

# KOBAYASHI PHARMACEUTICAL CO., LTD.

## Summary of Financial Statements (Japanese GAAP) (Consolidated) Financial Results for the Fiscal Year Ended December 31, 2018

January 31, 2019

Listed exchanges	: Tokyo
Listed company name	: Kobayashi Pharmaceutical Co., Ltd.
Code	: 4967
URL	: <a href="http://www.kobayashi.co.jp/english/index.html">http://www.kobayashi.co.jp/english/index.html</a>
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 28, 2019
Expected date for starting payment of dividends:	March 7, 2019
Expected date for filing financial report with the Finance Ministry:	March 28, 2019
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, 2018 (January 1, 2018 to December 31, 2018)

#### (1) Consolidated Operating Results

(% figures represent changes from previous period.)

	FY ended December 31, 2018		FY ended December 31, 2017	
Net sales	167,479 millions of yen	6.8 %	156,761 millions of yen	— %
Operating income	26,289	14.7	22,925	—
Ordinary income	27,374	13.2	24,191	—
Net income attributable to owners of the parent	18,023	13.6	15,863	—
Net income per share	228.05 yen		201.31 yen	
Net income per share after full dilution	227.95		201.03	
Return on equity		11.3		10.7
Return on assets		12.2		11.5
Ratio of operating income to net sales		15.7		14.6

(Note) Comprehensive income

FY ended December 31, 2018: 16,901 million yen (-13.2%)      FY ended December 31, 2017: 19,474 million yen (—%)

(Note) 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, FY 2017 was the 12-month period from January 1, 2017 to December 31, 2017, while FY 2016 was the nine-month period from April 1, 2016 to December 31, 2016. Therefore, the year-on-year percentage changes from results for the year ended December 31, 2016 have been omitted from the tables above.

# KOBAYASHI PHARMACEUTICAL CO., LTD.

## (2) Consolidated Financial Position

	FY ended December 31, 2018	FY ended December 31, 2017
Total assets	230,989 millions of yen	218,831 millions of yen
Net assets	166,249	153,811
Shareholders' equity ratio	72.0 %	70.3 %
Net assets per share	2,102.49 yen	1,947.82 yen
(Reference) Shareholders' equity	FY ended December 31, 2018: 166,249 million yen    FY ended December 31, 2017: 153,774 million yen	

## (3) Consolidated Cash Flow

	FY ended December 31, 2018	FY ended December 31, 2017
Net cash provided by (used in) operating activities	20,007 millions of yen	22,350 millions of yen
Net cash provided by (used in) investing activities	(8,062)	7,039
Net cash provided by (used in) financing activities	(4,285)	(9,162)
Cash and cash equivalents at period-end	55,916	48,688

## 2. Dividends

	FY ended December 31, 2017	FY ended December 31, 2018	FY ending December 31, 2019 (forecasts)
Dividends per share			
Q1 end	—	—	—
Q2 end	28.00 yen	31.00 yen	33.00 yen
Q3 end	—	—	—
Year-end	30.00	35.00	35.00
Total	58.00	66.00	68.00
Total dividends	4,577 millions of yen	5,218 millions of yen	
Payout ratio (consolidated)	28.8 %	28.9 %	28.3 %
Ratio of dividends to net assets (consolidated)	3.1	3.3	

# KOBAYASHI PHARMACEUTICAL CO., LTD.

## 3. Forecasts of Consolidated Operational Results for Fiscal Year Ending December 31, 2019 (January 1, 2019 to December 31, 2019)

(% figures represent changes from previous period.)

