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"You make a wish and  
we make it happen"

KOBAYASHI PHARMACEUTICAL CO., LTD.

Integrated Report 2018

Fiscal Year Ended December 31, 2018

# “You make a wish and we make it happen” at Kobayashi Pharmaceutical

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### Idea proposals in FY2018: approx. 52,000

Our idea proposal system has been in place since 1982. Every employee across all departments continuously contributes ideas for new products and to improve business operations.

See: The Sources of Strength for Our Business Model, pages 10–11

### Operating income margin: 15.7% Operating income: ¥26.2 billion (+14.7% YoY)

Our niche strategy of targeting “small ponds” (markets with few competitors) enables us to sustain high profit margins.

See: A Business Model for Creating New Markets, pages 6–7  
Operational Highlights, pages 14–15

### 20 consecutive fiscal periods of dividend increases

We will continue to generate stable returns while making future-oriented growth investments.

See: Operational Highlights, pages 14–15  
Financial Strategy, pages 22–23

### Brands with top domestic market share: 43

Through our “a big fish in a small pond” strategy and the development of unique products, we continue to create unprecedented new markets.

See: A Business Model for Creating New Markets, pages 6–7  
Operational Highlights, pages 14–15

### 21 consecutive fiscal periods of profit growth

We have achieved profit growth for 21 consecutive fiscal periods since the introduction of consolidated accounting.

See: Operational Highlights, pages 14–15  
Financial Strategy, pages 22–23

### External recognition

MSCI 2018 Constituent  
MSCI Japan ESG  
Select Leaders Index  
<https://www.msci.com/msci-japan-esg-select-leaders-index>

MSCI 2018 Constituent  
MSCI Japan Empowering  
Women Index (WIN)  
<https://www.msci.com/msci-japan-empowering-women-index>

SBX/JPN  
Carbon  
Efficient  
Index  
<https://www.jpex.co.jp/english/markets/indices/carbon-efficient/index.html>

Member of SJAM  
Sustainability Index  
2018  
<https://www.sjnk-am.co.jp/institutional/product/06>  
(Japanese only)

#### Period Covered

January 1, 2018 – December 31, 2018  
(FY2018: Fiscal year ended December 31, 2018)  
Note: Certain subsequent information is also included.

#### Reporting Scope

Kobayashi Pharmaceutical Co., Ltd. and its consolidated subsidiaries

#### Other Related Information

- Financial Results (in English);  
Securities Report (Japanese only)
- Kobayashi Pharmaceutical Website  
<https://www.kobayashi.co.jp/english>



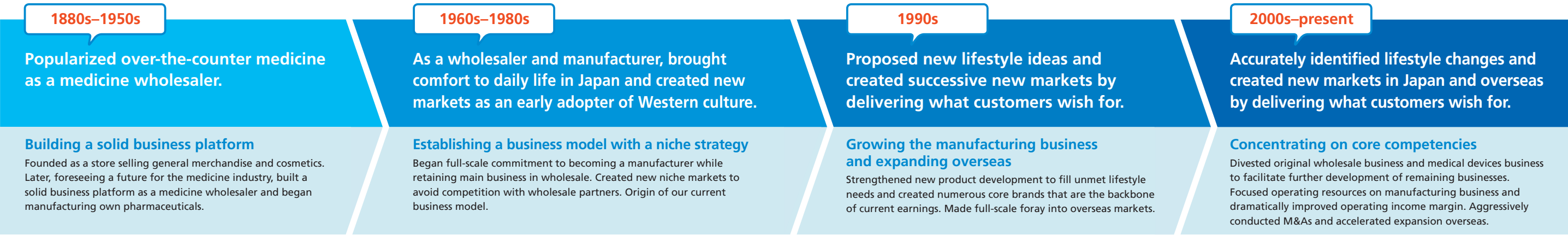
#### Editorial Policy

To inform readers about the Kobayashi Group's management and corporate activities, this integrated report comprehensively covers non-financial information such as ESG activities, in addition to management's direction and strategy, and a review of operations. The International Integrated Reporting Framework provided by the International Integrated Reporting Council and the Guidance for Collaborative Value Creation formulated by Japan's Ministry of Economy, Trade and Industry were used as reference in compiling this report.

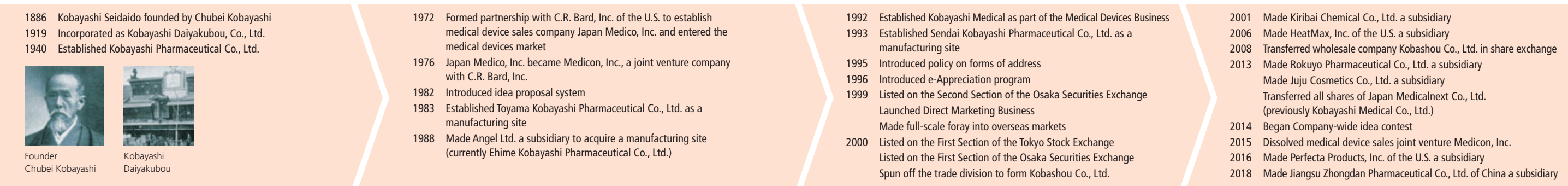


# A Century of Value Creation

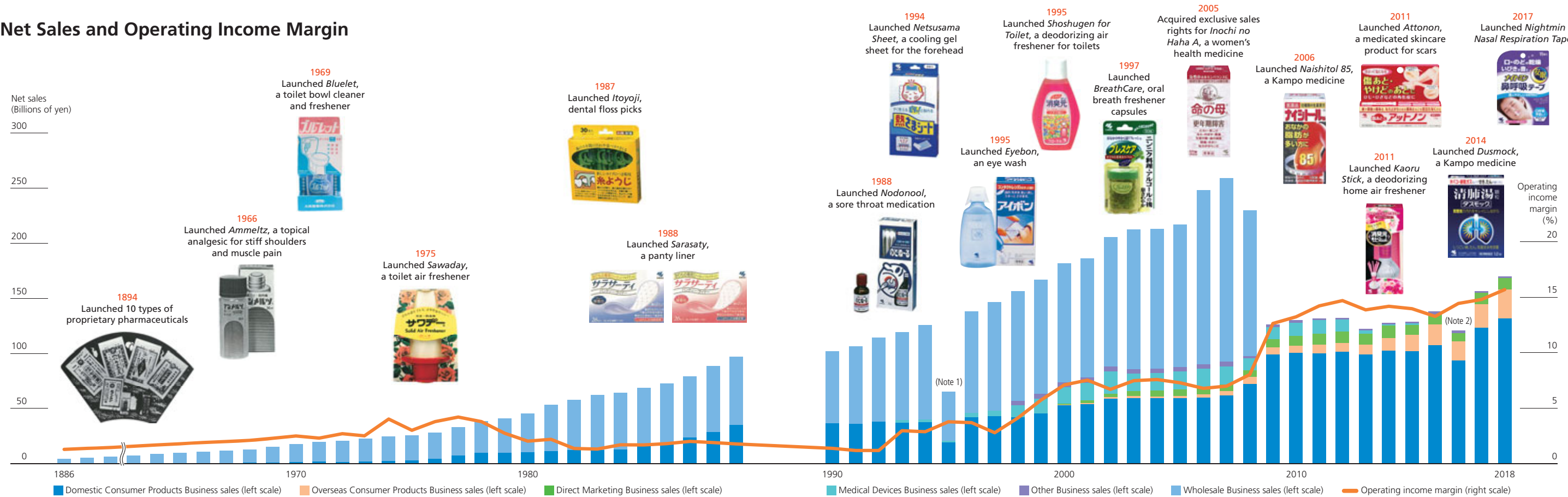
## Value Creation and Initiatives of Kobayashi Pharmaceutical



## Evolution of Our Business



## Net Sales and Operating Income Margin



# Management Principles

## Management Principles

We never stop creating and innovating in our pursuit of something new that will delight people and society.

Kobayashi Pharmaceutical conducts business with the mission of solving the lifestyle and health problems of customers and contributing to comfortable lives under its corporate brand slogan, “You make a wish and we make it happen.” This slogan is based on our Management Principles, which state: “We never stop creating and innovating in our pursuit of something new that will delight people and society.” We will continue to solve problems in the world around us, as well as contribute to the U.N. Sustainable Development Goals (SDGs).

Through our businesses and products, we not only tackle social issues that would otherwise remain unaddressed, but also seek to realize a sustainable and comfortable society through non-commercial activities to further provide what people wish for.

### Corporate Brand Slogan



“You make a wish and we make it happen”

### Group Brand Charter

Our mission is to not only make products that our customers want now but to also develop new and innovative products for our customers’ future needs.

True to our brand slogan of “You make a wish and we make it happen,” we will strive to research, develop, manufacture, and deliver products as quickly as possible.

Products and services will be developed to the highest standards and quality to exceed our customers’ expectations.

Our dream is to share the small gifts from everyday life with people the world over. We are committed to being an innovative, development-focused company that contributes to society, builds lasting relationships with customers, and exceeds all expectations in customer satisfaction.

### Value creation for each customer

We solve the lifestyle and health problems that, without Kobayashi Pharmaceutical’s unique products, customers would otherwise have to endure.

### Linkage to the creation of social value

While refining our management approach from ESG perspectives, we contribute to the development of solutions to the problems in society that underlie customer problems.

### Contributing to SDGs



The new lifestyle ideas we propose and the new markets we create, deliver what customers wish for and address unmet customer needs in the areas of healthcare, household products, skincare and body warmers, both in Japan and overseas.

We also work with stakeholders on tackling social issues that would otherwise remain unaddressed with the aim of realizing a sustainable and comfortable society.



See: Message from Management, page 16  
Creating Value from ESG Initiatives, pages 32-49

# A Business Model for Creating New Markets

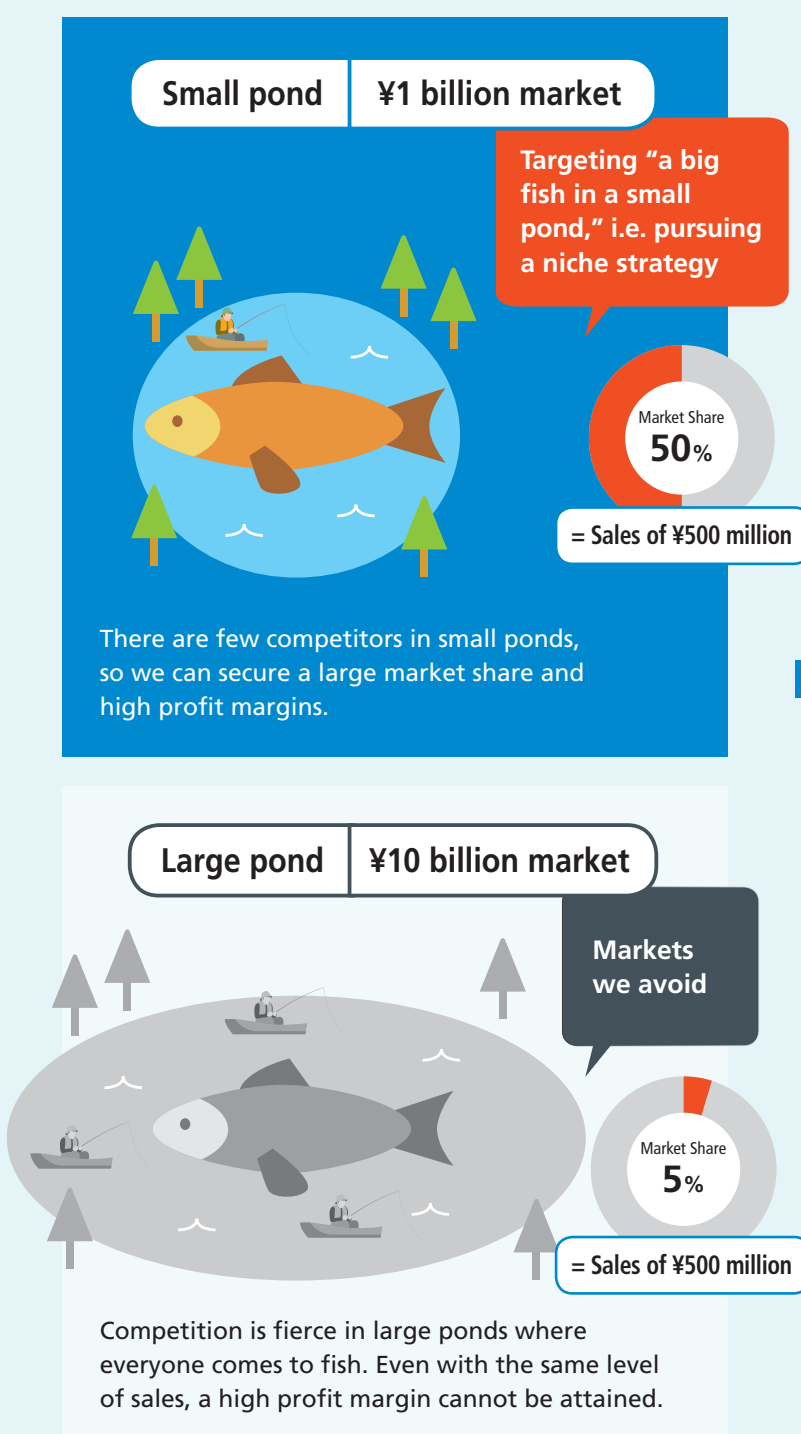
Kobayashi Pharmaceutical has created new markets by pursuing the development of unique niche products that satisfy customers' unmet needs. This is what we call our "a big fish in a small pond" strategy.

## The Sources of Our Strength

- 1 **System for generating new product ideas**
- 2 **A free and open corporate culture**
- 3 **Leadership by top management**

See: The Sources of Strength for Our Business Model, pages 10–11

## "A big fish in a small pond" Strategy



## Development of Unique Products

### Idea generation

We come up with ideas in search of what customers wish for. We look for undiscovered new markets.

### Rapid development

We conduct product development, research, preparation for production and other activities in parallel to quickly turn ideas into products. We seek to be the first to enter new markets.

### Easy-to-understand marketing

As new products are unfamiliar to the world, we strive for simplicity in every aspect so that customers can instantly understand what the product is.

#### Product naming

#### Packaging design

#### Advertising

#### In-store promotion

### Product cultivation

After launching a product, we implement a "three-arrow" promotional strategy to establish new products in the market by pursuing a series of surges in sales.

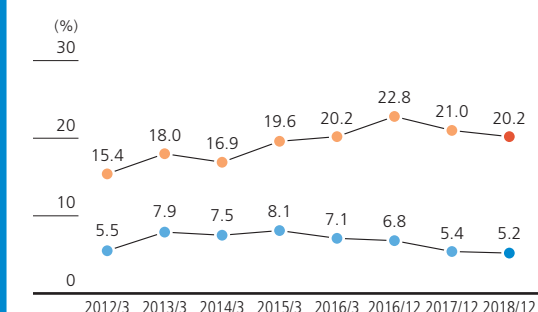
## Target KPIs

### 1 Contribution Ratio of New Products

Single-year  
**10%**

Four-year  
**25%**

#### ■ Contribution Ratio of New Products



● Four-year contribution ratio of new products: Share of sales accounted for by new products launched within the last four years  
● Single-year contribution ratio of new products: Share of sales accounted for by new products launched within the last year

### 2 New Products Established in the Market

**Establish four products in the market each year**



# The Many Brands Originating from Our Business    Model for Creating New Markets

## Domestic Consumer Products Business

Healthcare

OTC Pharmaceuticals

Kampo and Herbal Medicine Preparations

Medicated Skincare Products

Oral Care

Food Products

Skincare

Household Products

Deodorizing Air Fresheners

Personal Hygiene Products

Household Consumable Supplies

Body Warmers

## Overseas Consumer Products Business



## Direct Marketing Business





# The Sources of Strength for Our Business Model

The strength of our business model is rooted in our system for generating new product ideas, combined with a free and open corporate culture and leadership by top management that supports such creative endeavors. These three elements allow Kobayashi Pharmaceutical to successively create new markets and achieve sustained growth.

## 1 System for Generating New Product Ideas

### Monthly Idea Meetings and Presentation of Ideas to the President

Product development divisions hold new product idea meetings each month. The most promising ideas are presented to the president and other senior management on a monthly basis to speed up decision-making on whether to develop the idea into a product. Pitching new product ideas directly to the president is a great source of motivation for developers.



Employees present ideas directly to the president, who is involved in decision-making from the initial stage of development

### Idea Proposal System (1982–present)

Our idea proposal system allows any employee to submit ideas. In FY2018, a total of 52,000 ideas were proposed, with around 35,000 ideas for new products and around 17,000 ideas to improve business operations.

The Idea Proposal Office encourages employees to submit ideas each month, which they can do at any time via a dedicated online platform. All proposals are forwarded to the appropriate managers, and all submissions are given feedback. In addition, points are awarded according to the content and number of proposals submitted, and the people with the most points each year receive commendations. They are also invited to a company dinner where the chairman, president and directors give direct words of appreciation and praise.

This idea proposal system encourages employees to think about and take action on new products and business improvements that drive our growth. As a result, they get into the habit of thinking about the changes and needs of the world around them every day, which gives rise to a strong development-oriented mindset. The system also fosters a sense of ownership among employees and cultivates a unique corporate culture that encourages taking on new challenges.

### Company-Wide Idea Contest (2014–present)

On August 22, the anniversary of the Company’s incorporation, all employees take a break from their regular duties for an “idea meeting” held in each department. Each employee brings a product idea and the best one from each department is entered into a preliminary contest. Those selected then move on to package design, after which they are presented to the president and other executives. The winning ideas are then considered for commercialization.



Ideas are collected from all employees and presented on the Company’s anniversary

HIGHLIGHT

### Theme Management to Keep Generating New Products

New product development is vital to Kobayashi Pharmaceutical’s growth. We adopt a structured approach to releasing new products every year in the spring and autumn. New product development is managed using a “Theme Portfolio,” which is our launch schedule for each business and lineup category. We chart launch dates and sales projections for new products up to three years in advance, share information on risks that have the potential to stymie development or delay launch, and forecast the contribution ratio of new products while optimizing the number of themes and invested resources.

## 2 A Free and Open Corporate Culture

### Equality at Work: Policy on Forms of Address (1995–present)

We abandoned the practice of referring to people by their job title, and all employees are uniformly called by their last name to reinforce equality at work. We strive for a workplace culture where anyone, whether newly hired or a seasoned veteran, is free to express their opinion on an equal footing, regardless of position.

