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### Forward-looking Statements

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

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

## Corporate Philosophy

**Providing people and society with comfort by constantly pursuing new ideas through continuous Creativity and Innovation.**

## Business Overview

The Kobayashi Pharmaceutical Group believes that its existential value can be found in its customer-centric development of products and its unwavering commitment to continually provide comfort to each and every customer. Under the slogan of “You Make a Wish and We Make it Happen,” the Kobayashi Pharmaceutical Group is focused on development of new products that satisfy the needs of customers. Our core businesses include the Consumer Products Business and the Mail Order Business, and overseas we sell body warmers and cooling gel sheets for the forehead in more than 40 countries around the world.

### Consumer Products Business

The Consumer Products Business is the Group's mainstay business involving the planning, research and development, manufacturing and sales of proprietary products both in Japan and overseas. The Health Care Division and Household Division of the business entail 150 brands.

#### Health Care Division

The Health Care Division supports improved quality of life for customers through development, production, and sales in three categories including OTC pharmaceuticals, oral hygiene products, and food products.

#### Household Division

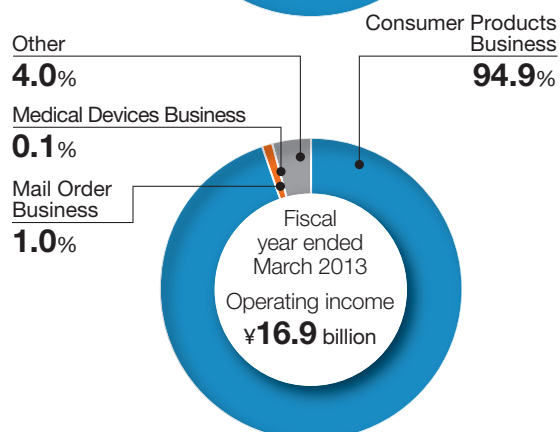
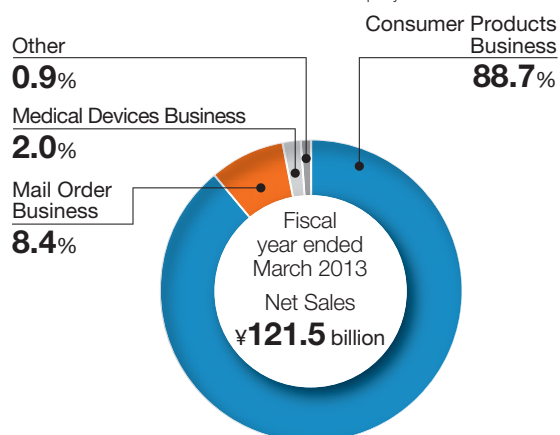
The Household Division supports new lifestyle habits through development, production, and sales in four categories including deodorizing air fresheners, sanitary products, household sundries, and body warmers.

### Mail Order Business

The Mail Order Business involves sales of products such as nutritional supplements and skincare products via telephone, Internet and other channels.

### Breakdown of Net Sales and Operating Income

Note: Intra-company transactions excluded.



### Kobayashi Pharmaceutical's Beginnings

#### Founded as a Wholesaler and Transformed into a Developer as well as Manufacturer of Proprietary Medicine

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 1894, 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 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

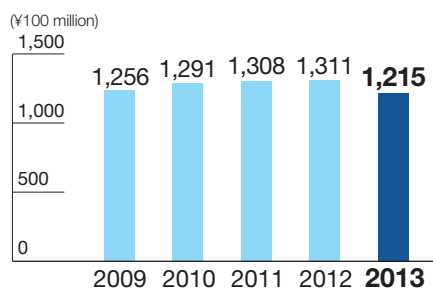


10 pharmaceuticals  
released in 1894

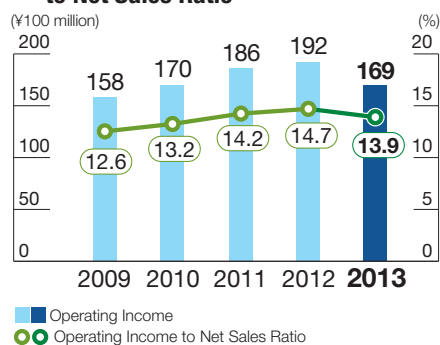


Originally founded as  
Kobayashi Seidaido,  
an unlimited  
partnership company

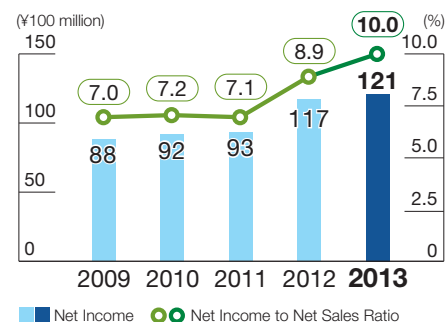
## Net Sales



## Operating Income / Operating Income to Net Sales Ratio



## Net Income / Net Income to Net Sales Ratio



	2004	2005	2006	2007	2008
For the year					
Net sales	211,670	215,708	246,852	257,022	228,826
Cost of sales	141,388	143,912	167,239	172,304	147,638
Gross profit	70,282	71,795	79,613	84,717	81,187
Selling, general and administrative expenses	54,159	56,096	62,734	66,688	62,611
Operating income	16,123	15,698	16,879	18,029	18,576
Income before income taxes and minority interests	11,825	12,769	14,009	16,038	15,800
Net income	6,677	6,730	7,474	8,297	8,504
Cash flows from operating activities	6,971	8,364	13,159	8,833	12,192
Free cash flows <sup>1</sup>	4,613	4,428	6,745	(2,970)	5,767
Depreciation and amortization	3,350	3,239	3,414	3,375	3,765
Capital expenditures <sup>2</sup>	2,441	5,020	2,797	2,229	2,895
Research and development costs	2,010	2,115	2,377	2,476	2,813
At year-end					
Current assets	80,030	86,704	98,906	102,102	66,069
Property, plant and equipments, net	24,567	25,003	22,788	22,279	15,236
Current liabilities	64,297	65,007	72,040	77,028	37,940
Long-term liabilities	9,093	8,959	10,175	10,291	7,286
Total net assets <sup>3</sup>	54,454	60,116	66,811	77,236	77,182
Total assets	128,326	134,629	151,945	164,555	122,409
Working capital <sup>4</sup>	15,733	21,697	26,866	25,074	28,128
Interest-bearing debt	5,417	3,034	1,633	3,414	726
Per share data					
Net income	157.25	160.64	179.17	200.77	205.62
Cash Dividends	21.0	33.0	38.0	50.0	54.0
Payout ratio	13.4%	20.5%	21.2%	24.9%	26.3%
Cash flows <sup>5</sup>	163.9	196.7	309.4	207.7	286.7
Net assets	1,307.16	1,443.30	1,617.10	1,799.87	1,863.24
Financial ratios					
Gross profit to net sales ratio	33.2	33.3	32.3	33.0	35.5
Operating income to net sales ratio	7.6	7.3	6.8	7.0	8.1
Net income to net sales ratio	3.2	3.1	3.0	3.2	3.7
Current ratio	124.5	133.4	137.3	132.6	174.1
ROA	11.1	10.8	10.6	9.5	10.9
ROE	12.9	11.7	11.8	11.7	11.2
Equity ratio	42.4	44.7	44.0	45.2	63.0
Debt-equity ratio (times) <sup>6</sup>	0.10	0.05	0.02	0.05	0.01
PER <sup>7</sup>	18.0	18.2	23.4	22.3	18.7

<sup>1</sup> Free cash flows = Cash flows from operating activities + Cash flows from investing activities.

<sup>3</sup> Total Net Assets in 2006 and preceding years does not include minority interests.

<sup>5</sup> Cash flows from operating activities divided by Number of shares issued.

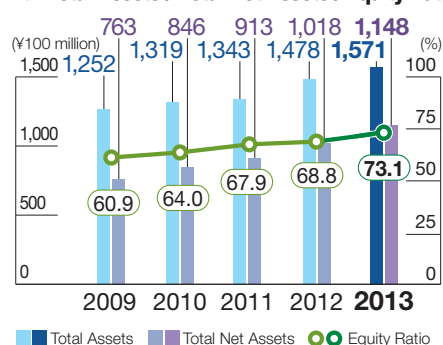
<sup>7</sup> Current share price divided by Earnings per share.

<sup>2</sup> Capital expenditures as shown in Segment Information in the Notes to Consolidated Financial Statements.

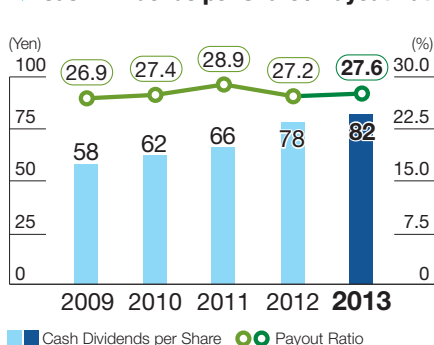
<sup>4</sup> Working capital: Current assets at the fiscal year-end minus Current liabilities.

<sup>6</sup> Debt-equity ratio: Interest-bearing debt at the fiscal year-end divided by Shareholders' equity.

## ▼ Total Assets / Total Net Assets / Equity Ratio



## ▼ Cash Dividends per Share / Payout Ratio



## ▼ ROE / ROA



2009	2010	2011	2012	2013	% Change	2013
Millions of yen					%	Thousands of U.S. dollars
125,693	129,184	130,824	131,167	121,532	(7.3)	1,292,206
57,013	57,295	56,184	54,636	51,732	(5.3)	550,048
68,679	71,889	74,640	76,531	69,800	(8.8)	742,158
52,861	54,848	56,019	57,233	52,896	(7.6)	562,424
15,818	17,041	18,621	19,298	16,904	(12.4)	179,734
16,270	14,553	13,178	19,822	18,854	(4.9)	200,468
8,853	9,250	9,336	11,726	12,177	3.8	129,474
12,849	15,319	13,168	17,250	9,243	(46.4)	98,278
11,467	10,618	4,789	14,321	(17,363)	(221.2)	(184,614)
4,214	4,257	4,155	3,232	2,970	(8.1)	31,579
3,468	3,562	2,347	2,213	3,174	43.4	33,748
3,361	3,962	4,069	4,386	4,545	3.6	48,325
Millions of yen					%	Thousands of U.S. dollars
73,172	85,209	88,837	102,538	94,354	(8.0)	1,003,232
17,618	14,779	14,156	13,628	13,730	0.7	145,987
39,834	39,025	34,525	37,791	34,477	(8.8)	366,582
9,011	8,344	8,488	8,221	7,757	(5.6)	82,477
76,364	84,603	91,343	101,879	114,873	12.8	1,221,404
125,210	131,972	134,356	147,890	157,107	6.2	1,670,463
33,337	46,184	54,312	64,747	59,876	(7.5)	636,650
645	1,708	26	5	4	(15.2)	43
Yen					%	U.S. dollars
215.89	225.88	227.98	286.36	297.37	3.8	3.16
58.0	62.0	66.0	78.0	82.0	5.1	0.87
26.9%	27.4%	28.9%	27.2%	27.6%	0.4	
302.2	360.3	309.7	405.7	217.3	(46.4)	2.31
1,861.14	2,061.79	2,226.42	2,484.08	2,805.27	12.9	29.83
%						
54.6	55.6	57.1	58.3	57.4		
12.6	13.2	14.2	14.7	13.9		
7.0	7.2	7.1	8.9	10.0		
183.7	218.3	257.3	271.3	273.7		
12.4	13.3	14.3	14.2	12.2		
11.5	11.5	10.6	12.2	11.2		
60.9	64.0	67.9	68.8	73.1		
0.01	0.02	0.0003	0.00005	0.00004		
15.1	17.0	16.9	14.5	15.3		





**Kazumasa Kobayashi**  
Chairman and  
Chief Executive Officer

**Yutaka Kobayashi**  
Vice Chairman



# As a development-based company, we will continue to generate value for our customers around the world in ways only made possible by the Kobayashi Pharmaceutical Group

## In pursuit of maximum corporate value

Under the slogan of “You Make a Wish and We Make it Happen,” the Kobayashi Pharmaceutical Group is a development-based company that creates new markets through the development of new products that meet consumer needs. Our greatest strength can be found in the way we identify latent needs that go unnoticed even by our customers and transform this information into reality. In other words, we are able to create and expand completely new markets. At the same time, we recognize that advancements in quality are a must in our provision of products and services to consumers. In this regard, we have established a corporate culture that is absolutely devoted to quality under the credo that quality is the life of a company, and ask all employees to adopt a sense of thorough persistence towards quality in their provision of products and services.

Furthermore, we have appointed outside directors since 2008 in order to secure management transparency and strengthen our auditing capabilities. In June 2013, we added another outside director to our board of directors, which now has two outside directors to further enhance corporate governance. The Kobayashi Pharmaceutical Group also maintains an open corporate culture where the opinions of employees count and ample opportunities are provided for employees to share feedback directly with our executive management team.

Going forward, we will develop products that create new markets and take steps to further strengthen our corporate governance, under the common goal of maximizing corporate value.

## Aggressively tackling challenges under new president

The greatest risk in these ever changing times we live in is maintaining the current status quo. Neither the strong nor smart will survive these times. Only those that can adapt to change will. This is why we, too, must constantly change to adapt.

This has been made clearly evident by Japanese companies’ efforts to expand overseas because of the mature domestic market. The Kobayashi Pharmaceutical Group is no different in that we have been aggressively investing in our overseas expansion for several years now since we positioned overseas business growth as one of our key drivers. Today is a time when we need to manage the company by viewing the whole world and Japan as a single market and not two distinct markets. We are convinced that we have a bright future ahead of us if we can roll out our business model for creating new markets in locations around the globe.

Given the ever-changing business climate, and to make a change in leadership prior to our 100th anniversary celebration in 2017, Akihiro Kobayashi was appointed President and COO in June 2013. Under this new president, we stand committed to taking on new challenges in order to offer products to consumers delivering our “You Make a Wish and We Make it Happen” philosophy and to generate value for our customers around the world in ways only made possible by the Kobayashi Pharmaceutical Group.

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

Chairman and  
Chief Executive Officer

Vice Chairman





Akihiro Kobayashi was born in Hyogo Prefecture on May 13, 1971. He graduated from the Department of Economics at Keio University. After joining Kobayashi Pharmaceutical, he served as the President of the Manufacturing Company, President of the International Sales Company concurrently as Manager of the Marketing Office, and Senior General Manager of the Product Business Headquarters. On June 27, 2013, Kobayashi was appointed President and COO of the company.





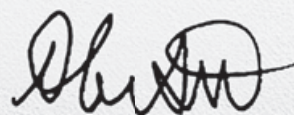
## We will focus on new product development as a basis of our future growth.

I was appointed President and COO on June 27, 2013.

Since the day we were established in 1919, my mission has been to boldly and constantly evolve our unchanging DNA embodied by the ideals of “Creativity and Innovation,” “Easy-to-understand Information” and “Exceptionally Customer-focused Vision.”

The key to achieving further growth can be found in actual worksites that constantly produces value. Following this commitment and thanks to my youthfulness, I often visit our worksites to hear first hand feedback from our employees to ensure that we can always maximize their strengths. Going forward, we will focus all of our efforts on developing and cultivating new products under the slogan of “You Make a Wish and We Make it Happen” in order to achieve further growth.

September 2013



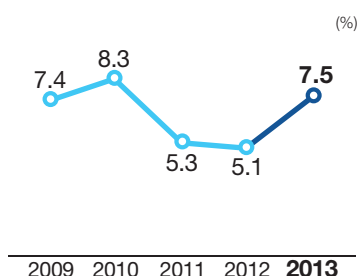
**Akihiro Kobayashi**

President and Chief Operating Officer





### ▼ New Product Contribution Rate



### **Inu no Kimochi deodorizing air freshener for dogs**

This soothing fragrance for dogs was jointly developed with *Inu no Kimochi*, a magazine for dog lovers published by Benesse Corporation. As part of the product development plan we held a campaign where we solicited customers for pictures of their pet dogs and selected one image for the product's packaging.

Q

**What are the management challenges facing the company and how will you address them?**

A

**We will develop and cultivate new products, strengthen our skincare and Chinese herbal medicine product, and expand our overseas business.**

### Enhancing new product development

New product development is essential to the sustainable growth of the Kobayashi Pharmaceutical Group. This is why we must strengthen our "You Make a Wish and We Make it Happen" approach to manufacturing for our customers.

The Kobayashi Pharmaceutical Group has established a target to achieve a new product contribution rate (percentage of net sales accounted for by new products) of greater than 10%, but in recent years our actual performance has fallen below this figure. This is why we went back to the drawing board and asked ourselves two questions. How do we encourage large numbers of customers to purchase products by way of trial because they actually want them and how do we promote repeat purchases of new products because of their great features? These questions and how to make an appealing, functional product have been discussed in great detail at our development meetings, such as the Idea Meeting.

As a result, the new product contribution rate increased to 7.5% in the fiscal year ended March 2013 and we expect this to rise to 9% in the fiscal year ending March 2014.

### New product development plan

Developing a new product and ensuring it gains a foothold in the market is also an essential element of growth. The Kobayashi Pharmaceutical Group releases new products twice each year, once in the spring and again in the autumn. Although we have been able to implement bold in-store marketing campaigns immediately after launch, we have not typically held sustained, follow-up campaigns after these. Also, a series of new products are then launched just six months later, meaning we have not been fully able to properly cultivate and grow each of our new products.

As a result, we created a two- and three-pronged development plan that consists of marketing campaigns and advertisements linked to in-store displays not only for immediately after release, but spanning the first six months of the product's life. This approach is meant to ensure our products gain a greater foothold in the market place in the first half year. In autumn 2013, we will focus on cultivating *Shoshugen Inu no Kimochi*.

### Idea Meeting

Persons in charge of development give a presentation on new product ideas to the president on a monthly basis. Here, deliberations take place on whether these ideas generate new value for customers.





## Enhancing skincare and Chinese herbal medicine products

In order to further grow the skincare segment, we acquired Rokuyo Pharmaceutical in March 2013 and Juju Cosmetics in September 2013, each of which have strong skincare product brands. Going forward, we will aim to achieve net sales of ¥10,000 million in the skincare segment by developing new products that leverage the brand power of these two companies and adding our own skincare brand *Keshimin* to the mix.

In addition, we also sell 12 brands of Chinese herbal medicines, including *Naicitol*, a remedy for obesity, and *Chikunain*, a remedy for empyema. To procure a stable supply of high quality herbs and Chinese medicinal extracts that serve as raw ingredients for these products, we are establishing a joint venture with a company that has expertise in manufacturing Chinese herbal medicine formulations in Anhui Province, China. Through this venture we are planning on strengthening and expanding our presence in the field further.

## Expanding the overseas business

With the domestic market maturing, today we must look to overseas markets to achieve continual growth for the future. We consider the overseas business an important growth area for us and we are aggressively investing in our core products of body warmers and cooling gel sheets for the forehead primarily in the United States, China and Southeast Asia in an effort to expand sales from the segment. As a result, overall net sales of the overseas business in the fiscal year ended March 2013 increased 17.2% year over year to ¥9,500 million.

In the United States, which accounts for 44% of the sales from our overseas business, we acquired HeatMax, Inc. in 2006 and Grabber, Inc. in 2012, both of which manufacture body warmer products. These acquisitions enabled us to boost our share of the body warmer market in the United States to around 50%. In addition, HeatMax retains discount store, supermarket and drugstore sales channels, while Grabber has sporting equipment specialty store channels. As such, going forward we will capitalize on these sales channels to sell not only body warmer products, but other Kobayashi Pharmaceutical brand products as well.

In China, we are currently expanding our footprint into the inland region of the country in order to increase our share in the body warmer and cooling gel sheets for the forehead markets. We are constructing a new factory in Anhui Province, following a similar factory built in Shanghai, to help boost sales of our body warmers and cooling gel sheet for the forehead already available in China and Southeast Asia.

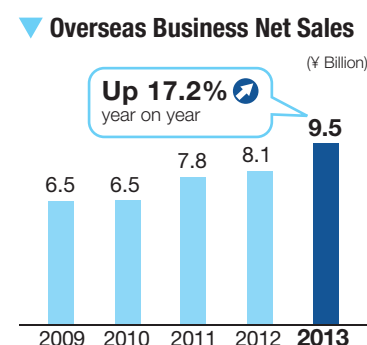
Since 2002 we have established local subsidiaries in Hong Kong, Singapore, Malaysia, Taiwan, Indonesia and Thailand in order to strengthen our local marketing capabilities in Southeast Asia, where economies continue to see robust growth. Our goal is to develop products tailored to the needs of the local market and expand our advertising and sales promotion campaigns in the region.