	Full year	
Net sales	173,000 millions of yen	3.3 %
Operating income	27,300	3.8
Ordinary income	27,900	1.9
Net income	19,000	5.4
Net income per share	240.29 yen	

\* Notes

- (1) Changes in significant subsidiaries during the period (changes in specified subsidiaries accompanying changes of the scope of consolidation): Yes  
Newly included: 2 companies (company name) Kobayashi (China) Co., Ltd.; Jiangsu Kobayashi Pharmaceutical Co., Ltd.
- (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):
- ② Number of shares of treasury stock at period-end:
- ③ Average number of shares outstanding during period:

	FY ended December 31, 2018	82,050,000 shares	FY ended December 31, 2017	82,050,000 shares
	FY ended December 31, 2018	2,977,337 shares	FY ended December 31, 2017	3,102,937 shares
	FY ended December 31, 2018	79,033,636 shares	FY ended December 31, 2017	78,800,684 shares

\* This brief report of financial statements is not subject to audit procedures by a certified public accountant or an independent auditor.

\* 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 operational results, please refer to "1. Overview of Operational Results, etc., (4) Forecast for Year Ending December 31, 2019" on page 5 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 Friday, February 1, 2019.

# KOBAYASHI PHARMACEUTICAL CO., LTD.

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## KOBAYASHI PHARMACEUTICAL CO., LTD.

## 1. Overview of Operational Results, etc.

## (1) Overview of Operational Results for FY Ended December 31, 2018

	(Unit: millions of yen)					
	Previous Year (FY ended December 31, 2017)		Current Year (FY ended December 31, 2018)		Change	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Change (%)
Net sales	156,761	100.0	167,479	100.0	10,717	6.8
Operating income	22,925	14.6	26,289	15.7	3,363	14.7
Ordinary income	24,191	15.4	27,374	16.3	3,182	13.2
Net income attributable to owners of the parent	15,863	10.1	18,023	10.8	2,159	13.6
Net income per share (yen)	201.31		228.05		26.73	13.3

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 business 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 167,479 million yen (+6.8% year on year), 26,289 million yen (+14.7% year on year) and 27,374 million yen (+13.2% year on year), respectively, and net income attributable to owners of the parent was 18,023 million yen (+13.6% year on year).

Business results by segment were as follows:

Domestic Consumer Products Business

In the Domestic Consumer Products Business, the Company launched 10 new products in the spring and another 15 in the fall. The products that contributed to growth in sales were *Kurocure EX* (a remedy for darkened elbows and chapped knees prepared with EX formula giving a satisfying feeling), *Keanocure* (a remedy for spotted skin with darkened pores due to the removal of unwanted hair), *Sawaday PINKPINK STICK* (a fragrance for indoor use containing elegant and feminine scents in a stylish package), and *Bluelet Premium PERFUME* (a toilet deodorizer and bowl bleach tablet with a scent of the finest quality perfume in a glittering crystal bottle), and *Oheyano Shoshugen Princess PARFUM* (a deodorizing air freshener with a gorgeous fragrance like cosmetics).

Existing healthcare products that recorded robust sales included *Naishitoru* (an obesity therapeutic drug), *Chikunain* (a remedy for empyema and nasal congestion), *Shoyo* (a toothpaste for preventing periodontal disease) and *Hemorindo* (a sublingual tablet medicine to cure blind piles). Household products that contributed to growth in sales were *Sawaday CLIP PARFUM for Automobiles* (an automobile fragrance) and *Nightmin Nasal Breathing Tape* (a strip that is attached to the lips during sleep to facilitate breathing through the nose). Skin care products that sold well included *Eau de Muge* (a medicated lotion for preventing acne and rough dry skin).

Consequently, the Company reported net sales of 137,156 million yen (+5.6% year on year) and segment income (ordinary income) of 24,006 million yen (+15.2% year on year). Meanwhile, operating income was 24,246 million yen (+13.7% year on year).

Net sales include inter-segment sales or transfers, which totaled 6,342 million yen in the previous consolidated fiscal year and 6,777 million yen in the consolidated fiscal year under review.