Since the chairman, vice chairman and president are all named Kobayashi, they are referred to by their first initial – for example, President Akihiro Kobayashi is called “Mr. A.” This further reduces the distance between senior management and employees.

### Reward and Recognition: e-Appreciation (1996–present)

We encourage praise and recognition of success rather than dwelling on failure. This helps foster a culture that prizes independence and the effort required to take on challenges.

E-Appreciation is a program in which the president personally sends a detailed email to thank employees for efforts worthy of praise. The president himself looks for such efforts in the course of his daily work. Emails directly from the president offer great encouragement to employees and are also published in the Group internal newsletter. These emails demonstrate management’s attitude of praising people for their independence and efforts and contribute to valuing independence in the workplace.



Featured article in the Group internal newsletter

## 3 Leadership by Top Management

Kobayashi Pharmaceutical’s management structure is built around the founding family, enabling speed-oriented management, strong employee loyalty, bold decision-making, and management with a long-term perspective.

In product development in particular, with the involvement of the president, the Development Committee meets every month to implement the PDCA cycle for all development themes, including naming, package design and formulation.

Example of Theme Portfolio (Launch Schedule)

	Spring 2019	Autumn 2019	Spring 2020	Autumn 2020	Spring 2021	Autumn 2021
Category A	New product 1 New product 2	New product 5 New product 6	New product 9	New product 12 New product 13	New product 16 New product 17	New product 19
Category B	New product 3 New product 4	New product 7 New product 8	New product 10 New product 11	New product 14 New product 15	New product 18	New product 20
Net sales forecast	¥X billion	¥X billion	¥X billion	¥X billion	¥X billion	¥X billion
Contribution ratio of new products (single-year)	X%	X%	X%	X%	X%	X%

## Our Value Chain for Making Wishes Happen

In accordance with our corporate brand slogan, "You make a wish and we make it happen," we help make life more comfortable and convenient by solving customer problems. To this end, all of our employees play a special role in creating value.

## Marketing

Risa Yamada



I am involved in the development of new pharmaceutical and food products. When coming up with ideas, I look for problems perceived by customers as unsolvable or unavoidable.

Since last year, we have placed greater emphasis on incorporating phrasing and expressions that resonate with customers. Failing to understand or misinterpreting the needs of our target customers will result in products that do not satisfy anyone. I take care to fully understand customers without letting my own values get in the way.

## Quality Promotion

Shingo Hosoo



Working in the quality promotion department is a role unique to Kobayashi Pharmaceutical that entails checking whether the product design conforms to concept and whether labeling claims are backed by efficacy and comply with the relevant laws and regulations. I liaise with the development staff to overcome development issues and promote sound product development, so in effect I am a developer specializing in quality. Here at Kobayashi Pharmaceutical, we conduct product development based on both quality promotion and quality assurance audits.

Day in, day out, my mission is to ensure that efficacy and labeling do not leave customers disappointed.

## Sales

Miki Matsubara



My customers are the headquarters of nationwide volume retailers. When proposing sales promotion plans and in-store displays for our products, I strive to communicate the advantages for retailers and how the proposal will lead to increased sales.

At the beginning of each period, I share sales plans and sales promotions for the next six months with buyers for key products that Kobayashi Pharmaceutical is particularly focused on cultivating and establishing in the market. Implementing six-month plans that are tailored to the season, business characteristics and store location helps to maximize sales by keeping sales spaces fresh. I try to ensure that all our proposals are based on the perspective of customers.



## Research & Development

Junji Akaki



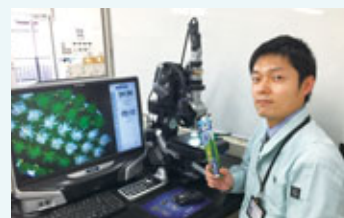
My responsibility is research and development in the field of Kampo and herbal medicines. Kampo involves many unknowns, and the herbal medicines used in Kampo preparations comprise multiple ingredients. One at a time, I try to shed light on the various effects of those ingredients.

I identify characteristics at the component level, including which components of what herbal medicines contribute to alleviating symptoms, how components change when combined and how to further improve efficacy.

Singling out the components that ease symptoms enables me to focus on delivering products to customers in an easy-to-take form that does not compromise efficacy.

## Technology Development

Susumu Yoshikawa



I work in technology development for the *Shoyo* brand of toothbrushes. Marketing, research and development, and technology development staff work as a team from the idea creation stage to conduct development, each contributing opinions from his or her respective viewpoint. In the process of turning ideas into products, we iterate designs and improvements while incorporating input from experts and conducting various tests and consumer panel evaluations to confirm that the effects offered by the product are in line with the product concept. Since we often outsource production, another important role is to work with manufacturing partners to make adjustments to ensure a product that matches the concept.

Every day I think about how to create products that customers will want to pick up at the store, that are easy to open and use, and that can be conveniently disposed of after use.

## Production & Procurement

Kei Sayama



I am involved in the manufacture of *Naishitol* and *Chikunain* extract at Hefei Kobayashi Pharmaceutical Co., Ltd. For the process of making herbal medicine extracts, I conduct process control, facility management and instruction of locally hired employees.

The manufacturing process and finished product must meet high levels of quality. Our factory has just started operations as the Kobayashi Pharmaceutical Group's first dedicated herbal extract manufacturing base, and as such the whole team is working together and thinking hard every day to ensure the stable supply of high-quality products.

## Customer Support

Yuka Sato



My job is to field support calls from customers. The feedback I receive from customers is shared daily with executives and relevant divisions, and is used in monthly divisional development meetings to make improvement proposals that lead to better products.

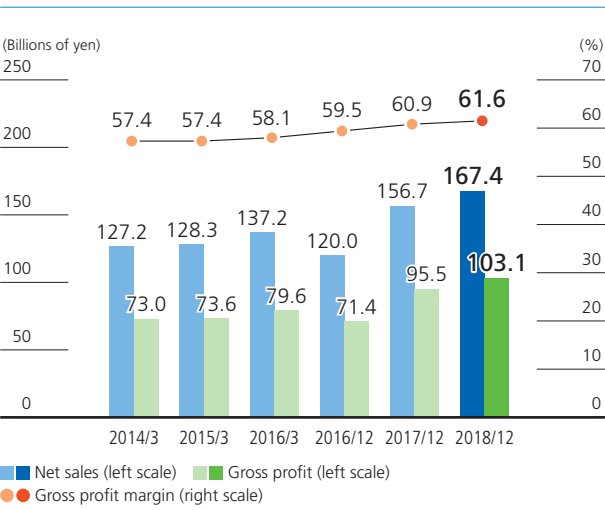
My aim is to make customers glad they called by listening carefully to their circumstances and concerns, and supplying them with the right information, thereby building long-term loyalty and peace of mind.



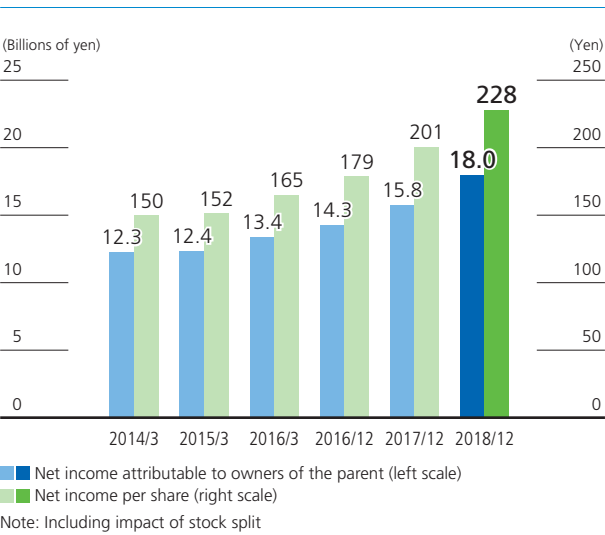
# Operational Highlights (Financial and Non-Financial)

## Financial Highlights (Fiscal 2016/12 was a nine-month transitional period due to a change in fiscal year-end.)

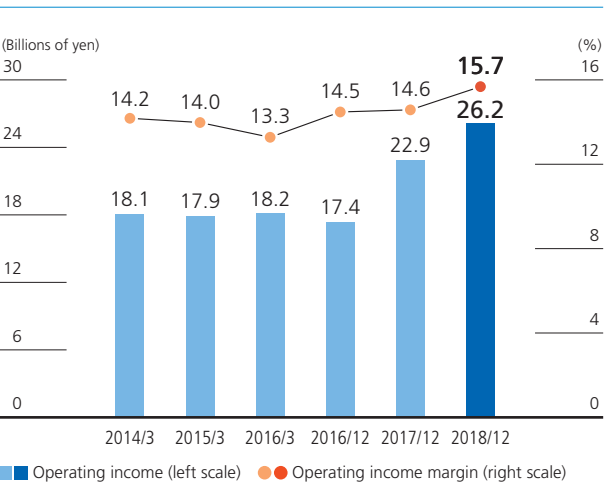
Net Sales / Gross Profit / Gross Profit Margin



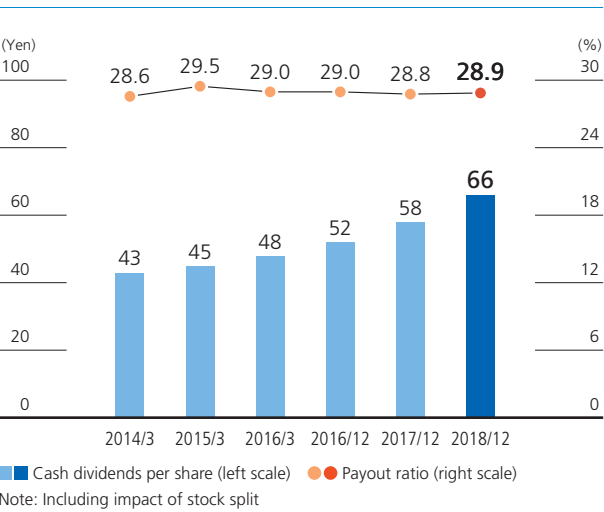
Net Income Attributable to Owners of the Parent / Net Income per Share<sup>(Note)</sup>



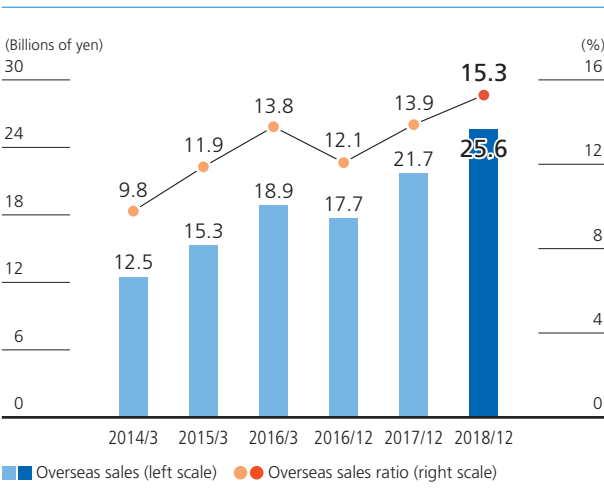
Operating Income / Operating Income Margin



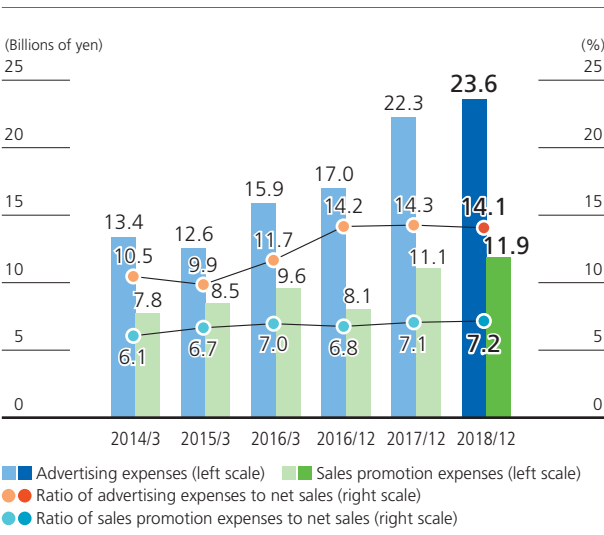
Cash Dividends per Share<sup>(Note)</sup> / Payout Ratio



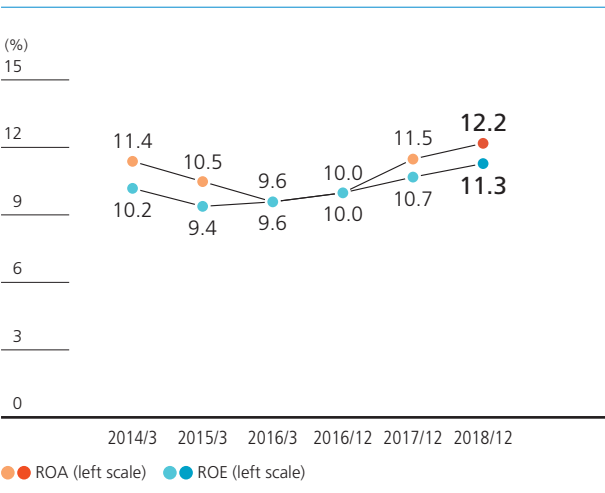
Overseas Sales / Overseas Sales Ratio



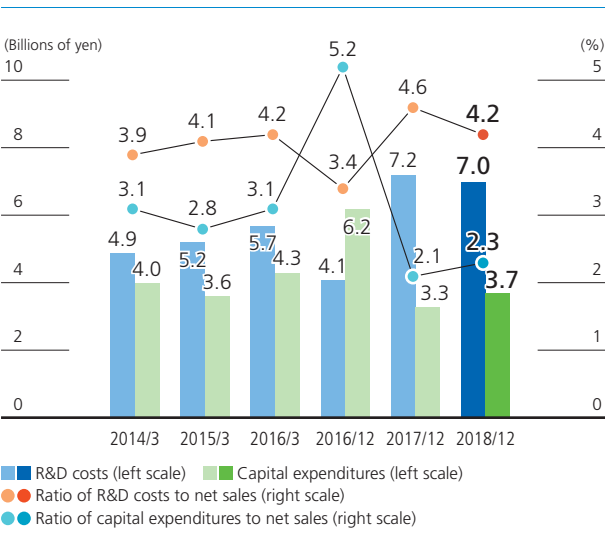
Advertising Expenses / Ratio of Advertising Expenses to Net Sales / Sales Promotion Expenses / Ratio of Sales Promotion Expenses to Net Sales



ROA / ROE



R&D Costs / Ratio of R&D Costs to Net Sales / Capital Expenditures / Ratio of Capital Expenditures to Net Sales



## Non-Financial Highlights

Number of Idea Proposals



Total Number of Brands (excluding Overseas Consumer Products Business)



1. SKU: Stock keeping unit

Brands with No. 1 Domestic Share<sup>2</sup>



2. According to Kobayashi Pharmaceutical research

"You Make a Wish and We Make it Happen" around the World



# Message from Management

We continually generate ideas to deliver what customers wish for, in Japan and around the world.



Kobayashi Pharmaceutical's Management Principles state that "We never stop creating and innovating in our pursuit of something new that will delight people and society." On the basis of that commitment, each of our employees is focused on creating ideas for new products that will solve customer problems, as reflected in our corporate brand slogan: "You make a wish and we make it happen."

Many of the products we develop using this approach are niche products that come from looking for gaps between existing markets. These products are unique and were previously unavailable. They often grow to become essential items for customers, and as a result have a loyal following because they have no substitutes. We will continue to turn customer wishes into real products that solve problems for people around the world.

We generate ideas not only for new products, but also for solving problems in business processes, and the reforms and

improvements resulting from those ideas have contributed to our growth. Coming up with ideas is by no means an easy task. Through initiatives such as our idea proposal system that has been in place for more than 36 years, we have fostered a corporate culture where new ideas are constantly being generated. It is a culture that inspires every employee to be always on the lookout for possibilities that could lead to the creation of something new. This is our competitive advantage, and we are committed to further strengthening that culture.

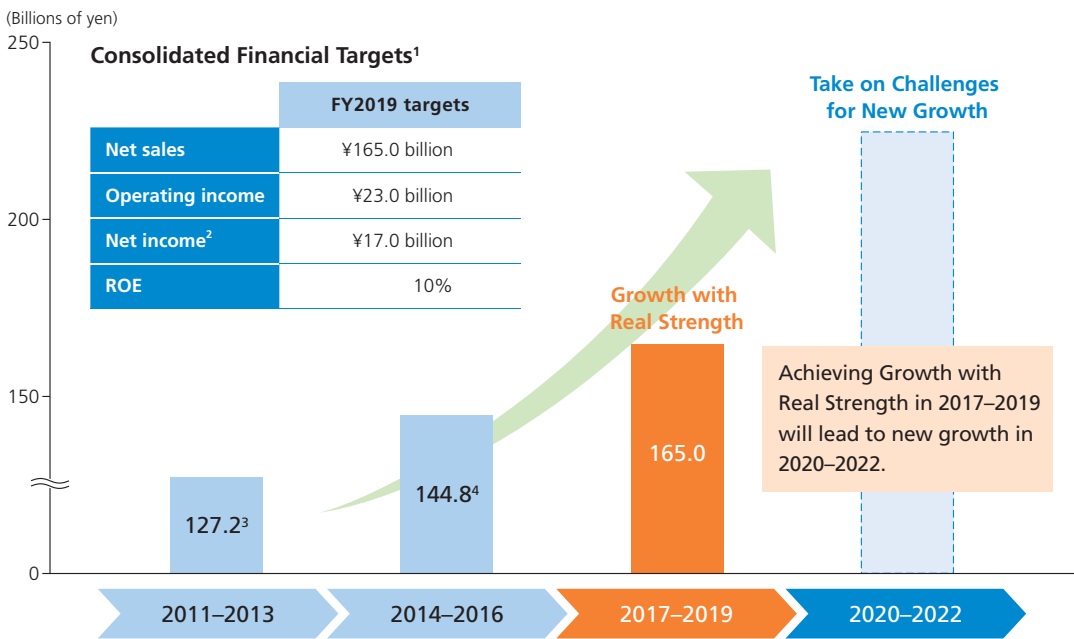
**Akihiro Kobayashi**  
Representative Director,  
President and Chief Operating Officer

# The President Explains Our Strategy

## 1 Context and Outline of the Medium-Term Management Plan

Two years have passed since the launch of the Medium-Term Management Plan for 2017–2019. When we were formulating the plan in 2016, despite having achieved many years of consistent growth in profits, we were perceived by the investment community as a company that "had little prospect of major growth." Based on a frank acknowledgement that we lacked

sufficient ability to deliver stable growth regardless of the external environment, we made "Growth with Real Strength" the central theme of the new management plan. Furthermore, recognizing that we will not be able to attain stable growth by simply applying the same approaches that worked in the past, the plan lays out four key strategies.



