

KOBAYASHI PHARMACEUTICAL CO., LTD.

Summary of Financial Statements (Japanese GAAP) (Consolidated) Financial Results for the 3rd Quarter of the Fiscal Year Ending December 31, 2017

October 30, 2017

Listed exchanges : Tokyo
 Listed company name: Kobayashi Pharmaceutical Co., Ltd.
 Code : 4967
 URL : <https://www.kobayashi.co.jp/english/index.html>
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 Expected date for submitting quarterly securities report : November 14, 2017
 Expected date for starting payment of dividends : —
 Preparation of supplementary explanation documents for quarterly financial results: None
 Holding of an analyst meeting for quarterly financial results : None

(Any fraction less than 1 million yen is rounded down to the nearest million yen.)

1. Consolidated Results for 3rd Quarter of Fiscal Year Ending December 31, 2017 (January 1, 2017 to September 30, 2017)

(1) Consolidated Operating Results (accumulation)

(% figures represent changes from same period in previous year)

	Q3 of FY ending December 31, 2017		Q3 of FY ended December 31, 2016	
Net sales	107,653	millions of yen — %	—	millions of yen — %
Operating income	17,149	—	—	—
Ordinary income	16,992	—	—	—
Net income attributable to owners of the parent	11,740	—	—	—
Net income per share	149.08	yen	—	yen
Net income per share after full dilution	148.86		—	

(Note) Comprehensive income: Q3 of FY ending December 31, 2017 : 13,196 million yen (—%)
 Q3 of FY ended December 31, 2016 : — million yen (—%)

Following approval of the proposal "Partial Amendment to the Articles of Incorporation" at the 98th Ordinary General Meeting of Shareholders held on June 29, 2016, the Company changed the book-closing date from March 31 to December 31, effective FY 2016. Accordingly, the Company did not prepare consolidated financial statements for the third quarter of the fiscal year ended December 31, 2016. Therefore, the year-on-year percentage changes for the third quarter of the fiscal year ending December 31, 2017 and consolidated operating results (accumulation) for the third quarter of the fiscal year ended December 31, 2016 have been omitted in the table above.

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(2) Consolidated Financial Position

	Q3 of FY ending December 31, 2017	As of December 31, 2016
Total assets	205,357 millions of yen	201,234 millions of yen
Net assets	147,445	143,320
Shareholders' equity ratio	71.8 %	71.2 %
Net assets per share	1,867.81 yen	1,818.10 yen
(Reference) Shareholders' equity	Q3 of FY ending December 31, 2017: 147,400 million yen As of December 31, 2016: 143,252 million yen	

2. Dividends

	FY ended December 2016	FY ending December 2017	FY ending December 2017 (forecasts)
Dividends per share			
Q1 end	—	—	
Q2 end	25.00 yen	28.00 yen	
Q3 end	—	—	
Year-end	27.00		26.00 yen
Total	52.00		54.00

(Note) Revision of the latest dividend forecast: None

3. Forecasts of Consolidated Operational Results for Fiscal Year Ending December 31, 2017 (January 1, 2017 to December 31, 2017)

(% figures represent changes from previous year)

	Full year	
Net sales	150,000 millions of yen	— %
Operating income	20,000	—
Ordinary income	21,000	—
Net income attributable to owners of the parent	15,100	—
Earnings per share	191.73 yen	

(Note) Revision of the latest forecasts of operational results: None

Following approval of the proposal "Partial Amendment to the Articles of Incorporation" at the 98th Ordinary General Meeting of Shareholders held on June 29, 2016, the Company changed the book-closing date from March 31 to December 31, effective FY 2016. Accordingly, the previous consolidated fiscal year was a transitional period for the change in accounting period and so the year-on-year percentage changes have been omitted in the table above.

[Reference] The year-on-year percentage change (after adjustments) is shown below by assuming that the accounting period is 12 months (January 1, 2016 to December 31, 2016) for the Group for the purpose of comparison with the forecasts for the fiscal year ending December 31, 2017.

Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent	
(Millions of yen)							
150,000	3.6%	20,000	8.4%	21,000	3.1%	15,100	0.5%

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* Notes

(1) Changes in significant subsidiaries during the period (Changes in specified subsidiaries accompanying changes of the scope of consolidation): None

(2) Adoption of special accounting methods for preparing quarterly consolidated financial statements: None

(3) Changes in accounting policies, changes in accounting estimates and retrospective restatement

① Changes in accounting policies due to revisions of accounting standards: None

② Changes in accounting policies other than ①: None

③ Changes in accounting estimates: None

④ Retrospective restatement: None

(4) Issued shares (common shares)

① Number of shares issued at period-end (including treasury stock):

Q3 of FY ending December 31, 2017	82,050,000 shares	FY ended December 31, 2016	85,050,000 shares
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② Number of shares of treasury stock at period-end:

Q3 of FY ending December 31, 2017	3,133,537 shares	FY ended December 31, 2016	6,257,437 shares
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③ Average number of shares outstanding during period (consolidated cumulative quarters):

Q3 of FY ending December 31, 2017	78,757,102 shares	Q3 of FY ended December 31, 2016	—
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Following approval of the proposal "Partial Amendment to the Articles of Incorporation" at the 98th Ordinary General Meeting of Shareholders held on June 29, 2016, the Company changed the book-closing date from March 31 to December 31, effective FY 2016. Accordingly, the Company did not prepare consolidated financial statements for the third quarter of the fiscal year ended December 31, 2016. Therefore, the average number of shares outstanding during the period (consolidated cumulative quarters) for the third quarter of the fiscal year ended December 31, 2016 has been omitted in the table above.

* This brief report of quarterly financial statements is not subject to audit procedures.

* Notes on proper use of forecasts and other matters

The forward-looking statements in this document concerning forecasting of operational results, etc. are based on currently available information and assumptions considered reasonable by the Company. Actual operational results may be significantly different from these statements due to various factors. For the assumptions used as the basis for forecasts of operational results and important matters to be noted when using the forecast of performance, please refer to "1. Qualitative Information on Quarterly Results, (3) Explanation of future forecast information, such as forecast of consolidated results" on page 4 of the attachment.

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1. Qualitative Information on Quarterly Results

Following approval of the proposal “Partial Amendment to the Articles of Incorporation” at the 98th Ordinary General Meeting of Shareholders held on June 29, 2016, the Company changed the book-closing date from March 31 to December 31, effective FY 2016. Accordingly, the Company did not prepare consolidated financial statements for the third quarter of the fiscal year ended December 31, 2016. Therefore, the year-on-year percentage changes for the third quarter of the fiscal year ending December 31, 2017 and consolidated operating results (accumulation) for the third quarter of the fiscal year ended December 31, 2016 have been omitted.

(1) Explanation of operational results

During the first nine-month period of the consolidated fiscal year under review, the Japanese economy witnessed a recovery trend as shown in the improvement of corporate earnings and employment helped by the continued economic stimulus measures implemented by the government. On the other hand, however, consumer spending continued to face a tough situation.

Under these circumstances, the Group launched new products that satisfy customers’ needs, strengthened its existing product lineups, and invested in businesses with high future growth potential, with the brand slogan “You make a wish and we make it happen.”

As a result, net sales, operating income and ordinary income were 107,653 million yen, 17,149 million yen and 16,992 million yen, respectively, and net income attributable to owners of the parent was 11,740 million yen.

Business results by segment were as follows:

Domestic Consumer Products Business

In the Domestic Consumer Products Business, the Company launched 11 new products in the spring and another 18 in the fall. The products that contributed to the growth in sales were *Kurocure* (a therapeutic drug for dark rough elbows and knees), *Hishimore* (a drug to improve dry skin lacking sebum), *Nightmin Nasal Breathing Tape* (a strip that is attached to the lips during sleep to facilitate breathing through the nose), *Sawaday Kaoru Stick Aroma* (a fragrance for indoor use containing select scented oils), *Keshimin Cream EX* (a specially formulated skin care cream for spots), and *Bioil* (a skin care oil).

