

Annual Report 2014

Year Ended March 31, 2014





Creativity and Innovation

CONTENTS

- 11
- 13
- 18
- 23
- 61
- 62

Forward-looking Statements

Plans, strategies, beliefs and other statements concerning future business operations of the Kobayashi Pharmaceutical Group included in this annual report are forward-

looking statements based not on historical facts but on management's assumptions and beliefs in light of information currently available.

These forward-looking statements include risks, known and unknown, and uncertainties. Actual management achievements and business results may therefore differ significantly from forecasts in this annual report.

Kobayashi Pharmaceutical – Who we are and what we do

New Product Development



"You Make a Wish and We Make it Happen"

A company that develops unique new products and creates new markets.

→ More details on page 9





Corporate History

Founder

Chubei Kobayashi



THE STATE OF THE S

Established in 1919, Kobayashi Pharmaceutical is preparing to celebrate its centenary in three years time, while also striving to

remain relevant

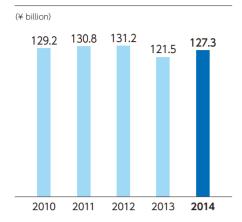
far into the future.

First business

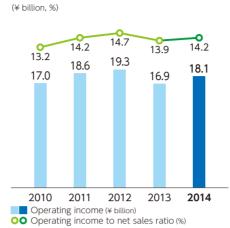
→ More details on page **37**

Financial Highlights (Years ended March 31)

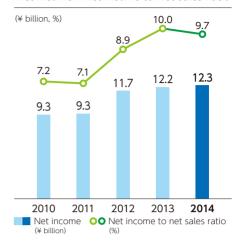
Net Sales



Operating Income / Operating Income to Net Sales Ratio

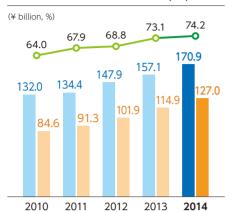


Net Income / Net Income to Net Sales Ratio



	2005	2006	2007	2008	2009
For the year			Millions of yen		
Net sales	215,708	246,852	257,022	228,826	125,693
Cost of sales	143,912	167,239	172,304	147,638	57,013
Gross profit	71,795	79,613	84,717	81,187	68,679
Selling, general and administrative expenses	56,096	62,734	66,688	62,611	52,861
Operating income	15,698	16,879	18,029	18,576	15,818
Income before income taxes and minority interests	12,769	14,009	16,038	15,800	16,270
Net income	6,730	7,474	8,297	8,504	8,853
Cash flows from operating activities	8,364	13,159	8,833	12,192	12,849
Free cash flows*1	4,428	6,745	(2,970)	5,767	11,467
Depreciation and amortization	3,239	3,414	3,375	3,765	4,214
Capital expenditures*2	5,020	2,797	2,229	2,895	3,468
Research and development costs	2,115	2,377	2,476	2,813	3,361
At year-end			Millions of yen		
Current assets	86,704	98,906	102,102	66,069	73,172
Property, plant and equipment, net	25,003	22,788	22,279	15,236	17,618
Current liabilities	65,007	72,040	77,028	37,940	39,834
Long-term liabilities	8,959	10,175	10,291	7,286	9,011
Net assets*3	60,116	66,811	77,236	77,182	76,364
Total assets	134,629	151,945	164,555	122,409	125,210
Working capital*4	21,697	26,866	25,074	28,128	33,337
Interest-bearing debt	3,034	1,633	3,414	726	645
Per share data			Yen		
Net income	160.64	179.17	200.77	205.62	215.89
Cash dividends	33.0	38.0	50.0	54.0	58.0
Payout ratio(%)	20.5	21.2	24.9	26.3	26.9
Cash flows*5	196.7	309.4	207.7	286.7	302.2
Net assets	1,443.30	1,617.10	1,799.87	1,863.24	1,861.14
Financial ratios			%		
Gross profit to net sales ratio	33.3	32.3	33.0	35.5	54.6
Operating income to net sales ratio	7.3	6.8	7.0	8.1	12.6
Net income to net sales ratio	3.1	3.0	3.2	3.7	7.0
Current ratio	133.4	137.3	132.6	174.1	183.7
ROA	10.8	10.6	9.5	10.9	12.4
ROE	11.7	11.8	11.7	11.2	11.5
Equity ratio	44.7	44.0	45.2	63.0	60.9
Debt-equity ratio (times)*6	0.05	0.02	0.05	0.01	0.01
PER (times)*7	18.2	23.4	22.3	18.7	15.1

Total Assets / Net Assets / Equity Ratio



Total assets Net assets OO Equity ratio

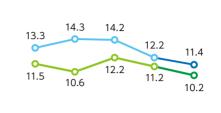
(¥ billion)

Cash Dividends per Share / Payout Ratio



ROA / ROE

(%)



2010	2011	2012	2013	2014	
OO ROA	OO ROE				

2014

Thousands of U.S. dollars*8

1,236,825 526,565

710,260

534,172 176,088

191,090

119,578

131,296 63,680

30,091

38,894

47,901 Thousands of U.S. dollars*8

1,026,185

145,210

332,462

1,233,511

1,660,698

693,723

58 U.S. dollars*8

2.92

0.84

3.09

30.10

94,725

2010	2011	2012	2013	2014	YoY change
		Millions of yen			%
129,184	130,824	131,167	121,532	127,294	4.7
57,295	56,184	54,636	51,732	54,194	4.8
71,889	74,640	76,531	69,800	73,100	4.7
54,848	56,019	57,233	52,896	54,977	3.9
17,041	18,621	19,298	16,904	18,123	7.2
14,553	13,178	19,822	18,854	19,667	4.3
9,250	9,336	11,726	12,177	12,307	1.1
15,319	13,168	17,250	9,243	13,513	46.2
10,618	4,789	14,321	(17,363)	6,554	_
4,257	4,155	3,232	2,970	3,097	4.3
3,562	2,347	2,213	3,174	4,003	26.1
3,962	4,069	4,386	4,545	4,930	8.5
		Millions of yen			%
85,209	88,837	102,538	94,354	105,615	11.9
14,779	14,156	13,628	13,730	14,945	8.8
39,025	34,525	37,791	34,477	34,217	(0.8)
8,344	8,488	8,221	7,757	9,749	25.7
84,603	91,343	101,879	114,873	126,953	10.5
131,972	134,356	147,890	157,107	170,919	8.8
46,184	54,312	64,747	59,876	71,398	19.2
1,708	26	5	4	6	35.0
		Yen			%
225.88	227.98	286.36	297.37	300.55	1.1
62.0	66.0	78.0	82.0	86.0	4.9
27.4	28.9	27.2	27.6	28.6	
360.3	309.7	405.7	217.3	317.8	46.2
2,061.79	2,226.42	2,484.08	2,805.27	3,098.32	10.4
		%			*1 Cash flows from
55.6	57.1	58.3	57.4	57.4	flows from investir
13.2	14.2	14.7	13.9	14.2	*2 Increase in prop and intangible a
7.2	7.1	8.9	10.0	9.7	Information in t Financial Statemer
218.3	257.3	271.3	273.7	308.7	*3 Net assets in 200
13.3	14.3	14.2	12.2	11.4	include minority in *4 Current assets – C
11.5	10.6	12.2	11.2	10.2	*5 Cash flows from o
64.0	67.9	68.8	73.1	74.2	of shares issued *6 Interest-bearing de
0.02	0.0003	0.00005	0.00004	0.00005	*7 Current share pric
17.0	16.9	14.5	15.3	19.8	*8 Japanese yen am into US dollars, f

ws from operating activities + Cash m investing activities

e in property, plant, and equipment angible assets as shown in Segment tion in the Notes to Consolidated I Statements.

ets in 2006 and preceding years do not ninority interests.

assets – Current liabilities

ws from operating activities / Number s issued

pearing debt / Shareholders' equity

share price / Earnings per share

e yen amounts have been converted into US dollars, for convenience only, at the rate of ¥102.92 / US\$1.00 on March 31, 2014.

A Message from the **Pres**ident



Targeting further growth by focusing on new product development, the skincare business and overseas markets

Representative Director, President and Chief Operating Officer

Akihiro Kobayashi

O Major Products that Contributed to Sales in Fiscal 2014



Ekitai Bluelet Okudake Jokin EX
A fragrant toilet
bowl cleaner with a

disinfectant formulation



Shoshugen Inu no Kimochi A deodorizing air freshener for pet dogs



Shouyou
A medicated toothpaste that prevents gingivitis and periodontitis



Keshimin
A skincare product
that helps prevent
skin blemishes



Shoshugen Kaoru Stick An interior fragrance air freshener



Body warmer sold in the United States



Cooling gel sheet sold in Hong Kong

Fiscal 2014 Results

Record profits and 16th straight year of net income growth

In fiscal 2014, ended March 31, 2014, we launched 39 new products in Japan. Some of these products made large contributions to the Group's sales growth, including *Ekitai Bluelet Okudake Jokin EX*, a fragrant toilet bowl cleaner with a disinfectant formulation, and *Shoshugen Inu no Kimochi*, a deodorizing air freshener for pet dogs.

Performance by product category was as follows:

Shipments by Category (YoY change)

Category	YoY change	Key factors
OTC pharmaceuticals	-1.7%	Weak sales of obesity remedies and hay fever-related products
Oral hygiene products	+4.5%	Firm sales of <i>Shouyou</i> medicated toothpaste and interdental cleaning tools
Food products	+6.9%	Strong sales of nutritional supplements
Sanitary products	+5.8%	Firm demand for <i>Keshimin</i> and other skincare products
Deodorizing air fresheners	+6.0%	Strong sales of Shoshugen Kaoru Stick
Household sundries	+2.9%	Firm demand for <i>Kantan Senjomaru</i> pipe cleaner
Body warmers	-6.6%	Weak sales due to above-average winter temperatures

Overseas, sales of *Netsusama Sheet*, a cooling gel sheet, were strong in Southeast Asia and the United States, while sales of body warmers marketed in the United States grew steadily. Total sales in the overseas business expanded 32.6% year on year to ¥12.5 billion.

As a result of the above factors, sales and profits rose year on year in fiscal 2014 and net income increased for the 16th consecutive year. Net income was also a new record for the Kobayashi Pharmaceutical Group.

Developing and Cultivating New Products

Aiming to achieve a new product contribution rate of 10% by drawing on new product ideas from across the Group

Guided by the slogan, "You Make a Wish and We Make it Happen," the Kobayashi Pharmaceutical Group has continued to grow by developing unique products and by creating new markets.

New ideas are the lifeblood of product development. That's why the Group's product development and marketing personnel take part in monthly Idea Meetings to brainstorm new concepts for products that people really want and enjoy using. In a new development this year, we held a Groupwide

Fiscal 2014 Results (Billions of yen)

	Fiscal 2014	YoY change
Net Sales	¥127.3	+4.7%
Operating Income	18.1	+7.2%
Net Income	12.3	+1.1%

Net Income (Billions of yen)



O New Product Idea Meeting for all Employees

A new product Idea Meeting was held on August 22, 2014 for all divisions, the first time all the Company's employees have taken part in an Idea Meeting.



Main Skincare Products



Idea Meeting on August 22, 2014—the anniversary of the Company's establishment—so that all our employees could be involved in creating new product ideas.

In this way, we are working toward one of our key management targets: a new product contribution rate of 10% (the percentage of net sales generated by new products).

We will also focus on cultivating new products. To create products that can contribute to sales and profits five or ten years from now, we will carefully monitor performance after launch and then select strategic growth products with long-term potential. The whole Group will then channel its resources into developing these products further through sales promotions, TV advertising, product upgrades, new product variations and cost reduction.

the two companies, we created a dedicated organization for our skincare business by combining the brands and formulation development capabilities of Rokuyo Pharmaceutical and Juju Cosmetics with our strengths in marketing and sales. This new skincare business started operations in April 2014.

Sales of Rokuyo Pharmaceutical's *Eaude Muge* skincare products are expanding due to steady growth in retail channels, backed up by our sales capabilities. We also plan to grow the Juju Cosmetics brand, leveraging its unique hyaluronic acid and egg yolk lipoid* technologies.

By creating products that address latent needs in the skincare field, we aim to boost sales from around ¥5.0 billion now to ¥10.0 billion in fiscal 2018.

*A natural oil replenishing ingredient extracted from egg yolk that moisturizes the skin.

Strategic Growth Businesses

Skincare Business

We have positioned skincare business as a strategic business, aiming for sales of ¥10 billion in fiscal 2018.

We acquired Rokuyo Pharmaceutical Co., Ltd. and Juju Cosmetics Co., Ltd. in 2013 to expand our skincare business. After acquiring

Overseas Business

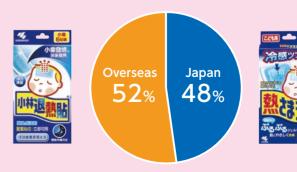
Targeting further growth in the United States, China and Southeast Asia

In fiscal 2014, overseas sales of our cooling gel sheet exceeded sales in Japan for the first time. This mainly reflected strong sales of infant versions in China and Southeast Asia, as well as rising demand for our cooling gel sheet in Southeast Asia as a way to beat the heat.

New Product Contribution Rate (%)



O Sales Breakdown for Cooling Gel Sheet





Body warmers are the main product in our overseas business. We plan to increase sales by expanding our sales areas, mainly in the United States and China, and by increasing the number of stores that stock our body warmer range.

Ammeltz, an external anti-inflammatory for stiff shoulders, is already sold in countries such as Hong Kong, Singapore and Malaysia. We plan to rapidly secure regulatory approval and launch Ammeltz in other markets.

Forecasts for Fiscal 2015

Aiming for higher sales and profits and a 17th straight year of net income growth

In fiscal 2015, ending March 31, 2015, we plan to launch 25 new products that address issues faced by consumers and that satisfy latent needs. We are aiming for sales of ¥8.0 billion from those products. We are also targeting double-digit sales growth in our two strategic growth businesses—skincare and overseas operations.

Based on these strategies, we are aiming for higher sales and profits in fiscal 2015 and a 17th consecutive year of net income growth, as well as another year of record profits.

Shareholder Returns

Dividend raised for 15th consecutive year

The Kobayashi Pharmaceutical Group aims to return profits to shareholders through stable dividends that also reflect earnings performance. Based on this policy, we paid a full-year dividend of ¥86.0 per share for fiscal 2014, an increase of ¥4.0 from the previous fiscal year. This marked the 15th consecutive year of dividend hikes.