Rokuyo Pharmaceutical's core product *Eau de Muge*



Juju Cosmetics' core products *Aquamoist* and *Madam Juju*



Body warmer products sold in the United States



Body warmer and cooling gel sheet for the forehead products sold in China

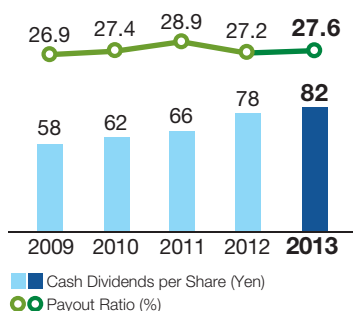


### ▼ Results for the Fiscal Year Ended March 2013

(¥100 million)

	Results	Change
Net sales	1,215	Down 7.3%
Operating income	169	Down 12.4%
Net income	121	Up 3.8%

### ▼ Cash Dividends per Share / Payout Ratio



### ▼ Forecast for the Fiscal Year Ending March 2014

(¥100 million)

	Forecast	Change
Net sales	1,270	Up 4.5%
Operating income	177	Up 4.7%
Net income	126	Up 3.5%

Q

### What were the results for the fiscal year ended March 31, 2013?

A

**We saw earnings dip somewhat due to the challenging environment, but we were able to record an increase in net income for the 15th consecutive year.**

During the fiscal year under review, personal consumption and corporate activities remained sluggish as before, causing a drop in net sales and operating income. Despite this, however, we were able to increase our net income for the 15th consecutive year.

Given these results, we decided to increase\* our annual dividend per share for the 14th consecutive year to ¥82, consisting of a ¥39 mid-term dividend and ¥43 year-end dividend.

The primary reasons for this dip in earnings was the transfer of shares in Kobayashi Medical Co., Ltd. (currently Japan Medicalnext Co., Ltd.) and weaker sales of heat relief remedies due to unseasonal summer weather.

\* A 1 for 1.5 stock split took place in the fiscal year ended March 2004.

Q

### What is your earnings outlook for the fiscal year ending March 2014?

A

**We will aim to record the 16th consecutive year of an increase in net income, while also working to increase both sales and income.**

The results for this fiscal year were very humbling for us. As such, we will focus all of our efforts on developing and cultivating new products essential to the growth of the Kobayashi Pharmaceutical Group and continue with our aggressive investments in our growing overseas business.

Driven by these efforts, we will strive to record the 16th consecutive year of an increase in net income, while also working to increase both sales and income.

### 100th Anniversary Vision Project

Under this project, employees from various departments have gathered together to draw up a realistic vision for the Kobayashi Pharmaceutical Group that defines future goals and direction as well as the path to achieving these. Led by the president, members of this project continue to discuss these ideas in great depth and detail.



## Q What types of CSR initiatives are you taking?

**A We continue to strive to manufacture products with quality and environmental friendliness in mind, while conducting social contribution activities.**

The Kobayashi Pharmaceutical Group's mission is "providing people and society with comfort by constantly pursuing new ideas through continuous Creativity and Innovation."

Under this mission statement, we are committed not only to providing products that are effective for our customers, but also to **paying close attention to a product's safety and universal design with an emphasis on quality and environmental friendliness that can be easily utilized by all ages, from children to the elderly. Our focus is also on product containers that can be easily recyclable and contribute to less waste.**

Moreover, we are conducting ongoing social contribution efforts, including donating western style toilets to improve the restroom environment in elementary schools, and support activities for the rebuilding effort following the Great East Japan Earthquake.

## Q Do you have a message for shareholders and investors?

**A The company is working collectively to meet the true needs and satisfaction of customers.**

The Kobayashi Pharmaceutical Group **continues to develop new products that will truly win the appreciation of its customers in supporting new lifestyle habits and creating new markets around the world.** We firmly believe our unfailing efforts to continue creating new products is the only way to lead our growth and enhance our corporate value.

Currently, the entire Kobayashi Pharmaceutical Group is working on the 100th Anniversary Vision Project in preparation for our 100th anniversary in four years. We recognize it is important to take this opportunity to further promote our corporate culture of being able to express one's opinion freely, which we have cultivated among our employees over the years.

Going forward, I hope to work in a synchronized manner with all of our employees in delivering true happiness to our customers.

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



# Accelerating overseas business expansion through aggressive investments

## Establishing a strong global brand

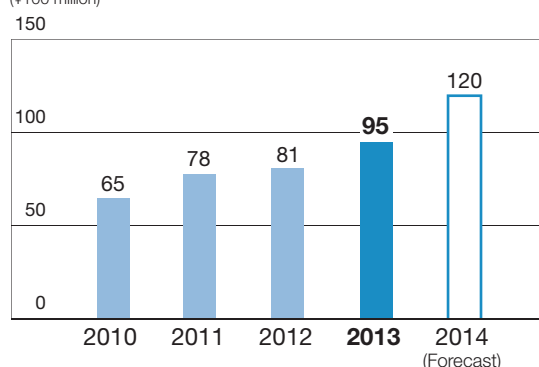
Having positioned international growth as one of its key drivers, the Kobayashi Pharmaceutical Group has been working diligently to increase sales in a total of six brands that include body warmers, cooling gel sheets for the forehead, OTC pharmaceuticals, deodorizing air fresheners, eye glasses cleaners, and oral hygiene products, primarily in the United States, China and Southeast Asia. Our goal is to reach net sales of ¥20,000 million from our overseas business by pursuing a marketing strategy created at local subsidiaries tailored to each market and through aggressive investments including M&A.



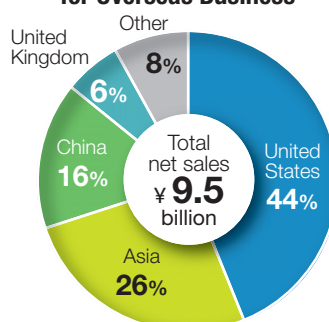
## Performance of Overseas Business

### ▼ Net Sales

(¥100 million)

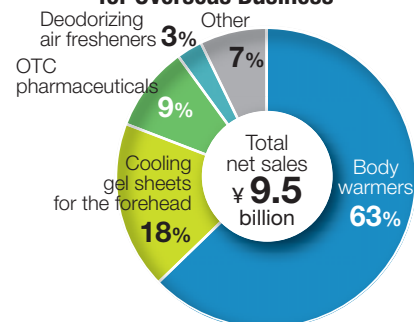


### ▼ Ratio of Sales by Region for Overseas Business



Fiscal year ended March 31, 2013

### ▼ Ratio of Sales by Product Type for Overseas Business



Fiscal year ended March 31, 2013



## Expansion by Region (Primary Markets only)

### United States

#### Sales Strategies

- Expand sales of body warmers and augment production capacity
- Utilize new sales channels captured through M&A to expand sales

In the United States body warmers are primarily used to treat lower back pain or other ailments and to keep warm during sporting events or outdoor activities.

The Kobayashi Pharmaceutical Group entered the United States body warmer market with its products mainly used to treat pain or other ailments, but we recognized the key to increasing sales was to expand into the segment of the market where body warmers are used to keep warm during outdoor activities. As a result, we decided to acquire HeatMax, Inc. in 2006 and Grabber, Inc. in 2012 because of HeatMax's discount store, supermarket and drugstore sales channels and Grabber's sporting equipment specialty stores and ski shop sales channels. Both companies retain solid body warmer brands and after they joined the Kobayashi Pharmaceutical Group our market share in the United States body warmer market has now reached upwards of 50%.

Going forward, our goal will be to encourage United States consumers to use of body warmers as a way to keep warm on cold days in order to further grow the market. As a first step, we are placing body warmer



Product placement next to POP

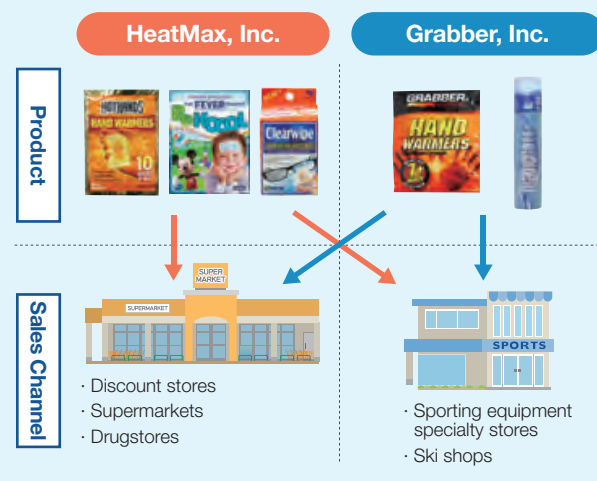
products next the point of purchase (POP) to make our products more visible and recognizable.

We will also take full advantage of both HeatMax and Grabber's sales channels to sell our other products as well, such as eye glasses cleaners and *Itch Relief Patches*, an itch relief medication developed in the United States.

To further support our cause, we are taking steps to expand our production system in the United States, which includes the construction of a new HeatMax factory in August 2012.

#### Maximizing Sales Channels

Aiming to increase sales by offering HeatMax products via Grabber's sales channels of sporting equipment specialty stores and vice versa offering Grabber products via HeatMax's sales channels of discount stores.



### Our Brands in the United States



Body warmers

**Cura-Heat** (for pain relief)  
**Hothands and Grabber**  
 (to keep warm during outdoor activities)

Our lineup of body warmer products for pain relief and to keep warm when outdoors will be sold through discount stores, sporting equipment specialty stores and other sales channels

Cooling gel sheets

#### Be KOOL

We will market our cooling gel sheet for the forehead to soothe fevers, which represents an all-new and unique solution for United States consumers.



## China

### Sales Strategies

- Launch economically priced body warmers and expand sales in the inland region
- Augment production capacity by adding new factories

We launched sales of body warmers in the China market under the product name *Nuan Bao Bao* in 2003. Since then, these products have recorded double digit growth and have become one of our core products in the market. To further raise the visibility of this product, we have hired famous entertainers to appear in television commercials, used *Baochu* (standalone product displays) for in-store advertising, and held in-store sales promotion campaigns as well.

The key to further growth will be expanding our footprint into the inland region of the country where our brand visibility remains low. In recent years China's inland region has begun to develop its distribution infrastructure and has seen improvements in the standard of living, both spurred on by economic growth. As a result, we are working to expand the number of stores that carry our products in the region and began selling a body warmer priced more economically than our existing body warmer products geared toward this region in September 2012.

Moreover, we are turning our attention to the sale of cooling gel sheet for the forehead *Bin Bao Tie* as well. Chinese parents tend to pay much closer attention to the health of their newborn child even more so than other countries because of the one-child policy, which has translated into growing sales of our cooling gel sheet for

the forehead geared toward infants. Given this trend, we began airing a television commercial starring infants in July 2013 with the goal of further enhancing our visibility going forward.

We are constructing a new factory in Anhui Province, following similar factory built in Shanghai, with completion slated for summer 2014. This new facility will augment our production capacity to cope with rising demand, which in turn will enable us to boost sales of our body warmers and cooling gel sheet for the forehead.



Sales promotion campaign



Conceptual image of our new factory in Anhui Province

## Our Brands in China

### Body warmers

#### Nuan Bao Bao

Uses an original packaging design unique to the China market that features an illustration of a woman



### Cooling gel sheets

#### Bin Bao Tie

Offered in adult, children and infant versions

### Deodorizing air fresheners

#### Sawaday

Includes a new jasmine scent not found in Japan to better suit the preferences of Chinese consumers



### Oral hygiene products

#### Taifuchin

Sold mainly in drugstores as a denture cleanser

## Southeast Asia/Other Regions

### Sales Strategies

- Expand sales of core products **Ammeltz** and **Netsusama Sheet**
- Make further progress in localization

The Kobayashi Pharmaceutical Group's overseas business began with the export of *Ammeltz*, an external anti-inflammatory, to Southeast Asia some four decades ago. This product is known by consumers in Hong Kong, Malaysia and Singapore as *Anmeiru* and has established a solid presence in the market.

Our cooling gel sheet for the forehead has helped to create an all-new way of treating fevers in the region, which has contributed to the success of its sales. We also recognized that these products can also be marketed as a heat relief remedy since the climate in Southeast Asia is somewhat similar to Japan's hot and humid summers. As a result, we are airing television commercials in Hong Kong and Malaysia, where the market has been established, to promote these products as heat relief remedy and to further expand the applications for our products. In Indonesia, where income level is relatively lower, we are selling our cooling gel sheet for the forehead in single sheets, instead of in the typical 6-sheet package.

We recognized that growth in emerging Southeast Asian countries represents an ideal business opportunity. As a result, we have established local subsidiaries in Malaysia, Taiwan, Indonesia and Thailand since October 2011, whereby establishing a solid foundation for sales in the region to complement our existing presence in Hong Kong and Singapore. We have also established a local subsidiary in Australia, marking our first in the Oceania region. Going

forward, we will seek to boost sales further in the region through our local subsidiaries by accurately capturing market needs, developing and improving products to suit these needs, and pursuing a marketing strategy tailored to each market.

### History of local subsidiaries in Southeast Asia / Other Regions

<b>June 2002</b>	Established Kobayashi Pharmaceutical (Hong Kong) Co., Ltd.
<b>October 2009</b>	Established Kobayashi Pharmaceutical (Singapore) Pte. Ltd.
<b>October 2011</b>	Established Kobayashi Healthcare (Malaysia) Sdn. Bhd.
<b>November 2011</b>	Established Kobayashi Pharmaceutical (Taiwan) Co., Ltd.
<b>April 2012</b>	Established PT. Kobayashi Pharmaceutical Indonesia
<b>March 2013</b>	Established Kobayashi Healthcare Australia Pty. Ltd.
<b>June 2013</b>	Established Kobayashi Healthcare (Thailand) Co., Ltd.

### Packaging used for our cooling gel sheet for the forehead in Southeast Asia



We have modified the brand name and packaging design to better suit each country and region  
(From left: Singapore, Thailand, Hong Kong and Indonesia)

## Our Brands in Southeast Asia/Other Regions

### OTC Pharmaceuticals

#### Anmeiru

An external anti-inflammatory on the market for nearly four decades



### Cooling gel sheets



#### KOOL FEVER

Marketed to soothe fevers and as a heat relief remedy

### Eye glasses cleaners

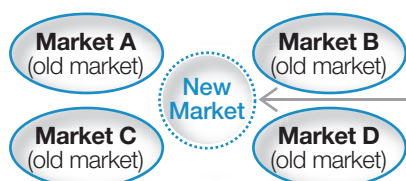
#### Clearwipe

Garnering support from consumers in Australia where people wear sunglasses more often because of their proximity to the equator





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



## Identifying Latent Needs

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

## Creating New Markets

## Creating and Expanding New Markets

1

### Product that lead to new market

First, we go about developing "product that lead to new markets" to transform the dreams of our customers into reality.

#### Novel concept product

#### **1969 Bluelet**

A novel toilet bowl cleaner 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.



2

### Product that stimulates consumer demand

Next, 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 "product(s) that stimulates consumer demand."

#### Enhance convenience and user experience

#### **1986 Bluelet Okudake**

In order to eliminate the hassle of removing the toilet tank lid to hang *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.



#### Expand 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.



3

### Product that expands and strengthens the brand

To increase market share and activate mature markets we introduce a variety of "products(s) that to expand and strengthen the brand," offering further value-added features.

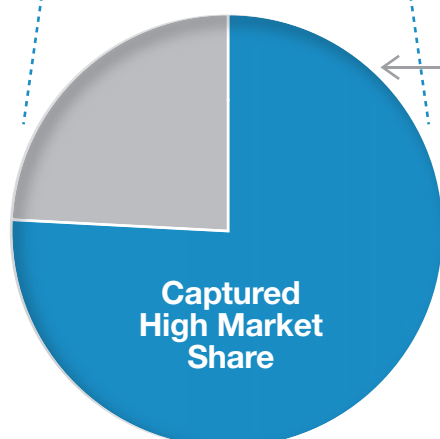
#### Further improve the brand's lineup

#### **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.



Expanding Markets



## Some of our new products (April 2012 to September 2013)

### 1 Product that lead to new markets

#### **Aptovale – A Chinese herbal medicine applied transdermally**

According to research by Kobayashi Pharmaceutical, many people that have had eczema or dermatitis recall that scratching only made symptoms worse or that they grew more aware of other people's line of sight because the spots became redder and more visible after scratching. As a result, Kobayashi Pharmaceutical developed and released *Aptovale*, a Chinese herbal ointment that alleviates symptoms of painful eczema or dermatitis before itchiness occurs, in March 2013. *Aptovale* is leading to new markets as a proprietary Chinese herbal medicine applied transdermally.



#### **Shoshugen Inu no Kimochi – A deodorizing air freshener for dog lovers**

Today, pet ownership mainly involves house pets, which require solutions for that unavoidable odor. With this in mind, Kobayashi Pharmaceutical launched *Shoshugen Inu no Kimochi* (Dog's Heart) in August 2013. This product was jointly developed with *Inu no Kimochi*, a magazine for dog lovers published by Benesse Corporation, and can be used not only to eliminate unwanted dog odors, but also to emit a pleasant fragrance that will help dogs relax. This product meets the needs of dog lovers who have wanted a deodorizing air freshener for dogs that does not cause their pet stress.



### 2 Product that stimulates consumer demand

#### **Naicitol G – Contains 3,100mg of active ingredients**

*Naicitol* is a remedy for obesity that was first launched in 2006. Since then it has gone on to become a market driver, having received strong support from countless consumers. To meet rising demand from the market for an even more effective version, Kobayashi Pharmaceutical launched *Naicitol G*, which contains 1.24 times the *Bofutsushosan* extract as conventional *Naicitol* products. This product is also manufactured using a special low temperature condensation method to prevent damage to the raw herbal medicine.



### 3 Product that expands and strengthens the brand

#### **Bluelet Kaoru Toilet Senzai – Fragrant Toilet Bowl Cleaner**

Unlike laundry detergents, until now we had never focused on the fragrance aspect of our toilet cleaners. As a result, in September 2013, we released *Bluelet Kaoru Toilet Senzai*, which features the same strong cleaning power complemented by a nice smelling scented fragrance. This fulfills the needs of customers who want a clean and scented toilet.





# Consumer Products Business



The Consumer Products Business delivers products that fulfill our “You Make a Wish and We Make it Happen” philosophy to customers in Japan and overseas.

## ▼ Share in Main Markets (data by Kobayashi Pharmaceutical)



**Eye wash**  
**61.9%**



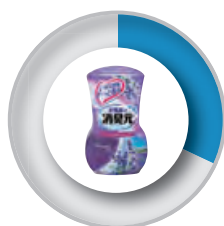
**Obesity alleviating  
medicine**  
**37.8%**



**Oral breath  
freshener**  
**80.9%**



**Cooling  
gel sheet**  
**52.3%**



**Deodorizing  
air freshener**  
**31.2%**



**Deodorizing  
cleaner for toilets**  
**77.8%**

We have generated many new markets and captured a leading share of these markets, which include medicated eye washes and deodorizing cleaner for toilets.

## Performance for the Fiscal Year Ended March 2013

### Dip in Revenues and Profits Amid Weaker Results from Heat Relief Remedies

In the fiscal year under review, Japan's economy displayed signs of a gradual recovery thanks to demand generated from reconstruction projects following the Great East Japan Earthquake, but personal consumption and corporate activities remained sluggish as before.

Given this, the Kobayashi Pharmaceutical Group focused on new product development that satisfies the latent needs of its customers and strengthening its existing brands to revitalize the markets, under the management philosophy of “providing people and society with comfort.” However, unseasonal summer weather caused weaker than expected sales of heat relief remedies, while sales in the sanitary products category fell below results from the previous fiscal year.

As a result, overall net sales of the Consumer Products Business declined 1.4% year on year to ¥110,833 million and operating income fell 12.4% to ¥16,040 million.

## Outlook for the Fiscal Year Ending March 2014

### New Product Development and Cultivation

As with the next fiscal year, we are focusing on new product development that meets customer needs and are now delivering new products that generate new markets and strengthen our brand presence. The Kobayashi Pharmaceutical Group has targeted a new product contribution rate (sales of new products as a percentage of total sales) of greater than 10% in the initial year, but in recent years results have fallen largely below the 10% mark. As a result, we have refocused our efforts on new product development by thoroughly debating whether new products





fulfill the philosophy “You Make a Wish and We Make it Happen” for consumers. This has helped us improve the new product contribution rate to 7.5% in the fiscal year under review and we expect to reach 9% in the next fiscal year.

We are also proactively rolling out advertising and sales promotion campaigns to encourage trial and repeat purchases in order to cultivate our newly launched products and establish a greater foothold in the marketplace.

## Strengthening Skincare and Chinese Herbal Medicine Lines

The Kobayashi Pharmaceutical Group is focusing on the skincare and Chinese herbal medicine segments given the rising demand for self-medication and health care.

In the skincare segment, we acquired a stake in Rokuyo Pharmaceutical and Juju Cosmetics in March and September 2013, respectively each of which has strong skincare products brands. Going forward, we will leverage the brand power of both companies to expand sales of their products.