Existing healthcare products that recorded robust sales included skin care products, such as *Senacure* (a therapeutic drug for blotches on the back or decollete) and *Curelea* (a therapeutic drug for itchiness and rash on face), and kampo and herbal medicines, such as *Inochi No Haha A* (a women’s health medicine), *Chikunain* (a remedy for empyema) and *Dusmock* (a kampo medicine that ameliorates persistent coughing and bronchitis). Household products that contributed to the growth in sales were *Sarasaty* (a sheet for absorbing vaginal discharge) and *Bluelet* (a toilet deodorizer and bowl bleach tablet). Skincare products such as *Keshimin* (a skincare product for spots) and *Madame Juju* (a skin care cream) also sold well.

As a result, net sales and segment income (ordinary income) were 90,329 million yen and 16,039 million yen, respectively. Meanwhile, operating income was 16,241 million yen.

Net sales include inter-segment sales or transfers, which totaled 4,542 million yen in the first nine-month period of the consolidated fiscal year under review.

(Breakdown of sales to external customers)

	Q3 ended September 30, 2017 (January 1, 2017 to September 30, 2017)
	Amount (millions of yen)
Healthcare products	42,292
Household products	37,378
Skin care	4,346
Body warmers	1,768
Total	85,786

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Overseas Consumer Products Business

In the Overseas Consumer Products Business, the Company markets, mostly in the United States, China and Southeast Asia, the body warmers, *Netsusama Sheet* (a cooling gel sheet for the forehead) and *Ammeltz* (an external anti-inflammatory), and sought to expand sales by investing aggressively, principally in advertising and sales promotions.

As a result, net sales and segment income (ordinary income) were 14,332 million yen and 391 million yen, respectively. Operating income was 467 million yen.

Net sales include inter-segment sales or transfers, which totaled 829 million yen in the first nine-month period of the consolidated fiscal year under review.

(Breakdown of sales to external customers)

	Q3 ended September 30, 2017 (January 1, 2017 to September 30, 2017)
	Amount (millions of yen)
United States	4,688
China	4,146
Southeast Asia	3,055
Others	1,611
Total	13,503

Direct Marketing Business

The Direct Marketing Business markets nutritional supplements and skin care products. The Company strove to exploit new customers while encouraging existing customers to continue to place orders for its products through sales promotional campaigns, such as advertisements and direct mail.

Consequently, the Company reported net sales of 7,448 million yen and segment loss (ordinary loss) of 109 million yen. Meanwhile, operating loss was 111 million yen.

Net sales do not include inter-segment sales or transfers.

Other Businesses

Businesses in this segment include medical devices business, transportation business, manufacture and sale of plastic containers, insurance agency, real estate management, advertisement planning and production, etc. The companies in this business segment operate individually on a financially independent basis, and their delivery prices of materials and services were reviewed and revised as necessary.

As a result, the Company posted net sales of 4,789 million yen and segment income (ordinary income) of 1,025 million yen. Operating income was 531 million yen.

Net sales include inter-segment sales or transfers, which totaled 3,874 million yen in the first nine-month period of the consolidated fiscal year under review.

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(2) Explanation of financial position

Total assets increased by 4,123 million yen from the balance as of the end of the previous consolidated fiscal year, to 205,357 million yen. This is attributable mainly to a decrease of 5,824 million yen in cash and deposits, a decline of 1,063 million yen in notes and accounts receivable-trade, an increase of 2,800 million yen in short-term investment securities, a rise of 4,893 million yen in merchandise and finished goods, and an increase of 3,462 million yen in investment securities.

Liabilities decreased by 1 million yen from the balance as of the end of the previous consolidated fiscal year, to 57,912 million yen. This was attributable mainly to an increase of 1,336 million yen in notes and accounts payable-trade, a decrease of 656 million yen in accounts payable-other, a fall of 356 million yen in income taxes payable, and a decline of 278 million yen in accrued consumption taxes.

Net assets grew by 4,125 million yen from the balance as of the end of the previous consolidated fiscal year, to 147,445 million yen, bringing the capital adequacy ratio to 71.8%. This is mainly attributable to a decrease of 775 million yen in capital surplus, a decline of 5,240 million yen in retained earnings, a fall of 8,707 million yen in treasury stock, and an increase of 1,682 million yen in valuation difference on available-for-sale securities.

(3) Explanation of future forecast information, such as forecast of consolidated results

The Group did not revise its forecast of consolidated results for the fiscal year ending December 31, 2017, which the Group announced via the "Summary of Financial Statements for the Fiscal Year ended December 31, 2016" released on February 1, 2017.

