTC pharmaceuticals as products to follow nutritional supplements, skincare products, and hair-restorer products.

As for our International Business, we will shift our conventional

Mail Order Business Net Sales



International Business Net Sales



emphasis on profits to sales, as we have made this business profitable for the first time in the fiscal year under review. In other words, by making a drastic change in direction to expand the size of our International Business, we aim to raise its share of Group sales from the current 6% to double digits as soon as is practical. To realize this goal, in 2009 we established our International Business Division, which combines departments that conduct research and development as well as undertake marketing focused on global markets, to enable faster and more localized product development. Under this structure, we will cultivate markets in Asia, expand the sales area of body warmers, develop and bring to market the next prominent product as a follow-up to body warmers, and develop and bring to market OTC pharmaceuticals tailored to the needs of each local market. In terms of OTC pharmaceuticals, since we will need to comply with the standards and regulations in each individual country, we are looking at M&A opportunities. We will use retained earnings to fund these endeavors, and will aggressively seek out M&A both in Japan and abroad in order to grow our Consumer Products Business.

Q What types of CSR initiatives are you taking?

A We are conducting activities to enhance quality, our bonds with customers, and employees' self-confidence.

We have continued to focus our efforts on the three key priority issues, from the perspective of CSR, oriented toward building relationships with our stakeholders: pursuing quality in product manufacturing, deepening bonds with customers, and raising employees' self-confidence.

In pursuit of quality in product manufacturing, we practice point-and-call confirmation checks at all factories. Employees are becoming more accustomed to this practice as it not only helps prevent workplace accidents but also helps us manufacture higher quality products for our customers. In addition, fundamental policy for quality will be formulated for the next fiscal year to better define our structure of quality management.

In terms of efforts to deepen bonds with our customers, we have made monetary donations and sent relief supplies to assist areas devastated by the Great East Japan Earthquake. In addition, we launched the "1 yen no Omoi Campaign" through which one yen is donated with each purchase of a Kobayashi Pharmaceutical product in June 2011.

In raising employees' self-confidence, I believe that continuing to increase income and sales through development of new products with high potential for success, thereby giving our employees a real sense of value in Kobayashi Pharmaceutical as perceived by the society, is essential to building confidence. Since 2007, we added the message "Ah, Kobayashi Seiyaku" to the start of TV commercials to impress upon customers the association between each product name and Kobayashi Pharmaceutical. I believe that the enhanced recognition and sense of dependability in the Kobayashi Pharmaceutical brand also gives rise to improved employee confidence.

Q Do you have a message for shareholders and investors?

A We will continue to produce results with tenacity in order to surely reach our targets.

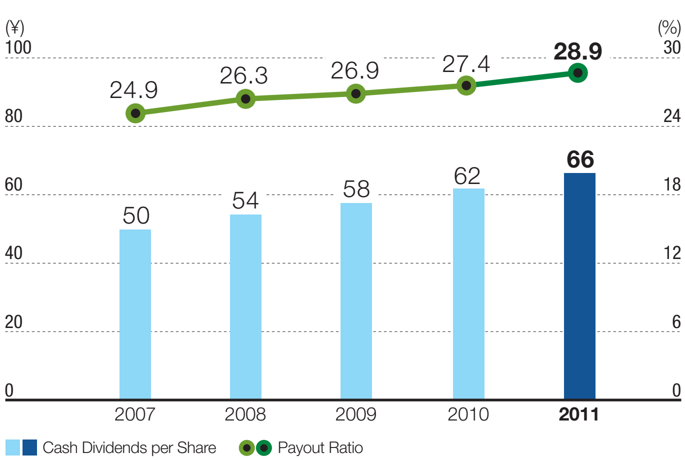
We recently witnessed a series of events unprecedented in Japan, including the Great East Japan Earthquake, the record-breaking appreciation of the yen, the lowest rate of job offers to graduates, and high unemployment. Simply put, we have entered into an era of no antecedence.

However, we are determined to aspire toward bigger things and produce results through steadfast execution without fear of such an era, and have defined our fundamental management policy for the next three years as "Jikko Ketsujitsu." In other words, we aim to evolve into a company with true execution capabilities by constantly keeping our focus on our targets, producing results with an unyielding tenacity to reach our targets.

Going forward, we will continue to work toward realizing the concept of our brand slogan, "You Make a Wish and We Make it Happen," while we aim to develop new markets to foster our continuous growth. We look forward to your continued support of us.

(August 2011)

Cash Dividends per Share/Payout Ratio



Feature 1

Expanding the Mail Order Business

The Mail Order Business continues to make leaps forward

The Mail Order Business began in 1993 as a channel that provides a direct contact point with customers. It has distinguished itself from other competitors by explicitly promoting "quality made possible only by a pharmaceutical company" and has continued to grow to date.

Entering the Mail Order Business in Search of New Points of Contact with Customers

The Kobayashi Pharmaceutical Group's Mail Order Business was launched in 1993. It was a time when a number of industries were experiencing a revolution in distribution, and increased attention was given to direct marketing. As such, the Mail Order Business was launched with the aim of creating new points of contact with a broader range of customers.

From the outset, the business was developed with a primary focus on specialized products such as adult diapers that customers hesitate to buy over the counter. Later, we decided to reorganize the business in 1999 with the aim of rapidly growing it through supplying products that aid in the comfort and health of more consumers. With nutritional supplements designated as the primary focus area of the business, we have overhauled our product offerings, media strategy, and marketing methods.

Taking Action under the Concept of Delivering "Quality Made Possible Only by a Pharmaceutical Company"

The business concept was clearly defined once again in order to build the business with a new focus on nutritional supplements. That is, we sought to promote our "strengths" as a pharmaceutical company in an even more aggressive manner than ever before. Such strengths include a wide range of product genres made possible by our solid competencies in research and development, thorough evaluation and verification of raw materials safety, and manufacturing standards following the same level of stringent quality control standards as OTC pharmaceuticals. By developing products and marketing strategies that harness these strengths unique to a pharmaceutical company, we have strived to distinguish ourselves from competing companies in Japan.

To this end, 33 nutritional supplements were launched together in May 1999. Each of these products adhered to the concept of "quality made possible only by a pharmaceutical company," with a strict emphasis on quality and safety, such as having no added artificial

fragrances, coloring, or preservatives. Furthermore, to provide “quality made possible only by a pharmaceutical company” after the sale of a product, we established the Customer Service Center for customers to call in to consult with a pharmacist as a means to enhancing their satisfaction by providing sincere advice and detailed information to those who purchase our products.

Customer Service Center

Aiming for Further Growth Focused on Customer Needs

The Mail Order Business accepts orders by telephone, fax, and over the Internet. While the telephone channel comprises the largest percentage of all orders, orders placed over the Internet have been increasing in recent years. This trend reflects the gradual normalization of shopping via the Internet even in our core target group of consumers in their 50s and older. To cope with this change in consumer shopping style, we will strengthen our efforts in web marketing, including the effective use of web advertisements going forward.

Moreover, we are currently reviewing the greater utilization of television commercials, which help raise awareness of Kobayashi Pharmaceutical’s mail order business among more customers and yield greater results in capturing new customers.

In addition, we will continue to expand our lineup of mail order products in response to changing customer needs. We aim to further strengthen our already rich product lineup, a truly unique characteristic of our Mail Order Business, including expanding hair care related products whose demands are on the rise following the success of *Aloe Ikumo Eki,* a hair tonic to completely separate ourselves from competitors. At the same time, we also plan to include other genres of products including OTC pharmaceuticals, and quasi-pharmaceuticals in the business in the future.

We are committed to pursuing a thorough customer-centric approach aimed at maintaining double-digit growth. In addition to improving our sensitivity toward customer needs, we have resolved to speed up the product development process to better reflect perceived demand in helping to deliver a comfortable lifestyle to the customers.

Making expansive growth in the Mail Order Business a reality through advertising strategies with solid investment efficiency and proactive information dissemination

The Mail Order Business has evolved into one of the main pillars of the Group’s operations through continued growth made possible by promoting “quality made possible only by a pharmaceutical company.” Such a leap in business performance owes largely to two marketing strategies, in addition to the inherent product strengths of high quality, high reliability, and a rich product lineup.

One of the strategies involves more effective investments in advertisement. Success in sales depends on the number of new customers a product can attract and the degree to which we can make each product appeal to potential buyers. For this reason, we emphasize taking out newspaper advertisements for individual products which provide a close-up look at the product and convey its features in a simple, understandable manner. In addition, the Group also constantly verifies the effectiveness of each individual advertisement in order to make more efficient investments.

The other strategy entails the proactive dissemination of information. In addition to establishing the Customer Service Center, we created a database on the mixed use of medicines under specialist supervision in 2008, further improving the Group’s capability in information provision as a pharmaceutical company. In addition, through informational magazines for registered members and direct mailing activities, we provide timely information including updates on health and product related information and special campaigns with bonuses to enhance the shopping experience of our customers. This initiative has helped expand our base of new customers, improved the rate of repeat shoppers among existing customers, and increased the unit price spent per customer.

Currently, the Mail Order Business offers over 120 items, from nutritional supplements to skincare products, hair-restorer products, and more. Moving forward, we will continue to expand our product offering tailored to customer needs while striving to enhance service quality.

Feature 2

New Product Development

The *Chinshite Kongari Sakanayaki Pack* that created a new market

We satisfied the potential needs of our customers with creative ideas and created a new market for cookware used exclusively in the microwave.

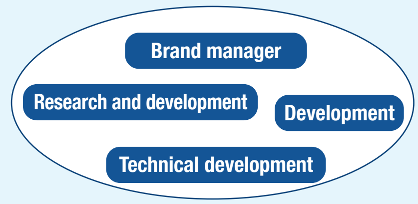
Commercializing Products in as Short as 5 Months through Collaborative Work of Team Members with Specialized Expertise

Our fundamental approach to developing new products begins with needs (customers) rather than seeds (technology). This begins with the search for potential needs that no one has noticed before or that even our customers themselves sometimes are not aware of. The ideas that emerge as a result of this search are evaluated at the monthly meeting “Idea Kaigi” which also involves our senior management team. Once an idea is approved, a cross-departmental project team, which includes the brand manager, development, research and development, and technical development departments, is formed to move the commercialization process forward efficiently.

Speed is absolutely critical for the Kobayashi Pharmaceutical Group to create new markets and earn merits as a trail blazer. It takes an average 13 months for an idea to go from its initial proposal to becoming available on store shelves as a new product, with the exception of OCT pharmaceuticals. Through having a team of specialized experts working collaboratively on a project since its initial development stage, we are able to deliver thoroughly planned products that lead to new markets within a short time frame.

The Kobayashi Pharmaceutical Group’s Development Structure

Move forward at once with manufacturing as a cross-departmental project team



Chinshite Kongari Sakanayaki Pack was created based on the inspiration of one research and development staff member who wondered why not to use an aluminum vapor-deposited sheet, which gives frozen pizza its brown baked color, in a microwave to also grill fish. In February 2009, a project team was quickly launched after the idea was approved. The team went through a series of trials while creating dozens prototypes in studying the grilling of fish to perfection and ease of use. The final product was completed in five months, much shorter than the usual development period, and presented to the distribution industry at a new product presentation in July of the same year. *Chinshite Kongari Sakanayaki Pack* was released nationwide in Japan in September 2009.

Expanding Current Market through Multiple Media

To generate market interest, it is important to raise awareness among as many as customers as possible of the merits of grilling fish using a microwave, and shed light on such potential needs recognizable by consumers. After the product's market release, we strived to increase awareness of the concept through frequent airing of television commercials, as well as put efforts into expanding selling opportunities with product displays in the fish department of supermarkets. Consequently, the *Chinshite Kongari Sakanayaki Pack* quickly became a hit with over one million sold in a short three-month period since its release.

In addition, we are also working to publicize the ease of cooking with a microwave and the fact that a variety of foods can be made this way. We aim to stimulate demand and expand this market through making suggestions effectively, using multiple media, such as providing recipes on our brand site "COOK LABO," and distributing booklets with recipes on sales floors.

Brand site "COOK LABO"
http://www.cooklabo.jp/

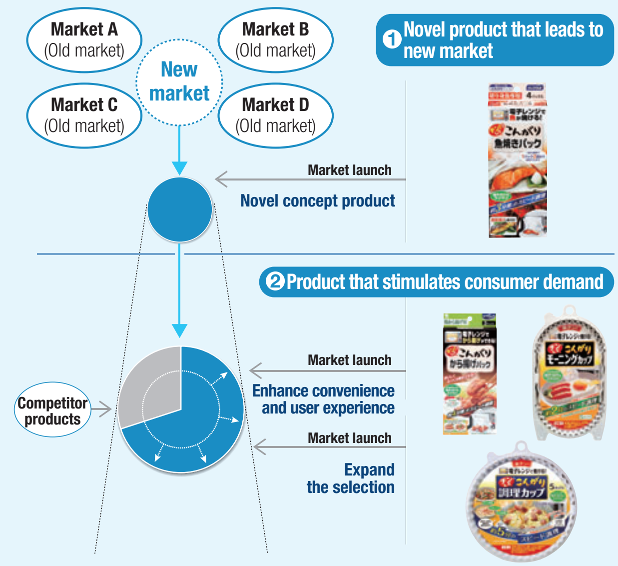
Chinshite Kongari brand expands the market of cookware exclusively used in the microwave based on the Group's business model

With our novel product *Chinshite Kongari Sakanayaki Pack*, we created a new market for grilling fish using a microwave never considered by others before. Our business expansion, however, does not end here. It is our business model to ensure a high market share and high return through releasing products that stimulate consumer demand into the market we created, in order to further expand that market.

Cookware exclusively used in the microwave is drawing a heightened sense of attention and this new market is starting to show an expansion. Our next strategy is to expand the product lineup of *Chinshite Kongari* brand.

In March 2010, Oban Type, the large-type grilling pack which enables grilling two slices of fillet at the same time, was released into the market together with the *Karaage Pack* product which makes fried chicken. Further, *Morning Cup*, which allows one to make breakfast, such as sunny-side-up eggs, was released in September 2010, and *Chouri Cup*, which allows one to make a quick main entrée or appetizer, was released in March 2011. Through these products, we are generating new demand from customers, expanding our current market, as well as enhancing the awareness of *Chinshite Kongari* brand.

Progress of market expansion under our business model



Chinshite Kongari brand product lineup

Consumer Products Business

Household Division

Deodorizing Air Fresheners, Sanitary Products and Household Sundries

We will focus efforts on developing a sales strategy and marketing for existing products as well as develop new, high value-added and unique products aimed at proposing and creating new lifestyle habits.

Shoshugen Aroma

Shoshugen Aroma is a deodorizing room air freshener that uses concentrated fragrance oils to emit a luxurious scent for a 60-day period.

Netsusama Sheet

Netsusama Sheet is a cooling gel sheet for the forehead that contains cooling beads.

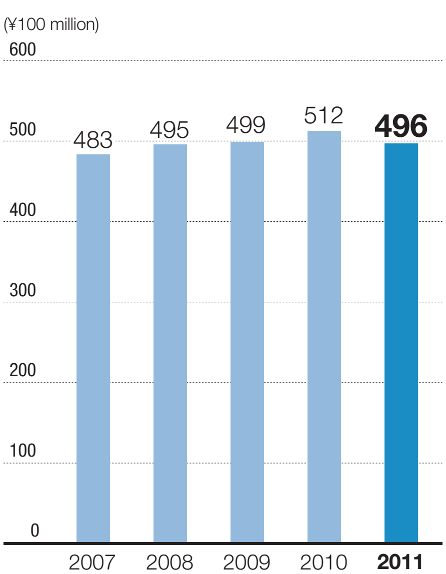
Ekitai Bluelet Okudake

Ekitai Bluelet Okudake is a liquid-type deodorizing cleanser for toilets that is placed in the toilet tank lid sink.

Chinshite Kongari Sakanayaki Pack

Chinshite Kongari Sakanayaki Pack is an easy-to-prepare cooking pouch to grill fish to a golden brown in the microwave.

Household Division Net Sales



Market Trends

An Era Where Consumers Demand Both Unique and High Value-Added Products

Although Japan's economy saw a recovery in personal consumption, uncertainty persists regarding the future, and therefore comparison shopping where consumers select only what they need based on careful selection has taken a foothold.

This trend is particularly strong for household goods, which means that products that are only slightly unique are not guaranteed to sell. In order to appeal to the discerning eye of consumers, we will seek out the unique and exceptionally customer focused ideas that will enable us to develop products with an even greater added value.

Review of the Fiscal Year Ended March 2011

Unique New Products Created New Markets and Existing Core Brands Also Performed Solidly

In the fiscal year under review, the Kobayashi Pharmaceutical Group launched products that create new markets, and new, unique products that feature new added value. Among these, *Tenshi no Shoshugen*, compact and affordably-priced room deodorizing air fresheners, and *Shoshugen Aroma* captured the needs of consumers and positively contributed to earnings. In our new beauty mask segment, *Ofuro de Hot Charge*, a beauty essence mask used after being warmed up in the bathtub, reached 70% of its sales target within the first six months of its launch, which also contributed solidly to earnings.

New Products

Netsusama Hinyari Gel Mat

A cooling gel mat that makes one feel cool and comfortable on unpleasantly hot nights when it is difficult to fall asleep. This product is developed for customers who prefer to cool off without using air conditioning. It requires no refrigeration and can be used repeatedly.

Ofuro de Hot Charge

Ofuro de Hot Charge is a beauty essence mask for the face used after warming the product up within its original sealed aluminum pouch in a bathtub. We came up with this new concept of beauty treatment for bath time to address women's desire for more time-efficient beauty treatments.

Shirt Cool

Shirt Cool is a cooling spray with a long-lasting effect that is used on clothing articles before wearing them, coating their surface with an ingredient that is cool to the touch. The comfort of coolness is felt whenever the user sweats. In addition to the strong mint type, a mild mint type for women has also been released.

By category, net sales of deodorizing air fresheners rose 0.4% year on year to ¥30,700 million. Among these, *Bluelet*, expanded its already greater than 77% market share by an additional 0.4 percentage points, and contributed positively to both sales and profits. Sales of deodorizing air freshener *Shoshugen* and room deodorizing air freshener *Sekai Koro* both increased by 8.7% and 45.7% respectively year over year.

However, in sanitary products, *Nodonool Nure Mask*, a moist-type mask with filter, and the *Netsusama Sheet* that saw significant growth in the previous fiscal year following concerns of the outbreak of a new strain of influenza, saw a reversal and underperformed, as net sales declined 11.4% to ¥14,000 million yen.

Although we were forced to temporarily suspend operations at Sendai Kobayashi Pharmaceutical Co., Ltd., a manufacturer of *Bluelet* and other core products that suffered damage in the Great East Japan Earthquake, we exerted our best efforts in restoring operations, steadily repairing production lines in April 2011 and returning all production lines to normal in June 2011.

As a result, overall net sales of this division declined 3.1% year on year to ¥49,600 million.

Outlook for the Fiscal Year Ending March 2012

Strengthening Development and Marketing Competencies to Propose and Create New Consumer Lifestyle Habits

In order to attain our target of new products accounting for more than 10% of consolidated net sales in their first year, in the new fiscal year we will focus efforts on new product development, which acts as a driving force of growth in our household division. At the same time, we will also focus on promoting sales of our existing products.

