

KOBAYASHI PHARMACEUTICAL CO., LTD.

Summary of Financial Statements (Japanese GAAP) (Consolidated) Financial Results for the Fiscal Year Ended December 31, 2017

February 2, 2018

Listed exchanges	: Tokyo
Listed company name	: Kobayashi Pharmaceutical Co., Ltd.
Code	: 4967
URL	: http://www.kobayashi.co.jp/english/index.html
Representative officer	: Akihiro Kobayashi, President & COO
Contact	: Satoshi Yamane, Senior Executive Director & Senior General Manager, Corporate Headquarters
Tel	: +81-6-6222-0142
Expected date of general meeting of shareholders:	March 29, 2018
Expected date for starting payment of dividends:	March 8, 2018
Expected date for filing financial report with the Finance Ministry:	March 29, 2018
Preparation of supplementary explanation documents for Financial Statements:	Yes
Holding of an analyst meeting for the financial results:	Yes (For analysts and investors)

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

1. Consolidated Results for Fiscal Year Ended December 31, 2017 (January 1, 2017 to December 31, 2017)

(1) Consolidated Operating Results

(% figures represent changes from previous period.)

	FY ended December 31, 2017		FY ended December 31, 2016	
Net sales	156,761	millions of yen — %	120,051	millions of yen — %
Operating income	22,925	—	17,409	—
Ordinary income	24,191	—	19,499	—
Net income attributable to owners of the parent	15,863	—	14,321	—
Net income per share	201.31	yen	179.12	yen
Net income per share after full dilution	201.03		178.86	
Return on equity		10.7		10.0
Return on assets		11.5		10.0
Ratio of operating income to net sales		14.6		14.5

(Note) Comprehensive income

FY ended December 31, 2017: 19,474 million yen (—%)

FY ended December 31, 2016: 13,114 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 previous consolidated fiscal year was a transitional period for the change in accounting period, meaning an irregular period, in which the consolidated operating period covered nine months (April 1, 2016 to December 31, 2016) for the Company and its consolidated subsidiaries that close their accounts in March, as opposed to 12 months (January 1, 2016 to December 31, 2016) for consolidated subsidiaries that close their accounts in December.

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Therefore, the year-on-year percentage changes have been omitted in the tables above. Furthermore, the Company implemented a two-for-one common stock split, effective July 1, 2016. Net income per share and net income per share after full dilution were calculated on the assumption that the relevant stock split had been implemented at the beginning of the previous consolidated fiscal year.

(2) Consolidated Financial Position

	FY ended December 31, 2017	FY ended December 31, 2016
Total assets	218,831 millions of yen	201,234 millions of yen
Net assets	153,811	143,320
Shareholders' equity ratio	70.3 %	71.2 %
Net assets per share	1,947.82 yen	1,818.10 yen
(Reference) Shareholders' equity	FY ended December 31, 2017: 153,774 million yen FY ended December 31, 2016: 143,252 million yen	

(3) Consolidated Cash Flow

	FY ended December 31, 2017	FY ended December 31, 2016
Net cash provided by (used in) operating activities	22,350 millions of yen	16,097 millions of yen
Net cash provided by (used in) investing activities	7,039	(519)
Net cash provided by (used in) financing activities	(9,162)	(11,922)
Cash and cash equivalents at period-end	48,688	28,322

2. Dividends

	FY ended December 31, 2016	FY ended December 31, 2017	FY ending December 31, 2018 (forecasts)
Dividends per share			
Q1 end	—	—	—
Q2 end	25.00 yen	28.00 yen	30.00 yen
Q3 end	—	—	—
Year-end	27.00	30.00	30.00
Total	52.00	58.00	60.00
Total dividends	4,124 millions of yen	4,577 millions of yen	
Payout ratio (consolidated)	29.0 %	28.8 %	27.9 %
Ratio of dividends to net assets (consolidated)	2.9	3.1	

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3. Forecasts of Consolidated Operational Results for Fiscal Year Ending December 31, 2018

(January 1, 2018 to December 31, 2018)

(% figures represent changes from previous period.)