In the Chinese herbal medicine segment, we already sell a lineup of 12 products that includes *Naicitol*, an herbal medicine that promotes the breakdown of fat. To procure a stable supply of high quality herbs and Chinese medicinal extracts that serve as raw ingredients for these products, we are establishing a joint venture with a company that has expertise in manufacturing Chinese herbal medicine formulations in Anhui Province, China. Through this venture we are planning on strengthening our presence in the field further.

## Further Growth in Overseas Business

In our growing overseas business, we are aggressively investing in our core products of body warmers and cooling gel sheets for the forehead primarily in the United States, China and Southeast Asia in an effort to expand sales from the segment.

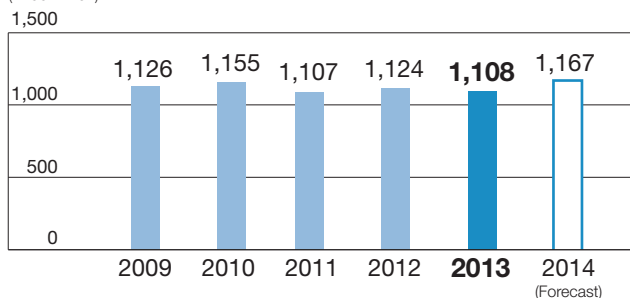
As a result, overall net sales of the Consumer Products Business for fiscal 2014 are expected to increase 5.3% year on year to ¥116,700 million and operating income is forecast to increase 4.7% to ¥16,800 million.

See pages 15 to 18 for more information about our overseas business.

## Earnings Trends

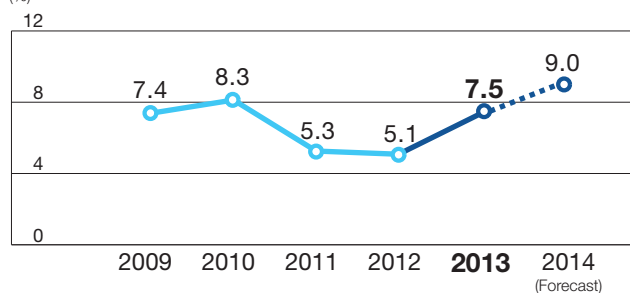
### Net Sales

(¥100 million)



### New Product Contribution Rate (initial year)

(%)





## Health Care Division

OTC Pharmaceuticals,  
Oral Hygiene  
and Food Products

### ▼ New Products



Naicitol G



Aptovale

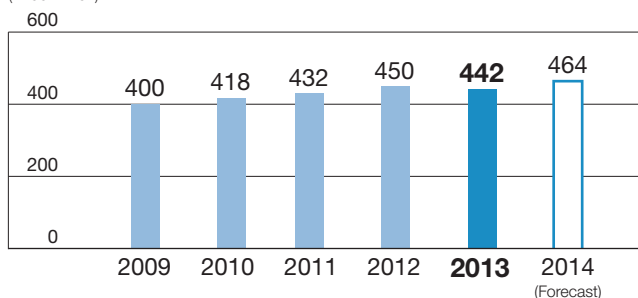


Ammeltz Hogutime  
Massage Nyueki

### Earnings Trends

#### ▼ Net Sales

(¥100 million)



\* Total of domestic and overseas sales for three categories including OTC pharmaceuticals, oral hygiene and food products.

\* Intra-company transactions excluded.

### Market Trends

#### Responding to the Growing Health Care Needs

The percentage of health care costs in any family budget has skyrocketed in recent years given Japan's aging society and declining birthrate as well as changes in lifestyle patterns. Total medical spending in Japan is expected to reach ¥45 trillion by the year 2015, meaning that the importance of preventive medicine, which helps stop serious illnesses before they occur, and self-medication, which combats mild ailments, will continue to increase. Given this background, the health care domain is expected to see a great deal of market growth going forward.

Amidst this, Kobayashi Pharmaceutical is focusing on R&D to both develop new products and improve existing products, in order to more accurately address customer needs. In recent years, we are also focusing greater attention on the development of Chinese herbal medicines that sometimes better treat physical ailments with less adverse reactions.

### Performance for the Fiscal Year Ended March 2013

#### Revenues Declined after Weaker Sales of OTC Pharmaceuticals and Food Products

Sales of *Naicitol G*, a new more effective version of obesity remedy brand *Naicitol* with added active ingredients, were strong, while oral hygiene products such as *Yawaraka Shikan Brush* as well as *Ito Yoji* also performed robustly. In contrast, external anti-inflammatory products saw weaker sales and the supplement market was exposed to greater competition, which caused sales of nutritional supplements to fall year on year.

As a result, sales from the Health Care Division dropped slightly by 1.8% year on year to ¥44,229 million.

### Outlook for the Fiscal Year Ending March 2014

#### Strengthening New Product Development with a Focus on Chinese Herbal Medicines

We are striving to develop new OTC pharmaceuticals and oral hygiene products given rising health care needs.

As for OTC pharmaceuticals, we newly launched *Aptovale*, a Chinese herbal formulation that alleviates itching and dermatitis, and *Ammeltz Hogutime Massage Nyueki*, a milky lotion anti-inflammatory applied transdermally.

As for oral hygiene products, we continue to work hard toward increasing sales of *Shouyou*, a medicated toothpaste that prevents gingivitis and periodontitis, and our lineup of interdental cleaning tools. At the same time, we are striving to strengthen our existing brands, including *Tomarina*, which was developed for consumers troubled by receding gums, and launching new cool sensation products.

As a result, we forecast that sales will increase 5.0% year on year to ¥46,400 million yen.

## Household Division

Deodorizing Air Fresheners,  
Sanitary Products,  
Household Sundries and Body Warmers

### ▼ *Oheya no Shoshugen* featuring packaging with popular cartoon characters



### ▼ New Products



Deo Inner

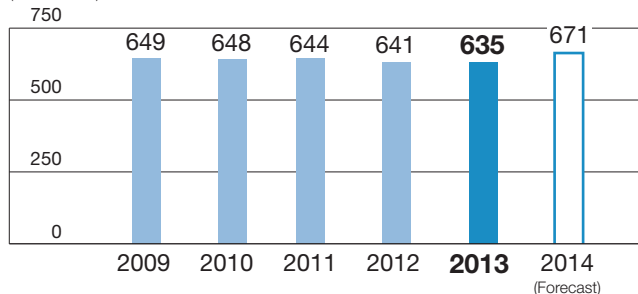


Men's Asewaki Pad Riff

### Earnings Trends

#### ▼ Net Sales

(¥100 million)



\* Total sales for the four categories of deodorizing air fresheners, sanitary products, household sundries and body warmers in Japan and overseas.

\* Intra-company transactions excluded.

### Market Trends

#### Appealing to the discerning eye of consumers

Consumers have a stronger inclination to buy consumables based on price as well as select only those products that are really needed. Meanwhile, products with eco-friendly packaging and refillable-type products are garnering a great deal of attention. This demonstrates that discerning eye of consumers dominates the marketplace, since they are selecting only the products they really want and need from among the myriad available. Given this, we are delivering even more value added products to fulfill our philosophy of “You Make a Wish and We Make it Happen” for consumers.

### Performance for the Fiscal Year Ended March 2013

#### Strong Sales from Deodorizing Air Fresheners Contrasted by Weaker Sales of Heat Relief Remedies

Deodorizing air freshener *Sawaday Happy*, which was released in April 2012, reached 1,000 million in sales, and sales of *Oheya no Shoshugen*, a large-capacity deodorizing air freshener, and *Toilet no Shoshugen* both performed solidly. In addition, we were able to capture a number of younger customers after we released limited edition deodorizing air freshener products featuring popular cartoon characters Garigari-ku, Peko-chan and Hello Kitty. In contrast, sales of heat relief remedies were weaker than expected due to cooler than normal summer weather. As a result, sales from the Household Division dipped slightly 0.9% year on year to ¥63,549 million.

### Outlook for the Fiscal Year Ending March 2014

#### Focusing on Creating and Expanding New Markets

We continue to focus on developing deodorizing air fresheners that appeal to a wider range of consumers and applications, having launched *Shoshugen Ki no aru Seikatsu*, infused with natural fragrances, and *Shoshugen Inu no Kimochi*, with fragrances targeting dogs. We have also released an all-new version of our Men's Asewaki Pad Riff to help prevent unwanted sweating and odors and *Deo Inner*, a spray for undergarments that prevents odors, as part of our efforts to create new markets.

Outside of Japan, we are striving to expand markets for our body warmer products in the United States and China and for our cooling gel sheets for the forehead in Southeast Asia.

As a result, we forecast sales will rise 5.7% year on year to ¥67,100 million.





# Mail Order Business



The Mail Order Business, which offers nutritional supplements and skincare products to consumers in Japan, is leveraging our proprietary expertise and “quality made possible only by a pharmaceutical company” to ensure our dominance in the mail order market, which is faced with more intense competition.

## ▼ Main Products in the Mail Order Business



### **Glucosamine & Collagen Set**

A nutritional supplement that contains glucosamine, a building block of our body, together with collagen and vitamin C that is recommended for those that want to live an active lifestyle.



### **Hifmid Series**

The *Hifmid* series consists of 10 products that contain a compound of ceramide found in the skin and human ceramide with the same structure to help moisturize the skin.



### **Aloe Series**

The *Aloe* series features *Aloe Ikumo Eki*, a medicated tonic that promotes hair growth, as well as a silicon-free shampoo and conditioner.



### **Vegetables and Enzymes**

A nutritional supplement recommended for consumers that tend to have an unbalanced diet featuring a fermented blend of 17 vegetables and 7 grains that offers a healthy serving of gluconic acid.

## Market Trends and Performance for the Fiscal Year Ended March 2013

### **Leveraging the Proprietary Expertise of a Pharmaceutical Company**

The mail order market in Japan now exceeds ¥9 trillion thanks to the spread of smartphones and tablet devices. As a result, many new entrants have appeared in the marketplace in search of this robust growth, meaning that differentiation from competitors is essential to avoiding price competition.

Since we began selling nutritional supplements through the mail order channel in 1999 we have expanded our presence by fully leveraging the strengths of a pharmaceutical company. This includes using the same rigorous quality management standards as for pharmaceuticals, offering nutritional supplements with zero additives, labeling compound blends and contents, and offering consumers access to pharmacists, nutritionists and skincare advisors. Today, we sell some 150 products in this channel that include nutritional supplements and skincare products, like cosmetics and hair growth formulations.

We are also taking continuous steps to make the shopping experience even more convenient, including opening a new mobile site for smartphones in September 2012.



We have established a rigorous quality regimen, spanning from ingredient selection to determination of compounds and formats, only made possible by a pharmaceutical company. (Photo taken in our testing lab)



Marketing brochure and flyer for members

Mobile site for smartphones



## Skincare Products Sales Robust, while Nutritional Supplement Sales Slip

In the fiscal year under review, we undertook sales promotion activities that focused on an aggressive advertising campaign and direct mail marketing to capture new customers and encourage existing customers to make more repeat purchases. As a result, sales of skincare products were robust, with the *Hifmid* series seeing an increase of 10%, but nutritional supplement sales slipped slightly, resulting in a 1.9% year on year decline in Mail Order Business sales to ¥10,180 million. Operating income, however, rose 23.5% year on year to ¥163 million.

### Outlook for the Fiscal Year Ending March 2014

#### Providing Even More Finely Tuned Services

In the next fiscal year, we will step up our sales promotion activities using direct mail marketing targeting existing customers. Through this effort, we will propose products tailored to individual need based on data for gender, age and purchase history, which will help to spur on purchases.

We will also utilize more effective advertising media, such as the Internet, for the *Hifmid* series and other skincare products.

The mail order can also directly communicate with customers. This is why we have positioned our call center as more than just a number that consumers call to place an order. This call center focuses on dialogue with the customer to accurately grasp their individual and unique needs.

Furthermore, we are working on developing and cultivating new growth pillar products based on a correct understanding of customer needs.

As a result, we forecast that sales from the Mail Order Business will increase 8.1% year on year to ¥11,000 million and operating income will rise 83% to ¥300 million.

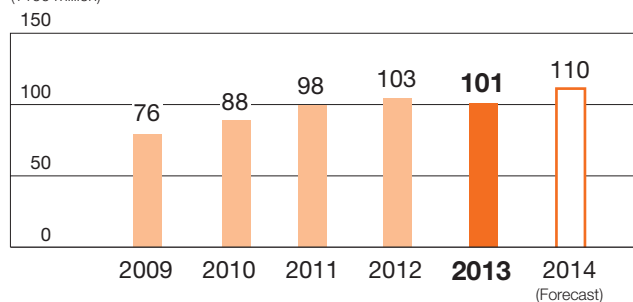


Pharmacist responding to a customer question at our customer service call center

### Earnings Trends

#### Net Sales

(¥100 million)



# Building Stakeholder Confidence Aimed at Maximizing Corporate Value

## Corporate Governance Framework

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

## Enhancing Management Transparency

### Monitoring Management From Multiple Viewpoints

The Kobayashi Pharmaceutical Group has adopted an executive officer system to separate management from business operations, and implements a wide range of measures in order to ensure transparency in management. We established the Nomination Committee in August 2012 in order to secure greater transparency and fairness in the selection process for executive officers and members of our board of directors.

#### Board of Directors

We have selected outside directors since 2008 with the purpose of strengthening the board of directors' supervisory function. The board of directors consists of seven directors, including two outside directors, and constantly monitors the status of business operations by meeting monthly or when necessary to determine important matters concerning the management of the company and to check deliberations made at the Group Officers Meeting (GOM). Board of directors meetings are also attended by all four corporate auditors, including two outside auditors, who actively participate and engage in dialogue during these meetings. This ensures from an outside perspective that the Kobayashi Pharmaceutical Group's internal system of checks and balances is operating sufficiently.

#### Group Officers Meeting

The GOM consists of executive officers and statutory auditors that meet twice monthly to review significant matters relating to business operations.

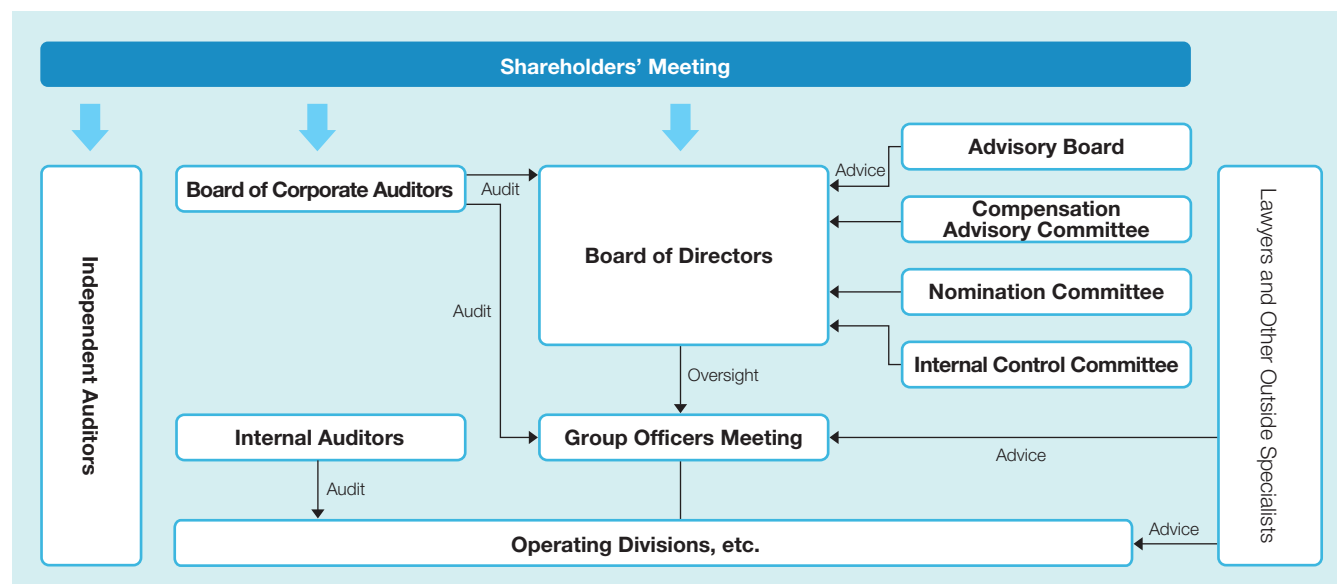
#### Advisory Board

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

### Principal Activities of Outside Directors and Outside Auditors

Title	Name	Principal Activities
Outside Director	Haruo Tsuji	Attended 17 of 17 board of directors meetings
Outside Auditor	Hiroshi Hayashi	Attended 17 of 17 board of directors meetings Attended 14 of 14 board of corporate auditors meetings
	Ryuji Sakai	Attended 16 of 17 board of directors meetings Attended 14 of 14 board of corporate auditors meetings

### Corporate Governance Organization





### Compensation Advisory Committee

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

### Nomination Committee

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

### Internal Control Committee

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

### Board of Corporate Auditors

Kobayashi Pharmaceutical has a board of corporate auditors, and has appointed two outside auditors that do not maintain a capital or business relationship with the Group as part of its 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.

### “LA & LA” – Utilizing Employee Feedback

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

## Information Disclosure

### Pursuing Timely and Easy-to-Understand Disclosure

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

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



Aoitari Report

## Internal Control Systems and Compliance

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

### Internal Control System

#### Strengthening internal control for expansion of overseas business

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

During the fiscal year ended March 2013, the committee focused primarily on building a corporate governance and compliance framework overseas to ensure our overseas business is operated in a speedy and reliable manner. This included establishing a program to raise awareness about the importance of compliance among employees of overseas group companies and also changes to approval and reporting routes.

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



In-house Newsletter

## ▼ Fiscal 2013 Compliance e-Learning Sessions

Month Held	Theme
April 2012	Insider trading
May 2012	Compliance
June 2012	Whistleblower system
July 2012	Drug-related health damages
August 2012	Anti-social forces
September 2012	Risks of social media
October 2012	Copyrights
November 2012	Laws on the protection of personal information
December 2012	Compliance with fair business practices (bribery, Anti-Monopoly Act, Act against Delay in Payment of Subcontract Proceeds, Etc. to Subcontractors)
January 2013	Pharmaceutical Affairs Act basics
February 2013	Harassment
March 2013	Secure use of information technology devices



Poster for the Employee Consulting Center

## Compliance

### Compliance training that focuses on continuity

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

#### Educational training through the In-house Newsletter and Intranet

Since the fiscal year ended March 2007, we have published an ongoing series on compliance issues in the Kobayashi Pharmaceutical In-house Newsletter and have streamed the latest compliance news and videos on case studies over our intranet monthly. In July 2011, we began providing monthly Compliance e-Learning Sessions over our intranet for all employees and executive officers, and all employees including executive officers took test.

#### Group Training Sessions

During the fiscal year under review, group training sessions were held for executive officers on the topic of changes to Japan's Companies Act (led by an attorney) and for managers on the topics of harassments, labor laws and regulations, and insider trading. In addition, new employees were also provided with general compliance training as in past years.

#### Global Compliance Policy

Given the growth of our overseas business, during the fiscal year under review we changed the name of the Compliance Guidelines, which were first drawn up in 2008, to the Global Compliance Policy and have declared our intentions to ensure full compliance with this new policy. English, Chinese, Indonesian, and Spanish versions of our Global Compliance Policy have also been prepared to ensure compliance best practices are followed at our overseas subsidiaries. In addition, all of our employees both in Japan and overseas have signed written pledges about complying with the Executive Officer and Employee Code of Conduct.

#### TOPICS

#### Employee Consulting Center and Whistleblower System Seminar

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. Beginning the fiscal year under review, Whistleblower System Seminars are conducted, which involve the lawyer handling employee consultations externally teaching about the Whistleblower System through sharing actual examples of whistleblower cases to help employees relate to the Employee Consulting Center. By the end of March 2013, the seminar was held in 14 offices, involving approximately 800 employees.



A scene of the Whistleblower System Seminar

## Risk Management Framework

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

### Management of Business Risks

#### Reducing business risks under eight categories

For the fiscal year under review, we focus our efforts to reduce business risks under eight categories defined based on global management, quality improvement, and compliance with laws and regulations. To ensure the solid execution of risk management, our progress on the action plan was reported to the Internal Control Committee in receiving feedback. As a result, measures such as adding checks to daily business activities and implementing trainings were taken.

### Business Continuity Plan

#### Bolstering our ability to respond to emergencies

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

## CSR Initiatives

The Kobayashi Pharmaceutical Group's commitment to CSR is embodied in its management philosophy of "providing people and society with comfort" and constantly delivering its "You Make a Wish and We Make it Happen" philosophy to customers. At the same time, we are aspiring to be a group of companies that constantly earns the trust of its stakeholders by reducing its environmental impacts and engaging in social contribution activities.