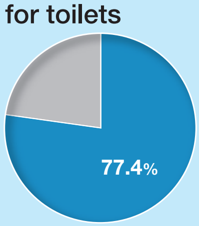
The impact from the Great East Japan Earthquake forced us to concentrate on production of our core products and move the launch date of new spring products from March to April. Building upon this experience, we are reviewing alternative procurement routes, including outside of Japan, in order to establish a structure that ensures the stable supply of our products in the event of a similar crisis.

With electricity shortages anticipated during the summer months, we expect challenging operating conditions to persist, including reduced production, restrictions on product shipments and a downturn in consumer mindsets. On the other hand, our *Netsusama* brand products and products such as *Shirt Cool* used to combat the summer heat will likely witness a boost in demand and be a positive factor that contributes to earnings. We are committed to promoting a product development strategy and marketing strategy that meet the needs of today's consumers by quickly and precisely responding to changes in the market environment at a time of so much uncertainty.

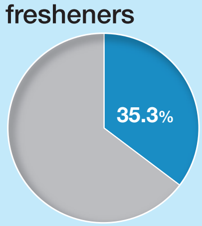
Moving forward, we will firmly push ahead with our business model that focuses on proposing and creating consumer lifestyle habits as well as expanding new markets.

Market Share (Kobayashi Pharmaceutical Research)

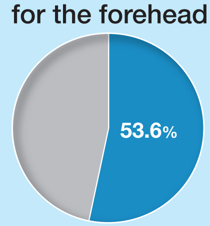
Deodorizing cleansers for toilets



Deodorizing air fresheners



Cooling gel sheets for the forehead



Consumer Products Business
Health Care Division
OTC Pharmaceuticals, Oral Hygiene and Food Products

With the aim of enhancing the quality of life, we are promoting the development of new products including *kampo* Chinese herbal medicine as well as customer focused marketing strategies.

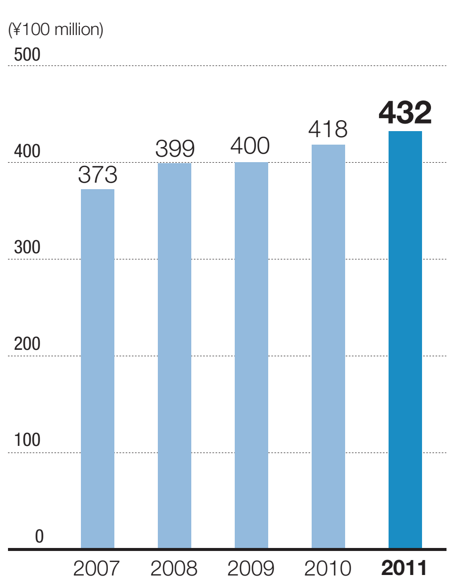
Breath Care
An oral breath freshener that eliminates bad breath from food in the stomach.

Eyebon
An eye wash solution that flushes out dirt and foreign particles from the eye.

Naicitol 85
A Chinese herbal medicine that promotes the breakdown and metabolism of fat.

Shouyou
A medicated toothpaste containing five types of completely natural plant extracts that help prevent gingivitis and periodontitis.

Health Care Division Net Sales



Market Trends

Awareness of Self-medication Rises Following the Increase in the Morbidity Prevalence Rate and Total Medical Care Cost

As the rate of morbidity rises along with the aging population, Japan's total medical care cost is set to reach ¥40 trillion. Given this, the public's awareness of self-medication is growing stronger, while the healthcare market which we have focused largely on is expected to further expand going forward.

In particular, we believe *kampo* Chinese herbal medicines that are believed to be effective in preventing sickness represent a growth market at a time of a heightened health consciousness and demand for keeping medical expenses down.

Review of the Fiscal Year Ended March 2011

Sales Grew Firmly Centered on Oral Hygiene Products amid Consumers' Heightened Health Consciousness

Until now, the Kobayashi Pharmaceutical Group has focused on Category 2 and 3 OTC pharmaceuticals such as *kampo* medicines and external medications. In September 2010, however, we released our first-ever Category 1 OTC pharmaceutical *Feminina Chitsu Candida Jyo*.

By category, net sales of OTC pharmaceuticals rose firmly 1.7% year over year to ¥21,900 million, as sales of core products *Eyebon* and women's health medicine *Inochi No Haha A* rose 9.0% and 14.5% respectively, making a positive contribution to earnings. However, sales and the market share of

New Products

Komure Care

Komure Care is a *kampo* Chinese herbal medicine for internal use that alleviates muscle cramps of the leg and associated pain and stiffness. The peony and licorice decoction herbal medicine formula works effectively to reduce muscle pain and stiffness.

Release of Category 1 OTC Pharmaceutical *Feminina Chitsu Candida Jyo*

In July 2010, the Kobayashi Pharmaceutical Group obtained the distribution rights for *Feminina Chitsu Candida Jyo*, for which Mitsubishi Tanabe Pharma Corporation received manufacturing and distribution approval. This marks the first-ever Category 1 OTC pharmaceutical sold by the Group.

Vaginal candidiasis, a condition that one in five women develop, has a 70% reoccurrence rate. In addressing consumer concerns such as whether the product fits their own condition or the fact that such products are embarrassing to buy, we have come up with a new system that allows customers to verify their own symptoms with a self checklist, and a bar code for mobile phones available on the brand's website to present to the pharmacist when purchasing the product in store.

Naicitol 85, which has been on sale for five years, declined. The market for obesity related products has continued to see growth amid rising consumer awareness toward metabolic syndrome, but the market shrunk temporary due to increasingly intense competition and price reductions. Nevertheless, we expect demand will continue to grow in this market and as such we plan to continue to cultivate new demand and disseminate information going forward.

Net sales of oral hygiene products rose solidly 5.6% year on year to ¥15,500 million, underpinned by heightened consumer awareness toward oral health care in recent years. Among these, sales of *Shouyou* and interdental cleaning tool *Yawaraka Shikan Brush* increased significantly, by 8.5% and 17.9% respectively.

Net sales in the food segment where we sell nutritional supplements and foods for specified health uses predominantly through the drug store channel increased 2.2% year over year to ¥5,700 million, buoyed by the aggressive launch of new products.

As a result, overall net sales of this division rose 3.3% year on year to ¥43,200 million.

Outlook for the Fiscal Year Ending March 2012

Focusing Efforts on New Product Development Including *Kampo* Medicines

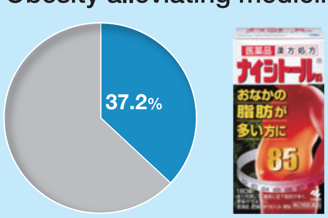
Given rising awareness toward metabolic syndrome, more and more consumers are looking to self-medication and preventive medicine. As such, we expect that consumers will continue to increase their orientation toward higher quality and healthier lifestyles going forward. In order to respond to this demand, we will continue to focus on new product development that emphasizes our quality made possible only by a pharmaceutical company under an exceptionally customer focused vision that aspires to enhance our customers' quality of life.

Specifically, there are many *kampo* medicines that have been found to have an efficacy different from Western medicine yet remain largely unknown among consumers. As such, we will focus efforts on identifying and commercializing these medicines. Going forward, we will look to provide new solutions to our customers and will consider tie-ups with dedicated *kampo* manufacturers where necessary.

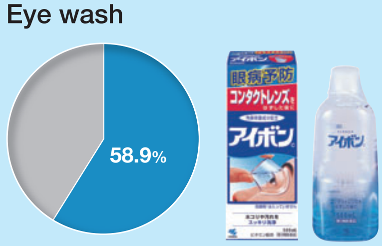
In addition, there is growing demand for products that alleviate discomfort and problematic symptoms not defined as any specific illness. *Attonon*, an external medicine used on cuts and scrapes launched in March 2011, was developed to meet the needs of women who find that scars and blemishes cause unwanted anxiety. Moving forward, we will stand committed to developing similar products made possible only by the Kobayashi Pharmaceutical Group that help to enhance the quality of life of our customers.

Market Share (Kobayashi Pharmaceutical Research)

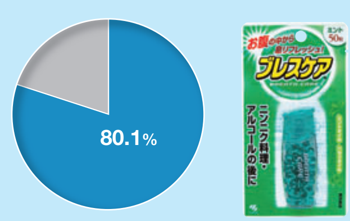
Obesity alleviating medicines



Eye wash



Oral breath fresheners



Consumer Products Business

International Division

We aim to boost sales by the quick development of new products localized for each overseas market.

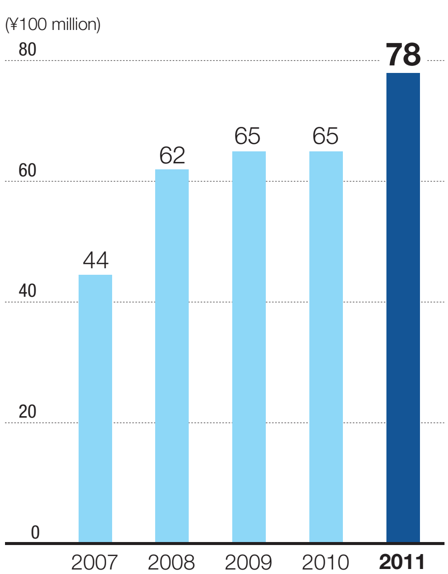
Business Overview

Expansion into Overseas Markets with Body Warmers as our Key Product

The Kobayashi Pharmaceutical Group's International Business first began with exports to Southeast Asia starting in the 1970s. Today, the export business continues to occupy an important part of our operations as we currently sell Kobayashi Pharmaceutical branded products in more than 20 countries around the world. In addition, we also have locally incorporated subsidiaries in the United States, the United Kingdom, China, Singapore and Hong Kong.

We sell body warmers, sanitary products, OTC pharmaceuticals and deodorizing air fresheners around the world, with body warmers accounting for more than 60% of our International Business sales.

International Business Net Sales



Review of the Fiscal Year Ended March 2011

Profits Realized by Expanding Sales in the United States and China

We positioned the United States and China as strategic focus areas and worked to expand sales in these key markets. As a result, net sales of our International Business grew robustly at 19.5% year over year to ¥7,800 million. We recorded a profit for the segment, with operating income standing at ¥250 million, which compares favorably to the previous fiscal year when we recorded an operating loss of ¥140 million.

In the United States, net sales rose steadily 27.1% year on year to ¥3,300 million as HeatMax, Inc. which became a wholly owned subsidiary in 2006, captured new customers in the market.

In China, body warmer net sales increased firmly 34.6% year on year to ¥800 million. This solid performance can be attributed to our cultivation of new customers as well as expansion of sales areas, and the fact that consumer awareness toward body warmers has improved, and therefore our body warmer products enjoy stronger visibility in stores.

Outlook for the Fiscal Year Ending March 2012

Accelerate Investments Aimed at Boosting our Presence in Asia

We will work to boost sales in the Asia region by shifting from a standardized marketing strategy to a localized marketing strategy for each market, including China where market growth is anticipated, and accelerating investments in advertising. In addition, we will consider establishing locally incorporated subsidiaries as well as M&A opportunities or capital tie-ups with local companies and aim to launch the next hit product following our success with body warmers. Specifically, we plan to focus on OTC pharmaceuticals and oral hygiene products.

In the United States, we plan to cultivate new customer segments including convenience stores and pet shops.

Column

Delivering Products to Overseas Consumers Leveraging our "You Make a Wish and We Make it Happen" Philosophy

Until now the Kobayashi Pharmaceutical Group's International Business has simply sold products developed for the Japan market in overseas markets. However, the actual needs of each market differ based on country, region, and target customers.

For example, when we changed the specifications of *Netsusama Sheet*, a cooling gel sheet for the forehead to a single sheet format from the usual format in Japan, sales began to take off in Southeast Asian nations.

As such, the key to expanding our International Business is a structure in which we can quickly develop and bring to market products that are truly needed by local consumers and reflect their feedback.

To realize such a structure, we established the International Business Division in 2009 with an internal organization that specializes in the research and development of new products for overseas markets. This has enabled us to quickly develop and bring to market products localized to individual needs.

China

Launched *Taifuchin* in Shanghai

We launched trial sales of *Tough Dent*, a denture cleanser, several years ago in China because we recognized a market existed since the country's population is aging, the ratio of dentists to the total population remains small, and denture upkeep practices are still insufficient. In June 2010, we launched commercial sales of *Taifuchin* primarily in drug stores in the Shanghai area. Since then, we have worked to raise the visibility of the product by conducting demonstrations and offering free samples in stores and outside, as well as striving to entrench a new practice of cleaning dentures with a foaming agent.

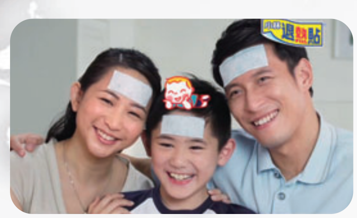
Denture cleanser
Taifuchin

Hong Kong

Expanded Uses of *Toirotie*

In Hong Kong we have already launched sales of *Anmeiru*, an anti-inflammatory remedy applied externally, and *Toirotie*, a cooling gel sheet for the forehead, with *Toirotie* accounting for a nearly 80% share of the market. Today, in order to expand uses of *Toirotie* beyond a treatment for colds, we have launched a television commercial that markets the product as a countermeasure against the summer heat.

Cooling gel sheet for the forehead
Toirotie


Scene from a television commercial for
Toirotie

United States

Strengthening *Hot Hands* Brand

Hot Hands, body warmer, sold by HeatMax, Inc. in the United States was used mostly by outdoor enthusiasts, including hunters, with nearly all users male. In the autumn of 2010 we redesigned the packaging of *Hot Hands* in order to strengthen the brand going forward. In addition, to raise the visibility of *Hot Hands* as a body warmer that fights cold environments and to expand its potential uses, we have placed the product in front of the sales counter to expand exposure in store. We have also conducted trial advertisements as well.


Body warmer
Hot Hands

Mail Order Business

We strive to develop the next new product after our success in nutritional supplements and skincare products, based on the mission of delivering “quality made possible only by a pharmaceutical company.”

Market Trends

Competition Continues to Intensify As Various Companies Enter the Market

The mail order market is expanding with each passing year and a variety of companies have made inroads, adding a new market dimension to existing mail order-focused manufacturers and retailers. This has caused competition in the marketplace to intensify further.

Amid this, the Kobayashi Pharmaceutical Group entered the mail order market in 1993, and since then has worked to acquire proprietary expertise and expand its footprint. Today, we sell nutritional supplements, skincare products and hair-restorer products under the mission of delivering “quality made possible only by a pharmaceutical company.”

Review of the Fiscal Year Ended March 2011

Segment Profits Realized amid Double Digit Sales Growth

In the current fiscal year under review, the Kobayashi Pharmaceutical Group strived to increase segment sales by launching new products, including *Caesar Ojisan no Akai Propolis* and *Sesamin Gold*, capturing new customers and promoting repeat purchases by existing customers. Although we were unable to achieve our target of ¥10,000 million in segment net sales due to the impact from the Great East Japan Earthquake, net sales for the current fiscal year under review rose 11.8% year over year to ¥9,800 million, which marks the second consecutive year of double digit growth.

In addition, the segment moved into the black with an operating income of ¥300 million, compared to an operating loss of ¥200 million in the previous fiscal year.

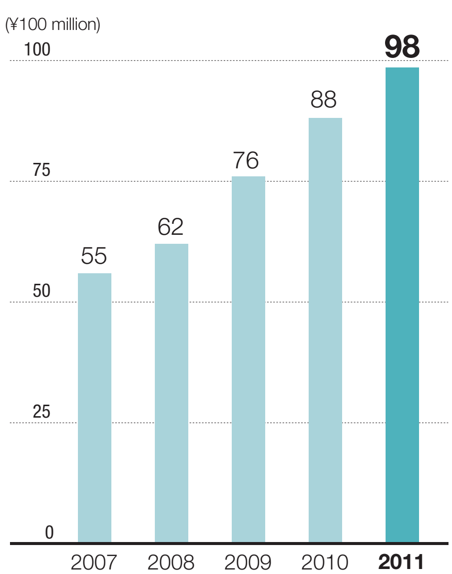
Outlook for the Fiscal Year Ending March 2012

Expanding Sales Further by Focusing on the Development of New Products including OTC Pharmaceuticals

The Kobayashi Pharmaceutical Group’s primary customer base for mail order sales is customers in their 40s to 60s. Since this consumer segment tends to be more health-conscious, we will focus new product development initiatives on OTC pharmaceuticals and quasi-pharmaceuticals. We also plan to begin advertising in a variety of media, in addition to our traditional focus on newspapers, in order to align our marketing efforts to our growing customer segments.

We will seek to enhance customer trust and satisfaction by expanding our corporate website, providing information through informational magazines and direct mail distributed to customers that purchase our products, as well as offering advice from pharmacists. These initiatives will enable us to maintain double digit growth and further expand sales in the segment.

Mail Order Business Net Sales



New Products

Caesar Ojisan no Akai Propolis

Caesar Ojisan no Akai Propolis is a nutritional supplement that uses a rare red propolis known as the “propolis that outstrips ordinary propolis.” We have developed a structure enabling us access to a stable supply of bees’ honey under the cooperation of an apicultural expert in Brazil, Mr. Caesar.

Sesamin Gold

Sesamin Gold is a nutritional supplement made using high sesamin content black sesame seeds that contain nearly three times the sesamin of normal black sesame seeds. The product is intended for those beauty conscious consumers looking to maintain a youthful appearance.

Medical Devices Business

The Medical Devices Business is operated by the three entities of Kobayashi Medical Co., Ltd., eVent Medical Inc., and joint venture company Medicon, Inc. in importing and selling outstanding medical devices from overseas to university hospitals and local base hospitals within Japan. Kobayashi Medical Co., Ltd. is striving to expand its market share with a primary focus on the fields of orthopedic and operating room-related products.

Market Trends

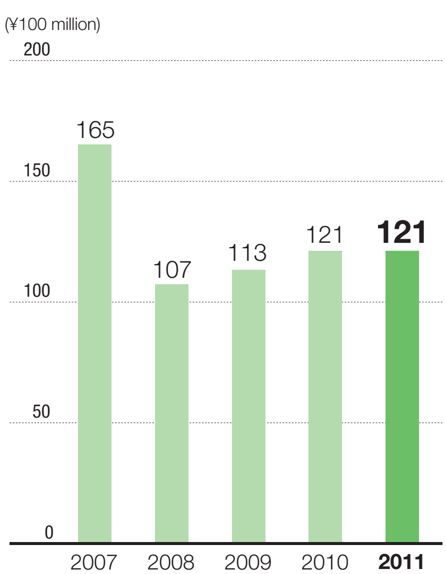
Medical Devices Market Growing Underpinned by an Aging Society

With a change in the governing party, Japan's medical policy experienced a significant shift of direction, including a revision of medical fees in 2010 that resulted in a net increase in medical treatment fees (for actual physician services) for the first time in 10 years.