	Full year	
Net sales	163,000 millions of yen	104.0 %
Operating income	23,700	103.4
Ordinary income	24,800	102.5
Net income	17,000	107.2
Net income per share	215.33 yen	

* Notes

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries accompanying changes of the scope of consolidation): None
 Newly included: - (company name:); Excluded: - (company name:)

(2) 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

(3) Issued shares (common shares)

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

	FY ended December 31, 2017	82,050,000 shares	FY ended December 31, 2016	85,050,000 shares
② Number of shares of treasury stock at period-end:	FY ended December 31, 2017	3,102,937 shares	FY ended December 31, 2016	6,257,437 shares
③ Average number of shares outstanding during period:	FY ended December 31, 2017	78,800,684 shares	FY ended December 31, 2016	79,955,009 shares

The Company implemented a two-for-one common stock split, effective July 1, 2016. The number of issued shares (common shares) was calculated on the assumption that the relevant stock split had been implemented at the beginning of the previous consolidated fiscal year.

* This brief report of 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 matters concerning forecasts for business results, please refer to "1. Overview of Operational Results, etc., (4) Forecast for Year Ending December 31, 2018" on page 6 of the attachment.

(Method to obtain the attachment of Financial Statements)

The Company plans to post the attachment of Financial Statements on its website immediately after the results presentation scheduled for Tuesday, February 6, 2018.

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KOBAYASHI PHARMACEUTICAL CO., LTD.

1. Overview of Operational Results, etc.

(1) Overview of Operational Results for FY ended December 31, 2017

Overview of Consolidated Results

	Previous Year		Current Year	
	(FY ended December 31, 2016)		(FY ended December 31, 2017)	
	Amount (millions of yen)	Ratio (%)	Amount (millions of yen)	Ratio (%)
Net sales	120,051	100.0	156,761	100.0
Operating income	17,409	14.5	22,925	14.6
Ordinary income	19,499	16.2	24,191	15.4
Net income attributable to owners of the parent	14,321	11.9	15,863	10.1
Net income per share (yen)	179.12		201.31	

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, meaning an irregular period, in which the consolidated operating period covered nine months (April 1, 2016 to December 31, 2016) for the Company and its consolidated subsidiaries that close their accounts in March, as opposed to 12 months (January 1, 2016 to December 31, 2016) for consolidated subsidiaries that close their accounts in December. Therefore, the year-on-year percentage changes have been omitted.

Furthermore, the Company implemented a two-for-one common stock split effective July 1, 2016. Net income per share was calculated on the assumption that the relevant stock split had been implemented at the beginning of the previous consolidated fiscal year.

During the current 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. In addition, consumer spending also showed signs of gradual recovery.

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 156,761 million yen, 22,925 million yen and 24,191 million yen, respectively, and net income attributable to owners of the parent was 15,863 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 *Eyebon* (a chemical solution containing ingredients that help repair and protect the corneas and clean dirt and dust from the eyes), *Bisrat Gold* (an obesity therapeutic drug), *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 129,836 million yen and 20,831 million yen, respectively. Meanwhile, operating income was 21,323 million yen.

Net sales include inter-segment sales or transfers, which totaled 6,342 million yen in the consolidated fiscal year under review.

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(Breakdown of sales to external customers)

	Previous Year	Current Year
	(FY ended December 31, 2016)	(FY ended December 31, 2017)
	Amount (millions of yen)	Amount (millions of yen)
Healthcare products	42,237	58,127
Household products	41,045	52,352
Skin care	4,181	6,047
Body warmers	5,490	6,965
Total	92,955	123,494

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 22,811 million yen and 828 million yen, respectively. Operating income was 935 million yen.

Net sales include inter-segment sales or transfers, which totaled 1,044 million yen in the consolidated fiscal year under review.

(Breakdown of sales to external customers)

	Previous Year	Current Year
	(FY ended December 31, 2016)	(FY ended December 31, 2017)
	Amount (millions of yen)	Amount (millions of yen)
United States	6,783	8,553
China	5,378	6,784
Southeast Asia	4,218	4,237
Others	1,646	2,193
Total	18,026	21,767

Direct Marketing Business

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

Consequently, the Company reported net sales of 10,179 million yen and segment loss (ordinary loss) of 72 million yen. Meanwhile, operating loss was 75 million yen.

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

Other Businesses

Businesses in this segment include the 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 6,561 million yen and segment income (ordinary income) of 3,027 million yen. Operating income was 757 million yen.

Net sales include inter-segment sales or transfers, amounting to 5,242 million yen in the consolidated fiscal year under review.