1. Targets at the time the medium-term management plan was announced in November 2016  
2. Net income attributable to owners of the parent  
3. Fiscal 2014/3  
4. Recalculated figure for Jan. to Dec. 2016 due to a change in fiscal year-end



2 Review of Year Two of the Medium-Term Management Plan

(1) Overview

Sales and profits grew in the fiscal year ended December 31, 2018 (FY2018), the second year of the medium-term management plan. In Domestic Business, new products have gained a foothold in the market over the last several years and contributed to sales, while demand from foreign visitors to Japan has also expanded.

(2) Product Development and Cultivation

One of the four strategies in the medium-term management plan is “Develop and cultivate products that create new markets,” and I think that this focus has permeated the Company. Previously, we prioritized development speed, and although we launched many new products, the problem was that many of them failed to gain traction in the market. To solve this problem, we tightened launch criteria for new products. By carefully assessing market potential in the initial stage of development, and developing only those products with solid prospects for market success, we have been able to increase productivity throughout the Company. After a product is launched, we cultivate it by implementing a PDCA cycle based on monitoring by sales divisions, marketing divisions and the executive team.

As a result of this focus on improving our capabilities in new product development and cultivation, we have been more successful in establishing new products in the market, as illustrated by the improvement in the four-year contribution ratio of new products,<sup>1</sup> one of our key performance indicators. On the other hand, the single-year contribution ratio has declined, as the number of new products has fallen with the application of stricter launch criteria. Now, we will work to raise the four-year contribution

In Overseas Business, sales increased, led by the strong performance of body warmers and *Netsusama Sheet*. As a result, we achieved the plan targets for FY2019 a year early.

See: Operational Highlights, pages 14–15

ratio of new products to 25% by improving our ability to generate ideas and by increasing the number of potential products that satisfy the stricter criteria.

In addition, we will refine marketability assessment techniques with the goal of developing evaluation standards that can be applied overseas as well. We will also work to raise the retention rate for first-time customers of new products by improving methodologies for evaluating customer satisfaction.

1. Share of sales accounted for by new products launched within the last four years

See: Domestic Consumer Products Business, pages 24–27



An employee giving an idea presentation (center: President Akihiro Kobayashi)

(3) Four Growth Businesses

Overseas Business

While the market environment may differ greatly from country to country, our focus is to cultivate product lines into mainstay brands. This focus has led to strong performance in our Overseas Business.

In China, recognition of the Kobayashi Pharmaceutical brand has grown in tandem with rising demand from Chinese tourists visiting Japan. We took this as an opportunity to expand sales of household products by increasing the number of stores that stock our products and strengthening e-commerce business. In June 2018, we acquired Jiangsu Zhongdan Pharmaceutical Co., Ltd. (now Jiangsu Kobayashi Pharmaceutical Co., Ltd.), a pharmaceutical manufacturing and sales company, and are preparing for the sale of OTC pharmaceuticals in China, which has been a long-standing goal. In the years ahead, we will establish the necessary infrastructure for rapidly introducing *Ammeltz* and other topical medicines to this market, and are targeting sales of ¥4.0 billion in the OTC pharmaceuticals business in China in 2028.

In the U.S. market, we acquired Perfecta Products, Inc. in 2016, and began sales of OTC pharmaceuticals. However, in a tough retail

environment, sales have not grown as originally planned. Based on our understanding of local market needs, in the autumn of 2018 we launched a new formulation of *Zim's Max Freeze*, a topical analgesic that now delivers more pain-relieving power, and in 2019 we launched *Zim's Max Heat*, which is similar to *Ammeltz* in effectively stimulating blood circulation. Both products are carried by large retailers. Moving forward, we will cultivate products with marketing tailored to each region while keeping a close eye on market trends.

We will continue to seek M&A opportunities in our Overseas Business to launch OTC pharmaceuticals in various countries.

See: Overseas Consumer Products Business, pages 28–30



New formulation of *Zim's Max Freeze*, and *Zim's Max Heat*

Skincare Business and Direct Marketing Business

The Skincare Business and Direct Marketing Business were unable to achieve progress as planned. In the Skincare Business, issues are executing M&As in pursuit of the next major brand alongside *Keshimin* and *Eaude Muge*, and the development of new products. In the Direct Marketing Business, new customer acquisition is a key issue. In pre-development marketability assessments, we are

establishing a survey methodology specific to direct marketing. We will improve new customer acquisition by developing unique new products such as *Salacia 100* that are only available from Kobayashi Pharmaceutical.

See: Domestic Consumer Products Business, pages 24–27  
Direct Marketing Business, page 31



Salacia 100

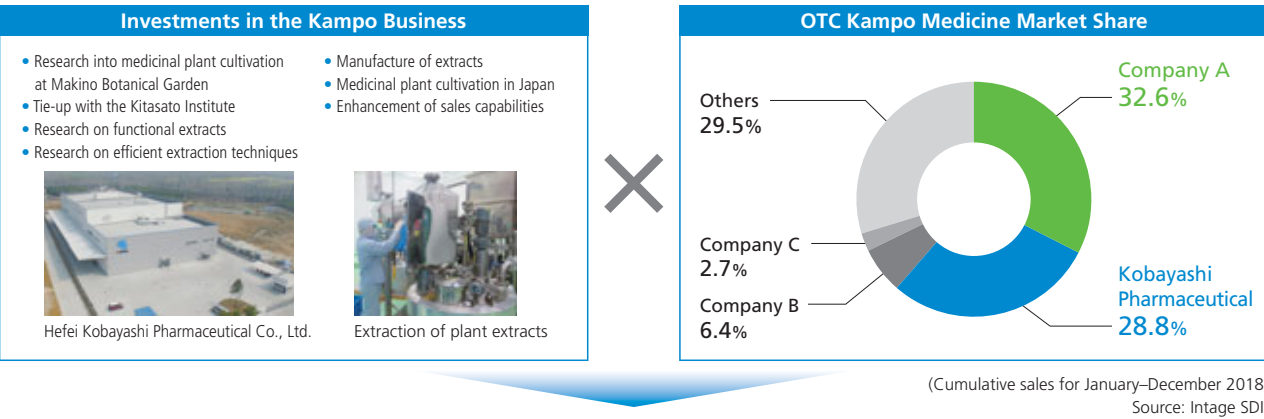
Kampo Business

The establishment of new products and cultivation of existing products contributed to strong growth in this business. We have made investments at each product stage. Investment areas include research on herbal medicines,<sup>2</sup> research on functional extracts, manufacture of extracts, idea generation and enhancement of sales capabilities. As a result, the foundation is now in place for the Kampo Business to achieve further growth. We can also

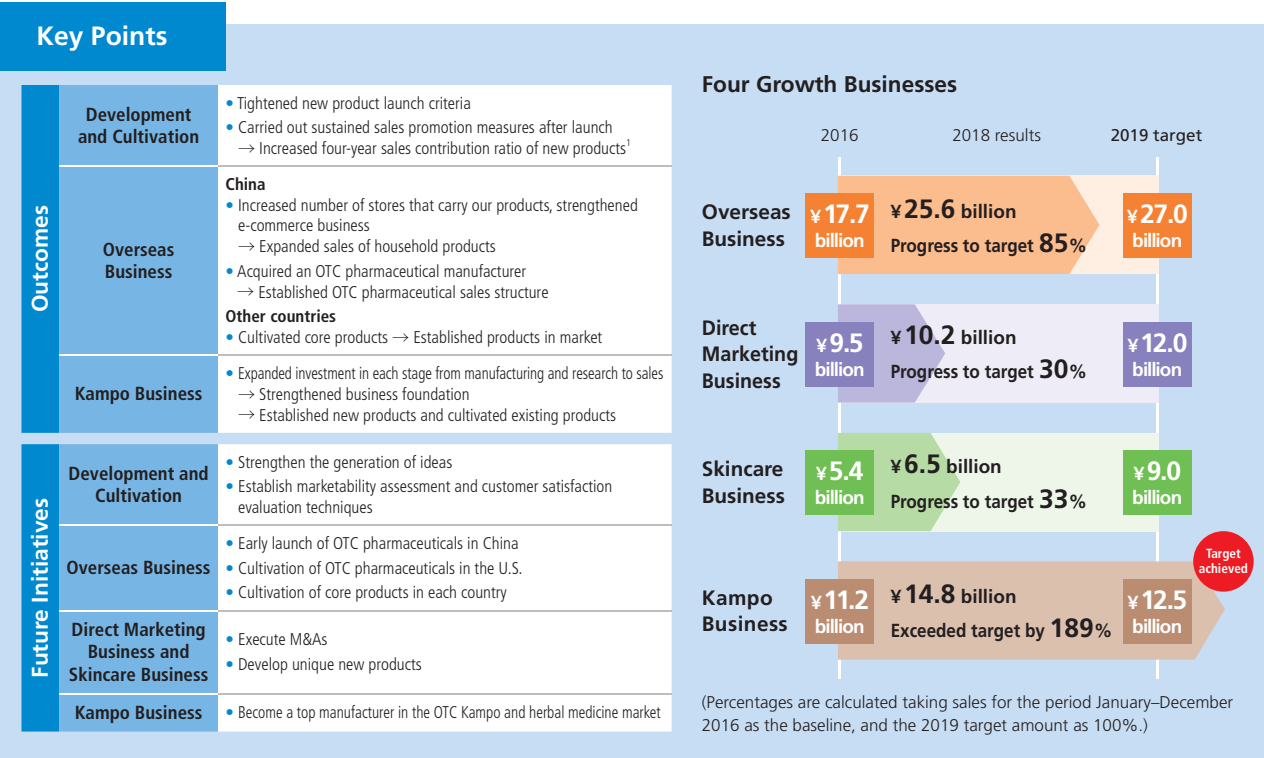
expect to further expand the OTC Kampo and herbal medicine market and increase market share. We will continue to focus on this business as a market leader.

2. Herbal medicines may contain natural organic or inorganic active ingredients that are not of plant origin, such as animal or mineral materials.

See: Domestic Consumer Products Business, pages 24–27



Creation of a Structure for Continued Growth



3 Targeting Further Growth

We are focusing on the five areas below for further growth beyond the medium-term management plan.

(1) Human Resource Development

The growth of the Overseas Business and M&As are vital to achieving sustained corporate growth. Accordingly, our ability to deploy experienced employees with a proven track record to overseas sites and acquired companies is a potential growth bottleneck. Employee development is a management priority, and we are working to create a Kobayashi Pharmaceutical human resource development model.

In 2018, we began “growth dialogues” as a way to support the development of employees. Over the course of regular discussions, employees and their supervisors brainstorm ideas to boost personal growth, implement a PDCA cycle to monitor and chart that growth, and share practices for promoting growth so that they can be replicated across the Company. With this approach, we want to enhance the capabilities of all employees.

See: Relationship with Employees, page 40



Employees brainstorm ideas for career growth with supervisors

(2) ESG

Seeking sustainable growth, in 2018 we embarked on management reforms taking into account environmental, social and governance (ESG) perspectives.

From the environmental perspective, activities of the Group Environmental Committee ramped up to full speed, and five working groups are addressing specific issues while implementing the PDCA cycle. From the social perspective, we have introduced work-style reforms that enable employees to better balance work and private life. These reforms include shortened work hours and the establishment of support systems for child care and nursing care. From the governance perspective, we have made reforms to

the Board of Directors, and the Risk Management Committee, which was launched in 2017, has begun full-fledged discussions on how to deal with medium- and long-term risks.

Although we are making steady progress in each ESG category, I believe that discussions from a long-term perspective are lacking. In 2019, initiatives for growth will include discussions to formulate the next medium-term management plan based on working backward from our vision for 2030 through the lens of ESG.

See: Creating Value from ESG Initiatives, pages 32–49

(3) Further Strengthening Overseas Business

Further strengthening our Overseas Business is vital for sustained growth. Across the entire Kobayashi Pharmaceutical Group we will focus people and funds on that objective.

In activities that encompass both the Japanese and global markets, we will bolster cooperation between domestic and overseas operations in the areas of product development, marketing and supply. By allocating a portion of our development capabilities in Japan to overseas sites, we can speed up development and accelerate the introduction of new products in each country. We will also maximize sales by linking domestic

marketing campaigns with overseas campaigns.

Our Overseas Business is still in the investment stage, and we are currently focusing on sales growth potential. As we increase the share of net sales from the Overseas Business, we will also emphasize profitability and strengthen our presence in the healthcare category by increasing the share of products such as OTC pharmaceuticals and food products in our sales mix, thereby achieving stable profit growth.

See: Overseas Consumer Products Business, pages 28–30

(4) Invest in Growth for the Future

Targeting growth for the future, our current medium-term management plan sets an investment budget of ¥30 billion for M&As and ¥3 billion for R&D and new businesses. Furthermore, over the next five years, we plan to make large-scale capital

Invest in growth for the future

Medium-Term Management Plan for 2017–2019 Invest in growth for the future Announced November 2016		Investment budget (2017–2019)
	M&A	¥30 billion
	R&D, new businesses	¥3 billion

Expected large-scale investments in anticipation of global expansion of OTC pharmaceuticals		
Challenges	Responses	Maximum investment budget (next 5 years)
Capacity to boost production to prepare for increase in demand	New factory construction	¥40 billion <sup>2</sup>
Manufacturing in line with global standards (PIC/S <sup>1</sup> )		
Current capacity shortage at Central R&D Laboratory	Relocation of Central R&D Laboratory	

1. Pharmaceutical Inspection Convention and Pharmaceutical Inspection Co-operation Scheme  
2. Estimated figure as of January 2019; scope of investments is subject to change.

(5) Establish E-Commerce Business

Adapting to e-commerce, a channel which has been expanding year by year in Japan and overseas, will be another key contributor to future growth.

In Japan, we established the E-Commerce Unit within the Sales Division in 2017 to respond to rapid changes in the e-commerce business environment, and we are strengthening marketing and sales activities.

Overseas, in a number of countries the migration of shopping to online channels has progressed further than in Japan and it is imperative that we enhance our online reach. We will accumulate successful marketing case studies in the use of online advertising to encourage trial purchases, and thereby establish approaches that are distinctively our own.

Key Points			
Human Resource Development	• Create a human resource development model unique to Kobayashi Pharmaceutical		
ESG	• Begin discussions from a long-term perspective		
Overseas Business		• Invest in growth throughout the Group ✓ Build cooperation between domestic and overseas operations ✓ Ensure profitability ✓ Make large-scale investments of approximately ¥40 billion	
E-Commerce Business		• Strengthen e-commerce approaches in Japan • Establish successful case studies in e-commerce overseas	

4 ROIC-Focused Management

Kobayashi Pharmaceutical has begun a shift to ROIC (return on invested capital) as a management metric for achieving both steady improvement of corporate value and profit growth from FY2019 onward. We are promoting an analytical approach to profitability, utilizing ROIC and striving to ensure that our business evaluations and strategic investment decisions are appropriate. Furthermore, we are using key investment criteria to clarify our targets and make improvements.

Consolidated Results Forecast for FY2019

We are aiming for increased sales and profits in FY2019, which would mark 22 consecutive fiscal periods of profit growth.

	Consolidated Results Forecast for FY2019		
	(Billions of yen)	Percentage of net sales	YoY change
Net sales	173.0	—	+3.3%
Operating income	27.3	15.8%	+3.8%
Recurring profit	27.9	16.1%	+1.9%
Net income attributable to owners of the parent	19.0	11.0%	+5.4%
EPS	240.29 yen	—	+5.4%
ROE	11.3%	—	—



# Financial Strategy



In addition to maintaining profit and dividend increases and steadily improving EPS, we will work toward continued growth in ROE for the benefit of shareholders.

**Satoshi Yamane**  
Senior Executive Director and  
Chief Financial Officer

## Review of FY2018

Sales and profits increased in FY2018, driven by expansion of our Overseas Business and growth in demand from foreign visitors to Japan. Net income increased for the 21st consecutive fiscal period,

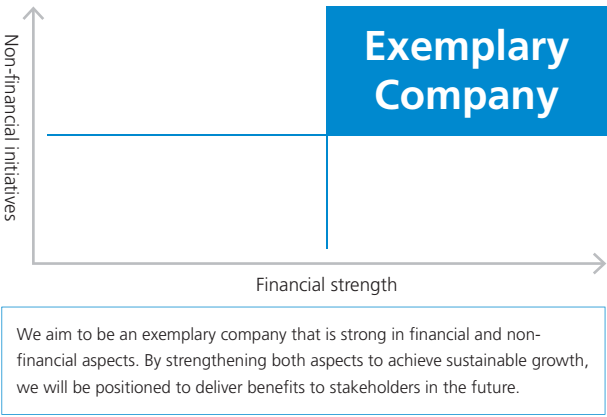
and dividends increased for the 20th consecutive fiscal period. We are committed to delivering returns to shareholders by continuing to increase profits and dividends and steadily improve EPS.

## Aiming to Be an “Exemplary Company”

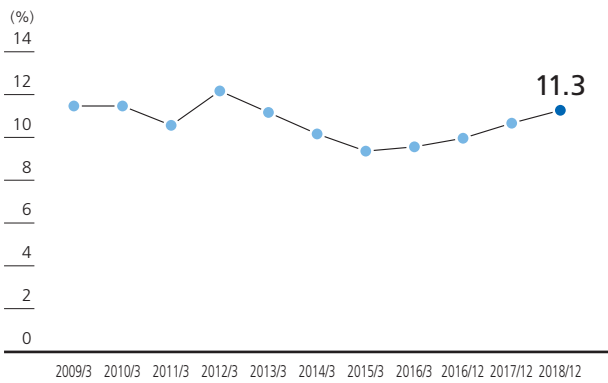
Ever since my appointment as Senior General Manager of the Corporate Administration Headquarters in 2006, I have advocated that Kobayashi Pharmaceutical strive to be an “exemplary company.” My goal is to build a business group that is recognized for the excellence of its organizational culture, management philosophy and policies, as well as its financial strength. We have been giving more attention to non-financial, or ESG, initiatives in

recent years. However, becoming an exemplary company is only possible with sustainability backed by solid financial performance. As a manufacturer, we believe it is important to strengthen our ability to create businesses and products that excite people. We will steadily execute successive measures to become an exemplary company that is valued and supported by its stakeholders, and that continues to deliver benefits to stakeholders in the future.