## KOBAYASHI PHARMACEUTICAL CO., LTD.

(Breakdown of sales to external customers)

	(Unit: millions of yen)				
	Previous Year (FY ended December 31, 2017)	Current Year (FY ended December 31, 2018)	Change		
			Amount	Change (%)	
Healthcare products	58,127	61,546	3,417	5.9	
Household products	52,352	55,250	2,897	5.5	
Skin care	6,047	6,590	542	9.0	
Body warmers	6,965	6,989	24	0.3	
Total	123,494	130,379	6,885	5.6	

Overseas Consumer Products Business

In the Overseas Consumer Products Business, the Company markets, mostly in the United States, China and Southeast Asia, 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.

Consequently, the Company reported net sales of 26,641 million yen (+16.8% year on year) and segment income (ordinary income) of 1,028 million yen (+24.0% year on year). Meanwhile, operating income was 1,104 million yen (+18.1% year on year).

Net sales include inter-segment sales or transfers, which totaled 1,044 million yen in the previous consolidated fiscal year and 994 million yen in the consolidated fiscal year under review.

(Breakdown of sales to external customers)

	(Unit: millions of yen)				
	Previous Year (FY ended December 31, 2017)	Current Year (FY ended December 31, 2018)	Change		
			Amount	Change (%)	
United States	8,553	9,824	1,271	14.9	
China	6,785	8,994	2,209	32.6	
Southeast Asia	3,650	4,018	367	10.1	
Others	2,778	2,809	30	1.1	
Total	21,767	25,646	3,878	17.8	

\* From the consolidated fiscal year under review, the Company has changed the way of tabulating sales to external customers from "by seller location" to "by purchaser location." The change applies retroactively to the previous consolidated fiscal year for comparison with the current consolidated fiscal year under review.

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 placing orders for its products through sales promotional campaigns, such as advertising and direct mail.

Consequently, the Company reported net sales of 10,245 million yen (+0.6% year on year) and segment income (ordinary income) of 148 million yen (compared with segment loss of 72 million yen in the previous consolidated fiscal year). Meanwhile, operating income was 143 million yen (compared with operating loss of 75 million yen in the previous consolidated fiscal year).

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

Other Businesses

Businesses in this segment include the transportation business, the manufacture and sale of plastic containers, insurance agencies, 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 6,669 million yen (+1.6% year on year) and segment income (ordinary income) of 2,652 million yen (-12.4% year on year). Operating income was 642 million yen (-15.2% year on year).

Net sales include inter-segment sales or transfers, which totaled 5,242 million yen in the previous consolidated fiscal year and 5,461 million yen in the consolidated fiscal year under review.

## KOBAYASHI PHARMACEUTICAL CO., LTD.

**(2) Overview of Financial Position for FY Ended December 31, 2018**

(Consolidated Financial Position)

(Unit: millions of yen)

	Previous Year (FY ended December 31, 2017)	Current Year (FY ended December 31, 2018)	Change
Total assets	218,831	230,989	12,158
Net assets	153,811	166,249	12,437
Shareholders' equity ratio	70.3%	72.0%	1.7%
Net assets per share (yen)	1,947.82 yen	2,102.49 yen	154.67 yen

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

Total assets increased by 12,158 million yen from the balance as of the end of the previous consolidated fiscal year, to 230,989 million yen. This was attributable mainly to an increase of 9,466 million yen in cash and deposits and a rise of 3,354 million yen in notes and accounts receivable-trade and a decrease of 880 million yen in investment securities.

Liabilities declined by 279 million yen from the balance as of the end of the previous consolidated fiscal year, to 64,740 million yen. This was attributable mainly to a fall of 748 million yen in net defined benefit liability and an increase of 427 million yen in notes and accounts payable-trade.

Net assets rose by 12,437 million yen from the balance as of the end of the previous consolidated fiscal year, to 166,249 million yen, bringing the shareholders' equity ratio to 72.0%. This was mainly attributable to an increase of 13,099 million yen in retained earnings and a decrease of 722 million yen in foreign currency translation adjustment.