### Improving Quality

#### Building a corporate culture with zero tolerance for leniency in terms of quality

The Kobayashi Pharmaceutical Group believes the most important aspect of product development is to ensure safe and secure quality. Under the belief that quality is the life of the company, we established the Quality Assurance Department in June 2010 as an organization directly headed by the President in order to strengthen our quality assurance framework. In November 2011, we drew up the Quality Assurance Policy to establish a guideline on quality that all employees must adhere to in their provision of products and services. In addition, to ensure compliance with the above, we have established Quality Assurance Management Rules and Quality Assurance Implementation Rules to clearly define the responsibilities and authority of each office and position. Each and every one of our employees closely abide by these rules to ensure quality improvements are consistently made across the entire value chain, from product development and manufacturing to sales.

We are also committed to not only the quality of products, but also the quality of product development whereby customer needs are met in every phase of the life cycle, from development to purchase, use and disposal. Our product development people constantly debate whether product directions are easily understood, do products offer a universal design easily handled safely by any consumer, are container designs easily sortable and disposable, and does our packaging help to reduce waste, to ensure even greater quality is achieved.

Our goal is to achieve further quality improvements from a customer-centric standpoint and to build a corporate culture with zero tolerance for leniency in terms of quality.

#### Acknowledging Customer Concerns in Quality Improvements

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.

### Respecting Human Rights

#### Information Dissemination and Training to Promote Human Rights

Under the basic stance of respecting the human rights of all stakeholders involved in its business activities, the Kobayashi Pharmaceutical Group conducts activities to promote human rights led by two dedicated human rights specialists within the company.

An internal training session on human rights is held annually at all business offices targeting all employees, while each issue of the In-house Newsletter contains a Human Rights Q&A section to address questions concerning human rights in simple terms. Furthermore, the company intranet system has a Human Rights Corner, which presents information related to human rights as well as pertinent topics.



Human Rights Q&A published in the Group Newsletter



## Initiatives to Reduce Environmental Impact

### Using Resources Effectively and Reducing Waste

The Kobayashi Pharmaceutical Group is committed to reducing waste and promoting recycling to cut down on waste generated from customers and the waste emitted from the Group.

#### ■ Developing Packaging that Helps Reduce Our Environmental Impact

We are directing efforts toward the reduction of environmental impacts caused by containers and packaging since our stakeholders are becoming more conscious of the environment. The Kobayashi Pharmaceutical Group is actively promoting the 3Rs (reduce, reuse, recycle) through the use of recycled materials and the development of container and packaging solutions that provide product information at the time of use as well as protect the product during shipment by using the minimum materials.

#### TOPICS

##### Refill container for *Bluelet Okudake* now the thinnest in the world

The refill container for toilet bowl cleaner *Bluelet Okudake* now features a thickness of just 0.3mm in the cup portion, making it the thinnest plastic container in the world made by mold injection\*.

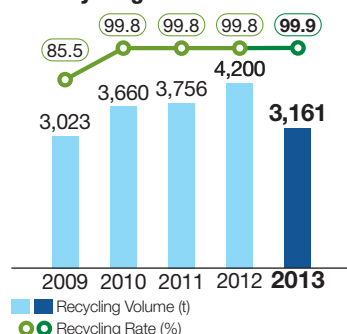
This container received an award under the toiletry category at the Japan Packaging Contest 2012 hosted by Japan Packaging Institute. In addition, it received the AsiaStar Award at the AsiaStar 2012 Contest, an international packaging contest held in Asia by the Asian Packaging Federation. In addition to the thinness, which contributes to cutting down environmental impacts, the container was recognized for its easy grip and easy open design.



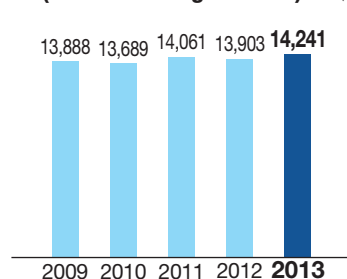
Environmentally friendly, easy to open container for the refill.

\* Method of molding where melted plastics is poured into a mold.

#### ▼ Recycling Volume and Rate



#### ▼ CO<sub>2</sub> Emissions (Manufacturing Division) (t)



#### ■ Promoting Recycling

For the fiscal year under review, recycling volume totaled 3,161 tons, or 75.3% compared to the previous fiscal year, representing a 1,039-ton year-on-year decrease. This represents a recycling rate of 99.9%, marking the fourth consecutive year in which we achieved our goal of zero waste emissions. The reduced recycling volume is due to gradually improving results of our waste emission reduction efforts.

Going forward, we aim to increase our rate of material recycling, which involves collection of waste materials generated from used products or production processes, for reuse in raw materials or ingredients for new products.

### Cutting CO<sub>2</sub> emissions

The Kobayashi Pharmaceutical Group is committed to cutting CO<sub>2</sub> emissions from the stage of product development to distribution.

#### ■ Cutting CO<sub>2</sub> emissions from manufacturing divisions

For the fiscal year ended March 31, 2013, CO<sub>2</sub> emissions from all manufacturing divisions totaled 14,241 tons, or 102.4% compared to the previous fiscal year. This represents a 338-ton year-on-year increase, due to lowered production volume at some factories in previous fiscal year following the Great East Japan Earthquake.

#### ■ Cutting CO<sub>2</sub> emissions from sales divisions

In order to reduce CO<sub>2</sub> emissions from the operation of sales vehicles, all sales divisions have adopted eco drive mode with the aim of improving fuel efficiency by 5% compared to the previous fiscal year. In August 2012, all 252 sales vehicles have been replaced with hybrid cars, except for the four wheel drive vehicles used in cold regions. Through this change, we anticipate to reduce CO<sub>2</sub> emissions by approximately 313 tons a year, which is equivalent to the amount of CO<sub>2</sub> absorbed by 22,357 Japanese cedar trees.

## Social Contribution Initiatives

### Improving restrooms at elementary schools

According to an investigation of actual school restroom conditions at elementary schools we conducted in 2012, the number of elementary school students who avoid having a bowel movement in school restrooms has reached half of all students surveyed. Some of the main reasons for the avoidance include having difficulty using a Japanese-style toilet, and the toilet being dirty or stinky.

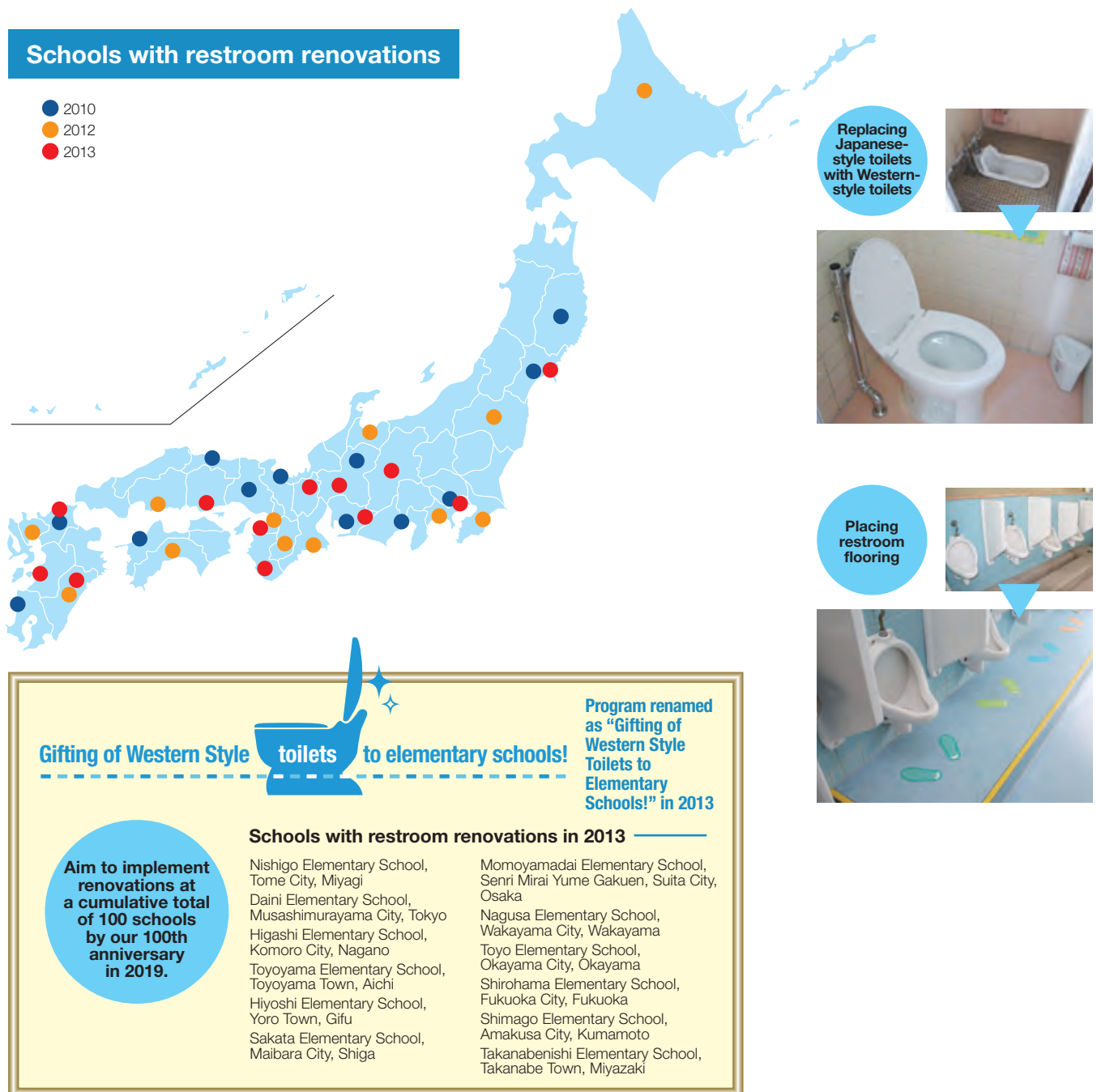
The Kobayashi Pharmaceutical Group launched the “Toilet Pika Pika Keikaku” in 2010 in hopes of providing a more pleasant restroom environment for our children, who are our future.

In 2012, during the second year after the start of program we replaced Japanese-style toilets with Western-style toilets as well as placed sheeting on top of the existing floor material to address odor issues in 12 elementary schools in Japan. While a large number of school children also avoid having a bowel movement in school due to their concerns for what others may think, we dispatched employees to schools where renovations were conducted to promote the importance of regular bowel movements through workshops and other events.

We will implement renovations at 12 elementary schools in 2013, with the aim to conduct our efforts at a cumulative total of 100 schools by 2019, the year of the Kobayashi Pharmaceutical Group’s 100th anniversary,



At the presentation ceremony (Hiyoshidai Elementary School, Takatsuki City, Osaka)



## Ongoing support activities for the Great East Japan Earthquake

While two and a half years have passed since the Great East Japan Earthquake struck, the recovery and rebuilding of the affected areas are still only half-way done. We continue to organize support activities in hopes of bringing a smile to those living in the affected areas. In the fiscal year under review, we conducted the following activities.



Guest lecture at an elementary school



Employees of Miyagi Prefecture and the Kobayashi Pharmaceutical Group at the Cherry Tree Planting Festival



Scholarship presentation ceremony

### ■ Providing guest lectures at elementary schools in affected areas

In hopes of brightening up the day for children living in affected areas, we dispatched employees on July 24 and August 1, 2012 to elementary schools located in Yamamoto Town, Miyagi prefecture to give guest lectures.

The lecture was conducted under the theme of the “Secret of Fragrances and Deodorizers.” Using their expertise in developing deodorizing air fresheners, our employees taught school children about the different types and functions of our products, while having students sample different fragrances and asking students to try and create their own original fragrance by picking out their favorite scent. In addition, visiting employees also cleaned the public restrooms for all the elementary schools they visited for the health and hygiene of the school children.

### ■ Cherry tree planting activity

As a symbol of the recovery effort, the Kobayashi Pharmaceutical Group proposed to plant cherry trees along the sides of the Teizan Canal in Miyagi Prefecture and made a donation of 50 million yen to cover the costs. On March 23, 2013, we held the Cherry Tree Planting Festival in praying for the disaster recovery effort at the Kennan Purification Center in Miyagi (Iwanuma City, Miyagi) located along Teizan Canal, at which 60 employees planted a total of 100 cherry trees.

### ■ Awarding Special Disaster Assistance Scholarships for entrance to Universities

With the hope of contributing to the recovery effort and supporting children who live in disaster affected areas, or the leaders of our tomorrow, we have presented Special Disaster Assistance Scholarships to ten high school students who face financial hardships due to the earthquake disaster for entrance to university. Each scholarship covers an annual tuition of 1.2 million yen for a maximum of four years, plus a 200,000 yen matriculation fee, for a total of 5 million yen per student.

On March 30, 2013, we gathered the scholarship recipients, their parents and guardians, and school staff to present a certificate detailing their scholarship. One scholarship recipient commented, “I was about to give up on going to university, so I’m really glad to be given this opportunity. I’ll live up to the expectations of a scholarship student and study hard without wasting any precious time”.

### ■ Providing interest-free unsecured financing for small-and-medium-sized businesses

The Kobayashi Pharmaceutical Group offered special financing to businesses by providing collateral and subsidized interest payments to support the recovery of the disaster affected areas to promote a self-sustainable local economy. Each borrower can finance up to 10 million yen interest free and unsecured for a maximum of 10 years. This money will be used to help repair damaged buildings and equipment lost in the earthquake disaster.

We have chosen 10 businesses as borrowers, which represent the seafood wholesale, pharmacy, book distributor, and food industries. Our borrowers have expressed appreciation commenting that, “We had given up on rebuilding our business because of the time involved, but this financing has given us new hope and a drive to succeed!”

#### TOPICS

#### Kizuna Pool completed

Money raised and donated from the *1 yen no Omoi Campaign* held in 2011 in support of the earthquake recovery effort was gifted to Higashimatsushima City in Miyagi Prefecture to construct the Kizuna Pool, which was completed in June 2013.

The pool is 25 meters long with six lanes, and is open to children who attend elementary schools in Higashimatsushima City.



Kizuna Pool



## Directors



**Kazumasa Kobayashi**

Chairman and  
Chief Executive Officer



**Yutaka Kobayashi**

Vice Chairman



**Akihiro Kobayashi**

President and  
Chief Operating Officer



**Takashi Tsujino**

Vice President  
Senior General Manager  
Product Development  
and Marketing  
Headquarters



**Satoshi Yamane**

Executive Director  
Senior General Manager  
Group Corporate Business  
Headquarters



**Haruo Tsuji**

Outside Director  
Special Advisor  
Sharp Corporation



**Kunio Ito**

Outside Director  
Professor  
Faculty of Commerce and  
Management  
Graduate School of  
Commerce and Management  
Hitotsubashi University

## Corporate Auditors



**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

## Executive Officers

**Susumu Horiuchi**

Senior Executive Officer  
General Manager  
Sales Division

**Hiroshi Nomoto**

Senior Executive Officer  
General Manager  
Household Division  
Product Development  
and Marketing Headquarters

**Hidetsugu Yamamoto**

Executive Officer  
General Manager  
Business Reform Center  
Group Corporate Business  
Headquarters

**Kunio Moriya**

Executive Officer  
President  
Juju Cosmetics Co., Ltd.

**Toshio Nanba**

Executive Officer  
General Manager  
Research and Development  
Division  
Product Development  
and Marketing Headquarters

**Tetsushi Nishioka**

Executive Officer  
General Manager  
Manufacturing Division

**Kazuyuki Katsuki**

Executive Officer  
General Manager  
Quality Assurance Division

**Kenichiro Tanaka**

Executive Officer  
General Manager  
of the Regional Area  
Sales Division

**Kazuhito Miyanishi**

Executive Officer  
General Manager  
International Division

<sup>1</sup> The Company uses the executive officer system. Three directors—Akihiro Kobayashi, Takashi Tsujino, and Satoshi Yamane—each concurrently serve as executive officers.

# Enhancing Kobayashi Pharmaceutical's Brand Value by Delivering Trust and Satisfaction to 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 existed. 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 constantly pursuing

"Something New, Something Different," and continuing to develop new products and services that fulfill the needs of our customers. At the same time, we are also developing products to ensure they become a fixture in the marketplace and constantly revamping our existing brands to meet the needs of our customers now.

We stand committed to achieving greater satisfaction from all of our stakeholders and enhancing corporate value by capturing a solid sense of trust in all of our products and services where the Kobayashi Pharmaceutical brand stands as a testament to satisfaction.

## Scope of Consolidation and Application of the Equity Method

In the fiscal year ended March 31, 2013, the Kobayashi Pharmaceutical Group had 29 consolidated subsidiaries (11 in Japan and 18 overseas), and two affiliates in Japan accounted for by the equity method.

By reportable segment, the Group has 22 consolidated subsidiaries in Consumer Products, 1 consolidated subsidiary and 2 equity-method affiliates in Medical Devices, and 6 consolidated subsidiaries in Other Business.

## Overview of Consolidated Business Results

During the fiscal year ended March 31, 2013, Japan's economy saw a gradual recovery on the back of demand from reconstruction projects following the Great East Japan Earthquake, but consumer spending remained largely held in check, pointing to an uncertain outlook for the future.

Amidst these conditions, the Kobayashi Pharmaceutical Group focused even greater effort on "providing people and society with comfort," which stands as a pillar of its management philosophy. These efforts included committing ourselves to delivering new products and services that satisfy customer needs, developing existing brands to revitalize markets, and investing in future growth businesses.

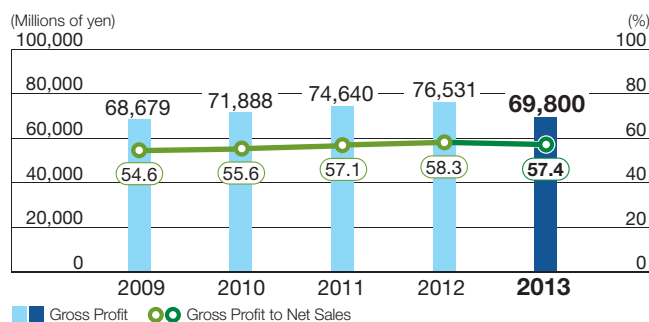
### Net Sales

The Consumer Products Business saw solid performance from new products, but sales of heat relief remedies were weaker amid unseasonal summer weather and sales of nutritional supplements in the Mail Order Business were also down. This caused weaker overall net sales compared to last fiscal year.

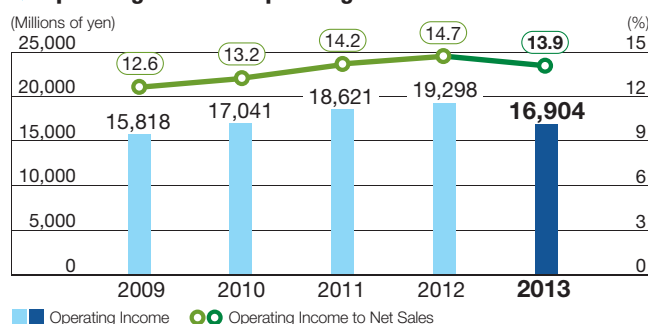
In addition, we divested 80% of the shares in Kobayashi Medical Co., Ltd., (currently Japan Medicalnext Co., Ltd.) a consolidated medical device importer and exporter, to Mitsubishi Corporation as of May 31, 2012, making the company an affiliate under the equity method.

As a result, net sales for this fiscal year fell 7.3% year on year to ¥121,532 million.

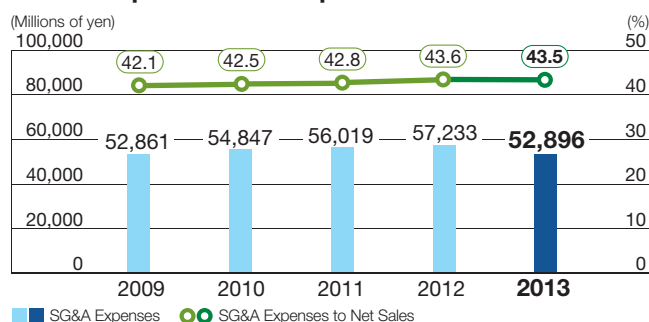
### Gross Profit / Gross Profit to Net Sales



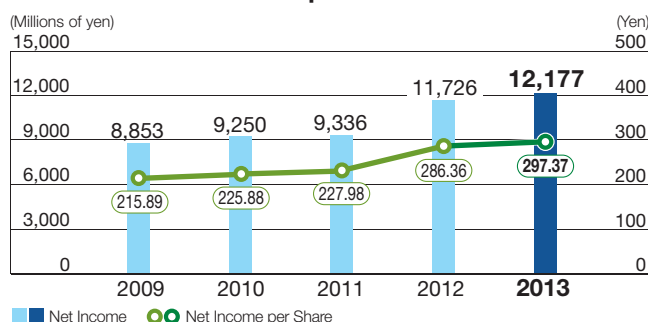
### Operating Income / Operating Income to Net Sales



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



### Net Income / Net Income per Share



## ■ Gross Profit and Operating Income

Cost of sales decreased 5.3% year on year to ¥51,732 million and gross profit (after provisions for returned products) also decreased 8.8% year on year to ¥69,800 million. Selling, general and administrative expenses decreased 7.6% over the previous fiscal year to ¥52,896 million attributable to a decrease in advertising expenses. As a result, operating income fell 12.4% year on year to ¥16,904 million.