### Our Vision for an “Exemplary Company”



### ROE



## Investments for Growth

To increase corporate value, we need to refine our unique business model and develop the human resources to implement it. Strengthening our market-creating business model means strengthening product development capabilities, and that will require investments for generating ideas and technologies. We will make investments to discover needs, investments to expand markets, investments to turn ideas into products, and investments in new technologies. Our basic plan is to organically build the

assets and skills we need for strengthening our business model. However, we will also look to resources outside the Company as opportunities arise. As part of our investment in human resource development, we will enhance frameworks that make Kobayashi Pharmaceutical a fulfilling workplace where employees take pleasure in creating new value and results are appropriately recognized. As a development-focused company, robust investment in human resources is especially important for us.

## Retained Earnings

We manage our business with a long-term perspective to enable sustainable growth. On that basis, we need to maintain ample retained earnings to conduct flexible management regardless of the business environment. On the other hand, we have to invest the cash we generate for future growth. We are not doing so sufficiently at present. Therefore, we will pursue a program of making optimally targeted investments to reach new heights and increase corporate value. We will utilize retained earnings to make strategic investments. We are planning expansions and upgrades of manufacturing and R&D bases, and will execute specific

investments to accomplish that. We are also prepared to use retained earnings to quickly invest in potential acquisition candidates if they make sense for the Company. In our current medium-term management plan ending in 2020, we set an ROE target of 10 percent or more. In FY2018, we achieved that target with ROE of 11.3 percent. Going forward, we will establish ROIC as a decision-making metric for securing returns in excess of cost of capital. With that and other approaches, we intend to quickly raise ROE above the 13 percent level, and then set the next target.

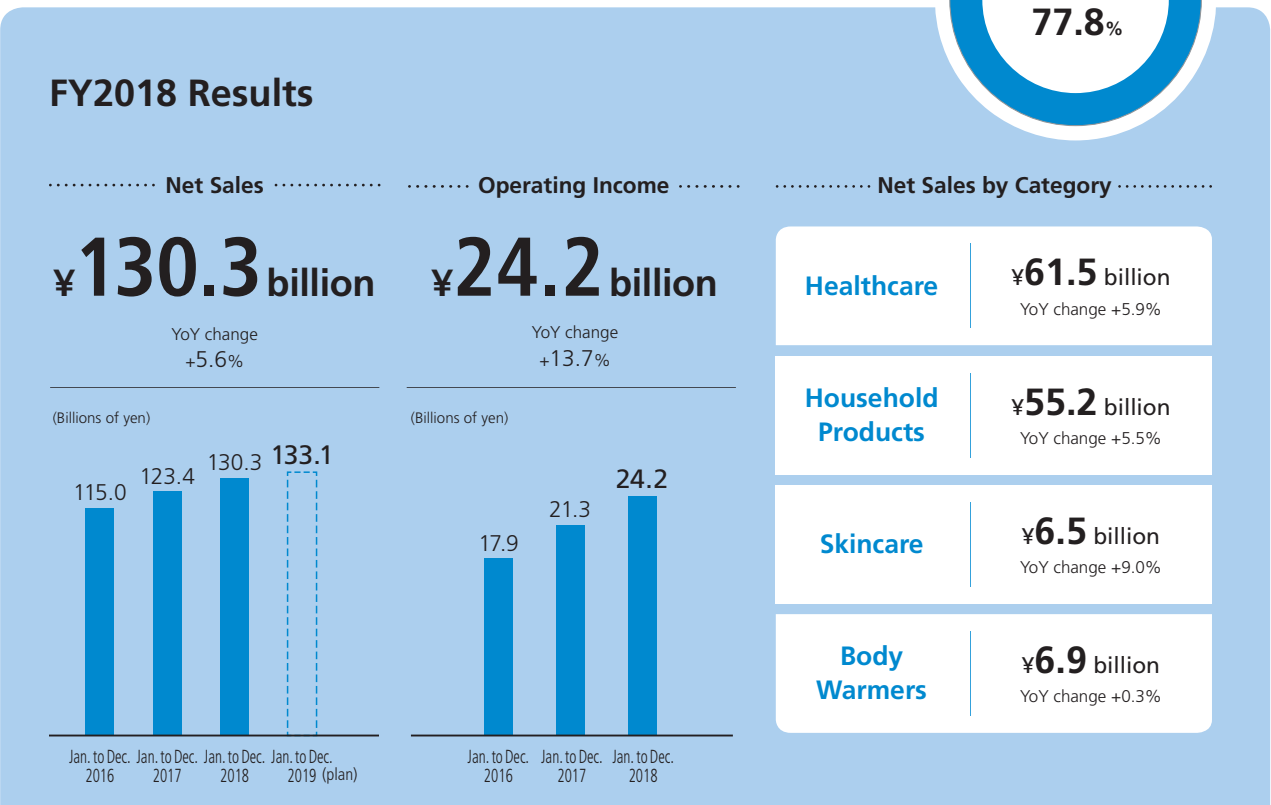
## Shareholder Returns

Providing solid shareholder returns is an important management policy. Our fundamental approach is to maximize corporate value while making future-oriented investments that reward shareholders with dividends, which are direct returns, and with medium-to-long-term stock price appreciation. Although we consider the payout ratio, our dividend policy is to focus on

increasing the absolute amount of dividends and continue our track record of consistently increasing dividends since our stock listing. Regarding share buybacks, we plan to maintain a policy of flexibly making share repurchases while looking at the balance between retained earnings and investment for growth.

Value Creation Activities

Domestic Consumer Products Business



Strengths

- Ability to develop unique products and deliver what customers wish for
- Ability to stimulate new demand through the creation of new markets in areas with little competition
- Rapid development capability based on concurrent development and use of outsourced production

Weaknesses

- Marketing investment dispersed among a large number of brands
- Erosion of relative value of our products due to emergence of private label brands

Opportunities

- Market growth driven by expanding needs for Kampo and herbal medicines reflecting the aging population
- Increase in foreign visitors coinciding with the 2020 Tokyo Olympics and Paralympics
- Growth of demand from inbound tourists resulting from measures to attract more visitors to Japan

Threats

- Decrease in consumer confidence due to increasing social security costs
- Possibility of restrictions on development and sales under various related laws and regulations
- Changes in inbound tourism demand trends associated with the new e-commerce law in China (enacted January 2019)

Business Overview

With a portfolio of 153 brands in four categories – healthcare, household products, skincare and body warmers – the Domestic Consumer Products Business is our core business, accounting for nearly 80 percent of total sales and a major portion of our profits. Steady expansion in the number and range of products purchased by foreign visitors to Japan has helped this business maintain a high growth rate, with net sales increasing 5.6 percent and operating income up 13.7 percent year on year.

Ammeitz Yoko Yoko

Liquid Bluelet Okudake

Netsusama Sheet

2017–2018 in Review (Results and Issues)

As a result of our focus on developing and cultivating products that create new markets – one of the core strategies of the medium-term management plan – net sales increased 5.6 percent year on year to ¥130.3 billion and operating income rose 13.7 percent to ¥24.2 billion.

Sales growth was driven by increased spending on advertising, as well as greater demand from foreign visitors to Japan.

Weather and environmental factors also contributed to sales, including a harsh winter and extremely hot summer, and an increase in pollen levels and influenza-related conditions.

In addition to these factors, our shift to a high-value-added product strategy (e.g., from *Sawaday Kaoru Stick* to *Sawaday Kaoru Stick Parfum*, featuring an upgraded design and fragrance), and successful development of new market-creating products, yielded results. New products, such as medicated skincare products *Keanocure* and *Kurocure EX*, performed well in their first year on the market, while further cultivation led to the steady growth of *Nightmin Nasal Respiration Tape* and other products launched in the last several years.

Shift to High-Value-Added Products

Successful Development of Medicated Skincare Products

Successful Product Cultivation

Sawaday Kaoru Stick

Sawaday Kaoru Stick Parfum

Kurocure EX

Keanocure

Nightmin Nasal Respiration Tape

HIGHLIGHT

Product Cultivation Case Study: *Alpitan*

Previously, our focus was on developing and launching new products, but in recent years, we have paid greater attention to cultivating recently released products to ensure they gain a solid foothold in the market. Firmly establishing these products so that they continue to sell over five or ten years improves the return on development cost and effort, thus contributing to our bottom line. We have set the goal of establishing four products in the market per year. Two to three of these are new products targeted for focused investment in advertising and sales promotion, and we cultivate them by instigating a series of sales surges. A good example involving a Company-wide effort is *Alpitan*.

*Alpitan* is an orally administered Kampo medicine that helps the body flush out excess fluid and alcohol and relieves headaches caused by alcohol or other factors.

As this is a new market-creating product, it was necessary to spread consumer recognition. Accordingly, to build sales momentum we launched sales promotions and conducted eight TV advertising campaigns during peak alcohol consumption periods, such as the year-end festive season. In stores, we concentrated promotion efforts near cash registers, drink cabinets and analgesic medicine shelves. As a result, two years after its launch *Alpitan* is now a consumer staple.

We will continue to develop new market-creating products and establish them in the market through cultivation.

Alpitan (launched in October 2016)

October 2016

November/December

March/April 2017

Establishment in market

1st

2nd

3rd

...

8th

Promotion at new product launch (6 sachets)

Promotion coinciding with year-end festive season

Promotion coinciding with spring hiring season

Promotion at large-volume pack launch (12 sachets)

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Kobayashi Pharmaceutical Co., Ltd. Integrated Report 2018 25

About Kobayashi Pharmaceutical Growth Strategy Creating Value from ESG Initiatives Data Section



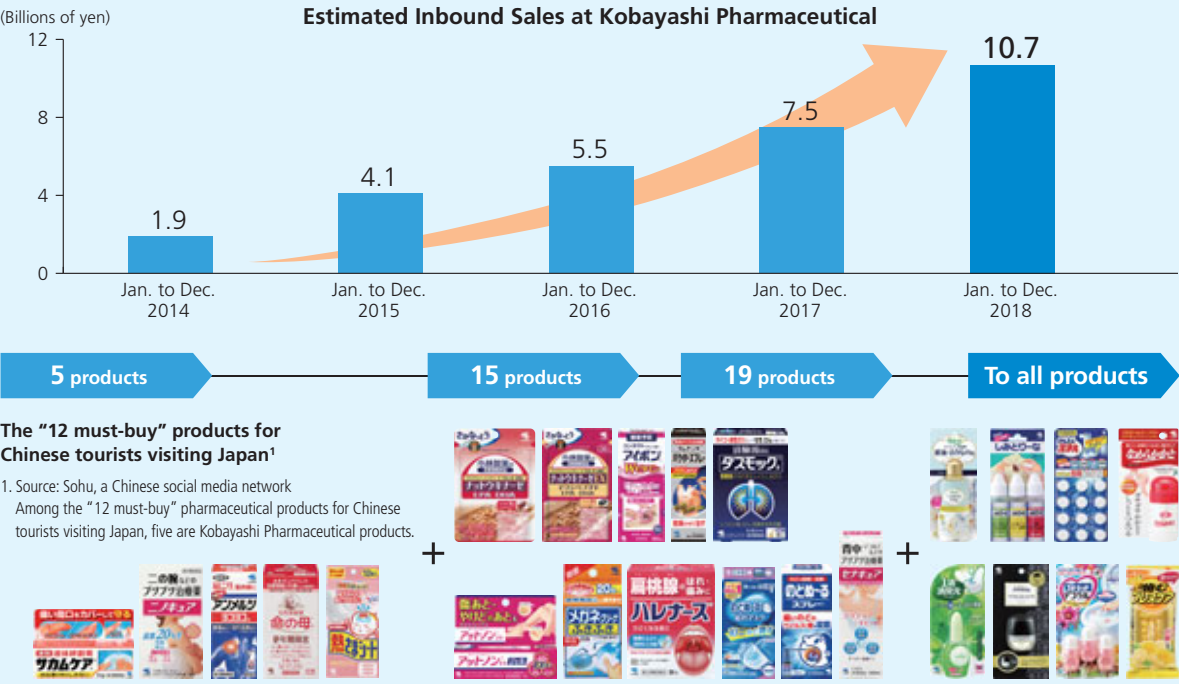
HIGHLIGHT

Increased Demand from Inbound Tourists (Expansion of Brands Purchased)

Among Kobayashi Pharmaceutical products, OTC pharmaceuticals such as *Ammeltz*, a topical analgesic, and *Inochi no Haha A*, a women's health medicine, have enjoyed demand from foreign visitors to Japan. Today, that demand is also spreading to household products, including *BreathCare* oral breath freshener capsules and *Bluelet Decoral* toilet bowl cleaner and freshener.

We attribute this swell in demand to recognition of our products by tourists, mainly from China, resulting in increased awareness of the Kobayashi Pharmaceutical name, which in turn has led to the purchase of products in all categories. We will examine new measures to further advance this virtuous cycle.

See: Highlight—Strengthening Sales Measures in China, page 30



Strategies for FY2019

Development and Cultivation of New Products

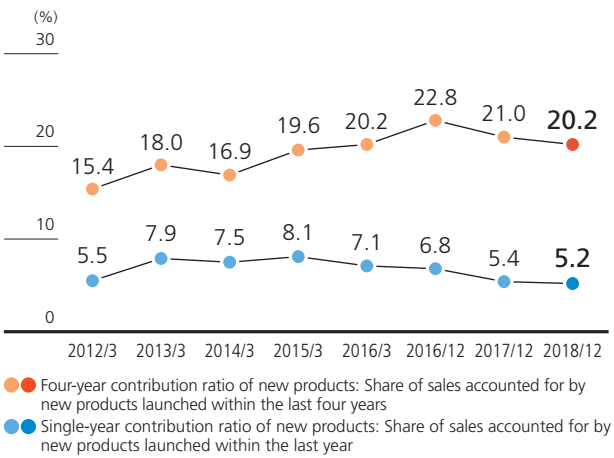
FY2019 is the last year of the Medium-Term Management Plan for 2017–2019. We will continue to improve our ability to develop and cultivate new products to achieve "Growth with Real Strength."

Currently, we are tightening our launch criteria for new products, and assessing their market potential from the early stages of product development. We raised the hurdle in needs screening (i.e. market research), and only ideas that pass that hurdle advance to development. We intend to maintain these strict hurdles and increase the number of new products by enhancing our ability to meet the criteria.

To firmly establish new products in the market, we are strengthening our product cultivation measures. In cultivation, an important factor is the ability to prepare plans through the successive generation of effective ideas. To that end, last year we started an initiative to come up with ideas based on information from stores.

Based on this approach, we aim to achieve a four-year contribution ratio of 25 percent, one of our key performance indicators.

Contribution Ratio of New Products



HIGHLIGHT

Kampo and Herbal Medicine Business

Under the medium-term management plan, the Kampo and Herbal Medicine Business had a sales target of ¥12.5 billion for FY2019. That goal was reached one year early in FY2018, with sales of ¥14.8 billion, exceeding the target by a wide margin. This result was supported by the establishment of new products

and cultivation of existing products. Looking ahead, we will continue research into herbal medicines and functional extracts and invest in manufacturing of extracts to drive further growth in the Kampo and Herbal Medicine Business.

1) Cooperation with External Organizations in Kampo and Herbal Medicine Production

Herbal Medicine Research at Makino Botanical Garden

In May 2016, we signed a joint research agreement with the Kochi Prefectural Makino Botanical Garden. The partnership involves the discovery of useful ingredients from plant sources and researching production of those ingredients. We believe this will lead to the development of new products.



The Kochi Prefectural Makino Botanical Garden

Tie-up with Kitasato Institute on Uses of Kampo and Herbal Medicines

In January 2019, we formed a tie-up with the Kitasato Institute to develop products and services that benefit people's health. The tie-up brings together our product development strengths and the institute's knowledge of Kampo medicines.

2) Research of Kampo Extracts

Many aspects of Kampo and herbal medicines, which have been used for human health since ancient times, are not well understood. Kampo formulations are made using herbal medicine ingredients, each of which comprises numerous components. Kobayashi Pharmaceutical is conducting research to clarify the myriad effects of each of these components. We are also actively tackling research with a high degree of difficulty, such as exploration of new functions, while cooperating and collaborating with experts in various fields. The findings obtained in joint research are announced at scientific conferences and other forums, and applied in product development, thereby contributing to the growth of the Kampo and herbal medicine industry.



