

#### **Annual Report 2015**

Year Ended March 31, 2015



Creativity and Innovation

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#### Forward-looking Statements

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

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

# Kobayashi Pharmaceutical in Numbers

Net sales ¥128.3 billion

Operating income

¥17.9 billion

Operating income to net sales ratio

14.0%

\*Results for fiscal 2015

We have secured large market shares and achieved high margins by developing unique products and creating new markets, guided by our brand slogan, "You Make a Wish and We Make it Happen."



"You Make a Wish and We Make it Happen"













¥12.4

billion

¥90.0

→ More details on pages 6, 11, 27

17 straight years of profit growth Our unique products have helped us secure large market shares and high margins, supporting sustained growth in net income.



→ More details on pages **5, 8** 

16
successive years of dividend hikes

We are returning profits to shareholders through successive dividend hikes in line with earnings performance.



 $\rightarrow$  More details on pages **5**, **10**, **31** 

Approaching 100 years in business

Kobayashi Pharmaceutical will celebrate its centenary in two years time. We have achieved sustained growth by adapting our business and management structure to the changing times.



First business

Products from our founding era

premises

→ More details on pages 3, 63

#### A Story of Growth



Net sales (¥ million) 300,000 •

# Kobayashi Pharmaceutical has grown by changing its business structure in step with the times

in step with the times 250,000 • Launched Sawaday, a toilet air freshener 200 000 • 1994 Launched Netsusama Sheet, a cooling gel sheet for the forehead 150,000 • Launched Bluelet. 1894 a toilet bowl cleaner Launched 10 types of proprietary pharmaceuticals 100,000 • Launched Nodonool. a sore throat spray 1967 **POINT** Launched Ammeltz, Kobavashi Pharmaceutical an external anti-inflammatory founded for stiff shoulders 50,000 Kobayashi Pharmaceutical's predecessor company founded 1970 1886 1980 Net sales Domestic Consumer Products Business Overseas Consumer Products Business ■ Direct Marketing Business ■ Medical Devices Business ■ Other Business ■ Wholesale Business

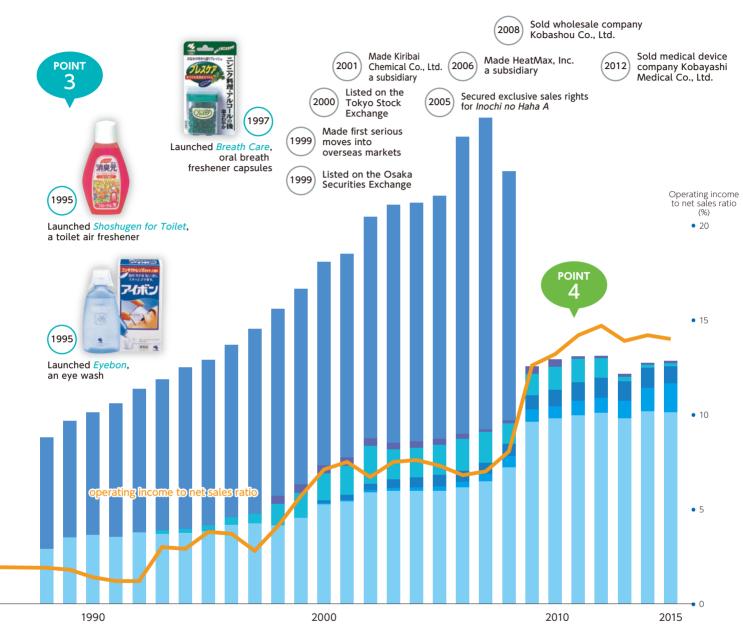


# Started operations as a wholesaler

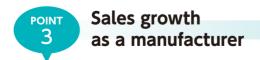
Kobayashi Pharmaceutical was founded to sell general merchandise and cosmetics. Seeing opportunities in the pharmaceutical sector, the Company reinforced its business by moving into drug wholesaling.



The Company's era as a manufacturer began with the launch of *Ammeltz*, *Bluelet* and *Sawaday*, which are still core brands today.



\*Photos show product packaging at the time of launch.
\*Fiscal 1994 was a six-month transitional period due to a change in fiscal year-end. Figures have been adjusted to reflect a 12-month period.



The Company subsequently launched *Nodonool*, *Netsusama Sheet*, *Shoshugen*, *Eyebon* and *Breath Care*, brands that continue to support earnings to this day. At this point, sales growth is being driven by the manufacturing business. The first serious moves are made into overseas markets.



# Targeted management resources on strategic business fields

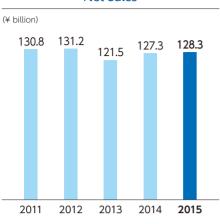
The Company exits its original business of wholesaling to concentrate management resources on manufacturing operations, which offer greater growth potential. This strategic refocus leads to a large improvement in the operating income to net sales ratio. M&A strategy is also stepped up.

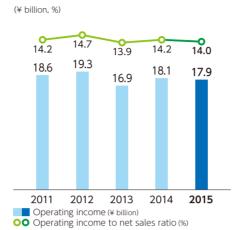
#### Financial Highlights (Years ended March 31)

#### **Net Sales**

#### Operating Income / Operating Income to Net Sales Ratio









	2006	2007	2008	2009	2010
For the year			Millions of yen		
Net sales	246,852	257,022	228,826	125,693	129,184
Cost of sales	167,239	172,304	147,638	57,013	57,295
Gross profit	79,613	84,717	81,187	68,679	71,889
Selling, general and administrative expenses	62,734	66,688	62,611	52,861	54,848
Operating income	16,879	18,029	18,576	15,818	17,041
Income before income taxes and minority interests	14,009	16,038	15,800	16,270	14,553
Net income	7,474	8,297	8,504	8,853	9,250
Cash flows from operating activities	13,159	8,833	12,192	12,849	15,319
Free cash flows*1	6,745	(2,970)	5,767	11,467	10,618
Depreciation and amortization	3,414	3,375	3,765	4,214	4,257
Capital expenditures*2	2,797	2,229	2,895	3,468	3,562
Research and development costs	2,377	2,476	2,813	3,361	3,962
At year-end			Millions of yen		
Current assets	98,906	102,102	66,069	73,172	85,209
Property, plant and equipment, net	22,788	22,279	15,236	17,618	14,779
Current liabilities	72,040	77,028	37,940	39,834	39,025
Long-term liabilities	10,175	10,291	7,286	9,011	8,344
Net assets*3	66,811	77,236	77,182	76,364	84,603
Total assets	151,945	164,555	122,409	125,210	131,972
Working capital*4	26,866	25,074	28,128	33,337	46,184
Interest-bearing debt	1,633	3,414	726	645	1,708
Per share data			Yen		
Net income	179.17	200.77	205.62	215.89	225.88
Cash dividends	38.00	50.00	54.00	58.00	62.00
Payout ratio(%)	21.2	24.9	26.3	26.9	27.4
Cash flows*5	309.4	207.7	286.7	302.2	360.3
Net assets	1,617.10	1,799.87	1,863.24	1,861.14	2,061.79
Financial ratios			%		
Gross profit to net sales ratio	32.3	33.0	35.5	54.6	55.6
Operating income to net sales ratio	6.8	7.0	8.1	12.6	13.2
Net income to net sales ratio	3.0	3.2	3.7	7.0	7.2
Current ratio	137.3	132.6	174.1	183.7	218.3
ROA	10.6	9.5	10.9	12.4	13.3
ROE	11.8	11.7	11.2	11.5	11.5
Equity ratio	44.0	45.2	63.0	60.9	64.0
Debt-equity ratio (times)*6	0.02	0.05	0.01	0.01	0.02
PER (times)*7	23.4	22.3	18.7	15.1	17.0

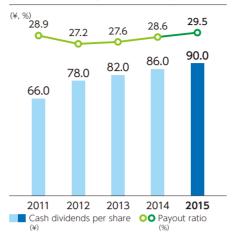
#### Total Assets / Net Assets / Equity Ratio

#### Cash Dividends per Share / Payout Ratio

#### **ROA / ROE**



16.9





2015 Thousands of U.S. dollars\*8 1,068,029 455,347 612,682 463,585 149,097 166,905 103,595 128,526 90,746 25,755 30,423 44,013 Thousands of U.S. dollars\*8 965,224 133,336 298,669 90,114 1,161,779 1,550,562 666,555 341 U.S. dollars\*8 2.54 0.75

2011	2012	2013	2014	2015	YoY change
		Millions of yen			%
130,824	131,167	121,532	127,294	128,345	0.8
56,184	54,636	51,732	54,194	54,719	1.0
74,640	76,531	69,800	73,100	73,626	0.7
56,019	57,233	52,896	54,977	55,709	1.3
18,621	19,298	16,904	18,123	17,917	(1.1)
13,178	19,822	18,854	19,667	20,057	2.0
9,336	11,726	12,177	12,307	12,449	1.2
13,168	17,250	9,243	13,513	15,445	14.3
4,789	14,321	(17,363)	6,554	10,905	66.4
4,155	3,232	2,970	3,097	3,095	(1.4)
2,347	2,213	3,174	4,003	3,656	(8.7)
4,069	4,386	4,545	4,930	5,289	7.3
		Millions of yen			%
88,837	102,538	94,354	105,615	115,991	9.8
14,156	13,628	13,730	14,945	16,023	7.7
34,525	37,791	34,477	34,217	35,891	4.9
8,488	8,221	7,757	9,749	10,829	11.1
91,343	101,879	114,873	126,953	139,611	10.0
134,356	147,890	157,107	170,919	186,331	9.0
54,312	64,747	59,876	71,398	80,100	12.2
26	5	4	6	41	572.4
		Yen			%
227.98	286.36	297.37	300.55	305.46	1.6
66.00	78.00	82.00	86.00	90.00	4.7
28.9	27.2	27.6	28.6	29.5	
309.7	405.7	217.3	317.8	363.2	14.3
2,226.42	2,484.08	2,805.27	3,098.32	3,423.54	10.5
		%			*1 Cash flows from o
57.1	58.3	57.4	57.4	57.4	flows from investing *2 Increase in prope
14.2	14.7	13.9	14.2	14.0	and intangible as: Information in th
7.1	8.9	10.0	9.7	9.7	Financial Statement
257.3	271.3	273.7	308.7	323.2	*3 Net assets in 200 interests.
14.3	14.2	12.2	11.4	10.5	*4 Current assets – Cu
10.6	12.2	11.2	10.2	9.4	*5 Cash flows from or of shares issued
67.9	68.8	73.1	74.2	74.8	*6 Interest-bearing del
0.0003	0.00005	0.00004	0.00005	0.00029	*7 Current share price

15.3

14.5

19.8

28.2

3.02 28.49

operating activities + Cash ng activities

perty, plant, and equipment assets as shown in Segment the Notes to Consolidated

<sup>006</sup> do not include minority

Current liabilities

operating activities / Number

debt / Shareholders' equity Current share price / Earnings per share

<sup>\*8</sup> Japanese yen amounts have been converted into US dollars, for convenience only, at the rate of ¥120.17 / US\$1.00 on March 31, 2015.



Representative Director, President and Chief Operating Officer

Akihiro Kobayashi

#### Major Products that Contributed to Sales in Fiscal 2015







Sawaday PINKPINK Men's Keshimin

Dusmock

#### **Products Currently Selling Well Overseas**







Body warmer sold in the United States

Cooling gel sheet sold in Singapore

External anti-inflammatory for stiff shoulders sold in Hong Kong

#### Fiscal 2015 Results

# Record profits and 17th straight year of net income growth

In fiscal 2015, ended March 31, 2015, the operating environment in Japan was challenging due to a pullback in demand after a spike in consumer spending ahead of the consumption tax hike in April 2014. Against this backdrop, we launched 25 new products in the domestic market, providing support for sales. New products included *Sawaday PINKPINK*, a deodorizing air freshener aimed at young women, *Men's Keshimin*, a skincare product for men that helps prevent blotches, and Kampo medicine *Dusmock*, which helps clean bronchial tubes.

Sales by product category were as follows:

#### Net sales by domestic product category

(Billions of yen)

	Fiscal 2015 net sales	YoY change	Key factors
Healthcare products	¥43.4	-1.5%	Increase in consumption tax weighed on sales, particularly sales of oral care products
Household products	44.7	+1.3%	Sales growth supported by new products and inbound demand from overseas visitors to Japan
Skincare	4.3	+20.9%	Sales expanded following full- scale launch of skincare business in April 2014
Kiribai Chemical	9.0	-4.6%	Sales declined due to weak demand for body warmers caused by warm winter weather
Total	¥101.4	+0.2%	

Overseas, we registered strong sales of body warmers in the United States, as well as firm sales of *Netsusama Sheet*, a cooling gel sheet for the forehead, and *Ammeltz*, an external anti-inflammatory for stiff shoulders, in Southeast Asia. Total sales in the overseas business increased 23.0% year on year to ¥15.4 billion, marking a second straight year of strong growth.

As a result of the above factors, sales and net income both rose year on year in fiscal 2015. Net income increased for the 17th consecutive year, reaching a new record for the Kobayashi Pharmaceutical Group.

#### **Developing and Cultivating New Products**

# Working to achieve a new product contribution rate of 10% by creating new product ideas

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

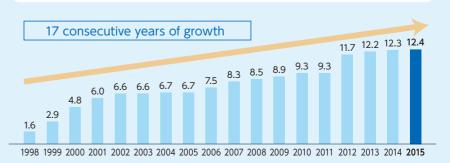
New ideas are the lifeblood of product development. That's why staff in our product development and marketing teams are constantly on the lookout for new ideas for products that consumers really want and need. Every month they attend Idea Meetings, where they present new product concepts to me.

Also, we held a Groupwide Idea Meeting on August 22, 2014 — the anniversary of the Company's establishment — to give all our employees an opportunity to put forward their own

#### Fiscal 2015 Results (Billions of yen)

	Fiscal 2015	YoY change
Net Sales	¥128.3	+0.8%
Operating Income	17.9	-1.1%
Net Income	12.4	+1.2%

#### Net Income (Billions of yen)



#### Our Four Core Brands in the Skincare Business



Keshimin



Eaude Muge





Aquamoist

Madam Juju

#### Six Global Brands













product ideas. We encouraged our employees to go back to basics and think about how to address issues faced by consumers and satisfy their needs. This process resulted in a total of 2,581 new product ideas, some of which have been chosen for further development and commercialization as new products. In this way, we are steadily working toward one of our key management targets: a new product contribution rate of 10% (the percentage of net sales generated by new products).

We are also focusing on cultivating new products after they have been introduced into the market. Specifically, from our portfolio of new products, we select "strategic launch products" that receive intensive support six months after launch in the form of sales area development and sales promotion campaigns. Products that look promising after receiving this support are then designated as "strategic development products." The whole Group is tasked with boosting sales and profits from these products under 5-year and 10-year timeframes, supported by stepped up sales area development and sales promotion efforts, TV advertising, product improvements, expanded product lineups and cost reduction.

#### **Investing in Growth**

## Strategic Growth Business (1):Skincare Business –

Targeting sales of ¥10 billion in fiscal 2018 by strengthening four core brands and developing new brands

In order to expand our skincare business, we started operations focused on skincare products in April 2014 supported by a newly created dedicated organization. We are aiming to generate retail sales of ¥10 billion in fiscal 2018 by developing new brands and strengthening four existing brands — *Keshimin*, a skincare product that prevents blotches, *Eaude Muge* skincare products that help prevent skin disorders and spots, *Aquamoist*, a skincare product with high moisture retaining ability, and *Madam Juju*, a range of anti-aging cosmetics.

# Strategic Growth Business (2):Overseas Business -

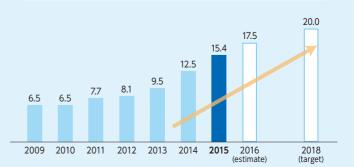
Aiming for sales of ¥20 billion in fiscal 2018 supported by six global brands

Our overseas business continues to grow at a steady pace, generating over 10% of consolidated net sales for the first time in fiscal 2015. Our mainstay body warmers are primarily sold in the United States and China, and they are gradually gaining ground in

#### New Product Contribution Rate (%)



#### Sales of Overseas Business (Billions of yen)



#### Main investments

#### PHOTO LEFT

Hefei Kobayashi Daily Products Co., Ltd. mainly makes products for sale in China and Southeast Asia.