Also, in order to further increase shareholder returns and respond to changes in the operating environment through the use of a flexible capital policy, we conducted a share buyback in May–June 2014 with a cap of ¥1.5 billion or 230,000 shares.

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

Fiscal 2015 Forecasts (Billions of yen)

	Fiscal 2015	YoY change
Net Sales	¥132.0	+3.7%
Operating Income	18.4	+1.5%
Net Income	12.5	+1.6%

O Dividends (Yen)

15 consecutive years of dividend hikes	70.0 82.0 86.0
50.0 54.0	78.0 62.0 0 58.0 62.0 66.0
33.0 38.0 12.5 15.0 17.5 18.5 21.0 21.0	
1999 2000 2001 2002 2003 2004 2005 2006 2007 200	8 2009 2010 2011 2012 2013 2014

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

Kobayashi Pharmaceutical's Business Model

Securing large market shares and high margins by developing unique new products and creating new markets

Develop unique new products



Clearly communicate the product to consumers



Create new markets and capture large market shares

Generate new ideas

- Identify ideas for new products that people really want and enjoy using
- 2 Conduct Idea Meetings with the President to thoroughly discuss products that have the potential to offer new value

Idea Meetings



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

Easy-to-understand product names and packaging

- Product names that clearly show the product's purpose
- 2 Large fonts and bright colors
- Brief explanations describing product features and typical application



Capture large market shares



Eye wash

Breath freshener

78.4%



Deodorizing cleaner for toilets



Deodorizing air fresheners

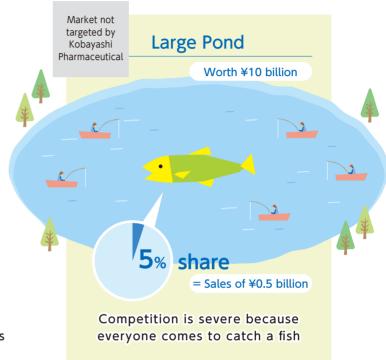
*Domestic market share (Kobayashi Pharmaceutical data)

A Big Fish in a Small Pond

By finding hidden ponds (markets), we can become a big fish by taking advantage of the pond's benefits without fear of competition.

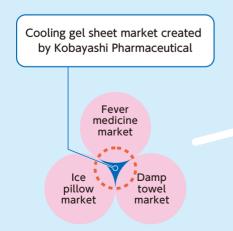


Limited competition in small ponds means we can secure large market shares and high margins



Case Study: Cooling Gel Sheet

In the past, there were only three ways to help children beat fevers: apply damp towels, use ice pillows or administer fever medicine. This prompted Kobayashi Pharmaceutical to develop cooling gel sheets called *Netsusama Sheet*, which are applied to the forehead at the first sign of fever and remain in place due to their adhesive backs. A new market for forehead cooling gel sheets was born.







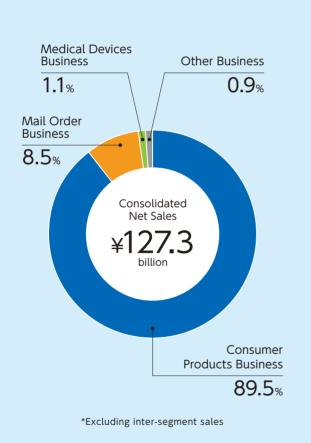
*Domestic market share (Kobayashi Pharmaceutical data)

Kobayashi Pharmaceutical Snapshot

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

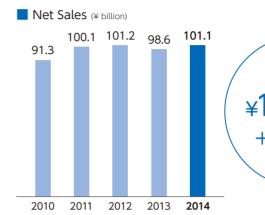
The Group's operations are focused on the Consumer Products Business and the Mail Order Business.

Net Sales Breakdown (fiscal 2014)



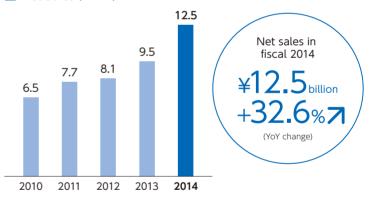
Consumer Products Business

Domestic Business



Overseas Business

Net Sales (¥ billion)



Mail Order Business

Net Sales (¥ billion)

9.8

10.3

10.1

10.7

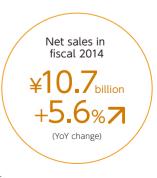
2012

2013

2014

2010

2011



Net sales in fiscal 2014

(YoY change)

The Group's mainstay business, involved in the development, manufacture and sale of products that satisfy unmet consumer needs in Japan and overseas.

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



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



Breath Care
Oral breath freshener capsules that refresh bad breath originating from the stomach



Netsusama SheetCooling sheet containing cooling gel and beads.



Ekitai Bluelet Okudake
A toilet deodorizer
and freshener placed
in toilet tank sinks.



Oheya no Shoshugen
A powerful air freshener
that eliminates annoying
indoor odors.

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



Hothands
A body warmer product sold in the United States.



Be KOOOLA cooling gel sheet sold in the United States.



Nuan Bao BaoA body warmer product sold in China.



Bin Bao Tie
A cooling gel sheet
sold in China.



KOOL FEVERA cooling gel sheet sold in Singapore.

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



Vegetables and Enzymes
A nutritional supplement
containing a fermented blend of
17 vegetables and seven grains.



Aloe Ikumo EkiA medicated tonic that promotes hair growth.



HifmidA range of skincare products that complement basic skin functions.

Consumer Products Business

Domestic Business

Fiscal 2014 Results

Net Sales

¥101.1 billion +2.6% 7

Operating Income

¥17.7 billion

Shipments by Category (YoY change)

Weak sales of obesity remedies, partly due to a shrinking market **-1.7**% pharmaceuticals Poor sales of hay fever-related products amid low pollen levels Oral hygiene products Firm sales of Shouyou and Tomarina medicated +4.5% toothpaste and interdental cleaning tools Food products Strong demand for nutritional supplements +6.9% Sanitary products Healthy sales of Keshimin and other skincare products +5.8% Deodorizing +6.0% Strong sales of Shoshugen Kaoru Stick and Bluelet air fresheners Household Firm demand for Kantan Senjomaru pipe cleaner sundries -6.6% Weak sales due to above-average winter temperatures **Body warmers**

Results Highlights









Market Environment and Strategy

Focusing on developing new products with high added value

Despite growing expectations of a recovery in the Japanese economy due to the weak yen and gains in equity markets, conditions in the consumer market remain difficult, partly due to the hike in consumption tax in April 2014. Amid forecasts of a pullback in demand due to a surge in demand before the increase in consumption tax, we decided to launch most of our 16 new spring products in April 2014. These new products include Sawaday PINKPINK, a deodorizing air freshener with a fragrance and design aimed at young women, and Men's Keshimin, a skincare product for men that helps prevent blotches. These products are selling well. Existing products in the Consumer Products Business have been affected by the pullback in demand after the consumption tax hike. These include Bluelet, a fragrant toilet bowl cleaner, Toughdent, a denture cleanser, and Shouyou medicated toothpaste. To counter this impact, we launched new products to stimulate demand and worked to revitalize in-store sales areas. These efforts paid off, with sales almost back up to year-earlier levels by June 2014.

Consumer spending remains weak, but shoppers are increasingly choosing high value-added products that incorporate fresh ideas and attractive designs. Sales of products with sophisticated fragrances and designs, such

as Shoshugen Kaoru Stick and Sawaday PINKPINK, are growing faster than sales of our existing large-volume, low-price products. We expect this trend to continue going forward.

Guided by our brand slogan, "You Make a Wish and We Make it Happen," we will continue to focus on developing new high value-added products that our customers really enjoy using.

O Three new products for spring 2014







Men's Keshimin Cream



Men's Keshimin Face Lotion

Strategic Growth Businesses

Targeting skincare product sales of ¥10 billion

In 2013, we acquired Rokuyo Pharmaceutical Co., Ltd. and Juju Cosmetics Co., Ltd. to expand our skincare business. In April 2014 we established a dedicated organization for our skincare business by combining the brands and formulation development capabilities of Rokuyo Pharmaceutical and Juju Cosmetics with our own strengths in marketing and sales. Under this new organization, we are working to develop new products, cultivate brands and expand sales channels.

Sales of Rokuyo Pharmaceutical's *Eaude Muge* skincare products, which help prevent skin disorders and spots, are expanding due to steady growth in retail channels, backed up by our sales capabilities. We also plan to grow the Juju Cosmetics brand, leveraging its unique technologies in areas such as hyaluronic acid and egg yolk lipoids*. In our proprietary *Keshimin* skincare

range, which is celebrating its 10th anniversary, we launched *Men's Keshimin*, a skincare product for men that helps prevent blotches. In the five months since it was launched in February 2014, *Men's Keshimin* has already achieved over 50% of its first full-year sales target.

In the skincare business, we will continue to deliver products that satisfy latent needs and address issues faced by consumers, in line with our brand slogan, "You Make a Wish and We Make it Happen." Based on that approach, we aim to boost sales in the skincare field from around ¥5.0 billion today to ¥10.0 billion in fiscal 2018.

 $^{^*\!}A$ natural oil replenishing ingredient extracted from egg yolk that helps to moisturize skin.

Consumer Products Business

Overseas **Business**

Fiscal 2014 Results

Net Sales

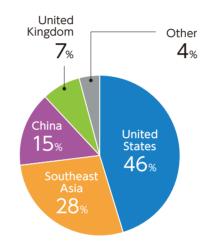
¥12.5billion +32.6%

Operating Income (after goodwill amortization)

¥0.22 billion

+¥0.26billion 7

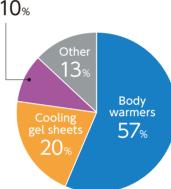
O Sales Breakdown by Region



Sales Breakdown by Product

External anti-inflammatory products

10%



Results Highlights

Overseas sales of cooling gel sheets exceed domestic sales



Strong sales of body warmers in the United States

We enhanced point-of-sale displays and stepped up other efforts to promote our body warmers as a way to keep warm on cold days. Sales were also boosted by an especially

cold winter.





HOTHANDS

United States

Stepping up efforts to promote our body warmers as a way to keep warm on cold days

In the United States, body warmers are used to treat back problems and other ailments. People also use them to keep warm when watching sports events and taking part in outdoor activities. In 2002, the Kobayashi Pharmaceutical Group moved into the medical body warmer market in the United States. We subsequently acquired two local makers of body warmers, HeatMax, Inc. in 2006 and Grabber, Inc. in 2012. Our Group now controls 50% of the body warmer market in the United States.

We are aiming to increase sales further by working to establish body warmers as an everyday way to keep warm on cold days. Our body warmers have typically been displayed in sports and outdoor sales areas, but we are now reinforcing in-store sales by placing them in point-of-sale areas and other areas where shoppers can buy them on the spur of the moment. We are also focusing on increasing the number of retailers that stock our body warmer range.

China

Increasing sales of body warmers in inland markets and reinforcing sales of cooling gel sheets for infants

Sales of body warmers have grown steadily in China since their launch in 2003. So far, sales have been centered on coastal cities such as Shanghai and Beijing, but we launched more affordable versions of our body warmers in inland markets in September 2012. We are targeting further growth in sales by raising brand visibility through in-store sales promotions, product endorsements and other strategies.

We are also focusing on sales of cooling gel sheets for the forehead. Sales of infant versions are growing strongly in China, where the one-child policy means parents tend to be even more protective about their babies than in other countries. We ran a TV advertising campaign for infant cooling gel sheets in July 2013 as part of efforts to boost sales.



Body warmer marketed as *Nuan Bao Bao* in China



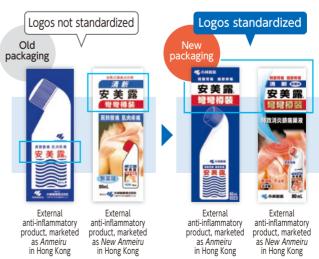
Cooling gel sheet marketed as *Bin Bao Tie* in China

Southeast Asia

Expanding the sales area for external anti-inflammatory products and stepping up sales of cooling gel sheets

The Group's overseas business began around four decades ago with the launch of an external anti-inflammatory treatment for stiff shoulders, in Southeast Asia. The product is now sold in markets across the region, such as Malaysia, Singapore, Indonesia and Thailand. Targeting further growth in sales, we plan to standardize packaging logos in order to reinforce the brand. We are also aiming to rapidly secure regulatory approval and launch the product in other markets.

Sales of cooling gel sheets are also expanding in Southeast Asia, where the practice of applying cooling sheets to foreheads in order to alleviate fever is now widespread. Southeast Asia has many hot and humid countries, so we are also using TV commercials to promote cooling gel sheets as a way of beating the everyday heat. As in China, parents in Southeast Asia are particularly protective towards their babies. Amid strong demand for infant versions of cooling gel sheets, more retailers are stocking our products, helping to drive sales.



Mail Order Business

Fiscal 2014 Results

Net Sales

¥10.7billion +5.6%

(YoY change)

Operating Income

¥0.36 billion +125.0% 7

O Products driving sales



Vegetables and Enzymes Nutritional supplement



Aloe Ikumo Eki Medicated hair tonic





Hifmid Skincare product

Market Environment and Strategy

Using our strengths in research to reinforce new product development

Since launching our Mail Order Business in 1999, we have leveraged our unique strengths to expand the business. These strengths include quality only made possible by a pharmaceutical company, additive-free nutritional supplements that ensure customer peace of mind, clear labeling of formulations and active ingredients, and specialist customer support from pharmacists, supplement advisors and nutritionists.

Targeting further growth, we are stepping up research into nutritional supplement ingredients such as enzymes, using the results of this research to develop new products. Our *Hifmid* range of skincare products is celebrating its 10th anniversary in 2014. To mark this event, we plan to make improvements to formulations and launch new products. In our haircare range, sales of *Aloe Ikumo Eki* and shampoo and conditioner products

containing aloe are growing steadily. In November 2013, we launched the *Ikujyun Eki* series of aloe-based skincare products and we plan to push forward with research into aloe to create new products.

Demand for our products in the Mail Order Business spiked ahead of the hike in consumption tax in April 2014. However, demand has fallen back since the tax was raised. The mail order market continues to expand, supported by wider uptake of smartphones and tablet PCs, but this growth is attracting a large number of new market entrants. Leveraging our unique strengths, we will continue to focus on developing new products, while also actively working to boost sales through sales campaigns to mark the 15th anniversary of our Mail Order Business, advertising and sales promotion activities.