In the market, a number of changes have been witnessed, such as tougher competition between companies triggered by a reduction in medical care costs, the implementation of the Diagnosis Procedure Combination (DPC) system resulting in an overconcentration in base hospitals for surgery needs, the reorganization of distribution systems, reforms in hospital purchases, and patients' own selection of medical treatment facilities.

Given the above, the medical industry is expected to expand at an accelerated rate against the backdrop of an aging society. Consequently, significant growth is also anticipated in the medical devices market.

Medical Devices Business Net Sales



Review of the Fiscal Year Ended March 2011

Increased Revenue and Profit by Selecting and Focusing Core Areas

Kobayashi Medical Co., Ltd., which was spun off from the Group in April 2010, focuses on the fields of orthopedic and operating room-related products, and has undertaken activities aimed at expanding its market share and enhancing its brand visibility through strengthening its competitiveness in terms of expertise and production efficiency.

eVent Medical Inc., which engages in the development, manufacturing and sales of artificial respirators, launched new products that retain a high mobility and excel in cost performance, as well as stepped up sales in emerging nations.

As a result, segment net sales for the fiscal year under review rose 0.6% year on year to ¥12,100 million, and operating income increased significantly by 75.2% year over year to ¥250 million.

Outlook for the Fiscal Year Ending March 2012

Striving to Improve Quality and Profitability

Kobayashi Medical Co., Ltd. will continue to enhance its quality by revisiting the essence found in its corporate philosophy of "delivering safe and secure medical devices to patients." In addition, we will continue to push forward with selecting and focusing on areas within the markets in which we operate, and conduct cohesive sales activities in local communities, to enhance our competitiveness and raise the efficiency and profitability of the Group ever higher.

As for eVent Medical Inc., a subsidiary acquired in November 2006, we have determined it is more profitable for the company to be operated under a management structure independent from our own given current market conditions. Therefore, in July 2011, all of eVent Medical's stock was transferred in a management buyout deal. As a result, eVent Medical Inc. is no longer a consolidated subsidiary of the Kobayashi Pharmaceutical Group.

Major Products Distributed by Kobayashi Medical Co., Ltd.

Acu-Loc
(Manufactured by Acumed LLC)

Kobamed *Acrofix*
(Manufactured by Kobayashi Medical Co., Ltd.)

System 5000™
(Manufactured by CONMED Corporation)

***Parker Flex-Tip™* Tracheal Tube**
(Manufactured by Parker Medical, Inc.)

Building Stakeholder Confidence Aimed at Maximizing Corporate Value

Corporate Governance

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

Ensuring Management Transparency

Strengthening our System of Checks and Balances Using External Experts

The Kobayashi Pharmaceutical Group has adopted an executive officer system to separate management from operations, and has established a Group Officers Meeting (GOM), consisting primarily of executive officers and statutory auditors that meet twice monthly to review significant matters relating to business operations. Advice is occasionally sought from professionals such as corporate lawyers regarding matters relating to material management challenges in order to enable appropriate and quick decision making.

In addition, Kobayashi Pharmaceutical has appointed two outside auditors that do not maintain a capital or business relationship with the Company to complement its existing four-member board of corporate auditors to ensure management transparency. Statutory auditors attend principal meetings, have access to required records, and conduct interviews of operating divisions in order to monitor management to identify business risk as early as possible.

In addition, to strengthen supervision over the board of directors, an outside director has been appointed every year since 2008. The board of directors, consisting of seven directors, including one outside director, meets monthly at regular board meetings and holds extraordinary board meetings, when required, to monitor the progress of all operational activities, which include making significant decisions regarding business and operational matters, and reviewing GOM deliberations.

Board of directors meetings are also attended by corporate auditors, including the two outside auditors, to provide an external perspective on operations and ensure that Kobayashi Pharmaceutical's internal system of checks and balances is operating sufficiently and effectively.

Reflecting the Voices of External Experts and Employees in Management

As a supporting arm to the board of directors and GOM, the Advisory Board, consisting of external experts, outside directors, the Chairman, President and relevant directors, meets half yearly. External experts provide guidance from an outside perspective on significant business issues and management policy, which is in turn reflected in the daily management of the Company.

In addition, Kobayashi Pharmaceutical has established an Internal Control Committee (see page 24 for more details), consisting of principal directors and external lawyers, which deliberates primarily on basic issues relating to compliance issues and the development of internal control systems. The committee also engages in the monitoring of the internal control system and the formulation of basic policy relating to internal controls.

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

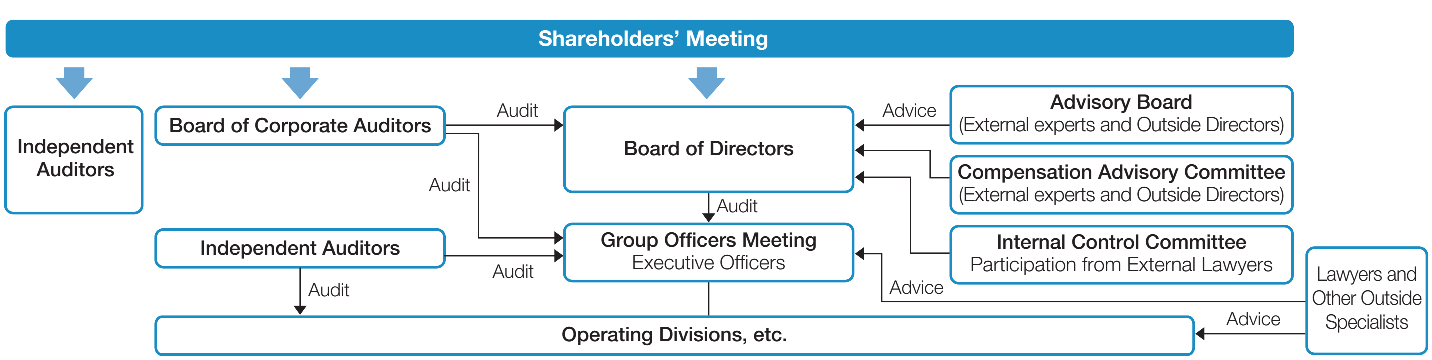
Information Disclosure

Pursuing Timely and Easy-to-Understand Disclosure

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

Furthermore, the Aoitori Report, which is distributed to retail investors twice in a year, summarizes our business operations and various business activities, indicating our commitment to disclose effective and useful information.

Corporate Governance Organization



Internal Control System and Compliance

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

Internal Control System

Pursuing Best Practices in Operations and Financial Statements and Developing a System to Reduce Risk

In April 2003, Kobayashi Pharmaceutical established its Compliance Committee as an organization under the direct control of the board of directors that ensures group-wide compliance with laws and regulations. Following this, in September 2003, we created and enacted our Basic Policy on Corporate Behavior and the Executive Officer and Employee Code of Conduct to improve corporate ethics and compliance awareness.

Starting in 2006, we launched the Basic Policy for Internal Control System in order to ensure appropriate work processes required by the Companies Act and other laws and regulations. Based on this basic policy, we have established the necessary framework for internal controls, including a review process for internal rules and regulations and the re-evaluation of business and operational risk. In 2007, the Compliance Committee was renamed the Internal Control Committee, and its scope of responsibility was expanded to include the review of the effectiveness of internal controls, including its role in ensuring that financial statements complies with the Financial Instrument and Exchange Act of Japan.

The Internal Control Committee is run under the leadership of the president, who acts as chairperson, and consists of the four lower organizations of the Committee on the Protection of Personal Information, the Group Health and Safety Committee, the Pharmaceutical Subcommittee and the Labor Subcommittee. In addition, the committee is supported by external legal advisors who, by providing objective advice and recommendations, contribute to enhancing the transparency and reducing risk in the Company's operations.

In the fiscal year ended March 31, 2011, challenges and measures related to operational risk management were discussed in response to the issues raised by the lower organizations.

Compliance

Raising Awareness toward Compliance by Conducting Educational Programs Tailored to Employee Role

Kobayashi Pharmaceutical holds various compliance education-related programs for both employees and executive officers tailored to their role and job title.

During the fiscal year ended March 31, 2011, a total of three training sessions were held for executive officers on six themes, including harassment and information dissemination during a crisis situation. These sessions were led by internal and external lecturers, including a tax accountant and lawyer. Training programs were also held for all management level employees throughout the entire Group covering the themes of, among others, an introduction to compliance, labor management and insider trading. For newly appointed managers as well as new employees, group training programs were held as is typically the case to enhance awareness of compliance. In addition, compliance testing that we started in the previous fiscal year targeting all employees and conducted over the Company's intranet was held on four occasions on a variety of themes, including compliance-related laws and harassment — with 100% employee participation. We also conducted a compliance awareness survey similar to the one from the previous fiscal year.

For the fiscal year ending March 31, 2012, we have begun an e-learning program on compliance issues for all employees.

Recently it was discovered that persons in charge of development for two proprietary medical institution products being developed by our subsidiary Kobayashi Medical Co., Ltd. included data that differed from actual trial data in part of the approval application documents. After being made aware of this error, Kobayashi Medical Co., Ltd. immediately and voluntarily contacted related government ministries and agencies to cancel its approval and withdraw its application. Kobayashi Medical Co., Ltd. also established a review committee to identify the cause of this incident and deliberate preventative measures. As a result, Kobayashi Medical Co., Ltd. conducted compliance training for all management level employees, including its executive team, and revised its organizational structure and process flow from design and development through to obtaining pharmaceutical approval in order to prevent future occurrences.

These two products have yet to be brought to market, and so the health of customers will not be affected.

The Employee Consulting Center

The Kobayashi Pharmaceutical Group established the Employee Consulting Center in January 2003 both internally and externally in a law office as a special hotline for employees to anonymously report compliance violations or ask general questions on compliance issues. Open to consultation via telephone and emails, this service contributes to gaining an early insight on matters and issues and resolving problematic situations. We are currently working to raise the visibility of this consulting center by setting up a toll free number for employees and other means such as posters.

The hot line is operated in full compliance with the Whistle-blower Protection Act.

Poster for the Employee Consulting Center

Risk Management Framework

Business management requires the identification and mitigation of, as well as countermeasures against potential risks. As such, the Kobayashi Pharmaceutical Group has categorized principal business risks into 13 categories and established an action plan to address these risks, with the execution of this action plan, in turn, being audited.

Researching and Managing Business Risk

Defining and Implementing Action Plans in 13 categories

In autumn 2007, the General Affairs Department took the lead in investigating the current and potential risks that each department faces. The results of this study were used to sort Group business risk management into 13 categories, with an action plan established to address each set of risks in April 2008. Following this structure, the challenges and action plans in each of the 13 categories are periodically reviewed to implement measures to address management risks.

We enacted the Business Risk Management Rules, which stipulate methods for consolidating and handling risk information. In addition, information on risk is also shared with independent auditors, while external lawyers and other outside specialists provide advice on risk management practices and structures, enabling us to respond properly to a variety of business risks.

For the fiscal year ending March 31, 2012, those management risks that require action are being reconsidered in order to better organize the priority of all operational risks.

We will further strengthen the process for checking the progress of each category of risks by working collaboratively with the Internal Audit Office.

CSR Initiatives

The Kobayashi Pharmaceutical Group seeks to maximize its corporate value not only over the short-term but also the long-term as well. We believe assuring the trust of all stakeholders is essential to achieving this aim, and as such we are reducing our environmental impact and promoting social contribution activities. However, our greatest mission in CSR is to pursue safety and superior quality under our core vision of being exceptionally customer focused.

Maintaining and Enhancing Quality in the Consumer Products Business

Thoroughly Ensuring Safe and Secure Quality from a Customer-centric Standpoint

The Kobayashi Pharmaceutical Group believes the most important aspect of product development is ensuring safe and secure quality. We established the Quality Assurance Department in June 2010 as an organization directly headed by the president in order to strengthen the auditing function of our quality assurance framework, while one of our four core management policies for the fiscal year ending March 31, 2012 is "Pursue Customer-centric Quality." Under this policy and framework, each and every employee is fully aware that "Quality is the Lifeblood of the Company," and consistently strives to maintain and improve quality from the Development/Product Design Stage through to the production and manufacturing stage, sales and follow-up stages of each product.

In the rare event of a complaint or critique regarding one of our products, we always take appropriate measures customized to each individual situation, such as improving quality or releasing more detailed information on how to use the product.

Together with each and every employee, the Kobayashi Pharmaceutical Group will continue with its unwavering, daily commitment to improve quality from a customer-centric standpoint.

Development/Product Design Stage

Comprehensively Reviewing Functionality, Efficacy, Safety and Labeling

During the Development stage, or product design stage, persons in charge of development and the Quality Assurance Department come together to discuss and deliberate the product as well as its performance evaluation, naming, packaging design development, container design and cost estimate. For example, the Labeling Review Meeting discusses data in support of the content published on product packaging based on facts and laws, while the Performance Review Meeting discusses testing methods to achieve the efficacy and functionality promised to customers.

In addition, the safety and usability of a product is also assessed by dedicated internal organizations. The Safety Testing Review Meeting evaluates product safety and determines the appropriate evaluation criteria and methodology, while the Clinical Trial Review Committee reviews clinical trial plans with impartiality from both the scientific and ethical standpoints, adhering to a set of ethical principles dealing with human experimentation set forth by the Declaration of Helsinki adopted by the World Medical Association in 1964.

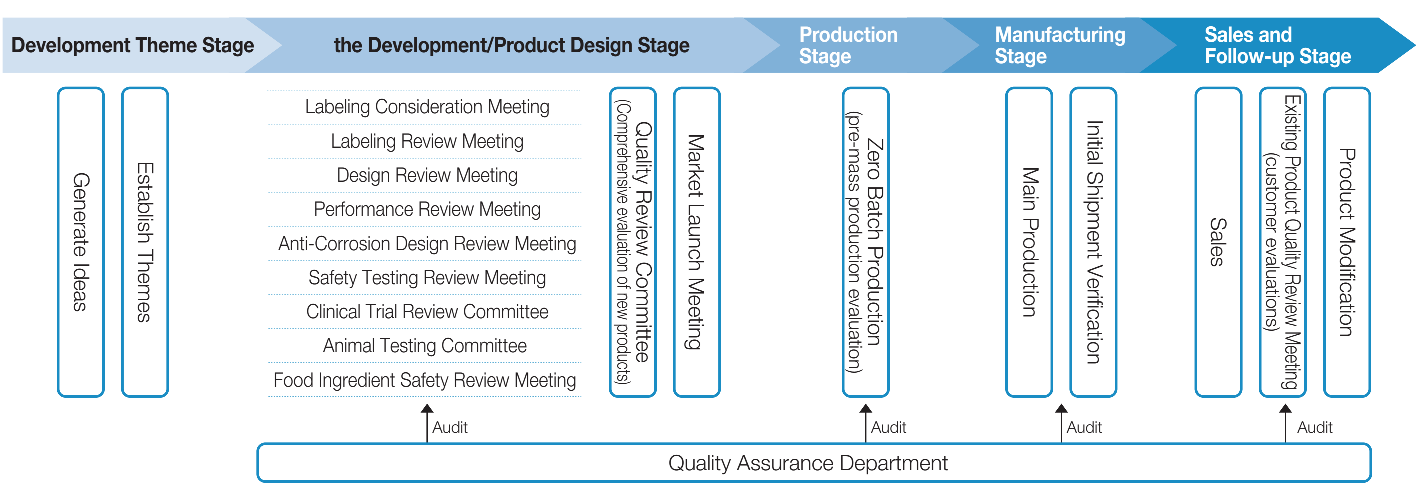
Production and Manufacturing Stage

Performing Tests and Checks on Multiple Occasions to Maintain Production at Consistent Quality Levels

After passing various checks in the Development/Product Design Stage, a product moves on to the production stage where we ensure the conditions needed to maintain production at stable quality levels.

The Kobayashi Pharmaceutical Group conducts individual tests, in order to align conditions for mass production, to verify that ingredients are equally dispersed, that the filling mechanism is working, and that products are properly sealed and labeled. In addition, in recent years, we have also implemented Zero Batch Production into our other verification procedures in order to verify the completeness of products and identify any quality issues. Zero Batch Production is a test production run using the exact same scale, equipment, ingredients and raw materials as a real production run, in order

Quality Assurance Structure for the Consumer Products Business



to recognize potential problems in production that cannot be identified from the drawing board before the start of full-scale production.

After the production stage is completed, the product enters the manufacturing stage, during which we use operational manuals, adjust equipment, educate technicians and ensure the production floor is clean. We also conduct initial shipment verification where we reconfirm whether all necessary items were checked during the Development/Product Design Stage, and Production and Manufacturing Stage prior to shipping the initial lot. Only products able to clear this second check without issue are delivered to our customers.

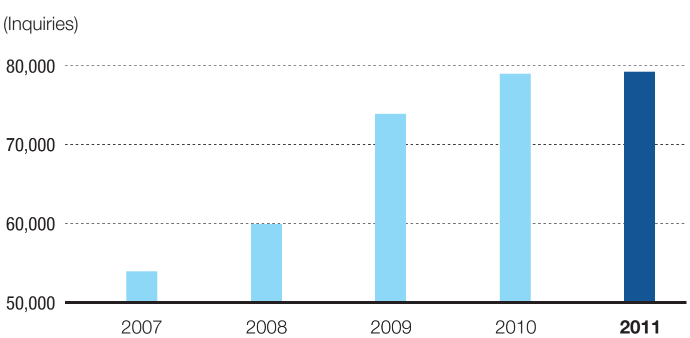
Sales and Follow-up Stage

Acknowledging Customer Concerns in Quality Improvement of Products and Services

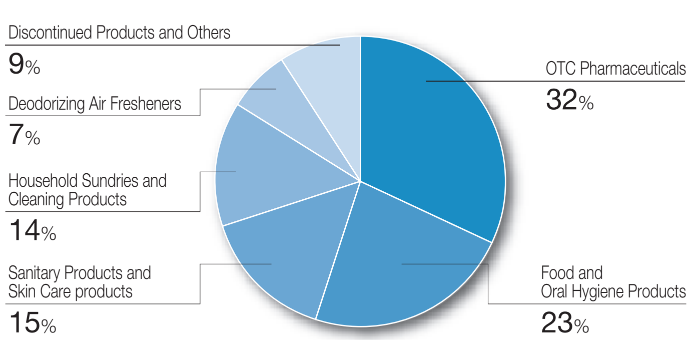
After releasing a product, customer inquiries and suggestions are received and compiled at our customer service center. As customer inquiries and suggestions have grown more complex and advanced in recent years, we have developed a system in which our customer service representatives call our customers back in order to spend more time discussing their feedback and concerns. Our response to customer feedback overlaps with the emotions of each individual customer. This is because true understanding is made possible only after recognizing each individual situation and emotion rather than simply understanding the usage scenario, which in turn greatly improves our services and product quality.

Customer inquiries and suggestions are also forwarded to our development and manufacturing divisions, where they are reflected in product improvements and new product development. During trial production of an improved product, we carefully verify if customer expectations are met. Furthermore, after the improved product is released, we continually analyze customer feedback to ascertain whether the improvement was adequate or whether additional modifications are necessary.