Presentation at the 19th International Congress of Oriental Medicine

3) Extraction Research and Manufacturing of Kampo Extracts (Hefei)

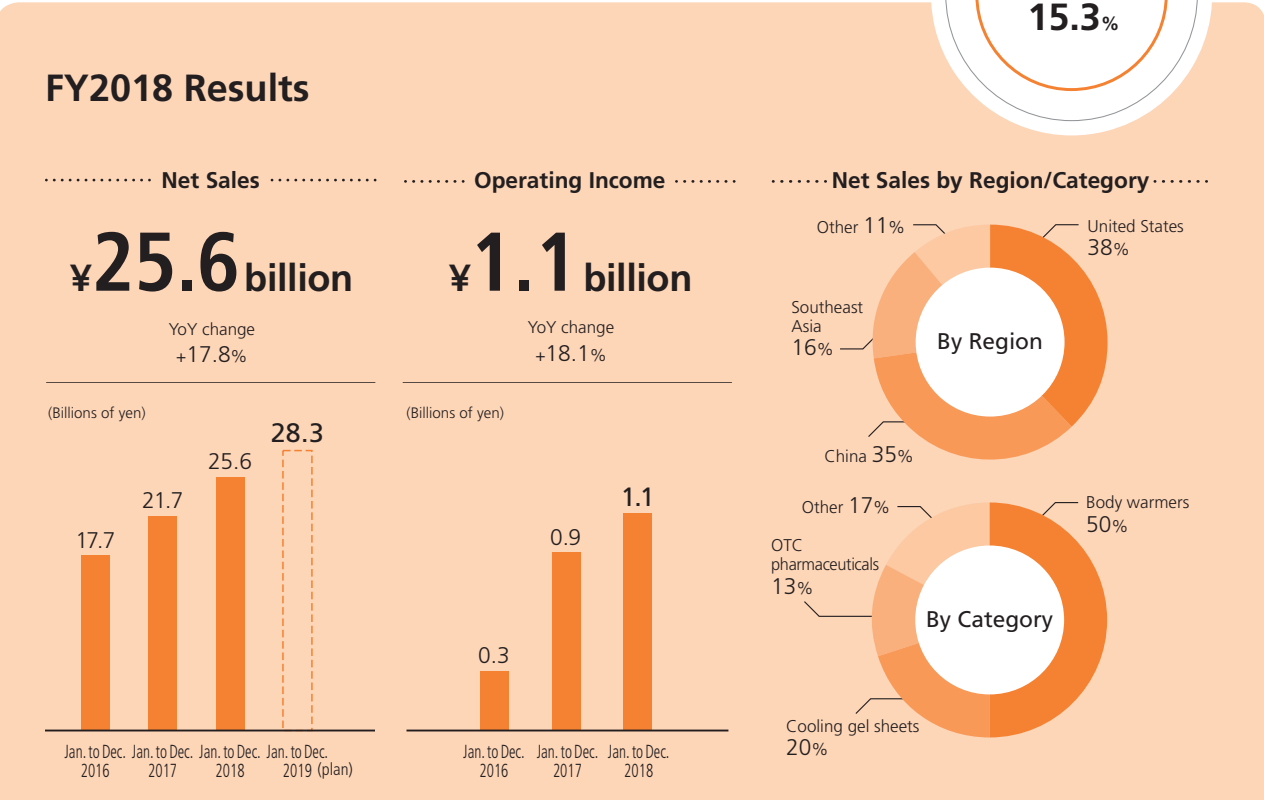
Consolidated subsidiary Hefei Kobayashi Pharmaceutical Co., Ltd. procures herbal medicine ingredients and manufactures Kampo extracts. Currently, it mainly manufactures the Kampo extracts for *Naishitol*, an anti-obesity medication, and *Chikunain*, a sinusitis medicine, and is aiming to expand the Kampo brands it manufactures.

The subsidiary will focus on high-quality Kampo extract manufacturing and research into extraction methods.



Hefei Kobayashi Pharmaceutical Co., Ltd. (Hefei, Anhui Province, China)

Overseas Consumer Products Business





HIGHLIGHT

Strengthening Sales Measures in China

Sales at Local Retail Stores and via E-Commerce

In China, we manufacture and sell *Netsusama Sheet* and body warmers, which are available for purchase at local retail stores supplied by wholesalers.

In addition to store sales, we also sell some 30 products via e-commerce, including *Keshimin Cream*, *BreathCare* and nutritional supplements.

Products Sold at Stores

Net Sales +47.5% YoY change



Binbaotie (Netsusama Sheet) Nuan Bao Bao (body warmer)

Products Sold via E-Commerce (including Cross-Border)

Net Sales +51.5% YoY change



Keshimin Cream Sarasaty Lingerie Soap Shirt Cool Oheya no Shoshugen

Our Target Consumer Journey

- We envision a consumer journey consisting of four steps:
- 1) Exposure to product via social media and online advertising
  - 2) Trial purchase at a store when visiting Japan
  - 3) Repeat purchases in stores or online after returning to China
  - 4) Promotion by word of mouth on social media
- By encouraging this purchase pattern, we intend to build brand recognition and expand sales.

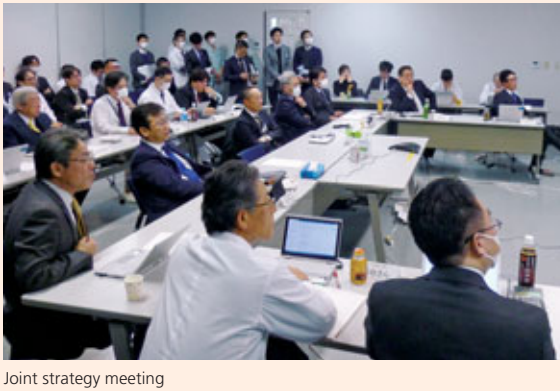


Company-Wide Cooperation

A system for Company-wide cooperation is crucial to promoting overseas business. To that end, we are now collaborating across domestic and overseas operating divisions.

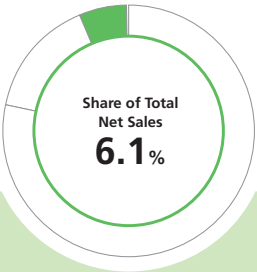
We hold a monthly joint strategy meeting attended by the president, department general managers, and other relevant personnel to address the two markets of inbound tourists visiting Japan and returnees in China.

As a result, we are able to share information and consider measures in a timely manner, make swift decisions, and move forward on overseas sales measures.

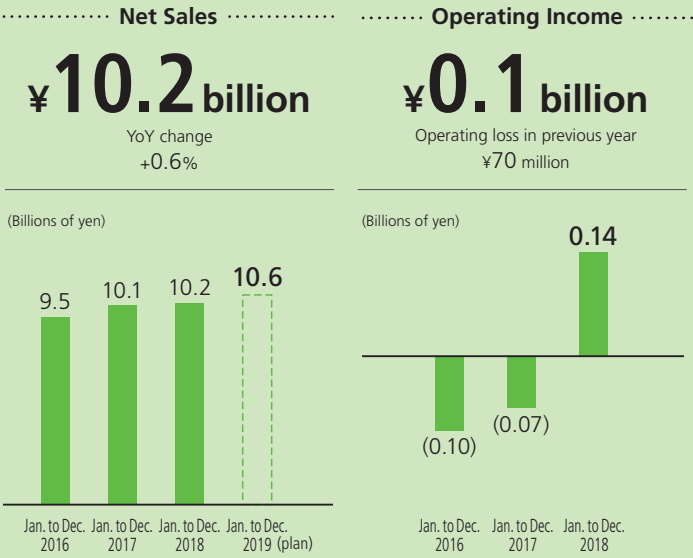


Joint strategy meeting

Direct Marketing Business



FY2018 Results



Business Overview

The Direct Marketing Business involves the sale of skincare products, health foods and other items by phone and online. Sales dropped to ¥8.5 billion in fiscal 2016/3, but have rebounded to exceed ¥10.0 billion as a result of aggressive advertising investment and the introduction of a regular delivery service. Operating income, which had been negative for two consecutive years, turned positive in FY2018.



Skincare products Health foods

Strengths	Weaknesses	Opportunities	Threats
<ul style="list-style-type: none"><li>Product development capabilities and high quality cultivated in the development of OTC pharmaceuticals</li><li>Differentiation from competitors due to direct marketing of OTC pharmaceuticals</li></ul>	<ul style="list-style-type: none"><li>Because of our emphasis on quality, new product development tends to take more time than competitors</li></ul>	<ul style="list-style-type: none"><li>The health food market is flourishing as the scope of application of Foods with Function Claims has broadened</li><li>There are examples of other companies that have achieved ¥10 billion in sales five years from the start of business, and the business overall has high growth potential</li></ul>	<ul style="list-style-type: none"><li>In the event of personal information leaks, loss of trust would impact sales</li><li>Administrative costs are trending upward with rising delivery costs and call center personnel expenses</li></ul>

2017–2018 in Review (Results and Issues)

We worked to attract new customers and encourage purchases by existing customers with sales promotions centered on advertising and direct mail.

In April 2018, we began charging customers a delivery fee,

which has slowed business growth due to an increase in customers with regular delivery plans that cancelled their contracts. On the other hand, the average order value increased, and we were able to lighten the burden of shipping costs.

Strategies for FY2019

We will establish a method of initiating development after surveying consumer needs at the early stages of development planning to assess market potential, just as we do with products sold in stores.

In addition, we will continue to make focused advertising investment in high-value-added products to develop unique and differentiated skincare products and new supplement products, which will be essential for further growth.

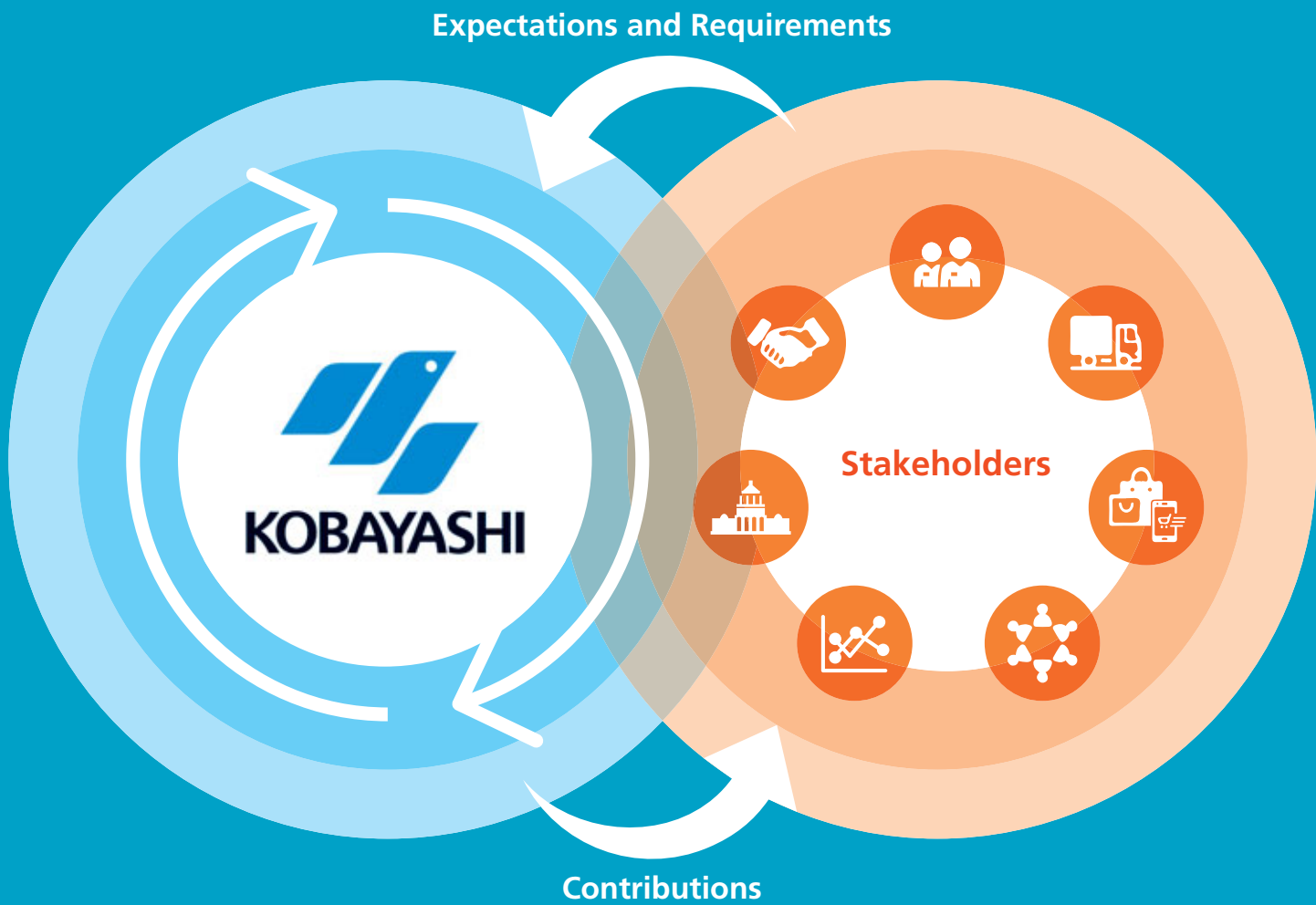


# ESG Approach and Initiatives for Sustainable Growth

Based on its Management Principles, which state that “We never stop creating and innovating in our pursuit of something new that will delight people and society,” and its corporate brand slogan, “You make a wish and we make it happen,” Kobayashi Pharmaceutical not only solves the problems of customers, but addresses underlying social issues.

Kobayashi Pharmaceutical believes that addressing ESG issues is one of the drivers of value creation, and is working to incorporate ESG into its management.

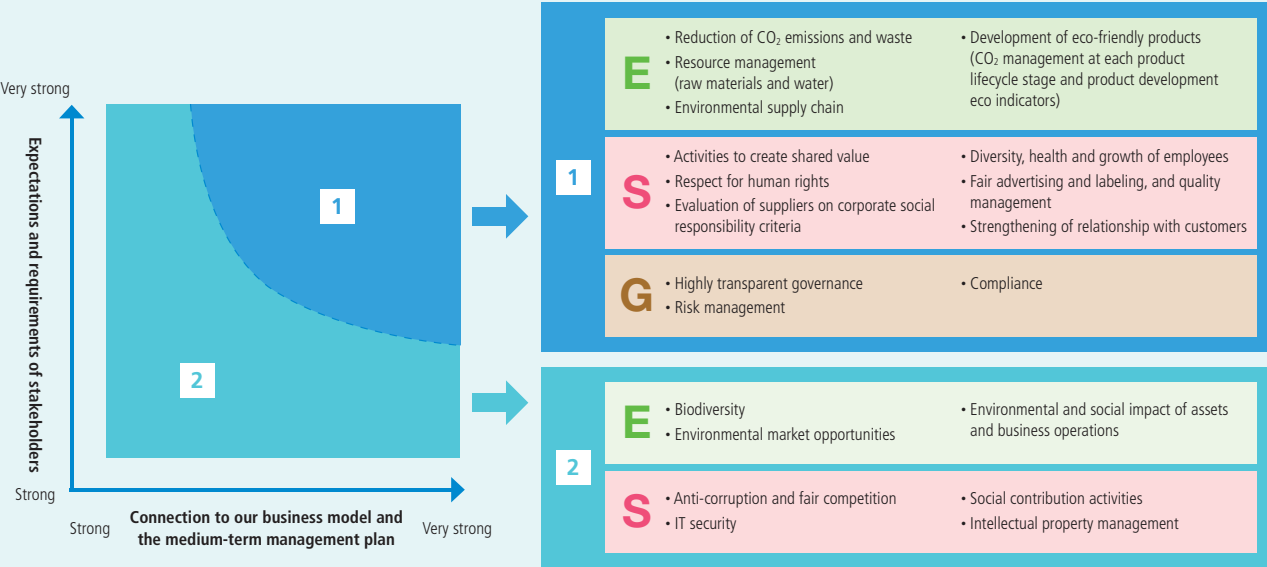
We will continue to listen to the expectations and requirements of our various stakeholders, and deliver both sound business growth and solutions to social issues, thereby contributing to the realization of a sustainable society.



## Identification of Key Issues and Implementation Process

In 2017, Kobayashi Pharmaceutical identified key issues that it should prioritize from the standpoints of “level of expectations and requirements of stakeholders” and “degree of connection to our business model and the medium-term management plan.”

The Company is currently carrying out initiatives related to these key issues.



- STEP 1 Identification of Issues**  
Identify issues that we should address based on our understanding of stakeholder expectations and requirements, referencing international guidelines on the social responsibility of organizations, including ISO 26000 and GRI guidelines.
- STEP 2 Prioritization**  
Prioritize the issues identified from the standpoints of “level of expectations and requirements of stakeholders” and “degree of connection to our business model and the medium-term management plan.”
- STEP 3 Confirmation of Validity and Finalization**  
Confirm the validity of the issues by interviewing members of management and consulting with subsidiaries and departments, then finalize issues through approval by the Board of Directors.
- STEP 4 Review (PDCA)**  
Conduct reviews based on the progress of initiatives, changes in social conditions, and requests from stakeholders, and make course corrections as necessary.

## Instilling Awareness throughout the Company

To improve management from the perspective of ESG, the Board of Directors discusses the current state of and issues relating to ESG initiatives. Key themes are also identified and the PDCA cycle is followed as a Company-wide strategy. In executive training, we provide instruction on international trends and changes in what is expected of companies. The Board exchanges opinions on Company matters such as business models and allocation of key management resources.

We are inculcating ESG among all employees by publishing a series of articles in the Group internal newsletter. In addition, FY2019 marks the incorporation of ESG elements into the Group’s management policies and the policies of each department. By making operational reforms and changing the mindset of employees so that they consider ESG issues in their day-to-day work, we will promote ESG as a Group-wide effort in pursuit of sustainable growth.

### SUSTAINABLE DEVELOPMENT GOALS

17 GOALS TO TRANSFORM OUR WORLD



The Sustainable Development Goals (SDGs) adopted by all member states of the United Nations in 2015 are common global goals to be achieved by 2030.

Kobayashi Pharmaceutical will contribute to building a sustainable society through its business activities and ESG initiatives.



E Environmental



Basic Approach

Kobayashi Pharmaceutical established the Kobayashi Environmental Statement and the Environmental Action Guidelines in December 2001 to further enhance environmental conservation activities based on its Management Principles. By sharing the statement and guidelines throughout the Group, we have worked to increase awareness about environmental conservation. In February 2019, they were updated as the “Kobayashi Pharmaceutical Group Environmental Statement 2030” and the “New Environmental Action Guidelines,” respectively, taking into account international developments related to climate change and the global environment, such as the Paris Agreement and the SDGs.

We will work toward sustainable growth in response to the expectations and requirements of stakeholders, with the statement and guidelines serving as standards for advancing our environmental activities based on their clear statement of our commitment to contributing to solutions.

Kobayashi Pharmaceutical Group Environmental Statement 2030

We at the Kobayashi Pharmaceutical Group never rest in our pursuit of something new that will delight people and society. We believe that we are able to deliver what customers wish for because we have the support of a rich natural environment.

Together with customers, business partners and communities, we will make a strong commitment to global environmental issues, such as prevention of global warming and preservation of resources and biodiversity, and generate ideas to solve those issues.

New Environmental Action Guidelines

1. Legal and Regulatory Compliance; Independent, Proactive Task-Setting and PDCA

In addition to abiding by environment-related laws, regulations and agreements in each of our business areas, we set our own tasks, establish medium- and long-term environmental targets and standards, generate ideas and implement the PDCA cycle.