Building Stakeholder Confidence Aimed at Maximizing Corporate Value

Corporate Governance Framework

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

Enhancing Management Transparency

Monitoring Management from Multiple Viewpoints

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

Board of Directors

We have selected outside directors since 2008 with the purpose of strengthening the board of directors' supervisory function. The board of directors consists of eight 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 audit and supervisory board members, including the two outside members. The Company's outside directors and outside audit and supervisory board members actively participate in discussions and fulfill their oversight role from an independent perspective.

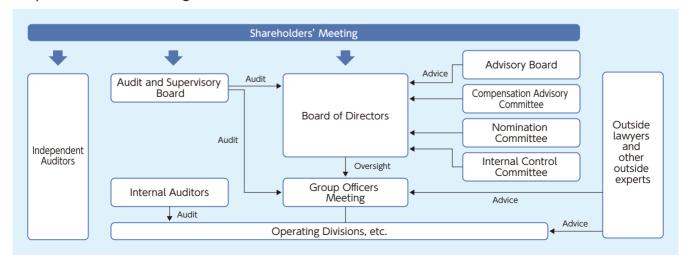
Principal Activities of Outside Directors and Outside Audit and Supervisory Board Members in Fiscal 2014

Title	Name	Principal Activities
Outside	Haruo Tsuji	Attended 14 of 14 board of directors meetings
Outside Directors	Kunio Ito	Attended 9 of 10 board of directors meetings held since appointment on June 27, 2013
Outside Hayashi Audit and		Attended 13 of 14 board of directors meetings Attended 13 of 13 audit and supervisory board meetings
Supervisory Board Members	Ryuji Sakai	Attended 12 of 14 board of directors meetings Attended 12 of 13 audit and supervisory board meetings

Group Officers Meeting (GOM)

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

Corporate Governance Organization



Advisory Board

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

Compensation Advisory Committee

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

Nomination Committee

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

Internal Control Committee

The Internal Control Committee consists of principal directors, who deliberate primarily on basic issues relating to compliance

and the development of internal control systems. The committee also formulates the basic plan for internal control and oversees the internal control management framework.

Audit and Supervisory Board

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

"LA & LA" — Utilizing Employee Feedback

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

Information Disclosure

Pursuing Timely and Easy-to-Understand Disclosure

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

Furthermore, the Aoitori Report, which is distributed to individual shareholders twice a year, summarizes our business operations and various business

Aoitori Report

activities, indicating our commitment to disclose effective and useful information.

Internal Control Systems and Compliance

The Kobayashi Pharmaceutical Group is actively building internal frameworks to adhere to relevant laws and regulations, such as ensuring that appropriate financial statements are prepared and that operations comply with stipulations of the Companies Act and Financial Instrument and Exchange Act of

Japan. In addition, we conduct a variety of educational training programs to ensure that all board members, executive officers and employees comply with laws and regulations as well as follow a strict code of corporate conduct and ethics.

Internal Control System

Strengthening Internal Control for Expansion of Overseas Business

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

In fiscal 2014, the committee worked on reinforcing the corporate governance and compliance framework to support overseas expansion. This included creating a quality assurance system for products sold overseas, establishing a compliance program for 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

Compliance

Compliance training that focuses on continuity

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

Educational training through the In-house Newsletter and intranet

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



An article about compliance in the In-house Newsletter

over our intranet for all employees, board members and executive officers.

Fiscal 2014 Compliance e-Learning Sessions

Month Held	Theme
April 2013	Act against Unjustifiable Premiums and Misleading Representations
May 2013	Workplace diversity and human rights
June 2013	Reinforcing compliance
July 2013	Laws prohibiting insider trading
August 2013	Pharmaceutical Affairs Act basics
September 2013	Understanding the risks of social media
October 2013	Avoiding compliance violations in the workplace
November 2013	Preventing leaks of personal information
December 2013	Compliance issues specific to the Kobayashi Pharmaceutical Group
January 2014	Act for Special Measures to Prevent Unjustified Transfer of Consumption Tax to Consumers
February 2014	Road Traffic Act (bicycle-related sections)
March 2014	Environmental compliance

Group Training Sessions

In fiscal 2014, group training sessions were held for all managers on topics such as personnel management and insider trading as part of training to prevent compliance violations at all workplaces. Newly graduated employees were also provided with general compliance training to support their first steps into the workplace.

Global Compliance Policy

Given the growth of our overseas business, in fiscal 2014 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 board members, executive officers and employees both in Japan and overseas have signed written pledges about complying with the Executive Officer and Employee Code of Conduct.

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. Since fiscal 2013, Whistleblower System Seminars have been held by the lawyer handling employee consultations externally. The seminars feature actual examples of whistleblower cases to help employees feel more familiar with the Employee Consulting Center. In fiscal 2014, the seminars were held at key domestic business sites, completing the program in Japan. The seminar program has led to greater awareness of the Employee Consulting Center and an increase in the number of employees seeking advice.

Risk Management Framework

We incorporate opinions of external experts not only into our management meetings, but 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 Five Categories

In fiscal 2014, we focused our efforts to reduce business risks under five 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 to receive feedback. As a result, measures such as adding checks to daily business activities and implementing training were taken.

Business Continuity Plan

Bolstering Our Ability to Respond to Emergencies

In 2008, we began bolstering our measures to deal with disasters, accidents and pandemics to better manage risks to our businesses. This culminated in spring 2010 with the creation of a business continuity plan addressing aggressive influenza strains. In 2011 we drew up a business continuity plan

on disasters, given our experiences from the Great East Japan Earthquake. In this regard, we are carefully preparing ourselves for emergencies by constantly revising our business continuity plan every year.

CSR Initiatives

Guided by its management philosophy of "providing people and society with comfort," the Kobayashi Pharmaceutical Group's CSR policy is to contribute to society by delivering products that satisfy consumer needs, in line with its slogan

"You Make a Wish and We Make it Happen." We aim to earn the trust of all stakeholders by applying this thinking to our relationship with local communities and the environment, based on the Group's unique perspective.

Contributing to Society

Providing Job Opportunities for Disabled People

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

Two people with disabilities were initially employed, mainly to provide office cleaning services for Toyama Kobayashi Pharmaceutical Co., Ltd. The company now employs nine people with disabilities, and their daily work duties have expanded to include waste material sorting, preparation of raw materials for production, equipment cleaning and outdoor cleaning.

In January 2014, Kobayashi Pharmaceutical Challenged Co., Ltd. opened a new business site in Sendai (Taiwa Town, Miyagi), taking on five more people with disabilities to provide office cleaning and waste material sorting services to Sendai

Kobayashi Pharmaceutical Co., Ltd.

The company plans to expand the type of services it provides and take on more people.



Preparation of raw materials for production

Equipment cleaning



Donating Bio-toilets for Mount Fuji—a Cultural World Heritage Site

In October 2013, we donated bio-toilets for Mount Fuji, a cultural site on UNESCO's World Heritage list. Bio-toilets use microbes to process human waste.

A lack of toilet facilities means pollution from human waste is a growing problem at popular tourist sites with World Heritage status. In 2009, the 40th anniversary of our *Bluelet* toilet bowl cleaner, the Group started donating bio-toilets to these sites. Bio-toilets do not need to be connected to water and sewage systems and pose no risk of environmental pollution from effluent leaks. This latest bio-toilet donation for Mount Fuji is our fifth. We have previously presented bio-toilets to three natural sites with World Heritage status in Japan—Shiretoko, Shirakami Sanchi and Yakushima—and to one cultural site, the Iwami Ginzan Silver Mine. The Mount Fuji biotoilets will be installed at the fifth station during the climbing season (late June to late September).

In fiscal 2015, we plan to donate another bio-toilets for the Ogasawara Islands, a natural site on the World Heritage list.



Improving Toilet Facilities at Elementary Schools

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

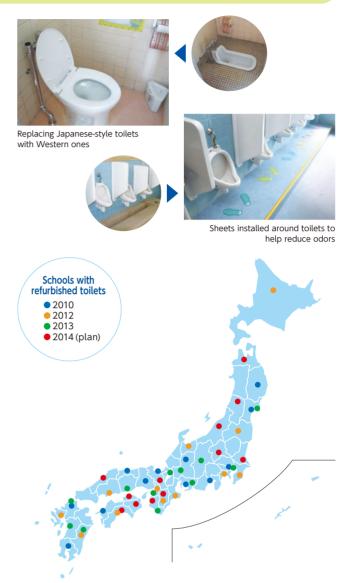
In order to help resolve these issues, we have been working since 2010 to improve the conditions of school toilet facilities by making them more comfortable and easier to use for children.

In 2013, we implemented our third toilet renovation program at 12 elementary schools. The work included replacing Japanese-style toilets with Western ones and installing sheets around toilets to help reduce odors. Also, with many children shy about doing their bowel movements at school, we sent employees to each school after the refurbishments to run workshops and other activities that teach children about the importance of going to the toilet.

We plan to refurbish 12 more school toilet facilities across Japan in 2014, aiming to refurbish a total of 100 school toilets by 2019, the Company's centenary year.



Refurbished toilet handover ceremony (Nishigou Elementary School, Tome City, Miyagi)





Schools earmarked for toilet refurbishments in 2014

- Yokouchi Elementary School, Aomori City, Aomori
- Ariya Elementary School, Kaneyama Town, Yamagata
- Kameda Elementary School, Niigata City, Niigata
- Kaneko-minami Elementary School, Takasaki City, Gunma
- Hinode Elementary School, Itako City, Ibaraki
- Yawata Elementary School, Yawata City, Kyoto

- Koriyama-minami Elementary School, Yamatokoriyama City, Nara
- Minato Elementary School, Arida City, Wakayama
- Kokufu Elementary School, Tokushima City, Tokushima
- Danshi Elementary School, Takamatsu City, Kagawa
- Nunoshida Elementary School, Kochi City, Kochi
- Nima Elementary School, Ohda City, Shimane

Directors, Audit and Supervisory Board Members and Executive Officers (As of June 27, 2014)

Directors



Kazumasa Kobayashi Chairman of the Board and Chief Executive Officer



Yutaka Kobayashi Vice Chairman of the Board



Akihiro Kobayashi Representative Director, President and Chief Operating Officer



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



Satoshi Yamane Executive Director Senior General Manager Corporate Administration Headquarters



Susumu Horiuchi Director Senior General Manager Sales Division



Haruo Tsuji Outside Director



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

Audit and Supervisory Board Members



Masahiro Hiraoka Audit and Supervisory Board Member



Hiroshi Goto Audit and Supervisory Board Member



Hiroshi Hayashi Outside Audit and Supervisory Board Member Hayashi Certified Tax Accountant Office



Ryuji Sakai Outside Audit and Supervisory Board Member Partner, Nagashima, Ohno & Tsunematsu

Executive Officers

Hiroshi Nomoto

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

Hidetsugu Yamamoto

Executive Officer Senior General Manager Business Transformation Center Corporate Administration Headquarters

Kenichiro Tanaka

Executive Officer Deputy Senior General Manager Sales Division General Manager of the Regional Area Sales Division

Kunio Moriya

Senior Executive Officer Senior General Manager Skincare Division Product Development and Marketing Headquarters, President of Juju Cosmetics Co., Ltd.

Toshio Namba

Executive Officer Senior General Manager Central Research Institute Product Development and Marketing Headquarters

Kazuhito Miyanishi

Executive Officer Senior General Manager International Business Division

Tetsuji Nishioka

Executive Officer Senior General Manager Manufacturing Division

Naoki Ayabe

Executive Officer
General Manager
of the Metropolitan Area
Sales Division

Kazuyuki Katsuki

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

Fujito Owaki

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

Note: The Company uses the executive officer system. Four directors-Akihiro Kobayashi, Takashi Tsujino, Satoshi Yamane, and Susumu Horiuchi-each concurrently serve as executive officers.

Financial Section

Contents

- 25 Analysis of Financial Results
- **30** Risk Factors
- 31 Consolidated Balance Sheet
- 33 Consolidated Statement of Income
- Consolidated Statement of Comprehensive Income
 Consolidated Statement of Changes in Net Assets
- 35 Consolidated Statement of Cash Flows
- 36 Notes to Consolidated Financial Statements
- Independent Auditor's Report

Analysis of Financial Results

Consolidated Business Results

Net Sales

Sales in the Consumer Products Business were supported by the launch of 39 new products in Japan, sales of oral hygiene products, sanitary products and deodorizing air fresheners, and strong overseas sales of body warmers and *Netsusama Sheet*, a cooling gel sheet. Also, sales increased year on year in the Mail Order Business, which sells nutritional supplements and skincare products.

As a result, net sales rose 4.7% year on year to $\pm 127,294$ million.

Gross Profit

Cost of sales increased 4.8% year on year to ¥54,194 million and gross profit rose 4.7% to ¥73,100 million. The gross profit to net sales ratio was steady year on year at 57.4%.

Operating Income

The Group invested heavily in advertising, especially in the overseas business, and conducted strategic sales promotion activities such as direct mail promotions in the Mail Order Business. As a result, advertising expenses declined 2.8% year on year to $\pm 13,419$ million and sales promotions expenses rose $\pm 11.3\%$ to $\pm 7,801$ million. The advertising expenses to net sales ratio declined 0.9 percentage points to $\pm 10.5\%$ and the sales promotions expenses to net sales ratio rose 0.3 percentage points to 6.1%.

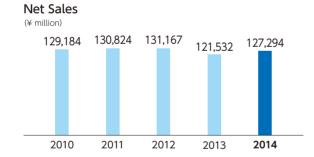
The Consumer Products Business launched 39 new products and the Mail Order Business launched 13 new products in fiscal 2014, resulting in R&D expenses of ¥4,930 million, an increase of 8.5% year on year. The R&D expenses to net sales ratio rose 0.2 percentage points to 3.9%.

Due to the above factors, selling, general and administrative expenses increased 3.9% year on year to \pm 54,977 million. As a result, operating income increased 7.2% year on year to \pm 18,123 million and the operating income to net sales ratio rose 0.3 percentage points to 14.2%.

Net Income

In the previous fiscal year, effective May 31, 2012, the Company sold 80% of its shares in consolidated subsidiary Kobayashi Medical Co., Ltd. to Mitsubishi Corporation, resulting in gains on sales of shares in a subsidiary of ¥2,285 million. Also in the previous fiscal year, the Company booked a loss on devaluation of investments in securities of ¥409 million and provisions for loss on business liquidation of ¥1,047 million.