The gross profit to net sales ratio dropped 0.9 percentage points from the previous year's 58.3% to 57.4%, and the selling, general and administrative expenses to net sales ratio also dropped 0.1 percentage points from 43.6% to 43.5%, while the operating income to net sales ratio fell 0.8 percentage points from 14.7% to 13.9%.

## ■ Extraordinary Profit and Loss and Net Income

We add up 2,285 million yen in gains on the sale of shares in an affiliate when we sold 80% of our stake in consolidated subsidiary Kobayashi Medical Co., Ltd. to Mitsubishi Corporation. Moreover, we recorded 409 million yen in loss on devaluation of investments in securities, and 1,047 million yen in provision for loss on business liquidation.

As a result, net income before income taxes and minority interests fell 4.9% year on year to ¥18,854 million. Net income increased 3.8% to ¥12,177 million.

Net income per share grew 3.8% from ¥286.36 in the previous fiscal year to ¥297.37.

## Summary of Reportable Segments

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 ¥8,368 million in fiscal 2012 and ¥8,443 million in fiscal 2013.

### ▼ Net Sales and Operating Income (Loss) by Segment

					(Millions of yen)
Net Sales	2009	2010	2011	2012	2013
Consumer Products Business					
Sales to third parties	112,594	115,478	107,657	109,203	107,783
Inter-group sales and transfers	26	37	3,136	3,221	3,050
Total	112,620	115,515	110,793	112,424	110,833
Mail Order Business					
Sales to third parties	—	—	9,872	10,381	10,180
Medical Devices Business					
Sales to third parties	11,325	12,111	12,184	10,476	2,445
Other Business					
Sales to third parties	1,773	1,595	1,111	1,107	1,124
Inter-group sales and transfers	5,507	5,485	5,150	5,147	5,393
Total	7,281	7,080	6,261	6,254	6,517
Operating Income (Loss)					(Millions of yen)
	2009	2010	2011	2012	2013
Consumer Products Business	15,910	16,507	18,966	18,317	16,040
Mail Order Business	—	—	311	132	163
Medical Devices Business	(554)	143	251	292	10
Other Business	473	400	171	554	680



## Consumer Products Business

In the fiscal year under review, we launched a total of 25 new products in this segment in order to create new markets and expand existing markets. Several of these recorded solid sales and made a particularly positive contribution to our earnings, including *Sawaday Happy*, an easy-to-use room deodorizing air freshener that offers several new scents, and *Naicitol G*, an herbal medicine that promotes the breakdown of fat.

Existing products including *Shouyou*, a medicated toothpaste that prevents gingivitis and periodontitis, *Soft Interdental Brush* and *Ito Yoji*, interdental cleaning tools for removing plaque and pieces of food that can cause cavities and gum disease, *Oheya no*

*Shoshugen*, a large-capacity deodorizing air freshener, and *Shoshugen* for toilets each saw strong sales.

However, sales of sanitary products were largely down, especially heat relief remedies such as *Netsusama Sheet*, a cooling gel sheet for the forehead, and *Netsusama Hinyari Gel Mat*, a cooling gel mat, due to unseasonal summer weather, which caused overall sales for the segment to fall year on year.

As a result, net sales for the Consumer Products Business decreased 1.4% year on year to ¥110,833 million, while operating income declined 12.4% year on year to ¥16,040 million.

### Net Sales by Category

	2012		2013		Changes	
	Sales (Millions of yen)	% of Total Sales	Sales (Millions of yen)	% of Total Sales	Sales (Millions of yen)	Changes (%)
OTC pharmaceuticals	22,929	20.4	22,619	20.4	(310)	(1.4)
Oral hygiene products	16,234	14.5	16,405	14.8	171	1.1
Sanitary products	14,309	12.7	13,421	12.1	(887)	(6.2)
Deodorizing air fresheners	29,720	26.4	29,816	26.9	95	0.3
Household sundries	4,585	4.1	4,195	3.8	(389)	(8.5)
Food products	9,101	8.1	8,255	7.5	(845)	(9.3)
Body warmers	15,543	13.8	16,117	14.5	574	3.7
Total	112,424	100.0	110,833	100.0	(1,590)	(1.4)

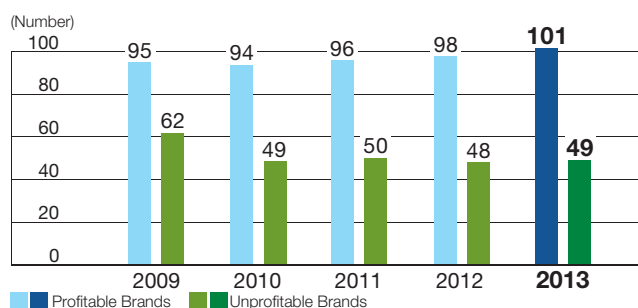
### Trends in Number of Profitable and Unprofitable Brands

We thoroughly followed 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.

#### Trends in Number of Profitable and Unprofitable Brands

	2009	2010	2011	2012	2013
Profitable brands	95	94	96	98	101
Unprofitable brands	62	49	50	48	49

#### Trends in Number of Profitable and Unprofitable Brands



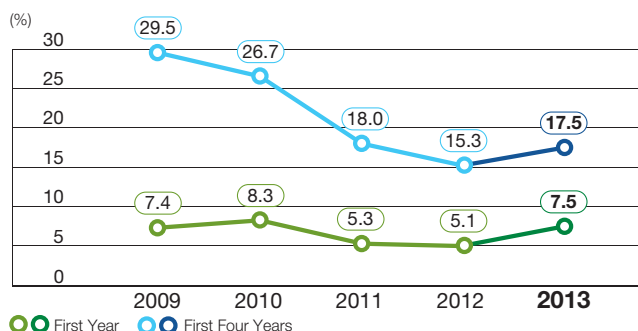
### New Product Contribution Rate

We refer to the percentage of net sales accounted for by new products as the new product contribution rate. We have established the target to achieve a new product contribution rate of greater than 10% in the initial year, and a new product contribution rate of greater than 35% for products released within the previous four years. In the fiscal year under review we launched 25 new products, with new products in their first year accounting for 7.5% of net sales, while new products released during the previous four years accounted for 17.5% of net sales.

#### New Product Contribution Rate

	2009	2010	2011	2012	2013
First year	7.4	8.3	5.3	5.1	7.5
First Four years	29.5	26.7	18.0	15.3	17.5

#### New Product Contribution Rate



## Mail Order Business

This segment engages in mail order sales of nutritional supplements and skincare products.

In the fiscal year under review, we strived to capture new customers and promote regular purchases from our existing customers by implementing sales promotion activities focused on direct mail and advertisements. Cosmetic *Hifmid* and hair tonic

*Aloe Ikumo Eki* enjoyed robust sales, but nutritional supplements, which account for a majority of sales, saw weaker sales.

As a result, net sales for this segment fell 1.9% year on year to ¥10,180 million, while operating income increased 23.5% to ¥163 million.

## Medical Devices Business

In this segment, consolidated subsidiary Kobayashi Medical Co., Ltd. followed a selection-and-concentration approach with a focus on the anticipated growth fields of orthopedics and operation room-related products.

In addition, on May 31, 2012 we divested 80% of our shares in Kobayashi Medical Co., Ltd. to Mitsubishi Corporation, making

the company an affiliate under the equity method.

All of the U.S.-based eVent Medical Inc.'s stock was transferred in a management buyout deal executed on July 31, 2011.

As a result, net sales in this segment dropped 76.7% year on year to ¥2,445 million and operating income fell 96.4% to ¥10 million.

### ▼ Net Sales by Category

	2012		2013		Changes	
	Sales (Millions of yen)	% of Total Sales	Sales (Millions of yen)	% of Total Sales	Sales (Millions of yen)	Changes (%)
Kobayashi Medical Co., Ltd.	8,965	85.6	1,296	53.1	(7,668)	(85.5)
eVent Medical Inc.	427	4.1	—	—	(427)	—
Others	1,083	10.3	1,147	46.9	64	6.0
Total	10,476	100.0	2,445	100.0	(8,031)	(76.7)

## Other Business

Businesses 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 three segments. Therefore, the Group revises the delivery price of the materials and services provide by companies in this segment as required.

As a result, net sales in this segment increased 4.2% year on year to ¥6,517 million, and operating income rose 22.6% over the previous fiscal year to ¥680 million.

## Analysis of Financial Position

### ■ Assets

Total assets were ¥157,107 million yen as of the end of this fiscal year, an increase of 6.2% compared with the end of the previous fiscal year.

Current assets decreased 8.0% year on year to total ¥94,354 million. The main reason for this was a decline in securities of ¥9,498 million.

Property, plant and equipment, net, increased 0.7% over the previous fiscal year to ¥13,730 million. This was primarily due to an increase in machinery, equipment and vehicles (on a net basis) of ¥251 million.

Investments and other assets increased 54.5% over the previous fiscal year to ¥49,023 million. This was mainly attributable to an increase in investment securities of ¥18,760 million.

### ■ Liabilities

Total liabilities as of the end of the fiscal year were ¥42,234 million, up 8.2% from the end of the previous fiscal year.

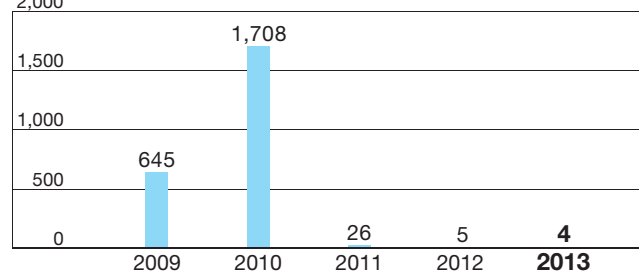
Current liabilities decreased 8.8% to ¥34,477 million.

The main factors for this decrease included a ¥1,245 million decrease in trade notes and accounts payable and a ¥2,309 million decrease in other account payable. As a result, the current ratio improved 2.4 percentage points to 273.7%.

Long-term liabilities declined 5.6% to ¥7,757 million.

### ▼ Interest-bearing Debt

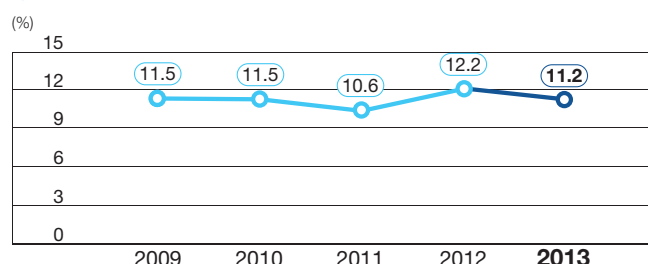
(Millions of yen)  
2,000



## ■ Net Assets

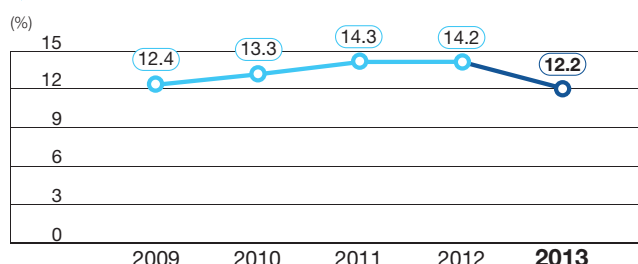
Net assets including minority interests at the end of the fiscal year under review rose 12.8% year on year to ¥114,873 million. The primary reason for this increase was a rise in retained earnings of ¥8,818 million and a rise in unrealized holding gain on securities of ¥2,359 million.

### ▼ ROE



As a result, the equity ratio rose 4.3 percentage points from 68.8% to 73.1%. Return on equity (ROE) declined 1.0 percentage points compared to the previous fiscal year end, from 12.2% to 11.2%. Return on assets (ROA) declined 2.0 percentage points from 14.2% to 12.2%.

### ▼ ROA



## Cash Flow Analysis

### ■ Cash Flows from Operating Activities

Net cash provided by operating activities was ¥9,243 million, a 46.4% decrease compared with the previous fiscal year. The main factors were ¥18,854 in income before income taxes and minority interests, ¥2,970 million in depreciation and amortization, ¥2,285 million in gain on sales shares of a subsidiary, ¥596 million increase in inventories, ¥2,355 million decrease in other accounts payable, ¥632 million in interest and dividends received, and ¥7,873 million in income tax paid.

### ■ Cash Flows from Investing Activities

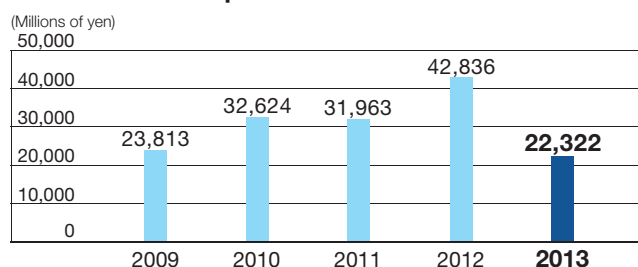
Net cash used in investing activities totaled ¥26,606 million, up 808.2% year on year. Major factors affecting this cash flow were ¥42,540 million in payments for time deposits, ¥16,496 million in payments for purchases of securities, ¥27,500 million in proceeds from sales and redemption of securities, ¥2,513 million in payments for purchases of property, plant and equipment, and ¥14,696 million in payments for the purchase of investments in securities.

### ■ Cash Flows from Financing Activities

Net cash used in financing activities totaled ¥3,730 million, up 13.3% year on year. This was primarily attributed to ¥3,358 million in dividends paid and ¥371 million in decrease in lease obligations.

As a result, cash and cash equivalents as of March 31, 2013 totaled ¥22,322 million, a decrease of ¥20,513 compared to the end of the previous fiscal year.

### ▼ Cash and Cash Equivalents at End of Year



### ▼ Cash Flows

	2012	2013	Changes	
	Amount (Millions of yen)	Amount (Millions of yen)	Amount (Millions of yen)	Change (%)
Cash flows from operating activities	17,250	9,243	(8,007)	(46.4)
Cash flows from investing activities	(2,929)	(26,606)	(23,675)	808.2
Free cash flows*	14,321	(17,363)	(31,683)	(221.2)
Cash flows from financing activities	(3,292)	(3,730)	(437)	13.3
Cash and cash equivalents at end of the year	42,836	22,322	(20,513)	(47.9)

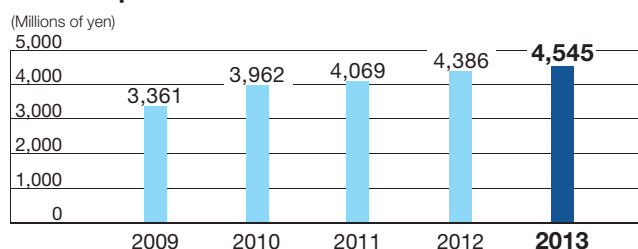
\* Free cash flow: Cash flows from operating activities + Cash flows from investing activities

## ■ R&D Expenses

We believe that R&D underpins new product development, which is one of the core strengths of the Kobayashi Pharmaceutical Group. In the fiscal year under review, the Consumer Products Business developed 25 new products, while the Mail Order Business developed 12.

Consequently, R&D costs increased 3.6% over the previous fiscal year to ¥4,545 million.

### ▼ R&D Expenses





## Risk Factors

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### (1) Highly Competitive Business Environment

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

### (2) Highly Susceptible to Sales of New Products

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

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

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

### (4) Legal Constraints

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

### (5) Product Liability Risk

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

### (6) Changes in Raw Material Prices

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

### (7) Impact of Inclement Weather

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

### (8) Impact from Natural Disasters

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

### (9) Overseas Business Risk

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

### (10) Information Management and System Risk

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

### (11) Intellectual Property Risk

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

### (12) Share Price Fluctuation

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

## Consolidated Balance Sheet

Kobayashi Pharmaceutical Co., Ltd. and Consolidated Subsidiaries  
March 31, 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
<b>Assets</b>			
Current assets:			
Cash and time deposits (Notes 3, 14 and 15)	¥ 45,862	¥ 42,836	\$ 487,634
Trade notes and accounts receivable (Notes 4 and 15)	30,819	32,114	327,687
Securities (Notes 5 and 15)	1,506	11,004	16,013
Inventories:			
Commodities and finished goods	8,501	9,506	90,388
Work in process	584	458	6,209
Raw materials and supplies	2,114	2,050	22,477
Total inventories	11,199	12,014	119,074
Deferred income taxes (Note 12)	3,886	3,288	41,318
Other current assets	1,140	1,351	12,123
Allowance for doubtful accounts	(58)	(69)	(617)
Total current assets	94,354	102,538	1,003,232
Property, plant and equipment:			
Buildings and structures (Note 6)	16,584	15,979	176,332
Machinery, equipment and vehicles (Note 6)	7,424	6,715	78,937
Tools, furniture and fixtures (Note 6)	5,292	5,401	56,268
Land	3,425	3,469	36,417
Construction in progress	137	98	1,457
Leased assets (Notes 6 and 9)	1,679	2,074	17,852
Total property, plant and equipment	34,541	33,736	367,263
Accumulated depreciation	(20,811)	(20,108)	(221,276)
Property, plant and equipment, net	13,730	13,628	145,987
Investments and other assets:			
Investments in securities (Notes 5 and 15):			
Unconsolidated subsidiaries and affiliates	3,677	1,778	39,086
Other	34,215	17,353	363,796
Total investments in securities	37,892	19,131	402,892
Deferred income taxes (Note 12)	324	1,302	3,445
Goodwill (Notes 6 and 19)	3,638	3,592	38,682
Software	897	884	9,537
Other intangible assets	558	810	5,933
Investment properties, net (Note 7)	3,068	3,103	32,621
Other assets (Notes 6, 14 and 15)	2,782	3,058	29,580
Allowance for doubtful accounts	(136)	(155)	(1,446)
Total investments and other assets	49,023	31,725	521,244
Total assets (Note 19)	¥157,107	¥147,891	\$1,670,463

See accompanying notes to consolidated financial statements.