**(3) Overview of Cash Flows for FY Ended December 31, 2018**

(Consolidated Cash Flow)

(Unit: millions of yen)

	Previous Year (FY ended December 31, 2017)	Current Year (FY ended December 31, 2018)	Change
Net cash provided by (used in) operating activities	22,350	20,007	(2,343)
Net cash provided by (used in) investing activities	7,039	(8,062)	(15,102)
Free cash flow	29,390	11,944	(17,445)
Net cash provided by (used in) financing activities	(9,162)	(4,285)	4,877
Cash and cash equivalents at period-end	48,688	55,916	7,228

**Cash flows from operating activities**

Net cash provided by operating activities totaled 20,007 million yen. Major factors affecting this cash flow were: income before income taxes of 25,304 million yen, depreciation of 2,964 million yen, a decrease in net defined benefit liability of 797 million yen, an increase in notes and accounts receivable-trade of 3,367 million yen, a rise in inventories of 493 million yen, an increase in notes and accounts payable-trade of 481 million yen, a rise in accounts payable-other of 320 million yen, interest and dividend income received of 745 million yen, and income taxes paid of 7,953 million yen.

**Cash flows from investing activities**

Net cash used in investing activities totaled 8,062 million yen. Major factors affecting this cash flow were: payments into time deposits of 55,084 million yen, proceeds from the withdrawal of time deposits of 52,832 million yen, the purchase of property, plant and equipment of 3,419 million yen, and the purchase of shares of subsidiaries resulting in change in scope of consolidation of 2,461 million yen.

**Cash flows from financing activities**

Net cash used in financing activities totaled 4,285 million yen. Major factors affecting this cash flow were: proceeds from disposal of treasury stock of 361 million yen and dividend payment of 4,818 million yen.

Consequently, cash and cash equivalents as of December 31, 2018 totaled 55,916 million yen, an increase of 7,228 million yen from the end of the previous fiscal year.

# KOBAYASHI PHARMACEUTICAL CO., LTD.

## Forecast for Year Ending December 31, 2019

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, 2018. As for investments other than facility investments, we plan to make the same level of investment as in the fiscal year ended December 31, 2018 since we currently do not have major investment plans.

## Trend of Cash Flow Indicators

	As of March 31, 2015	As of March 31, 2016	As of December 31, 2016	As of December 31, 2017	As of December 31, 2018
Shareholders' equity ratio (%)	74.8	75.1	71.2	70.3	72.0
Shareholders' equity ratio on a market price basis (%)	187.9	210.0	195.8	264.1	255.7
Ratio of net cash to interest-bearing liabilities (year)	0.0	0.0	0.0	0.0	0.0
Interest coverage ratio (times)	929.4	740.5	738.6	801.7	753.8

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.



## KOBAYASHI PHARMACEUTICAL CO., LTD.

## (4) Forecast for Year Ending December 31, 2019

(Unit: millions of yen)

	Current Year (FY ended December 31, 2018)		Next Year (FY ending December 31, 2019)		Percentage change (%)
	Amount	Ratio (%)	Amount	Ratio (%)	
Net sales	167,479	100.0	173,000	100.0	3.3
Operating income	26,289	15.7	27,300	15.8	3.8
Ordinary income	27,374	16.3	27,900	16.1	1.9
Net income attributable to owners of the parent	18,023	10.8	19,000	11.0	5.4
Net income per share (yen)	228.05		240.29		5.4

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 to 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 *Shoyo 45° Migaki Brush* (a toothbrush for effectively cleaning stains and dental plaque in periodontal pockets), *Sawaday Kaoru Stick Aroma Candle* (a fragrance for indoor use giving sweet and rich scents like aroma candles without using "fire"), *Sarasaty Cotton 100 Wide & Long* (a sheet for absorbing vaginal discharge that is made a little bit wider and longer than existing ones so it can cope with changes in females' body sizes and shapes), and *Keshimin Fukitori Shimi Taisakueki* (a skin lotion that pares away the old keratin to make skin care components impregnate into the skin).

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 173,000 million yen (+3.3% year on year), operating income of 27,300 million yen (+3.8% year on year), ordinary income of 27,900 million yen (+1.9% year on year) and net income attributable to owners of the parent of 19,000 million yen (+5.4% year on year) in the fiscal year ending December 31, 2019.