As a result, net income increased 1.1% year on year to \pm 12,307 million, a record for the Kobayashi Pharmaceutical Group. Fiscal 2014 also marked the 16th consecutive year of growth in net income. Net income per share increased \pm 3.18 year on year to \pm 300.55.

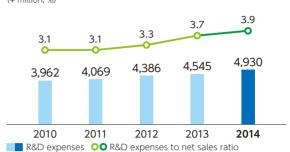




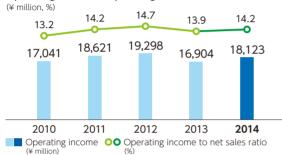
Advertising Expenses / Advertising Expenses to Net Sales Ratio / Sales Promotion Expenses / Sales Promotions Expenses to Net Sales Ratio



R&D Expenses / R&D Expenses to Net Sales Ratio (¥ million, %)

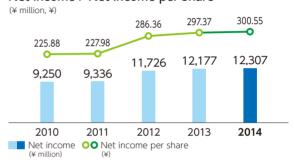


Operating Income / Operating Income to Net Sales Ratio



Net Income / Net Income per Share

(¥ million)



Reportable Segment Business Results

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-segment sales and transfers, which amounted to $\pm 7,406$ million in fiscal 2014, comprising $\pm 3,192$ million for the Consumer Products Business and $\pm 4,214$ million for the Other Business.

(Millions o	of yen)
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N 1 C 1 1 C 1					(Millions of yell)
Net Sales by Segment	2010	2011	2012	2013	2014
1. Consumer Products Business					
Sales to third parties	¥ 115,478	¥ 107,657	¥ 109,203	¥ 107,783	¥ 113,980
Inter-segment sales and transfers	37	3,136	3,221	3,050	3,192
Total	115,515	110,793	112,424	110,833	117,172
2. Mail Order Business					
Sales to third parties	_	9,872	10,381	10,180	10,747
3. Medical Devices Business					
Sales to third parties	12,111	12,184	10,476	2,445	1,429
4. Other Business					
Sales to third parties	1,595	1,111	1,107	1,124	1,138
Inter-segment sales and transfers	5,485	5,150	5,147	5,393	4,214
Total	¥ 7,080	¥ 6,261	¥ 6,254	¥ 6,517	¥ 5,352

(Millions of yen)

Operating Income by Segment	2010		2011		2012		2013		2014	
1. Consumer Products Business	¥	16,507	¥	18,966	¥	18,317	¥	16,040	¥	17,067
2. Mail Order Business		_		311		132		163		368
3. Medical Devices Business		144		251		292		10		282
4. Other Business		400		171		554		680		298

1. Consumer Products Business

In the fiscal year under review, we launched a total of 39 new products in this segment in order to create new markets and expand existing markets. There were particularly strong contributions to earnings from *Ekitai Bluelet Okudake Jokin EX*, a fragrant toilet bowl cleaner with a disinfectant formulation, and *Shoshugen Inu no Kimochi*, a deodorizing air freshener for pet dogs.

In existing products, *Ito Yoji* and *Yawaraka Shikan Brush*, both interdental cleaning tools, and *Shouyou*, a medicated toothpaste that prevents gingivitis and periodontitis, sold well in the oral hygiene category, while *Keshimin*, a skincare product that helps prevent skin blemishes, recorded strong sales in the sanitary products category. In the deodorizing air freshener category, sales of interior fragrance air freshener *Shoshugen Kaoru Stick* and the *Bluelet* range of toilet bowl cleaners were strong, while *Kantan Senjomaru*, an easy-to-use pipe cleaner, recorded strong sales in the household sundries category. In the food products category,

Kobayashi Pharmaceutical's Tochucha health tea sold well. In addition, in the sanitary products category, overseas sales of Netsusama Sheet, a cooling gel sheet were strong in Southeast Asia and the United States, while sales of body warmers marketed in the United States grew steadily.

However, sales of OTC pharmaceuticals declined year on year, mainly reflecting poor sales of eyewash product *Eyebon* due to low pollen levels and weak sales of *Naicitol*, a herbal medicine that promotes the breakdown of fat, partly due to contraction in the market.

As a result, net sales in the Consumer Products Business increased 5.7% year on year to $\pm 117,172$ million and operating income rose 6.4% to $\pm 17,067$ million. The international business division accounted for $\pm 12,505$ million of the segment's sales, up 32.6% year on year.

Net Sales by Category

Net Sales by Calegory	20	13	20	14	Changes		
	Sales (Millions of yen)	% of Total Sales	Sales (Millions of yen)	% of Total Sales	Sales (Millions of yen)	Changes (%)	
OTC pharmaceuticals	¥ 22,619	20.4	¥ 22,557	19.3	¥ (61)	(0.3)	
Oral hygiene products	16,405	14.8	17,042	14.5	636	3.9	
Sanitary products	15,819	14.2	18,133	15.5	2,313	14.6	
Deodorizing air fresheners	29,816	26.9	31,485	26.9	1,668	5.6	
Household sundries	4,195	3.8	4,596	3.9	400	9.5	
Food products	8,255	7.5	8,895	7.6	640	7.8	
Body warmers	13,719	12.4	14,460	12.3	740	5.4	
Total	¥ 110,833	100.0	¥ 117,172	100.0	¥ 6,339	5.7	

Number of Profitable and Unprofitable Brands

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

Trends in Number of Profitable and Unprofitable Brands

	2010	2011	2012	2013	2014
Profitable brands	94	96	98	101	104
Unprofitable brands	49	50	48	49	30

2. Mail Order Business

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

New Product Contribution Rate

We refer to the percentage of net sales generated by new products as the new product contribution rate. We aim to achieve a new product contribution rate of 10%. In the fiscal year under review, we launched 39 new products with a combined new product contribution rate of 7.5%.

New Product Contribution Rate

New product contribution rate 8.9 6.0 5.5 7.9 7.5

Skincare products such as *Hifmid* and nutritional supplement *Vegetables and Enzymes* registered solid sales growth.

As a result, net sales in the Mail Order Business increased 5.6% year on year to $\pm 10,747$ million and operating income rose 125.0% to ± 368 million.

3. Medical Devices Business

Effective May 31, 2012, the Company sold 80% of its shares in consolidated subsidiary Kobayashi Medical Co., Ltd. to Mitsubishi Corporation, making the company an equity-method affiliate. On November 1, 2012, the company's name was changed to Japan Medicalnext Co., Ltd. In addition, effective May 20, 2013,

the Company transferred its remaining shares in the company to Mitsubishi Corporation.

As a result, net sales in the Medical Devices Business declined 41.6% year on year to \pm 1,429 million and operating income rose 2.577.1% to \pm 282 million.

4. 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 Company's three other business segment. Although each company affiliated to this segment conducts business on a financially independent basis, one of the objectives is to contribute to the profit of the three

other segments. The Group therefore revises the delivery price of the materials and services provided by companies in this segment as required.

As a result, net sales in the Other Business declined 17.9% year on year to ± 5.352 million and operating income fell 56.1% to ± 298 million.

Financial Position

Assets

Total assets as of the end of the fiscal year were ¥170,919 million, an increase of 8.8% compared with the end of the previous fiscal year.

Current assets rose 11.9% year on year to \pm 105,615 million, mainly reflecting an increase in cash and time deposits of \pm 5.886 million.

Property, plant and equipment rose 8.9% year on year to $\pm 14,945$ million, primarily due to an increase in machinery, equipment and vehicles of $\pm 1,035$ million.

Investments and other assets rose 2.7% year on year to $\pm 50,359$ million, mainly due to an increase in investments in securities of ± 986 million.

Liabilities

Total liabilities as of the end of the fiscal year were ¥43,966 million, up 4.1% compared with the end of the previous fiscal year.

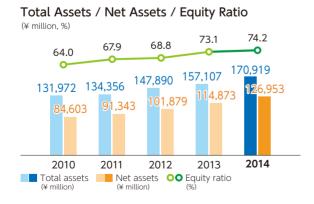
Current liabilities declined 0.8% year on year to \pm 34,217 million, mainly due to a decline in reserve for loss on business liquidation of \pm 692 million.

Long-term liabilities rose 25.7% year on year to $\pm 9,749$ million, primarily reflecting a liability for retirement benefits of $\pm 5,861$ million related to a change in accounting standards for retirement benefits.

Net Assets

Net assets as of the end of the fiscal year totaled ¥126,953 million, an increase of 10.5% compared with the end of the previous fiscal year. This mainly reflected growth in retained earnings due to an increase in net income.

As a result, the equity ratio rose 1.1 percentage points to 74.2%. Return on equity (ROE) declined 1.0 percentage point year to year to 10.2%, and return on assets (ROA) fell 0.8 percentage points to 11.4%.





Cash Flows

Cash Flows from Operating Activities

Net cash provided by operating activities was ¥13,513 million, an increase of 46.2% from the previous fiscal year. The main factors were income before income taxes and minority interests of ¥19,667 million, depreciation and amortization of ¥3,097 million and an increase in trade notes and accounts receivable of ¥2,323 million.

Cash Flows from Investing Activities

Net cash used in investing activities was ¥6,959 million, a decrease of 73.8% from the previous fiscal year. This primarily reflected payments for time deposits of ¥64,010 million, proceeds from

time deposits of ¥59,500 million and proceeds from sales and redemption of securities of ¥1,000 million.

Cash Flows from Financing Activities

Net cash used in financing activities was $\pm 3,809$ million, an increase of 2.1% from the previous fiscal year. The main factors were dividends paid of $\pm 3,522$ million and decrease in lease obligations of ± 286 million.

As a result, cash and cash equivalents as of March 31, 2014 totaled $\pm 25,898$ million, an increase of $\pm 3,576$ million compared with the end of the previous fiscal year.

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	2013	2014	Chang	ges
	Amount (Millions of yen)	Amount (Millions of yen)	Amount (Millions of yen)	Changes (%)
Cash flows from operating activities	¥ 9,243	¥ 13,513	¥ 4,270	46.2
Cash flows from investing activities	(26,606)	(6,959)	19,645	(73.8)
Free cash flows*	(17,363)	6,553	23,916	_
Cash flows from financing activities	(3,730)	(3,809)	(79)	2.1
Cash and cash equivalents at the end of the year	22,322	25,898	3,576	16.0

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

Shareholder Returns

Dividends

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

Based on that policy, the Company paid a fiscal 2014 dividend of ¥86.0 per share, an increase of ¥4.0 year on year, comprising an interim dividend of ¥43.0 and a year-end dividend of ¥43.0. The Company has now raised the dividend for 15 consecutive fiscal years. The payout ratio was 28.6%.



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

Scope of Consolidation and Application of the Equity Method

In fiscal 2014, ended March 31, 2014, the Kobayashi Pharmaceutical Group had 31 consolidated subsidiaries (12 in Japan and 19 overseas) and one affiliate in Japan accounted for by the equity method.

By reportable segment, the Group has 24 consolidated subsidiaries in Consumer Products, one consolidated subsidiary and one equity-method affiliate in Medical Devices, and six consolidated subsidiaries in the Other Business.

Risk Factors

1. Highly Competitive Business Environment

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

2. Highly Susceptible to Sales of New Products

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

Risk Concerning Inability to Reap Anticipated Benefits of Mergers and Alliances

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

4. Legal Constraints

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

5. Product Liability Risk

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

6. Changes in Raw Material Prices

The Group's 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 Financial Statements

Consolidated Balance Sheet

Kobayashi Pharmaceutical Co., Ltd. and Consolidated Subsidiaries March 31, 2014

	Millions	Millions of yen		
	2014	2013	2014	
Assets				
Current assets:				
Cash and time deposits (Notes 3, 13 and 14)	¥ 51,748	¥ 45,862	\$ 502,798	
Trade notes and accounts receivable (Note 14)	34,429	30,819	334,522	
Securities (Notes 4 and 14)	3,704	1,506	35,989	
Inventories:				
Commodities and finished goods	7,515	8,501	73,018	
Work in process	560	584	5,441	
Raw materials and supplies	2,458	2,114	23,883	
Total inventories	10,533	11,199	102,342	
Deferred income taxes (Note 11)	3,240	3,886	31,481	
Other current assets	2,017	1,140	19,597	
Allowance for doubtful accounts	(56)	(58)	(544)	
Total current assets	105,615	94,354	1,026,185	
Property, plant and equipment:				
Buildings and structures (Note 5)	16,933	16,584	164,526	
Machinery, equipment and vehicles (Note 5)	8,459	7,424	82,190	
Tools, furniture and fixtures (Note 5)	5,601	5,292	54,421	
Land	3,375	3,425	32,792	
Construction in progress	902	137	8,764	
Leased assets (Notes 5 and 8)	731	1,679	7,103	
Total property, plant and equipment	36,001	34,541	349,796	
Accumulated depreciation	(21,056)	(20,811)	(204,586)	
Property, plant and equipment, net	14,945	13,730	145,210	
Investments and other assets:				
Investments and other assets. Investments in securities (Notes 4 and 14):				
Unconsolidated subsidiaries and affiliates	3,814	3,677	37,058	
Other	35,064	34,215	340,692	
Total investments in securities	38,878	37,892	377,750	
Deferred income taxes (Note 11)	839	37,892	8,152	
Goodwill (Notes 5 and 18)			38,583	
	3,971	3,638		
Software Other intensible assets	924	897	8,978 5 150	
Other intangible assets	531	558	5,159	
Investment properties, net (Note 6)	3,060	3,068	29,732	
Other assets (Notes 5, 13 and 14)	2,292	2,782	22,270	
Allowance for doubtful accounts	(136)	(136)	(1,321)	
Total investments and other assets	50,359	49,023	489,303	
Total assets (Note 18)	¥170,919	¥157,107	\$1,660,698	