#### PHOTO RIGHT

Hefei Kobayashi Pharmaceutical Co., Ltd. sources natural medicinal ingredients and separates Kampo extracts, which are used to support increased output of Kampo medicines in Japan.



New plant for Hefei Kobayashi Daily Products Co., Ltd. completed August 8, 2014

(Product categories: body warmers, cooling gel sheets, etc.)



Ceremony to mark start of construction work on new plant for Hefei Kobayashi Pharmaceutical Co., Ltd., March 3, 2015

the United States as an everyday way to keep warm on cold days. In Southeast Asia, our main products are *Netsusama Sheet* and *Ammeltz*. We are working to increase sales of these products by actively using TV commercials and other sales promotion strategies.

In our overseas business, we are targeting sales of ¥20 billion in fiscal 2018 by creating new lifestyle choices tailored to each country and region in six global brands — body warmers, *Netsusama Sheet* (cooling gel sheets), *Ammeltz* (anti-inflammatory treatments), oral care, skincare and household products.

#### Investing heavily to accelerate growth

We plan to invest heavily to accelerate the Group's growth. We are currently expanding our production infrastructure in Hefei, Anhui Province, China. Local subsidiary Hefei Kobayashi Daily Products Co., Ltd. completed a new plant in August 2014, and our other local subsidiary, Hefei Kobayashi Pharmaceutical Co., Ltd., started construction work on a new plant in March 2015.

#### Forecasts for Fiscal 2016

#### Targeting higher sales and profits, an 18th straight year of net income growth, and record profits

In fiscal 2016, we are targeting sales of  $\pm 9.5$  billion, supported by the launch of 28 new products — 14 in spring and 14 in

autumn. We are also aiming for double-digit sales growth in our two strategic growth businesses — skincare and overseas operations.

Based on these strategies, we are targeting higher sales and profits in fiscal 2016 and an 18th consecutive year of net income growth, as well as another year of record profits.

#### **Shareholder Returns**

# Dividend raised for 16th consecutive year; another hike planned for fiscal 2016

The Kobayashi Pharmaceutical Group aims to improve shareholder returns by paying stable dividends that also reflect earnings performance. Based on this policy, we paid a full-year dividend of ¥90.00 per share for fiscal 2015, an increase of ¥4.00 from the previous fiscal year. This marked the 16th consecutive year of dividend hikes.

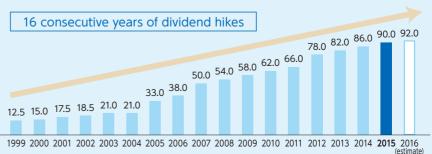
We plan to increase the full-year dividend again in fiscal 2016 to  $\pm 92.00$  per share.

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

#### Fiscal 2016 Forecasts (Billions of yen)

	Fiscal 2016	YoY change
Net Sales	¥133.0	+3.6%
Operating Income	18.9	+5.5%
Net Income	13.0	+4.4%

#### Dividends (Yen)



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

# A Big Fish in a Small Pond

We identify hidden ponds (markets) and then grow them so they are big enough for large fish (sales). This allows us to secure high market shares and high profit margins.

Competition is severe in ponds where everyone comes to fish

We identify undiscovered ponds (markets)

New product concepts



We beat other competitors to the market

Small ponds are good when nobody else is fishing

Speed

We grow the ponds so they are big enough for large fish (sales)

Easy to understand

#### **Idea Meetings**



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

Rapid commercialization through parallel product development, research and production preparation

Average time for product development:

13 months
(excluding OTC pharmaceuticals)



Product name and packaging designs help consumers know straight away what the product does



Clearly communicate product concept in 15-second TV commercials

#### Big Fish in Small Pond strategy helps us secure large market shares



Eye wash



Women's health medicine



Deodorizing air freshener



Toilet bowl cleaner



Cooling gel sheet for the forehead

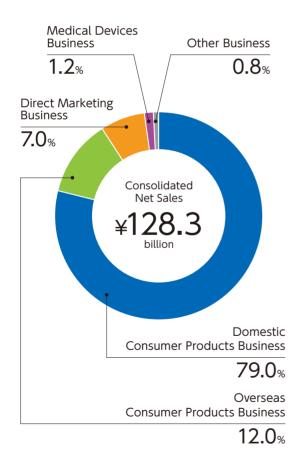
\*Domestic market share (Kobayashi Pharmaceutical data) \*Fisical 2015

#### Kobayashi Pharmaceutical Snapshot

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

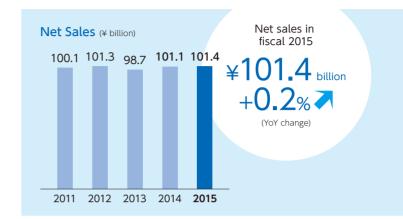
The Group's operations are focused on the Domestic Consumer Products Business, the Overseas Consumer Products Business, and the Direct Marketing Business.

#### Net Sales Breakdown (fiscal 2015)

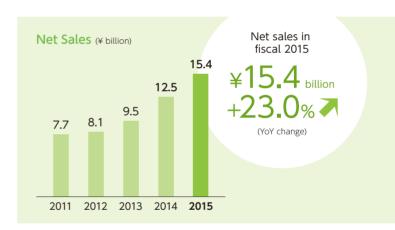


\*Excluding inter-segment sales

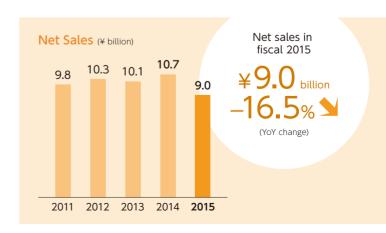
#### **Domestic Consumer Products Business**



#### **Overseas Consumer Products Business**



#### **Direct Marketing Business**



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



**Eyebon**An eye wash solution that flushes out protein buildup, dust and other fine particles.



Oral breath freshener capsules that refresh bad breath originating from the stomach.



Netsusama Sheet
Cooling gel sheet for the
forehead containing
cooling beads



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



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

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



**Hothands**A body warmer product sold in the United States.



**Be KOOOL**A cooling gel sheet sold in the United States.



**Nuan Bao Bao**A body warmer product sold in China.



**New Anmeiru**An anti-inflammatory product sold in Hong Kong



**KOOL FEVER**A cooling gel sheet sold in Singapore.

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



Slim Tochutsubu
A nutritional supplement
for healthy diet support



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



Aloe Ikumo Eki
A medicated tonic that promotes hair growth.



**Hifmid**A range of skincare products that complement basic skin functions.

# **Domestic Consumer Products Business**

#### Fiscal 2015 Results

#### **Net Sales**

¥101.4 billion +0.2%

#### Operating Income

¥16.5 billion **-2.7**% **\** 

(YoY change)

#### **Sales by Products Category**

#### **Healthcare products**

OTC pharmaceuticals Oral hygiene products Food products

¥43.4 billion (-1.5% YoY)

Increase in consumption tax weighed on sales, particularly sales of oral care products

#### **Household products**

Sanitary products Deodorizing air fresheners Household sundries

¥44.7 billion (+1.3% YoY)

Sales growth supported by new products and inbound demand from overseas visitors to Japan

#### **Skincare**

¥4.3 billion (+20.9% YoY)

Sales expanded following full-scale launch of skincare business in April 2014

#### Kiribai Chemical

**Body warmers** Sanitary products ¥9.0 billion (-4.6% YoY)

Sales declined due to weak demand for body warmers caused by warm winter weather

#### **Results Highlights**

#### New products

#### Sales contributions from 25 new products





Sawaday PINKPINK

Dusmock





Deodorizing air fresheners

Strong sales of air freshener products with sophisticated fragrances and designs



Sawaday Kaoru Stick



Sawaday PINKPINK

#### Bluelet

Recognized as world's best-selling toilet tank product by Guinness World Records®(Note)







Guinness World Records® packaging

#### Inbound demand

#### Overseas visitors to Japan driving growth in inbound demand





Sakamucare

Netsusama Sheet







Ammeltz Inochi No Haha A

(Note) Based on the product's recent sales, Bluelet has been recognized as the world's biggest toilet care brand in the flushing toilets category\*1(Approved November 10, 2014, (Note) Based on the product's recent sales, Bluelet has been recognized as the world's bigg based on annual sales of more than ¥13 billion\*2 in CY2013)

\*1: Official wording: "Largest in-cistern device toilet care brand by annual revenue – current"

\*2: Officially recognized sales amount: ¥13,813,455,655

\*Guinness World Records® is a registered trademark of Guinness World Records Limited.

#### **Market Environment and Strategy**

#### Focusing on developing and cultivating new products with high added value

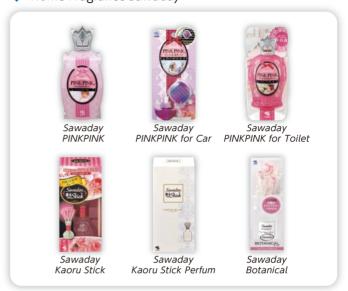
The Japanese economy recovered at a moderate pace in fiscal 2015, partly supported by the government's economic stimulus measures. However, conditions in the consumer market remained tough due to a pullback in demand after a spike in spending ahead of the consumption tax hike in April 2014. Despite these conditions, the Domestic Consumer Products Business reported higher domestic sales year on year on the back of strong sales of new products launched in 2014 and the creation of a dedicated organization for the skincare business.

In recent years, consumers are increasingly choosing high value-added products that incorporate innovative ideas and attractive designs. In air fresheners, sales of products with sophisticated fragrances and designs are growing faster than sales of our existing large-volume, low-price products. We expect this trend to continue going forward. Given these trends, we used the 40th anniversary of our air freshener brand *Sawaday* in May 2015 to relaunch the product's brand image. To address the changing needs of consumers, the brand has been reborn as a stylish home fragrance product with a range of fragrances to suit every taste.

In recent years, the in-store life cycle of products has become shorter, with retailers quick to remove products from their shelves if they are not selling. Rival companies are also rolling out a large number of new products. Under these challenging conditions, we need to carefully cultivate new

products to ensure they remain competitive. We are working to build up new products so that they can contribute to sales and profits five to ten years from now.

#### ♦ Home Fragrance Sawaday



#### **Skincare Business**

#### Aiming for sales of ¥10 billion by cultivating four core brands

Supported by the creation of a dedicated organization for our skincare business in April 2014, we have been developing new products, strengthening brands and expanding sales channels.

We are targeting sales of ¥10 billion in fiscal 2018 by developing new brands and developing four existing brands as the core of the skincare business — *Keshimin, Eaude Muge, Aquamoist* and *Madam Juju*.

#### Four Core Brands – Key Features and Strategies







<sup>\*</sup> Sinomonas/hyaluronic acid ferment filtrate (moisturizing ingredient)





#### Fiscal 2015 Results

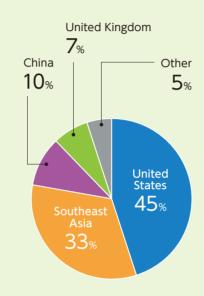
#### **Net Sales**

¥15.4 billion +23.0% ✓

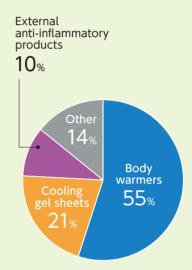
## Operating Income (after goodwill amortization)

¥0.43 billion +¥0.21 billion ✓

#### Sales Breakdown by Region

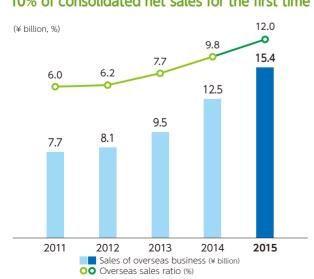


#### Sales Breakdown by Product

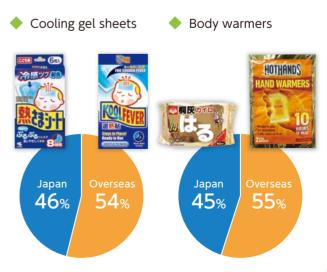


#### **Results Highlights**

# Overseas business accounts for more than 10% of consolidated net sales for the first time



## Overseas sales of cooling gel sheets and body warmers exceed domestic sales



#### Targeting sales of ¥20 billion in fiscal 2018

Sales in the overseas business have been growing at a double-digit pace since fiscal 2013. In fiscal 2015, the business accounted for more than 10% of consolidated net sales for the first time. This growth has been driven by steadily rising sales of body warmers in the United States and China, and by solid sales growth for cooling gel sheets and *Ammeltz*, an external anti-inflammatory for stiff shoulders, in Southeast Asia.

We are aiming for further sales growth by creating new lifestyle choices tailored to each country and region in six global brands — body warmers, cooling gel sheets, *Ammeltz* (anti-inflammatory treatments), oral care, skincare and household products.

Our goal is to generate overseas sales of ¥20 billion in fiscal 2018.

Six Global Brands



**Pharmaceuticals** 



Skincare

# Creating new lifestyle choices tailored to each country and region



Oral care



Cooling hygiene products



**Body warmers** 

outdoor activities. Our goal is to

encourage wider use of body

warmers as an everyday way to

keep warm on cold days. We

are enhancing in-store sales areas by placing our body warmers in large sales bins in the middle of stores and in

point-of-sale areas so shoppers can buy them on the spur of the



Household products

#### Initiatives in the United States -

# Enhancing efforts to promote our body warmers as a way to keep warm on cold days

In the United States, body warmers are mainly used to treat back problems and other ailments. People also use them to keep warm when watching sports events and taking part in

moment



Enhancing in-store displays

#### Initiatives in Southeast Asia –

#### Expanding the Ammeltz brand

The Group's overseas business began around four decades ago with the launch of *Ammeltz*, an external anti-inflammatory for stiff shoulders, in Southeast Asia. The product is now sold in markets across the region, such as Hong Kong, Malaysia, Singapore and Thailand, and was launched in Indonesia, Taiwan and Australia in fiscal 2015. We are aiming for further sales growth by launching other products in the *Ammeltz* range that are currently sold in Japan.

We also plan to rapidly secure regulatory approval to launch *Ammeltz* in other markets.





We aim to roll out the brand worldwide

The Ammeltz range sold in Japan

# **Direct Marketing Business**

#### Fiscal 2015 Results

#### **Net Sales**

¥9.0 billion −16.5% ≥

#### **Operating Income**

¥0.48 billion +0.12 billion ₹

#### Main Products



Slim Tochutsubu Nutritional supplement



Vegetables and Enzymes Nutritional supplement



Nattokinase with DHA & EP Nutritional supplement



Shiitagen - α Nutritional supplement



*Hifmid* Skincare product

Aloe Ikumo Eki Medicated hair tonic

#### Market Environment and Strategy -

# Expanding sales through aggressive advertising and repeat business

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

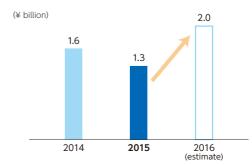
In fiscal 2015, sales were much lower than in the previous year, reflecting a prolonged pullback in demand after a spike in consumer spending ahead of the consumption tax hike in April 2014. In order to put this poor year of sales behind us and generate further growth, we plan to spend heavily on advertising in fiscal 2016 to attract new customers. We are also aiming to achieve a rapid recovery in sales by stepping up efforts to secure repeat business. Specifically, customers will be able to select regular delivery options for all our products and we plan to develop direct mail promotions targeting customers who are likely to place repeat orders.

In October 2014, we added nutritional supplement *Slim Tochutsubu*. This nutritional supplement for healthy diet support contains bioactive compound asperuloside, which was discovered in *Eucommia* (du zhong) by Kobayashi Pharmaceutical\*. Sales are growing steadily.

To support growth over the medium and long term, we plan to actively continue with this type of research and development and materials research to support the increased development of unique new products.