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2. Consolidated Quarterly Financial Statements and Main Notes

(1) Consolidated quarterly balance sheet

(millions of yen)

	Previous consolidated fiscal year (December 31, 2016)	End of 1st nine-month period of FY ending December 2017 (September 30, 2017)
ASSETS		
Current assets		
Cash and deposits	58,173	52,348
Notes and accounts receivable-trade	47,045	45,982
Short-term investment securities	5,500	8,300
Merchandise and finished goods	9,222	14,116
Work in process	751	1,057
Raw materials and supplies	2,832	2,949
Deferred tax assets	2,899	3,427
Other	2,267	2,432
Allowance for doubtful accounts	(45)	(51)
Total current assets	128,646	130,563
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	8,377	8,182
Machinery, equipment and vehicles, net	3,478	3,574
Tools, furniture and fixtures, net	1,407	1,348
Land	3,552	3,576
Leased assets, net	628	583
Construction in progress	388	362
Total property, plant and equipment	17,833	17,628
Intangible assets		
Goodwill	4,729	3,907
Trademark rights	480	423
Software	962	856
Other	1,051	949
Total intangible assets	7,223	6,135
Investments and other assets		
Investment securities	40,281	43,743
Long-term loans receivable	171	237
Deferred tax assets	383	465
Real estate for investment, net	2,967	2,988
Other	3,991	3,925
Allowance for doubtful accounts	(265)	(330)
Total investments and other assets	47,529	51,030
Total non-current assets	72,587	74,794
Total assets	201,234	205,357

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(millions of yen)

	Previous consolidated fiscal year (December 31, 2016)	End of 1st nine-month period of FY ending December 2017 (September 30, 2017)
LIABILITIES		
Current liabilities		
Notes and accounts payable-trade	8,169	9,506
Electronically recorded obligations-operating	7,849	8,396
Short-term loans payable	192	213
Accounts payable-other	20,191	19,534
Lease obligations	56	54
Income taxes payable	3,357	3,000
Accrued consumption taxes	1,090	811
Provision for sales returns	1,409	1,115
Provision for bonuses	1,147	1,108
Asset retirement obligations	37	38
Other	3,472	2,934
Total current liabilities	46,975	46,716
Non-current liabilities		
Lease obligations	581	540
Deferred tax liabilities	3,841	4,182
Net defined benefit liability	4,337	4,276
Provision for directors' retirement benefits	33	34
Asset retirement obligations	80	81
Other	2,063	2,080
Total non-current liabilities	10,938	11,196
Total liabilities	57,914	57,912
NET ASSETS		
Shareholders' equity		
Capital stock	3,450	3,450
Capital surplus	4,958	4,183
Retained earnings	147,901	142,660
Treasury stock	(21,088)	(12,380)
Total shareholders' equity	135,221	137,914
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	9,481	11,164
Deferred gains or losses on hedges	40	14
Foreign currency translation adjustment	680	268
Re-measurements of retirement benefit plans	(2,171)	(1,960)
Total accumulated other comprehensive income	8,031	9,486
Subscription rights to shares	67	44
Total net assets	143,320	147,445
Total liabilities and net assets	201,234	205,357

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(2) Consolidated quarterly statements of income and consolidated quarterly statements of comprehensive income

(Consolidated quarterly statements of income)

(For the first nine-month period of the fiscal year ending December 31, 2017)

	(millions of yen)
	Nine-month period ended September 30, 2017 (January 1, 2017 to September 30, 2017)
Net sales	107,653
Cost of sales	40,103
Gross profit	67,549
Selling, general and administrative expenses	50,399
Operating income	17,149
Non-operating income	
Interest income	192
Dividend income	198
Real estate rent	222
Other	219
Total non-operating income	832
Non-operating expenses	
Interest expenses	16
Sales discounts	485
Rent cost of real estate	62
Foreign exchange losses	180
Other	244
Total non-operating expenses	990
Ordinary income	16,992
Extraordinary income	
Gain on sales of non-current assets	0
Other	3
Total extraordinary income	4
Extraordinary loss	
Loss on sales and retirement of noncurrent assets	57
Impairment loss	333
Loss on sales of investment securities	0
Other	72
Total extraordinary loss	463
Income before income taxes	16,533
Income taxes - current	5,832
Income taxes - deferred	(1,040)
Total income taxes	4,792
Net income	11,740
Net income (loss) attributable to non-controlling interests	—
Net income attributable to owners of the parent	11,740