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(2) Overview of Financial Position for FY ended December 31, 2017

(Consolidated Financial Position)

	Previous Year	Current Year
	(FY ended December 31, 2016)	(FY ended December 31, 2017)
	Amount	Amount
	(millions of yen)	(millions of yen)
Total assets	201,234	218,831
Net assets	143,320	153,811
Shareholders' equity ratio	71.2%	70.3%
Net assets per share (yen)	1,818.10 yen	1,947.82 yen

The Company's financial position on a consolidated basis is as follows:

Total assets increased by 17,596 million yen from the balance as of the end of the previous consolidated fiscal year, to 218,831 million yen. This is attributable mainly to an increase of 6,817 million yen in cash and deposits, a rise of 2,986 million yen in notes and accounts receivable-trade, an increase of 2,800 million yen in short-term investment securities, a decrease of 2,103 million yen in goodwill, and a rise of 6,515 million yen in investment securities.

Liabilities grew by 7,105 million yen from the balance as of the end of the previous consolidated fiscal year, to 65,019 million yen. This was attributable mainly to an increase of 1,371 million yen in electronically recorded obligations-operating, a rise of 4,255 million yen in accounts payable-other, and an increase of 1,296 million yen in income taxes payable.

Net assets rose by 10,491 million yen from the balance as of the end of the previous consolidated fiscal year, to 153,811 million yen, bringing the capital adequacy ratio to 70.3%. This is mainly attributable to a decrease of 775 million yen in capital surplus, a decline of 1,143 million yen in retained earnings, a fall of 8,828 million yen in treasury stock, and an increase of 3,786 million yen in valuation difference on available-for-sale securities.

(3) Overview of Cash Flows for FY ended December 31, 2017

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, meaning an irregular period, in which the consolidated operating period covered nine months (April 1, 2016 to December 31, 2016) for the Company and its consolidated subsidiaries that close their accounts in March, as opposed to 12 months (January 1, 2016 to December 31, 2016) for consolidated subsidiaries that close their accounts in December. Therefore, the year-on-year percentage changes in cash flows have been omitted.

(Consolidated Cash Flow)

	Previous Year	Current Year
	(FY ended December 31, 2016)	(FY ended December 31, 2017)
	Amount	Amount
	(millions of yen)	(millions of yen)
Net cash provided by (used in) operating activities	16,097	22,350
Net cash provided by (used in) investing activities	(519)	7,039
Free cash flow	15,577	29,390
Net cash provided by (used in) financing activities	(11,922)	(9,162)
Cash and cash equivalents at period-end	28,322	48,688

Cash flows from operating activities

Net cash provided by operating activities totaled 22,350 million yen. Major factors affecting this cash flow were: income before income taxes of 22,572 million yen, depreciation of 2,926 million yen, a decrease in net defined benefit liability of 1,743 million yen, an increase in notes and accounts receivable-trade of 2,969 million yen, a rise in inventories of 526 million yen, an increase in notes and accounts payable-trade of 1,500 million yen, a rise in accounts payable-other of 4,057 million yen, interest and dividend income received of 675 million yen, and income taxes paid of 6,287 million yen.

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Cash flows from investing activities

Net cash provided by investing activities totaled 7,039 million yen. Major factors affecting this cash flow were: payments into time deposits of 52,455 million yen, proceeds from the withdrawal of time deposits of 63,220 million yen, the purchase of property, plant and equipment of 2,841 million yen, and the purchase of investment securities of 1,064 million yen.

Cash flows from financing activities

Net cash used in financing activities totaled 9,162 million yen. Major factors affecting this cash flow were: purchase of treasury stock of 5,068 million yen, proceeds from disposal of treasury stock of 352 million yen, and dividend payment of 4,343 million yen.

Consequently, cash and cash equivalents as of December 31, 2017 totaled 20,365 million yen, an increase of 48,688 million yen from the end of the previous fiscal year.

Forecast for Year Ending December 31, 2018

Although the business environment will remain severe, we will make further efforts to improve the operating cash flow, including inventory reduction, in accordance with the policy to improve the efficiency of investment capital.

As for the facility investments constantly needed for product development, we plan to make the same level of investment as in the fiscal year ended December 31, 2017. As for investments other than facility investments, we plan to make the same level of investment as in the fiscal year ended December 31, 2017 since we currently do not have major investment plans.