## (5) Basic Policy for Profit Distribution and Dividend Payments for Fiscal Year Ended December 31, 2018 and Fiscal Year Ending December 31, 2019

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 Company's consolidated operational results.

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 66 yen, up 5 yen from the previous forecast (including an interim dividend of 31 yen per share already paid and a year-end dividend of 35 yen per share) for the year ended December 31, 2018. For the year ending December 31, 2019, the Company plans to pay a regular dividend of 68 yen per share (including an interim dividend of 33 yen per share and a year-end dividend of 35 yen per share).

## 2. Basic Policy for the Selection of Accounting Standards

Considering situations in Japan and overseas, the Company will appropriately deal with the application of Internal Financial Reporting Standards (IFRS).

## KOBAYASHI PHARMACEUTICAL CO., LTD.

## 3. Consolidated Financial Statements and Main Notes

## (1) Consolidated Balance Sheet

(millions of yen)

	Previous consolidated fiscal year (December 31, 2017)	Current consolidated fiscal year (December 31, 2018)
<b>ASSETS</b>		
Current assets		
Cash and deposits	64,990	74,456
Notes and accounts receivable-trade	50,032	53,386
Short-term investment securities	8,300	8,300
Merchandise and finished goods	9,789	9,430
Work in process	693	934
Raw materials and supplies	2,807	3,279
Deferred tax assets	3,221	3,234
Other	2,547	2,167
Allowance for doubtful accounts	(34)	(131)
Total current assets	142,346	155,058
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	8,212	8,447
Machinery, equipment and vehicles, net	3,985	4,466
Tools, furniture and fixtures, net	1,337	1,457
Land	3,576	3,625
Leased assets, net	573	515
Construction in progress	562	512
Total property, plant and equipment	18,247	19,024
Intangible assets		
Goodwill	2,626	3,241
Trademark rights	410	108
Software	906	905
Other	855	567
Total intangible assets	4,798	4,823
Investments and other assets		
Investment securities	46,797	45,916
Long-term loans receivable	261	386
Deferred tax assets	539	594
Real estate for investment, net	2,981	2,956
Other	3,243	2,697
Allowance for doubtful accounts	(384)	(469)
Total investments and other assets	53,438	52,082
Total non-current assets	76,484	75,930
Total assets	218,831	230,989

## KOBAYASHI PHARMACEUTICAL CO., LTD.

(millions of yen)

	Previous consolidated fiscal year (December 31, 2017)	Current consolidated fiscal year (December 31, 2018)
<b>LIABILITIES</b>		
Current liabilities		
Notes and accounts payable-trade	8,279	8,706
Electronically recorded obligations—operating	9,221	9,070
Short-term loans payable	194	506
Accounts payable-other	24,446	25,126
Lease obligations	55	53
Income taxes payable	4,654	4,423
Accrued consumption taxes	1,245	1,187
Provision for sales returns	1,793	1,638
Provision for bonuses	2,250	2,355
Asset retirement obligations	38	42
Other	2,095	2,103
Total current liabilities	54,274	55,215
Non-current liabilities		
Lease obligations	527	472
Deferred tax liabilities	5,224	4,851
Net defined benefit liability	2,805	2,057
Provision for directors' retirement benefits	37	38
Asset retirement obligations	81	77
Other	2,068	2,027
Total non-current liabilities	10,744	9,524
Total liabilities	65,019	64,740
<b>NET ASSETS</b>		
Shareholders' equity		
Capital stock	3,450	3,450
Capital surplus	4,183	4,183
Retained earnings	146,758	159,857
Treasury stock	(12,259)	(11,763)
Total shareholders' equity	142,132	155,728
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	13,267	12,636
Deferred gains or losses on hedges	9	2
Foreign currency translation adjustment	403	(318)
Re-measurements of retirement benefit plans	(2,038)	(1,798)
Total accumulated other comprehensive income	11,642	10,520
Subscription rights to shares	36	—
Total net assets	153,811	166,249
Total liabilities and net assets	218,831	230,989