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(Consolidated quarterly statements of comprehensive income)
 (For the first nine-month period of the fiscal year ending December 31, 2017)

	(millions of yen)
	Nine-month period ended September 30, 2017 (January 1, 2017 to September 30, 2017)
Net income	11,740
Other comprehensive income	
Valuation difference on available-for-sale securities	1,682
Deferred gains or losses on hedges	(25)
Foreign currency translation adjustment	(412)
Adjustment for retirement benefits	210
Total other comprehensive income	1,455
Quarterly comprehensive income	13,196
(Comprehensive income attributable to)	
Quarterly comprehensive income attributable to owners of the parent	13,196
Comprehensive income attributable to non-controlling interests	—

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(3) Notes on quarterly consolidated financial statements

(Notes on assumption of going concern)

Not applicable

(Notes on a significant change in shareholders' equity)

Based on the resolution made at the Board of Directors meeting held on February 1, 2017, the Company cancelled 3,000,000 shares of treasury stock on February 17, 2017, resulting in decreases of 770 million yen in capital surplus, 9,339 million yen in retained earnings, and 10,110 million yen in treasury stock. In addition, according to the resolution made at the Board of Directors meeting held on February 1, 2017 and approved at the 99th Ordinary General Meeting of Shareholders held on March 30, 2017, the Company disposed of treasury stock through a third-party allotment, resulting in decreases of 3,261 million yen in treasury stock and 3,260 million yen in retained earnings. Furthermore, based on the resolution made at the Board of Directors meeting held on February 1, 2017, the Company acquired treasury stock, resulting in an increase of 4,999 million yen in treasury stock.

Consequently, capital surplus, retained earnings and treasury stock were 4,183 million yen, 142,660 million yen and 12,380 million yen, respectively, as of the end of the first nine-month period of the consolidated fiscal year ending December 31, 2017.

(Segment information, etc.)

[Segment information]

Nine-month period ended September 30, 2017 (January 1, 2017 to September 30, 2017)

1. Information on net sales, income or loss by reportable segment

	Reportable segment				Other (Note 1)	Grand total	Adjustment (Note 2)	Figures in consolidated statements of income (Note 3)
	Domestic Consumer Products Business	Overseas Consumer Products Business	Direct Marketing Business	Total				
Net sales								
Net sales to outside customers	85,786	13,503	7,448	106,738	914	107,653	–	107,653
Inter-segment sales or transfers	4,542	829	–	5,371	3,874	9,246	(9,246)	–
Total	90,329	14,332	7,448	112,110	4,789	116,899	(9,246)	107,653
Segment income (loss)	16,039	391	(109)	16,321	1,025	17,346	(353)	16,992

(Notes)

1. *Other* represents businesses that are not included in the reportable segments, such as medical devices business, transportation business, manufacture and sale of plastic containers, insurance agency, real estate management, advertisement planning and production.
2. Adjustments of -353 million yen in segment income (loss) are eliminations among segments, and profits and expenses not distributed to the relevant business segment.
3. Segment income (loss) is adjusted with ordinary income in the consolidated quarterly statements of income.

2. Information concerning impairment loss on non-current assets or goodwill by reportable segments

(Significant impairment loss on non-current assets)

In the Domestic Consumer Products Business segment, regarding business assets that the Group finds it difficult to recoup its investment in, the Group has reduced their book value to their recoverable value and has posted the reduced amount as impairment loss. The resulting impairment loss amounted to 333 million yen in the first nine-month period of the consolidated fiscal year ending December 31, 2017.

(Significant change in the value of goodwill)

In the Domestic Consumer Products Business segment, the Group has recorded impairment loss for goodwill that the Group finds it difficult to recoup its investment in. The resulting decrease in the value of goodwill amounted to 227 million yen in the first nine-month period of the consolidated fiscal year ending December 31, 2017. The impairment loss on goodwill is included in the above-mentioned significant impairment loss on non-current assets.

(Significant change in the value of goodwill)

Not applicable