Thousands of  
U.S. dollars  
(Note 1)

Millions of yen

	2013	2012	2013
<b>Liabilities and Net Assets</b>			
Current liabilities:			
Short-term loans (Notes 8 and 15)	¥ 4	¥ 5	\$ 43
Trade notes and accounts payable (Notes 4 and 15)	11,578	12,824	123,105
Current portion of lease obligations (Notes 9 and 15)	263	392	2,796
Accrued income and enterprise taxes (Notes 12 and 15)	4,092	4,498	43,509
Other accounts payable (Note 15)	12,360	14,670	131,419
Reserve for sales returns	1,110	1,039	11,802
Accrued bonuses	1,882	2,095	20,011
Asset retirement obligations (Note 11)	10	13	106
Reserve for loss on business liquidation	1,047	—	11,132
Other current liabilities (Note 15)	2,131	2,255	22,659
Total current liabilities	34,477	37,791	366,582
Long-term liabilities:			
Lease obligations (Notes 9 and 15)	164	484	1,744
Accrued retirement benefits for employees (Note 10)	4,883	5,313	51,919
Accrued retirement benefits for directors and corporate auditors	21	18	223
Asset retirement obligations (Note 11)	73	87	776
Other liabilities	2,616	2,319	27,815
Total long-term liabilities	7,757	8,221	82,477
Total liabilities	42,234	46,012	449,059
Contingent liabilities (Note 14)			
<b>Net Assets</b>			
Shareholders' equity (Note 13):			
Common stock:			
Authorized – 170,100,000 shares			
Issued – 42,525,000 shares in 2013 and 2012	3,450	3,450	36,683
Capital surplus	4,219	4,219	44,859
Retained earnings	109,947	101,128	1,169,027
Treasury stock, at cost	(4,703)	(4,702)	(50,005)
Total shareholders' equity	112,913	104,095	1,200,564
Accumulated other comprehensive income (loss):			
Unrealized holding gain on securities	4,358	1,998	46,337
Unrealized (loss) on deferred hedges (Note 16)	505	(323)	5,369
Translation adjustments	(2,904)	(4,050)	(30,877)
Total accumulated other comprehensive income (loss), net	1,959	(2,375)	20,829
Stock acquisition rights	—	159	—
Minority interests	1	—	11
Total net assets	114,873	101,879	1,221,404
Total liabilities and net assets	¥157,107	¥147,891	\$1,670,463



# Consolidated Statement of Income

Kobayashi Pharmaceutical Co., Ltd. and Consolidated Subsidiaries  
Year ended March 31, 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
<b>Net sales</b> (Note 19)	<b>¥121,532</b>	¥131,167	<b>\$1,292,206</b>
Cost of sales	<b>51,732</b>	54,636	<b>550,048</b>
Gross profit	<b>69,800</b>	76,531	<b>742,158</b>
<b>Selling, general and administrative expenses:</b>			
Sales promotions	<b>7,007</b>	7,201	<b>74,503</b>
Freight and storage	<b>4,835</b>	5,087	<b>51,409</b>
Advertising	<b>13,810</b>	14,999	<b>146,837</b>
Provision for allowance for doubtful accounts	<b>14</b>	—	<b>149</b>
Salaries and bonuses	<b>8,835</b>	9,891	<b>93,939</b>
Net pension cost	<b>650</b>	804	<b>6,911</b>
Provision for accrued retirement benefits for directors and corporate auditors	<b>8</b>	4	<b>85</b>
Taxes and dues other than income taxes	<b>305</b>	262	<b>3,243</b>
Depreciation and amortization (Note 19)	<b>644</b>	740	<b>6,847</b>
Amortization of goodwill (Note 19)	<b>348</b>	505	<b>3,700</b>
Office rent and other rental charges	<b>1,410</b>	1,738	<b>14,992</b>
External service fees	<b>4,813</b>	4,727	<b>51,175</b>
Research and development costs	<b>4,545</b>	4,386	<b>48,325</b>
Other	<b>5,672</b>	6,889	<b>60,309</b>
<b>Total selling, general and administrative expenses</b>	<b>52,896</b>	57,233	<b>562,424</b>
Operating income	<b>16,904</b>	19,298	<b>179,734</b>
<b>Other income (expenses):</b>			
Interest and dividend income (Note 19)	<b>473</b>	381	<b>5,029</b>
Equity in earnings of affiliates (Note 19)	<b>653</b>	408	<b>6,943</b>
Interest expense (Note 19)	<b>(25)</b>	(43)	<b>(266)</b>
Sales discounts	<b>(727)</b>	(1,149)	<b>(7,730)</b>
Foreign currency exchange gain, net	<b>258</b>	52	<b>2,730</b>
Royalty income	<b>756</b>	663	<b>8,038</b>
Loss on disposal or sales of property, plant and equipment, net	<b>(53)</b>	(86)	<b>(564)</b>
Loss on impairment of fixed assets (Notes 6 and 19)	<b>(301)</b>	(31)	<b>(3,200)</b>
Gain (loss) on sales of shares of a subsidiary and an affiliate	<b>2,285</b>	(641)	<b>24,296</b>
Loss on devaluation of shares of affiliates	<b>—</b>	(3)	<b>—</b>
Gain on sales of investments in securities	<b>192</b>	223	<b>2,041</b>
Loss on devaluation of investments in securities (Note 5)	<b>(409)</b>	—	<b>(4,349)</b>
Loss on disaster	<b>—</b>	(39)	<b>—</b>
Loss on defective inventories	<b>(304)</b>	—	<b>(3,232)</b>
Provision for loss on business liquidation	<b>(1,047)</b>	—	<b>(11,132)</b>
Other, net	<b>199</b>	789	<b>2,117</b>
Income before income taxes and minority interests	<b>18,854</b>	19,822	<b>200,468</b>
<b>Income taxes</b> (Note 12):			
Current	<b>7,422</b>	6,936	<b>78,915</b>
Deferred	<b>(745)</b>	1,160	<b>(7,921)</b>
	<b>6,677</b>	8,096	<b>70,994</b>
<b>Income before minority interests</b>	<b>12,177</b>	11,726	<b>129,474</b>
<b>Minority interests</b>	<b>(0)</b>	(0)	<b>(0)</b>
Net income	<b>¥ 12,177</b>	¥ 11,726	<b>\$ 129,474</b>

See accompanying notes to consolidated financial statements.

# Consolidated Statement of Comprehensive Income

Kobayashi Pharmaceutical Co., Ltd. and Consolidated Subsidiaries  
Year ended March 31, 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
<b>Income before minority interests</b>	<b>¥12,177</b>	¥11,726	<b>\$129,474</b>
<b>Other comprehensive income (loss):</b>			
Unrealized holding gain on securities	2,360	1,508	25,093
Unrealized gain on deferred hedges	116	127	1,233
Translation adjustments	1,146	(175)	12,185
Share of other comprehensive income of affiliates accounted for by the equity method	712	149	7,571
Other comprehensive income, net (Note 18)	4,334	1,609	46,082
<b>Comprehensive income</b>	<b>¥16,511</b>	¥13,335	<b>\$175,556</b>
<b>Comprehensive income (loss) attributable to:</b>			
Shareholders of Kobayashi Pharmaceutical Co., Ltd.	¥16,511	¥13,335	\$175,556
Minority interests	(0)	(0)	(0)

# Consolidated Statement of Changes in Net Assets

Kobayashi Pharmaceutical Co., Ltd. and Consolidated Subsidiaries  
Year ended March 31, 2013

	Millions of yen										
	Number of shares issued (Thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized holding gain on securities	Unrealized gain (loss) on deferred hedges	Translation adjustments	Stock acquisition rights	Minority interests	Total net assets
<b>Balance at April 1, 2011</b>	42,525	¥3,450	¥4,219	¥ 92,186	¥(4,701)	¥ 490	¥(599)	¥(3,875)	¥160	¥13	¥ 91,343
Net income for the year	—	—	—	11,726	—	—	—	—	—	—	11,726
Cash dividends	—	—	—	(2,784)	—	—	—	—	—	—	(2,784)
Purchases of treasury stock	—	—	—	—	(1)	—	—	—	—	—	(1)
Disposal of treasury stock	—	—	—	—	0	—	—	—	—	—	0
Other changes	—	—	—	—	—	1,508	276	(175)	(1)	(13)	1,595
<b>Balance at April 1, 2012</b>	42,525	3,450	4,219	101,128	(4,702)	1,998	(323)	(4,050)	159	—	101,879
Net income for the year	—	—	—	12,177	—	—	—	—	—	—	12,177
Cash dividends	—	—	—	(3,358)	—	—	—	—	—	—	(3,358)
Purchases of treasury stock	—	—	—	—	(1)	—	—	—	—	—	(1)
Disposal of treasury stock	—	—	—	—	0	—	—	—	—	—	0
Other changes	—	—	—	—	—	2,360	828	1,146	(159)	1	4,176
<b>Balance at March 31, 2013</b>	<b>42,525</b>	<b>¥3,450</b>	<b>¥4,219</b>	<b>¥109,947</b>	<b>¥(4,703)</b>	<b>¥4,358</b>	<b>¥ 505</b>	<b>¥(2,904)</b>	<b>¥ —</b>	<b>¥ 1</b>	<b>¥114,873</b>

	Thousands of U.S. dollars (Note 1)									
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized holding gain on securities	Unrealized gain on deferred hedges	Translation adjustments	Stock acquisition rights	Minority interests	Total net assets
<b>Balance at April 1, 2012</b>	\$36,683	\$44,859	\$1,075,257	\$(49,994)	\$21,244	\$(3,435)	\$(43,062)	\$1,691	\$ —	\$1,083,243
Net income for the year	—	—	129,474	—	—	—	—	—	—	129,474
Cash dividends	—	—	(35,704)	—	—	—	—	—	—	(35,704)
Purchases of treasury stock	—	—	—	(11)	—	—	—	—	—	(11)
Disposal of treasury stock	—	—	—	0	—	—	—	—	—	0
Other changes	—	—	—	—	25,093	8,804	12,185	(1,691)	11	44,402
<b>Balance at March 31, 2013</b>	<b>\$36,683</b>	<b>\$44,859</b>	<b>\$1,169,027</b>	<b>\$(50,005)</b>	<b>\$46,337</b>	<b>\$ 5,369</b>	<b>\$(30,877)</b>	<b>\$ —</b>	<b>\$ 11</b>	<b>\$1,221,404</b>

See accompanying notes to consolidated financial statements.

# Consolidated Statement of Cash Flows

Kobayashi Pharmaceutical Co., Ltd. and Consolidated Subsidiaries  
Year ended March 31, 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
<b>Cash flows from operating activities:</b>			
Income before income taxes and minority interests	¥ 18,854	¥19,822	\$ 200,468
Adjustments for:			
Depreciation and amortization	2,970	3,232	31,579
Loss on impairment of fixed assets	301	31	3,200
Decrease in allowance for doubtful accounts	(33)	(327)	(351)
Increase in accrued retirement benefits for employees	52	150	553
Interest and dividend income	(473)	(381)	(5,029)
Interest expense	25	43	266
Equity in earnings of affiliates	(653)	(408)	(6,943)
(Gain) loss on sales of shares of a subsidiary and an affiliate	(2,285)	641	(24,296)
Gain on sales of investments in securities	(192)	(223)	(2,041)
Loss on devaluation of investments in securities	409	—	4,349
Loss on disposal or sales of property, plant and equipment, net	53	86	564
Loss on devaluation of shares of affiliates	—	3	—
Changes in operating assets and liabilities:			
Decrease (increase) in trade notes and accounts receivable	213	(2,060)	2,265
Increase in inventories	(596)	(1,019)	(6,337)
Decrease in trade notes and accounts payable	(721)	(6)	(7,666)
(Decrease) increase in other accounts payable	(2,355)	1,932	(25,040)
Increase (decrease) in consumption taxes payable	181	(165)	1,925
Increase in reserve for loss on business liquidation	1,047	—	11,132
Other	(295)	(347)	(3,138)
Subtotal	16,502	21,004	175,460
Interest and dividends received	632	1,036	6,720
Interest paid	(18)	(28)	(191)
Income taxes paid	(7,873)	(4,762)	(83,711)
Net cash provided by operating activities	¥ 9,243	¥17,250	\$ 98,278
<b>Cash flows from investing activities:</b>			
Payments for time deposits	¥(42,540)	¥ —	\$ (452,313)
Proceeds from time deposits	18,500	—	196,704
Payments for purchases of securities	(16,496)	(39,990)	(175,396)
Proceeds from sales and redemption of securities	27,500	41,000	292,398
Payments for purchases of property, plant and equipment	(2,513)	(1,748)	(26,720)
Proceeds from sales of property, plant and equipment	64	15	680
Payments for purchases of intangible assets	(364)	(345)	(3,870)
Payments for purchases of investments in securities	(14,696)	(1,249)	(156,257)
Proceeds from sales of investments in securities	192	712	2,041
Increase in other assets, net	(169)	(174)	(1,797)
Payments for purchases of investments in subsidiaries resulting in change in scope of consolidation	—	(979)	—
Proceeds from sales of investments in securities resulting in change in scope of consolidation	4,024	—	42,786
Other	(108)	(171)	(1,148)
Net cash used in investing activities	(26,606)	(2,929)	(282,892)
<b>Cash flows from financing activities:</b>			
Decrease in short-term loans, net	(1)	(30)	(11)
Dividends paid	(3,358)	(2,784)	(35,704)
Increase in treasury stock	(1)	(1)	(11)
Decrease in lease obligations	(371)	(463)	(3,945)
Liquidating dividend of a subsidiary paid to minority interests	—	(14)	—
Other	1	—	11
Net cash used in financing activities	(3,730)	(3,292)	(39,660)
Effect of exchange rate changes on cash and cash equivalents	579	(154)	6,156
Net (decrease) increase in cash and cash equivalents	(20,514)	10,875	(218,118)
Cash and cash equivalents at beginning of the year	42,836	31,963	455,460
Decrease in cash and cash equivalents due to exclusion of consolidated subsidiary from scope of consolidation	—	(2)	—
Cash and cash equivalents at end of the year (Note 3)	¥ 22,322	¥42,836	\$ 237,342

See accompanying notes to consolidated financial statements.



# Notes to Consolidated Financial Statements

Kobayashi Pharmaceutical Co., Ltd. and Consolidated Subsidiaries  
Year ended March 31, 2013

## 1. Basis of Presentation of Consolidated Financial Statements

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

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

Certain reclassifications of previously reported amounts have been made to conform the consolidated financial statements for the year ended March 31, 2012 to the 2013 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 are presented solely for convenience and are translated, as a matter of arithmetic computation only, at ¥94.05 = U.S.\$1.00, the approximate exchange rate in effect on March 31, 2013. This translation should not be construed as a representation that Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

## 2. Summary of Significant Accounting Policies

### (a) Principles of consolidation

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

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

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

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

### (b) Use of estimates

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

### (c) Cash and cash equivalents

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

### (d) Foreign currency translation

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

The balance sheet accounts of the overseas consolidated subsidiaries are translated into Japanese yen at the rates of exchange in effect at the balance sheet date except that the components of net assets excluding 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 consolidated subsidiaries calculate depreciation by the declining-balance method except for buildings (other than structures attached to the buildings) acquired after March 31, 1998, to which the straight-line method is applied. The overseas consolidated subsidiaries calculate depreciation by the straight-line method.

**(h) Leased assets**

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

**(i) Allowance for doubtful accounts**

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

**(j) Reserve for sales returns**

The Company and certain domestic consolidated 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) Reserve for loss on business liquidation**

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

**(m) Accrued retirement benefits**

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

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

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

Directors and corporate auditors of 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.

**(n) Income taxes**

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

**(o) 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.

**(p) 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 21).

### (q) 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 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.

#### **(Standards issued but not yet effective)**

On May 17, 2012, the Accounting Standards Board of Japan ("ASBJ") issued "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25), which replace the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000 and the other related practical guidance, being followed by partial amendments from time to time through 2009.

These standards require that an entity recognize the overfunded or underfunded status of a defined benefit pension plan as an asset or a liability in the consolidated balance sheet and actuarial gains or losses and prior service cost not recognized as part of pension expense are recognized as part of other comprehensive income.

Those amounts recognized in accumulated other comprehensive income in prior periods that are recognized in the consolidated statement of income in the current period as components of pension benefit expense are treated as reclassification adjustments.

The retirement benefit obligation can be attributed to each period by the benefit formula basis or by the straight-line method, and the calculation method for the discount rate shall be changed.

This standard and related guidance are effective as of the end of fiscal years beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Company is currently evaluating the effect these modifications will have on its consolidated results of operations and financial position.

## 3. Cash and Cash Equivalents

A reconciliation between the balance of cash and time deposits in the accompanying consolidated balance sheet at March 31, 2013 and the balance of cash and cash equivalents in the accompanying consolidated statement of cash flows for the year then ended was as follows:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
	<b>2013</b>	<b>2013</b>
Cash and time deposits	<b>¥45,862</b>	<b>\$487,634</b>
Time deposits over three months	<b>(24,040)</b>	<b>(255,608)</b>
Securities maturing within three months	<b>500</b>	<b>5,316</b>
Cash and cash equivalents	<b>¥22,322</b>	<b>\$237,342</b>

A reconciliation between the balance of cash and time deposits in the accompanying consolidated balance sheet at March 31, 2012 and the balance of cash and cash equivalents as presented in the accompanying consolidated statement of cash flows for the year then ended has been omitted since there were no reconciliation items.

## 4. Trade Notes Receivable and Trade Notes and Accounts Payable

Although the balance sheet date for the years ended March 31, 2013 and 2012 fell on a bank holiday, trade notes receivable of ¥69 million (\$734 thousand) and ¥125 million, trade notes payable of ¥647 million (\$6,879 thousand) and ¥733 million and factoring accounts payable of nil and ¥829 million, respectively, with due dates of March 31, 2013 and 2012 were accounted for as settled on those dates and were excluded from the respective balances in the consolidated balance sheet at March 31, 2013 and 2012.



## 5. Securities and Investments in Securities

(a) Securities classified as “Other securities” at March 31, 2013 and 2012 were summarized as follows:

(I) Securities whose carrying value exceeds their acquisition cost

	<i>Millions of yen</i>					
	<b>2013</b>			<b>2012</b>		
	Acquisition cost	Carrying value	Unrealized gain	Acquisition cost	Carrying value	Unrealized gain
Equity securities	<b>¥ 6,173</b>	<b>¥12,295</b>	<b>¥6,122</b>	¥ 4,647	¥ 8,369	¥3,722
Debt securities	<b>21,444</b>	<b>21,990</b>	<b>546</b>	12,531	12,644	113
	<b>¥27,617</b>	<b>¥34,285</b>	<b>¥6,668</b>	¥17,178	¥21,013	¥3,835

	<i>Thousands of U.S. dollars</i>		
	<b>2013</b>		
	Acquisition cost	Carrying value	Unrealized gain
Equity securities	<b>\$ 65,635</b>	<b>\$130,728</b>	<b>\$65,093</b>
Debt securities	<b>228,007</b>	<b>233,812</b>	<b>5,805</b>
	<b>\$293,642</b>	<b>\$364,540</b>	<b>\$70,898</b>

(II) Securities whose acquisition cost exceeds their carrying value

	<i>Millions of yen</i>					
	<b>2013</b>			<b>2012</b>		
	Acquisition cost	Carrying value	Unrealized loss	Acquisition cost	Carrying value	Unrealized loss
Equity securities	<b>¥ 614</b>	<b>¥ 612</b>	<b>¥(2)</b>	¥ 2,310	¥1,545	¥(765)
Debt securities	<b>—</b>	<b>—</b>	<b>—</b>	5,505	5,504	(1)
Other	<b>500</b>	<b>500</b>	<b>—</b>	—	—	—
	<b>¥1,114</b>	<b>¥1,112</b>	<b>¥(2)</b>	¥7,815	¥7,049	¥(766)

	<i>Thousands of U.S. dollars</i>		
	<b>2013</b>		
	Acquisition cost	Carrying value	Unrealized loss
Equity securities	<b>\$ 6,529</b>	<b>\$ 6,508</b>	<b>\$(21)</b>
Debt securities	<b>—</b>	<b>—</b>	<b>—</b>
Other	<b>5,316</b>	<b>5,316</b>	<b>—</b>
	<b>\$11,845</b>	<b>\$11,824</b>	<b>\$(21)</b>

(III) Securities whose market value is not determinable

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2013</b>	<b>2012</b>	<b>2013</b>
Unlisted equity securities	<b>¥324</b>	¥295	<b>\$3,445</b>

(b) Loss on devaluation of investments in securities for the years ended March 31, 2013 and 2012

For the year ended March 31, 2013, loss on devaluation of investments in securities of ¥409 million (\$4,349 thousand) was 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.

There was no loss on devaluation of investments in securities for the year ended March 31, 2012.

## 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, 2013 and 2012, the carrying value of production facilities and other, which are not anticipated to be utilized in the future, have been reduced to their respective recoverable amounts and losses on impairment of fixed assets were recognized in the accompanying consolidated statement of income.

The recoverable amounts of production facilities and other are based on the value in use. For the years ended March 31, 2013 and 2012, the value in use of the production facilities is measured at zero because future cash flow was not expected.

For the year ended March 31, 2013, the carrying value of land has been reduced to its respective recoverable amount and loss on impairment of fixed assets was recognized in the consolidated statement of income as the market value of land has declined and recovery was not expected.

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 a loss on impairment was recognized in the consolidated statement of income for the year ended March 31, 2013.

Losses on impairment of fixed assets for the years ended March 31, 2013 and 2012 were summarized as follows:

2013				
Location	Description	Classification	Millions of yen	Thousands of U.S. dollars
Osaka and other	Production facilities and other	Machinery, equipment and other	<b>¥128</b>	<b>\$1,361</b>
Ehime and other	Other	Land	<b>80</b>	<b>851</b>
Osaka and other	Other	Other intangible assets	<b>59</b>	<b>627</b>
United States	Other	Goodwill	<b>25</b>	<b>266</b>
Osaka	Production facilities	Leased assets	<b>9</b>	<b>95</b>
			<b>¥301</b>	<b>\$3,200</b>

2012			
Location	Description	Classification	Millions of yen
Osaka and other	Production facilities and other	Machinery, equipment and other	¥ 28
Osaka and other	Production facilities	Leased assets	3
			¥31

## 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 ¥275 million (\$2,924 thousand) and ¥275 million, and rental cost amounted to ¥75 million (\$797 thousand) and ¥77 million for the years ended March 31, 2013 and 2012, respectively.

The carrying value on the consolidated balance sheet at March 31, 2013 and 2012, and corresponding fair value of those properties were as follows:

<i>Millions of yen</i>			
	Carrying value		Fair value
As of April 1, 2012	Net change	As of March 31, 2013	As of March 31, 2013
<b>¥3,762</b>	<b>¥227</b>	<b>¥3,989</b>	<b>¥4,458</b>

<i>Millions of yen</i>			
	Carrying value		Fair value
As of April 1, 2011	Net change	As of March 31, 2012	As of March 31, 2012
¥3,775	¥ (13)	¥3,762	¥4,098

<i>Thousands of U.S. dollars</i>			
	Carrying value		Fair value
As of April 1, 2012	Net change	As of March 31, 2013	As of March 31, 2013
<b>\$40,000</b>	<b>\$2,414</b>	<b>\$42,414</b>	<b>\$47,400</b>

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

The significant components of net changes in carrying value for the years ended March 31, 2013 and 2012 were due to net effect of increases related to unused land including loss on impairment of fixed assets in the amount of ¥342 million (\$3,636 thousand) and repair work on real estate properties in the amount of ¥26 million, and decreases related to loss on impairment of fixed assets in the amount of ¥80 million (\$851 thousand) and depreciation in the amount of ¥35 million (\$372 thousand) and ¥37 million for the years ended March 31, 2013 and 2012, respectively.