## KOBAYASHI PHARMACEUTICAL CO., LTD.

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

(millions of yen)

	Previous consolidated fiscal year (January 1, 2017 to December 31, 2017)	Current consolidated fiscal year (January 1, 2018 to December 31, 2018)
Net sales	156,761	167,479
Cost of sales	61,238	64,359
Gross profit	95,522	103,119
Selling, general and administrative expenses		
Promotion expenses	11,106	11,993
Freight and warehousing expenses	5,871	6,343
Advertising expenses	22,361	23,689
Provision of allowance for doubtful accounts	27	117
Salaries, allowances and bonuses	10,096	11,067
Retirement benefit expenses	812	826
Provision for directors' retirement benefits	9	0
Taxes and dues	601	622
Depreciation	741	718
Amortization of goodwill	593	439
Rent	1,461	1,500
Commission fees	5,504	5,706
Research and development expenses	7,239	7,031
Other	6,168	6,772
Total selling, general and administrative expenses	72,596	76,830
Operating income	22,925	26,289
Non-operating income		
Interest income	273	289
Dividend income	384	426
Real estate rent	296	293
Compensation income	1,500	1,200
Other	269	319
Total non-operating income	2,724	2,528
Non-operating expenses		
Interest expenses	38	35
Sales discounts	750	745
Rent cost of real estate	78	75
Foreign exchange losses	210	328
Provision of allowance for doubtful accounts	118	99
Other	261	158
Total non-operating expenses	1,458	1,443
Ordinary income	24,191	27,374

## KOBAYASHI PHARMACEUTICAL CO., LTD.

(millions of yen)

	Previous consolidated fiscal year (January 1, 2017 to December 31, 2017)	Current consolidated fiscal year (January 1, 2018 to December 31, 2018)
Extraordinary income		
Gain on sales of non-current assets	0	1
Gain on sales of investment securities	3	0
Compensation income	98	—
Gain on reversal of share acquisition rights	—	5
Other	3	—
Total extraordinary income	105	7
Extraordinary loss		
Loss on disposal of non-current assets	96	106
Impairment loss	1,544	1,956
Other	84	15
Total extraordinary loss	1,724	2,078
Income before income taxes	22,572	25,304
Income taxes - current	7,601	7,676
Income taxes - deferred	(892)	(396)
Total income taxes	6,709	7,280
Net income	15,863	18,023
Net income attributable to owners of the parent	15,863	18,023

## (Consolidated Comprehensive Income Statement)

(millions of yen)

	Previous consolidated fiscal year (January 1, 2017 to December 31, 2017)	Current consolidated fiscal year (January 1, 2018 to December 31, 2018)
Net income	15,863	18,023
Other comprehensive income		
Valuation difference on available-for-sale securities	3,786	(631)
Deferred gains or losses on hedges	(31)	(7)
Foreign currency translation adjustment	(277)	(722)
Adjustment for retirement benefits	133	239
Total other comprehensive income	3,611	(1,121)
Comprehensive income	19,474	16,901
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of the parent	19,474	16,901
Comprehensive income attributable to noncontrolling interests	—	—

# KOBAYASHI PHARMACEUTICAL CO., LTD.

## (3) Consolidated Statement of Shareholders' Equity Previous 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
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	—
Transfer to capital surplus from retained earnings					—
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	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	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
Purchase of treasury stock							(4,999)
Disposal of treasury stock							383
Retirement of treasury stock							—
Transfer to capital surplus from retained earnings							—
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.