\*Hirata T. et al., Studies in Natural Products Chemistry, Volume 41, 2014

#### Heavy spending on advertising





#### Corporate Governance Framework

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

#### **Enhancing Management Transparency**

#### Monitoring Management from Multiple Viewpoints

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

#### **Board of Directors**

We have selected outside directors since 2008 with the purpose of strengthening the board of directors' supervisory function. The board of directors consists of eight directors, including two outside directors, and constantly monitors the status of business operations by meeting monthly or when necessary to determine important matters concerning the management of the company and to check deliberations made at the Group Officers Meeting (GOM). Board of directors meetings are also attended by all four audit and supervisory board members, including the two outside members. The Company's outside directors and outside audit and supervisory board members actively participate in discussions and fulfill their oversight role from an independent perspective.

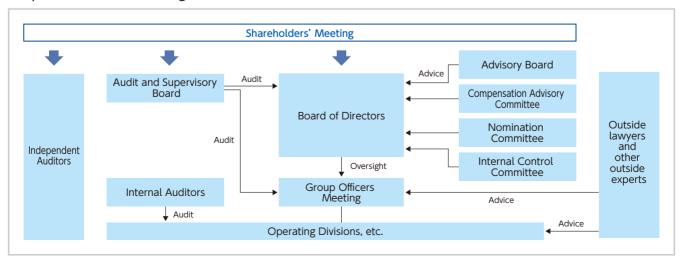
#### Principal Activities of Outside Directors and Outside Audit and Supervisory Board Members in Fiscal 2015

Title	Name	Principal Activities
Outside Haruo Tsuji	Attended 15 of 15 board of directors meetings	
Directors	Kunio Ito	Attended 15 of 15 board of directors meetings
Outside Audit and	Hiroshi Hayashi	Attended 15 of 15 board of directors meetings Attended 14 of 14 audit and supervisory board meetings
Supervisory Board Members	Ryuji Sakai	Attended 15 of 15 board of directors meetings Attended 14 of 14 audit and supervisory board meetings

#### Group Officers Meeting (GOM)

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

#### **Corporate Governance Organization**



#### **Advisory Board**

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

#### **Compensation Advisory Committee**

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

#### **Nomination Committee**

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

#### Internal Control Committee

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

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

#### **Audit and Supervisory Board**

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

#### "LA & LA" — Utilizing Employee Feedback

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

#### Information Disclosure

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

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

#### Internal Control Systems and Compliance

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

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

#### **Internal Control System**

#### Strengthening Internal Control for Expansion of Overseas Business

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

In fiscal 2015, the committee worked on reinforcing the corporate governance and compliance framework to support overseas expansion. This included creating a quality assurance system for products sold overseas, establishing a compliance program for employees of overseas group companies and also changes to approval and reporting routes.

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

#### **Compliance**

#### Compliance training that focuses on continuity

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

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

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



An article about compliance in the In-house Newsletter

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

#### Fiscal 2015 Compliance e-Learning Sessions

Month Held	Theme
April 2014	Data management
May 2014	Personal information management
June 2014	Compliance basics
July 2014	Mixing public and private matters
August 2014	Sexual harassment
September 2014	Pharmaceutical Affairs Act basics
October 2014	Online posts
November 2014	Personal information management
December 2014	Preparing for disasters (1)
January 2015	Preparing for disasters (2)
February 2015	Act against Unjustifiable Premiums and Misleading Representations
March 2015	Appropriate relationships with business partners

#### **Group Training Sessions**

In fiscal 2015, newly graduated employees were required to undergo general compliance training to support their first steps into the workplace.

#### Global Compliance Policy

Given the growth of our overseas business, in 2012 we updated our Compliance Guidelines, which were first drawn up in 2008, to the Global Compliance Policy and declared our commitment to ensuring full compliance with this new policy. English, Chinese, Indonesian, and Spanish versions of our Global Compliance Policy have also been prepared to raise awareness and provide training about compliance best practices at our overseas subsidiaries. In addition, all of our board members, executive officers and employees both in Japan and overseas have signed written pledges about complying with the Executive Officer and Employee Code of Conduct.

#### Whistleblower System

The Kobayashi Pharmaceutical Group established the Employee Consulting Center in January 2003 both internally and externally in a law office as a special hotline for employees to anonymously report compliance violations or ask general questions on compliance issues. In May 2013, the Group also established an external hotline for overseas employees at a law office. To ensure these whistleblower systems work effectively, we regularly conduct employee training and use Inhouse newsletters to increase awareness about the Employee Consulting Center, which has led to an increase in the number of employees seeking advice.

#### Risk Management Framework

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

#### **Management of Business Risks**

#### **Reducing Business Risks Under Four Categories**

In fiscal 2015, we focused our efforts to reduce business risks under four categories defined based on global management, quality improvement, and compliance with laws and regulations. To ensure the solid execution of risk management,

our progress on the action plan was reported to the Internal Control Committee to receive feedback. As a result, measures such as adding checks to daily business activities and implementing training were taken.

#### **Business Continuity Plan**

#### Bolstering Our Ability to Respond to Emergencies

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

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

#### CSR Initiatives

The Kobayashi Pharmaceutical Group is actively contributing to society through its business activities, in line with its brand slogan "You Make a Wish and We Make it Happen." Aiming to be a company trusted by all stakeholders, we are implementing

CSR activities in areas such as health, education, communities and the environment from the Group's unique perspective, as part of our efforts to make life more comfortable and help build a better society.

#### **Contributing to Society**

#### Providing Job Opportunities for Disabled People

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

Two people with disabilities were initially employed, mainly to provide office cleaning services for Toyama Kobayashi Pharmaceutical Co., Ltd. The company now employs 11 people with disabilities, and their daily work duties have expanded to include preparation of raw materials for production, equipment cleaning and supervision of work uniforms.

We are expanding the number of sites that provide job opportunities for disabled people as employment systems become more established. Kobayashi Pharmaceutical Challenged Co., Ltd. opened a new site in Sendai at Sendai Kobayashi Pharmaceutical Co., Ltd. (Taiwa Town, Miyagi Prefecture) in January 2014, and another new site in Sanda at Kiribai Kobayashi Pharmaceutical Co., Ltd. (Sanda City, Hyogo Prefecture) in April 2015. The Sendai site currently employs six people with disabilities, while the Sanda site employs three. Employees are mainly tasked with providing office cleaning, equipment cleaning and production support services.

The company plans to continue working with Toyama Kobayashi Pharmaceutical Co., Ltd., Sendai Kobayashi Pharmaceutical Co., Ltd. and Kiribai Kobayashi Pharmaceutical Co., Ltd. to expand the type of services it provides and take on more people with disabilities.





Kobayashi Pharmaceutical Challenged Co., Ltd. Sendai site

#### Providing support for guide dog training

Since 2010, Kobayashi Pharmaceutical has donated \(\frac{4}{2}\),000,000 each year to The Eye Mate Inc., a public foundation conducting guide dog training. Our donation, the equivalent of one guide dog's training costs, is our way of helping to make life better

for people with visual impairments. We have donated training costs for one dog in each of the last five years. In 2011, we included donations to Eye Mate on our menu of shareholder benefits. Using this option, shareholders have donated the

training costs for two guide dogs.

We plan to continue this donation program to ensure as many visually impaired people as possible have access to guide dogs.



Handover ceremony for the second guide dog trained with donations from our shareholders

#### Improving Toilet Facilities at Elementary Schools

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

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

In 2014, we implemented our fourth toilet renovation program at 12 elementary schools. The work included replacing Japanese-style toilets with Western ones and installing sheets around toilets to help reduce odors. Also, with many children shy about doing their bowel movements at school, we sent employees to each school after the refurbishments to run workshops that teach children about the importance of going to the toilet.

We plan to refurbish 12 more school toilet facilities across Japan in 2015, aiming to a total of 100 school toilets by 2019, the Company's centenary year.



Replacing Japanese-style toilets with Western ones





Sheets installed around toilets to help reduce odors



Refurbished toilet handover ceremony (Yokouchi Elementary School, Aomori City, Aomori, 2014)



Workshop (Kaneko-minami Elementary School, Takasaki City, Gunma, 2014)



#### Directors, Audit and Supervisory Board Members and Executive Officers (As of June 26, 2015)

#### **Directors**



Kazumasa Kobayashi Chairman of the Board and Chief Executive Officer



Yutaka Kobayashi Vice Chairman of the Board



Akihiro Kobayashi Representative Director, President and Chief Operating Officer



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



Satoshi Yamane Executive Director Senior General Manager Corporate Administration Headquarters



Susumu Horiuchi Director Senior General Manager Sales Division



Haruo Tsuji Outside Director



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

Audit and Supervisory Board Members



Hiroshi Goto Audit and Supervisory Board Member



Kazuyuki Katsuki Audit and Supervisory Board Member



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



Yoko Hatta Outside Audit and Supervisory Board Member Auditor, International Christian University

## Executive Officers

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

Hidetsugu Yamamoto Executive Officer Senior General Manager Business Transformation Center Corporate Administration Headquarters

Kazuhito Miyanishi Executive Officer Senior General Manager International Business Division Toshio Namba Executive Officer Senior General Manager QA, RA, Pharmacovigilance and Consumer Relations Division

Naoki Ayabe Executive Officer General Manager of the Metropolitan Area Sales Division Tetsuji Nishioka Executive Officer Senior General Manager Manufacturing Division

Fujito Owaki Executive Officer Senior General Manager Healthcare Division Product Development and Marketing Headquarters Kenichiro Tanaka Executive Officer Deputy Senior General Manager Sales Division General Manager of the Regional Area Sales Division

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

#### **Financial Section**

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#### **Analysis of Financial Results**

#### **Consolidated Business Results**

#### Net Sales

Sales in the Consumer Products Business were supported by the launch of 25 new products and sales of skincare products in Japan, and by strong overseas sales of body warmers, *Netsusama Sheet*, a cooling gel sheet for the forehead, and *Ammeltz*, an external anti-inflammatory for stiff shoulders.

As a result, the Company reported consolidated net sales of  $\pm 128,345$  million, an increase of 0.8% year on year, despite the impact of a pullback in demand after the consumption tax hike in April 2014.

#### Gross Profit

Cost of sales increased 1.0% year on year to ¥54,719 million and gross profit rose 0.7% to ¥73,626 million. As a result, the gross profit to net sales ratio was steady year on year at 57.4%.

#### ◆ Operating Income

The Group invested efficiently in advertising, but spent heavily on sales promotion activities, especially in the overseas operations and the Direct Marketing Business. As a result, advertising expenses declined 5.7% year on year to ¥12,658 million and sales promotion expenses rose 9.7% to ¥8,557 million. The advertising expenses to net sales ratio declined 0.6 percentage points to 9.9% and the sales promotion expenses to net sales ratio rose 0.6 percentage points to 6.7%.

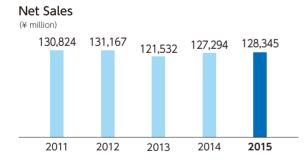
The Consumer Products Business and the Direct Marketing Business both developed and launched new products in fiscal 2015, resulting in R&D costs of ¥5,289 million, an increase of 7.3% year on year. The R&D costs to net sales ratio rose 0.2 percentage points to 4.1%.

Due to the above factors, selling, general and administrative expenses increased 1.3% year on year to  $\pm 55,709$  million. As a result, operating income declined 1.1% to  $\pm 17,917$  million and the operating income to net sales ratio fell 0.2 percentage points to 14.0%

#### Net Income

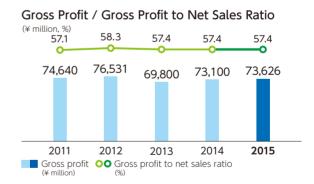
In other income, the Company booked gain on sales of investments in securities and foreign currency exchange gain, net, while other expenses included equity in loss of an affiliate related to equitymethod affiliate Medicon, Inc. Income before income taxes and minority interests increased 2.0% year on year to ¥20,057 million.

As a result, net income increased 1.2% year on year to ¥12,449 million, a record high for the Kobayashi Pharmaceutical Group. Fiscal 2015 also marked the 17th consecutive fiscal year of growth in net income. Net income per share rose ¥4.91 year on year to ¥305.46.

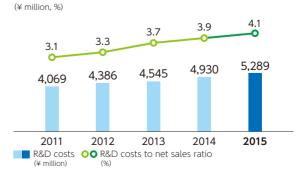


Advertising Expenses / Advertising Expenses to Net Sales Ratio / Sales Promotion Expenses / Sales Promotions Expenses to Net Sales Ratio

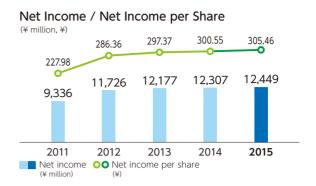








# Operating Income / Operating Income to Net Sales Ratio (\* million, %) 14.2 14.7 13.9 14.2 14.0 18,621 19,298 16,904 18,123 17,917 Operating income Operating income to net sales ratio (\* million) Operating income to net sales ratio (\* million)



#### **Reportable Segment Business Results**

The Kobayashi Pharmaceutical Group classifies its business activities into four segments: Consumer Products, Direct Marketing, Medical Devices and Other Business. Net sales by segment also include inter-segment sales and transfers. In the fiscal year under

review, inter-segment sales and transfers totaled  $\pm$ 7,009 million, comprising  $\pm$ 2,746 million in the Consumer Products Business and  $\pm$ 4,263 million in the Other Business.

									(Mil	lions of yen)
Net Sales by Segment		2011		2012		2013		2014		2015
1. Consumer Products Business										
Sales to third parties	¥	107,657	¥	109,203	¥	107,783	¥	113,980	¥	116,747
Inter-segment sales and transfers		3,136		3,221		3,050		3,192		2,746
Total	•	110,793		112,424		110,833		117,172	1	119,493
2. Direct Marketing Business										
Sales to third parties		9,872		10,381		10,180		10,747		8,978
3. Medical Devices Business										
Sales to third parties		12,184		10,476		2,445		1,429		1,540
4. Other Business										
Sales to third parties		1,111		1,107		1,124		1,138		1,080
Inter-segment sales and transfers		5,150		5,147		5,393		4,214		4,263
Total	¥	6,261	¥	6,254	¥	6,517	¥	5,352	¥	5,343

									(M	illions of yen)	
Operating Income by Segment		2011		2012		2013		2014		2015	
1. Consumer Products Business	¥	18,966	¥	18,317	¥	16,040	¥	17,067	¥	16,939	
2. Direct Marketing Business		311		132		163		368		486	
3. Medical Devices Business		251		292		10		282		182	
4. Other Business		171		554		680		298		238	

#### 1. Consumer Products Business

Net Sales by Category

Food products

Body warmers

Total

In the fiscal year under review, we launched a total of 25 new products in this business segment in order to create new markets and expand existing markets. There were particularly strong contributions to sales from *Dusmock*, a Kampo medicine that cleans cigarette-stained bronchial tubes and helps alleviate persistent coughing and bronchitis, *Men's Keshimin*, a skincare product for men that helps prevent blotches, and *Sawaday PINKPINK*, a deodorizing air freshener aimed at young women.

A number of existing products also registered strong sales, including *Inochi no Haha*, a health medicine for women in the OTC pharmaceuticals category, *Keshimin*, a range of skincare products to prevent blotches, *Netsusama Sheet*, a cooling gel sheet for the

forehead, and *Nodonool Nure Mask*, a humidifying mask to moisten the throat in the sanitary products category, and *Shoshugen Kaoru Stick*, an interior fragrance in the deodorizing air freshener category. *Ammeltz*, an external anti-inflammatory in the OTC pharmaceuticals category and *Netsusama Sheet* in the sanitary products category registered solid sales growth in Southeast Asia, and sales of body warmers rose steadily in the United States.

As a result, net sales in the Consumer Products Business increased 2.0% year on year to  $\pm 119,493$  million and operating income fell 0.7% to  $\pm 16,939$  million. The overseas operations accounted for  $\pm 15,385$  million of the segment's sales, up 23.0% year on year.

rice sales by eategory	2014		20	15	Changes		
	Sales (Millions of yen)	% of Total Sales	Sales (Millions of yen)	% of Total Sales	Sales (Millions of yen)	Changes (%)	
OTC pharmaceuticals	¥ 22,557	19.3	¥ 23,146	19.4	¥ 588	2.6	
Oral hygiene products	17,042	14.5	16,386	13.7	(656)	(3.9)	
Sanitary products	19,058	16.3	20,332	17.0	1,274	6.7	
Deodorizing air fresheners	31,485	26.9	31,783	26.6	297	0.9	
Household sundries	4,596	3.9	4,602	3.9	6	0.1	

7,700

15.541

¥ 119,493

6.8

12.3

100.0

#### Number of Profitable and Unprofitable Brands

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

7,970

14,460

¥ 117,172

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

	2011	2012	2013	2014	2015
Profitable brands	96	98	101	104	93
Unprofitable brands	50	48	49	30	30

#### **New Product Contribution Rate**

6.4

13.0

100.0

We refer to the percentage of net sales generated by new products in the first fiscal year on the market as the new product contribution rate. We are aiming for a rate of 10%. In the fiscal year under review, we launched 25 new products with a combined new product contribution rate of 8.1%, up 0.6 percentage points year on year.