Trend of Cash Flow Indicators

	As of March 31, 2014	As of March 31, 2015	As of March 31, 2016	As of December 31, 2016	As of December 31, 2017
Shareholders' equity ratio (%)	74.2	74.8	75.1	71.2	70.3
Shareholders' equity ratio on a market price basis (%)	142.5	187.9	210.0	195.8	264.1
Ratio of net cash to interest-bearing liabilities (year)	0.0	0.0	0.0	0.0	0.0
Interest coverage ratio (times)	1,492.3	929.4	740.5	738.6	801.7

Shareholders' equity ratio: Shareholders' equity/Total assets

Shareholders' equity ratio on a market price basis: Total market value of shares/Total assets

Ratio of net cash to interest-bearing liabilities: Interest-bearing liabilities/Operating cash flow

Interest coverage ratio: Operating cash flow/Interest payments

* These indicators are calculated based on consolidated financial results.

* Total market value of stock is calculated by the following formula: closing price at period-end x outstanding shares at period-end (excluding treasury stock).

* Operating cash flow is based on net cash provided by operating activities reported on the consolidated statement of cash flow. Interest-bearing liabilities include all liabilities reported on the consolidated balance sheet for which interest is paid. The amount of interest payments is the amount of interest expenses paid reported on the consolidated statement of cash flow.

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(4) Forecast for Year Ending December 31, 2018

	Current Year (FY ended December 31, 2017)		Next Year (FY ending December 31, 2018)		Percentage change (%)
	Amount (millions of yen)	Ratio (%)	Amount (millions of yen)	Ratio (%)	
Net sales	156,761	100.0	163,000	100.0	4.0
Operating income	22,925	14.6	23,700	14.5	3.4
Ordinary income	24,191	15.4	24,800	15.2	2.5
Net income attributable to owners of the parent	15,863	10.1	17,000	10.4	7.2
Net income per share (yen)	201.31		215.33		

The Japanese economy is forecast to continue recovering, supported by continuation of the government's economic recovery program, which is expected to lead to the improvement of corporate earnings and employment. However, we expect the business environment will remain severe due to the unstable global situation.

Under these circumstances, the Kobayashi Pharmaceutical Group will try to develop and deliver new products with unprecedented added value to its customers, with the brand slogan "You make a wish and we make it happen."

In the Domestic Consumer Products Business segment, the Company will launch 10 new products this spring with the aim of stimulating new demand and also strengthen its existing product lineup to accelerate sales. The new products include skin care products, such as *Aocure* (a remedy for internal bleeding with a bruise), *Keanocure* (a remedy for spotted skin with darkened pores due to removal of unwanted hair), and *Kurocure EX* (a remedy for darkened elbows and chapped knees prepared with EX formula giving satisfying feeling), and *Sawaday PINKPINK Stick* (a fragrance for indoor use containing elegant and feminine scents in a stylish package).

Overseas, especially in the United States, China and Southeast Asia, the Company will follow a marketing strategy of expanding sales mainly in body warmers, *Netsusama Sheet* (a cooling gel sheet for the forehead) and *Ammeltz* (an external anti-inflammatory).

In the Direct Marketing Business segment, the Company will aggressively carry out a sales promotion campaign using advertisements and direct mail, mainly for nutritional supplements and skin care products, to cultivate new customers and encourage existing customers to reorder and boost sales.

Through these efforts, the Company is forecast to achieve consolidated net sales of 163,000 million yen (+4.0%), operating income of 23,700 million yen (+3.4%), ordinary income of 24,800 million yen (+2.5%) and net income attributable to owners of the parent of 17,000 million yen (+7.2%) in the fiscal year ending December 31, 2018.

(5) Basic Policy for Profit Distribution and Dividend Payments for Fiscal Year Ended December 31, 2017 and Fiscal Year Ending December 31, 2018

The Company regards returns to shareholders as one of its most important management programs, and has been striving to enhance corporate value by generating higher cash flow. To that end, it will maintain healthy management and actively invest in businesses with high growth potential. While setting the stable payment of dividends as its basic policy, the Company aims to enhance returns to shareholders by paying reasonable dividends based on the consolidated operational results of the company.

According to the above policy, the Company pays dividends twice a year (an interim dividend and a year-end dividend) and proposes to pay a regular dividend to shareholders of 58 yen, up 4 yen from the previous forecast (including an interim dividend of 28 yen per share already paid and a year-end dividend of 30 yen per share) for the year ended December 31, 2017. For the year ending December 31, 2018, the Company plans to pay a regular dividend of 60 yen per share (including an interim dividend of 30 yen per share and a year-end dividend of 30 yen per share).