Annual Number of Inquiries Received



Inquiries by Category (FY ended March 2011)



Social Contribution Activities

Organizing the "Toilet Pikapika Keikaku" Sales Promotion Campaign

We conducted an "Elementary School Restroom Fact-Finding Survey" and found problems such as the fact that as many as 50% of school children do not want to have a bowel movement at school, and delays in school restroom renovations. In order to provide a more comfortable restroom environment for school children, the Kobayashi Pharmaceutical Group organized the "Toilet Pikapika Keikaku" Sales Promotion Campaign from June to July 2010. During the campaign, we donated a portion of sales proceeds of our toilet-related products to 12 elementary schools in Japan as restroom renovation funds through the NPO Japan Toilet Labo., and made renovations, including replacing Japanese style toilets with western style toilets, and replaced existing flooring to address odor and sanitary issues. The campaign will continue to be implemented with the goal of reaching 100 schools by 2019 in celebration of the Group's 100th anniversary since its founding.

This campaign was awarded the highest honor of Grand Prix in the 2010 PR Award Grand Prix hosted by the Public Relations Society of Japan. This particular award recognizes that the Kobayashi Pharmaceutical Group's outstanding PR activities achieved a balance in terms of social contribution and business because it partnered with NPOs and local authorities to foster awareness of body waste excretion, while at the same time increasing product deliveries by 105% over the previous fiscal year.


Donation ceremony at Takayama Municipal Kuguno Elementary School in Gifu Prefecture


Campaign mascot "Pikapika Benky-kun"


Before

After

Support for Recovery from the Great East Japan Earthquake

Donated ¥100 million and 920,000 Products to Disaster-Affected Areas

The Kobayashi Pharmaceutical Group donated ¥100 million to Miyagi Prefecture to be used to help with relief and restoration after the Great East Japan Earthquake.

We also provided approximately 920,000 units of our own products to Miyagi, Iwate and Fukushima Prefectures as relief supplies.


Presentation of a list of the Group's charitable donations to the Governor of Miyagi Prefecture

Activities for Reducing Environmental Impact

Promoting the Use of Recyclable Materials and Lighter Weight Packaging and Containers

Containers and packaging play an integral role as a part of the product and also as a means to convey product information at the time of use, and to protect the product during shipment. The Kobayashi Pharmaceutical Group is actively promoting the 3Rs (reduce, reuse, recycle) through the development of recycled, lighter weight containers and packaging that meet our requirements using a minimum amount of materials.

As of April 2011, we offer refill and replacement pouches for 20 brands and 66 items, enabling consumers to continually use their original product container.

The container and packaging for *Breath Care* were redesigned to reduce the use of plastic resin

Junichi Sasano
Oral Hygiene Product Technological Development Group
Health Care Division

Plastic containers are excellent media for preserving the quality of products. In light of global environmental conservation, however, there has been more demand for the reduced use of plastic. When *Breath Care* was redesigned in the fiscal year ended March 31, 2011, we made efforts to address the challenge of reducing the amount of plastic used. To also address suggestions on the existing packaging from customers, including difficulty in opening and spills when refilling the contents, we improved the packaging design and also reduced the use of plastic resin. As a result, we were able to address all the issues while achieving an 11% reduction in plastic resin use in comparison to the existing product. Consequently, CO_2 emissions were also reduced by some 66.5 tons.

Moving forward, we will continue to take an active stand in reducing the use of raw materials and containers while striving to improve the usability and functionality of our products.

Before **After**

Reduced the use of plastic resin by 11% and CO_2 emissions by 66.5 tons

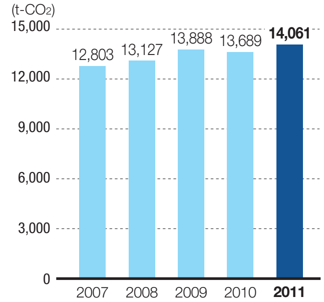
Focus on Cutting CO_2 and Waste Emissions

The Kobayashi Pharmaceutical Group is fully committed to actively reducing its environmental impact to address the shared environmental concerns of its stakeholders, and has established an ISO14001-certified environmental management system.

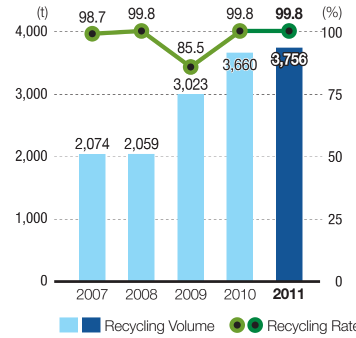
As a company we are also actively pursuing ways to cut CO_2 emissions and help fight global warming by promoting energy efficiency initiatives within our manufacturing division. For the fiscal year ended March 31, 2011, CO_2 emissions from all manufacturing divisions totaled 14,061 tons, or 102.7% of the previous fiscal year's amount. This represents a 372 ton year-on-year increase, due to the heat wave in Japan and a rise in the manufacturing of products that use large amounts of energy.

In terms of waste material management, the Kobayashi Pharmaceutical Group has implemented a Zero emissions policy. Zero emissions refers to our target of reducing the percentage of landfill waste we produce to under 1% of total waste production. To reach this goal, we are making efforts to improve production efficiency, utilize natural resources more effectively, and reuse materials through thorough waste sorting and recycling. In the fiscal year ended March 31, 2011, waste material volume grew 2.6% over fiscal 2010 to 3,762 tons due to an increase in production. Recycling volume, however, totaled 3,756 tons, reaching a rate of 99.8% on par with fiscal 2010. As a result, we were able to achieve our goal of zero waste emissions.

Manufacturing Division CO_2 Emissions



Recycling Volume and Rate



Initiatives Aimed at Reducing Animal Testing

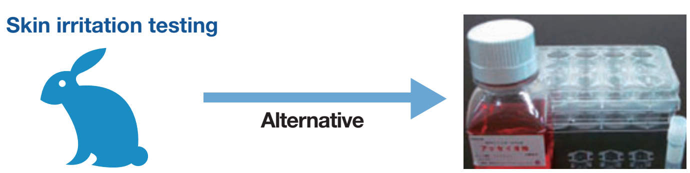
Promoting Product Safety Assessments Using Alternative Methods to Animal Testing

Starting around 2007, we began researching alternative methods to animal testing conventionally used to verify the safety of our products, under the aim to find alternative forms of testing that do not use animals, reduce the number of animals used in testing and minimize animal suffering. As a result of our efforts, we have been able to shift over to four testing methods that do not use animals, including skin irritation testing and oral mucosal testing.

Campaigns against animal testing have grown mainly in Europe, as a law completely prohibiting animal testing for cosmetics and related raw materials took effect in the EU starting in 2009, while in Japan legal revisions are in the works aimed at reducing animal testing. Ahead of these social trends, the Group has been able to find alternative methods to animal testing and has presented its research findings through the Japanese Society for Alternative to Animal Experiments and the World Congress on Alternatives and Animal Use in Life Sciences.

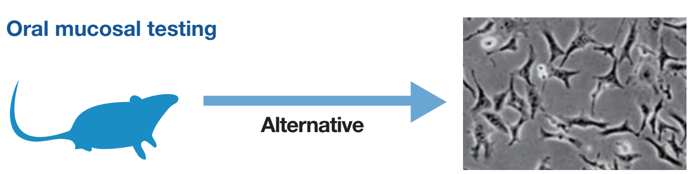
Examples of alternative methods to animal testing

Skin irritation testing



animal testing — Cultured skin (cell assay)

Oral mucosal testing



animal testing — Cultured cell

Directors, Corporate Auditors and Officers

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

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

Masaaki Tanaka
Executive Director
General Manager
International Business
Division

Satoshi Yamane
Executive Director
Senior General Manager
Group Corporate Business
Headquarters

Haruo Tsuji
Outside Director
Corporate Advisor,
Sharp Corporation

Masahiro Hiraoka
Statutory Auditor

Hiroshi Goto
Statutory Auditor

Hiroshi Hayashi
Outside Auditor
Hayashi Certified
Tax Accountant Office

Ryuji Sakai
Outside Auditor
Partner, Nagashima, Ohno
& Tsunematsu

Senior Executive Officers

Susumu Horiuchi
General Manager
Sales Division
Product Business Headquarters

Hiroshi Nomoto
General Manager
Household Division
Product Business Headquarters

1 The Company introduced the executive officer system. Five directors-Yutaka Kobayashi, Akihiro Kobayashi, Takashi Tsujino, Masaaki Tanaka, and Satoshi Yamane-each concurrently serve as executive officers.

Executive Officers

Hidetsugu Yamamoto
General Manager
Business System Center
Group Corporate Business Headquarters

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

Toshio Nanba
General Manager
Research and Development Division

Tetsushi Nishioka
General Manager
Manufacturing Division
Product Business Headquarters

Kazuyuki Katsuki
General Manager
Quality Assurance Division

Kenichiro Tanaka
General Manager of the Regional Area
Sales Division, Product Business Headquarters

Promoting Corporate Brand Management and Enhancing the Satisfaction of All Stakeholders

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." Based on this policy, the Group discovers, creates and provides products that our customers didn't even realize could improve their health, comfort and happiness. This endeavor is summed up in our brand slogan, "You Make a Wish and We Make it Happen," which is the core focus of our business activities.

We find ourselves in a period in which the speed of change has accelerated and competition has grown more intense. As such, the source of the Group's growth is to constantly pursue "Something New, Something Different," and continue to develop new products and services that fulfill the needs of our customers. Furthermore, we will continue to promote corporate brand management that earns trust and credibility from our customers as a brand that delivers satisfaction in each of its products and services. Through this, we will significantly boost corporate value and enhance the satisfaction of each and every stakeholder.

Scope of Consolidation and Application of the Equity Method

In the fiscal year under review, the Kobayashi Pharmaceutical Group had 27 consolidated subsidiaries (13 in Japan and 14 overseas), and one affiliate in Japan accounted for by the equity method.

The Group classifies its business activities into three segments: Consumer Products (15 consolidated subsidiaries); Medical Devices (5 consolidated subsidiaries and 1 equity-method affiliate); and Other Business (7 consolidated subsidiaries).

Overview of Consolidated Business Results

During the fiscal year ended March 31, 2011, the global economy saw a gradual recovery underpinned by rising domestic demand in emerging nations such as China, despite concerns of an economic downturn due to the heightened unemployment rate in the United States and Europe as well as uncertainty over Europe's financial system. As for Japan's economy, although there were signs of a recovery in personal consumption, consumers remained conservative in their spending habits due to uncertainty over the employment environment and personal income, illustrating that challenges continued to persist in our operating environment. Amid this, Japan was struck by the Great East Japan Earthquake on March 11, 2011 which brought about unprecedented destruction and has seriously impacted the nation's economy.

Despite these conditions, the Kobayashi Pharmaceutical Group fully capitalized on its management philosophy, "Creativity and Innovation," to stimulate potential customer needs by delivering products and services that create new markets, and to energize existing markets by launching new value-added products and services. In addition, after the earthquake and tsunami disaster, we focused all of our efforts on restoring operations at Sendai Kobayashi Pharmaceutical Co., Ltd., a manufacturing base of the Group damaged in the quake, as well as strived to maintain a stable supply of our products, including OTC pharmaceuticals and daily goods, as part of our mission as a manufacturer and distributor.

Net Sales

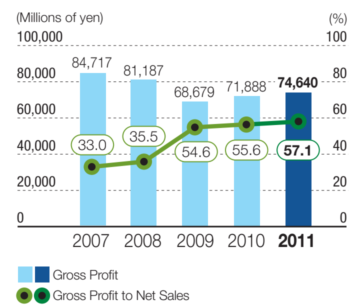
Sales rose in the Consumer Products Business, as we brought new products to market and expanded sales of existing core brands, while the Mail Order Business grew significantly and the Medical Device Business also posted a solid performance. As a result, net sales for this fiscal year rose 1.3% year-on-year to ¥130,824 million.

Gross Profit and Operating Income

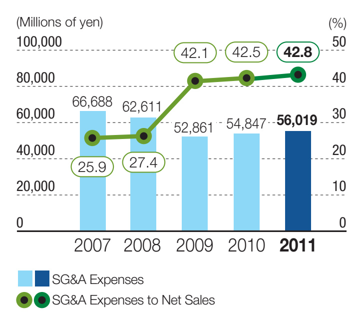
Cost of sales decreased 1.9% year on year to ¥56,184 million in fiscal 2010, but gross profit (after provisions for returned products) increased 3.8% year -on -year to ¥74,640 million as a result of higher sales. Selling, general and administrative expenses rose 2.1% over the previous fiscal year to ¥56,019 million due to an increase in employee salaries, allowances and bonuses, as well as sales promotion costs. As a result, operating income increased 9.3% year-over-year to ¥18,621 million.

The gross profit to net sales ratio improved 1.5 percentage points from the previous fiscal year's 55.6% to 57.1%, and the selling, general and administrative expenses to net sales ratio improved by 0.3 percentage points, from 42.5% to 42.8%, while the operating income to net sales ratio improved 1 percentage point from 13.2% to 14.2%.

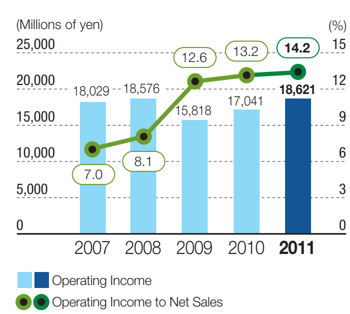
Gross Profit / Gross Profit to Net Sales



SG&A Expenses / SG&A Expenses to Net Sales



Operating Income / Operating Income to Net Sales



Non-operating Income/Expenses and Ordinary Income

Non-operating income rose 27.5% over the previous year to ¥1,991 million due to an increase in profits from Medicon, Inc., an affiliate accounted for by the equity method. Non-operating expenses increased 4.6% year on year to ¥1,602 million attributable to foreign currency transaction losses. As a result, ordinary income rose 11.4% year over year to ¥19,010 million.

Extraordinary Gains/Losses and Net Income

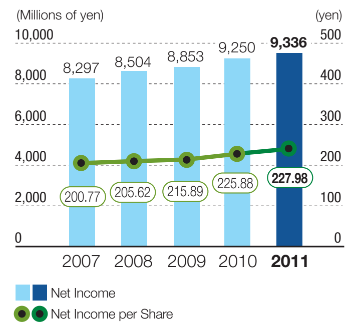
Extraordinary income increased 132.6% over the previous year to ¥430 million due to a rise in compensation received from the Medical Devices Business and other factors.

Extraordinary losses rose 131.6% to ¥6,263 million. This was primarily attributable to the recognition of a loss on the valuation of investments in securities due to the impairment of company-owned investment securities. The Group posted a net extraordinary loss of ¥5,832 million (sum of extraordinary income and extraordinary losses) after recording ¥2,518 million in extraordinary losses in the previous fiscal year.

As a result, net income before taxes and other adjustments fell 9.4% over the previous year to ¥13,178 million, while net income rose 0.9% to ¥9,336 million because we were able to write off for tax purposes the impairment from the stock of a subsidiary that previously had taxably depreciated.

Net income per share grew 0.9%, from ¥225.88 in the previous fiscal year to ¥227.98.

Net Income / Net Income per Share



Segment Information

The Kobayashi Pharmaceutical Group classifies its business activities into four segments: Consumer Products, Mail Order, Medical Devices and Other Business.

Net sales by segment include inter-group sales and transfers, which amounted to ¥8,284 million in fiscal 2010 and ¥8,286 million in fiscal 2011.

Net Sales and Operating Income (Loss) by Segment

Net Sales

(Millions of yen)

	2007	2008	2009	2010	2011
Consumer Products Business					
Sales to third parties	71,717	84,707	112,594	106,644	**107,656**
Inter-group sales and transfers	30,785	26,213	26	2,799	**3,136**
Total	102,503	110,920	112,620	109,443	**110,792**
Mail Order Business					
Sales to third parties	—	—	—	8,834	**9,872**
Inter-group sales and transfers	—	—	—	—	**—**
Total	—	—	—	8,834	**9,872**
Wholesale Business					
Sales to third parties	164,838	131,602	—	—	**—**
Inter-group sales and transfers	1	359	—	—	**—**
Total	164,840	131,962	—	—	**—**
Medical Devices Business					
Sales to third parties	16,496	10,728	11,325	12,111	**12,183**
Other Business					
Sales to third parties	3,969	1,788	1,773	1,595	**1,111**
Inter-group sales and transfers	9,142	6,306	5,507	5,484	**5,150**
Total	13,112	8,094	7,281	7,080	**6,260**

Operating Income (Loss)

(Millions of yen)

	2007	2008	2009	2010	2011
Consumer Products Business	16,560	18,005	15,910	16,738	**18,966**
Mail Order Business	—	—	—	(224)	**311**
Wholesale Business	323	(131)	—	—	**—**
Medical Devices Business	561	(418)	(554)	143	**251**
Other Business	390	431	473	400	**171**

Consumer Products Business

Fiscal 2011 Net Sales and Operating Income

In the fiscal year under review, we launched a total of 21 new products in this segment, including unique and value-added products, and products that create new markets. Several of these made a particularly positive contribution to our earnings: *Tenshi No Shoshugen* (a compact and affordably-priced room deodorizing air freshener), *Shoshugen Aroma* (a room deodorizing air freshener with a luxurious scent), and *Ofuro de Hot Charge* (an essence mask used after being warmed up in the bathtub).

In addition, our mainstay existing products such as *Bluelet* (deodorizing cleanser for toilets) and *Breath Care* (an oral breath freshener), the Group's flagship brands, performed solidly, while *Eyebon* (an eye wash), *Inochi No Haha A* (a medicine for women's health), and *Shouyou* (a medicated toothpaste) also grew and contributed to earnings. On the other hand, sales of sanitary products declined over the previous year due to a reactionary downturn after *Nodonool Nure Mask*, a moist type mask with filter and *Netsusama Sheet*, a cooling gel sheet for the forehead saw better-than-expected results in the previous fiscal year due to concerns about the outbreak of a new strain of influenza.

Moreover, we strived to efficiently manage advertising and sales promotion expenses in our marketing activities, which also contributed positively to profits.

As a result, net sales for the Consumer Products Business declined 4.1% year-on-year to ¥110,793 million, while operating income rose 14.9% year-on-year to ¥18,966 million.

Net Sales by Category

(Millions of yen)

	2010		2011		Changes	
	Sales	% of Total Sales	Sales	% of Total Sales	Sales	Changes (%)
Pharmaceuticals	21,567	18.7	**21,941**	**19.8**	374	1.7
Oral hygiene products	14,687	12.7	**15,510**	**14.0**	823	5.6
Sanitary products	15,852	13.7	**14,042**	**12.7**	(1,810)	(11.4)
Deodorizing air fresheners	30,604	26.5	**30,733**	**27.8**	129	0.4
Household sundries	4,812	4.2	**4,791**	**4.3**	(20)	(0.4)
Food products	14,453	12.5	**8,881**	**8.0**	(5,572)	(38.6)
Body warmers	13,536	11.7	**14,890**	**13.4**	1,353	10.0
Total	115,514	100	**110,793**	**100**	(4,722)	(4.1)

Trends in Number of Profitable and Unprofitable Brands

We tightened our own strict market launch standards for new products, taking measures such as conducting test marketing to improve our hit ratio.