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

## 8. Short-Term Loans

The average interest rates on short-term bank loans at March 31, 2013 and 2012 were 0.15% and 1.07%, respectively.

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, 2013 and 2012 was summarized as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2013	2012	2013
Lines-of-credit	<b>¥26,442</b>	¥26,424	<b>\$281,148</b>
Credit used	—	—	—
Available credit	<b>¥26,442</b>	¥26,424	<b>\$281,148</b>

## 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, 2013 were summarized as follows:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
	2013	2013
Finance lease obligations due in installments from 2014 through 2019	<b>¥427</b>	<b>\$4,540</b>
Less current portion	<b>263</b>	<b>2,796</b>
	<b>¥164</b>	<b>\$1,744</b>



The aggregate annual maturities of finance lease obligations subsequent to March 31, 2013 were summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2014	<b>¥263</b>	<b>\$2,796</b>
2015	<b>99</b>	<b>1,053</b>
2016	<b>44</b>	<b>468</b>
2017	<b>17</b>	<b>181</b>
2018	<b>3</b>	<b>32</b>
2019	<b>1</b>	<b>10</b>
Total	<b>¥427</b>	<b>\$4,540</b>

#### (b) Operating lease transactions

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2013 for non-cancelable operating leases were summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2014	<b>¥ 79</b>	<b>\$ 840</b>
2015 and thereafter	<b>21</b>	<b>223</b>
Total	<b>¥100</b>	<b>\$1,063</b>

## 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 sheet at March 31, 2013 and 2012 for the Group's defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Projected benefit obligation	<b>¥(10,388)</b>	¥(10,124)	<b>\$(110,452)</b>
Fair value of pension plan assets	<b>4,736</b>	5,164	<b>50,356</b>
Unfunded retirement benefit obligation	<b>(5,652)</b>	(4,960)	<b>(60,096)</b>
Unrecognized prior service cost	<b>—</b>	68	<b>—</b>
Unrecognized actuarial differences	<b>1,507</b>	406	<b>16,024</b>
Net retirement benefit obligation	<b>(4,145)</b>	(4,486)	<b>(44,072)</b>
Prepaid pension cost	<b>738</b>	827	<b>7,847</b>
Accrued retirement benefits for employees	<b>¥ (4,883)</b>	¥ (5,313)	<b>\$ (51,919)</b>

The components of net pension cost for the years ended March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Service cost	<b>¥514</b>	¥ 605	<b>\$5,465</b>
Interest cost	<b>169</b>	182	<b>1,797</b>
Expected return on pension plan assets	<b>(93)</b>	(98)	<b>(989)</b>
Amortization:			
Prior service cost	<b>61</b>	68	<b>649</b>
Actuarial differences	<b>65</b>	139	<b>691</b>
Cost of contribution pension plan	<b>151</b>	170	<b>1,606</b>
Net pension cost	<b>¥867</b>	¥1,066	<b>\$9,219</b>

The assumptions used in accounting for the above plans for the years ended March 31, 2013 and 2012 were as follows:

	2013	2012
Discount rates	<b>1.1%</b>	2.0%
Expected rate of return on plan assets	<b>2.0%</b>	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 years ended March 31, 2013 and 2012 were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2013</b>	2012	<b>2013</b>
Asset retirement obligations at beginning of year	<b>¥100</b>	¥ 86	<b>\$1,063</b>
Liabilities incurred for leased buildings	—	13	—
Decrease resulting from exclusion of subsidiaries from consolidation	<b>(18)</b>	—	<b>(192)</b>
Accretion expense	<b>1</b>	1	<b>11</b>
Asset retirement obligations at end of year	<b>¥ 83</b>	¥100	<b>\$ 882</b>

## 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 37.96% for the years ended March 31, 2013 and 2012. 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 rate in the accompanying consolidated statement of income for the year ended March 31, 2013 was as follows:

	<b>2013</b>
Statutory tax rate	<b>37.96 %</b>
Tax loss carryforwards of consolidated subsidiaries	<b>0.05</b>
Valuation allowances	<b>(1.41)</b>
Utilization of tax loss carryforwards	<b>(0.80)</b>
Tax credits on research and development costs	<b>(2.01)</b>
Amortization of goodwill	<b>0.05</b>
Expenses not deductible for tax purposes	<b>0.84</b>
Equity in earnings of affiliates	<b>(1.31)</b>
Nontaxable dividend income	<b>(0.30)</b>
Adjustment of gain on sales of shares of a subsidiary	<b>0.82</b>
Other	<b>1.52</b>
Effective tax rate	<b>35.41 %</b>

A reconciliation of the statutory tax rate and the effective tax rate for the year ended March 31, 2012 has been omitted as the difference was less than 5% of the statutory tax rate.

The tax effects of the temporary differences which gave rise to a significant portion of the deferred tax assets and liabilities at March 31, 2013 and 2012 were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2013</b>	<b>2012</b>	<b>2013</b>
Deferred tax assets:			
Accrued retirement benefits for employees	<b>¥1,449</b>	¥1,578	<b>\$15,407</b>
Net operating loss carryforwards	<b>331</b>	433	<b>3,519</b>
Accrued bonuses	<b>688</b>	782	<b>7,315</b>
Accrued retirement benefits for directors and corporate auditors	<b>7</b>	7	<b>74</b>
Accrued expenses	<b>1,645</b>	1,697	<b>17,491</b>
Accrued enterprise taxes	<b>366</b>	369	<b>3,892</b>
Unrealized intercompany profits	<b>205</b>	173	<b>2,180</b>
Loss on impairment of fixed assets	<b>605</b>	557	<b>6,433</b>
Loss on disposal or write-offs of inventories	<b>486</b>	324	<b>5,167</b>
Allowance for doubtful accounts	<b>98</b>	94	<b>1,042</b>
Other	<b>1,832</b>	1,741	<b>19,479</b>
Gross deferred tax assets	<b>7,712</b>	7,755	<b>81,999</b>
Valuation allowance	<b>(1,658)</b>	(2,099)	<b>(17,629)</b>
Total deferred tax assets	<b>6,054</b>	5,656	<b>64,370</b>
Deferred tax liabilities:			
Unrealized holding gain on securities	<b>(2,310)</b>	(1,072)	<b>(24,561)</b>
Forward foreign currency exchange contracts	<b>(25)</b>	—	<b>(266)</b>
Other	<b>(174)</b>	(118)	<b>(1,850)</b>
Total deferred tax liabilities	<b>(2,509)</b>	(1,190)	<b>(26,667)</b>
Net deferred tax assets	<b>¥3,545</b>	¥4,466	<b>\$37,693</b>

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

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2013</b>	<b>2012</b>	<b>2013</b>
Current assets – deferred tax assets	<b>¥3,886</b>	¥3,288	<b>\$41,318</b>
Investments and other assets – deferred tax assets	<b>324</b>	1,302	<b>3,445</b>
Current liabilities – deferred tax liabilities	<b>(6)</b>	—	<b>(64)</b>
Long-term liabilities – deferred tax liabilities	<b>(659)</b>	(124)	<b>(7,007)</b>
	<b>¥3,545</b>	¥4,466	<b>\$37,692</b>

### 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 (\$3,615 thousand) at March 31, 2013 and 2012.

#### *Stock-based compensation plan*

As of the beginning of the fiscal year ended March 31, 2013, 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 provided 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 options became exercisable on July 1, 2009 and expired on June 30, 2012. For the year ended March 31, 2013, the gain on these expired options amounted to ¥159 million (\$1,691 thousand).

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

	The 2007 plan
Number of options:	
Outstanding at March 31, 2012	240,900
Granted	—
Expired	240,900
Exercised	—
Outstanding at March 31, 2013	—

#### *Common stock and treasury stock*

Movements in shares of common stock in issue and treasury stock for the years ended March 31, 2013 and 2012 were summarized as follows:

	Number of shares			
	2013			
	April 1, 2012	Increase	Decrease	March 31, 2013
Common stock	42,525,000	—	—	42,525,000
Treasury stock	1,576,287	300	50	1,576,537

	Number of shares			
	2012			
	April 1, 2011	Increase	Decrease	April 1, 2012
Common stock	42,525,000	—	—	42,525,000
Treasury stock	1,575,987	350	50	1,576,287

### 14. Contingent Liabilities, Guarantees and Pledged Assets

At March 31, 2013 and 2012, the Company had the following contingent liability:

	Millions of yen	Thousands of U.S. dollars
	2013	2012
Recourse obligation under factoring transactions	¥540	¥587
		\$5,742

In addition, at March 31, 2013, the Company was committed to providing debt guarantees as follows:

	Millions of yen	Thousands of U.S. dollars
	2013	2013
Bank loans of small and medium-sized enterprises in areas affected by the Great East Japan Earthquake	¥ 40	\$ 425



A summary of the assets pledged as collateral as of March 31, 2013 was as follows:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
	<b>2013</b>	<b>2013</b>
Time deposits	<b>¥ 40</b>	<b>\$ 425</b>
Security deposits	<b>80</b>	<b>851</b>

Time deposits were pledged as collateral for the debt guarantees.

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

## 15. Financial Instruments

### (a) Overview

#### (I) Policy for financial instruments

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

#### (II) Types of financial instruments and related risk

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

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

Trade notes 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 and option contracts are arranged to hedge the risk.

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

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

#### (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 ratings.

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

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

For securities and investments in securities, the Group periodically reviews the fair values of such financial instruments and the financial position of the issuers. In addition, the Group continuously reviews market conditions and 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 sheet as of March 31, 2013 and 2012, the estimated fair value and difference are shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine the fair value (Please refer to Note II below).

	<i>Millions of yen</i>					
	<b>2013</b>			2012		
	Carrying value	Estimated fair value	Difference	Carrying value	Estimated fair value	Difference
<b>Assets</b>						
(i) Cash and time deposits	<b>¥45,862</b>	<b>¥45,862</b>	<b>¥ —</b>	¥ 42,836	¥ 42,836	¥ —
(ii) Trade notes and accounts receivable	<b>30,819</b>	<b>30,819</b>	<b>—</b>	32,114	32,114	<b>—</b>
(iii) Securities and investments in securities	<b>35,397</b>	<b>35,397</b>	<b>—</b>	28,063	28,063	<b>—</b>
(iv) Long-term loans receivable included in other assets	<b>417</b>			600		
Allowance for doubtful accounts (*1)	<b>(16)</b>			(16)		
	<b>401</b>	<b>396</b>	<b>(5)</b>	584	553	(31)
<b>Total assets</b>	<b>¥112,479</b>	<b>¥112,474</b>	<b>¥ (5)</b>	¥103,597	¥103,566	¥(31)
<b>Liabilities</b>						
(i) Trade notes and accounts payable	<b>¥11,578</b>	<b>¥11,578</b>	<b>¥ —</b>	¥12,824	¥12,824	¥ —
(ii) Short-term loans	<b>4</b>	<b>4</b>	<b>—</b>	5	5	<b>—</b>
(iii) Other accounts payable	<b>12,360</b>	<b>12,360</b>	<b>—</b>	14,670	14,670	<b>—</b>
(iv) Current portion of lease obligations	<b>263</b>	<b>266</b>	<b>3</b>	392	396	4
(v) Accrued income and enterprise taxes	<b>4,092</b>	<b>4,092</b>	<b>—</b>	4,498	4,498	<b>—</b>
(vi) Accrued consumption taxes, included in other current liabilities	<b>543</b>	<b>542</b>	<b>(1)</b>	382	382	<b>—</b>
(vii) Lease obligations	<b>164</b>	<b>165</b>	<b>1</b>	484	486	2
<b>Total liabilities</b>	<b>¥29,004</b>	<b>¥29,007</b>	<b>¥ 3</b>	¥33,255	¥33,261	¥ 6
<b>Total derivatives (*2)</b>	<b>¥ 65</b>	<b>¥ 65</b>	<b>¥ —</b>	¥ (164)	¥ (164)	¥ —

	<i>Thousands of U.S. dollars</i>		
	<b>2013</b>		
	Carrying value	Estimated fair value	Difference
<b>Assets</b>			
(i) Cash and time deposits	<b>\$ 487,634</b>	<b>\$ 487,634</b>	<b>\$ —</b>
(ii) Trade notes and accounts receivable	<b>327,687</b>	<b>327,687</b>	<b>—</b>
(iii) Securities and investments in securities	<b>376,364</b>	<b>376,364</b>	<b>—</b>
(iv) Long-term loans receivable included in other assets	<b>4,434</b>		
Allowance for doubtful accounts (*1)	<b>(170)</b>		
	<b>4,264</b>	<b>4,211</b>	<b>(53)</b>
<b>Total assets</b>	<b>\$1,195,949</b>	<b>\$1,195,896</b>	<b>\$ (53)</b>

<i>Thousands of U.S. dollars</i>			
<b>2013</b>			
	Carrying value	Estimated fair value	Difference
<b>Liabilities</b>			
(i) Trade notes and accounts payable	<b>\$123,105</b>	<b>\$123,105</b>	<b>\$ —</b>
(ii) Short-term loans	<b>43</b>	<b>43</b>	<b>—</b>
(iii) Other accounts payable	<b>131,419</b>	<b>131,419</b>	<b>—</b>
(iv) Current portion of lease obligations	<b>2,796</b>	<b>2,828</b>	<b>32</b>
(v) Accrued income and enterprise taxes	<b>43,509</b>	<b>43,509</b>	<b>—</b>
(vi) Accrued consumption taxes, included in other current liabilities	<b>5,773</b>	<b>5,763</b>	<b>(10)</b>
(vii) Lease obligations	<b>1,744</b>	<b>1,754</b>	<b>10</b>
Total liabilities	<b>\$308,389</b>	<b>\$308,421</b>	<b>\$ 32</b>
Total derivatives (*2)	<b>\$ 691</b>	<b>\$ 691</b>	<b>—</b>

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

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

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

#### Assets

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

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

##### *(iii) Securities and investments in securities*

The fair values of equity securities are based on quoted market prices. The fair value of debt securities is based on either quoted market price or the price provided by the financial institutions making markets in these securities. For information on securities classified by holding purpose, please refer to Note 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, (iii) other accounts payable, (v) accrued income taxes and (vi) 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, (iv) current portion of lease obligations and (vii) 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 was extremely difficult to determine the fair value

Type	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2013</b>	2012	<b>2013</b>
Unlisted equity securities	<b>¥4,000</b>	¥2,072	<b>\$42,531</b>

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, 2013 was summarized as follows:

	<i>Millions of yen</i>					<i>Thousands of U.S. dollars</i>			
	<b>2013</b>					<b>2013</b>			
	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	<b>¥45,857</b>	<b>¥ —</b>	<b>¥ —</b>	<b>¥ —</b>		<b>\$487,581</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>
(ii) Trade notes and accounts receivable	<b>30,819</b>	<b>—</b>	<b>—</b>	<b>—</b>		<b>327,687</b>	<b>—</b>	<b>—</b>	<b>—</b>
(iii) Securities and investments in securities: Government bonds (national and local)	<b>1,000</b>	<b>1,000</b>	<b>19,064</b>	<b>—</b>		<b>10,633</b>	<b>10,632</b>	<b>202,700</b>	<b>—</b>
(iv) Long-term loans receivable included in other assets	<b>5</b>	<b>385</b>	<b>6</b>	<b>4</b>		<b>53</b>	<b>4,094</b>	<b>64</b>	<b>43</b>
<b>Total assets</b>	<b>¥77,681</b>	<b>¥ 1,385</b>	<b>¥19,070</b>	<b>¥ 4</b>		<b>\$825,954</b>	<b>\$14,726</b>	<b>\$202,764</b>	<b>\$ 43</b>

IV. The redemption schedule for lease obligations at March 31, 2013 is disclosed in Note 9.

## 16. Derivatives and Hedging Activities

The notional amounts and the estimated fair value of the derivative instruments outstanding at March 31, 2013 and 2012 were as follows:

1. Derivatives for which hedge accounting is not applied

There were no derivative transactions which did not qualify for deferral hedge accounting at March 31, 2013.

### Currency-related transactions

Type	Description of transaction	<i>Millions of yen</i>			
		<b>2012</b>			
		Notional amount	Notional amount (over 1 year)	Estimated fair value	Unrealized loss
Over-the-counter transactions	Forward foreign exchange contracts Purchase: U.S. dollars	¥ 466	¥ —	¥(17)	¥(17)



## 2. Derivatives for which hedge accounting is applied

### Currency-related transactions

			<i>Millions of yen</i>					
Method of hedge accounting	Description of transaction	Hedged items	2013			2012		
			Notional amount	Notional amount (over 1 year)	Estimated fair value	Notional amount	Notional amount (over 1 year)	Estimated fair value
	Forward foreign exchange contracts							
	Purchase:							
Deferral hedge accounting	U.S. dollars	Trade accounts payable	<b>¥303</b>	<b>¥75</b>	<b>¥47</b>	¥6,209	¥2,072	¥(146)
	British pounds	Trade accounts payable	<b>155</b>	<b>37</b>	<b>14</b>	562	155	(8)
	Euros	Trade accounts payable	—	—	—	274	—	(11)
	Thai bahts	Trade accounts payable	<b>509</b>	—	<b>3</b>	529	—	17

			<i>Thousands of U.S. dollars</i>		
Method of hedge accounting	Description of transaction	Hedged items	2013		
			Notional amount	Notional amount (over 1 year)	Estimated fair value
	Forward foreign exchange contracts				
	Purchase:				
Deferral hedge accounting	U.S. dollars	Trade accounts payable	<b>\$3,222</b>	<b>\$797</b>	<b>\$500</b>
	British pounds	Trade accounts payable	<b>1,648</b>	<b>393</b>	<b>149</b>
	Euros	Trade accounts payable	—	—	—
	Thai bahts	Trade accounts payable	<b>5,412</b>	—	<b>32</b>

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

## 17. Amounts per Share

	<i>Yen</i>		<i>U.S. dollars</i>
	<b>2013</b>	2012	<b>2013</b>
Net income:			
Basic	<b>¥ 297.37</b>	¥ 286.36	<b>\$ 3.16</b>
Cash dividends	<b>82.00</b>	78.00	<b>0.87</b>
Net assets	<b>2,805.27</b>	2,484.08	<b>29.83</b>

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

Reclassification adjustments and tax effects allocated to each component of other comprehensive income for the years ended March 31, 2013 and 2012 were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2013</b>	2012	<b>2013</b>
Unrealized holding gain on securities:			
Amount arising during the year	<b>¥ 3,193</b>	¥ 2,253	<b>\$ 33,950</b>
Reclassification adjustments for losses included in net income	<b>405</b>	—	<b>4,306</b>
Amount before tax effect	<b>3,598</b>	2,253	<b>38,256</b>
Tax effect	<b>(1,238)</b>	(745)	<b>(13,163)</b>
Unrealized holding gain on securities	<b>2,360</b>	1,508	<b>25,093</b>
Unrealized gain on deferred hedges:			
Amount arising during the year	<b>92</b>	(331)	<b>978</b>
Reclassification adjustments for losses included in net income	<b>97</b>	556	<b>1,031</b>
Amount before tax effect	<b>189</b>	225	<b>2,009</b>
Tax effect	<b>(73)</b>	(98)	<b>(776)</b>
Unrealized gain on deferred hedges	<b>116</b>	127	<b>1,233</b>
Translation adjustments:			
Amount arising during the year	<b>1,146</b>	(378)	<b>12,185</b>
Reclassification adjustments for losses included in net income	<b>—</b>	203	<b>—</b>
Translation adjustments	<b>1,146</b>	(175)	<b>12,185</b>
Share of other comprehensive income of affiliates accounted for by the equity method:			
Amount arising during the year	<b>712</b>	(222)	<b>7,571</b>
Reclassification adjustments for losses included in net income	<b>—</b>	371	<b>—</b>
Share of other comprehensive income of affiliates accounted for by the equity method	<b>712</b>	149	<b>7,571</b>
Total other comprehensive income	<b>¥ 4,334</b>	¥ 1,609	<b>\$ 46,082</b>

## 19. Segment Information

### (a) Business Segment Information

#### 1. Outline of reportable segments

The Company's reportable segments are its structural units, for which separate financial information is available. These segments are subject to periodic review by the Board of Directors in order to assist decision making on the allocation 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, which consists of operating income and nonoperating income/expenses. Inter-segment sales and transfers are recorded at the same prices used in transactions with third parties.