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2. Consolidated Financial Statements and Main Notes
(1) Consolidated Balance Sheet

	(millions of yen)	
	Previous consolidated fiscal year (December 31, 2016)	Current consolidated fiscal year (December 31, 2017)
ASSETS		
Current assets		
Cash and deposits	58,173	64,990
Notes and accounts receivable-trade	47,045	50,032
Short-term investment securities	5,500	8,300
Merchandise and finished goods	9,222	9,789
Work in process	751	693
Raw materials and supplies	2,832	2,807
Deferred tax assets	2,899	3,221
Other	2,267	2,547
Allowance for doubtful accounts	(45)	(34)
Total current assets	128,646	142,346
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	8,377	8,212
Machinery, equipment and vehicles, net	3,478	3,985
Tools, furniture and fixtures, net	1,407	1,337
Land	3,552	3,576
Leased assets, net	628	573
Construction in progress	388	562
Total property, plant and equipment	17,833	18,247
Intangible assets		
Goodwill	4,729	2,626
Trademark rights	480	410
Software	962	906
Other	1,051	855
Total intangible assets	7,223	4,798
Investments and other assets		
Investment securities	40,281	46,797
Long-term loans receivable	171	261
Deferred tax assets	383	539
Real estate for investment, net	2,967	2,981
Other	3,991	3,243
Allowance for doubtful accounts	(265)	(384)
Total investments and other assets	47,529	53,438
Total non-current assets	72,587	76,484
Total assets	201,234	218,831

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(millions of yen)

	Previous consolidated fiscal year (December 31, 2016)	Current consolidated fiscal year (December 31, 2017)
LIABILITIES		
Current liabilities		
Notes and accounts payable-trade	8,169	8,279
Electronically recorded obligations—operating	7,849	9,221
Short-term loans payable	192	194
Accounts payable-other	20,191	24,446
Lease obligations	56	55
Income taxes payable	3,357	4,654
Accrued consumption taxes	1,090	1,245
Provision for sales returns	1,409	1,793
Provision for bonuses	1,147	2,250
Asset retirement obligations	37	38
Other	3,472	2,095
Total current liabilities	46,975	54,274
Non-current liabilities		
Lease obligations	581	527
Deferred tax liabilities	3,841	5,224
Net defined benefit liability	4,337	2,805
Provision for directors' retirement benefits	33	37
Asset retirement obligations	80	81
Other	2,063	2,068
Total non-current liabilities	10,938	10,744
Total liabilities	57,914	65,019
NET ASSETS		
Shareholders' equity		
Capital stock	3,450	3,450
Capital surplus	4,958	4,183
Retained earnings	147,901	146,758
Treasury stock	(21,088)	(12,259)
Total shareholders' equity	135,221	142,132
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	9,481	13,267
Deferred gains or losses on hedges	40	9
Foreign currency translation adjustment	680	403
Re-measurements of retirement benefit plans	(2,171)	(2,038)
Total accumulated other comprehensive income	8,031	11,642
Subscription rights to shares	67	36
Total net assets	143,320	153,811
Total liabilities and net assets	201,234	218,831

KOBAYASHI PHARMACEUTICAL CO., LTD.

(2) Consolidated Income Statement and Consolidated Comprehensive Income Statement
(Consolidated Income Statement)

(millions of yen)

	Previous consolidated fiscal year (April 1, 2016 to December 31, 2016)	Current consolidated fiscal year (January 1, 2017 to December 31, 2017)
Net sales	120,051	156,761
Cost of sales	48,638	61,238
Gross profit	71,412	95,522
Selling, general and administrative expenses		
Promotion expenses	8,159	11,106
Freight and warehousing expenses	4,521	5,871
Advertising expenses	17,049	22,361
Provision of allowance for doubtful accounts	31	27
Salaries, allowances and bonuses	8,018	10,096
Retirement benefit expenses	544	812
Provision for directors' retirement benefits	2	9
Taxes and dues	453	601
Depreciation	525	741
Amortization of goodwill	513	593
Rent	1,129	1,461
Commission fees	4,069	5,504
Research and development expenses	4,121	7,239
Other	4,863	6,168
Total selling, general and administrative expenses	54,003	72,596
Operating income	17,409	22,925
Non-operating income		
Interest income	184	273
Dividend income	355	384
Real estate rent	221	296
Foreign exchange gains	50	—
Compensation income	1,900	1,500
Other	234	269
Total non-operating income	2,946	2,724
Non-operating expenses		
Interest expenses	21	38
Sales discounts	583	750
Rent cost of real estate	59	78
Foreign exchange losses	—	210
Provision of allowance for doubtful accounts	86	118
Other	105	261
Total non-operating expenses	855	1,458
Ordinary income	19,499	24,191