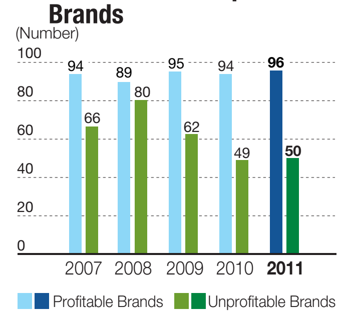
In addition, we have tightened profitability control for existing brands while withdrawing brands which failed to become profitable.

Number of Profitable and Unprofitable Brands

	2007	2008	2009	2010	2011
Profitable brands	94	89	95	94	**96**
Unprofitable brands	66	80	62	49	**50**

* The number of unprofitable brands includes certain new products.

Trends in Number of Profitable and Unprofitable Brands



New Products as a Percentage of Net Sales

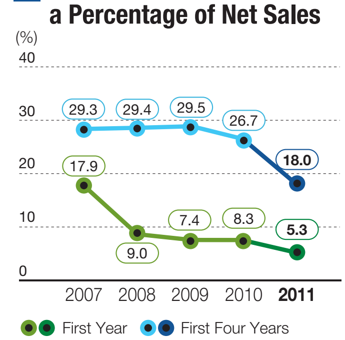
We have set a target for new products in this segment to account for more than 10% of consolidated net sales in their first year and to account for more than 35% by their fourth year. We launched 21 new products during the fiscal year under review, with new products in their first year accounting for 5.3% of net sales, while new products in their fourth year accounting for 18.0% of net sales.

New Products as a Percentage of Net Sales

(%)

	2007	2008	2009	2010	2011
First year	17.9	9.0	7.4	8.3	**5.3**
First Four years	29.3	29.4	29.5	26.7	**18.0**

New Products as a Percentage of Net Sales



Mail Order Business

Fiscal 2011 Net Sales and Operating Income

This segment engages in mail order sales of nutritional supplements and skincare products. In the fiscal year under review, we strived to launch new products, cultivate new customers and promote regular purchases from our existing customers.

As a result, net sales for this segment increased 11.8% year on year to ¥9,872 million, while operating income stood at ¥311 million.

Medical Devices Business

Fiscal 2011 Net Sales and Operating Income

The Medical Devices Business continued its efforts to expand domestic market share in the anticipated growth fields of orthopedics and operation room-related products.

Net sales in this segment rose 0.6% year-on-year to ¥12,184 million. By category, net sales of Kobayashi Medical Co., Ltd. increased 0.5% year on year, attributable to its strategy of focusing on its core business, while net sales of eVent Medical Inc. declined 4.3% year on year due to the late approval of a new product that it had planned to bring to market in the fiscal year under review.

Operating income rose 75.2% over the previous fiscal year to ¥251 million, mainly attributable to cost reduction efforts.

Net Sales by Category

(Millions of yen)

	2010		**2011**		Changes	
	Sales	% of Total Sales	Sales	% of Total Sales	Sales	Changes (%)
Kobayashi Medical Co., Ltd.	10,160	83.9	**10,213**	**83.8**	52	0.5
eVent Medical Inc.	956	7.9	**915**	**7.5**	(41)	(4.3)
Others	993	8.2	**1,055**	**8.7**	61	6.2
Total	12,111	100	**12,184**	**100.0**	72	0.6

Other Business

Business in this segment, which includes activities such as transportation, the manufacture and distribution of synthetic resin containers, insurance agency operations, real estate management, and advertising planning and production, support the three segments above. Although each affiliated company conducts business on a financially independent basis, one of the objectives is to contribute to the profit of the above three segments. Therefore, the Group revised the delivery price of the materials and services provided by companies in this segment as required.

As a result, this segment recorded net sales of ¥6,261 million, down 11.6% year-on-year, and operating income of ¥171 million, down 57.2%.

Analysis of Financial Position

Assets

Total assets were ¥134,356 million as of the end of this fiscal year, an increase of 1.8% compared with the end of the previous fiscal year.

Current assets increased 4.3% year over year to total ¥88,837 million. The main reason for this was an increase in trade notes and accounts receivable of ¥3,483 million.

Property, plant and equipment, net, decreased 4.2% over the previous fiscal year to ¥14,156 million. This was primarily due to a decrease in leased assets (on a net basis) of ¥1,393 million.

Intangible fixed assets declined 29.9% year on year to ¥5,923 million. Investments and other assets decreased 0.2% over the previous fiscal year to ¥31,363 million. These were primarily attributable to a decline in the amortization of goodwill in the amount of ¥2,295 million.

Liabilities

Total liabilities as of the end of this fiscal year were ¥43,013 million, down 9.2% from the end of the previous fiscal year.

Current liabilities decreased 11.5% to ¥34,525 million. The main factors for this decrease include a ¥1,867 million decrease in short-term loans, which increased due to the spin-off of Kobayashi Medical Co., Ltd. in the previous fiscal year and a ¥1,689 million decline in trade notes and accounts payable. As a result, the current ratio improved 39.0 percentage points to 257.3%.

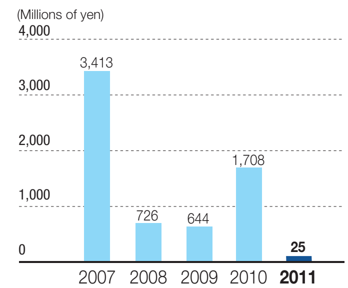
Long-term liabilities increased 1.7% to ¥8,488 million.

Net Assets

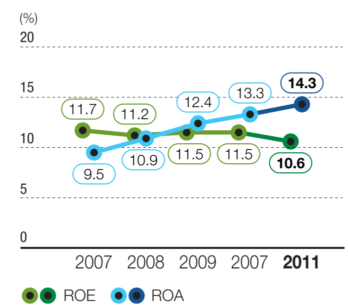
Net assets including minority interests at the end of the fiscal year under review rose 8.0% year over year to ¥91,343 million. The primary reason for this increase was ¥6,633 million in retained earnings, a ¥1,451 million increase in unrealized holding gain on securities, although a ¥1,066 million decrease was recorded in foreign currency translation adjustments.

As a result, the equity ratio rose 3.9 percentage points from 64.0% to 67.9%. Return on equity (ROE) declined 0.9 percentage points compared to the previous fiscal year end to 10.6%. Return on assets (ROA) increased 1 percentage point from 13.3% to 14.3%.

Interest-bearing Debt



ROE / ROA



Cash Flow Analysis

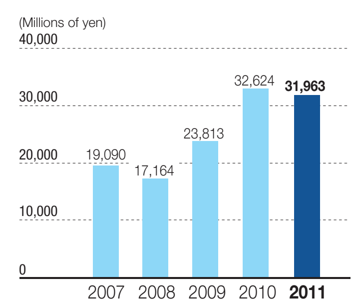
Cash Flows from Operating Activities

Net cash provided by operating activities was ¥13,168 million, a 14.0% decrease compared with the previous fiscal year. The main factors were ¥13,178 million in income before income taxes and minority interests, ¥4,155 million in depreciation and amortization, ¥5,143 million loss on the devaluation of investments in securities, ¥3,716 million increase in trade notes and accounts receivable, ¥1,599 million decrease in trade notes and accounts payable, and ¥6,142 million in income tax paid.

Cash Flows from Investing Activities

Net cash used in investing activities totaled ¥8,379 million, up 78.2% year on year. Major factors affecting this cash flow were ¥36,989 million in the purchase of short-term securities, ¥37,000 million in proceeds from sales and redemption of short-term securities, ¥1,868 million in payments for the purchase of property, plant and equipment, and ¥6,084 million for the acquisition of investments in securities.

Cash and Cash Equivalents at End of Year



Cash Flows from Financing Activities

Net cash used in financing activities totaled ¥5,154 million (up 184.0%). This was primarily due to a ¥1,673 million net decrease in short-term loans payable ¥2,703 million in dividends paid, and a ¥602 million in decrease in lease obligations.

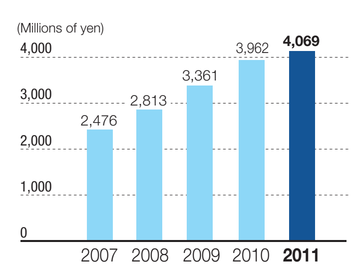
As a result, cash and cash equivalents as of March 31, 2011 totaled ¥31,963 million, a decrease of ¥661 million from the end of the previous fiscal year.

Cash Flows

(Millions of yen)

	2010	2011	Changes	
	Amount	Amount	Amount	Change (%)
Cash flows from operating activities	15,320	**13,168**	(2,151)	(14.0)
Cash flows from investing activities	(4,701)	**(8,379)**	(3,677)	78.2
Free cash flows	10,618	**4,789**	(5,829)	(54.9)
Cash flows from financing activities	(1,815)	**(5,154)**	(3,339)	184.0
Cash and Cash Equivalents at End of Year	32,624	**31,963**	(661)	(2.0)

R&D Expenses



R&D Expenses

We believe that R&D underpins new product development, which is one of the core strengths of the Kobayashi Pharmaceutical Group.

In the fiscal year under review, the Consumer Products Business developed 21 new products.

Consequently, R&D costs included in selling, general and administrative expenses increased 2.7% over the previous fiscal year to ¥4,069 million.

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 M&As and 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 Business 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, foods and medical equipment. 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 Business and Mail Order Business 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) Impact from Natural Disasters
The Group's manufacturing bases are located throughout Japan. As such, if a natural disaster such as an earthquake or a large typhoon should strike an area or areas in which these bases are located, the Group's management and financial performance could be affected.

(9) Overseas Business Risk
The Group's trading transactions, 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.

(10) Information Management and System Risk
The Group holds large volumes of information mainly as part of its mail order 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.

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

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

Consolidated Balance Sheets

Kobayashi Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	**2011**
Assets			
Current assets:			
Cash and time deposits *(Notes 4 and 15)*	**¥ 31,963**	¥ 32,670	**$ 384,402**
Trade notes and accounts receivable *(Note 15)*	**29,880**	26,397	**359,351**
Securities *(Notes 5 and 15)*	**11,006**	10,006	**132,363**
Inventories:			
Commodities and finished goods	**8,402**	8,965	**101,046**
Work in process	**477**	549	**5,737**
Raw materials and supplies	**2,016**	1,934	**24,245**
Total inventories	**10,895**	11,448	**131,028**
Deferred income taxes *(Note 12)*	**4,170**	3,640	**50,150**
Other current assets	**1,285**	1,131	**15,454**
Allowance for doubtful accounts	**(362)**	(83)	**(4,354)**
Total current assets	**88,837**	85,209	**1,068,394**
Property, plant and equipment:			
Buildings and structures *(Note 6)*	**15,528**	15,479	**186,747**
Machinery, equipment and vehicles *(Note 6)*	**6,484**	5,892	**77,980**
Land *(Note 6)*	**3,471**	3,471	**41,744**
Construction in progress	**107**	70	**1,287**
Leased assets *(Notes 6 and 9)*	**1,213**	2,606	**14,588**
Other	**1,017**	5,508	**12,231**
Total property, plant and equipment	**27,820**	33,026	**334,577**
Accumulated depreciation	**(13,664)**	(18,247)	**(164,330)**
Property, plant and equipment, net	**14,156**	14,779	**170,247**
Investments and other assets:			
Investments in securities *(Notes 5 and 15)*:			
Unconsolidated subsidiaries and affiliates	**1,863**	1,829	**22,405**
Other	**15,388**	13,131	**185,063**
Total investments in securities	**17,251**	14,960	**207,468**
Deferred income taxes *(Note 12)*	**2,335**	2,725	**28,082**
Goodwill *(Note 6)*	**4,022**	6,317	**48,370**
Software	**898**	938	**10,800**
Other intangible assets	**1,003**	1,193	**12,063**
Investment properties, net *(Note 7)*	**3,114**	3,149	**37,450**
Other assets *(Note 6)*	**2,931**	2,834	**35,250**
Allowance for doubtful accounts	**(191)**	(132)	**(2,297)**
Total investments and other assets	**31,363**	31,984	**377,186**
Total assets *(Note 20)*	**¥134,356**	¥131,972	**$1,615,827**

See accompanying notes to consolidated financial statements

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	**2011**
Liabilities and Net Assets			
Current liabilities:			
Short-term loans *(Notes 8 and 15)*	**¥ 26**	¥ 1,893	**$ 313**
Trade notes and accounts payable *(Note 15)*	**12,881**	14,570	**154,913**
Lease obligations *(Notes 9 and 15)*	**462**	580	**5,556**
Accrued income taxes *(Notes 12 and 15)*	**2,178**	3,452	**26,194**
Other accounts payable	**12,859**	12,747	**154,648**
Reserve for sales returns	**1,661**	1,366	**19,976**
Accrued bonuses	**2,086**	2,024	**25,087**
Asset retirement obligations *(Note 11)*	**13**	—	**156**
Other current liabilities	**2,359**	2,393	**28,370**
Total current liabilities	**34,525**	39,025	**415,213**
Long-term liabilities:			
Lease obligations *(Notes 9 and 15)*	**874**	1,150	**10,511**
Accrued retirement benefits for employees *(Note 10)*	**5,159**	4,814	**62,044**
Accrued retirement benefits for directors and corporate auditors	**15**	36	**180**
Asset retirement obligations (Note 11)	**73**	—	**878**
Other liabilities	**2,367**	2,344	**28,468**
Total long-term liabilities	**8,488**	8,344	**102,081**
Total liabilities	**43,013**	47,369	**517,294**
Contingent liabilities *(Note 14)*			
Net Assets			
Shareholders' equity *(Note 13)*:			
Common stock:			
Authorized – 170,100,000 shares			
Issued – 42,525,000 shares in 2011 and 2010	**3,450**	3,450	**41,491**
Capital surplus	**4,219**	4,219	**50,741**
Retained earnings	**92,186**	85,553	**1,108,671**
Treasury stock, at cost	**(4,701)**	(4,701)	**(56,536)**
Total shareholders' equity	**95,154**	88,521	**1,144,367**
Accumulated other comprehensive income (loss):			
Unrealized holding gain (loss) on securities	**490**	(961)	**5,893**
Unrealized loss on deferred hedges	**(599)**	(323)	**(7,204)**
Translation adjustments	**(3,875)**	(2,809)	**(46,603)**
Total accumulated other comprehensive loss, net	**(3,984)**	(4,093)	**(47,914)**
Stock acquisition rights	**160**	163	**1,924**
Minority interests	**13**	12	**156**
Total net assets	**91,343**	84,603	**1,098,533**
Total liabilities and net assets	**¥134,356**	¥131,972	**$1,615,827**

Consolidated Statements of Income

Kobayashi Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2011 and 2010

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2011	2010	**2011**
Net sales *(Note 20)*	**¥130,824**	¥129,184	**$1,573,349**
Cost of sales	**56,184**	57,295	**675,694**
Gross profit	**74,640**	71,889	**897,655**
Selling, general and administrative expenses:			
Sales promotions	**6,992**	6,367	**84,089**
Freight and storage	**5,134**	4,741	**61,744**
Advertising	**13,489**	13,950	**162,225**
Provision for allowance for doubtful accounts	**341**	—	**4,101**
Salaries and bonuses	**9,951**	9,161	**119,675**
Net pension cost	**837**	851	**10,066**
Provision for accrued retirement benefits for directors and corporate auditors	**3**	5	**36**
Taxes and dues other than income taxes	**230**	258	**2,766**
Depreciation and amortization	**822**	835	**9,886**
Amortization of goodwill	**1,223**	1,260	**14,708**
Office rent and other rental charges	**1,633**	1,560	**19,639**
External service fees	**4,776**	5,216	**57,438**
Research and development costs	**4,069**	3,963	**48,936**
Other	**6,519**	6,681	**78,401**
Total selling, general and administrative expenses	**56,019**	54,848	**673,710**
Operating income *(Note 20)*	**18,621**	17,041	**223,945**
Other income (expenses):			
Interest and dividend income	**336**	330	**4,041**
Equity in earnings of affiliates	**383**	79	**4,606**
Interest expense	**(61)**	(89)	**(734)**
Sales discounts	**(1,158)**	(1,204)	**(13,927)**
Exchange loss	**(173)**	(73)	**(2,081)**
Gain on sales of property, plant and equipment	**0**	46	**0**
Royalty income	**660**	628	**7,937**
Loss on disposal or sales of property, plant and equipment	**(76)**	(252)	**(914)**
Loss on impairment of fixed assets *(Notes 6 and 20)*	**(637)**	(323)	**(7,661)**
Loss on sales of shares of an affiliate	**—**	(1,456)	**—**
Loss on devaluation of shares of affiliates	**(37)**	(94)	**(445)**
Gain on sales of investments in securities	**53**	0	**637**
Loss on devaluation of investment in securities	**(5,143)**	(15)	**(61,852)**
Cumulative effect of change in method of accounting for asset retirement obligations	**(25)**	—	**(301)**
Loss on disaster	**(259)**	—	**(3,115)**
Other, net	**694**	(65)	**8,349**
Income before income taxes and minority interests	**13,178**	14,553	**158,485**
Income taxes *(Note 12)*:			
Current	**4,917**	5,719	**59,134**
Deferred	**(1,075)**	(416)	**(12,928)**
	3,842	5,303	**46,206**
Income before minority interests	**9,336**	—	**112,279**
Minority interests	**0**	0	**0**
Net income	**¥ 9,336**	¥ 9,250	**$ 112,279**

See accompanying notes to consolidated financial statements

Consolidated Financial Statements

Consolidated Statement of Comprehensive Income

Kobayashi Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2011

	Millions of yen	*Thousands of U.S. dollars (Note 1)*
	2011	**2011**
Income before minority interests	**¥ 9,336**	**$ 112,279**
Other comprehensive income (loss):		
Unrealized holding gain on securities	**1,451**	**17,450**
Unrealized loss on deferred hedges	**(114)**	**(1,371)**
Translation adjustments	**(1,066)**	**(12,820)**
Share of other comprehensive loss of affiliates accounted for by the equity method	**(162)**	**(1,948)**
Other comprehensive income, net	**109**	**1,311**
Comprehensive income	**¥ 9,445**	**$ 113,590**
Comprehensive income attributable to:		
Shareholders of the Kobayashi Pharmaceutical Co., Ltd.	**¥ 9,445**	**$ 113,590**
Minority interests	**¥ 0**	**$ 0**