(270)

1.081

¥ 2,321

(3.4)

7.5

2.0

(%)

#### New Product Contribution Rate

	2011	2012	2013	2014	2015
New product contribution rate	6.0	5.5	7.9	7.5	8.1

#### 2. Direct Marketing Business

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

products, partly due to a pullback in demand after a spike in spending ahead of the consumption tax hike.

As a result, net sales in the Direct Marketing Business declined 16.5% year on year to  $\pm$ 8,978 million and operating income increased 32.0% to  $\pm$ 486 million.

#### 3. Medical Devices Business

Net sales in the Medical Devices Business increased 7.7% year on year to  $\pm 1,540$  million and operating income fell 35.3% to  $\pm 182$  million.

#### 4. Other Business

Businesses in this segment, which includes activities such as transportation, the manufacture and distribution of synthetic resin containers, insurance agency operations, real estate management, and advertising planning and production, support the Company's three other business segments. Although each company affiliated to this segment conducts business on a financially independent basis, one of the objectives of this segment is to contribute to the

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

As a result, net sales in the Other Business declined 0.2% year on year to  $\pm$ 5,343 million and operating income fell 20.3% to  $\pm$ 238 million.

#### **Financial Position**

#### Assets

Total assets as of the end of the fiscal year were ¥186,331 million, an increase of 9.0% compared with the end of the previous fiscal year.

Current assets rose 9.8% year on year to  $\pm 115,991$  million, mainly reflecting an increase in cash and time deposits of  $\pm 6,701$  million

Property, plant and equipment increased 7.2% year on year to  $\pm$ 16,023 million, primarily due to an increase in buildings and structures of  $\pm$ 1,551 million.

Investments and other assets rose 7.9% year on year to  $\pm 54,317$  million, mainly due to an increase in investments in securities of  $\pm 2,703$  million.

#### Liabilities

Total liabilities as of the end of the fiscal year were ¥46,720 million, up 6.3% compared with the end of the previous fiscal year.

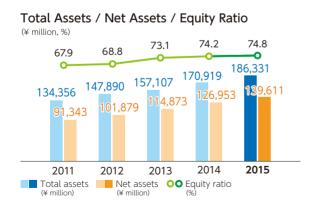
Current liabilities rose 4.9% year on year to  $\pm 35,891$  million, mainly due to an increase of  $\pm 2,153$  million in trade payables (trade notes and accounts payable and electronically recorded obligations – operating).

Long-term liabilities increased 11.1% year on year to  $\pm$ 10.829 million, primarily reflecting an increase in deferred income tax liabilities of  $\pm$ 1.517 million.

#### Net Assets

Net assets as of the end of the fiscal year totaled ¥139,611 million, an increase of 10.0% compared with the end of the previous fiscal year. This mainly reflected growth in retained earnings due to an increase in net income.

As a result, the equity ratio rose 0.6 percentage points to 74.8%. Return on equity (ROE) declined 0.8 percentage points year on year to 9.4%, and return on assets (ROA) fell 0.9 percentage points to 10.5%.





#### Cash Flows

#### ◆ Cash Flows from Operating Activities

Net cash provided by operating activities was  $\pm 15,445$  million, an increase of 14.3% from the previous fiscal year. The main factors were income before income taxes and minority interests of  $\pm 20,057$  million and gain on sales of investments in securities of  $\pm 1,014$  million.

#### ◆ Cash Flows from Investing Activities

Net cash used in investing activities was ¥4,540 million, a decrease of 34.8% from the previous fiscal year. The main uses of cash were payments for time deposits of ¥67,500 million and payments for purchases of property, plant and equipment of ¥3,100 million.

#### ◆ Cash Flows from Financing Activities

Net cash used in financing activities was  $\pm 5,156$  million, an increase of 35.4% from the previous fiscal year. The main uses of cash were increase in treasury stock of  $\pm 1,502$  million and dividends paid of  $\pm 3,553$  million.

As a result, cash and cash equivalents as of March 31, 2015 totaled  $\pm 32,399$  million, an increase of  $\pm 6,501$  million compared with the end of the previous fiscal year.

Changes

Cash Flows	2014	2015

	Amount (Millions of yen)	Amount (Millions of yen)	Amount (Millions of yen)	Changes (%)
Cash flows from operating activities	¥ 13,513	¥ 15,445	¥ 1,932	14.3
Cash flows from investing activities	(6,959)	(4,540)	2,419	(34.8)
Free cash flows*	6,554	10,905	4,351	66.4
Cash flows from financing activities	(3,809)	(5,156)	(1,347)	35.4
Cash and cash equivalents at the end of the year	25,898	32,399	6,501	25.1

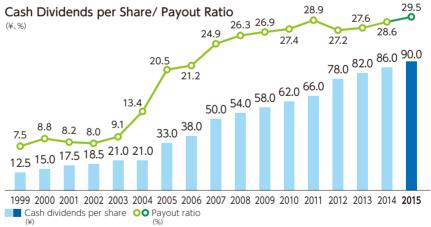
<sup>\*</sup>Free cash flows: Cash flows from operating activities + Cash flows from investing activities

#### **Shareholder Returns**

#### Dividends

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

In line with that policy, the Company paid a fiscal 2015 dividend of ¥90.00 per share, an increase of ¥4.00 year on year, comprising an interim dividend of ¥44.00 and a year-end dividend of ¥46.00. The Company has now raised the dividend for 16 consecutive fiscal years. The payout ratio was 29.5%.



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

#### Scope of Consolidation and Application of the Equity Method

In fiscal 2015, ended March 31, 2015, the Kobayashi Pharmaceutical Group had 30 consolidated subsidiaries (12 in Japan and 18 overseas) and one affiliate in Japan accounted for by the equity method.

By reportable segment, the Group has 23 consolidated subsidiaries in Consumer Products, one consolidated subsidiary and one equity-method affiliate in Medical Devices, and six consolidated subsidiaries in the Other Business.

#### **Risk Factors**

#### 1. Highly Competitive Business Environment

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

#### 2. Highly Susceptible to Sales of New Products

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

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

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

#### 4. Legal Constraints

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

#### 5. Product Liability Risk

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

#### 6. Changes in Raw Material Prices

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

#### 7. Impact of Inclement Weather

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

#### 8. Impact from Natural Disasters

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

#### 9. Overseas Business Risk

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

#### 10. Information Management and System Risk

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

#### 11. Intellectual Property Risk

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

#### 12. Share Price Fluctuation

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

#### Consolidated Financial Statements

#### Consolidated Balance Sheet

Kobayashi Pharmaceutical Co., Ltd. and Consolidated Subsidiaries March 31, 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2015	2014	2015	
Assets				
Current assets:				
Cash and time deposits (Notes 3, 13 and 14)	¥ 58,449	¥ 51,748	\$ 486,386	
Trade notes and accounts receivable (Note 14)	35,969	34,429	299,318	
Securities (Notes 4 and 14)	4,500	3,704	37,447	
Inventories:				
Commodities and finished goods	8,996	7,515	74,861	
Work in process	774	560	6,441	
Raw materials and supplies	2,716	2,458	22,601	
Total inventories	12,486	10,533	103,903	
Deferred income taxes (Note 11)	2,724	3,240	22,668	
Other current assets	1,910	2,017	15,893	
Allowance for doubtful accounts	(47)	(56)	(391)	
Total current assets	115,991	105,615	965,224	
Property, plant and equipment:				
Buildings and structures (Note 5)	18,520	16,969	154,115	
Machinery, equipment and vehicles (Note 5)	9,109	8,312	75,801	
Tools, furniture and fixtures (Note 5)	6,056	5,533	50,395	
Land (Note 5)	3,381	3,374	28,135	
Construction in progress	549	902	4,569	
Leased assets (Notes 5 and 8)	1,023	1,463	8,513	
Total property, plant and equipment	38,638	36,553	321,528	
Accumulated depreciation	(22,615)	(21,608)	(188,192)	
Property, plant and equipment, net	16,023	14,945	133,336	
Investments and other assets:				
Investments in securities (Notes 4 and 14):				
Unconsolidated subsidiaries and affiliates	3,931	3,814	32,712	
Other	37,650	35,064	313,306	
Total investments in securities	41,581	38,878	346,018	
Deferred income taxes (Note 11)	319	839	2,655	
Goodwill (Notes 5 and 18)	4,024	3,971	33,486	
Software	972	924	8,089	
Other intangible assets	587	531	4,885	
Investment properties, net (Note 6)	3,026	3,060	25,181	
Asset for retirement benefits	287	_	2,388	
Other assets (Notes 5, 13 and 14)	3,655	2,292	30,415	
Allowance for doubtful accounts	(134)	(136)	(1,115)	
Total investments and other assets	54,317	50,359	452,002	
Total assets (Note 18)	¥186,331	¥170,919	\$1,550,562	

See accompanying notes to consolidated financial statements

	Millions of yen		Thousands of U.S. dollars (Note 1)	
_	2015	2014	2015	
Liabilities and Net Assets				
Current liabilities:				
Short-term loans (Notes 7 and 14)	¥ 41	¥ 6	\$ 341	
Trade notes and accounts payable (Note 14)	10,240	11,369	85,213	
Electronically recorded obligations-operating (Note 14)	3,282	_	27,311	
Current portion of lease obligations (Notes 8 and 14)	82	158	682	
Income taxes payable (Notes 11 and 14)	3,192	3,640	26,562	
Other accounts payable (Note 14)	12,724	13,054	105,883	
Provision for sales returns	1,273	1,502	10,593	
Accrued bonuses	1,916	1,958	15,944	
Asset retirement obligations (Note 10)	19	29	158	
Provision for loss on business liquidation	_	355	_	
Other current liabilities (Note 14)	3,122	2,146	25,982	
Total current liabilities	35,891	34,217	298,669	
_				
Long-term liabilities:  Lease obligations (Notes 8 and 14)	513	609	4,269	
Deferred income taxes (Note11)	2,684	1,167	22,335	
Liability for retirement benefits (Note 9)	5,497	5,861	45,744	
Provision for retirement benefits for directors and audit	27	24	225	
& supervisory board members				
Asset retirement obligations (Note 10)	90	92	749	
Other long-term liabilities	2,018	1,996	16,792	
Total long-term liabilities Total liabilities	10,829 46,720	9,749	90,114	
_	40,720	43,966	388,783	
Contingent liabilities (Note 13)  Net Assets				
Shareholders' equity (Note 12):				
Common stock:				
Authorized — 170,100,000 shares				
	2.450	2.450	20.700	
Issued — 42,525,000 shares in 2015 and 2014	3,450	3,450	28,709	
Capital surplus	4,219	4,219	35,109	
Retained earnings	127,858	118,732	1,063,976	
Treasury stock, at cost	(6,208)	(4,706)	(51,660)	
Total shareholders' equity	129,319	121,695	1,076,134	
Accumulated other comprehensive income:	7.554	F 270	60.064	
Unrealized holding gain on securities (Note 4)	7,554	5,370	62,861	
Unrealized gain on deferred hedges (Note 15)	1,361	1,044	11,326	
Translation adjustments	1,874	(374)	15,595	
Retirement benefit liability adjustments (Note 9)	(711)	(865)	(5,917)	
Total accumulated other comprehensive income, net	10,078	5,175	83,865	
Stock acquisition rights	191	83	1,589	
Minority interests	23	0	191	
Total net assets	139,611	126,953	1,161,779	
Total liabilities and net assets	¥186,331	¥170,919	\$1,550,562	

#### Consolidated Statement of Income

Kobayashi Pharmaceutical Co., Ltd. and Consolidated Subsidiaries Year ended March 31, 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)	
-	2015	2014	2015	
Net sales (Note 18)	¥128,345	¥127,294	\$1,068,029	
Cost of sales	54,719	54,194	455,347	
Gross profit	73,626	73,100	612,682	
Selling, general and administrative expenses:				
Sales promotions	8,557	7,801	71,207	
Freight and storage	5,508	5,301	45,835	
Advertising	12,658	13,419	105,334	
Provision for allowance for doubtful accounts	20	21	166	
Salaries and bonuses	9,381	8,874	78,064	
Net pension cost	635	760	5,284	
Provision for retirement benefits for directors and audit & supervisory board members	3	4	25	
Taxes and dues other than income taxes	293	300	2,438	
Depreciation and amortization (Note 18)	711	668	5,917	
Amortization of goodwill (Note 18)	454	420	3,778	
Office rent and other rental charges	1,405	1,341	11,692	
External service fees	4,697	4,728	39,086	
Research and development costs	5,289	4,930	44,013	
Other	6,098	6,410	50,746	
Fotal selling, general and administrative expenses	55,709	54,977	463,585	
Operating income	17,917	18,123	149,097	
Other income (expenses):				
Interest and dividend income (Note 18)	552	567	4,593	
Equity in (loss) earnings of an affiliate (Note 18)	(151)	153	(1,257)	
Interest expense (Note 18)	(23)	(19)	(191)	
Sales discounts	(690)	(722)	(5,742)	
Foreign currency exchange gain (loss), net	143	(571)	1,190	
Royalty income	720	726	5,992	
Loss on disposal or sales of property, plant and equipment, net	(81)	(65)	(674)	
Loss on impairment of fixed assets (Notes 5 and 18)	(20)	(212)	(166)	
Gain on sales of shares of a subsidiary and an affiliate	_	515	_	
Gain on sales of investments in securities	1,014	206	8,438	
Loss on defective inventories	(24)	(21)	(200)	
Reversal of provision for loss on business liquidation	180	462	1,498	
Compensation income	155	_	1,290	
Other, net	365	525	3,037	
Income before income taxes and minority interests	20,057	19,667	166,905	
ncome taxes (Note 11):	20,037	13,007	100,505	
Current	5,911	6,743	49,189	
Deferred	1,698	617	14,129	
-	7,609	7,360	63,318	
ncome before minority interests	12,448	12,307	103,587	
Minority interests	(1)	(0)	(8)	
viiiority iiiterests	(1)	(0)	(0)	

See accompanying notes to consolidated financial statements

# Consolidated Statement of Comprehensive Income

Kobayashi Pharmaceutical Co., Ltd. and Consolidated Subsidiaries Year ended March 31, 2015

	Millions	of yen	Thousands of U.S. dollars (Note 1)
_	2015	2014	2015
Income before minority interests	¥12,448	¥12,307	\$103,587
Other comprehensive income:			
Unrealized holding gain on securities	2,184	1,012	18,174
Unrealized gain (loss) on deferred hedges	127	(19)	1,057
Translation adjustments	2,248	2,530	18,707
Retirement benefit liability adjustments	75	_	624
Share of other comprehensive income of an affiliate accounted for by the equity method	269	558	2,238
Other comprehensive income, net (Note 17)	4,903	4,081	40,800
Comprehensive income	¥17,351	¥16,388	\$144,387
Comprehensive income (loss) attributable to:			
Shareholders of KOBAYASHI PHARMACEUTICAL CO., LTD.	¥17,351	¥16,388	\$144,387
Minority interests	(0)	(0)	(0)

See accompanying notes to consolidated financial statements

# Consolidated Statement of Changes in Net Assets

Kobayashi Pharmaceutical Co., Ltd. and Consolidated Subsidiaries Year ended March 31, 2015