	Millions	Thousands of U.S. dollars (Note 1)	
_	2014	2013	2014
Liabilities and Net Assets			
Current liabilities:			
Short-term loans (Notes 7 and 14)	¥ 6	¥ 4	\$ 58
Trade notes and accounts payable (Note 14)	11,369	11,578	110,464
Current portion of lease obligations (Notes 8 and 14)	158	263	1,535
Accrued income and enterprise taxes (Notes 11 and 14)	3,640	4,092	35,367
Other accounts payable (Note 14)	13,054	12,360	126,836
Reserve for sales returns	1,502	1,110	14,594
Accrued bonuses	1,958	1,882	19,024
Asset retirement obligations (Note 10)	29	10	282
Reserve for loss on business liquidation	355	1,047	3,449
Other current liabilities (Note 14)	2,146	2,131	20,853
Total current liabilities	34,217	34,477	332,462
Long-term liabilities:			
Lease obligations (Notes 8 and 14)	609	164	5,917
Liability for retirement benefits (Note 9)	5,861	_	56,947
Accrued retirement benefits for employees (Note 9)	_	4,883	_
Accrued retirement benefits for directors and corporate	24	21	233
auditors Asset retirement obligations (Note 10)	92	73	894
Other liabilities	3,163	2,616	30,734
Total long-term liabilities	9,749	7,757	94,725
Total liabilities	43,966	42,234	427,187
Contingent liabilities (Note 13)	43,300	12,231	427,107
Net Assets			
Shareholders' equity (Note 12):			
Common stock:			
Authorized - 170,100,000 shares			
Issued - 42,525,000 shares in 2014 and 2013	3,450	3,450	33,521
Capital surplus	4,219	4,219	40,993
Retained earnings	118,732	109,947	1,153,634
Treasury stock, at cost	(4,706)	(4,703)	(45,725)
Total shareholders' equity	121,695	112,913	1,182,423
Accumulated other comprehensive income (loss):			
Unrealized holding gain on securities	5,370	4,358	52,177
Unrealized gain on deferred hedges (Note 15)	1,044	505	10,144
Translation adjustments	(374)	(2,904)	(3,634)
Retirement benefit liability adjustments	(865)	_	(8,405)
Total accumulated other comprehensive income, net	5,175	1,959	50,282
Stock acquisition rights	83	_	806
Minority interests	0	1	0
Total net assets	126,953	114,873	1,233,511
Total liabilities and net assets	¥170,919	¥157,107	\$1,660,698

Consolidated Statement of Income

Kobayashi Pharmaceutical Co., Ltd. and Consolidated Subsidiaries Year ended March 31, 2014

	Millions	Thousands of U.S. dollars (Note 1)	
_	2014	2013	2014
Net sales (Note 18)	¥127,294	¥121,532	\$1,236,825
Cost of sales	54,194	51,732	526,565
Gross profit	73,100	69,800	710,260
Selling, general and administrative expenses:			
Sales promotions	7,801	7,007	75,797
Freight and storage	5,301	4,835	51,506
Advertising	13,419	13,810	130,383
Provision for allowance for doubtful accounts	21	14	204
Salaries and bonuses	8,874	8,835	86,222
Net pension cost	760	650	7,384
Provision for accrued retirement benefits for directors and corporate auditors	4	8	39
Taxes and dues other than income taxes	300	305	2,915
Depreciation and amortization (Note 18)	668	644	6,490
Amortization of goodwill (Note 18)	420	348	4,081
Office rent and other rental charges	1,341	1,410	13,030
External service fees	4,728	4,813	45,939
Research and development costs	4,930	4,545	47,901
Other	6,410	5,672	62,281
Total selling, general and administrative expenses	54,977	52,896	534,172
Operating income	18,123	16,904	176,088
Other income (expenses):			
Interest and dividend income (Note 18)	567	473	5,509
Equity in earnings of affiliates (Note 18)	153	653	1,487
Interest expense (Note 18)	(19)	(25)	(185)
Sales discounts	(722)	(727)	(7,015)
Foreign currency exchange (loss) gain, net	(571)	258	(5,548)
Royalty income	726	756	7,054
Loss on disposal or sales of property, plant and equipment, net	(65)	(53)	(632)
Loss on impairment of fixed assets (Notes 5 and 18)	(212)	(301)	(2,060)
Gain on sales of shares of a subsidiary and an affiliate	515	2,285	5,004
Gain on sales of investments in securities	206	192	2,002
Loss on devaluation of investments in securities (Note 4)	_	(409)	_
Loss on defective inventories	(21)	(304)	(204)
Reversal of reserve for loss on business liquidation	462	_	4,489
Provision for loss on business liquidation	_	(1,047)	_
Other, net	525	199	5,101
Income before income taxes and minority interests	19,667	18,854	191,090
Income taxes (Note 11):			
Current	6,743	7,422	65,517
Deferred	617	(745)	5,995
_	7,360	6,677	71,512
Income before minority interests	12,307	12,177	119,578
Minority interests	(0)	(0)	(0)
Net income	¥ 12,307	¥ 12,177	\$ 119,578

Consolidated Statement of Comprehensive Income Kobayashi Pharmaceutical Co., Ltd. and Consolidated Subsidiaries Year ended March 31, 2014

	Millions (Thousands of U.S. dollars (Note 1)	
	2014	2013	2014
Income before minority interests	¥12,307	¥12,177	\$119,578
Other comprehensive income (loss):			
Unrealized holding gain on securities	1,012	2,360	9,833
Unrealized (loss) gain on deferred hedges	(19)	116	(185)
Translation adjustments	2,530	1,146	24,582
Share of other comprehensive income of affiliates accounted for by the equity method	558	712	5,422
Other comprehensive income, net (Note 17)	4,081	4,334	39,652
Comprehensive income	¥16,388	¥16,511	\$159,230
Comprehensive income (loss) attributable to:			
Shareholders of Kobayashi Pharmaceutical Co., Ltd.	¥16,388	¥16,511	\$159,230
Minority interests	(0)	(0)	(0)

Consolidated Statement of Changes in Net Assets Kobayashi Pharmaceutical Co., Ltd. and Consolidated Subsidiaries Year ended March 31, 2014

		Millions of yen										
	Numbers of shares issued (Thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized holding gain on securities	Unrealized gain on deferred hedges	Translation adjustments	Retirement benefit liability adjustments	Stock acquisition rights	Minority interests	Total net assets
Balance at April 1, 2012	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)
Purchase of treasury stock		_	_	_	(1)	_	_	_	_	_	_	(1)
Other changes		_	_	_	_	2,360	828	1,146	_	(159)	1	4,176
Balance at April 1, 2013	42,525	3,450	4,219	109,947	(4,703)	4,358	505	(2,904)	_	_	1	114,873
Net income for the year		_	_	12,307	_	_	_	_	_	_	_	12,307
Cash dividends		_	_	(3,522)	_	_	_	_	_	_	_	(3,522)
Purchase of treasury stock		_	_	_	(3)	_	_	_	_	_	_	(3)
Other changes		_	_	_	_	1,012	539	2,530	(865)	83	(0)	3,299
Balance at March 31, 2014	42,525	¥3,450	¥4,219	¥118,732	¥(4,706)	¥5,370	¥1,044	¥ (374)	¥(865)	¥ 83	¥0	¥126,953

		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 hedge	Translation adjustment	Retirement benefit liability adjustments	Stock acquisition rights	Minority interests	Total net assets
Balance at April 1, 2013	\$33,521	\$40,993	\$1,068,276	\$(45,696)	\$42,344	\$ 4,907	\$(28,216)	\$ -	\$ 0	\$10	\$1,116,139
Net income for the year	_	_	119,578	_	_	_	_	_	_	_	119,578
Cash dividends	_	_	(34,220)	_	_	_	_	_	_	_	(34,221)
Purchase of treasury stock	_	_	_	(29)	_	_	_	_	_	_	(29)
Other changes	_	_	_	_	9,833	5,237	24,582	(8,405)	806	(0)	32,054
Balance at March 31, 2014	\$33,521	\$40,993	\$1,153,634	\$(45,725)	\$52,177	\$10,144	\$(3,634)	\$(8,405)	\$806	\$ 0	\$1,233,511

Consolidated Statement of Cash Flows

Kobayashi Pharmaceutical Co., Ltd. and Consolidated Subsidiaries Year ended March 31, 2014

	Millions o	Thousands of U.S. dollars (Note 1)	
	2014	2013	2014
Cash flows from operating activities: Income before income taxes and minority interests Adjustments for:	¥19,667	¥18,854	\$191,090
Depreciation and amortization Loss on impairment of fixed assets Decrease in allowance for doubtful accounts Increase in liability for retirement benefits (Decrease) increase in accrued retirement benefits for employees Interest and dividend income Interest expense Equity in earnings of affiliates Gain on sales of shares of a subsidiary and an affiliate Gain on sales of investments in securities Loss on devaluation of investments in securities	3,097 212 (14) 5,007 (4,888) (567) 19 (153) (515) (206)	2,970 301 (33) — 52 (473) 25 (653) (2,285) (192) 409	30,091 2,060 (136) 48,649 (47,493) (5,509) 185 (1,487) (5,004) (2,002)
Loss on disposal or sales of property, plant and equipment, net Changes in operating assets and liabilities: (Increase) decrease in trade notes and accounts receivable	64 (2,323)	53 213	622 (22,571)
Decrease (increase) in inventories Decrease in trade notes and accounts payable Increase (decrease) in other accounts payable Increase in consumption taxes payable (Decrease) increase in reserve for loss on business liquidation Other	1,572 (836) 405 117 (462) (214)	(596) (721) (2,355) 181 1,047 (295)	15,274 (8,123) 3,935 1,137 (4,489) (2,079)
Subtotal Interest and dividends received Interest paid Income taxes paid Net cash provided by operating activities	19,982 766 (9) (7,226) 13,513	16,502 632 (18) (7,873) 9,243	194,150 7,443 (87) (70,210) 131,296
Cash flows from investing activities:			
Payments for time deposits Proceeds from time deposits Payments for purchases of securities Proceeds from sales and redemption of securities Payments for purchases of property, plant and equipment Proceeds from sales of property, plant and equipment Payments for purchases of intensible assets Payments for purchases of investments in securities Proceeds from sales of investments in securities Increase in other assets, net Proceeds from sales of stocks of subsidiaries and affiliates Proceeds from sales of investments in securities resulting in change in scope of consolidation Payments for purchases of investments in subsidiaries resulting in change in scope of consolidation Other	(64,010) 59,500 — 1,000 (2,886) 67 (459) (339) 10 (106) 1,000 — (300) (436)	(42,540) 18,500 (16,496) 27,500 (2,513) 64 (364) (14,696) 192 (169) 4,024 (108)	(621,939) 578,119 9,716 (28,041) 651 (4,460) (3,294) 97 (1,030) 9,716 — (2,915) (4,236)
Net cash used in investing activities	(6,959)	(26,606)	(67,616)
Cash flows from financing activities: Increase (decrease) in short-term loans, net Dividends paid	2 (3,522)	(1) (3,358)	19 (34,220)
Increase in treasury stock Decrease in lease obligations Other	(3) (286) 0	(1) (371) 1	(29) (2,779) 0
Net cash used in financing activities	(3,809)	(3,730)	(37,009)
Effect of exchange rate changes on cash and cash equivalents Net increase (decrease) in cash and cash equivalents Cash and cash equivalents at beginning of the year Cash and cash equivalents at end of the year (Note 3)	831 3,576 22,322 ¥25,898	579 (20,514) 42,836 ¥22,322	8,074 34,745 216,887 \$251,632

Notes to Consolidated Financial Statements

Kobayashi Pharmaceutical Co., Ltd. and Consolidated Subsidiaries Year ended March 31, 2014

1. Basis of Presentation of Consolidated Financial Statements

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

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

The U.S. dollar amounts included in the accompanying consolidated financial statements and the notes are presented solely for convenience and are translated, as a matter of arithmetic computation only, at $\pm 102.92 = U.S.\pm 1.00$, the approximate exchange rate in effect on March 31, 2014. 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.

(i) Reserve for sales returns

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

(k) Accrued bonuses

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

(l) 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) Liability for retirement benefits

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

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

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

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

(n) Accrued directors' and corporate auditors' retirement benefits

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.

(o) Income taxes

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

(p) Research and development costs and computer software

Research and development costs are charged to income when incurred.

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

(q) Distribution of retained earnings

Under the 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 19).

(r) Derivatives and hedging activities

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

Derivatives are carried at fair value with any changes in unrealized gain or loss credited or charged to income, except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss 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.

(Change in Accounting Policies)

Accounting Standard for Retirement Benefits

Effective March 31, 2014, the Company and its domestic consolidated subsidiaries adopted "Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan ("ASBJ") Statement No.26 issued on May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No.25 issued on May 17, 2012), except provisions set forth in paragraph 35 of ASBJ Statement No.26 and paragraph 67 of ASBJ Guidance No.25.

In accordance with the adoption, the projected benefit obligation after the fair value of the pension plan assets is deducted, and actuarial differences and prior service cost that have yet to be recognized in profit or loss are recorded as "Liability for retirement benefits."

The adoption of these standards follows transitional provisions set forth in paragraph 37 of the ASBJ Statement No.26. The effect of this change is included in accumulated other comprehensive income as "Retirement benefit liability adjustments."

As a result of this change, "Liability for retirement benefits" was recorded in the amount of ¥5,861 million (\$56,947 thousand), other comprehensive income decreased by ¥865 million (\$8,405 thousand) and net assets per share decreased by ¥21.12 (\$0.21) as of March 31, 2014 from the corresponding amounts that would have been recorded under the previous method.

(Standards Issued but Not Yet Effective)

Accounting Standard for Retirement Benefits

On May 17, 2012, ASBJ issued ASBJ Statement No.26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No.25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the "Accounting Standard for Retirement Benefits" 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.

In accordance with the revision of this accounting standard, actuarial differences and prior service cost that have yet to be recognized in profit or loss shall be recognized within net assets after adjusting for tax effects, and the deficit or surplus shall be recognized as a liability or asset. Actuarial differences and prior service cost that arose in the current period and have yet to be recognized in profit or loss shall be included in other comprehensive income and actuarial differences and prior service cost that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments. In addition, the new accounting standard allows a choice for the method of attributing expected benefits to periods between either the straight-line basis or the plan's benefit formula basis. In addition, the method used to determine the discount rate was revised.

The Company has adopted the revised accounting standard effective March 31, 2014 as mentioned in "Change in Accounting Policies" above. However, the amendment of the calculation method for the present value of the projected benefit obligation and current service costs will be adopted effective the beginning of the year ending March 31, 2015.