Consolidated Statements of Changes in Net Assets

Kobayashi Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2011 and 2010

		Millions of yen									
	Number of shares issued (Thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized holding gain (loss) on securities	Unrealized loss on deferred hedges	Translation adjustments	Stock acquisition rights	Minority interests	Total net assets
Balance at March 31, 2009	42,525	¥3,450	¥4,219	¥78,678	¥(4,706)	¥(1,726)	¥(728)	¥(2,978)	¥143	¥12	¥76,364
Net income for the year	—	—	—	9,250	—	—	—	—	—	—	9,250
Cash dividends	—	—	—	(2,375)	—	—	—	—	—	—	(2,375)
Purchases of treasury stock	—	—	—	—	(1)	—	—	—	—	—	(1)
Disposition of treasury stock	—	—	—	—	6	—	—	—	—	—	6
Other changes	—	—	—	—	—	765	405	169	20	0	1,359
Balance at March 31, 2010	42,525	3,450	4,219	85,553	(4,701)	(961)	(323)	(2,809)	163	12	84,603
Net income for the year	**—**	**—**	**—**	**9,336**	**—**	**—**	**—**	**—**	**—**	**—**	**9,336**
Cash dividends	**—**	**—**	**—**	**(2,703)**	**—**	**—**	**—**	**—**	**—**	**—**	**(2,703)**
Purchases of treasury stock	**—**	**—**	**—**	**—**	**(0)**	**—**	**—**	**—**	**—**	**—**	**(0)**
Other changes	**—**	**—**	**—**	**—**	**—**	**1,451**	**(276)**	**(1,066)**	**(3)**	**1**	**107**
Balance at March 31, 2011	**42,525**	**¥3,450**	**¥4,219**	**¥92,186**	**¥(4,701)**	**¥490**	**¥(599)**	**¥(3,875)**	**¥160**	**¥13**	**¥91,343**

	Thousands of U.S. dollars (Note 1)									
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized holding gain (loss) on securities	Unrealized loss on deferred hedges	Translation adjustments	Stock acquisition rights	Minority interests	Total net assets
Balance at March 31, 2010	$41,491	$50,741	$1,028,900	$(56,536)	$(11,557)	$(3,885)	$(33,783)	$1,960	$144	$1,017,475
Net income for the year	**—**	**—**	**112,279**	**—**	**—**	**—**	**—**	**—**	**—**	**112,279**
Cash dividends	**—**	**—**	**(32,508)**	**—**	**—**	**—**	**—**	**—**	**—**	**(32,508)**
Purchases of treasury stock	**—**	**—**	**—**	**(0)**	**—**	**—**	**—**	**—**	**—**	**(0)**
Other changes	**—**	**—**	**—**	**—**	**17,450**	**(3,319)**	**(12,820)**	**(36)**	**12**	**1,287**
Balance at March 31, 2011	**$41,491**	**$50,741**	**$1,108,671**	**$(56,536)**	**$5,893**	**$(7,204)**	**$(46,603)**	**$1,924**	**$156**	**$1,098,533**

See accompanying notes to consolidated financial statements

Consolidated Statements of Cash Flows

Kobayashi Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	**2011**
Cash flows from operating activities:			
Income before income taxes and minority interests	**¥13,178**	¥14,553	**$158,485**
Adjustments for:			
Depreciation and amortization	**4,155**	4,257	**49,970**
Loss on impairment of fixed assets	**637**	323	**7,661**
Increase in allowance for doubtful accounts	**345**	57	**4,149**
Increase in accrued retirement benefits	**342**	137	**4,113**
Interest and dividend income	**(336)**	(330)	**(4,041)**
Interest expense	**61**	89	**734**
Equity in earnings of affiliates	**(383)**	(79)	**(4,606)**
Loss on sales of shares of an affiliate	**—**	1,456	**—**
Loss on devaluation of investment securities	**5,143**	15	**61,852**
Loss on disposal or sales of property, plant and equipment, net	**76**	206	**914**
Loss on devaluation of shares of affiliates	**37**	94	**445**
Changes in operating assets and liabilities:			
(Increase) decrease in trade notes and accounts receivable	**(3,716)**	1,071	**(44,690)**
Decrease in inventories	**430**	1,390	**5,171**
Decrease in trade notes and accounts payable	**(1,599)**	(922)	**(19,230)**
Increase (decrease) in other payables	**252**	(875)	**3,031**
(Decrease) increase in consumption taxes payable	**(17)**	102	**(204)**
Other	**273**	127	**3,281**
Subtotal	**18,878**	21,671	**227,035**
Interest and dividends received	**479**	471	**5,761**
Interest paid	**(47)**	(83)	**(565)**
Income taxes paid	**(6,142)**	(6,739)	**(73,867)**
Net cash provided by operating activities	**¥13,168**	¥15,320	**$158,364**
Cash flows from investing activities:			
Increase in time deposits	**—**	¥(47)	**—**
Decrease in time deposits	**44**	—	**529**
Purchases of short-term securities	**(36,989)**	¥(26,989)	**(444,847)**
Proceeds from sales and redemption of short-term securities	**37,000**	23,000	**444,979**
Payments for purchases of property, plant and equipment	**(1,868)**	(2,624)	**(22,465)**
Proceeds from sales of property, plant and equipment	**2**	144	**24**
Payments for purchases of intangible assets	**(299)**	(361)	**(3,596)**
Purchases of investments in securities	**(6,084)**	(1,085)	**(73,169)**
Proceeds from sales of investments in securities	**53**	1	**637**
Increase in other assets	**(122)**	(123)	**(1,467)**
Proceeds from sales of shares in an affiliate	**—**	3,500	**—**
Other	**(116)**	(117)	**(1,395)**
Net cash used in investing activities	**(8,379)**	(4,701)	**(100,770)**
Cash flows from financing activities:			
(Decrease) increase in short-term loans, net	**(1,673)**	1,236	**(20,120)**
Repayment of long-term debt	**(176)**	—	**(2,117)**
Dividends paid	**(2,703)**	(2,375)	**(32,507)**
Increase in treasury stock	**(0)**	(1)	**(0)**
Decrease in lease obligations	**(602)**	(675)	**(7,240)**
Net cash used in financing activities	**(5,154)**	(1,815)	**(61,984)**
Effect of exchange rate changes on cash and cash equivalents	**(296)**	7	**(3,559)**
Net (decrease) increase in cash and cash equivalents	**(661)**	8,811	**(7,949)**
Cash and cash equivalents at beginning of the year	**32,624**	23,813	**392,351**
Cash and cash equivalents at end of the year *(Note 4)*	**¥31,963**	¥32,624	**$384,402**

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements

Kobayashi Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2011 and 2010

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 of Japan.

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

Certain reclassifications of previously reported amounts have been made to conform the consolidated financial statements for the year ended March 31, 2010 to the 2011 presentation. Such reclassifications had no effect on consolidated net income or net assets.

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 ¥83.15 = U.S.$1.00, the approximate exchange rate in effect on March 31, 2011. This translation should not be construed as a representation that Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

2. Summary of Significant Accounting Policies

(a) Principles of consolidation

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

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

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

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

(b) Use of estimates

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

(c) Cash and cash equivalents

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

(d) Foreign currency translation

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

The balance sheet accounts of the overseas 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 financial statements.

(e) Investments in securities

Securities are classified into three categories: trading securities, held-to-maturity debt securities, or other securities. Trading securities, consisting of debt and marketable equity securities, are stated at fair value. Gain or loss, both realized and unrealized, is credited or charged to income. Held-to-maturity debt securities are stated at amortized cost. Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, reported as a separate component of accumulated other comprehensive income (loss). 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, 2010, the Company changed the holding purposes and reclassified ¥3,149 million of land, buildings and structures, and machinery, equipment and vehicles to "Investment properties, net" in the investments and other assets section on the consolidated balance sheets. Rental income and related costs arising from these investment properties are included in "Other, net" in the other income (expense) section on the consolidated statement of income for the year ended March 31, 2010.

(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. Overseas subsidiaries provide an allowance for doubtful accounts based on estimate of uncollectible amounts with the current status.

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

(l) Accrued retirement benefits
Pension plan of the Company and certain consolidated subsidiaries include an unfunded defined retirement benefit plan, a non-contributory funded pension plan, and defined contribution pension plans. 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 two domestic consolidated subsidiaries 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 and certain overseas 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 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 consolidated subsidiaries' internal regulations.

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

(m) 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.

(n) 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.

(o) 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 meeting held subsequent to the close of the financial period. The accounts for that period do not, therefore, reflect such appropriations (see Note 22).

(p) 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 a separate component of accumulated other comprehensive income (loss). When forward foreign exchange contracts or currency options meet certain criteria, receivables and payables covered by the contract are translated at the contracted rates.

The Company and a domestic consolidated subsidiaries evaluate the effectiveness of their hedging activities by reference to the accumulated gain or loss on each hedging instrument and on the related underlying hedged item from the commencement of the hedge.

3. Changes in Accounting Policies

(a) Accounting Standard for Comprehensive Income

Effective the year ended March 31, 2011, the Company adopted "Accounting Standard for Presentation of Comprehensive Income" (Accounting Standards Board of Japan ("ASBJ") Statement No. 25, issued on June 30, 2010). Therefore, "Valuation and translation adjustments" and "Total valuation and translation adjustments" of prior years are now presented as "Accumulated other comprehensive income (loss)" and "Total accumulated other comprehensive income (loss)," respectively, in the consolidated balance sheets.

(b) Accounting Standard for Asset Retirement Obligations

Effective the year ended March 31, 2011, the Company and its domestic consolidated subsidiaries adopted "Accounting Standard for Asset Retirement Obligations" (ASBJ Statement No. 18, issued on March 31, 2008) and "Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No.21, issued on March 31, 2008).

As a result of this adoption, operating income decreased ¥18 million ($216 thousand) and income before income taxes and minority interests decreased ¥43 million ($517 thousand) for the year ended March 31, 2011.

(c) Accounting Standard for Business Combinations and Others

Effective the year ended March 31, 2011, the Company and its consolidated subsidiaries adopted "Accounting Standard for Business Combinations" (ASBJ Statement No.21, issued on December 26, 2008), "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No.22, issued on December 26, 2008), "Partial Amendments to Accounting Standard for Research and Development Costs" (ASBJ Statement No.23, issued on December 26, 2008), "Accounting Standard for Business Divestitures" (ASBJ Statement No.7, issued on December 26, 2008), "Accounting Standard for Equity Method of Accounting for Investments" (ASBJ Statement No.16, issued on December 26, 2008), "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No.10, issued on December 26, 2008).

(d) Accounting Standard for Equity Method of Accounting for Investments

Effective the year ended March 31, 2011, the Company and its consolidated subsidiaries adopted "Accounting Standard for Equity Method of Accounting for Investments" (ASBJ Statement No.16, issued on March 10, 2008) and "Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method" (ASBJ Practical Issues Task Force No. 24, issued on March 10, 2008).

This adoption had no effect on operating income and income before income taxes and minority interests for the year ended March 31, 2011.

(e) Partial amendments to accounting standard for retirement benefits

Effective the year ended March 31, 2010, the Company adopted "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)," (ASBJ Statement No. 19, issued on July 31, 2008).

This adoption had no effect on operating income and income before income taxes and minority interests for the year ended March 31, 2010.

4. 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, 2011 and 2010 is summarized as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2011	2010	**2011**
Cash and time deposits	**¥31,963**	¥32,670	**$ 384,402**
Time deposits (original maturities in excess of three months, included in "Cash and time deposits")	**—**	(46)	**—**
Cash and cash equivalents	**¥31,963**	¥32,624	**$ 384,402**

5. Securities and Investments in Securities

(a) Securities classified as "Other securities" at March 31, 2011 and 2010 are summarized as follows:

(I) Securities whose carrying value exceeds their acquisition cost

	Millions of yen					
	2011			2010		
	Acquisition cost	Carrying value	Unrealized gain	Acquisition cost	Carrying value	Unrealized gain
Equities	**¥ 728**	**¥ 2,396**	**¥1,668**	¥ 766	¥2,743	¥1,977
Debt securities	**8,034**	**8,040**	**6**	6,524	6,538	14
	¥8,762	**¥10,436**	**¥1,674**	¥7,290	¥9,281	¥1,991

	Thousands of U.S. dollars		
	2011		
	Acquisition cost	Carrying value	Unrealized gain
Equities	**$ 8,755**	**$ 28,815**	**$20,060**
Debt securities	**96,621**	**96,693**	**72**
	$105,376	**$125,508**	**$20,132**

(II) Securities whose acquisition cost exceeds their carrying value

	Millions of yen					
	2011			2010		
	Acquisition cost	Carrying value	Unrealized loss	Acquisition cost	Carrying value	Unrealized loss
Equities	**¥ 5,995**	**¥ 5,189**	**¥(806)**	¥11,043	¥ 7,404	¥(3,639)
Debt securities	**10,009**	**9,958**	**(51)**	5,508	5,507	(1)
	¥16,004	**¥15,147**	**¥(857)**	¥16,551	¥12,911	¥(3,640)

	Thousands of U.S. dollars		
	2011		
	Acquisition cost	Carrying value	Unrealized loss
Equities	**$ 72,098**	**$ 62,405**	**$ (9,693)**
Debt securities	**120,373**	**119,760**	**(613)**
	$192,471	**$182,165**	**$(10,306)**

(III) Securities whose market value is not determinable

	Millions of yen		*Thousands of U.S. dollars*
	2011	2010	**2011**
Unlisted equity securities	**¥811**	¥945	**$9,753**

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

	Millions of yen		*Thousands of U.S. dollars*
	2011	2010	**2011**
Proceeds from sales	**¥53**	¥1	**$637**
Gross realized gain	**53**	—	**637**

(b) Loss on devaluation of investments in securities

For the year ended March 31, 2011, loss on devaluation of investments in securities of ¥5,143 million ($61,852 thousand) is recognized in the consolidated statement of income. If the fair value of other securities has declined by more than 30% from their acquisition costs, loss on devaluation is recognized on those securities, considering their recoverability. If the fair value of other securities has declined by more than 50% from their acquisition costs, loss on devaluation is fully recognized on those securities.

6. Loss on Impairment of Fixed Assets

The Company and its consolidated subsidiaries group their property, plant and equipment and intangible assets for business use at each business segment unit and these are defined as the smallest identifiable group of assets generating cash inflows. The head office building, central laboratories and certain other assets are grouped as one common asset group.

For the years ended March 31, 2011 and 2010, the carrying value of leased assets and that of production facilities and medical devices, which are not anticipated to be utilized in the future, have been reduced to their respective recoverable amounts and a loss on impairment of property, plant and equipment was recognized in the accompanying consolidated statements of income.

The Company reviewed the fair value, including the consolidated goodwill, of an acquired subsidiary since expected earnings from the acquired subsidiary have not materialized. As a result, the Company reduced the carrying value of the goodwill to the recoverable amount and loss on impairment was recognized in the consolidated statements of income for the years ended March 31, 2011 and 2010.

The recoverable values of production facilities and medical devices are based on the value in use. For the years ended March 31, 2011 and 2010, the value in use of the production facilities is measured at zero because future cash flow is not expected.

Loss on impairment of fixed assets for the years ended March 31, 2011 and 2010 are summarized as follows:

		2011		
Location	Description	Classification	*Millions of yen*	*Thousands of U.S. dollars*
Osaka and other	Production facilities and other	Machinery, equipment and other	**¥ 19**	**$ 228**
Osaka	Medical devices	Tools, furniture and fixtures	**20**	**241**
Osaka and other	Production facilities	Leased assets	**21**	**253**
United States	Other	Goodwill	**573**	**6,891**
Osaka	Other	Long-term prepaid expenses included in other assets	**4**	**48**
			¥637	**$7,661**

		2010	
Location	Description	Classification	*Millions of yen*
Osaka and other	Production facilities and other	Machinery, equipment and other	¥51
Osaka	Production facilities	Leased assets	4
Osaka and other	Other	Land	68
United States	Other	Goodwill	200
			¥323

7. Investment Properties

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

Rental income from these properties amounted to ¥274 million ($3,295 thousand) and ¥257 million, and related costs amounted to ¥80 million ($962 thousand) and ¥76 million for the years ended March 31, 2011 and 2010, respectively.

The carrying value on the consolidated balance sheets and corresponding fair value of those properties are as follows:

Millions of yen			
	Carrying value		Fair value
As of March 31, 2010	Net change	As of March 31, 2011	As of March 31, 2011
¥3,810	**¥(35)**	**¥3,775**	**¥4,197**

Thousands of U.S. dollars			
	Carrying value		Fair value
As of March 31, 2010	Net change	As of March 31, 2011	As of March 31, 2011
$45,821	**$ (421)**	**$45,400**	**$50,475**

Millions of yen			
	Carrying value		Fair value
As of March 31, 2009	Net change	As of March 31, 2010	As of March 31, 2010
¥3,909	¥ (99)	¥3,810	¥4,384

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

The components of net change in carrying value are the acquisitions of real estate properties in the amount of ¥5 million ($60 thousand) and the decreases are mainly due to depreciation in the amount of ¥38 million ($457 thousand).

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

Effective the year ended March 31, 2010, “Accounting Standard for Disclosures about Fair Value of Investment and Rental Property” (ASBJ Statement No. 20, issued on November 28, 2008) and the “Guidance on Accounting Standard for Disclosures about Fair Value of Investment and Rental Property” (ASBJ Guidance No. 23, issued on November 28, 2008).

8. Short-Term Loans and Long-Term Debt

The average interest rates on short-term bank loans at March 31, 2011 and 2010 were 1.58% and 4.09%, respectively.

Long-term debt at March 31, 2011 and 2010 is summarized as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2011	2010	**2011**
Loans from banks with average interest rates of 4.10%, due in 2011	**¥ —**	¥184	**$ —**
Less current portion included in short-term loans	**—**	(184)	**—**
	¥ —	¥ —	**$ —**

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, 2011 and 2010 is summarized as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2011	2010	**2011**
Lines-of-credit	**¥26,401**	¥17,683	**$317,511**
Credit used	**(26)**	(394)	**(313)**
Available credit	**¥26,375**	¥17,289	**$317,198**

9. Lease Transactions

(a) Finance lease transactions

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

Lease obligations related to finance lease transactions at March 31, 2011 are summarized as follows:

	Millions of yen	*Thousands of U.S. dollars*
	2011	**2011**
Finance lease obligations due in installments from 2012 through 2019	**¥1,336**	**$16,067**
Less current portion	**(462)**	**(5,556)**
	¥ 874	**$10,511**

The aggregate annual maturities of finance lease obligations subsequent to March 31, 2011 are summarized as follows:

Year ending March 31,	*Millions of yen*	*Thousands of U.S. dollars*
2012	**¥ 462**	**$ 5,556**
2013	**393**	**4,726**
2014	**286**	**3,440**
2015	**122**	**1,467**
2016	**43**	**517**
2017 and thereafter	**30**	**361**
	¥1,336	**$16,067**

(b) Operating lease transactions

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2011 for non-cancelable operating leases are summarized as follows:

Year ending March 31,	*Millions of yen*	*Thousands of U.S. dollars*
2012	**¥167**	**$2,008**
2013 and thereafter	**177**	**2,129**
Total	**¥344**	**$4,137**

10. 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, 2011 and 2010 for the Group's defined benefit plans:

	Millions of yen		*Thousands of U.S. dollars*
	2011	2010	**2011**
Projected benefit obligation	**¥ (9,861)**	¥ (9,461)	**$(118,593)**
Fair value of pension plan assets	**4,884**	4,602	**58,737**
Unfunded retirement benefit obligation	**(4,977)**	(4,859)	**(59,856)**
Unrecognized prior service cost	**137**	205	**1,648**
Unrecognized actuarial differences	**505**	661	**6,073**
Net retirement benefit obligation	**(4,335)**	(3,993)	**(52,135)**
Prepaid pension cost	**(824)**	(821)	**(9,909)**
Accrued retirement benefits for employees	**¥ (5,159)**	¥ (4,814)	**$(62,044)**

The components of net pension cost for the years ended March 31, 2011 and 2010 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2011	2010	**2011**
Service cost	**¥ 621**	¥ 639	**$ 7,468**
Interest cost	**175**	171	**2,105**
Expected return on pension plan assets	**(92)**	(88)	**(1,107)**
Amortization:			
Prior service cost	**68**	68	**818**
Actuarial differences	**143**	138	**1,720**
Cost of contribution pension plan	**173**	161	**2,081**
Net pension cost	**¥1,088**	¥1,089	**$13,085**

The assumptions used in accounting for the above plans for the years ended March 31, 2011 and 2010 were as follows:

	2011	2010
Discount rate	**2.0%**	2.0%
Expected rate of return on plan assets	**2.0%**	2.0%

11. Asset Retirement Obligations

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

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

Changes in the balance of asset retirement obligations for the year ended March 31, 2011 are as follows:

	Millions of yen	*Thousands of U.S. dollars*
	2011	**2011**
Assets retirement obligations at April 1, 2010	**¥ 85**	**$1,022**
Accretion expense	**1**	**12**
Assets retirement obligations at March 31, 2011	**¥ 86**	**$1,034**

Asset retirement obligations at the beginning of the year are the cumulative effect of the initial application of the Accounting Standard for Asset Retirement Obligations.