						Λ	Aillions of ye	en				
	Numbers of shares issued (Thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized holding gain on securities	Unrealized gain on deferred hedges	Translation adjustments	Retirement benefit liability adjustments	Stock acquisition rights	Minority interests	Total net assets
Balance at April 1, 2013	42,525	¥3,450	¥4,219	¥109,947	¥(4,703)	¥4,358	¥ 505	¥(2,904)	¥ —	¥ —	¥ 1	¥114,873
Net income for the year		_	_	12,307	_	_	_	_	_	_	_	12,307
Cash dividends		_	_	(3,522)	_	_	_	_	_	_	_	(3,522)
Purchase of treasury stock		_	_	_	(3)	_	_	_	_	_	_	(3)
Other changes		_	_	_	_	1,012	539	2,530	(865)	83	(0)	3,299
Balance at April 1, 2014	42,525	3,450	4,219	118,732	(4,706)	5,370	1,044	(374)	(865)	83	0	126,953
Cumulative effects of changes in accounting policies		_	_	230	_	_	_	_	_	_	_	230
Restated balance at April 1, 2014	42,525	3,450	4,219	118,962	(4,706)	5,370	1,044	(374)	(865)	83	0	127,183
Net income for the year		_	_	12,449	_	_	_	_	_	_	_	12,449
Cash dividends		_	_	(3,553)	_	_	_	_	_	_	_	(3,553)
Purchase of treasury stock		_	_	_	(1,502)	_	_	_	_	_	_	(1,502)
Other changes		_	_	_	_	2,184	317	2,248	154	108	23	5,034
Balance at March 31, 2015	42,525	¥3,450	¥4,219	¥127,858	¥(6,208)	¥7,554	¥1,361	¥1,874	¥(711)	¥191	¥23	¥139,611

		Thousands of dollars (Note 1)									
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized holding gain on securities	Unrealized gain on deferred hedges	Translation adjustments	Retirement benefit liability adjustments	Stock acquisition rights	Minority interests	Total net assets
Balance at April 1, 2014	\$28,709	\$35,109	\$ 988,034	\$(39,161)	\$44,687	\$ 8,688	\$ (3,112)	\$(7,198)	\$ 691	\$ 0	\$1,056,447
Cumulative effects of changes in accounting policies	_	_	1,913	_	_	_	_	_	_	_	1,913
Restated balance at April 1, 2014	28,709	35,109	989,947	(39,161)	44,687	8,688	(3,112)	(7,198)	691	0	1,058,360
Net income for the year	_	_	103,595	_	_	_	_	_	_	_	103,595
Cash dividends	_	_	(29,566)	_	_	_	_	_	_	_	(29,566)
Purchase of treasury stock	_	_	_	(12,499)	_	_	_	_	_	_	(12,499)
Other changes	_	_	_	_	18,174	2,638	18,707	1,281	898	191	41,889
Balance at March 31, 2015	\$28,709	\$35,109	\$1,063,976	\$(51,660)	\$62,861	\$11,326	\$15,595	\$(5,917)	\$1,589	\$191	\$1,161,779

# Consolidated Statement of Cash Flows

Kobayashi Pharmaceutical Co., Ltd. and Consolidated Subsidiaries Year ended March 31, 2015

	Millions	Thousands of U.S. dollars (Note 1)	
	2015	2014	2015
Cash flows from operating activities: Income before income taxes and minority interests	¥ 20,057	¥ 19,667	\$ 166,905
Adjustments for: Depreciation and amortization	3,095	3,097	25,755
Loss on impairment of fixed assets Decrease in allowance for doubtful accounts	20 (15)	212 (14)	166 (125)
(Decrease) increase in liability for retirement benefits  Decrease in provision for retirement benefits for employees	(215)	5,007 (4,888)	(1,789)
Increase in asset for retirement benefits	(84)	_	(699)
Interest and dividend income Interest expense	(552) 23	(567) 19	(4,593) 191
Equity in loss (earnings) of an affiliate	151	(153)	1,257
Gain on sales of shares of a subsidiary and an affiliate	(4.04.4)	(515)	(0.420)
Gain on sales of investments in securities Loss on disposal or sales of property, plant and equipment, net	(1,014) 81	(206) 64	(8,438) 674
Compensation income	(155)	_	(1,290)
Changes in operating assets and liabilities: Increase in trade notes and accounts receivable	(008)	(2.222)	(7.556)
(Increase) decrease in inventories	(908) (1,652)	(2,323) 1,572	(7,556) (13,747)
Increase (decrease) in trade notes and accounts payable	1,930	(836)	16,061
(Decrease) increase in other accounts payable Increase in consumption taxes payable	(701) 830	405 117	(5,833) 6,907
Decrease in provision for loss on business liquidation	(180)	(462)	(1,498)
Other, net	388	(214)	3,228
Subtotal Interest and dividends received	21,099 589	19,982 766	175,576 4,901
Interest paid	(17)	(9)	(141)
Proceeds from compensation Income taxes paid	155 (6,381)	— (7,226)	1,290 (53,100)
Net cash provided by operating activities	15,445	13,513	128,526
Cash flows from investing activities:			
Cash flows from investing activities: Payments for time deposits	(67,500)	(64,010)	(561,704)
Proceeds from time deposits	65,500	59,500	545,061
Proceeds from redemption of securities  Payments for purchases of property, plant and equipment	1,000 (3,100)	1,000 (2,886)	8,322 (25,797)
Proceeds from sales of property, plant and equipment	24	67	200
Payments for purchases of intangible assets	(578)	(459)	(4,810)
Payments for purchases of investments in securities  Proceeds from sales of investments in securities	(21) 56	(339) 10	(175) 466
Decrease (increase) in other assets, net	71	(106)	591
Proceeds from sales of shares of a subsidiary and an affiliate Payments for purchases of investments in subsidiaries	_	1,000	_
resulting in change in scope of consolidation	_	(300)	_
Other, net Net cash used in investing activities	(4,540)	(436) (6,959)	66 (37,780)
Net cash used in investing activities	(4,540)	(0,555)	(37,700)
Cash flows from financing activities:	25	2	201
Increase in short-term loans, net Dividends paid	35 (3,553)	2 (3,522)	291 (29,566)
Increase in treasury stock	(1,502)	(3)	(12,499)
Decrease in lease obligations Proceeds from minority shareholders	(150) 14	(286)	(1,248) 116
Other	_	0	—
Net cash used in financing activities	(5,156)	(3,809)	(42,906)
Effect of exchange rate changes on cash and cash equivalents	752	831	6,258
Net increase in cash and cash equivalents  Cash and cash equivalents at the beginning of the year	6,501 25,898	3,576 22,322	54,098 215,512
Cash and cash equivalents at the end of the year (Note 3)	¥ 32,399	¥ 25,898	\$ 269,610
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See accompanying notes to consolidated financial statements

# Notes to Consolidated Financial Statements

Kobayashi Pharmaceutical Co., Ltd. and Consolidated Subsidiaries Year ended March 31, 2015

# 1. Basis of Presentation of Consolidated Financial Statements

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

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

Certain reclassifications of previously reported amounts have been made to conform the consolidated financial statements for the year ended March 31, 2014 to the 2015 presentation. Such reclassifications had no effect on consolidated net income or net assets.

The U.S. dollar amounts included in the accompanying consolidated financial statements and the notes are presented solely for convenience and are translated, as a matter of arithmetic computation only, at  $\pm 120.17 = U.S. \pm 1.00$ , the approximate exchange rate in effect on March 31, 2015. This translation should not be construed as a representation that Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

## 2. Summary of Significant Accounting Policies

## (a) Principles of consolidation

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

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

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

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

## (b) Use of estimates

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

## (c) Cash and cash equivalents

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

## (d) Foreign currency translation

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

The balance sheet accounts of the overseas consolidated subsidiaries are translated into Japanese yen at the rates of exchange in effect at the balance sheet date except that the components of net assets excluding minority interests are translated at their historical exchange rates. Revenue and expense accounts are translated at the average rates of exchange in effect during the year. Differences resulting from translating the financial statements of the overseas subsidiaries have not been included in the determination of net income, but are presented as "Translation adjustments" and "Minority interests" in the consolidated financial statements.

## (e) Investments in securities

Securities are classified into three categories: trading securities, held-to-maturity debt securities, or other securities. Trading securities, consisting of debt and marketable equity securities, are stated at fair value. Gain or loss, both realized and unrealized, is credited or charged

to income. Held-to-maturity debt securities are stated at amortized cost. Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, reported as a separate component of accumulated other comprehensive income. Cost of securities sold is determined by the moving average method. Non-marketable securities classified as other securities are stated at cost determined by the moving average method.

If the fair value of other securities has declined significantly and the impairment in value is not deemed temporary, these securities are written down to fair value and the resulting loss is charged to income as incurred.

#### (f) Inventories

Commodities and raw materials are stated principally at the lower of cost, determined by the moving average method, or net selling value. Finished goods, work in process and supplies are principally stated at the lower of cost, determined by the average method, or net selling value.

#### (g) Property, plant and equipment (excluding leased assets)

Property, plant and equipment are stated at cost. The Company and its domestic consolidated subsidiaries calculate depreciation by the declining-balance method except for buildings (other than structures attached to the buildings) acquired after March 31, 1998, to which the straight-line method is applied. The overseas consolidated subsidiaries calculate depreciation by the straight-line method.

#### (h) Leased assets

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

#### (i) Allowance for doubtful accounts

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

### (j) Provision for sales returns

The Company and certain consolidated subsidiaries provide a provision for sales returns at the estimated amount in order to cover possible future losses on the return of products.

## (k) Accrued bonuses

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

## (l) Provision for loss on business liquidation

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

## (m) Liability for retirement benefits

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

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

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

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

## (n) Provision for retirement benefits for directors and audit & supervisory board members

Directors and audit & supervisory board members of certain domestic consolidated subsidiaries (collectively, "officers") are customarily entitled, subject to shareholders' approval, to lump-sum payments under an unfunded retirement allowances plan. Provision for retirement benefits for officers have been made at an estimated amount based on the consolidated subsidiaries' internal regulations.

The Company decided to abolish the retirement allowances plan for officers at the Board of Directors meeting held on February 12, 2009. At the annual general shareholders' meeting held on June 26, 2009, a proposal was then subsequently approved to provide retirement allowances for these officers when they retire.

#### (o) Income taxes

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

### (p) Research and development costs and computer software

Research and development costs are charged to income when incurred.

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

### (q) Distribution of retained earnings

Under the Corporation Law, the distribution of retained earnings with respect to a given financial period can be made by resolution of the Board of Directors meeting held subsequent to the close of the financial period. The accounts for that period do not, therefore, reflect such appropriations (see Note 19).

### (r) Derivatives and hedging activities

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

Derivatives are carried at fair value with any changes in unrealized gain or loss credited or charged to income, except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss, net of the applicable income taxes, is deferred as a separate component of accumulated other comprehensive income. When forward foreign exchange contracts or currency options meet certain criteria, receivables and payables covered by the contract are translated at the contracted rates ("allocation method").

The Company evaluates the effectiveness of their hedging activities by reference to the accumulated gain or loss on each hedging instrument and on the related underlying hedged item from the commencement of the hedges.

## (Changes in Accounting Policies)

## Accounting Standard for Retirement Benefits

Effective from the year ended March 31, 2015, the Company and its domestic consolidated subsidiaries adopted "Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan ("ASBJ") Statement No. 26 issued on May 17, 2012, and hereinafter "Retirement Benefit Accounting Standard"), and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25 issued on March 26, 2015, and hereinafter "Guidance on Retirement Benefit Accounting Standard") in accordance with provisions set forth in the main text of paragraph 35 of the Retirement Benefit Accounting Standard and the main text of paragraph 67 of the Guidance on Retirement Benefit Accounting Standard. As a result, the methods for calculating the retirement benefit obligation and service cost have been revised in the following respects; the method for attributing projected benefits to each period has been changed from the straight-line method to the benefit formula method, and the method for determining the discount rate has been changed from using a period similar to estimated remaining years of service of the eligible employees to using a single weighted-average discount rate reflecting the expected timing and amount of benefit payment.

In line with the provisions for transitional treatment concerning the application of the Retirement Benefit Accounting Standard, stipulated under paragraph 37 of the Retirement Benefit Accounting Standard, the cumulative effect of changing the methods to calculate the retirement benefit obligation and service cost was recognized by adjusting retained earnings at April 1, 2014.

As a result, asset for retirement benefits increased by ¥150 million (\$1,248 thousand), liability for retirement benefits decreased by ¥207 million (\$1,723 thousand), and retained earnings increased by ¥230 million (\$1,913 thousand) at April 1, 2014. The effects resulting from the change in the accounting policies on operating income, and income before income taxes and minority interests were immaterial for the year ended March 31, 2015.

In addition, net assets per share for the year ended March 31, 2015 increased by  $\pm 5.64$  ( $\pm 0.05$ ).

### (Standards Issued but Not Yet Effective)

## Accounting Standards for Business Combinations

On September 13, 2013, the ASBJ issued "Revised Accounting Standard for Business Combinations" (ASBJ Statement No.21), "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No.22), "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No.7), "Revised Accounting Standard for Earnings Per Share" (ASBJ Statement No.2), "Revised Guidance on Accounting Standard for Business Divestitures" (ASBJ Guidance No.10) and "Revised Guidance on Accounting Standard for Earnings Per Share" (ASBJ Guidance No.4).

#### (1) Overview

In the case of an additional acquisition of a subsidiary's shares, revisions have been made to the treatment of the changes in the parent's ownership interest in the subsidiary when the parent company retains control over the subsidiary and the corresponding accounting treatment of acquisition-related expenses. In addition, the presentation method of net income was amended, the reference to minority interests was changed to non-controlling interests and the determination of provisional accounting treatment was also changed.

## (2) Scheduled date of adoption

The Company expects to adopt these revised accounting standards and guidance from the beginning of the fiscal year ending March 31, 2016. In addition, the determination of provisional accounting treatment will be adopted for business combinations conducted on or after the beginning of the fiscal year ending March 31, 2016.

## (3) Impact of adopting revised accounting standards and guidance

At present, the Company is currently evaluating the effect of adopting these revised standards on its consolidated financial statements.

# 3. Cash and Cash Equivalents

Reconciliations between the balances of cash and time deposits in the accompanying consolidated balance sheets as of March 31, 2015 and 2014 and the balances of cash and cash equivalents in the accompanying consolidated statement of cash flows for the years then ended were as follows:

	Millions	of yen	Thousands of U.S. dollars
	2015	2014	2015
Cash and time deposits	¥ 58,449	¥ 51,748	\$486,386
Time deposits over three months	(30,550)	(28,550)	(254,223)
Securities maturing within three months	4,500	2,700	37,447
Cash and cash equivalents	¥ 32,399	¥ 25,898	\$269,610

## 4. Securities and Investments in Securities

- (a) Securities classified as "Other securities" as of March 31, 2015 and 2014 were summarized as follows:
- (1) Securities whose carrying value exceeds their acquisition cost

		Millions of yen						
		2015			2014			
	Acquisition cost	Carrying value	Unrealized gain	Acquisition cost	Carrying value	Unrealized gain		
Equity securities	¥ 6,980	¥17,230	¥10,250	¥ 6,384	¥14,106	¥7,722		
Debt securities	19,343	20,043	700	20,390	20,876	486		
	¥26,323	¥37,273	¥10,950	¥26,774	¥34,982	¥8,208		

	Thousands of U.S. dollars			
	2015			
	Acquisition cost	Carrying value	Unrealized gain	
Equity securities	\$ 58,084	\$143,380	\$85,296	
Debt securities	160,964	166,789	5,825	
	\$219,048	\$310,169	\$91,121	

# (II) Securities whose acquisition cost exceeds their carrying value

	Millions of yen						
	2015			<b>2015</b> 2014			
	Acquisition cost	Carrying value	Unrealized loss	Acquisition cost	Carrying value	Unrealized loss	
Equity securities	¥ 161	¥ 153	¥(8)	¥ 737	¥ 732	¥(5)	
Other	4,500	4,500	_	2,700	2,700	_	
	¥4,661	¥4,653	¥(8)	¥3,437	¥3,432	¥(5)	

	Thous	Thousands of U.S. dollars				
		2015				
	Acquisition cost	Carrying value	Unrealized loss			
Equity securities	\$ 1,340	\$ 1,273	\$(67)			
Other	37,447	37,447	_			
	\$38,787	\$38,720	\$(67)			

# (III) Securities whose market value is not determinable

	Millions	s of yen	Thousands of U.S. dollars	
	2015	2014	2015	
Unlisted equity securities	¥223	¥353	\$1,856	

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

There were no proceeds from sales, or gross realized gain on other securities with fair value for the year ended March 31, 2015.