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

Reconciliations between the balances of cash and time deposits in the accompanying consolidated balance sheet at March 31, 2014 and 2013 and the balances of cash and cash equivalents in the accompanying consolidated statement of cash flows for the years then ended were as follows:

	Millions	Millions of yen	
	2014	2013	2014
Cash and time deposits	¥ 51,748	¥ 45,862	\$ 502,798
Time deposits over three months	(28,550)	(24,040)	(277,400)
Securities maturing within three months	2,700	500	26,234
Cash and cash equivalents	¥ 25,898	¥ 22,322	\$ 251,632

4. Securities and Investments in Securities

- (a) Securities classified as "Other securities" at March 31, 2014 and 2013 were summarized as follows:
- (1) Securities whose carrying value exceeds their acquisition cost

		Millions of yen				
		2014			2013	
	Acquisition cost	Carrying value	Unrealized gain	Acquisition cost	Carrying value	Unrealized gain
Equity securities	¥ 6,384	¥14,106	¥7,722	¥ 6,173	¥12,295	¥6,122
Debt securities	20,390	20,876	486	21,444	21,990	546
	¥26.774	¥34.982	¥8.208	¥27.617	¥34.285	¥6.668

	Thousands of U.S. dollars		
	2014		
	Acquisition cost	Carrying value	Unrealized gain
Equity securities	\$ 62,029	\$137,058	\$75,029
Debt securities	198,115	202,837	4,722
	\$260,144	\$339,895	\$79,751

(II) Securities whose acquisition cost exceeds their carrying value

	Millions of yen					
		2014			2013	
	Acquisition cost	Carrying value	Unrealized loss	Acquisition cost	Carrying value	Unrealized loss
Equity securities	¥ 737	¥ 732	¥(4)	¥ 614	¥ 612	¥(2)
Other	2,700	2,700	_	500	500	_
	¥3,437	¥3,432	¥(4)	¥1,114	¥1,112	¥(2)

	Thousands of U.S. dollars			
	2014			
	Acquisition cost	Carrying value	Unrealized loss	
Equity securities	\$ 7,151	\$ 7,112	\$(39)	
Other	26,234	26,234	_	
	\$33,385	\$33,346	\$(39)	

(III) Securities whose market value is not determinable

	Million	s of yen	Thousands of U.S. dollars
	2014	2013	2014
Unlisted equity securities	¥353	¥324	\$3,430

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

	Million	s of yen	Thousands of	of U.S. dollars
	20	014	20	014
	Proceeds	Gross	Proceeds	Gross
	from sales	realized gain	from sales	realized gain
Equity securities	¥8	¥3	\$78	\$29
	¥8	¥3	\$78	\$29

There were no proceeds from sales, or gross realized gain on other securities for the year ended March 31, 2013.

(c) Loss on devaluation of investments in securities for the years ended March 31, 2014 and 2013

No loss on devaluation of investments in securities was recognized for the year ended March 31, 2014.

For the year ended March 31, 2013, loss on devaluation of investments in securities of ¥409 million 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.

5. Loss on Impairment of Fixed Assets

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

For the years ended March 31, 2014 and 2013, 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, 2014 and 2013, the value in use of the production facilities is measured at zero because future cash flow was not expected.

For the years ended March 31, 2014 and 2013, the carrying values of certain properties have been reduced to their respective recoverable amounts and losses on impairment of fixed assets were recognized in the consolidated statement of income as the market values of properties have declined and recoveries were not expected.

The Company reviewed the fair value, including the consolidated goodwill, of acquired subsidiaries since expected earnings from the acquired subsidiaries have not materialized or it takes time to achieve earnings expected at the time of acquisition. As a result, the Company reduced the carrying value of the goodwill to the recoverable amounts and losses on impairment were recognized in the consolidated statement of income for the years ended March 31, 2014 and 2013.

Losses on impairment of fixed assets for the years ended March 31, 2014 and 2013 were summarized as follows:

20	1	4
20	1	4

Location	Description	Classification	Millions of yen	Thousands of U.S. dollars
Mie	Welfare facility	Land, building and other	¥ 71	\$ 690
Miyagi	Other	Land	29	282
Kanagawa	Other	Goodwill	58	564
Osaka and other	Production facilities and other	Machinery, equipment and other	41	398
Osaka and other	Production facilities and other	Leased assets	13	126
			¥212	\$2,060

1	\cap	1	-
/	U	- 1	-

Location	Description	Classification	Millions of yen
Osaka and other	Production facilities and other	Machinery, equipment and other	¥128
Ehime and other	Other	Land	80
Osaka and other	Other	Other intangible assets	59
United States	Other	Goodwill	25
Osaka	Production facilities	Leased assets	9
			¥301

6. Investment Properties

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

Rental income from these properties amounted to ± 275 million (\$2,672 thousand) and ± 275 million, rental cost amounted to ± 72 million (\$700 thousand) and ± 75 million, and losses on impairment amounted to ± 100 million (\$972 thousand) and ± 79 million for the years ended March 31, 2014 and 2013, respectively.

The carrying value on the consolidated balance sheet at March 31, 2014 and 2013, and corresponding fair value of those properties were as follows:

	Milli	ions of yen	
	Carrying value		Fair value
As of April 1, 2013	Net change	As of March 31, 2014	As of March 31, 2014
¥3,989	¥(38)	¥3,951	¥4,442
	Milli	ions of yen	
	Carrying value		Fair value
As of April 1, 2012	Net change	As of March 31, 2013	As of March 31, 2013
¥3,762	¥227	¥3,989	¥4,458
	Thousand	ds of U.S. dollars	
	Carrying value		Fair value
As of April 1, 2013	Net change	As of March 31, 2014	As of March 31, 2014
\$38,758	\$(369)	\$38,389	\$43,160

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

The significant component of net changes in carrying value for the years ended March 31, 2014 and 2013 was due to net effect of increases related to repair work on real estate properties in the amount of ¥26 million (\$253 thousand), and change in holding purpose in the amount of ¥73 million (\$709 thousand) and ¥342 million, and decreases related to loss on impairment of fixed assets in the amount of ¥100 million (\$972 thousand) and ¥80 million, and depreciation in the amount of ¥37 million (\$360 thousand) and ¥35 million for the years ended March 31, 2014 and 2013, respectively.

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

7. Short-Term Loans

The average interest rates on short-term bank loans at March 31, 2014 and 2013 were 1.47% and 0.15%, 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, 2014 and 2013 was summarized as follows:

	Million	ns of yen	Thousands of U.S. dollars
	2014	2013	2014
Lines-of-credit	¥26,810	¥26,442	\$260,494
Credit used	_	_	_
Available credit	¥26,810	¥26,442	\$260,494

8. Lease Transactions

(a) Finance lease transactions

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

Lease obligations related to finance lease transactions at March 31, 2014 were summarized as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Finance lease obligations due in installments from 2015 through 2020	¥767	\$7,452
Less current portion	158	1,535
	¥609	\$5,917

The aggregate annual maturities of finance lease obligations subsequent to March 31, 2014 were summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2015	¥158	\$1,535
2016	92	894
2017	57	554
2018	42	408
2019	38	369
2020 and thereafter	380	3,692
Total	¥767	\$7,452

(b) Operating lease transactions

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2014 for non-cancelable operating leases were summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2015	¥ 112	\$1,088
2016 and thereafter	896	8,706
Total	¥1,008	\$9,794

9. Retirement Benefits for Employees

1. Outline of retirement benefits for employees

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

2. Defined benefit plans for the year ended March 31, 2014

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

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Retirement benefit obligation at April 1, 2013	¥9,634	\$93,607
Service cost	520	5,052
Interest cost	109	1,059
Actuarial differences	108	1,049
Benefits paid	(515)	(5,004)
Other	(4)	(38)
Retirement benefit obligation at March 31, 2014	¥9,852	\$95,725

(2) The change in plan assets at fair value is outlined as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Plan assets at fair value at April 1, 2013	¥4,736	\$46,016
Expected return on plan assets	95	923
Actuarial differences	0	0
Contributions by the employer	318	3,090
Benefits paid	(168)	(1,632)
Other	(53)	(515)
Plan assets at fair value at March 31, 2014	¥4,928	\$47,882

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

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Liability for retirement benefits at April 1, 2013	¥ 753	\$ 7,316
Retirement benefit expenses	236	2,293
Benefits paid	(208)	(2,021)
Other	156	1,516
Liability for retirement benefits at March 31, 2014	¥ 937	\$ 9,104

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

	Millions of yen	Thousands of U.S. dollars
_	2014	2014
Funded retirement benefit obligation	¥ 5,173	\$ 50,262
Plan assets at fair value	(4,928)	(47,882)
_	245	2,380
Unfunded retirement benefit obligation	5,616	54,567
Net amount of liabilities and assets recognized in the consolidated balance sheet	5,861	56,947
Liability for retirement benefits	5,861	56,947
Net amount of liabilities and assets recognized in the consolidated balance sheet	¥ 5,861	\$ 56,947

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

	Millions of yen	Thousands of U.S. dollars 2014
	2014	
Service cost	¥ 520	\$ 5,052
Interest cost	109	1,059
Expected return on plan assets	(95)	(923)
Amortization of actuarial differences	173	1,681
Retirement benefit expenses calculated by the simplified method	236	2,293
Retirement benefit expenses	¥ 943	\$ 9,162

(6) The balance of retirement benefit liability adjustments recognized in accumulated other comprehensive income before the deduction of the tax benefit is outlined as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Unrecognized actuarial loss	¥1,442	\$14,011
	¥1,442	\$14,011

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

	2014
Bonds	21%
General accounts	78
Other	1
Total	100%

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

(8) The assumptions used in accounting for the defined benefit plans are as follows:

	2014
Discount rate	1.1%
Expected long-term rate of return on plan assets	2.0%

3. Defined contribution pension plans for the year ended March 31, 2014

	Millions of yen	Thousands of U.S. dollars	
		2014	
Contributions to defined contribution pension plans	¥154	\$1,496	

4. Accrued retirement benefits for employees for the year ended March 31, 2013

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 for the Company's defined benefit plans:

	Millions of yen
	2013
Projected benefit obligation	¥(10,388)
Fair value of pension plan assets	4,736
Unfunded retirement benefit obligation	(5,652)
Unrecognized actuarial differences	1,507
Net retirement benefit obligation	(4,145)
Prepaid pension cost	738
Accrued retirement benefits for employees	¥ (4,883)

 $[\]begin{tabular}{ll} (*) Certain consolidated subsidiaries use the simplified method. \end{tabular}$

The component of net pension cost for the year ended March 31, 2013 is as follows:

	Millions of yen
	2013
Service cost	¥514
Interest cost	169
Expected return on pension plan assets	(93)
Amortization:	
Prior service cost	61
Actuarial differences	65
Cost of contribution pension plan	151
Net pension cost	¥867

The assumptions used in accounting for the above plans for the year ended March 31, 2013 are as follows:

	2013
Discount rate	1.1%
Expected rate of return on plan assets	2.0%

10. Asset Retirement Obligations

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

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

Changes in the balance of asset retirement obligations for the years ended March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2014	2013	2014	
Asset retirement obligations at beginning of year	¥ 83	¥100	\$ 806	
Liabilities incurred for leased buildings	34	_	331	
Increase resulting from inclusion of subsidiaries in consolidation	3	_	29	
Decrease resulting from exclusion of subsidiaries from consolidation	_	(18)	_	
Accretion expense	1	1	10	
Asset retirement obligations at end of year	¥121	¥ 83	\$1,176	

11. 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, 2014 and 2013. The overseas subsidiaries are subject to the income taxes of their respective countries of domicile.

A reconciliation of the statutory tax rate and the effective tax rate for the year ended March 31, 2014 has been omitted as the difference was less than 5% of the statutory tax rate.

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:

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

The tax effects of the temporary differences which gave rise to a significant portion of the deferred tax assets and liabilities at March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2014	2013	2014	
Deferred tax assets:				
Liability for retirement benefits	¥2,014	_	\$19,569	
Accrued retirement benefits for employees	_	¥1,449	_	
Net operating loss carryforwards	519	331	5,043	
Accrued bonuses	683	688	6,636	
Accrued retirement benefits for directors and corporate auditors	8	7	78	
Accrued expenses	1,636	1,645	15,896	
Accrued enterprise taxes	248	366	2,410	
Unrealized intercompany profits	180	205	1,749	
Loss on impairment of fixed assets	652	605	6,335	
Loss on disposal or write-offs of inventories	361	486	3,508	
Allowance for doubtful accounts	103	98	1,001	
Other	1,591	1,832	15,457	
Gross deferred tax assets	7,995	7,712	77,682	
Valuation allowance	(1,956)	(1,658)	(19,005)	
Total deferred tax assets	6,039	6,054	58,677	
Deferred tax liabilities:				
Unrealized holding gain on securities	(2,835)	(2,310)	(27,546)	
Forward foreign currency exchange contracts	(12)	(25)	(117)	
Other	(280)	(174)	(2,720)	
Total deferred tax liabilities	(3,127)	(2,509)	(30,383)	
Net deferred tax assets	¥2,912	¥3,545	\$28,294	

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

	Millions of yen		Thousands of U.S. dollars	
	2014	2013	2014	
Current assets – deferred tax assets	¥3,240	¥3,886	\$31,481	
Investments and other assets - deferred tax assets	839	324	8,152	
Current liabilities – deferred tax liabilities	_	(6)	_	
Long-term liabilities - deferred tax liabilities	(1,167)	(659)	(11,339)	
	¥2,912	¥3,545	\$28,294	

The "Act for Partial Amendment of the Income Tax Act, etc." (Act No.10 of 2014) was promulgated on March 31, 2014 and, as a result, the Company and its domestic subsidiaries are no longer subject to the Special Reconstruction Corporation Tax effective for fiscal years beginning on or after April 1, 2014.

In line with these revisions, the Company and its domestic subsidiaries changed the statutory tax rate to calculate deferred tax assets and liabilities from 37.96% to 35.59% for temporary differences expected to be realized on or after April 1, 2014.

As a result of this change, net deferred tax assets (after netting deferred tax liabilities) decreased by ± 169 million (\$1,642 thousand), and income taxes-deferred and unrealized loss on deferred hedges increased by ± 170 million (\$1,652 thousand) and ± 1 million (\$10 thousand) respectively, as of and for the year ended March 31, 2014.

12. Shareholders' Equity

The Corporation Law of Japan (the "Law") provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors 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 (\$3,304 thousand) at March 31, 2014 and 2013.