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(millions of yen)

	Previous consolidated fiscal year (April 1, 2016 to December 31, 2016)	Current consolidated fiscal year (January 1, 2017 to December 31, 2017)
Extraordinary income		
Gain on sales of non-current assets	4	0
Gain on sales of investment securities	1,795	3
Gain on sales of subsidiaries and affiliates' stocks	7	—
Compensation income	—	98
Other	0	3
Total extraordinary income	1,807	105
Extraordinary loss		
Loss on disposal of non-current assets	118	96
Impairment loss	1,342	1,544
Loss on business liquidation	9	—
Other	35	84
Total extraordinary loss	1,505	1,724
Income before income taxes	19,802	22,572
Income taxes - current	5,223	7,601
Income taxes - deferred	321	(892)
Total income taxes	5,544	6,709
Net income	14,257	15,863
Net income (loss) attributable to noncontrolling interests	(64)	—
Net income attributable to owners of the parent	14,321	15,863

(Consolidated Comprehensive Income Statement)

(millions of yen)

	Previous consolidated fiscal year (April 1, 2016 to December 31, 2016)	Current consolidated fiscal year (January 1, 2017 to December 31, 2017)
Net income	14,257	15,863
Other comprehensive income		
Valuation difference on available-for-sale securities	620	3,786
Deferred gains or losses on hedges	78	(31)
Foreign currency translation adjustment	(998)	(277)
Adjustment for retirement benefits	(843)	133
Total other comprehensive income	(1,142)	3,611
Comprehensive income	13,114	19,474
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of the parent	13,189	19,474
Comprehensive income attributable to noncontrolling interests	(75)	—

KOBAYASHI PHARMACEUTICAL CO., LTD.

(3) Consolidated Statement of Shareholders' Equity Previous consolidated fiscal year (April 1, 2016 to December 31, 2016)

(millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at period start	3,450	4,953	137,486	(13,179)	132,710
Change during current period					
Dividends from surplus			(3,925)		(3,925)
Net income attributable to owners of the parent			14,321		14,321
Change of scope of consolidation			18		18
Purchase of treasury stock				(8,003)	(8,003)
Disposal of treasury stock		5		94	99
Retirement of treasury stock					—
Net changes of items other than shareholders' equity					
Total change during current period	—	5	10,414	(7,908)	2,511
Balance at current period-end	3,450	4,958	147,901	(21,088)	135,221

	Accumulated other comprehensive income					Subscription rights to shares	Noncontrolling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Re-measurements of retirement benefit plans	Accumulated other comprehensive income total			
Balance at period start	8,860	(38)	1,668	(1,327)	9,163	75	75	142,023
Change during current period								
Dividends from surplus								(3,925)
Net income attributable to owners of the parent								14,321
Change of scope of consolidation								18
Purchase of treasury stock								(8,003)
Disposal of treasury stock								99
Retirement of treasury stock								—
Net changes of items other than shareholders' equity	620	78	(987)	(843)	(1,131)	(7)	(75)	(1,214)
Total change during current period	620	78	(987)	(843)	(1,131)	(7)	(75)	1,296
Balance at current period-end	9,481	40	680	(2,171)	8,031	67	—	143,320

KOBAYASHI PHARMACEUTICAL CO., LTD.

Current consolidated fiscal year (January 1, 2017 to December 31, 2017)

(millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at period start	3,450	4,958	147,901	(21,088)	135,221
Change during current period					
Dividends from surplus			(4,336)		(4,336)
Net income attributable to owners of the parent			15,863		15,863
Change of scope of consolidation					—
Purchase of treasury stock				(4,999)	(4,999)
Disposal of treasury stock		(3,335)		3,718	383
Retirement of treasury stock		2,559	(12,670)	10,110	—
Net changes of items other than shareholders' equity					
Total change during current period	—	(775)	(1,143)	8,828	6,910
Balance at current period-end	3,450	4,183	146,758	(12,259)	142,132

	Accumulated other comprehensive income					Subscription rights to shares	Noncontrolling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Re-measurements of defined benefit plans	Accumulated other comprehensive income total			
Balance at period start	9,481	40	680	(2,171)	8,031	67	—	143,320
Change during current period								
Dividends from surplus								(4,336)
Net income attributable to owners of the parent								15,863
Change of scope of consolidation								—
Purchase of treasury stock								(4,999)
Disposal of treasury stock								383
Retirement of treasury stock								—
Net changes of items other than shareholders' equity	3,786	(31)	(277)	133	3,611	(30)	—	3,580
Total change during current period	3,786	(31)	(277)	133	3,611	(30)	—	10,491
Balance at current period-end	13,267	9	403	(2,038)	11,642	36	—	153,811

KOBAYASHI PHARMACEUTICAL CO., LTD.