	Millions	Millions of yen		
	20	2014		
	Proceeds from sales	Gross realized gain		
Equity securities	¥8	¥3		
	¥8	¥3		

# 5. Loss on Impairment of Fixed Assets

The Company and its consolidated subsidiaries group their property, plant and equipment and intangible assets for business use at each business segment unit and these are defined as the smallest identifiable group of assets generating cash inflows. The head office building, central laboratories and certain other assets are grouped as one common asset group. Idle assets which are not anticipated to be utilized in the future are classified as individual cash-generating units.

For the years ended March 31, 2015 and 2014, the carrying value of production facilities and other, which are not anticipated to be utilized in the future, have been reduced to their respective recoverable amounts and losses on impairment of fixed assets were recognized in the accompanying consolidated statement of income.

The recoverable amounts of production facilities and other are based on the value in use. For the years ended March 31, 2015 and 2014, the value in use of the production facilities is measured at zero because future cash flow was not expected.

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

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

Losses on impairment of fixed assets for the years ended March 31, 2015 and 2014 were summarized as follows:

## 2015

Location	Description	Classification	Millions of yen	Thousands of U.S. dollars
Osaka and other	Production facilities and other	Machinery, equipment and other	¥20	\$166
			¥20	\$166

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Location	Description	Classification	Millions of yen
Mie	Welfare facility	Land, building and other	¥ 71
Miyagi	Other	Land	29
Kanagawa	Other	Goodwill	58
Osaka and other	Production facilities and other	Machinery, equipment and other	41
Osaka and other	Production facilities and other	Leased assets	13
			¥212

# **6. Investment Properties**

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

Rental income from these properties amounted to  $\pm 285$  million (\$2,372 thousand) and  $\pm 275$  million, rental cost amounted to  $\pm 76$  million (\$632 thousand) and  $\pm 72$  million for the years ended March 31, 2015 and 2014, respectively, and losses on impairment amounted to  $\pm 100$  million for the year ended March 31, 2014.

The carrying value on the consolidated balance sheet as of March 31, 2015 and 2014, and corresponding fair value of those properties were as follows:

	Millio	ns of yen	
	Carrying value		Fair value
April 1, 2014	Net change	March 31, 2015	March 31, 2015
¥3,951	¥(34)	¥3,917	¥4,594
	Millio	ns of yen	
	Carrying value		Fair value
April 1, 2013	Net change	March 31, 2014	March 31, 2014
¥3,989	¥(38)	¥3,951	¥4,442
	Thousands	of U.S. dollars	
	Carrying value		Fair value
April 1, 2014	Net change	March 31, 2015	March 31, 2015
\$32,878	\$(283)	\$32,595	\$38,229

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

The significant component of net changes in carrying value for the years ended March 31, 2015 and 2014 was due to the net effect of decreases related to depreciation in the amounts of ¥34 million (\$283 thousand) and ¥37 million for the years ended March 31, 2015 and 2014, respectively, and increases related to repair work on real estate properties in the amount of ¥26 million and change in holding purpose in the amount of ¥73 million, and a decrease related to loss on impairment of fixed assets in the amount of ¥100 million for the year ended March 31, 2014.

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

## 7. Short-Term Loans

The average interest rates on short-term bank loans as of March 31, 2015 and 2014 were 0.10% and 1.47%, respectively.

In order to achieve more efficient and flexible financing, the Company and certain consolidated subsidiaries have concluded line-of-credit agreements with certain financial institutions. The status of these as of March 31, 2015 and 2014 were summarized as follows:

	Millio	ons of yen	Thousands of U.S. dollars	
	2015	2014	2015	
Lines-of-credit	¥16,971	¥26,810	\$141,225	
Credit used	2	_	17	
Available credit	¥16,969	¥26,810	\$141,208	

## 8. Lease Transactions

## (a) Finance lease transactions

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

Lease obligations related to finance lease transactions as of March 31, 2015 and 2014 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars	
	2015	2014	2015	
Finance lease obligations due in installments from 2016 through 2021	¥595	¥767	\$4,951	
Less current portion	82	158	682	
	¥513	¥609	\$4,269	

The aggregate annual maturities of finance lease obligations subsequent to March 31, 2015 were summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2016	¥ 82	\$ 682
2017	52	433
2018	40	333
2019	39	325
2020	38	316
2021 and thereafter	344	2,862
Total	¥595	\$4,951

#### (b) Operating lease transactions

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2015 for non-cancelable operating leases were summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2016	¥133	\$1,107
2017 and thereafter	822	6,840
Total	¥955	\$7,947

## 9. Retirement Benefits for Employees

## 1. Outline of retirement benefits for employees

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

#### 2. Defined benefit plans

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

	Millions of yen		Thousands of U.S. dollars	
	2015	2014	2015	
Retirement benefit obligation at beginning of year	¥9,852	¥9,634	\$81,984	
Cumulative effects of changes in accounting policies	(357)	_	(2,971)	
Service cost	486	520	4,044	
Interest cost	97	109	807	
Actuarial differences	(11)	108	(92)	
Benefits paid	(575)	(515)	(4,785)	
Other	(6)	(4)	(49)	
Retirement benefit obligation at end of year	¥9,486	¥9,852	\$78,938	

## (2) The changes in plan assets at fair value are outlined as follows:

	Millions of yen		Thousands of U.S. dollars	
	2015	2014	2015	
Plan assets at fair value at beginning of year	¥4,928	¥4,736	\$41,009	
Expected return on plan assets	99	95	824	
Actuarial differences	(3)	0	(25)	
Contributions paid by the employer	321	318	2,671	
Benefits paid	(161)	(168)	(1,340)	
Other	(4)	(53)	(33)	
Plan assets at fair value at end of year	¥5,180	¥4,928	\$43,106	

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

	Millions of yen		Thousands of U.S. dollars	
	2015	2014	2015	
Liability for retirement benefits at beginning of year	¥ 937	¥ 753	\$ 7,797	
Retirement benefit expenses	150	236	1,248	
Benefits paid	(258)	(208)	(2,147)	
Other	74	156	616	
Liability for retirement benefits at end of year	¥ 903	¥ 937	\$ 7,514	

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

	Millions of yen		Thousands of U.S. dollars	
	2015	2014	2015	
Funded retirement benefit obligation	¥ 4,893	¥ 5,173	\$ 40,718	
Plan assets at fair value	(5,180)	(4,928)	(43,106)	
	(287)	245	(2,388)	
Unfunded retirement benefit obligation	5,497	5,616	45,744	
Net amount of liabilities and assets recognized in the consolidated balance sheet	5,210	5,861	43,355	
Liability for retirement benefits	5,497	5,861	45,744	
Net amount of liabilities and assets recognized in the consolidated balance sheet	¥ 5,210	¥ 5,861	\$ 43,355	

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

	Millions	of yen	Thousands of U.S. dollars	
	2015	2014	2015	
Service cost	¥486	¥520	\$4,044	
Interest cost	97	109	807	
Expected return on plan assets	(99)	(95)	(824)	
Amortization of actuarial differences	169	173	1,407	
Retirement benefit expenses calculated by the simplified method	150	236	1,248	
Retirement benefit expenses	¥803	¥943	\$6,682	

# (6) The balance of retirement benefit liability adjustments recognized in other comprehensive income (before tax effect) for the years ended March 31, 2015 and 2014 is outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Actuarial differences	¥180	_	\$1,498
Total	¥180	_	\$1,498

# (7) The balance of retirement benefit liability adjustments recognized in accumulated other comprehensive income (before tax effect) as of March 31, 2015 and 2014 is outlined as follows:

	Millions of yen		Thousands of U.S. dollars	
	2015	2014	2015	
Unrecognized actuarial differences	¥1,262	¥1,442	\$10,502	
Total	¥1,262	¥1,442	\$10,502	
	20	15	2014	
(8) The plan assets by major category consist of the following:				
Bonds	21%		21%	
General accounts	78		78	
Other		1	1	
Total	10	0%	100%	

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

## (9) The assumptions used in accounting for the defined corporate benefit plans were as follows:

	2015	2014
Discount rates	0.5% - 1.5%	1.1%
Expected long-term rate of return on plan assets	2.0%	2.0%

# 3. The contributions by the Company and certain consolidated subsidiaries to the defined contribution plans for the years ended March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2015	2014	2015	
Contributions to defined contribution pension plans	¥160	¥154	\$1,331	

# 10. Asset Retirement Obligations

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

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

Changes in the balance of asset retirement obligations for the years ended March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2015	2014	2015	
Asset retirement obligations at beginning of year	¥121	¥ 83	\$1,007	
Liabilities incurred for leased buildings	_	34	_	
Increase resulting from inclusion of subsidiaries in consolidation	_	3	_	
Decrease due to settlement of asset retirement liabilities	(13)	_	(108)	
Accretion expense	1	1	8	
Asset retirement obligations at end of year	¥109	¥121	\$ 907	

## 11. Income Taxes

The Company and its domestic subsidiaries are subject to several taxes based on income which, in the aggregate, resulted in statutory tax rates of approximately 35.59% and 37.96% for the years ended March 31, 2015 and 2014. The overseas subsidiaries are subject to the income taxes of their respective countries of domicile.

A reconciliation of the differences between the statutory tax rate and the effective tax rate in the accompanying consolidated statement of income for the year ended March 31, 2015 was as follows:

	2015
Statutory tax rate	35.59%
Tax loss carryforwards of consolidated subsidiaries	0.61
Valuation allowances	2.46
Utilization of tax loss carryforwards	(0.16)
Tax credits on research and development costs and other	(3.18)
Amortization of goodwill	0.17
Expenses not deductible for tax purposes	0.56
Equity in loss of an affiliate	0.27
Nontaxable dividend income	(0.27)
Change in statutory tax rate	1.57
Other	0.31
Effective tax rate	37.93%

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

The tax effects of the temporary differences which gave rise to a significant portion of the deferred tax assets and liabilities as of March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars	
_	2015	2014	2015	
Deferred tax assets:				
Liability for retirement benefits	¥ 1,627	¥ 2,014	\$ 13,539	
Tax loss carryforwards	465	519	3,870	
Accrued bonuses	626	683	5,209	
Provision for retirement benefits for directors and audit & supervisory board members	8	8	67	
Accrued expenses	1,534	1,636	12,765	
Accrued enterprise taxes	232	248	1,931	
Unrealized intercompany profits	183	180	1,523	
Loss on impairment of fixed assets	579	652	4,818	
Loss on disposal or write-offs of inventories	257	361	2,139	
Allowance for doubtful accounts	141	103	1,173	
Other	1,133	1,591	9,428	
Gross deferred tax assets	6,785	7,995	56,462	
Valuation allowance	(2,192)	(1,956)	(18,241)	
Total deferred tax assets	4,593	6,039	38,221	
Deferred tax liabilities:				
Unrealized holding gain on securities	(3,390)	(2,835)	(28,210)	
Forward foreign currency exchange contracts	(73)	(12)	(607)	
Other	(850)	(280)	(7,073)	
Total deferred tax liabilities	(4,313)	(3,127)	(35,890)	
Net deferred tax assets	¥ 280	¥ 2,912	\$ 2,331	

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

	Millions of yen		Thousands of U.S. dollars	
	2015	2014	2015	
Current assets — deferred income taxes	¥ 2,724	¥ 3,240	\$ 22,668	
Investments and other assets — deferred income taxes	319	839	2,655	
Current liabilities — deferred income taxes	(79)	_	(657)	
Long-term liabilities — deferred income taxes	(2,684)	(1,167)	(22,335)	
	¥ 280	¥ 2,912	\$ 2,331	

The "Act for Partial Amendment of the Income Tax Act, etc." (Act No.9 of 2015) and the "Act for Partial Amendment of the Local Tax Act, etc." (Act No.2 of 2015) were promulgated on March 31, 2015 and, as a result, the Company and its domestic subsidiaries are subject to a reduction in the corporate tax rate for fiscal years beginning on or after April 1, 2015.

In line with these revisions, the statutory tax rates used to calculate the Company's deferred tax assets and liabilities were changed from 35.59% to 33.06%, and to 32.29% for temporary differences expected to be realized or settled in the year beginning April 1, 2015 and for the temporary differences expected to be realized or settled from April 1, 2016, respectively.

As a result of this change, net deferred tax assets (after offsetting deferred tax liabilities) increased by ¥71 million (\$591 thousand), income taxes-deferred increased by ¥314 million (\$2,613 thousand), unrealized holding gain on securities increased by ¥344 million (\$2,863 thousand), unrealized gain on deferred hedges increased by ¥6 million (\$50 thousand) and retirement benefit liability adjustments increased by ¥35 million (\$291 thousand), respectively, as of and for the year ended March 31, 2015.

# 12. Shareholders' Equity

The Corporation Law of Japan (the "Law") provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors meeting if certain conditions are met.

Retained earnings include the legal reserve provided in accordance with the provisions of the Law. The legal reserve of the Company included in retained earnings amounted to ¥340 million (\$2.829 thousand) as of March 31, 2015 and 2014.

### Stock-based compensation plan

As of March 31, 2015, the Company had one stock option plan: the 2013 stock option plan. The 2013 stock option plan (the 2013 plan) was approved at the annual general meeting of the shareholders of the Company held on June 27, 2013. The 2013 plan provides for granting options to purchase 452,600 shares of common stock to directors and certain key employees of the Company, and directors and certain key employees of certain consolidated subsidiaries. The exercise price was ¥5,751 (\$48) per share as of March 31, 2015. This exercise price is subject to adjustment in certain cases which include stock splits. The options are scheduled to become exercisable on July 1, 2015 and to expire on June 30, 2018. Stock option expense, which was included in cost of sales and selling, general and administrative expenses for the year ended March 31, 2015, amounted to ¥5 million (\$42 thousand) and ¥103 million (\$857 thousand), respectively, and stock option expense, which was included in selling, general and administrative expenses for the year ended March 31, 2014, amounted to ¥83 million.

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

	The 2013 plan	
Number of options:		
Outstanding as of March 31, 2014	449,600	
Granted	_	
Cancelled	6,400	
Exercised	_	
Outstanding as of March 31, 2015	443,200	
	Yen	U.S. dollars
Fair value of options as of the grant date	¥493	\$4.10

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

## Common stock and treasury stock

Movements in shares of common stock in issue and treasury stock for the years ended March 31, 2015 and 2014 were summarized as follows:

	Number of shares				
		20	15		
	April 1, 2014	Increase	Decrease	March 31, 2015	
Common stock	42,525,000	_	_	42,525,000	
Treasury stock	1,577,025	230,750	_	1,807,775	

The increase in treasury stock was due to purchases of treasury stock approved by the Board of Directors of 230,500 shares and purchases of less than one voting unit of 250 shares for the year ended 2015.

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

The increases in treasury stock were due to purchases of shares of less than one voting unit for the year ended March 31, 2014.

# 13. Contingent Liabilities, Guarantees and Pledged Assets

As of March 31, 2015 and 2014, the Company had the following contingent liability:

	Millions of yen		Thousands of U.S. dollars	
	2015	2014	2015	
Recourse obligation under factoring transactions	¥825	¥1,302	\$6,865	

In addition, as of March 31, 2015 and 2014, the Company was committed to providing debt guarantees as follows:

	Millions	s of yen	Thousands of U.S. dollars	
_	2015	2014	2015	
Bank loans of small and medium-sized enterprises in areas affected by	¥41	¥50	\$341	

A summary of the assets pledged as collateral as of March 31, 2015 and 2014, was as follows:

	Millions	s of yen	Thousands of U.S. dollars		
	2015	2014	2015		
Time deposits	¥50	¥50	\$416		
Security deposits	80	80	666		

Time deposits were pledged as collateral for the debt guarantees.

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

## 14. Financial Instruments

#### (a) Overview

## (I)Policy for financial instruments

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

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

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

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

Trade notes, accounts payable and electronically recorded obligations, have payment due dates within four months. Although the Group is exposed to foreign currency exchange risk arising from those payables denominated in foreign currencies, forward foreign currency exchange contracts and option contracts are arranged to hedge the risk.