Stock-based compensation plan

As of March 31, 2014, the Company had one stock option plan: the 2013 stock option plan. The 2013 stock option plan (the 2013 plan) was approved at the annual general meeting of the shareholders of the Company held on June 27, 2013. The 2013 plan provides for granting options to purchase 452,600 shares of common stock to directors, corporate auditors and certain key employees of the Company, and directors and certain key employees of certain consolidated subsidiaries. The exercise price was ¥5,751 (\$56) per share at March 31, 2014. This exercise price is subject to adjustment in certain cases which include stock splits. The options are scheduled to become exercisable on July 1, 2015 and to expire on June 30, 2018. Stock option expense, which was included in selling, general and administrative expenses for the year ended March 31, 2014, amounted to ¥83 million (\$806 thousand).

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

	The 2013 plan	
Number of options:		-
Outstanding at March 31, 2013	_	
Granted	452,600	
Cancelled	3,000	
Exercised	_	
Outstanding at March 31, 2014	449,600	-
	Yen	U.S. dollars
Fair value of options as of the grant date	¥493	\$4.79

The valuation method for estimating the fair value was the Black-Scholes model. The major assumptions used for the stock option plan were as follows:

Major assumptions	Note	2013 plan
Stock price (Closing price on August 26, 2013)		¥5,610 (\$55)
Exercise price		¥5,751 (\$56)
Estimated remaining period	(a)	3.35 years
Estimated volatility	(b)	16.48 %
Risk-free rate	(C)	0.185%
Dividend yield	(d)	1.46 %

- (a) Because sufficient data on the exercise of stock options in the past is not available and it is difficult to reasonably estimate the exercise date, the remaining period was estimated as if stock options were exercised in the middle of the exercisable period.
- (b) The estimated volatility was computed using daily stock prices of common stock for the period from April 22, 2010 to August 26, 2013.
- (c) The risk-free rate was determined based on the rate of Japanese government bonds, whose maturity corresponded to the estimated remaining period.
- (d) The dividend yield was calculated based on the actual dividend amount for the year ended March 31, 2013, which amounted to ¥82 (\$0.80), and the closing stock price on August 26, 2013 of ¥5,610 (\$55).

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

Common stock and treasury stock

Movements in shares of common stock in issue and treasury stock for the years ended March 31, 2014 and 2013 were summarized as follows:

	Number of shares			
		20	14	
	April 1, 2013	Increase	Decrease	March 31, 2014
Common stock	42,525,000	_	_	42,525,000
Treasury stock	1,576,537	488	_	1,577,025
		Number	of shares	
		20	13	
	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

13. Contingent Liabilities, Guarantees and Pledged Assets

At March 31, 2014 and 2013, the Company had the following contingent liability:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Recourse obligation under factoring transactions	¥1,302	¥540	\$12,651

In addition, at March 31, 2014 and 2013, the Company was committed to providing debt guarantees as follows:

	Millions	s of yen	Thousands of U.S. dollars		
	2014	2013	2014		
Bank loans of small and medium-sized enterprises in areas affected by the Great East Japan Earthquake	¥50	¥40	\$486		

A summary of the assets pledged as collateral as of March 31, 2014 and 2013, was as follows:

	Millions	s of yen	Thousands of U.S. dollars		
	2014	2013	2014		
Time deposits	¥50	¥40	\$486		
Security deposits	80	80	777		

Time deposits were pledged as collateral for the debt guarantees.

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

14. Financial Instruments

(a) Overview

(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 four months. Although the Group is exposed to foreign currency exchange risk arising from those payables denominated in foreign currencies, forward foreign currency exchange contracts and option contracts are arranged to hedge the risk.

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

Regarding 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(r).

(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 15. "Derivatives and Hedging Activities" are not necessarily indicative of the actual market risk involved in derivative transactions.

(b) Estimated Fair Value of Financial Instruments

The carrying value of financial instruments on the consolidated balance sheet as of March 31, 2014 and 2013, the estimated fair value and difference are shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine the fair value (Please refer to Note II below).

			Millions	of yen			
-		2014			2013		
	Carrying value	Estimated fair value	Difference	Carrying value	Estimated fair value	Difference	
Assets							
(i) Cash and time deposits	¥ 51,748	¥ 51,748	¥ —	¥ 45,862	¥ 45,862	¥ —	
(ii) Trade notes and accounts receivable	34,429	34,429	_	30,819	30,819	_	
(iii) Securities and investments in securities	38,414	38,414	_	35,397	35,397	_	
(iv) Long-term loans receivable included in other assets	615			417			
Allowance for doubtful accounts (*1)	(16)			(16)			
	599	593	(6)	401	396	(5)	
Total assets	¥125,190	¥125,184	¥ (6)	¥112,479	¥112,474	¥ (5)	
Liabilities							
(i) Trade notes and accounts payable	¥ 11,369	¥ 11,369	¥ —	¥ 11,578	¥ 11,578	¥ —	
(ii) Short-term loans	6	6	_	4	4	_	
(iii) Other accounts payable	13,054	13,054	_	12,360	12,360	_	
(iv) Current portion of lease obligations	158	158	0	263	266	3	
(v) Accrued income and enterprise taxes	3,640	3,640	_	4,092	4,092	_	
(vi) Accrued consumption taxes, included in other current liabilities	633	633	_	543	542	(1)	
(vii) Lease obligations	609	602	(7)	164	165	11	
Total liabilities	¥ 29,469	¥ 29,462	¥ (7)	¥ 29,004	¥ 29,007	¥ 3	
Total derivatives (*2)	¥ 34	¥ 34	¥ —	¥ 65	¥ 65	¥ —	

	Tho	ousands of U.S. o	Iollars
		2014	
	Carrying value	Estimated fair value	Difference
Assets			
(i) Cash and time deposits	\$ 502,798	\$ 502,798	\$ -
(ii) Trade notes and accounts receivable	334,522	334,522	_
(iii) Securities and investments in securities	373,241	373,241	_
(iv) Long-term loans receivable included in other assets	5,976		
Allowance for doubtful accounts (*1)	(155)	
	5,821	5,762	(59)
Total assets	\$1,216,382	\$1,216,323	\$(59)
Liabilities			
(i) Trade notes and accounts payable	\$110,464	\$110,464	\$ —
(ii) Short-term loans	58	58	_
(iii) Other accounts payable	126,836	126,836	_
(iv) Current portion of lease obligations	1,535	1,535	0
(v) Accrued income and enterprise taxes	35,367	35,367	_
(vi) Accrued consumption taxes, included in other current liabilities	6,152	6,152	_
(vii) Lease obligations	5,917	5,849	(68)
Total liabilities	\$286,329	\$286,261	\$ (68)
Total derivatives (*2)	\$ 330	\$ 330	\$ —

 $[\]begin{tabular}{l} (*1) Excluding allowances for doubtful accounts recorded individually for long-term loans receivable. \end{tabular}$

^(*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 4.

(iv) Long-term loans receivable

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

Liabilities

- (i) Trade notes and accounts payable, (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 15. "Derivatives and Hedging Activities".

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

	Million	Millions of yen		
Туре	2014	2013	2014	
Unlisted equity securities	¥4,167	¥4,000	\$40,888	

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 schedules for monetary assets and debt securities with maturity dates at March 31, 2014 and 2013 were summarized as follows:

		Millions	of yen		Thousands of U.S. dollars					
_		20	14			2014				
	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	¥51,742	¥ —	¥ —	¥ —	\$502,740	\$ —	\$ —	\$ —		
(ii) Trade notes and accounts receivable (iii) Securities and investments in securities: Government bonds (national and local) Trust beneficiary right (iv) Long-term loans receivable included in other assets	34,429	_	_	_	334,522	_	_	_		
	1,000	_	19,064	_	9,716	_	185,231	_		
	2,700	_	_	_	26,234	_	_	_		
	3	594	1	2	29	5,771	10	19		
Total assets	¥89,874	¥594	¥19,065	¥ 2	\$873,241	\$5,771	\$185,241	\$19		

_		Millions	of yen	
		20	13	
	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	¥45,857	¥ —	¥ —	¥ —
(ii) Trade notes and accounts receivable (iii) Securities and investments in securities:	30,819	_	_	_
Government bonds (national and local) (iv) Long-term loans	1,000	1,000	19,064	_
receivable included in other assets	5	385	6	4
Total assets	¥77,681	¥1,385	¥19,070	¥ 4

IV. The redemption schedule for lease obligations at March 31, 2014 is disclosed in Note 8.

15. Derivatives and Hedging Activities

The notional amounts and the estimated fair value of the derivative instruments outstanding at March 31, 2014 and 2013 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, 2014 and 2013.

2. Derivatives for which hedge accounting is applied

Currency-related transactions

			Millions of yen					
				2014			2013	
Method of hedge accounting	Description of transaction	Hedged items	Notional amount	Notional amount (over 1 year)	Estimated fair value	Notional amount	Notional amount (over 1 year)	Estimated fair value
Deferral hadge	Forward foreign exchange contracts	S						
Deferral hedge accounting	Purchase:							
decounting	U.S. dollars	Trade accounts payable	¥75	_	¥21	¥303	¥75	¥47
	British pounds	Trade accounts payable	37	_	12	155	37	14
	Thai baht	Trade accounts payable	_	_	_	509	_	3
			Thou	sands of U.S. d	lollars			
				2014				
Method of hedge accounting	Description of transaction	Hedged items	Notional amount	Notional amount (over 1 year)	Estimated fair value			
	Forward foreign exchange contracts Purchase:	5		•				
Deferral hedge accounting	U.S. dollars	Trade accounts payable	\$729	_	\$204			
accounting	British pounds	Trade accounts payable	360	_	117			
	Thai baht	Trade accounts payable	_	_	_			

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

16. Amounts per Share

	Y	en	U.S. dollars		
	2014	2013	2014		
Net income:					
Basic	¥ 300.55	¥ 297.37	\$ 2.92		
Cash dividends	86.00	82.00	0.84		
Net assets	3,098.32	2,805.27	30.10		

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.

17. Other Comprehensive Income

Reclassification adjustments and tax effects allocated to each component of other comprehensive income for the years ended March 31, 2014 and 2013 were as follows:

	Millions	of yen	Thousands of U.S. dollars
_	2014	2013	2014
Unrealized holding gain on securities:			
Amount arising during the year	¥1,540	¥3,193	\$14,963
Reclassification adjustments for (gains) losses included in net income	(3)	405	(29)
Amount before tax effect	1,537	3,598	14,934
Tax effect	(525)	(1,238)	(5,101)
Unrealized holding gain on securities	1,012	2,360	9,833
Unrealized (loss) gain on deferred hedges:			
Amount arising during the year	(32)	92	(311)
Reclassification adjustments for losses included in net income	_	97	_
Amount before tax effect	(32)	189	(311)
Tax effect	13	(73)	126
Unrealized (loss) gain on deferred hedges	(19)	116	(185)
Translation adjustments:			
Amount arising during the year	2,530	1,146	24,582
Translation adjustments	2,530	1,146	24,582
Share of other comprehensive income of affiliates accounted for by the equity method:			
Amount arising during the year	559	712	5,432
Reclassification adjustments for gains included in net income	(1)	<u> </u>	(10)
Share of other comprehensive income of affiliates accounted for by the equity method	558	712	5,422
Total other comprehensive income	¥4,081	¥4,334	\$39,652

18. Segment Information

(a) Business Segment Information

1. Outline of reportable segments

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

3. Information as to sales, income or loss, assets, and other items for each reportable segment for the years ended March 31, 2014 and 2013 were as follows:

								Millions	of yen							
								20	14							
			Re	portable	segmer	nts										
	Consu Produ		Mail	-order		Medical Devices		Γotal	Oth	er	Т	otal	a	tments nd nations	Cons	olidated
Net sales																
Sales to third parties	¥113	3,980	¥1	10,747	¥1	,429	¥1	26,156	¥1	,138	¥1	27,294	¥	_	¥1	27,294
Inter-segment sales and transfers	3	3,192		_		_		3,192	4	,214		7,406		(7,406)		
Total	¥117	7,172	¥1	10,747	¥1	,429	¥1	29,348	¥5	,352	¥1	34,700	¥	(7,406)	¥1	27,294
Segment income	¥ 16	5,239	¥	376	¥1	,217	¥	17,832	¥1	,178	¥	19,010	¥	(241)	¥	18,769
Segment assets	¥ 73	3,692	¥	1,798	¥7	,105	¥	82,595	¥4	,108	¥	86,703	¥8	34,216	¥1	70,919
Other items																
Depreciation and amortization	¥ 2	2,124	¥	36	¥	0	¥	2,160	¥	143	¥	2,303	¥	374	¥	2,677
Amortization of goodwill		420		_		_		420		_		420		_		420
Interest income		24		2		23		49		199		248		(22)		226
Interest expenses		2		_		_		2		39		41		(22)		19
Equity in earnings of affiliates		_		_		150		150		_		150		3		153
Investments in affiliates accounted for by the equity method		_		_	3	,427		3,427		_		3,427		_		3,427
Increase in property, plant, and equipment and intangible assets	3	3,452		32		_		3,484		125		3,609		394		4,003

Notes

- 1. "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.
- 2. Details of adjustments and eliminations were as follows:
 - (i) Segment income of ¥241 million (\$2,342 thousand), interest income of ¥22 million (\$214 thousand), and interest expenses of ¥22 million (\$214 thousand) were categorized as eliminations between inter-segment transactions.
 - (ii) Corporate assets included in the adjustments and eliminations of segment assets amount to ¥87,991 million (\$854,946 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.
- (iii) Adjustments and eliminations of equity in earnings (losses) of affiliates of ¥3 million (\$30 thousand) 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.