12. 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, 2011 and 2010. 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, 2011 and 2010 is as follows:

	2011	2010
Statutory tax rate	**40.6%**	40.6%
Tax loss carryforwards of consolidated subsidiaries	**2.8**	2.4
Valuation allowances	**(12.8)**	0.5
Utilization of tax loss carryforwards	**(0.8)**	(1.0)
Tax credits on research and development costs	**(2.3)**	(2.1)
Amortization of goodwill	**2.1**	2.0
Expenses not deductible for tax purposes	**1.4**	1.3
Equity in earnings of affiliates	**(1.2)**	0.2
Nontaxable dividend Income	**(0.4)**	(6.2)
Other	**(0.2)**	(1.3)
Effective tax rates	**29.2%**	36.4%

The tax effects of the temporary differences which gave rise to a significant portion of the deferred tax assets and liabilities at March 31, 2011 and 2010 are presented below:

	Millions of yen		*Thousands of U.S. dollars*
	2011	2010	**2011**
Deferred tax assets:			
Accrued retirement benefits for employees	**¥1,730**	¥1,638	**$20,806**
Net operating loss carryforwards	**1,289**	1,494	**15,502**
Reserve for employees' bonuses	**826**	785	**9,934**
Accrued retirement benefits for directors and statutory auditors	**6**	15	**72**
Accrued expenses	**1,606**	1,608	**19,314**
Accrued enterprise tax	**178**	277	**2,141**
Unrealized intercompany profits	**162**	140	**1,948**
Loss on impairment of fixed assets	**639**	629	**7,685**
Loss on disposal or write-offs of inventories	**602**	771	**7,240**
Unrealized holding loss on securities	**—**	704	**—**
Allowance for doubtful accounts	**576**	64	**6,927**
Other	**1,701**	1,472	**20,457**
Gross deferred tax assets	**9,315**	9,597	**112,026**
Valuation allowance	**(2,489)**	(2,795)	**(29,933)**
Total deferred tax assets	**6,826**	6,802	**82,093**
Deferred tax liabilities:			
Gain on exchange of shares	**—**	(16)	**—**
Unrealized holding gain on securities	**(328)**	(435)	**(3,945)**
Other	**(69)**	(62)	**(830)**
Total deferred tax liabilities	**(397)**	(513)	**(4,775)**
Net deferred tax assets	**¥6,429**	¥6,289	**$77,318**

13. 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 meeting if certain conditions are met.

Retained earnings include the legal reserve provided in accordance with the provisions of the Law. The legal reserve of the Company included in retained earnings amounted to ¥340 million ($4,089 thousand) at March 31, 2011 and 2010.

Stock-based compensation plan

As of March 31, 2011, the Company had one stock option plan: 2007 stock option plan. 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 ($52) per share at March 31, 2011. 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 plan was as follows:

	The 2007 plan
Number of options:	
Outstanding at March 31, 2009	**247,000**
Granted	**—**
Cancelled	**1,000**
Exercised	**—**
Outstanding at March 31, 2010	**246,000**
Granted	**—**
Cancelled	**3,400**
Exercised	**—**
Outstanding at March 31, 2011	**242,600**

	Yen
Fair value of options as of the grant date	**645**

	U.S. dollars
Fair value of options as of the grant date	**7.76**

Treasury stock

Movements in treasury stock for the years ended March 31, 2011 and 2010 are summarized as follows:

	Number of shares			
	2011			
	March 31, 2010	Increase	Decrease	March 31, 2011
Treasury stock	**1,575,862**	**125**	**—**	**1,575,987**

	Number of shares			
	2010			
	March 31, 2009	Increase	Decrease	March 31, 2010
Treasury stock	1,577,568	492	2,198	1,575,862

14. Contingent Liabilities

At March 31, 2011, the Company had the following contingent liability:

	Millions of yen	*Thousands of U.S. dollars*
	2011	**2011**
Recourse obligation under factoring transactions	**¥871**	**$10,475**

15. Financial Instruments

Effective the year ended March 31, 2010, "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, issued on March 10, 2008) and "Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, issued on March 10, 2008) have been adopted.

(a) Overview

(I) Policy for financial instruments

In consideration of plans for capital investment, the Group raises the required funds. The Group manages temporary fund surpluses principally through financial assets with high liquidity. Further, the Group raises short-term working capital through bank borrowings. The Group uses derivatives for the purpose of reducing risk and does not enter into derivatives for speculative or trading purposes.

(II) Types of financial instruments and related risk

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

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

Trade payables, notes and accounts payable, have payment due dates within 4 months. Although the Group is exposed to foreign currency exchange risk arising from those payables denominated in foreign currencies, forward foreign currency exchange contracts are arranged to hedge the risk.

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

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

(III) Risk management for financial instruments

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

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

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

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

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

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

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

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

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

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

The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair value. In addition, the notional amounts of derivatives in Note 16. "Derivatives and Hedging Activities" are not necessarily indicative of the actual market risk involved in derivative transactions.

(b) Estimated Fair Value of Financial Instruments

The carrying value of financial instruments on the consolidated balance sheets as of March 31, 2011 and 2010, the estimated fair value and unrealized gain (loss) are shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine the fair value. (Please refer to Note II below).

	Millions of yen					
	2011			2010		
	Carrying value	Estimated fair value	Unrealized gain (loss)	Carrying value	Estimated fair value	Unrealized gain (loss)
Assets						
(i) Cash and time deposits	**¥31,963**	**¥31,963**	**¥ —**	¥32,670	¥32,670	¥ —
(ii) Trade notes and accounts receivable	**29,880**	**29,880**	**—**	26,397	26,397	—
(iii) Securities and investments in securities	**25,583**	**25,583**	**—**	22,192	22,192	—
(iv) Long-term loans receivable included in other assets	**500**			410		
Allowance for doubtful accounts (*1)	**(15)**			(16)		
	485	**448**	**(37)**	394	363	(31)
Total assets	**¥87,911**	**¥87,874**	**¥(37)**	¥81,653	¥81,622	¥(31)
Liabilities						
(i) Trade notes and accounts payable	**¥12,881**	**¥12,881**	**¥ —**	¥14,570	¥14,570	¥ —
(ii) Short-term loans	**26**	**26**	**—**	1,709	1,709	—
(iii) Current portion of long-term loans, included in short-term loans	**—**	**—**	**—**	184	184	—
(iv) Other accounts payable	**12,859**	**12,859**	**—**	12,748	12,748	—
(v) Current portion of lease obligations	**462**	**466**	**4**	580	587	7
(vi) Accrued Income taxes	**2,178**	**2,178**	**—**	3,452	3,452	—
(vii) Accrued consumption taxes, included in other current liabilities	**568**	**568**	**—**	602	602	—
(viii) Lease obligations	**874**	**876**	**2**	1,150	1,157	7
Total liabilities	**¥29,848**	**¥29,854**	**¥ 6**	¥34,995	¥35,009	¥ 14
Total derivatives (*2)	**¥(373)**	**¥(373)**	**¥ —**	¥(177)	¥(177)	¥ —

	Thousands of U.S. dollars		
	2011		
	Carrying value	Estimated fair value	Unrealized gain (loss)
Assets			
(i) Cash and time deposits	**$384,402**	**$384,402**	**$ —**
(ii) Trade notes and accounts receivable	**359,351**	**359,351**	**—**
(iii) Securities and investments in securities	**307,673**	**307,673**	**—**
(iv) Long-term loans receivable included in other assets	**6,013**		
Allowance for doubtful accounts (*1)	**(181)**		
	5,832	**5,387**	**(445)**
Total assets	**$1,057,258**	**$1,056,813**	**$(445)**

	Thousands of U.S. dollars		
	2011		
	Carrying value	Estimated fair value	Unrealized gain (loss)
Liabilities			
(i) Trade notes and accounts payable	**$154,913**	**$154,913**	**$ —**
(ii) Short-term loans	**313**	**313**	**—**
(iii) Other accounts payable	**154,648**	**154,648**	**—**
(iv) Current portion of lease obligations	**5,556**	**5,604**	**48**
(v) Accrued Income taxes	**26,194**	**26,194**	**—**
(vi) Accrued consumption taxes, included in other current liabilities	**6,831**	**6,831**	**—**
(vii) Lease obligations	**10,511**	**10,535**	**24**
(viii)Total liabilities	**$358,966**	**$359,038**	**$ 72**
Total derivatives (*2)	**$(4,486)**	**$(4,486)**	**—**

(*1) Excluding allowances for doubtful accounts recorded individually for long-term loans receivable.
(*2) Assets and liabilities arising from derivatives are shown at net value, and an amount in parentheses represents net liability position.

I. Method to determine the estimated fair value of financial instruments and other matters related to securities and derivative transactions.

Assets

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

Since these items are settled in a short period of time, their carrying values approximate the fair value.

(iii) Securities and investments in securities

The fair values of stocks are based on quoted market prices. The fair value of debt securities is based on either quoted market price or the price provided by the financial institutions making markets in these securities. For information on securities classified by holding purpose, please refer to Note 5.

(iv) Long-term loans receivable

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

Liabilities

(i) Trade notes and accounts payable (iv) other accounts payable (vi) accrued income taxes payable and (vii) accrued consumption taxes

Since these items are settled in a short period of time, their carrying values approximate the fair value.

(ii) Short-term loans (iii) current portion of long-term loans (v) current portion of lease obligations and (viii) lease obligations

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

Derivatives

Refer to Note 16. “Derivatives and Hedging Activities.”

II. Financial instruments for which it is extremely difficult to determine the fair value.

	Millions of yen		Thousands of U.S. dollars
Type	**2011**	2010	**2011**
Unlisted equity securities:	**¥2,674**	¥2,774	**$32,159**

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

III. The redemption schedule for monetary assets and debt securities with maturity dates at March 31, 2011 and 2010 is summarized as follows:

	Millions of yen							
	2011				2010			
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
(i) Time deposits	**¥31,953**	**¥ —**	**¥ —**	**¥ —**	¥32,660	¥ —	¥ —	¥ —
(ii) Trade notes and accounts receivable	**29,880**	**—**	**—**	**—**	26,397	—	—	—
(iii) Securities and investments in securities								
Held-to-maturity debt securities								
Government bonds (national and local)	**11,000**	**2,000**	**5,000**	**—**	10,000	2,000	—	—
(iv) Long-term loans receivable	**6**	**473**	**5**	**16**	5	382	6	0
Total assets	**¥72,839**	**¥ 2,473**	**¥ 5,005**	**¥ 16**	¥69,072	¥ 2,382	¥ 6	¥ 0

	Thousands of U.S. dollars			
	2011			
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
(i) Time deposits	**$384,281**	**$ —**	**$ —**	**$ —**
(ii) Trade notes and accounts receivable	**359,351**	**—**	**—**	**—**
(iii) Securities and investments in securities				
Held-to-maturity debt securities				
Government bonds (national and local)	**132,291**	**24,053**	**60,132**	**—**
(iv) Long-term loans receivable	**72**	**5,688**	**60**	**192**
Total assets	**$875,995**	**$29,741**	**$60,192**	**$192**

IV. The redemption schedule for lease obligations is disclosed in Note 9.

16. Derivatives and Hedging Activities

The notional amounts and the estimated fair value of the derivative instruments outstanding which qualify for deferral hedge accounting at March 31, 2011 and 2010 were as follows:

Currency-related transactions

Method of hedge accounting	Description of transaction	Hedged items	*Millions of yen* 2011 Notional amount	2011 Notional amount (over 1 year)	2011 Estimated fair value	2010 Notional amount	2010 Notional amount (over 1 year)	2010 Estimated fair value
	Forward foreign exchange contracts							
	Purchase							
Deferral hedge accounting	U.S. dollars	Trade accounts payable	**¥5,863**	**¥1,825**	**¥(400)**	¥5,995	¥1,851	¥(155)
	British pounds	Trade accounts payable	**508**	**115**	**10**	892	237	(22)
	Euros	Trade accounts payable	**313**	**—**	**17**	—	—	—

Method of hedge accounting	Description of transaction	Hedged items	*Thousands of U.S. dollars* 2011 Notional amount	2011 Notional amount (over 1 year)	2011 Estimated fair value
	Forward foreign exchange contracts				
	Purchase				
Deferral hedge accounting	U.S. dollars	Trade accounts payable	**$70,511**	**$21,948**	**$(4,811)**
	British pounds	Trade accounts payable	**6,109**	**1,383**	**120**
	Euros	Trade accounts payable	**3,764**	**—**	**204**

There were no derivative transactions which did not qualify for deferral hedge accounting at March 31, 2011 and 2010.

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

17. Amounts per Share

	Yen 2011	*Yen* 2010	*U.S. dollars* 2011
Net income:			
Basic	**¥ 227.98**	¥ 225.88	**$ 2.74**
Cash dividends	**66.00**	62.00	**0.79**
Net assets	**2,226.42**	2,061.79	**26.78**

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

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

18. Other Comprehensive Income

The following table presents other comprehensive income and total comprehensive income attributable to shareholders of the Kobayashi Pharmaceutical Co., Ltd. and minority interests for the year ended March 31, 2010 for comparative purposes:

	Millions of yen
	2010
Other comprehensive income:	
Net unrealized holding gain on securities	¥ 764
Unrealized loss on deferred hedges	(16)
Translation adjustments	170
Share of other comprehensive income of affiliates accounted for by the equity method	421
	¥1,339

	Millions of yen
	2010
Total comprehensive income attributable to:	
Shareholders of the Kobayashi Pharmaceutical Co., Ltd.	¥10,589
Minority interests	0
	¥10,589

19. Related Party Transactions

There was no related party transaction for the year ended March 31, 2011.

Related party transactions for the year ended March 31, 2010 were as follows:

			Millions of yen
Type	Name of related party	Nature of transaction	2010
Director of the Company	Kazumasa Kobayashi	Contribution	¥10

Kazumasa Kobayashi directly owned 0.24% of the Company's shares at March 31, 2010.

The contribution amounts to the Kobayashi International Scholarship Foundation for the year ended March 31, 2010 was determined by examining the details of the transaction.

The Kobayashi International Scholarship Foundation owned 3 million shares (7.34%) of the Company at March 31, 2010.

					Millions of yen
Type	Name of company	Type of business	Relationship with related party	Type of transactions	2010
Affiliate	Itoh Kanpo Pharmaceutical Co., Ltd.	Manufacturing and sales	Sale of affiliated company's share	Proceeds from sales of shares	¥ 3,500
				Loss on sales of shares	¥(1,456)

Regarding shares of Itoh Kanpo Pharmaceutical Co., Ltd., the Company sold all the shares (22,050 shares, 33.4% of outstanding shares) to Itoh Kanpo Pharmaceutical Co., Ltd. on April 28, 2009.

20. Segment Information

Effective April 1, 2010, the Company adopted the "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Statement No.17, issued on March 27, 2009) and "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Guidance No.20, issued on March 21, 2008).

(a) Segment Information for the Year ended March 31, 2011

1. Outline of reportable segments

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

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

The Company's segments are classified by product and service on the basis of its operational headquarters. There are three reportable segments, which are the consumer products division, the mail-order division, and the medical devices division.

The consumer products division manufactures and sells pharmaceuticals, oral hygiene products, sanitary products, deodorizing air fresheners, household sundries, food products and body warmers. The mail-order division sells dietary supplement products and skin care products and similar items. The medical devices division sells medical equipment.

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

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

3. Information as to sales, income or loss, assets, and other items for each reportable segment

	Millions of yen							
	2011							
	Reportable segments							
	Consumer Products	Mail-order	Medical Devices	Total	Other	Total	Adjustments and eliminations	Consolidated
Net sales	**¥107,657**	**¥9,872**	**¥12,184**	**¥129,713**	**¥1,111**	**¥130,824**	**¥ —**	**¥130,824**
Sales to third parties	**3,136**	**—**	**—**	**3,136**	**5,150**	**8,286**	**(8,286)**	**—**
Inter-segment sales and transfers	**¥110,793**	**¥9,872**	**¥12,184**	**¥132,849**	**¥6,261**	**¥139,110**	**¥ (8,286)**	**¥130,824**
Total	**¥ 17,944**	**¥ 317**	**¥ 1,189**	**¥ 19,450**	**¥664**	**¥ 20,114**	**¥ (1,104)**	**¥ 19,010**
Segment income	**¥ 61,970**	**¥1,237**	**¥10,416**	**¥ 73,623**	**¥4,486**	**¥ 78,109**	**¥56,247**	**¥134,356**
Segment assets								
Other items								
Depreciation and amortization	**¥ 2,388**	**¥ 29**	**¥ 213**	**¥ 2,630**	**¥ 139**	**¥ 2,769**	**¥ 163**	**¥ 2,932**
Goodwill depreciation	**1,044**	**—**	**179**	**1,223**	**—**	**1,223**	**—**	**1,223**
Interest income	**10**	**3**	**12**	**25**	**70**	**95**	**(13)**	**82**
Interest expenses	**25**	**—**	**31**	**56**	**18**	**74**	**(13)**	**61**
Equity in earnings of affiliates	**—**	**—**	**384**	**384**	**—**	**384**	**(1)**	**383**
Investment in equity method affiliate	**—**	**—**	**1,776**	**1,776**	**—**	**1,776**	**—**	**1,776**
Increase in property, plant, and equipment and intangible assets	**1,796**	**20**	**289**	**2,105**	**158**	**2,263**	**84**	**2,347**

Notes:

1. "Other" consists of business segments that are not included in reportable segments, such as transportation, plastic container manufacture and sale, insurance agency, real estate management, and advertisement planning and creation.
2. Details of adjustments and eliminations are as follows:
   (i) Segment income of ¥1,104 million ($13,277 thousand), interest income of ¥13 million ($156 thousand), and interest expenses of ¥13 million ($156 thousand) are categorized as eliminations between inter segment transactions.
   (ii) Corporate assets included in the adjustments and eliminations of segment assets amount to ¥59,501 million ($715,586 thousand) and mainly consists of extra funds for investment by the parent company (cash and securities), funds for long-term investment (investment securities), and assets related to administrative departments.
   (iii) Adjustments and eliminations of equity in earnings of affiliates of ¥1 million ($12 thousand) correspond to adjustment of inventories.
3. Segment income is adjusted for the ordinary income as described in 2. Calculation method of reportable segment income or loss.
4. Increase in depreciation, property, plant and equipment and intangible assets includes an increase in long-term prepaid expenses and amortization of long-term prepaid expenses.