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

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

## (III) Risk management for financial instruments

(i) Monitoring of credit risk (the risk that customers or counterparties may default)

In accordance with the internal policies of the Group for managing credit risk arising from receivables, each related division monitors the credit worthiness of their main customers periodically, and monitors due dates and outstanding balances by customer. In addition, the Group makes efforts to identify and mitigate risks of bad debt from customers experiencing financial difficulties.

The Group also believes that the credit risk of derivatives is insignificant as the Group enters into derivative transactions only with financial institutions with high credit ratings.

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

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

For securities and investments in securities, the Group periodically reviews the fair values of such financial instruments and the financial position of the issuers. In addition, the Group continuously reviews market conditions and its business relationships with those companies to decide whether the shares should be retained or disposed of.

In conducting derivative transactions, the division in charge of each derivative transaction follows the internal policies, which set forth delegation of authority and maximum upper limit on positions, and obtains approval from the finance director.

- (iii) Monitoring of liquidity risk (the risk that the Group may not be able to meet its obligations on the scheduled due dates)
  - Based on reports from each division, the Group prepares and updates its cash flow plans on a timely basis to manage liquidity risk.
- (iv) Supplementary explanation of the estimated fair value of financial instruments
  - The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair value. In addition, the notional amounts of derivatives in Note 15. "Derivatives and Hedging Activities" are not necessarily indicative of the actual market risk involved in derivative transactions.

## (b) Estimated Fair Value of Financial Instruments

The carrying value of financial instruments on the consolidated balance sheet as of March 31, 2015 and 2014, the estimated fair value and difference are shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine the fair value (Please refer to Note II below).

			Millions	of yen		
_		2015			2014	
(ii) Trade notes and accounts receivable (iii) Securities and investments in securities (iv) Long-term loans receivable included in other assets Allowance for doubtful accounts (*1)  Total assets  Liabilities (i) Trade notes and accounts payable (ii) Electronically recorded obligations-operating (iii) Short-term loans (iv) Other accounts payable (v) Current portion of lease obligations (vi) Income taxes payable (vii) Accrued consumption taxes, included in other current liabilities (viii) Lease obligations Total liabilities  41,927  41,927  41,927  41,927  41,927  41,746  42,724  43,927  44,927  44,927  44,927  45,927  46,667  47,927  47,927  47,927  48,927  49,927  40,927  40,927  41,927  42,927  42,927  43,192  44,927  44,927  44,927  44,927  44,927  45,927  46,927  47,9		Estimated fair value	Difference	Carrying value	Estimated fair value	Difference
Assets						
(i) Cash and time deposits	¥ 58,449	¥ 58,449	¥ —	¥ 51,748	¥ 51,748	¥ —
(ii) Trade notes and accounts receivable	35,969	35,969	_	34,429	34,429	_
	41,927	41,927	_	38,414	38,414	_
	668	_	_	615	_	_
Allowance for doubtful accounts (*1)	(1)	_	_	(16)	_	_
_	667	663	(4)	599	593	(6)
Total assets	¥137,012	¥137,008	¥ (4)	¥125,190	¥125,184	¥ (6)
Liabilities						
(i) Trade notes and accounts payable	¥ 10,240	¥ 10,240	¥ —	¥ 11,369	¥ 11,369	¥ —
(ii) Electronically recorded obligations-operating	3,282	3,282	_	_	_	_
(iii) Short-term loans	41	41	_	6	6	_
(iv) Other accounts payable	12,724	12,724	_	13,054	13,054	_
(v) Current portion of lease obligations	82	82	(0)	158	158	0
	3,192	3,192	_	3,640	3,640	_
<ul><li>(vii) Accrued consumption taxes, included in other current liabilities</li></ul>	1,476	1,476	_	633	633	_
(viii) Lease obligations	513	508	(5)	609	602	(7)
Total liabilities	¥ 31,550	¥ 31,545	¥ (5)	¥ 29,469	¥ 29,462	¥ (7)
Derivative transactions (*2)	¥ 222	¥ 222	¥ —	¥ 33	¥ 33	¥ —

		Thou	san	ds of U.S. a	lollars
				2015	
	(	Carrying value	_	stimated air value	Difference
Assets					
(i) Cash and time deposits	\$	486,386	\$	486,386	\$ —
(ii) Trade notes and accounts receivable		299,318		299,318	_
(iii) Securities and investments in securities		348,897		348,897	_
(iv) Long-term loans receivable included in other assets		5,559		_	_
Allowance for doubtful accounts (*1)		(8)		_	_
•		5,551		5,517	(34)
Total assets	\$1	,140,152	\$1	,140,118	\$(34)
Liabilities					
(i) Trade notes and accounts payable	\$	85,213	\$	85,213	\$ —
(ii) Electronically recorded obligations-operating		27,311		27,311	_
(iii) Short-term loans		341		341	_
(iv) Other accounts payable		105,883		105,883	_
(v) Current portion of lease obligations		682		682	(0)
(vi) Income taxes payable		26,562		26,562	_
(vii) Accrued consumption taxes, included in other current liabilities		12,283		12,283	_
(viii) Lease obligations		4,269		4,227	(42)
Total liabilities	\$	262,544	\$	262,502	\$(42)
Derivative transactions (*2)	\$	1,847	\$	1,847	\$ —

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

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

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

#### Assets

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

  Since these items are settled in a short period of time, their carrying values approximate the fair value.
- (iii) Securities and investments in securities

The fair values of equity securities are based on quoted market prices. The fair value of debt securities is based on either quoted market price or the price provided by the financial institutions making markets in these securities. For information on securities classified by holding purpose, please refer to Note 4.

(iv) Long-term loans receivable

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

#### Liabilities

- (i) Trade notes and accounts payable, (ii) electronically recorded obligations-operating (iv) other accounts payable, (vi) income taxes payable and (vii) accrued consumption taxes
  - Since these items are settled in a short period of time, their carrying values approximate the fair value.
- (iii) Short-term loans, (v) current portion of lease obligations and (viii) lease obligations

The fair value is based on the present value of the total of principal and interest discounted by the interest rate to be applied if a similar new borrowings or lease agreements were entered into.

## Derivatives

Refer to Note 15. "Derivatives and Hedging Activities."

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

	Millions	s of yen	Thousands of U.S. dollars
Туре	2015	2014	2015
Unlisted equity securities	¥4.154	¥4.167	\$34.568

Because no quoted market price is available and it is extremely difficult to determine the fair value, the above financial instruments are not included in the preceding table on estimated fair value.

III. The redemption schedules for monetary assets and debt securities with maturity dates as of March 31, 2015 and 2014 were summarized as follows:

	Millions of yen									
_		20	15			20	14			
	Due in 1 year or less			Due after 10 years	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years		
(i) Time deposits	¥58,444	¥ —	¥ —	¥ —	¥51,742	¥ —	¥ —	¥ —		
(ii) Trade notes and accounts receivable (iii) Securities and investments in securities:	35,969	_	_	_	34,429	_	_	_		
Government bonds (national and local)	_	_	19,064	_	1,000	_	19,064	_		
right <sup>′</sup>	Trust beneficiary 4,500 — — —		_	2,700	_	_	_			
(iv) Long-term loans receivable included in other assets	2	666	0	_	3	594	1	2		
Total assets	¥98,915	¥666	¥19,064	¥ —	¥89,874	¥594	¥19,065	¥ 2		

		Thousands of	f U.S. dollars						
	2015								
_	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years					
(i) Time deposits	\$486,344	\$ —	\$ —	\$ —					
(ii) Trade notes and accounts receivable     (iii) Securities and investments in securities:	299,318	_	_	_					
Government bonds _(national and local)	_	_	158,642	_					
Trust beneficiary right	37,447	_	_	_					
(iv) Long-term loans receivable included in other assets	17	5,542	0	_					
Total assets	\$823,126	\$5,542	\$158,642	\$-					

IV. The redemption schedule for lease obligations as of March 31, 2015 is disclosed in Note 8.

# 15. Derivatives and Hedging Activities

The notional amounts and the estimated fair value of the derivative instruments outstanding as of March 31, 2015 and 2014 were as follows:

1. Derivatives for which hedge accounting is not applied

There were no derivative transactions which did not qualify for deferral hedge accounting as of March 31, 2015 and 2014.

2. Derivatives for which hedge accounting is applied

Currency-related transactions

			Millions of yen							
				2015			2014			
Method of hedge accounting	Description of transaction	Hedged items	Notional amount	Notional amount (over 1 year)	Estimated fair value	Notional amount	Notional amount (over 1 year)	Estimated fair value		
	Forward foreign exchange contract Purchase:	īS					·			
Allocation method for forward foreign	U.S. dollars	Trade accounts payable	¥2,037	¥607	¥220	¥ 75	¥ —	¥21		
exchange contracts	British pounds	Trade accounts payable	_	_	_	37	_	12		
Contracts	Thai baht	Trade accounts payable	541	_	2	_	_			
	Total		¥2,578	¥607	¥222	¥112	¥ —	¥33		

			Thousands of U.S. dollars				
				2015			
Method of hedge accounting	Description of transaction	Hedged items	Notional amount	Notional amount (over 1 year)	Estimated fair value		
	Forward foreign exchange contract	.s					
Allocation	Purchase:						
method for forward foreign	U.S. dollars	Trade accounts payable	\$16,951	\$5,051	\$1,831		
exchange contracts	Thai baht	Trade accounts payable	4,502	_	16		
	Total		\$21,453	\$5,051	\$1,847		

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

# 16. Amounts per Share

	Y	Yen		
	2015	2014	2015	
Net income	¥ 305.46	¥ 300.55	\$ 2.54	
Net assets	3,423.54	3,098.32	28.49	
Cash dividends	90.00	86.00	0.75	

Net income per share has been computed based on the net income available for distribution to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year. The amounts per share of net assets have been computed based on the net assets available for distribution to the shareholders of common stock and the number of shares of common stock outstanding at the year end.

Cash dividends per share represent the cash dividends proposed by the Board of Directors' meeting as applicable to the respective years together with the interim cash dividends paid.

# 17. Other Comprehensive Income

Reclassification adjustments and tax effects allocated to each component of other comprehensive income for the years ended March 31, 2015 and 2014 were as follows:

2013 und 2014 were as follows.			
	Millions	of yen	Thousands of U.S. dollars
_	2015	2014	2015
Unrealized holding gain on securities:			
Amount arising during the year	¥2,739	¥1,540	\$22,793
Reclassification adjustments for gain included in net income	_	(3)	_
Amount before tax effect	2,739	1,537	22,793
Tax effect	(555)	(525)	(4,619)
Unrealized holding gain on securities	2,184	1,012	18,174
Unrealized gain (loss) on deferred hedges:			
Amount arising during the year	188	(32)	1,564
Reclassification adjustments for loss included in net income	_	_	_
Amount before tax effect	188	(32)	1,564
Tax effect	(61)	13	(507)
Unrealized gain (loss) on deferred hedges	127	(19)	1,057
Translation adjustments:			
Amount arising during the year	2,248	2,530	18,707
Translation adjustments	2,248	2,530	18,707
Retirement benefit liability adjustments:			
Amount arising during the year	11	_	92
Reclassification adjustments for loss included in net income	169	_	1,406
Amount before tax effect	180	_	1,498
Tax effect	(105)	_	(874)
Retirement benefit liability adjustments	75	_	624
Share of other comprehensive income of an affiliate accounted for by the equity method:			
Amount arising during the year	268	559	2,230
Reclassification adjustments for loss (gain) included in net income	1	(1)	8
Share of other comprehensive income of an affiliate accounted for by the equity method	269	558	2,238
Total other comprehensive income, net	¥4,903	¥4,081	\$40,800

## 18. Segment Information

(a) Business Segment Information

## 1. Outline of reportable segments

The Company's reportable segments are its structural units, for which separate financial information is available. These segments are subject to periodic review by the Board of Directors in order to assist decision making on the allocation and assessment of business performance.

The Company sets up divisions by product and service under an operational headquarters. Each division formulates comprehensive domestic and overseas strategies for its products and services and conducts business activities according to these strategies.

The Company's segments are classified by product and service on the basis of its operational headquarters. There are three reportable segments, which are the consumer products division, the mail-order division, and the medical devices division.

The consumer products division manufactures and sells pharmaceuticals, oral hygiene products, sanitary products, deodorizing air fresheners, household sundries, food products and body warmers. The mail-order division sells nutritional supplement products and skin care products and similar items. The medical devices division sells medical equipment.

### 2. Calculation methods used for sales, income or loss, assets, and other items on each reportable segment.

The accounting policies of the segments are substantially the same as those described in the significant accounting policies in Note 2. Reportable segment income represents ordinary income, which consists of operating income and nonoperating income/expenses. Intersegment sales and transfers are recorded at the same prices used in transactions with third parties.

# 3. Information as to sales, income or loss, assets, and other items for each reportable segment for the years ended March 31, 2015 and 2014 were as follows:

		Millions of yen													
		2015													
		Report	able	segme	nts										
	Consumer Products	Mail-ord	er		Medical Devices		Total	Oth	ier	Т	otal	a	stments and nations	Cons	olidated
Net sales															
Sales to third parties	¥116,747	¥8,9	78	¥1	,540	¥	127,265	¥1	,080,1	¥1	28,345	¥	_	¥1	28,345
Inter-segment sales and transfers	2,746		_		_		2,746		1,263		7,009		(7,009)		
Total	¥119,493	¥8,9	78	¥1	,540	¥	130,011	¥5	5,343	¥1	35,354	¥	(7,009)	¥1	28,345
Segment income	¥ 16,671	¥ 4	91	¥	764	¥	17,926	¥1	,037	¥	18,963	¥	(120)	¥	18,843
Segment assets	¥ 80,311	¥1,5	50	¥8	,901	¥	90,762	¥4	1,313	¥	95,075	¥	91,256	¥1	86,331
Other items															
Depreciation and amortization	¥ 2,061	¥	34	¥	0	¥	2,095	¥	138	¥	2,233	¥	408	¥	2,641
Amortization of goodwill	454		_		_		454		_		454		_		454
Interest income	25		1		20		46		196		242		(12)		230
Interest expense	4		_		_		4		31		35		(12)		23
Equity in loss of an affiliate	_		_		(153)		(153)		_		(153)		2		(151)
Investment in an affiliate accounted for by the equity method	_		_	3	3,545		3,545		_		3,545		(1)		3,544
Increase in property, plant, and equipment and intangible assets	3,003		32		_		3,035		178		3,213		443		3,656

#### Notes:

- 1. "Other" consisted of business segments that were not included in reportable segments, such as transportation, plastic container manufacture and sale, insurance agency, real estate management, and advertisement planning and creation.
- 2. Details of adjustments and eliminations were as follows:
  - (i) Segment income of ¥120 million (\$998 thousand), interest income of ¥12 million (\$100 thousand), and interest expenses of ¥12 million (\$100 thousand) were categorized as eliminations between inter-segment transactions.
  - (ii) Corporate assets included in the adjustments and eliminations of segment assets of ¥94,586 million (\$787,102 thousand) mainly

- consisted of extra funds for investment by the parent company (cash and securities), funds for long-term investment (investments in securities), and assets related to administrative departments.
- (iii) Adjustments and eliminations of depreciation and amortization of ¥408 million (\$3,395 thousand) were the depreciation and amortization of the corporate assets.
- (iv) Adjustments and eliminations of equity in earnings of an affiliate of ¥2 million (\$16 thousand) corresponded to adjustment of inventories.
- (v) Adjustments and eliminations of investment in an affiliate accounted for by the equity method of ¥1 million (\$8 thousand) were categorized as eliminations of the unrealized gain.
- (iv) Adjustments and eliminations of increase in property, plant, and equipment and intangible assets of ¥443 million (\$3,686 thousand) were the increase of the corporate assets.