(4) Consolidated Statement of Cash Flows

(millions of yen)

	Previous consolidated fiscal year (April 1, 2016 to December 31, 2016)	Current consolidated fiscal year (January 1, 2017 to December 31, 2017)
Cash flow from operating activities		
Income before income taxes	19,802	22,572
Depreciation	2,112	2,926
Impairment loss	1,342	1,544
Amortization of goodwill	513	593
Increase (decrease) in allowance for doubtful accounts	102	106
Increase (decrease) in net defined benefit liability	(1,582)	(1,743)
Interest and dividends income	(539)	(657)
Interest expenses	21	38
Loss (gain) on sales of shares of subsidiaries and associates	(7)	—
Loss (gain) on sales of investment securities	(1,795)	(3)
Loss (gain) on sales and retirement of non-current assets	113	96
Decrease (increase) in notes and accounts receivable-trade	(11,045)	(2,969)
Decrease (increase) in inventories	1,147	(526)
Increase (decrease) in notes and accounts payable-trade	2,327	1,500
Increase (decrease) in accounts payable-other	5,955	4,057
Increase (decrease) in accrued consumption taxes	346	142
Other	481	312
Total	19,294	27,990
Interest and dividend income received	528	675
Interest expenses paid	(21)	(27)
Income taxes paid	(3,703)	(6,287)
Net cash provided by (used in) operating activities	16,097	22,350
Cash flow from investing activities		
Payments into time deposits	(63,870)	(52,455)
Proceeds from withdrawal of time deposits	69,021	63,220
Purchase of property, plant and equipment	(2,850)	(2,841)
Proceeds from sales of property, plant and equipment	6	3
Purchase of intangible assets	(635)	(364)
Purchase of investment securities	(18)	(1,064)
Proceeds from sales of investment securities	315	715
Purchase of investment assets and other assets	(63)	(132)
Proceeds from sales of investment assets and other assets	96	49
Decrease (increase) in short-term loans receivable	2	49
Payments of long-term loans receivable	(73)	(89)
Collection of long-term loans receivable	1	1
Proceeds from sales of stocks of subsidiaries and affiliates	19	—
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(2,469)	—
Other	0	(50)
Net cash provided by (used in) investing activities	(519)	7,039

KOBAYASHI PHARMACEUTICAL CO., LTD.

(millions of yen)

	Previous consolidated fiscal year (April 1, 2016 to December 31, 2016)	Current consolidated fiscal year (January 1, 2017 to December 31, 2017)
Cash flow from financing activities		
Net increase (decrease) in short-term loans payable	11	(47)
Purchase of treasury stock	(8,054)	(5,068)
Proceeds from disposal of treasury stock	91	352
Cash dividends paid	(3,919)	(4,343)
Repayments of lease obligations	(52)	(56)
Net cash provided by (used in) financing activities	(11,922)	(9,162)
Effect of exchange rate change on cash and cash equivalents	(760)	137
Net increase (decrease) in cash and cash equivalents	2,894	20,365
Cash and cash equivalents at beginning of period	25,428	28,322
Increase in cash and cash equivalents from newly consolidated subsidiary	0	—
Cash and cash equivalents at end of period	28,322	48,688

KOBAYASHI PHARMACEUTICAL CO., LTD.