Current consolidated fiscal year (January 1, 2018 to December 31, 2018)

(millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at period start	3,450	4,183	146,758	(12,259)	142,132
Change during current period					
Dividends from surplus			(4,819)		(4,819)
Net income attributable to owners of the parent			18,023		18,023
Purchase of treasury stock					—
Disposal of treasury stock		(104)		496	392
Retirement of treasury stock					—
Transfer to capital surplus from retained earnings		104	(104)		—
Net changes of items other than shareholders' equity					
Total change during current period	—	—	13,099	496	13,595
Balance at current period-end	3,450	4,183	159,857	(11,763)	155,728

	Accumulated other comprehensive income					Subscription rights to shares	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	13,267	9	403	(2,038)	11,642	36	153,811
Change during current period							
Dividends from surplus							(4,819)
Net income attributable to owners of the parent							18,023
Purchase of treasury stock							—
Disposal of treasury stock							392
Retirement of treasury stock							—
Transfer to capital surplus from retained earnings							—
Net changes of items other than shareholders' equity	(631)	(7)	(722)	239	(1,121)	(36)	(1,158)
Total change during current period	(631)	(7)	(722)	239	(1,121)	(36)	12,437
Balance at current period-end	12,636	2	(318)	(1,798)	10,520	—	166,249

## KOBAYASHI PHARMACEUTICAL CO., LTD.

## (4) Consolidated Statement of Cash Flows

(millions of yen)

	Previous consolidated fiscal year (January 1, 2017 to December 31, 2017)	Current consolidated fiscal year (January 1, 2018 to December 31, 2018)
<b>Cash flow from operating activities</b>		
Income before income taxes	22,572	25,304
Depreciation	2,926	2,964
Impairment loss	1,544	1,956
Amortization of goodwill	593	439
Increase (decrease) in allowance for doubtful accounts	106	202
Increase (decrease) in net defined benefit liability	(1,743)	(797)
Interest and dividends income	(657)	(715)
Interest expenses	38	35
Loss (gain) on sales of investment securities	(3)	(0)
Loss (gain) on sales and retirement of non-current assets	96	104
Decrease (increase) in notes and accounts receivable-trade	(2,969)	(3,367)
Decrease (increase) in inventories	(526)	(493)
Increase (decrease) in notes and accounts payable-trade	1,500	481
Increase (decrease) in accounts payable-other	4,057	320
Increase (decrease) in accrued consumption taxes	142	(43)
Other	312	849
<b>Total</b>	<b>27,990</b>	<b>27,241</b>
Interest and dividend income received	675	745
Interest expenses paid	(27)	(26)
Income taxes paid	(6,287)	(7,953)
<b>Net cash provided by (used in) operating activities</b>	<b>22,350</b>	<b>20,007</b>
<b>Cash flow from investing activities</b>		
Payments into time deposits	(52,455)	(55,084)
Proceeds from withdrawal of time deposits	63,220	52,832
Purchase of property, plant and equipment	(2,841)	(3,419)
Proceeds from sales of property, plant and equipment	3	2
Purchase of intangible assets	(364)	(282)
Purchase of investment securities	(1,064)	(27)
Proceeds from sales of investment securities	715	641
Purchase of investment assets and other assets	(132)	(202)
Proceeds from sales of investment assets and other assets	49	72
Decrease (increase) in short-term loans receivable	49	(10)
Payments of long-term loans receivable	(89)	(123)
Collection of long-term loans receivable	1	0
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	(2,461)
Other	(50)	—
<b>Net cash provided by (used in) investing activities</b>	<b>7,039</b>	<b>(8,062)</b>
<b>Cash flow from financing activities</b>		
Net increase (decrease) in short-term loans payable	(47)	228
Repayments of long-term loans payable	—	(1)
Purchase of treasury stock	(5,068)	—
Proceeds from disposal of treasury stock	352	361
Cash dividends paid	(4,343)	(4,818)
Repayments of lease obligations	(56)	(54)
<b>Net cash provided by (used in) financing activities</b>	<b>(9,162)</b>	<b>(4,285)</b>
Effect of exchange rate change on cash and cash equivalents	137	(431)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>20,365</b>	<b>7,228</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>28,322</b>	<b>48,688</b>
<b>Cash and cash equivalents at end of period</b>	<b>48,688</b>	<b>55,916</b>



## 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 (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 (Note) 4								
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 transportation business, manufacture and sale of plastic containers, insurance agencies, real estate management, and advertisement planning and production.
  2. Adjustment details are as follows:
    - (1) Adjustments of -424 million yen in segment income (loss) 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.