2. Response to Climate Change

We recognize that climate change can have a significant impact on our business. At each stage of our business operations we will implement greenhouse gas reduction measures, including more efficient energy usage and conversion to renewable energy.

3. Consideration for Resources and Biodiversity

To reduce depletion and contamination of underground resources, biological resources and water resources, and other environmental impacts, we will give consideration to resource conservation, use of alternative resources and biodiversity at each stage of our business operations.

4. Reduction and Recycling of Waste; Appropriate Chemical Substance Management

We will recycle waste generated at each stage of our business operations, reduce the volume of waste and improve our recycling rate. In addition, we will ensure the proper management of chemical substances used in our research and development and manufacturing operations.

5. Development and Provision of Eco-Friendly Products and Services

We work to develop environmentally friendly products by establishing indicators and standards for the reduction of environmental impact in the design, procurement, manufacturing and use of products and services. We also strive to deliver environmental value in tandem with new value for customers.

6. Initiatives throughout the Supply Chain

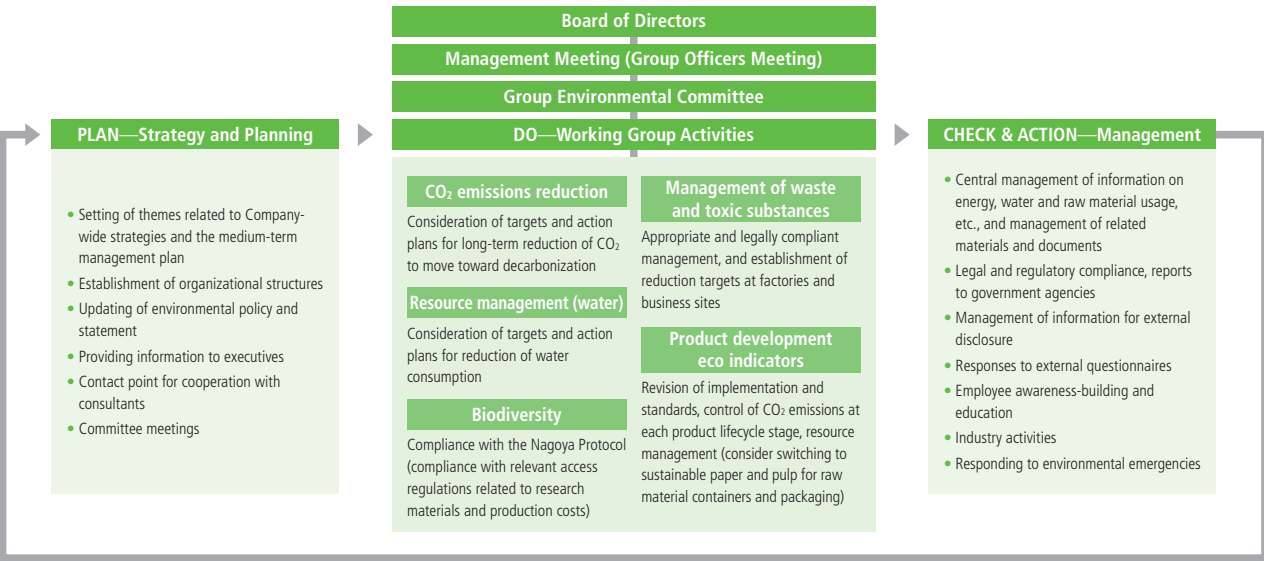
We set procurement standards and promote environmental initiatives throughout the entire supply chain, including at our suppliers.

7. Sharing of Action Guidelines and Enhancement of Environmental Awareness

We share these guidelines with management and all employees, and work to raise their awareness of environmental conservation through various initiatives and educational activities. In addition, we disclose targets and details of initiatives based on these guidelines, as well as progress updates, to stakeholders.

Environmental Management System

In order to strengthen our environmental management system, in 2018 we enhanced the Group Environmental Committee, which began discussions on matters such as what the Group should strive for in the medium and long term, and the re-examination of environmental issues. The Committee is structured to enlist the commitment of all department managers related to product development, and working groups for specific themes have been established under its auspices. The General Affairs Department and Management Planning Department work together to strengthen the PDCA cycle and provide support for the working groups.



Progress toward Medium-Term Targets for Reduction of Environmental Impact

We have set medium-term targets for FY2020 for reduction of the impact of our business operations on the environment.

In CO<sub>2</sub> reduction, a priority issue, our aggressive energy conservation efforts at factories and offices resulted in a 30.5% reduction in emissions per unit of sales in FY2018 compared with fiscal 2005/3, substantially exceeding our target.

Themes	Relevant departments	FY2018 targets	Action plans implemented in FY2018	FY2018 results	FY2020 medium-term targets
Energy conservation CO <sub>2</sub> reduction	Manufacturing	Emissions per unit of sales 26.3% reduction vs. fiscal 2005/3 (0.119 t-CO <sub>2</sub> /million yen)	<ul style="list-style-type: none"><li>Conversion to LED lighting</li><li>Reduction of process loss</li><li>Upgrading to energy-saving equipment (cooling systems, air conditioning, gas boilers)</li><li>Switching of boiler fuel</li><li>Conversion to low-carbon electricity</li></ul>	Emissions per unit of sales 30.5% reduction vs. fiscal 2005/3 (0.112 t-CO <sub>2</sub> /million yen)	Emissions per unit of sales <sup>1</sup> 20% reduction vs. fiscal 2005/3 (Fiscal 2005/3: 0.162 t-CO <sub>2</sub> /million yen) (FY2020: 0.129 t-CO <sub>2</sub> /million yen)
	Offices	Total emissions (including from sales vehicles) 30.1% reduction vs. fiscal 2005/3 (3,400 t-CO <sub>2</sub> )	<ul style="list-style-type: none"><li>Implementation of summer dress code</li><li>Encouraging employees to leave early</li><li>Control of air-conditioning settings</li><li>Encouraging environmentally friendly driving</li><li>Conversion to LED lighting</li><li>Control of regular energy use</li></ul>	Total emissions (including from sales vehicles) 33.2% reduction vs. fiscal 2005/3 (3,250 t-CO <sub>2</sub> )	
Waste reduction	Manufacturing	—	<ul style="list-style-type: none"><li>In-house recycling of unsold products</li><li>Separation and sale of containers and packaging</li></ul>	Increase in volume of waste generated	—
Recycling	Manufacturing	Recycling rate of 99.5% or higher across all businesses	<ul style="list-style-type: none"><li>Reduction of production losses, and separation and collection of waste materials</li></ul>	99.2% recycling rate	99.5% or higher
Chemical substance management	Manufacturing	Maintain emissions of substances subject to the PRTR Act below 100 kg at all factories	<ul style="list-style-type: none"><li>Switch to alternative raw materials</li></ul>	Zero release of chemicals into the atmosphere, water and soil (however, the transfer amount exceeded 100 kg at some factories)	Emissions of substances subject to the PRTR Act below 100 kg at all factories
Resource conservation	Manufacturing	Expansion of eco-friendly products	<ul style="list-style-type: none"><li>Research on thinning and structure of containers and packaging</li></ul>	Made containers and packaging for major products thinner and simpler	Expansion of eco-friendly products
Green procurement and purchasing	Manufacturing	Strengthening of relationships with partners	<ul style="list-style-type: none"><li>Examination of survey items and study of survey methods</li></ul>	Supported energy conservation efforts of partners	Strengthening of relationships with partners

1. We began setting medium-term targets for emissions per unit of sales starting with FY2020.

E Environmental

Setting of New Long-Term Target for Reduction of CO<sub>2</sub> Emissions and Participation in Initiatives

Among all ESG issues, Kobayashi Pharmaceutical places the highest priority on addressing climate change. We revised our CO<sub>2</sub> emissions reduction targets based on the Paris Agreement that was adopted in 2015, and set a new long-term target: a 34% reduction in the Group's total CO<sub>2</sub> emissions (Scope 1 and 2)<sup>1</sup> from 2017 levels by 2030. Measures to reduce CO<sub>2</sub> emissions include introducing zero-carbon electricity, primarily at our main domestic factories, which generate substantial carbon emissions. In the future, we will set a reduction target for Scope 3 emissions<sup>2</sup> and reduce CO<sub>2</sub> emissions across our entire supply chain. Furthermore, we joined the Japan Climate Initiative (JCI)<sup>3</sup> in October 2018 with the objective of working on climate change issues in collaboration with other companies and organizations. In November 2018, we signed a commitment to the Science Based Targets (SBT)<sup>4</sup> initiative, declaring our intention to set a long-term reduction target.

We plan to submit that target and receive validation within the next two years. To implement the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD),<sup>5</sup> we conducted scenario planning, ascertained our risks and opportunities as a company, and the impact they have, and are preparing to disclose countermeasures. As the world accelerates efforts to realize a decarbonized society in the long term, we are also committed to taking aggressive steps to address the climate change issue.

1. Scope 1: Direct emissions from sources owned or controlled by the Company  
Scope 2: Indirect emissions associated with use of electricity or other energy supplied by other companies  
2. Indirect emissions not covered under Scope 1 and 2  
3. JCI website: <https://japanclimate.org/english>  
4. SBT initiative website: <https://sciencebasedtargets.org>  
5. TCFD website: <https://www.fsb-tcfd.org>



One of our main domestic factories (Sendai Kobayashi Pharmaceutical Co., Ltd.)



Group Environment Committee meeting

Sustainable Manufacturing

Reduce

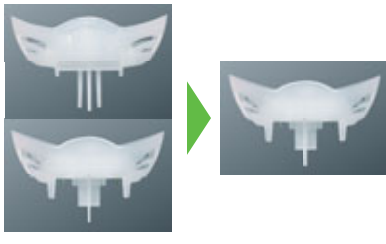
In designing products, we are working to reduce the amount of materials used in ways such as making plastic parts thinner, reducing the number of parts, and improving the design of outer boxes. We are also taking steps to minimize waste disposal volume. In FY2018, for *Itoyoji* dental floss picks we reduced the amount of material discarded in the manufacturing process, and for *Bluelet Stampy* we reduced the total number of parts by replacing the existing cap and stand design with a cap that can function as a base.



Before improvement After improvement  
Example: *Bluelet Stampy*

Reuse

We are promoting the use of refillable and replaceable products. For *Liquid Bluelet Okudake*, which accounts for a significant portion of sales in our Domestic Consumer Products Business, we improved the bottom container to make it interchangeable across product variations, a long-standing goal that was difficult to achieve due to properties of the structural design. This will help promote the use of replaceable products among customers.



Before improvement: Structure of bottom container varied by product  
After improvement: Interchangeable across product variations

Recycle

In 2019, we partnered with TerraCycle Japan to launch a program for collecting and recycling used *Liquid Bluelet Okudake* containers. The recovered containers are recycled into raw material for new plastic products. By providing places to recycle used containers that were previously discarded, we will contribute to the circular economy.



*Liquid Bluelet Okudake*

Renewable

We have begun to switch to plant-based materials for our aluminum foil-lined pouches. Specifically, 20% of the weight of pouch packaging of *Tochucha* (eucommia leaf tea) that was previously petroleum-derived polyethylene is now plant-based polyethylene. We will continue to convert to plant-based polyethylene and other renewable materials for product packaging.



*Tochucha*

Frontline Comment

We will update and utilize product development eco indicators

Kobayashi Pharmaceutical set "product development eco indicators" in FY2011 as its own set of standards to support eco-friendly product development. To further reduce our environmental impact, we are currently revising evaluation criteria and improving the way we use these indicators, thereby providing a quantitative picture of our environmental impact during product development. In FY2019, we added a new eco team to our organizational framework. This team is charged with exploring technologies for reducing the environmental impact of manufacturing operations, and compiling evaluations from a green perspective. As a unit that is independent from regular development teams, the eco team will work on development in cooperation with development teams to bring the green perspective of our overall product development to a higher level. We will apply and firmly establish the revised eco indicators in our development operations. In the future, we plan to introduce an in-house certification system and work to develop a framework for quantitatively understanding our CO<sub>2</sub> emissions and other environmental impacts.



**Nobuyuki Murata**  
General Manager, Technical Development Department of Household Products, Engineering, Purchasing and QC Division

Frontline Comment

Steadily Reducing CO<sub>2</sub> Emissions through the PDCA Cycle

The CO<sub>2</sub> emissions reduction working group was launched in 2018. Members have been holding discussions on our policies for addressing the issue of climate change and long-term reduction targets, after looking at global climate change trends and our current CO<sub>2</sub> emissions. At manufacturing facilities, which account for a large share of Kobayashi Pharmaceutical's CO<sub>2</sub> emissions, we have focused on energy-saving activities for many years and worked to improve energy efficiency. In that regard, we looked at factories and held discussions with managers to consider further measures to curb CO<sub>2</sub> emissions. The working group set a long-term CO<sub>2</sub> reduction target of a 34% reduction from 2017 levels by 2030 (Scope 1 and 2). It presented a detailed reduction plan, which was approved by the Group Environmental Committee, the Management Meeting and the Board of Directors. This was a major step in Kobayashi Pharmaceutical's climate change countermeasures. We will now focus on executing the reduction plan, improving disclosure, including implementation of TCFD recommendations, following up on the initiatives to which we are signatories, and conducting employee awareness activities. In so doing, we will make a greater contribution to the realization of a carbon-free economy.



**Saori Sakata**  
General Affairs Department, Legal and General Affairs Division, Corporate Headquarters



S Social



Basic Approach

Kobayashi Pharmaceutical seeks to deliver both social value and economic value through its business activities, applying the approach that is expressed in our corporate brand slogan,

“You make a wish and we make it happen.” In so doing, we collaborate and cooperate with a wide range of stakeholders, including NPOs, local communities and governments.

Relationships with Stakeholders

Employees

We foster an environment that encourages open and active communication to make Kobayashi Pharmaceutical a company where employees can grow and are proud to work.

Suppliers

We pass on the benefits of cost reductions and support effective use of technologies and equipment based on fair business practices.

Governments and Industry Groups

We contribute to advances made by governments and the industry as a whole by appropriately educating and providing information to consumers.

Investors and Shareholders

We strive to enhance corporate value at a high level. We also carry out necessary and ample disclosure of information.

Customers (Retailers)

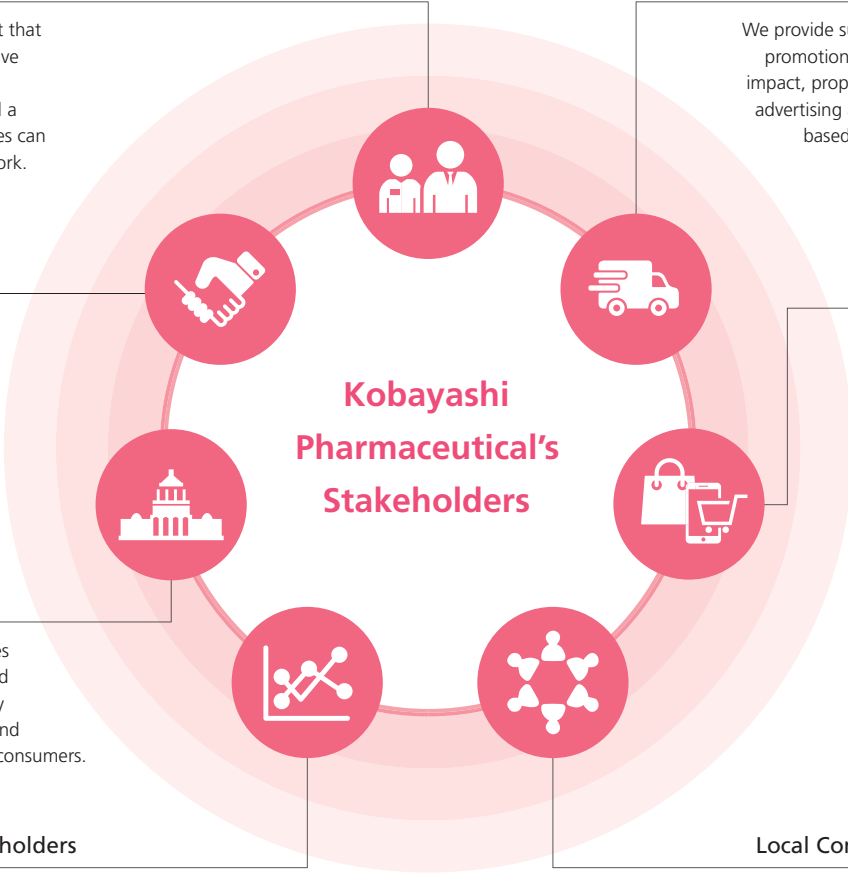
We provide support in the form of sales promotion plans with high economic impact, proposals for merchandise mix, advertising and pertinent information, based on fair business practices.

Customers (Consumers)

We continuously develop and bring to market products that solve customer problems and deliver what customers wish for. Complying with all relevant laws and regulations, we seek to provide quality products that customers can use safely and with confidence.

Local Communities and NPOs

In addition to providing donations and economic support, we turn ideas for solving social issues into reality, and provide promotional support.



Creation of Social Value

A prime example of how Kobayashi Pharmaceutical creates social value is *Inochi no Haha A*, a women’s health medicine. In connection with the *Inochi no Haha* brand, we support

Support for Valerian Farms

In locations including Hokkaido in northern Japan, we support producers of Japanese valerian, the plant that is the main raw ingredient of *Inochi no Haha A*, as part of our initiatives to create shared value. We help to support stable production of valerian by working with public and private entities and producers on the development of the agricultural machinery and washing equipment necessary pre- and post-harvest. In so doing, we contribute to the business stability of producers and obtain stable supplies of high-quality, domestically produced herbal medicine.

production of Japanese valerian, the product’s main raw ingredient, and promote understanding of women’s hormonal balance through internships and other efforts.



Promoting Understanding of Women’s Hormonal Balance

*Inochi no Haha A*, a women’s health medicine, carries on our century-long commitment to supporting the mental and physical health of women. In Japan, people’s awareness about hormones is still relatively low, and there is a tendency to treat gynecological conditions after they are diagnosed rather than attempt to prevent them. This leads to problems such as women having to pass up career opportunities or resign from jobs. To raise awareness of women’s hormonal balance, Kobayashi Pharmaceutical offered job-seeking students an internship involving the production of a TV commercial about *Inochi no Haha White*. The process of making the commercial was documented on film and widely shared. Through such efforts, we will promote understanding of women’s hormonal balance so that women can continue to work at their full potential.