	Millions of yen							
				201	4			
		Reportable	segments					
	Consumer Products	Mail-order	Medical Devices	Total	Other	Total	Adjustments and eliminations	Consolidated
Net sales								
Sales to third parties	¥113,980	¥10,747	¥1,429	¥126,156	¥1,138	¥127,294	¥ —	¥127,294
Inter-segment sales and transfers	3,192	_	_	3,192	4,214	7,406	(7,406)	_
Total	¥117,172	¥10,747	¥1,429	¥129,348	¥5,352	¥134,700	¥ (7,406)	¥127,294
Segment income	¥ 16,239	¥ 376	¥1,217	¥ 17,832	¥1,178	¥ 19,010	¥ (241)	¥ 18,769
Segment assets	¥ 73,692	¥ 1,798	¥7,105	¥ 82,595	¥4,108	¥ 86,703	¥84,216	¥170,919
Other items								
Depreciation and amortization	¥ 2,124	¥ 36	¥ 0	¥ 2,160	¥ 143	¥ 2,303	¥ 374	¥ 2,677
Amortization of goodwill	420	_	_	420	_	420	_	420
Interest income	24	2	23	49	199	248	(22)	226
Interest expense	2	_	_	2	39	41	(22)	19
Equity in earnings of affiliates	_	_	150	150	_	150	3	153
Investments in affiliates accounted for by the equity method	_	_	3,427	3,427	_	3,427	_	3,427
Increase in property, plant, and equipment and intangible assets	3,452	32	_	3,484	125	3,609	394	4,003

#### Notes:

- 1. "Other" consisted of business segments that were not included in reportable segments, such as transportation, plastic container manufacture and sale, insurance agency, real estate management, and advertisement planning and creation.
- 2. Details of adjustments and eliminations were as follows:
  - (i) Segment income of ¥241 million, interest income of ¥22 million, and interest expenses of ¥22 million were categorized as eliminations between inter-segment transactions.
  - (ii) Corporate assets included in the adjustments and eliminations of segment assets of ¥87,991 million mainly consisted of extra funds for investment by the parent company (cash and securities), funds for long-term investment (investments in securities), and assets related to administrative departments.
  - (iii) Adjustments and eliminations of equity in earnings of affiliates of ¥3 million corresponded to adjustment of inventories.
- 3. Segment income was adjusted for the ordinary income as described in "2. Calculation methods used for sales, income or loss, assets and other items on each reportable segment."
- 4. Increase in depreciation, property, plant and equipment and intangible assets included an increase in long-term prepaid expenses and amortization of long-term prepaid expenses.

## Thousands of U.S. dollars

	2015														
		Repor	table	segme	nts										
	Consumer Products	Mail-ord	ler	Med Devi			Total	. (	Other		Total	,	ustments and ninations	Со	nsolidated
Net sales															
Sales to third parties	\$971,515	\$74,7	11	\$12	2,815	\$1	,059,041	9	8,988	\$1	,068,029	\$	_	\$1	,068,029
Inter-segment sales and transfers	22,851		_		_		22,851		35,475		58,326		(58,326)		_
Total	\$994,366	\$74,7	11	\$12	2,815	\$1	,081,892	9	44,463	\$1	,126,355	\$	(58,326)	\$1	,068,029
Segment income	\$138,728	\$ 4,0	86	\$ 6	5,358	\$	149,172	9	8,629	\$	157,801	\$	(998)	\$	156,803
Segment assets	\$668,312	\$12,8	98	\$74	4,070	\$	755,280		35,891	\$	791,171	\$7	759,391	\$1	,550,562
Other items															
Depreciation and amortization	\$ 17,151	\$ 2	83	\$	0	\$	17,434	9	1,148	\$	18,582	\$	3,395	\$	21,977
Amortization of goodwill	3,778		_		_		3,778		_		3,778		_		3,778
Interest income	208		8		167		383		1,631		2,014		(100)		1,914
Interest expenses	33		_		_		33		258		291		(100)		191
Equity in loss of an affiliate	_		_	('	1,273)		(1,273)		_		(1,273)		16		(1,257)
Investment in an affiliate accounted for by the equity method	_		_	29	9,500		29,500		_		29,500		(8)		29,492
Increase in property, plant, and equipment and intangible assets	24,990	2	:66		_		25,256		1,481		26,737		3,686		30,423

## 4. Related information

- (1) Geographical information
- (a) Net sales

	Millions	Thousands of U.S. dollars		
	2015	2014	2015	
Domestic	¥111,766	¥113,405	\$930,066	
Overseas	16,579	13,889	137,963	
Total	¥128,345	¥127,294	\$1,068,029	

Net sales were categorized by the geographical area of the customers.

# (b) Property, plant and equipment

	Millions	Thousands of U.S. dollars		
	2015	2014	2015	
Domestic	¥13,581	¥13,403	\$113,015	
Overseas	2,442	1,542	20,321	
Total	¥16,023	¥14,945	\$133,336	

## (2) Information by major customers

	Millions of yen				
	2015				
	Sales	Related segment			
PALTAC CORPORATION	¥56,397	Consumer Products			
ARATA CORPORATION	¥15,391	Consumer Products			
	Millic	ons of yen			
	2014				
	Sales	Related segment			
PALTAC CORPORATION	¥54,805	Consumer Products			
ARATA CORPORATION	¥15,164	Consumer Products			
	Thousands of U.S. dollars				
		2015			
	Sales	Related segment			
PALTAC CORPORATION	\$469,310	Consumer Products			
ARATA CORPORATION	\$128,077	\$128,077 Consumer Products			

## 5. Loss on impairment of fixed assets by reportable segment

Information on loss on impairment of fixed assets by reportable segment for the years ended March 31, 2015 and 2014 was as follows:

			Millions	of yen					
		2015							
	Consumer Products	Mail-order	Medical Devices	Other	Adjustments and eliminations	Total			
Loss on impairment of fixed assets	¥20	¥ —	¥ —	¥0	¥ —	¥20			
			Millions						
		2014							
	Consumer Products	Mail-order	Medical Devices	Other	Adjustments and eliminations	Total			
Loss on impairment of fixed assets	¥141	¥ —	¥ —	¥0	¥71	¥212			
			Thousands o	f U.S. dollars					
			20	15					
	Consumer Products	Mail-order	Medical Devices	Other	Adjustments and eliminations	Total			
Loss on impairment of fixed assets	\$166	\$ —	\$ —	\$0	<b>\$</b> —	\$166			

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

Information on amortization of goodwill and the remaining balance of goodwill by reportable segment as of and for the years ended March 31, 2015 and 2014 were as follows:

			Millions	of yen				
		2015						
	Consumer Products	Mail-order	Medical Devices	Other	Adjustments and eliminations	Total		
Amortization for the year	¥ 454	¥ —	¥ —	¥ —	¥ —	¥ 454		
Balance at the end of the year	4,024	_	_	_	_	4,024		

			Millions	of yen		
			20	14		
	Consumer Products	Mail-order	Medical Devices	Other	Adjustments and eliminations	Total
Amortization for the year	¥ 420	¥ —	¥ —	¥ —	¥ —	¥ 420
Balance at the end of the year	3,971	_	_	_	_	3,971
		Thous	sands of U.S. d	ollars		
			2015			
	Consumer Products	Mail-order	Medical Devices	Other	Adjustments and eliminations	Total
Amortization for the year	\$ 3,778	<b>\$</b> —	<b>\$</b> —	\$ —	\$ —	\$3,778
Balance at the end of the year	33,486	_	_	_	_	33,486

# 19. Subsequent Event

# (a) Appropriation of retained earnings

The following appropriation of retained earnings of the Company, which has not been reflected in the consolidated financial statements for the year ended March 31, 2015, was approved at the Board of Directors' meeting held on May 25, 2015:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥46.00 = \$0.38 per share)	¥1,873	\$15,586

# **Independent Auditor's Report**



Ernst & Young ShinNihon LLC

## Independent Auditor's Report

The Board of Directors KOBAYASHI PHARMACEUTICAL CO., LTD.

We have audited the accompanying consolidated financial statements of KOBAYASHI PHARMACEUTICAL CO., LTD. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2015, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

## Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of KOBAYASHI PHARMACEUTICAL CO., LTD. and its consolidated subsidiaries as at March 31, 2015, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

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

June 26, 2015 Osaka, Japan Ernst & Young ShimNihon LLC

# History

1886	Founder Chubei Kobayashi established Kobayashi Seidaido, an unlimited partnership company, in Monzen-	2001	Acquired Kiribai Chemical Co., Ltd., a body warmer manufacturer, as a subsidiary (Yodogawa-ku, Osaka)	
	cho, Naka-ku, Nagoya The Company sold general merchandise, cosmetics		Established Kobayashi Healthcare Europe, Ltd. in the U.K.	
1894	Launched 10 types of proprietary pharmaceuticals including Daikomaru, Ichinichimaru and Tamushichinki	2002	Established Kobayashi Pharmaceutical (Hong Kong) Co., Ltd. in Hong Kong	
1912	Established Kobayashi Daiyakubou, a limited partnership company, in Hiranomachi, Higashi-ku, Osaka		Made Shanghai Kobayashi Friendship Daily Chemicals Co., Ltd. into a wholly owned subsidiary and changed its name to Shanghai Kobayashi Daily Chemicals Co., Ltd.	
1919	Incorporated as Kobayashi Daiyakubou, Co., Ltd. in Kyomachibori, Nishi-ku, Osaka through a merger involving		Took over the health food business, mainly for Tochucha (Eucommia leaf tea), from Hitachi Zosen Corporation	
	unlimited partnership company Kobayashi Seidaido and limited partnership company Kobayashi Daiyakubou	2003	Angel Ltd. renamed Ehime Kobayashi Pharmaceutical Co., Ltd.	
	Kichitaro Kobayashi is appointed as the first president	2004	Yutaka Kobayashi is appointed as the fifth president	
1939	Launched Hakkiri, a headache medicine	2005	Obtained exclusive sales rights for women's health medicine	
1940	Spun off the manufacturing unit of Kobayashi Daiyakubou, to establish Kobayashi Pharmaceutical Co., Ltd.	2006	Inochi No Haha A from Sasaokayakuhin Corporation  Made eVent Medical Ltd., a medical device manufacturer,	
	Juso Plant began operations in Higashi-yodogawa-ku, Osaka (currently Yodogawa-ku)		into a subsidiary in Ireland  Made HeatMax, Inc., a body warmer manufacturer in the U.S.,	
1948	Saburo Kobayashi is appointed as the second president		into a subsidiary	
1956	Kobayashi Daiyakubou Co., Ltd. and Kobayashi	2008	Kobashou Co., Ltd. and Mediceo Paltac Holdings Co., Ltd. conducted share exchange	
	Pharmaceutical Co., Ltd. were merged and renamed Kobayashi Pharmaceutical Co., Ltd.		Spun off the manufacturing division of Kiribai Chemical Co., Ltd. to establish Kiribai Kobayashi Pharmaceutical Co., Ltd.	
	Relocated the Head Office to Dosho-machi, Higashi-ku, Osaka (currently Dosho-machi, Chuo-ku)		Obtained trademark right for <i>Bisrat Gold</i> from Ishihara Chemical Co., Ltd.	
1958	Teruko Kobayashi is appointed as the third president	2009	Established Kobayashi Pharmaceutical (Singapore) Pte. Ltd.	
1967	Launched Ammeltz, an external anti-inflammatory		in Singapore	
1969	Launched <i>Bluelet</i> , a toilet bowl cleaner, and entered the household products market	2010	Spun off medical device division into Kobayashi Medical Co., Ltd.	
1972	Formed partnership with C.R. Bard, Inc. of the U.S. to establish medical devices importer Japan Medico, Inc.	2011	Transferred all eVent Medical Ltd. shares in a management buy-out	
	and enter the medical devices market		Established Kobayashi Healthcare (Malaysia) Sdn. Bhd. in Malaysia	
1975	Launched <i>Sawaday</i> , a toilet air freshener, and entered the deodorizing air fresheners market		Established Kobayashi Pharmaceutical (Taiwan) Co., Ltd. in Taiwan	
1976	Kazumasa Kobayashi is appointed as the fourth president	2012	Made Grabber, Inc., a body warmer manufacturer in the U.S.,	
	Japan Medico, Inc. became Medicon, Inc., a joint venture company with C.R. Bard, Inc.	2012	a subsidiary  Established PT. Kobayashi Pharmaceutical Indonesia in	
1983	Established Toyama Kobayashi Pharmaceutical Co., Ltd. (Toyama City, Toyama Prefecture)		Indonesia	
1988	Angel Ltd. made a consolidated subsidiary of Kobayashi		Established Hefei Kobayashi Daily Products Co., Ltd. in China Transferred 80% of Kobayashi Medical Co., Ltd. (currently	
	Pharmaceutical Co., Ltd. to acquire a manufacturing site (Niihama City, Ehime Prefecture)		Japan Medicalnext Co., Ltd.) shares to Mitsubishi Corporation	
1992	Established Kobayashi Medical, as part of the Medical Devices Business	2013	Made Rokuyo Pharmaceutical Co., Ltd. a pharmaceutical product, quasi-pharmaceutical product, and cosmetics manufacturer,	
1993	Established Sendai Kobayashi Pharmaceutical Co., Ltd. (Kurokawa-gun, Miyagi Prefecture)		into a subsidiary Established Kobayashi Healthcare Australia Pty., Ltd.	
1996	Launched <i>Toughdent</i> , denture cleanser		in Australia	
1998	Established Shanghai Kobayashi Friendship Daily Chemicals Co., Ltd., a joint venture company in China		Transferred all Japan Medicalnext Co., Ltd. shares to Mitsubishi Corporation	
	Established Kobayashi Healthcare, Inc. in the U.S.		Established Hefei Kobayashi Pharmaceutical Co., Ltd. in China	
1999	Listed on the Second Section of the Osaka Securities		Akihiro Kobayashi is appointed as the sixth president	
	Exchange		Established Kobayashi Healthcare (Thailand) Co., Ltd.	
	Launched nutritional supplements through the mail order sales channel		in Thailand  Made Juju Cosmetics Co., Ltd., a cosmetics manufacturer,	
2000	Listed on the First Section of the Tokyo Stock Exchange and Osaka Securities Exchange	2015	into a subsidiary  Acquired <i>Ganyaku Hitifuku</i> brand from Hitifuku	
	Established the Central R&D Laboratory in Ibaraki City, Osaka Prefecture		Pharmaceutical Co., Ltd.	
	Course of the Treeds Course out to force Kelescher Co. Ital			

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

# Corporate Data / Investor Information (As of March 31, 2015)

# Corporate Data

Corporate Name: KOBAYASHI PHARMACEUTICAL CO., LTD.

Foundation: August 22, 1919

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

Osaka 541-0045, Japan Akihiro Kobayashi, President and

Chief Operating Officer Director: Number of 2,576 (Consolidated) Employees: 1,177 (Non-consolidated)

Consolidated Subsidiaries:

Representative

30 (12 domestic, 18 overseas)

Equity-method Affiliate:

# **Group Companies**

Consumer Products Business

Medical Devices BusinessOther Business

## Consolidated Subsidiaries [Domestic]

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

## Consolidated Subsidiaries [Overseas]

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

## Equity-method Affiliate

Medicon, Inc.

## Investor Information

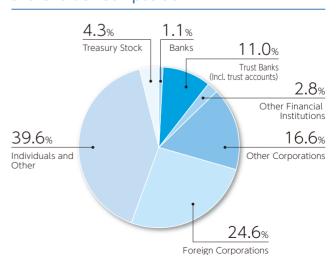
Common Stock:	¥3,450 million
Number of Shares Authorized:	170,100,000
Number of Shares Issued:	42,525,000
Number of Shareholders:	10,644
Stock Exchange Listing:	Tokyo Stock Exchange First Section
Transfer Agent/ Institution Managing Designated:	Mitsubishi UFJ Trust and Banking Corporation

# Major Shareholders

Name	Percentage of Total Shares Held (%)
Akihiro Kobayashi	10.9
Kobayashi International Scholarship Foundation	7.1
State Street Bank and Trust Company 505223	6.1
Yukako lue	6.1
Ikuko Watanabe	3.0
JP Morgan Chase Bank 385632	2.9
Teruhisa Miyata	2.6
Ohtori Co., Ltd.	2.6
The Master Trust Bank of Japan, Ltd. (trust accounts)	2.5
Forum Co., Ltd.	2.4

The percentage of total shares held is calculated by deducting 1,807 thousand shares of treasury stock.

# **Shareholder Composition**





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