3. Information on the Amount of Net Sales, Income or Loss, Assets and Other Items by Reportable Segments

Previous consolidated fiscal year (April 1, 2016 to December 31, 2016)

(millions of yen)

	Reportable Segments				Other (Note 1)	Grand Total	Adjustment (Note 2)	Consolidated (Note 3)
	Domestic Consumer Products Business	Overseas Consumer Products Business	Direct Marketing Business	Total				
Net sales								
Net sales to outside customers	92,955	18,026	7,159	118,141	1,910	120,051	—	120,051
Inter-segment sales and transfers	4,546	947	—	5,494	3,615	9,110	(9,110)	—
Total	97,502	18,974	7,159	123,636	5,525	129,161	(9,110)	120,051
Segment income (loss)	16,325	638	(283)	16,680	2,809	19,489	10	19,499
Segment assets	74,096	24,414	1,561	100,071	11,559	111,631	89,602	201,234
Other items								
Depreciation	1,384	284	26	1,695	134	1,829	283	2,112
Goodwill depreciation	14	498	—	513	—	513	—	513
Interest income	16	32	—	48	186	234	(50)	184
Interest expenses	5	42	0	47	25	72	(51)	21
Increase in property, plant, and equipment and intangible assets	2,831	3,118	31	5,981	155	6,137	132	6,269

(Notes) 1. *Other* represents businesses that are not included in reportable segments, such as the medical devices business, transportation business, manufacture and sale of plastic containers, insurance agency, real estate management, and advertisement planning and production.

2. Adjustment details are as follows:

- (1) Adjustments of 10 million yen in segment income are eliminations among segments, and profits and expenses not distributed to the relevant business segment.
- (2) Assets of group companies included in Adjustment totaled 97,971 million yen, mainly consisting of extra funds for investment by the parent company (cash and securities), funds for long-term investment (investment securities), and assets related to administrative departments.
- (3) Depreciation of 283 million yen posted in Adjustment is depreciation related to the assets of group companies.
- (4) Interest income of -50 million yen and interest expenses of -51 million yen posted in Adjustment are eliminations among segments, and profits and expenses not distributed to the relevant business segment.
- (5) Increase in property, plant, and equipment and intangible assets of 132 million yen posted in Adjustment is an increase in the assets of group companies.

3. Segment income is adjusted with ordinary income presented in Consolidated Financial Statements.

4. Increase in depreciation, property, plant, and equipment and intangible assets includes an increase in long-term prepaid expenses and amortization of long-term prepaid expenses.

KOBAYASHI PHARMACEUTICAL CO., LTD.

Current consolidated fiscal year (January 1, 2017 to December 31, 2017)

(millions of yen)

	Reportable Segments				Other (Note 1)	Grand Total	Adjustment (Note 2)	Consolidated (Note 3)
	Domestic Consumer Products Business	Overseas Consumer Products Business	Direct Marketing Business	Total				
Net sales								
Net sales to outside customers	123,494	21,767	10,179	155,441	1,319	156,761	—	156,761
Inter-segment sales and transfers	6,342	1,044	—	7,386	5,242	12,628	(12,628)	—
Total	129,836	22,811	10,179	162,827	6,561	169,389	(12,628)	156,761
Segment income (loss)	20,831	828	(72)	21,588	3,027	24,616	(424)	24,191
Segment assets	79,552	24,434	1,725	105,712	11,004	116,717	102,114	218,831
Other items								
Depreciation	1,913	413	34	2,360	188	2,549	377	2,926
Goodwill depreciation	12	580	—	593	—	593	—	593
Interest income	23	40	0	63	299	363	(90)	273
Interest expenses	41	85	—	126	2	129	(90)	38
Increase in property, plant, and equipment and intangible assets	2,252	573	46	2,872	172	3,045	315	3,360

(Notes) 1. *Other* represents businesses that are not included in reportable segments, such as the medical devices business, transportation business, manufacture and sale of plastic containers, insurance agency, real estate management, and advertisement planning and production.

2. Adjustment details are as follows:

- (1) Adjustments of -424 million yen in segment income are eliminations among segments, and profits and expenses not distributed to the relevant business segment.
- (2) Assets of group companies included in Adjustment totaled 102,114 million yen, mainly consisting of extra funds for investment by the parent company (cash and securities), funds for long-term investment (investment securities), and assets related to administrative departments.
- (3) Depreciation of 377 million yen posted in Adjustment is depreciation related to the assets of group companies.
- (4) Interest income of -90 million yen and interest expenses of -90 million yen posted in Adjustment are eliminations among segments, and profits and expenses not distributed to the relevant business segment.
- (5) Increase in property, plant, and equipment and intangible assets of 315 million yen posted in Adjustment is an increase in the assets of group companies.

3. Segment income is adjusted with ordinary income presented in Consolidated Financial Statements.

4. Increase in depreciation, property, plant, and equipment and intangible assets includes an increase in long-term prepaid expenses and amortization of long-term prepaid expenses.

(Important subsequent events)

Not applicable