## KOBAYASHI PHARMACEUTICAL CO., LTD.

Current consolidated fiscal year (January 1, 2018 to December 31, 2018)

(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	130,379	25,646	10,245	166,271	1,207	167,479	—	167,479
Inter-segment sales and transfers	6,777	994	—	7,771	5,461	13,233	(13,233)	—
Total	137,156	26,641	10,245	174,043	6,669	180,712	(13,233)	167,479
Segment income	24,006	1,028	148	25,183	2,652	27,836	(462)	27,374
Segment assets	82,344	25,415	1,797	109,558	12,445	122,003	108,985	230,989
Other items (Note) 4								
Depreciation	1,941	443	31	2,416	187	2,603	360	2,964
Goodwill depreciation	68	371	—	439	—	439	—	439
Interest income	33	69	0	103	310	414	(125)	289
Interest expenses	55	105	—	160	—	160	(125)	35
Increase in property, plant, and equipment and intangible assets	2,882	2,468	39	5,390	687	6,078	336	6,415

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

2. Adjustment details are as follows:

- (1) Adjustments of -462 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 108,985 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 360 million yen posted in Adjustment is depreciation related to the assets of group companies.
- (4) Interest income of -125 million yen and interest expenses of -125 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 336 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.

(Per share information)

Previous consolidated fiscal year (January 1, 2017 to December 31, 2017)		Current consolidated fiscal year (January 1, 2018 to December 31, 2018)	
Net assets per share	1,947.82 yen	Net assets per share	2,102.49 yen
Net income per share	201.31 yen	Net income per share	228.05 yen
Net income per share after full dilution	201.03 yen	Net income per share after full dilution	227.95 yen

(Note) Net income per share and net income per share after full dilution were calculated based on the figures below.

(Unit: millions of yen)

	Previous consolidated fiscal year (January 1, 2017 to December 31, 2017)	Current consolidated fiscal year (January 1, 2018 to December 31, 2018)
Net income per share		
Net income attributable to owners of the parent	15,863	18,023
Net income not attributable to common shareholders	—	—
Net income attributable to owners of the parent related to common stock	15,863	18,023
Average number of shares (1,000 shares)	78,800	79,033
Net income per share after full dilution		
Adjustments to net income attributable to owners of the parent	—	—
Increase in the number of shares of common stock (1,000 shares)	111	32
(Of which share acquisition rights [1,000 shares])	(111)	(32)
Outline of dilutive shares not included in calculation of net income per share after full dilution due to the absence of dilutive effects	—	—

(Important subsequent events)

Kobayashi Pharmaceutical Co., Ltd. hereby announces that, at a meeting of its Board of Directors held on January 31, 2019, the Company authorized repurchases of shares of its common stock pursuant to paragraph 1, Article 156 of the Companies Act of Japan (the "Companies Act"), as applied pursuant to paragraph 3, Article 165 of the Companies Act, as described below.

(Resolution by the Board of Directors on the Stock Repurchases)

(1) Reasons for Stock Repurchases

The Company will repurchase shares of its common stock to further increase returns to shareholders and to flexibly and timely implement its capital policy in accordance with changes in business environments.

(2) Details of Stock Repurchases

- (a) Class of shares to be repurchased : Common stock of the Company
- (b) Total number of shares to be repurchased : Up to 1,300,000 shares
- (c) Period of repurchase : February 1, 2019 to August 31, 2019
- (d) Aggregate repurchase amount : Up to 8,000,000,000 yen
- (e) Method of repurchases : Repurchase on the Tokyo Stock Exchange

(Reference) Number of shares of treasury stock held by the Company as of December 31, 2018

Number of outstanding shares : 82,050,000 shares

Number of shares of treasury stock : 2,977,337 shares