				Millions	of yen				
				201	13				
		Reportable	segments						
	Consumer Products	Mail-order	Medical Devices	LOTAL		Total	Adjustments and eliminations	Consolidated	
Net sales									
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	
Segment income	¥ 15,870	¥ 169	¥1,356	¥ 17,395	¥1,512	¥ 18,907	¥ (230)	¥ 18,677	
Segment assets	¥ 66,613	¥ 1,624	¥6,357	¥ 74,594	¥4,656	¥ 79,250	¥ 77,857	¥157,107	
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:

- 1. "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.
- 2. Details of adjustments and eliminations were as follows:
 - (i) Segment income of ¥230 million, interest income of ¥26 million, and interest expenses of ¥26 million were categorized as eliminations between inter-segment transactions.
 - (ii) Corporate assets included in the adjustments and eliminations of segment assets amount to ¥81,791 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 (losses) of affiliates of ¥2 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

	and the delication of the deli																
	2014																
			R	eportable	segme	nts											
		onsumer Products	Ма	il-order	Med Devi			Total	(Other		Total	,	justm and minat		Со	nsolidated
Net sales																	
Sales to third parties	\$1	,107,462	\$1	04,421	\$13	3,885	\$1	,225,768		\$11,057	\$1	,236,825	\$,	_	\$1	,236,825
Inter-segment sales and transfers		31,014		_		_		31,014		40,945		71,959		(71,	959)		_
Total	\$1	,138,476	\$1	04,421	\$13	3,885	\$1	,256,782		\$52,002	\$1	,308,784	\$	(71,	959)	\$1	,236,825
Segment income	\$	157,783	\$	3,653	\$1	1,825	\$	173,261		\$11,446	\$	184,707	\$	(2.	342)	\$	182,365
Segment assets	\$	716,012	\$	17,470	\$69	9,034	\$	802,516		\$39,914	\$	842,430	\$	818	,268	\$1	,660,698
Other items																	
Depreciation and amortizations	\$	20,637	\$	350	\$	0	\$	20,987	:	\$ 1,389	\$	22,376	\$	3,	634	\$	26,010
Amortization of goodwill		4,081		_		_		4,081		_		4,081			_		4,081
Interest income		233		19		224		476		1,934		2,410		(214)		2,196
Interest expenses		20		_		_		20		379		399		(214)		185
Equity in earnings of affiliates		_		_		1,457		1,457		_		1,457			30		1,487
Investments in affiliates accounted for by the equity method		_		_	33	3,298		33,298		_		33,298			_		33,298
Increase in property, plant, and equipment and intangible assets		33,541		311		_		33,852		1,214		35,066		3,	828		38,894

4. Related information

- (1) Geographical information
- (a) Sales

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Domestic	¥113,405	\$1,101,875
Overseas	13,889	134,950
Total	¥127,294	\$1,236,825

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

(b) Property, plant and equipment

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Domestic	¥13,403	\$130,227
Overseas	1,542	14,983
Total	¥14,945	\$145,210

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 has been omitted.

(2) Information by major customers

	Millions of yen			
	-	2014		
	Sales	Related segment		
Paltac Corporation	¥54,805	Consumer Products		
Arata Corporation	¥15,164	Consumer Products		
	Millic	ons of yen		
	2013			
	Sales	Related segment		
Paltac Corporation	¥54,732	Consumer Products		
Arata Corporation	¥14,413	Consumer Products		
	Thousands of U.S. dollars			
	2014			
	Sales	Related segment		
Paltac Corporation	\$532,501	Consumer Products		
Arata Corporation	\$147,338	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, 2014 and 2013 was as follows:

			Millions	of yen		
			201	4		
	Consumer Products	Mail-order	Medical Devices	Other	Eliminations	Total
Loss on impairment of fixed assets	¥141	¥ —	¥ —	¥0	¥71	¥212
			Millions	of yen		
			201	3		
	Consumer Products	Mail-order	Medical Devices	Other	Eliminations	Total
Loss on impairment of fixed assets	¥254	¥0	¥ —	¥4	¥43	¥301

Information on loss on impairment of fixed assets by reportable segment for the years ended March 31, 2014 and 2013 was as follows (continued):

		Thousands of U.S. dollars						
		2014						
	Consumer Products	Mail-order	Medical Devices	Other	Eliminations	Total		
Loss on impairment of fixed assets	\$1,370	\$ —	\$ —	\$0	\$690	\$2,060		

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, 2014 and 2013 were as follows:

	Millions of yen						
			2014				
	Consumer Products	Mail-order	Medical Devices	Other	Total		
Amortization for the year	¥ 420	¥ —	¥ —	¥ —	¥ 420		
Balance at the end of year	3,971	_	_	_	3,971		
			Millions of yen				
	·		2013				
	Consumer Products	Mail-order	Medical Devices	Other	Total		
Amortization for the year	¥ 347	¥ —	¥ 1	¥ —	¥ 348		
Balance at the end of year	3,638	_	_	_	3,638		

Thousands of U.S. dollars

			2014		
	Consumer Products	Mail-order	Medical Devices	Other	Total
Amortization for the year	\$ 4,081	\$ —	\$-	\$ —	\$ 4,081
Balance at the end of year	38,583	_	_	_	38,583

19. Subsequent Events

(a) Appropriation of retained earnings

The following appropriation of retained earnings of the Company, which has not been reflected in the consolidated financial statements for the year ended March 31, 2014, was approved at the Board of Directors' meeting held on May 26, 2014:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥43.00 = \$0.42 per share)	¥1,761	\$17,110

(b) Acquisition of treasury stock

At the Board of Directors' meeting held on April 30, 2014, the directors resolved to acquire treasury stock based on the provisions of Article 156 of the Companies Act of Japan (the "Act") as applied pursuant to the provisions of Article 165, Paragraph 3 of the Act as described below:

1. Details of the acquisition

Reasons for the acquisition: The Company acquired treasury stock in order

to further increase the return of profits to shareholders and to implement agile capital policies to respond to changes in the business

environment.

Type of shares: Common shares
Total number of shares to be purchased: Up to 270,000 shares

Acquisition value: Up to ¥1,500,000,000 (\$14,574,426.74)

Method of acquisition: Purchase on the Tokyo Stock Exchange

Acquisition period: From May 1, 2014 to June 20, 2014

2. Result of the acquisition

Total number of shares purchased: 230,500 shares

Total acquisition cost of shares purchased: ¥1,499,638,992 (\$14,570,919.08)

Acquisition period: From May 1, 2014 to June 12, 2014

Independent Auditor's Report



Ernst & Young ShinNihon LLC

Independent Auditor's Report

The Board of Directors Kobayashi Pharmaceutical Co., Ltd.

We have audited the accompanying consolidated financial statements of Kobayashi Pharmaceutical Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2014, 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, 2014, 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.

Ernst & Young ShimNihan LLC

June 27, 2014 Osaka, Japan

History

1886	Founder Chubei Kobayashi established Kobayashi Seidaido, an unlimited partnership company, in Monzen-	2001	Acquired Kiribai Chemical Co., Ltd., a body warmer manufacturer, as a subsidiary (Yodogawa-ku, Osaka)
	cho, Naka-ku, Nagoya The Company sold general merchandise, cosmetics		Established Kobayashi Healthcare Europe, Ltd. in the U.K.
1894	Launched 10 types of proprietary pharmaceuticals including Daikomaru, Ichinichimaru and Tamushichinki	2002	Established Kobayashi Pharmaceutical (Hong Kong) Co., Ltd. in Hong Kong
1912	Established Kobayashi Daiyakubou, a limited partnership company, in Hiranomachi, Higashi-ku, Osaka		Made Shanghai Kobayashi Friendship Daily Chemicals Co., Ltd. into a wholly owned subsidiary and changed its name to Shanghai Kobayashi Daily Chemicals Co., Ltd.
1919	Incorporated as Kobayashi Daiyakubou, Co., Ltd. in Kyomachibori, Nishi-ku, Osaka through a merger involving		Took over the health food business, mainly for Tochucha (Eucommia leaf tea), from Hitachi Zosen Corporation
	unlimited partnership company Kobayashi Seidaido and limited partnership company Kobayashi Daiyakubou	2003	Angel Ltd. renamed Ehime Kobayashi Pharmaceutical Co., Ltd.
	Kichitaro Kobayashi is appointed as the first president	2004	Yutaka Kobayashi is appointed as the fifth president
1939	Launched <i>Hakkiri</i> , a headache medicine	2005	Obtained exclusive distribution rights for women's health
1940	Spun off the manufacturing unit of Kobayashi Daiyakubo, to establish Kobayashi Pharmaceutical Co., Ltd.	2006	medicine <i>Inochi No Haha A</i> from Sasaokayakuhin Corporation Made eVent Medical Ltd., a medical device manufacturer,
	Juso Plant began operations in Higashi-yodogawa-ku, Osaka (currently Yodogawa-ku)		into a subsidiary in Ireland Made HeatMax, Inc., a body warmer manufacturer in the U.S., into a subsidiary
1948	Saburo Kobayashi is appointed as the second president	2008	Kobashou Co., Ltd. and Mediceo Paltac Holdings Co., Ltd.
1956	Kobayashi Daiyakubo Co., Ltd. and Kobayashi Pharmaceutical Co., Ltd. were merged and renamed	2000	conducted share exchange Spun off the manufacturing division of Kiribai Chemical Co.,
	Kobayashi Pharmaceutical Co., Ltd. Relocated the Head Office to Dosho-machi, Higashi-ku,		Ltd. to establish Kiribai Kobayashi Pharmaceutical Co., Ltd.
	Osaka (currently Dosho-machi, Chuo-ku)		Obtained trademark right for <i>Bisrat Gold</i> from Ishihara Chemical Co., Ltd.
1958	Teruko Kobayashi is appointed as the third president	2009	Established Kobayashi Pharmaceutical (Singapore) Pte. Ltd.
1967	Launched Ammeltz, an external anti-inflammatory		in Singapore
1969	Launched <i>Bluelet</i> , a toilet bowl cleaner, and entered the household products market	2010	Spun off medical device division into Kobayashi Medical Co., Ltd.
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	2011	Transferred all eVent Medical INC. shares in a management buy-out
1975	Launched Sawaday, a toilet air freshener, and entered the		Established Kobayashi Healthcare (Malaysia) Sdn. Bhd. in Malaysia
	deodorizing air fresheners market		Established Kobayashi Pharmaceutical (Taiwan) Co., Ltd. in Taiwan
1976	Kazumasa Kobayashi is appointed as the fourth president Japan Medico, Inc. became Medicon, Inc., a joint venture	2012	Made Grabber, Inc., a body warmer manufacturer in the U.S., a subsidiary
1983	company with C.R. Bard, Inc. Established Toyama Kobayashi Pharmaceutical Co., Ltd.		Established PT. Kobayashi Pharmaceutical Indonesia in Indonesia
1000	(Toyama City, Toyama Prefecture)		Established Hefei Kobayashi Daily Products Co., Ltd. in China
1988	Angel Ltd. made a consolidated subsidiary of Kobayashi Pharmaceutical Co., Ltd. to acquire a manufacturing site (Niihama City, Ehime Prefecture)		Transferred 80% of Kobayashi Medical Co., Ltd. (currently Japan Medicalnext Co., Ltd.) shares to Mitsubishi Corporation
1992	Established Kobayashi Medical, as part of the Medical Devices Business	2013	Made Rokuyo Pharmaceutical Co., Ltd. a pharmaceutical product, quasi-pharmaceutical product, and cosmetics manufacturer,
1993	Established Sendai Kobayashi Pharmaceutical Co., Ltd. (Kurokawa-gun, Miyagi Prefecture)		into a subsidiary Established Kobayashi Healthcare Australia Pty., Ltd.
1996	Launched <i>Toughdent</i> , denture cleanser		in Australia
1998	Established Shanghai Kobayashi Friendship Daily Chemicals Co., Ltd., a joint venture company in China		Transferred all Japan Medicalnext Co., Ltd. shares to Mitsubishi Corporation Akihiro Kobayashi is appointed as the sixth president
	Established Kobayashi Healthcare, Inc. in the U.S.		Established Kobayashi Healthcare (Thailand) Co., Ltd.
1999	Listed on the Second Section of the Osaka Securities Exchange		in Thailand Made Juju Cosmetics Co., Ltd., a cosmetics manufacturer,
	Launched nutritional supplements through the mail order sales channel		into a subsidiary
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 Kohashou Co. Itd		

Spun-off the Trade Company to form Kobashou Co., Ltd.

Corporate Data / Investor Information (As of March 31, 2014)

Corporate Data

Corporate Name: KOBAYASHI PHARMACEUTICAL CO., LTD.

Foundation: August 22, 1919

Head Office: KDX Kobayashi Doshomachi Bldg., 4-4-10 Doshomachi, Chuo-ku,

Osaka 541-0045, Japan

Representative Akihiro Kobayashi, President and

Director: Chief Operating Officer

Number of 2,364 (Consolidated)

Employees: 1,149 (Non-consolidated)

Consolidated Subsidiaries:

31 (12 domestic, 19 overseas)

Equity-Method Affiliate:

ou

Consumer Products Business

Medical Devices BusinessOther Business

Consolidated Subsidiaries [Domestic]

- Toyama Kobayashi Pharmaceutical Co., Ltd.
- Sendai Kobayashi Pharmaceutical Co., Ltd.
- Ehime Kobayashi Pharmaceutical Co., Ltd.
- Kiribai Chemical Co., Ltd.

Group Companies

- Kiribai Kobayashi Pharmaceutical Co., Ltd.
- Juju Cosmetics Co., Ltd.
- Kobayashi Pharmaceutical Plax Co., Ltd.
- SP-Planning, Inc.
- Archer Corporation
- Suehiro Sangyo Co., Ltd.
- Kobayashi Pharmaceutical Life Service Co., Ltd.
- Kobayashi Pharmaceutical Distribution Co., Ltd.

Consolidated Subsidiaries [Overseas]

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

Equity-Method Affiliate

Medicon, Inc.

Investor Information

Common Stock:	¥3,450 million
Number of Shares Authorized:	170,100,000
Number of Shares Issued:	42,525,000
Number of Shareholders:	11,363
Stock Exchange Listing:	Tokyo Stock Exchange 1st Section
Transfer Agent/ Institution Managing Designated:	Mitsubishi UFJ Trust and Banking Corporation

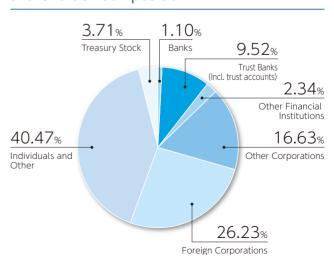
Major Shareholders

Name	Percentage of Total Shares Held (%)
Akihiro Kobayashi	10.9
Kobayashi International Scholarship Foundation	7.1
Yukako lue	6.1
State Street Bank and Trust Company 505223	5.9
JP Morgan Chase Bank 385632	3.0
Ikuko Watanabe	3.0
State Street Bank and Trust Company	2.8
Teruhisa Miyata	2.7
Ohtori Co., Ltd.	2.6
Forum Co., Ltd.	2.4

Note:

The percentage of total shares held is calculated by deducting 1,577 thousand shares of treasury stock.

Shareholder Composition





KDX Kobayashi Doshomachi Bldg., 4-4-10, Doshomachi, Chuo-ku, Osaka 541-0045, Japan Phone +81-6-7711-0505 Fax +81-6-6222-4261 URL http://www.kobayashi.co.jp/english/index.html