Future Issues and Themes

While expanding the contribution we make with the *Inochi no Haha* brand, we will also promote the creation of shared value with other brands. We will continue to conduct business activities

in a way that solves the problems of customers and the underlying societal problems.

Feedback from Interns

- “We were able to exchange opinions beyond the ideas we are normally exposed to. I felt that this will be a great help in my life in the future.” (Male)
- “The experience made me realize that female hormonal changes and the menstrual cycle need to be given greater attention.” (Female)
- “We succeeded in creating new value by respecting others, recognizing our own shortcomings and working together as a team.” (Male)
- “I learned to think about how to convey ideas from the perspectives of both sender and receiver.” (Female)

S Social

Relationship with Employees

Our relationship with employees is vital for achieving ongoing improvement in corporate value. Accordingly, we will promote

workplace diversity in addition to accelerating the growth of employees and implementing work-style reforms.

Human Resource Development

Based on our value that “every employee plays an important role,” we view the growth of employees as a driver of the Company’s growth, and therefore focus on developing their potential.

Growth Dialogues

We have established regular “growth dialogues” as opportunities for discussion between employees and supervisors to support employee growth. A dialogue sheet is used to help visualize career goals and ideas for growth, and employees get immediate recognition for growth from their supervisors. Providing feedback through regular dialogue is a key motivator for further growth.

Selection Education

We conduct a selection education program called “Kobayashi University,” with Chairman of the Board and CEO Kazumasa Kobayashi serving as university president, to polish management acumen from an early stage and cultivate future executive candidates. In K-Management School courses, which are mainly for the department manager class, the chairman and other executives do the teaching, and actively engage with the students. Through management meeting role-playing and other techniques, students learn how to view things and make decisions as a manager, and above all, learn the DNA of the Kobayashi Pharmaceutical Group.

Work-Style Reforms

Starting with establishment and maintenance of the compliance system, we are seriously committed to work-style reforms with the aim of enhancing work-life balance and raising labor productivity.

Shortening Working Hours

Working as long as it takes to get results is no longer acceptable. We are shifting to management that places greater weight on high-value-added work and pursues results in line with working hours. We believe that raising productivity by encouraging more efficient ways of working, and safeguarding the mental and physical health of employees by eliminating excessive overtime work will improve the Company’s competitiveness.

Support for Child Care and Family Care

Kobayashi Pharmaceutical has introduced support systems such as shortened workdays, staggered working hours, time off and temporary leave to lighten the burden on employees and enable them to balance work with child care and family care. Our *Family Friendly Book* outlines all Company systems that employees can use for child care and family care and is available on our intranet, and systems are also highlighted in our internal newsletter – just two examples of how we publicize and promote understanding of systems to create a supportive work environment.

Diversity

The presence of employees with diverse backgrounds and perspectives, including age, gender and nationality, is essential in developing products that create new markets. Two people looking at the same thing see it differently depending on their standpoint and perspective. By attracting diverse people who can offer alternative perspectives, we can realize product development and advertising based on understanding of wider-ranging customer needs.

Promotion of Women to Management Positions

Empowering women in the workplace is another important management issue at Kobayashi Pharmaceutical. We are continuing efforts to expand the percentage of management positions held by women (9.1% in FY2018).

Introduction of Diversity Index

We conduct an online test called the Diversity Index to quantify the degree of understanding and practical application of diversity policies in the workplace. This helps to promote understanding and raise awareness among employees, and accelerates our efforts relating to diversity.

Relationship with Society

The Kobayashi Foundation Establishment

The Kobayashi Foundation (“the Foundation”) was established in 2017 as one of the projects to mark Kobayashi Pharmaceutical’s 100th fiscal period since incorporation. In the past we have carried out a variety of social contribution activities. However, establishing the Foundation created a structure for conducting more specialized activities on an ongoing basis without affecting our business operations. The Foundation funds its activities with dividends on the shares of Kobayashi Pharmaceutical stock that it holds. In December 2017, the Foundation received authorization for incorporation as a public interest corporation, and is now conducting its third term of activities.

Award Recipient: NPO Florence

NPO Florence is an organization that seeks to create a society in which parents and guardians can raise children with peace of mind. It helps solve problems relating to childrearing, including care for sick children, single parenting, waiting lists for childcare services, daycare for children with disabilities, parental isolation, and abuse-related infant mortality. NPO Florence received recognition as part of the Foundation’s FY2017 award program for the opening of Oyako Kichi Shibuya, a new kind of childcare facility.




Childcare at Helen Nursery School for Children with Disabilities

Activities

The Foundation’s purpose is to provide support for children with disabilities or illnesses, as well as their families – in short, to identify their wishes and address them. By soliciting applications from a wide range of people and organizations working in this field, and supporting their activities, the Foundation aims to contribute to bringing greater delight to society as a whole. In FY2018, we provided grants and awards totaling ¥30 million to 11 projects out of 35 applications. The Foundation will continue to gather information to assist those in need of support and publicize its programs.

Comment from NPO Florence Founder Hiroki Komazaki

Oyako Kichi Shibuya is Japan’s first multifunctional childcare facility that combines four services – a nursery school for children with disabilities, a licensed nursery school, a childcare facility for children with special healthcare needs, and a pediatric clinic. Our initial costs (operation, equipment costs, etc.) were covered by donations and grants from individuals, corporations, foundations and others. Thanks to the award from the Kobayashi Foundation, we were able to buy many of the supplies we needed, such as medical devices for children who need medical care and toys for children with special needs. We are sincerely grateful.



Hiroki Komazaki, President & CEO, NPO Florence

Comprehensive Cooperation Agreement with Osaka Prefecture

In November 2018, Kobayashi Pharmaceutical and Osaka Prefecture signed a comprehensive cooperation agreement. The goal is to further deepen cooperation and collaboration between Osaka Prefecture and Kobayashi Pharmaceutical in initiatives for creating character-rich and attractive communities through regional revitalization. The agreement covers seven categories, of which our main focus shall be health, environment, and children and welfare.



Agreement signing ceremony



# G Governance

## Basic Policy

To achieve sustainable growth, Kobayashi Pharmaceutical believes it is important to balance an environment that supports a healthy risk appetite with adequate oversight of management.

Our management structure centered on the founding family enables speed-oriented management, strong employee loyalty, bold decision-making, and management with a long-term perspective. On the other hand, there is also a risk that this may give rise to self-serving management, so robust corporate governance is essential, and we have introduced a range of systems and structures.

## Management Structure

Responsibility for the execution of management resides with executive officers, led by the president and COO, while management oversight functions are performed by the Board of Directors, chaired by the chairman and CEO. We have appointed three independent outside directors among the eight directors, and optimize the number of directors from the standpoint of energizing the Board of Directors.

## Selection of Officers

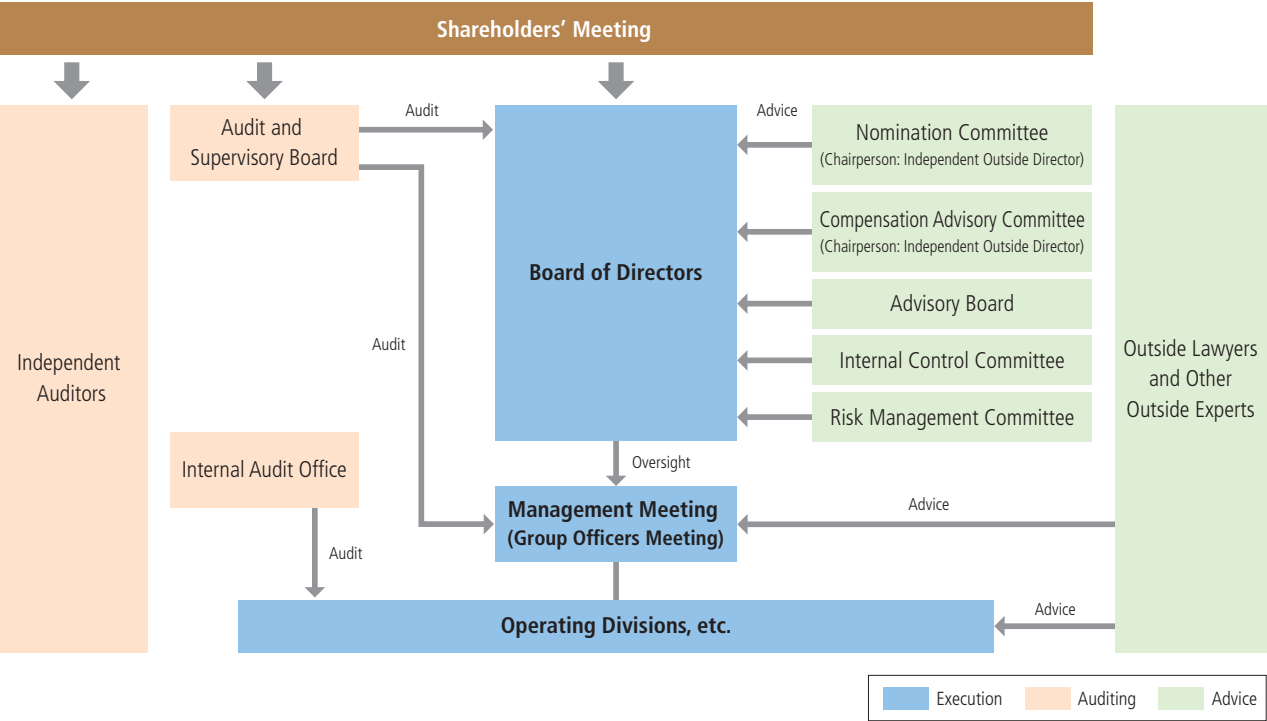
Candidates are selected based on consideration of the right person for the right job in each business unit in the case of executive officers to incorporate a wide range of knowledge and insight throughout the Company's operations. Candidates are appointed or designated as candidates after discussion by the

In addition, we have an exceptionally open and transparent corporate culture in which employees can voice their opinions to anyone. For example, we proactively give frontline employees opportunities to express their candid opinions directly to top management. Based on our recognition that corporate governance objectives cannot be achieved by enhancing systems and structures alone, we believe that maintaining and developing this corporate culture is also an effective means of corporate governance.

To ensure the fairness of the decision-making process for appointment and compensation of directors and other officers, we have established a Nomination Committee and Compensation Advisory Committee. We have also set up an Advisory Board consisting mainly of independent outside directors and representative directors to provide a structure for obtaining necessary advice on major management issues.

Nomination Committee and the Board of Directors.

Decisions on Audit and Supervisory Board candidates are made after the Board of Directors has obtained the approval of the Audit and Supervisory Board on persons who have the requisite knowledge and insight to perform audit work.



## Incorporating Outside Perspectives

When appointing independent outside directors and outside Audit and Supervisory Board members, in addition to having a wealth of experience and knowledge, an important criterion is whether they can clearly express their views to internal directors and executive officers. Independent outside directors and outside Audit and Supervisory Board members actively speak up and engage in lively discussions at Board of Directors meetings.

In this way, an open atmosphere is fostered at Board of Directors meetings, and votes on proposals that are the subject of heated debate are often divided.

Two of our officers are women (one outside director and one outside Audit and Supervisory Board member), thus broadening the diversity of perspectives.

### Reasons for Appointment of Outside Officers

Name	Reasons for Appointment
Haruo Tsuji	A former company president, Mr. Tsuji has a wealth of experience and insight in corporate management, and has helped to strengthen the Board's management oversight function. With a solid understanding of all aspects of the Company's businesses, he has made constructive statements that enhance the transparency and fairness of the Company's management, and has made recommendations at Board meetings based on the viewpoints of stakeholders in his position independent of the Company. Based on this experience and track record, we judged that he is qualified to continue serving as an outside director, and nominated him as a candidate for the office. He was elected at the General Meeting of Shareholders.
Kunio Ito	Mr. Ito has researched accountancy and business administration for many years as a university professor, served as an outside director of other companies, and played a central role in a governmental study group on the sustainable growth of companies. At Kobayashi Pharmaceutical, based on the knowledge he gained through these activities, he has fulfilled a management oversight function focused on the enhancement of corporate value. Based on this experience and track record, we judged that he is qualified to continue serving as an outside director, and nominated him as a candidate for the office. He was elected at the General Meeting of Shareholders.
Kaori Sasaki	In addition to her achievements and insights as a manager, Ms. Sasaki has extensive experience in corporate management as an outside director or auditor in other companies. Furthermore, as the founder and chair of the International Conference for Women in Business, she has been a pioneer in promoting the empowerment of women for many years. She is well versed in work-style reform and has contributed to the enhancement of corporate value in various ways, such as by reflecting stakeholders' views and opinions at Board meetings from the perspective of diversity. Based on this experience and track record, we judged that she is qualified to continue serving as an outside director, and nominated her as a candidate for the office. She was elected at the General Meeting of Shareholders.

### Outside Audit and Supervisory Board Members

Name	Reasons for Appointment
Ryuji Sakai	As an attorney, Mr. Sakai has the requisite legal expertise to assess the appropriateness of business activities, and has an extensive track record of cases involving important business decisions. He has utilized this expertise and experience in auditing the Company's business activities, and has made perceptive and discerning remarks in Board of Directors' meetings and Audit and Supervisory Board meetings. As a result, we judged that he can continue to properly perform the duties of an outside Audit and Supervisory Board member and nominated him as a candidate. He was appointed at the General Meeting of Shareholders.
Yoko Hatta	Ms. Hatta worked at a tax accounting firm and has considerable expertise in international tax matters. As well as serving as an outside officer of other companies, she has long served as an auditor of a university. Based on this expertise and experience, she has properly performed audits of the Company's business activities related to global business operations. As a result, we judged that she can continue to properly perform the duties of an outside Audit and Supervisory Board member and nominated her as a candidate. She was appointed at the General Meeting of Shareholders.

## Compensation of Directors

Directors receive an annual salary linked to the Company's business performance. The amount is calculated based on individual results, taking into account the Company's results (net sales, EPS and ROE) for the business year and the degree to which the division(s) the director is responsible for achieved objectives in the medium-term management plan. The purpose of this structure is to enhance Company performance and to increase the incentive of directors to achieve the objectives of their division(s).

Each director's compensation is discussed by the Compensation

Advisory Committee (consisting of outside experts, outside directors, representative directors of the Company and the director in charge of personnel), which is chaired by an outside director, and the results of that discussion are placed on the agenda of the Board of Directors, which makes the final decision. In the past, stock options as stock-based compensation have also been introduced as a Company-wide program, and we will continue to consider and introduce such programs as needed.

### Total Amount of Compensation by Position, Types of Compensation and Number of Officers Receiving Each Type of Compensation

Officer title	Total amount of compensation (Millions of yen)	Total amount of compensation by type (Millions of yen)				Number of officers
		Basic compensation	Stock options	Bonuses	Retirement bonuses	
Directors (excluding outside directors)	662	662	—	—	—	6
Audit and Supervisory Board members (excluding outside members)	42	42	—	—	—	2
Outside officers	81	81	—	—	—	5

- Notes: 1. Directors of the Company do not receive payment of salaries as employees other than the above payment amounts.
2. The upper limit on total compensation for directors was set at ¥900 million per year (including ¥100 million for outside directors) at the 97th General Shareholders' Meeting held on June 26, 2015.
3. The upper limit on total compensation for Audit and Supervisory Board members was set at ¥80 million per year at the 91st General Shareholders' Meeting held on June 26, 2009.
4. Includes compensation paid to directors who retired at the close of the 100th General Shareholders' Meeting held on March 29, 2018.

### Total Amount of Compensation of Officers Receiving Compensation of More Than ¥100 Million

Name	Position	Total amount of compensation by type (Millions of yen)				Total compensation (Millions of yen)
		Basic compensation	Stock options	Bonuses	Retirement bonuses	
Kazumasa Kobayashi	Chairman and CEO	289	—	—	—	289
Yutaka Kobayashi	Vice Chairman of the Board	188	—	—	—	188

G Governance

Reforming the Board of Directors

Assessment of the Board of Directors

Kobayashi Pharmaceutical recognizes that vigorous discussion by the Board of Directors is vital to corporate governance, and to increasing corporate value. Accordingly, an assessment of the effectiveness of the Board of Directors was conducted in November and December of 2018. For the assessment, a questionnaire and individual interviews on the operation, discussion points and functions of the Board of Directors were conducted for all directors and Audit and Supervisory Board members, and problems and future issues concerning the Board were identified.

Based on the results of the questionnaire, the Board of Directors Assessment Meeting, which consists of all outside officers (three outside directors and two outside Audit and Supervisory Board members), was held in December. Feedback was provided to the Board of Directors on the assessment results determined at that meeting, and will be used to further improve the Board’s oversight and decision-making functions. Issues identified by the assessment are outlined below.

Summary of Assessment Results

For most themes, the Board received an assessment of “generally adequate,” but the following themes were identified as having room for improvement.

Issues	Assessment
1) Discussion of topics that indicate the direction of management strategy, such as the medium-term management plan and ESG initiatives	The Board received high marks for having more free and open exchange of opinions than in FY2017, as reflected by the steady increase in the percentage of Board of Directors meetings with discussions on the medium-term management plan and ESG initiatives. However, increasing the involvement of outside officers in formulation of the medium-term management plan, and strengthening strategic discussion and periodic review of important matters, particularly overseas business and M&A, were identified as issues for improvement. Addressing these issues will lead to a greater proportion of Board discussions that take medium-to-long-term perspectives and strengthen the Board’s oversight role.
2) Appropriate review of the progress of the medium-term management plan and important matters concerning business execution	
3) Items concerning internal controls over compliance and financial reporting, and establishment/operation of a proactive risk management system	The Board was positively evaluated for identifying the Company’s potential future risks and selecting the most serious risks through its operation of the Risk Management Committee. On the other hand, topics that are not being adequately discussed were also identified, including compliance, internal controls, and enhancement of measures related to Group-wide risks. Therefore, discussion of the most important risks will systematically be placed on the agenda at future Board of Directors meetings.
4) Discussions in Board of Directors meetings based on advice from the Nomination Committee and the Compensation Advisory Committee	The Board was positively evaluated for conducting appropriate discussions in each committee. However, following reaffirmation that the level of discussion required of the Board of Directors is rising, the Board will continue making efforts to increase the objectivity and transparency of discussions in committee meetings and Board of Directors meetings.
5) Discussions concerning management decisions taking into account work-style reforms, successor plans for the CEO and other top executives, capital efficiency and cost of capital	The Board has begun efforts for improvement, but the need to discuss these topics more specifically was pointed out. By incorporating these issues as priority themes in the yearly schedule, the Board will accumulate more expertise and conduct discussions that lead to enhancement of corporate value, and ultimately the sustained growth of the Company.