#### 3. Information as to sales, income or loss, assets, and other items for each reportable segment for the years ended March 31, 2013 and 2012 were as follows:

<i>Millions of yen</i>								
<b>2013</b>								
Reportable segments								
Consumer Products	Mail-order	Medical Devices	Total	Other	Total	Adjustments and eliminations	Consolidated	
<b>Net sales</b>								
Sales to third parties	¥107,783	¥10,180	¥ 2,445	¥120,408	¥1,124	¥121,532	¥ —	¥121,532
Inter-segment sales and transfers	3,050	—	—	3,050	5,393	8,443	(8,443)	—
Total	¥110,833	¥10,180	¥ 2,445	¥123,458	¥6,517	¥129,975	¥ (8,443)	¥121,532
<b>Segment income</b>	<b>¥ 15,870</b>	<b>¥ 169</b>	<b>¥ 1,356</b>	<b>¥ 17,395</b>	<b>¥1,512</b>	<b>¥ 18,907</b>	<b>¥ (230)</b>	<b>¥ 18,677</b>
<b>Segment assets</b>	<b>¥ 66,613</b>	<b>¥ 1,624</b>	<b>¥ 6,357</b>	<b>¥ 74,594</b>	<b>¥4,656</b>	<b>¥ 79,250</b>	<b>¥77,857</b>	<b>¥157,107</b>
Other items								
Depreciation and amortization	¥ 2,295	¥ 37	¥ 19	¥ 2,351	¥ 132	¥ 2,483	¥ 139	¥ 2,622
Amortization of goodwill	347	—	1	348	—	348	—	348
Interest income	30	2	24	56	168	224	(26)	198
Interest expenses	16	—	—	16	35	51	(26)	25
Equity in earnings of affiliates	—	—	655	655	—	655	(2)	653
Investments in affiliates accounted for by the equity method	—	—	3,289	3,289	—	3,289	—	3,289
Increase in property, plant, and equipment and intangible assets	2,730	48	11	2,789	202	2,991	183	3,174

Notes:

- "Other" consisted of business segments that were not included in reportable segments, such as transportation, plastic container manufacture and sale, insurance agency, real estate management, and advertisement planning and creation.
- Details of adjustments and eliminations were as follows:
  - Segment income of ¥230 million (\$2,446 thousand), interest income of ¥26 million (\$276 thousand), and interest expenses of ¥26 million (\$276 thousand) were categorized as eliminations between inter-segment transactions.
  - Corporate assets included in the adjustments and eliminations of segment assets amount to ¥81,791 million (\$869,654 thousand) and mainly consisted of extra funds for investment by the parent company (cash and securities), funds for long-term investment (investments in securities), and assets related to administrative departments.
  - Adjustments and eliminations of equity in earnings (losses) of affiliates of ¥2 million (\$21 thousand) corresponded to adjustment of inventories.
- Segment income was adjusted for the ordinary income as described in "2. Calculation methods used for sales, income or loss, assets and other items on each reportable segment".
- Increase in depreciation, property, plant and equipment and intangible assets included an increase in long-term prepaid expenses and amortization of long-term prepaid expenses.

Millions of yen

2012

	Reportable segments				Other	Total	Adjustments and eliminations	Consolidated
	Consumer Products	Mail-order	Medical Devices	Total				
<b>Net sales</b>								
Sales to third parties	¥109,203	¥10,381	¥10,476	¥130,060	¥1,107	¥131,167	¥ —	¥131,167
Inter-segment sales and transfers	3,221	—	—	3,221	5,147	8,368	(8,368)	—
Total	¥112,424	¥10,381	¥10,476	¥133,281	¥6,254	¥139,535	¥ (8,368)	¥131,167
<b>Segment income</b>	¥ 17,546	¥ 138	¥ 1,334	¥ 19,018	¥1,233	¥ 20,251	¥ (158)	¥ 20,093
<b>Segment assets</b>	¥ 64,334	¥ 1,501	¥ 8,182	¥ 74,017	¥4,551	¥ 78,568	¥69,323	¥147,891
Other items								
Depreciation and amortization	¥ 2,277	¥ 34	¥ 144	¥ 2,455	¥ 124	¥ 2,579	¥ 148	¥ 2,727
Amortization of goodwill	497	—	8	505	—	505	—	505
Interest income	40	3	8	51	95	146	(19)	127
Interest expenses	—	—	19	19	43	62	(19)	43
Equity in earnings of affiliates	—	—	407	407	—	407	1	408
Investments in affiliates accounted for by the equity method	—	—	1,684	1,684	—	1,684	—	1,684
Increase in property, plant, and equipment and intangible assets	1,676	57	109	1,842	172	2,014	199	2,213

Notes:

1. "Other" consisted 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 were as follows:
  - (i) Segment income of ¥158 million, interest income of ¥19 million, and interest expenses of ¥19 million were categorized as eliminations between inter segment transactions.
  - (ii) Corporate assets included in the adjustments and eliminations of segment assets amount to ¥73,253 million and mainly consisted of extra funds for investment by the parent company (cash and securities), funds for long-term investment (investments in securities), and assets related to administrative departments.
  - (iii) Adjustments and eliminations of equity in earnings of affiliates of ¥1 million corresponded to adjustment of inventories.
3. Segment income was adjusted for the ordinary income as described in "2. Calculation methods used for sales, income or loss, assets and other items on each reportable segment".
4. Increase in depreciation, property, plant and equipment and intangible assets included an increase in long-term prepaid expenses and amortization of long-term prepaid expenses.



Thousands of U.S. dollars

	<b>2013</b>							
	Reportable segments				Other	Total	Adjustments and eliminations	Consolidated
	Consumer Products	Mail-order	Medical Devices	Total				
<b>Net sales</b>								
Sales to third parties	\$1,146,018	\$108,240	\$25,997	\$1,280,255	\$11,951	\$1,292,206	\$ —	\$1,292,206
Inter-segment sales and transfers	32,430	—	—	32,430	57,342	89,772	(89,772)	—
Total	\$1,178,448	\$108,240	\$25,997	\$1,312,685	\$69,293	\$1,381,978	\$ (89,772)	\$1,292,206
<b>Segment income</b>	\$ 168,740	\$ 1,797	\$14,418	\$ 184,955	\$16,077	\$ 201,032	\$ (2,446)	\$ 198,586
<b>Segment assets</b>	\$ 708,272	\$ 17,267	\$67,592	\$ 793,131	\$49,506	\$ 842,637	\$827,826	\$1,670,463
Other items								
Depreciation and amortizations	\$ 24,402	\$ 393	\$ 202	\$ 24,997	\$ 1,404	\$ 26,401	\$ 1,478	\$ 27,879
Amortization of goodwill	3,690	—	10	3,700	—	3,700	—	3,700
Interest income	319	21	255	595	1,786	2,381	(276)	2,105
Interest expenses	170	—	—	170	372	542	(276)	266
Equity in earnings (loss) of affiliates	—	—	6,964	6,964	—	6,964	(21)	6,943
Investments in affiliates accounted for by the equity method	—	—	34,971	34,971	—	34,971	—	34,971
Increase in property, plant, and intangible assets	29,027	510	117	29,654	2,148	31,802	1,946	33,748

#### 4. Related information

##### (1) Geographical information

###### (a) Sales

As domestic sales in Japan exceeded 90% of consolidated net sales, the disclosure of geographical net sales information for the years ended March 31, 2013 and 2012 has been omitted.

###### (b) Property, plant and equipment

As the consolidated balance of property, plant and equipment located in Japan exceeded 90% of the consolidated balance of property, plant and equipment, the disclosure of geographical information on property, plant and equipment as of March 31, 2013 and 2012 has been omitted.

##### (2) Information by major customers

	<i>Millions of yen</i>			
	<b>2013</b>		2012	
	Sales	Related segment	Sales	Related segment
Paltac Corporation	<b>¥54,732</b>	Consumer Products	¥53,433	Consumer Products
Arata Corporation	<b>¥14,413</b>	Consumer Products	¥14,143	Consumer Products

	<i>Thousands of U.S. dollars</i>	
	<b>2013</b>	
	Sales	Related segment
Paltac Corporation	<b>\$581,946</b>	Consumer Products
Arata Corporation	<b>\$153,248</b>	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 years ended March 31, 2013 and 2012 was as follows:

	<i>Millions of yen</i>					
	<b>2013</b>					
	Consumer Products	Mail-order	Medical Devices	Other	Eliminations	Total
Loss on impairment of fixed assets	<b>¥ 254</b>	<b>¥ 0</b>	<b>¥ —</b>	<b>¥ 4</b>	<b>¥ 43</b>	<b>¥ 301</b>

	<i>Millions of yen</i>					
	2012					
	Consumer Products	Mail-order	Medical Devices	Other	Eliminations	Total
Loss on impairment of fixed assets	¥ 26	¥ —	¥ —	¥ 5	¥ —	¥ 31

	<i>Thousands of U.S. dollars</i>					
	<b>2013</b>					
	Consumer Products	Mail-order	Medical Devices	Other	Eliminations	Total
Loss on impairment of fixed assets	<b>\$2,701</b>	<b>\$ 0</b>	<b>\$ —</b>	<b>\$42</b>	<b>\$457</b>	<b>\$3,200</b>

## 6. Amortization of goodwill and remaining balance of goodwill by reportable segment

Information on amortization of goodwill and the remaining balance of goodwill by reportable segment as of and for the years ended March 31, 2013 and 2012 were as follows:

	<i>Millions of yen</i>				
	<b>2013</b>				
	Consumer Products	Mail-order	Medical Devices	Other	Total
Amortization for the year	<b>¥ 347</b>	<b>¥ —</b>	<b>¥ 1</b>	<b>¥ —</b>	<b>¥ 348</b>
Balance at the end of year	<b>3,638</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>3,638</b>

	<i>Millions of yen</i>				
	2012				
	Consumer Products	Mail-order	Medical Devices	Other	Total
Amortization for the year	¥ 497	¥ —	¥ 8	¥ —	¥ 505
Balance at the end of year	3,582	—	10	—	3,592

	<i>Thousands of U.S. dollars</i>				
	<b>2013</b>				
	Consumer Products	Mail-order	Medical Devices	Other	Total
Amortization for the year	<b>\$ 3,690</b>	<b>\$ —</b>	<b>\$10</b>	<b>\$ —</b>	<b>\$ 3,700</b>
Balance at the end of year	<b>38,682</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>38,682</b>

## 20. Business Combinations

On May 31, 2012, the Company sold 80,000 shares of Kobayashi Medical Co., Ltd. to Mitsubishi Corporation for ¥2,285 million (\$24,296 thousand). After this sales transaction, the Company held 20% of the voting rights.

Kobayashi Medical Co., Ltd. had been involved in highly specialized areas, applying its expertise to develop medical devices used for surgery, respiration, ventilation and anesthesia, and orthopedics. The Company determined that the transfer of shares to Mitsubishi Corporation would be beneficial in growing the medical device market further as it was possible to integrate the "Total Solution" in the medical device field by the Mitsubishi Corporation Group with the advanced expertise of Kobayashi Medical Co., Ltd. This transferred business had been included in the medical devices segment of the Company.

As of November 1, 2012, Kobayashi Medical Co., Ltd. changed its corporate name to Japan Medicalnext Co., Ltd.

The assets and liabilities transferred to Mitsubishi Corporation on the date of the business combination were as follows:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
Current assets	<b>¥4,114</b>	<b>\$43,743</b>
Non-current assets	<b>729</b>	<b>7,751</b>
Total assets	<b>4,843</b>	<b>51,494</b>
Current liabilities	<b>1,843</b>	<b>19,596</b>
Long-term liabilities	<b>800</b>	<b>8,506</b>
Total liabilities	<b>¥2,643</b>	<b>\$28,102</b>

The difference between carrying value of Kobayashi Medical Co., Ltd. and sale price was recorded as gain on sales of shares of a subsidiary and included in other income in the consolidated statement of income.

The estimated amounts of sales and operating income related to the divested business included in the consolidated statement of income were ¥1,297 million (\$13,791 thousand) and ¥29 million (\$308 thousand), respectively, for the fiscal year ended March 31, 2013.

## 21. Subsequent Events

### (a) Appropriation of retained earnings

The following appropriation of retained earnings of the Company, which has not been reflected in the consolidated financial statements for the year ended March 31, 2013, was approved at the Board of Directors meeting held on May 27, 2013:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
Cash dividends (¥43.00 = \$0.46 per share)	<b>¥1,761</b>	<b>\$18,724</b>

### (b) Sales of shares of consolidated subsidiary

As described in Note 20 "Business Combinations", the Company transferred 80% of the outstanding shares in Japan Medicalnext Co., Ltd. (former Kobayashi Medical Co., Ltd.) to Mitsubishi Corporation, a general trading company, on May 31, 2012. As the share transfer business had been completed smoothly up to this date, the Company officially announced the transfer of the remaining 20,000 shares to Mitsubishi Corporation on April 24, 2013. This additional share transfer was completed on May 20, 2013.

### (c) Issuance of stock acquisition rights (stock options)

In accordance with Articles 236, 238 and 240 section 1 of the Law, an assignment of stock acquisition rights for directors, executive officers and certain key employees of the Company and certain consolidated subsidiaries was approved at the meetings of the Board of Directors and shareholders held on June 27, 2013. Under the terms of this plan, 460,000 shares of common stock have been reserved for issuance at a specific exercise price. The stock option plan provides that the purchase price will be 1.025 times the average closing market price of the Company's shares on the Tokyo Stock Exchange for all trading days for the month immediately preceding the month of the date of issuance of the stock options. However, if the amount calculated by the above formula is less than the closing market price of the shares on the Tokyo Stock Exchange on the day on which the stock options are issued, the purchase price is to be such closing market price. The options vest on July 1, 2015 and are scheduled to expire on June 30, 2018.



Ernst & Young ShinNihon LLC

## Independent Auditor's Report

The Board of Directors  
Kobayashi Pharmaceutical Co., Ltd.

We have audited the accompanying consolidated financial statements of Kobayashi Pharmaceutical Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2013, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

### *Management's Responsibility for the Consolidated Financial Statements*

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

### *Auditor's Responsibility*

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

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

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

### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Kobayashi Pharmaceutical Co., Ltd. and consolidated subsidiaries as at March 31, 2013, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

### *Convenience Translation*

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

June 27, 2013  
Osaka, Japan

*Ernst & Young ShinNihon LLC*



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

As of March 31, 2013

Company	Location	Capital	Main Business
<b>Domestic Consolidated Subsidiaries</b>			
● 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 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 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
● Hefei Kobayashi Daily Products Co., Ltd.	Hefei, China	RMB10,943,640	Daily goods manufacturing
● 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 Pharmaceutical (Taiwan) Co., Ltd.	Taipei, Taiwan	NT\$ 8,000,000	Daily goods sales
● Kobayashi Healthcare (Malaysia) Sdn. Bhd.	Kuala Lumpur, Malaysia	RM 1,000,000	Daily goods sales
● PT. Kobayashi Pharmaceutical Indonesia	Banten, Indonesia	IDR 2,272,500	Daily goods sales
● Kobayashi Healthcare Australia Pty., Ltd.	Melbourne, Australia	A\$ 0	Daily goods sales
● Grabber, Inc.	Michigan, U.S.A.	US\$ 323	Disposable body warmer sales
● YSC, Inc.	Michigan, U.S.A.	US\$ 1,000	Mail order sales of daily goods
■ Kobayashi Pharmaceutical of America, Inc.	California, U.S.A.	US\$ 1	Asset management

### Equity-Methed Affiliates

■ Medicon, Inc.	Chuo-ku, Osaka, Japan	¥160 million	Medical equipment and device import and sales
■ Japan Medicalnext Co., Ltd.	Chuo-ku, Osaka, Japan	¥50 million	Medical equipment and device import and sales

● Consumer Products Business   ■ Medical Devices Business   ▲ Other Business

As of March 31, 2013

## 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:	Akihiro Kobayashi, President (Appointed president on June 27, 2013)
Number of Employees:	2,204 (Consolidated) 1,097 (Unconsolidated)
Consolidated Subsidiaries:	29
Equity-Methed Affiliates:	2

## Investor Information

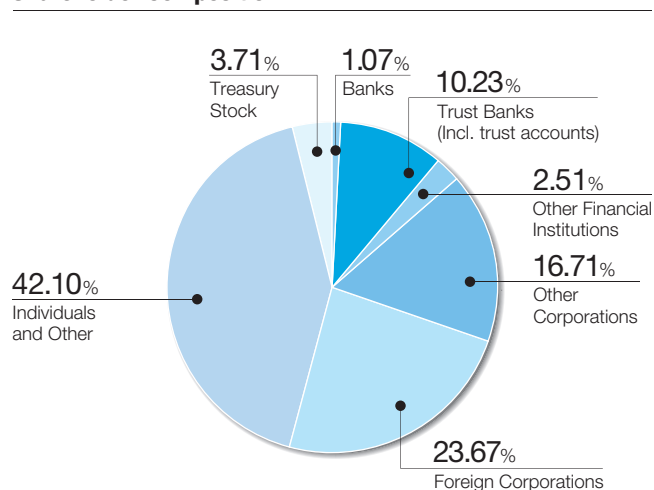
Common Stock:	¥3,450 million
Number of Shares Authorized:	170,100,000
Number of Shares Issued:	42,525,000
Number of Shareholders:	12,596
Stock Exchange Listing:	Tokyo Stock Exchange 1st Section, Osaka Securities Exchange 1st Section
Transfer Agent / Institution Managing Designated:	Mitsubishi UFJ Trust and Banking Corporation
Annual Shareholders' Meeting:	June
Investor Relations:	KOBAYASHI PHARMACEUTICAL CO., LTD. Corporate Communication Department <div> <div>Phone</div> <div>+81-6-6222-0142</div> </div> <div> <div>F A X</div> <div>+81-6-6222-4261</div> </div> <div> <div>E-mail</div> <div>kobainfo@hint2.kobayashi.co.jp</div> </div> <div> <div>U R L</div> <div>http://www.kobayashi.co.jp/english/index.shtml</div> </div>

## Major Shareholders

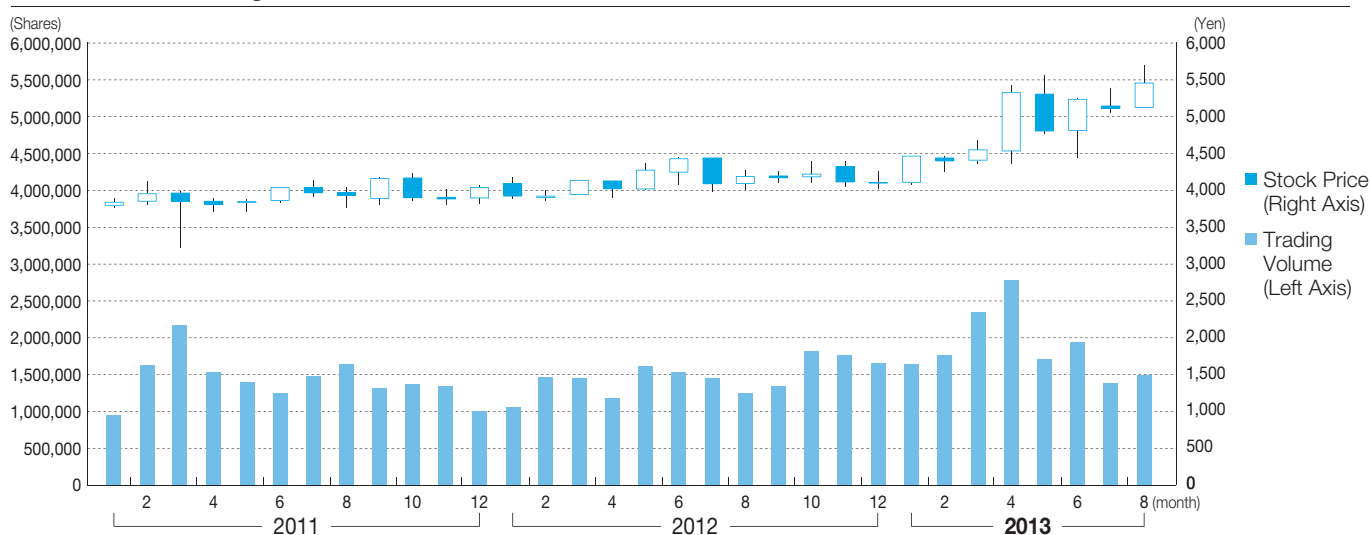
Name	Percentage of Total Shares Held (%)
Akihiro Kobayashi	10.9
Kobayashi International Scholarship Foundation	7.1
Yukako Iue	6.1
State Street Bank and Trust Company	4.0
State Street Bank and Trust Company 505223	3.6
Ikuko Watanabe	3.0
The Chase Manhattan Bank N.A. London S.L. Omnibus Account	3.0
The Master Trust Bank of Japan, Ltd. (trust accounts)	2.7
Teruhisa Miyata	2.7
Ohtori Co., Ltd.	2.6

<sup>1</sup> The percentage of total shares held is calculated by deducting 1,576 thousand shares of treasury stock.

## Shareholder Composition



## Stock Price and Trading Volume



## **KOBAYASHI Pharmaceutical Co., Ltd.**

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