	Thousands of U.S. dollars							
	2011							
	Reportable segments							
	Consumer Products	Mail-order	Medical Devices	Total	Other	Total	Adjustments and eliminations	Consolidated
Net sales								
Sales to third parties	**$1,294,733**	**$118,725**	**$146,530**	**$1,559,988**	**$13,361**	**$1,573,349**	**$ —**	**$1,573,349**
Inter-segment sales and transfers	**37,715**	**—**	**—**	**37,715**	**61,937**	**99,652**	**(99,652)**	**—**
Total	**$1,332,448**	**$118,725**	**$146,530**	**$1,597,703**	**$75,298**	**$1,673,001**	**$ (99,652)**	**$1,573,349**
Segment income	**$ 215,803**	**$ 3,812**	**$ 14,299**	**$ 233,914**	**$7,986**	**$ 241,900**	**$ (13,277)**	**$ 228,623**
Segment assets	**$ 745,280**	**$ 14,877**	**$125,267**	**$ 885,424**	**$53,951**	**$ 939,375**	**$676,452**	**$1,615,827**
Other items								
Depreciation and amortization	**$ 28,719**	**$ 349**	**$ 2,562**	**$ 31,630**	**$ 1,672**	**$ 33,302**	**$ 1,960**	**$ 35,262**
Goodwill depreciation	**12,555**	**—**	**2,153**	**14,708**	**—**	**14,708**	**—**	**14,708**
Interest income	**120**	**36**	**144**	**300**	**842**	**1,142**	**(156)**	**986**
Interest expenses	**301**	**—**	**373**	**674**	**216**	**890**	**(156)**	**734**
Equity in earnings of affiliates	**—**	**—**	**4,618**	**4,618**	**—**	**4,618**	**(12)**	**4,606**
Investment in equity method affiliate	**—**	**—**	**21,359**	**21,359**	**—**	**21,359**	**—**	**21,359**
Increase in property, plant, and equipment and intangible assets	**21,599**	**241**	**3,476**	**25,316**	**1,900**	**27,216**	**1,010**	**28,226**

Under the new segmentation policy applied by the Company, the reportable segments for the year ended March 31, 2010 are as follows:

	Millions of yen							
	2010							
	Reportable segments							
	Consumer Products	Mail-order	Medical Devices	Total	Other	Total	Adjustments and eliminations	Consolidated
Net sales								
Sales to third parties	¥106,644	¥8,834	¥12,111	¥127,589	¥1,595	¥129,184	¥ —	¥129,184
Inter-segment sales and transfers	2,799	—	—	2,799	5,485	8,284	(8,284)	—
Total	¥109,443	¥8,834	¥12,111	¥130,388	¥7,080	¥137,468	¥ (8,284)	¥129,184
Segment income (loss)	¥ 15,748	¥ (222)	¥ 860	¥ 16,386	¥ 713	¥ 17,099	¥(27)	¥ 17,072
Segment assets	¥ 61,846	¥1,247	¥11,211	¥ 74,304	¥4,310	¥ 78,614	¥53,358	¥131,972
Other items								
Depreciation and amortization	¥ 2,468	¥ 32	¥ 214	¥ 2,714	¥ 128	¥ 2,842	¥ 154	¥ 2,996
Goodwill depreciation	¥ 1,081	—	179	1,260	—	1,260	—	1,260
Interest income	113	10	33	156	63	219	(147)	72
Interest expenses	—	—	41	41	194	235	(146)	89
Equity in earnings of affiliates	(51)	—	133	82	—	82	(3)	79
Investment in equity method affiliate	—	—	1,706	1,706	—	1,706	—	1,706
Increase in property, plant, and equipment and intangible assets	2,651	17	215	2,883	213	3,096	467	3,563

Notes:
1. "Other" consists of business segments that are not included in reportable segments, such as transportation, plastic container manufacture and sale, insurance agency, real estate management, and advertisement planning and creation.
2. Details of adjustments and eliminations are as follows:
   (i) Segment income (loss) of ¥27 million, interest income of ¥147 million, and interest expenses of ¥146 million are categorized as eliminations between inter segment transactions.
   (ii) Corporate assets included in the adjustments and eliminations of segment assets amounts to ¥56,782 million and mainly consists of extra funds for investment by the parent company (cash and securities), funds for long-term investment (investment securities), and assets related to administrative departments.
   (iii) The adjustments and eliminations of equity in earnings of affiliates of ¥3 million correspond to adjustment of inventories.
3. Segment income (loss) is adjusted for the ordinary income as described in 2. Calculation method of reportable segment income or loss.
4. Increase in depreciation, property, plant and equipment and intangible assets includes an increase in long-term prepaid expenses and amortization of long-term prepaid expenses.

4. Related information

(1) Sales by product and service

Sales by product and service, classified by the similarity of the market, for the year ended March 31, 2011 is summarized as follows:

	Millions of yen				
	2011				
	Consumer Products	Mail-order	Medical Devices	Other	Total
Sales to third parties	**¥107,657**	**¥9,872**	**¥12,184**	**¥1,111**	**¥130,824**

	Thousands of U.S. dollars				
	2011				
	Consumer Products	Mail-order	Medical Devices	Other	Total
Sales to third parties	**$1,294,733**	**$118,725**	**$146,530**	**$13,361**	**$1,573,349**

(2) Geographical information

(a) Sales

As domestic sales in Japan amounted to more than 90% of net consolidated sales, the disclosure of regional sales information has been omitted.

(b) Property, plant and equipment

As the balance of property, plant and equipment located in Japan amounted to more than 90% of total balance of property, plant and equipment, the disclosure of regional information for property, plant and equipment has been omitted.

(3) Information by major customers

	Millions of yen	
	2011	
	Sales	Related segment
Paltac Corporation	**¥51,204**	Consumer Products
Arata Corporation	**¥13,970**	Consumer Products

5. Loss on impairment of fixed assets by reportable segment

Information on loss on impairment of fixed assets by reportable segment for the year ended at March 31, 2011 is as follows:

	Millions of yen				
	2011				
	Consumer Products	Mail-order	Medical Devices	Other	Total
Loss on impairment of fixed assets	**¥44**	**¥ —**	**¥593**	**¥ —**	**¥637**

	Thousands of U.S. dollars				
	2011				
	Consumer Products	Mail-order	Medical Devices	Other	Total
Loss on impairment of fixed assets	**$529**	**$ —**	**$7,132**	**$ —**	**$7,661**

6. Amortization of goodwill and remaining balance by reportable segment

Information of amortization and balance of goodwill by reportable segment as of and for the year ended at March 31, 2011 is as follows:

	Millions of yen				
	2011				
	Consumer Products	Mail-order	Medical Devices	Other	Total
Amortization for the year	**¥1,044**	**¥ —**	**¥179**	**¥ —**	**¥1,223**
Balance at the end of year	**4,003**	**—**	**19**	**—**	**4,022**

	Thousands of U.S. dollars				
	2011				
	Consumer Products	Mail-order	Medical Devices	Other	Total
Amortization for the year	**$12,555**	**$ —**	**$2,153**	**$ —**	**$14,708**
Balance at the end of year	**48,142**	**—**	**228**	**—**	**48,370**

(b) Segment Information for the year ended March 31, 2010

1. Business Segment Information

The business segment information of the Company and its consolidated subsidiaries for the year ended March 31, 2010 is outlined as follows:

	Millions of yen					
	2010					
	Consumer Products	Medical Devices	Other	Total	Eliminations or unallocable accounts	Consolidated
I. Sales and operating income						
Sales to third parties	¥115,478	¥12,111	¥1,595	¥129,184	¥ —	¥129,184
Inter-segment sales and transfers	37	—	5,485	5,522	(5,522)	—
Net sales	115,515	12,111	7,080	134,706	(5,522)	129,184
Operating expenses	99,008	11,967	6,680	117,655	(5,512)	112,143
Operating income	¥ 16,507	¥ 144	¥ 400	¥ 17,051	¥ (10)	¥ 17,041
II. Total assets, depreciation and amortization, loss on impairment of fixed assets and capital expenditures						
Total assets	¥ 62,890	¥11,211	¥4,310	¥ 78,411	¥53,561	¥131,972
Depreciation and amortization	3,581	394	128	4,103	154	4,257
Loss on impairment of fixed assets	42	222	—	264	59	323
Capital expenditures	2,668	215	213	3,096	467	3,563

2. Geographic Segment Information

The geographic segment information of the Company and its consolidated subsidiaries for the year ended March 31, 2010 is outlined as follows:

	Millions of yen						
	2010						
	Japan	North America	Europe	Asia	Total	Eliminations and unallocable accounts	Consolidated
I. Sales and operating income (loss)							
Sales to third parties	¥122,754	¥ 3,075	¥1,389	¥1,966	¥129,184	¥ —	¥129,184
Inter-segment sales and transfers	1,334	—	3	1,213	2,550	(2,550)	—
Net sales	124,088	3,075	1,392	3,179	131,734	(2,550)	129,184
Operating expenses	106,831	3,525	1,317	2,998	114,671	(2,528)	112,143
Operating income (loss)	¥ 17,257	¥ (450)	¥ 75	¥ 181	¥ 17,063	¥ (22)	¥ 17,041
II. Total assets							
Total assets	¥ 78,498	¥11,482	¥ 760	¥1,827	¥ 92,567	¥39,405	¥131,972

3. Overseas Sales Information

Overseas sales information was omitted for the year ended March 31, 2010 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.

21. Business Combination

Transactions under common control

The Company has spun off Kobayashi Medical Co., Ltd., which is involved in the business of manufacturing, importing and selling medical devices. The spin-off became effective on April 1, 2010.

Since 1992, the Company had operated the medical devices business as one division of the Company. The Company decided to spin off a new company for this business in order to enhance competitiveness and specialization and to improve productivity in response to the significant changes in the market environment, such as the move toward greater medical cost savings and the drop in official medical prices in Japan.

The legal form of this business combination is an incorporation-type company split with the Company as the divesting company and Kobayashi Medical Co., Ltd. as the company incorporated through the incorporation-type company split.

The spin-off was accounted for as a transaction under common control in accordance with “Accounting Standard for Business Combinations” (ASBJ Statement No.21, issued on December 26, 2008) and the “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No.10, issued on December 26, 2008.)

22. Subsequent Event

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, 2011, was approved at the Board of Directors meeting held on May 25, 2011:

	Millions of yen	*Thousands of U.S. dollars*
Cash dividends (¥33.00 = $0.40 per share)	**¥1,351**	**$16,248**

Ernst & Young

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, 2011 and 2010, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended and consolidated statement of comprehensive income for the year ended March 31, 2011, 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, 2011 and 2010, 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.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2011 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 29, 2011

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*, an anti-inflammatory remedy applied externally

1969 Launched *Bluelet*, a deodorizing cleanser for toilets

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.
Established Kiribai Kobayashi Pharmaceutical Co., Ltd. through the corporate division of Kiribai Chemical Co., Ltd. to consolidate the manufacturing of disposable body warmers

2009 Cancelled capital tie-up with Itoh Kanpo Pharmaceutical Co., Ltd.

2010 Spun off medical device division into Kobayashi Medical Co., Ltd.

Group Companies

As of March 31, 2011

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.	Taiwa-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.	Sanda, Hyogo, Japan	¥49 million	Disposable body warmer manufacturing
■ Kobayashi Medical Co., Ltd.	Chuo-ku, Osaka, Japan	¥50 million	Medical equipment and device import and sales
▲ 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.	Chuo-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 health foods
▲ 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	RMB160,326,485	Daily goods manufacturing and sales
● Shanghai Kobayashi Pharmaceutical Business Co., Ltd.	Shanghai, China	RMB25,648,850	Information Collection and Quality Management
● Kobayashi Pharmaceutical (Hong Kong) Co., Ltd.	Hong Kong, China	HK$ 1,570,000	Daily goods sales
● Kobayashi Pharmaceutical (Singapore) Pte. Ltd.	Singapore	S$ 300,000	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	Asset management
■ Kobayashi Medical America, LLC.	California, U.S.A.	US$ 23,180,000	Holding company
■ eVent Medical Ltd.	Galway, Ireland	€ 2,660	Ventilator manufacturing and sales
■ eVent Medical Inc.	California, U.S.A.	US$ 0.1	Ventilator sales
Equity-Methed Affiliates			
■ Medicon, Inc.	Chuo-ku, Osaka, Japan	¥160 million	Medical equipment and device import and sales

Notes:

1. The following companies are Specified Subsidiaries as defined by Japanese law: Toyama Kobayashi Pharmaceutical Co., Ltd.; Sendai Kobayashi Pharmaceutical Co., Ltd.; Kiribai Kobayashi Pharmaceutical Co., Ltd.; Shanghai Kobayashi Daily Chemicals Co., Ltd.; Shanghai Kobayashi Pharmaceutical Business Co., Ltd.; Kobayashi Healthcare, LLC.; and Kobayashi Medical America, LLC.
2. At the Board of Directors' Meeting held on November 27, 2009, Kobayashi Pharmaceutical spun-off Kobayashi Medical Co., Ltd, which was part of former medical devices business division of the Company. The spin-off became effective on April 1, 2010.

● Consumer Products Business ■ Medical Devices Business ▲ Other Business

Corporate Data / Investor Information

As of March 31, 2011

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
Representative Director:	Yutaka Kobayashi, President (Appointed president on June 29, 2004)
Number of Employees:	2,390 (Consolidated) 1,040 (Unconsolidated)
Consolidated Subsidiaries:	27
Non-consolidated Subsidiaries:	3
Equity-Methed Affiliates:	1

Investor Information

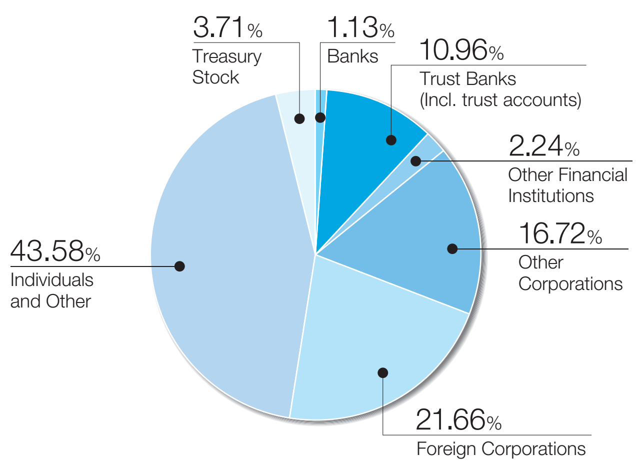
Common Stock:	¥3,450 million
Number of Shares Authorized:	170,100,000
Number of Shares Issued:	42,525,000
Number of Shareholders:	11,888
Stock Exchange Listing:	Tokyo Stock Exchange 1st Section, Osaka Securities Exchange 1st Section
Transfer Agent / Institution Managing Designated	Mitsubishi UFJ Trust and Banking Corporation
Annual Shareholders' Meeting:	June
Investor Relations:	KOBAYASHI PHARMACEUTICAL CO., LTD. Corporate Communication Department Phone +81-6-6222-0142 F A X +81-6-6222-4261 E-mail kobainfo@hint2.kobayashi.co.jp U R L http://www.kobayashi.co.jp/english/index.shtml

Major Shareholders

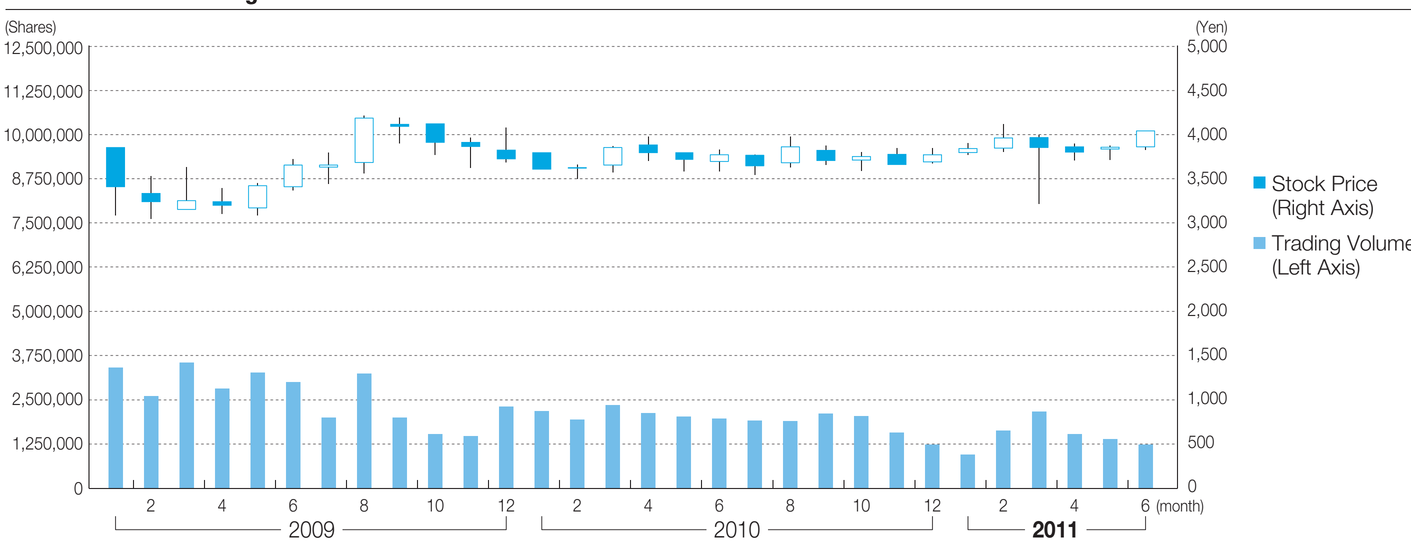
Name	Percentage of Total Shares Held (%)
Akihiro Kobayashi	10.89
Kobayashi International Scholarship Foundation	7.05
Yukako Iue	6.10
The Master Trust Bank of Japan, Ltd. (trust accounts)	3.40
Ikuko Watanabe	3.22
Teruhisa Miyata	3.08
State Street Bank and Trust Company	2.57
Ohtori Co., Ltd.	2.56
Forum Co.,Ltd	2.43
Japan Trustee Services Bank, Ltd. (trust accounts)	2.08

1 The percentage of total shares held is calculated by deducting 1,575,987 shares of treasury stock.

Shareholder Composition



Stock Price and Trading Volume



KOBAYASHI Pharmaceutical Co., Ltd.

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