Risk Management

Kobayashi Pharmaceutical groups risks into three categories, and has set up frameworks to manage risk in each category.  
For medium-to-long-term risks (potential risks), the Risk Management Committee chaired by the president was established in 2017 and has begun comprehensive activities to identify business risks from a long-term perspective and to take action before they develop into specific problems. In 2018, after discussions in four meetings of the Risk Management Committee, which included training by outside experts, we identified high-priority Group-wide risks as medium-to-long-term risks that should be reduced with the involvement of management. General managers are now leading risk reduction activities for high-priority Group-wide risks utilizing a framework for formulating and

monitoring the progress of risk reduction plans, and regularly reporting on progress to top management. The Board of Directors will continue to reassess high-priority Group-wide risks, and carry out appropriate risk management while monitoring the internal and external environments.  
Regarding short-term risks, the Monthly Report Committee aggregates and considers responses to all departmental risk information. In addition, we are establishing a structure in which the Management Meeting will take measures to address risks that are judged to require the involvement of management. When a crisis occurs, a Crisis Management Headquarters will be set up immediately to quickly implement response measures.

	Risk Management Committee	Monthly Report Committee/ Management Meeting	Crisis Management Headquarters
Main Risks	Medium-to-long-term risks (potential risks)	Short-term risks	Occurrent crises
Committee Chair	President	Senior General Manager of Corporate Administration Headquarters/President	President

Internal Controls

Kobayashi Pharmaceutical is building internal frameworks to ensure that operations are conducted and financial statements are prepared in compliance with the Companies Act and the Financial Instruments and Exchange Act of Japan, and to adhere to relevant laws and regulations. As part of these frameworks, the Internal Control Committee meets twice each year. This committee oversees the Kobayashi Pharmaceutical Group’s internal control system and compliance framework, while also consulting with outside attorney advisors. Based on its work, the committee issues the Board of Directors with recommendations and advice on measures concerning internal controls and compliance.

Compliance Framework

We systematically provide a variety of 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.  
Furthermore, we continue to instill compliance awareness among all employees through the Group internal newsletter and e-learning programs available via the Group intranet.  
In addition, we have established the Employee Consulting Center both internally and externally (in a law office; also available to overseas employees) as a dedicated hotline for employees to anonymously report compliance violations or ask general questions on compliance issues. This helps resolve the matters that arise.

Communication with Shareholders and Investors

At Kobayashi Pharmaceutical, we recognize that shareholders are important stakeholders, and we emphasize constructive dialogue with them for the Company’s sustainable growth.  
We believe it is important to deepen understanding about the

views and standpoints of both the Company and shareholders, and to take appropriate action based on those views and standpoints. We respond to shareholder requests for dialogue as necessary.

Policies for Dialogue with Shareholders

- We actively engage in dialogue with shareholders to contribute to the Company’s sustainable growth.
- Dialogue with shareholders is conducted by senior management, the IR officer or IR Department as necessary, depending on the attributes of the shareholder(s), the timing of the dialogue, the Company’s business resources and other factors.
- In dialogue with shareholders, feedback is provided to the Board of Directors on shareholders’ views conducive to the Company’s sustainable growth.

Shareholder Events in FY2018

General Shareholders’ Meeting (held in March 2019)	
Attendance	425
Vote participation rate	92.8%
Meetings with institutional investors and analysts	
Number of times held	205
Dialogue with individual investors	
Number of times held	4
Participants	476



G Governance



Interview with an Outside Director

An outside perspective on Kobayashi Pharmaceutical's strengths, corporate governance and future challenges

**Kunio Ito**  
Outside Director

Adjunct Professor, School of Business Administration, Hitotsubashi University

Became an outside director of the Company in 2013 after being appointed as a member of the Independent Committee of the Company in 2007. In 2014, released a METI project report commonly known as the *Ito Report*.

Kobayashi Pharmaceutical's Strengths

With a business model centered on a niche strategy that targets “a big fish in a small pond,” Kobayashi Pharmaceutical has achieved profit growth for 21 consecutive fiscal periods. The backdrop to that strength is the Company's idea proposal system that has been in place for more than three decades. This system has fostered participatory management by all. Although the Company launches many new products each year, the product ideas are not reliant on a small number of innovators or idea creators. They originate from the ideas that ordinary employees generate in the course of their everyday work. Employees produce ideas not just for new products, but also for business improvements; submitting around 50,000 ideas in total each year.

This corporate culture is well established, with senior management setting the example, while employees are encouraged to contribute ideas from the time they start working at the Company. It may feel compulsory at first, but employees who continue to create ideas find that it turns into a habit, and soon generating ideas becomes second nature.

Employees also take the initiative in refining their ideas. This is another part of Kobayashi Pharmaceutical's corporate culture. Every employee thinks carefully about the Company and continuously generates ideas to an extent that can be characterized as participatory management by all. This culture is a highly valuable intangible asset that cannot be imitated by competitors.

The Company further magnifies its strengths through its agility. Getting things done quickly is crucial in order to discover “small ponds” and be the first to develop new products and bring them to market. The reason this is possible is that the Company has cultivated an open environment in which everyone, including new employees, feels free to voice his or her opinion. People are encouraged to contribute ideas, and there is a belief that “everyone is equal at work,” which enables management to emphasize speed. This inoculates the Company against the dysfunctions that tend to afflict large companies. My expectation is that this corporate culture will continue to be strengthened and developed.

Corporate Governance

**Awareness of Corporate Governance**

One notable aspect of Kobayashi Pharmaceutical's corporate governance is management's willingness to listen to feedback, accept ideas from outside sources and take the lead in putting governance into practice. Companies that are run by members of a founding family can tend toward loose discipline and bureaucracy. When the organization becomes bureaucratic, information from outside does not make it through. The company exists in a bubble, running the risk of making poor decisions. Kobayashi Pharmaceutical's senior managers, however, have maintained a strong sense of discipline for generations, holding themselves accountable and creating organizational systems to avoid falling into that trap. They also sincerely listen to my advice and that of the other outside directors, and quickly adopt suggestions that they consider important.

**Board of Directors**

Fundamental to Board of Directors meetings is an atmosphere in which members are encouraged to speak freely, and outside directors are able to make statements without restraint. Kobayashi Pharmaceutical is a company with an audit and supervisory board, and therefore possesses separate oversight and executive functions. In the consideration of business execution, I have a sense that outside directors are a part of decision-making, not just the executive team. Oversight and executive functions are well-balanced, which ensures the effectiveness of the Company's two-board structure. In Board of Directors meetings, even what seem to be minor details are discussed. I think this reflects the importance the Board places on risk management, as even such seemingly minor facts can become major issues if ignored. This attention to detail could be a problem if debate over key issues gets pushed aside, so it is necessary to have well-focused discussions within the time available.

Future Challenges

In the *Ito Report* released in 2014, I championed the principle that Japanese companies should attain a minimum ROE of 8 percent. Investors expect them to deliver a return of at least 8 percent, and companies need to meet that target. Kobayashi Pharmaceutical currently maintains an ROE of over 10 percent as a result of sales and earnings growth. However, the Company is accumulating cash and has no significant debt, and the question is how to use that cash. The Company is steadily making acquisitions, but since it is pursuing a conservative approach, my impression is that most of the acquisitions are small in scale. The Company needs to formulate management plans with a longer-term view, and make bold allocations of management resources, including the creation of new businesses. At the same time, the Company must dedicate energy to nurturing the human resources that hold in their hands the future of Kobayashi Pharmaceutical.

**Role of Outside Directors**

Outside directors must have a say in management to enable decision-making from the standpoint of shareholders and other stakeholders, or so that the justification for decisions can be explained to stakeholders. Currently, Kobayashi Pharmaceutical has three outside directors, meaning that Board of Directors meetings can benefit from a wide range of perspectives. Haruo Tsuji, former president of Sharp Corporation, offers broad perspectives from his experience in managing a large company. Kaori Sasaki expresses opinions from the perspective of diversity in addition to being a manager herself. As a researcher, I make statements from the standpoints of finance and corporate governance. Consequently, I feel that there is harmony in the complementary roles that we fulfill.

**ESG**

Beginning in FY2018, the Board of Directors has engaged in full-fledged discussion of ESG issues, which is a step in the right direction. *Inochi no Haha* is not the only Kobayashi Pharmaceutical product that addresses a social issue; there are various others that are contributing to enhanced quality of life. Were this not the case, and these products did not tackle social issues in addition to satisfying customer needs, then they would not sell and the Company would be unable to continue doing business.

In the future, I think Kobayashi Pharmaceutical will need to clarify its approach to materiality assessment to better identify which social issues it will address.



# Management Team

(As of March 28, 2019)

## Directors



**Kazumasa Kobayashi**  
Representative Director, Chairman of the Board and Chief Executive Officer

Mar. 1962 Joined the Company  
Nov. 1966 Director  
Nov. 1970 Executive Director  
Dec. 1976 Representative Director and President  
Jun. 2004 Representative Director, Chairman of the Board and Chief Executive Officer (current)



**Yutaka Kobayashi**  
Representative Director and Vice Chairman of the Board

Mar. 1968 Joined the Company  
Dec. 1976 Director and General Manager of Overseas Business  
Dec. 1982 Executive Director  
Dec. 1985 Senior Executive Director and Senior General Manager of Trade Business Division  
Dec. 1992 Director and Vice President  
Jun. 1999 Representative Director and Vice President  
Jun. 2004 Representative Director and President  
Jun. 2013 Representative Director and Vice Chairman of the Board (current)



**Akihiro Kobayashi**  
Representative Director, President and Chief Operating Officer

Mar. 1998 Joined the Company  
Jun. 2001 Executive Officer and Manufacturing Company President  
Jun. 2004 Director, International Sales Company President and Marketing Office Manager  
Jun. 2007 Executive Director  
Mar. 2009 Senior Executive Director and Senior General Manager of Product Business Division  
Jun. 2013 Representative Director, President and Chief Operating Officer (current)



**Satoshi Yamane**  
Senior Executive Director

Mar. 1983 Joined the Company  
Mar. 2004 Executive Officer, Board of Directors Office Manager and Growth Strategy Office Manager  
Jun. 2006 Director and Senior General Manager of Corporate Administration Headquarters (current)  
Jun. 2011 Executive Director  
Jun. 2016 Senior Executive Director (current)



**Susumu Horiuchi**  
Executive Director

Mar. 1979 Joined the Company  
Mar. 2006 Executive Officer and Manager of Sales Management Division  
Mar. 2009 Senior Executive Officer and Senior General Manager of Sales Division (current)  
Jun. 2014 Director  
Jun. 2016 Executive Director (current)



**Haruo Tsuji**  
Outside Director

Mar. 1955 Joined Hayakawa Electric Industry Co., Ltd. (now Sharp Corporation)  
Jun. 1986 Director and President  
Jun. 1998 Advisor  
Jun. 2008 Outside Director of the Company (current)



**Kunio Ito**  
Outside Director

Apr. 1992 Professor, Faculty of Commerce and Management, Hitotsubashi University  
Aug. 2002 Dean of the Graduate School of Commerce and Management, Hitotsubashi University  
Dec. 2004 Vice President of Hitotsubashi University  
Dec. 2006 Professor, Graduate School of Commerce and Management, Hitotsubashi University  
Jun. 2007 Member of the Independent Committee of the Company  
Jun. 2013 Outside Director of the Company (current)  
Jan. 2015 Director, Center for CFO Education and Research, Hitotsubashi University (current)  
Apr. 2015 Adjunct Professor, Graduate School of Commerce and Management, Hitotsubashi University  
Apr. 2018 Adjunct Professor, School of Business Administration, Hitotsubashi University (current)



**Kaori Sasaki**  
Outside Director

Jul. 1987 Representative Director and President, UNICUL International, Inc. (current)  
Mar. 2000 President & CEO, ewoman, Inc. (current)  
Jun. 2016 Outside Director of the Company (current)

## Audit and Supervisory Board Members



**Hiroshi Goto**  
Full-time Audit and Supervisory Board Member

Mar. 1979 Joined the Company  
Mar. 2003 General Manager of Advertising and Sales Promotion Department  
Mar. 2007 General Manager of Corporate Communication Department  
Mar. 2009 General Manager of General Affairs Department  
Jun. 2011 Audit and Supervisory Board Member (current)



**Akitoshi Yamawaki**  
Full-time Audit and Supervisory Board Member

Apr. 1983 Joined Sunstar Inc.  
Jul. 2003 Joined the Company  
Mar. 2008 General Manager of Production Engineering Department  
Mar. 2009 President and Representative Director of Toyama Kobayashi Pharmaceutical Co., Ltd.  
Mar. 2011 General Manager of Quality Assurance Department of the Company  
Mar. 2014 General Manager of Procurement Department  
Mar. 2016 General Manager of Household Products Technology Development Department  
Mar. 2019 Audit and Supervisory Board Member (current)



**Ryuji Sakai**  
Outside Audit and Supervisory Board Member

Apr. 1985 Registered as Attorney-at-Law (Dai-ichi Tokyo Bar Association)  
Joined Nagashima & Ohno (now Nagashima Ohno & Tsunematsu)  
May 1990 Earned LL.M. at University of Pennsylvania Law School  
Sep. 1990 Joined Wilson Sonsini Goodrich & Rosati  
Jan. 1995 Partner, Nagashima & Ohno (now Nagashima Ohno & Tsunematsu) (current)  
Jun. 2005 Outside Audit and Supervisory Board Member of the Company (current)



**Yoko Hatta**  
Outside Audit and Supervisory Board Member

Aug. 1988 Joined Peat Marwick Main & Co. (now KPMG LLP New York)  
Aug. 1997 Partner, Peat Marwick Main & Co. (now KPMG LLP New York)  
Sep. 2002 Partner, KPMG Peat Marwick LLP (now KPMG LLP)  
Jun. 2008 Auditor of International Christian University (current)  
Jun. 2015 Outside Audit and Supervisory Board Member of the Company (current)

## Executive Officers

**Toshio Namba**  
Senior General Manager, QA, RA, Pharmacovigilance & Consumer Relations Division

**Tetsuji Nishioka**  
Senior General Manager, Manufacturing Headquarters

**Kazuhito Miyanishi**  
Managing Director, Head of International Business Division

**Naoki Ayabe**  
Deputy Senior General Manager, Sales Headquarters; General Manager of the Tokyo Metropolitan Area

**Fujito Ohwaki**  
Senior General Manager, Healthcare Division

**Takuya Matsushita**  
Senior General Manager, Household Division

**Yoshihiro Ogawa**  
Senior General Manager, Direct Marketing Division



11-Year Summary

	2009/3	2010/3	2011/3	2012/3	2013/3	2014/3	2015/3	2016/3	2016/12 <sup>(Note)</sup>	2017/12	2018/12
For the fiscal period	(Millions of yen)										(Millions of yen)
Net sales	125,693	129,184	130,824	131,166	121,532	127,293	128,344	137,211	120,051	156,761	167,479
Cost of sales	57,013	57,295	56,184	54,635	51,732	54,193	54,718	57,518	48,638	61,238	64,359
Gross profit	68,679	71,888	74,640	76,531	69,799	73,099	73,626	79,693	71,412	95,522	103,119
Selling, general and administrative expenses	52,861	54,847	56,019	57,233	52,895	54,977	55,708	61,432	54,003	72,596	76,830
Operating income	15,818	17,041	18,620	19,298	16,903	18,122	17,917	18,260	17,409	22,925	26,289
Income before income taxes	16,270	14,553	13,178	19,822	18,853	19,666	20,056	18,755	19,802	22,572	25,304
Net income attributable to owners of the parent	8,853	9,249	9,335	11,726	12,176	12,307	12,448	13,466	14,321	15,863	18,023
Cash flow from operating activities	12,849	15,319	13,168	17,250	9,242	13,513	15,445	14,329	16,097	22,350	20,007
Free cash flow <sup>1</sup>	11,467	10,618	4,789	14,320	(17,362)	6,553	10,904	3,396	15,577	29,390	11,944
Depreciation	2,873	2,996	2,932	2,727	2,622	2,677	2,641	2,587	2,112	2,926	2,964
Capital expenditures <sup>2</sup>	3,468	3,562	2,346	2,199	3,173	4,003	3,655	4,317	6,269	3,360	3,796
Research and development costs	3,361	3,962	4,069	4,385	4,544	4,930	5,289	5,788	4,121	7,239	7,031
At period-end	(Millions of yen)										(Millions of yen)
Current assets	73,172	85,208	88,837	102,538	94,353	105,614	115,990	120,347	128,646	142,346	155,058
Non-current assets	52,037	46,763	45,518	45,352	62,753	65,304	70,340	68,650	72,587	76,484	75,930
Current liabilities	39,834	39,024	34,525	37,791	34,477	34,216	35,890	36,481	46,975	54,274	55,215
Non-current liabilities	9,011	8,344	8,488	8,220	7,757	9,749	10,829	10,492	10,938	10,744	9,524
Net assets	76,364	84,603	91,342	101,879	114,872	126,953	139,611	142,023	143,320	153,811	166,249
Total assets	125,210	131,972	134,356	147,890	157,106	170,919	186,331	188,997	201,234	218,831	230,989
Working capital <sup>3</sup>	33,338	46,184	54,312	64,747	59,876	71,398	80,100	83,865	81,670	88,072	99,843
Interest-bearing debt	644	1,708	25	5	4	6	40	181	192	194	506
Per-share data <sup>4</sup>	(Yen)										(Yen)
Net income	107.95	112.94	113.99	143.18	148.69	150.28	152.73	165.56	179.12	201.31	228.05
Cash dividends	29.00	31.00	33.00	39.00	41.00	43.00	45.00	48.00	52.00	58.00	66.00
Payout ratio (%)	26.9	27.4	28.9	27.2	27.6	28.6	29.5	29.0	29.0	28.8	28.9
Cash flows <sup>5</sup>	151.1	180.2	154.9	202.9	108.7	158.9	181.6	168.5	189.3	272.4	243.8
Net assets	930.57	1,030.90	1,113.21	1,242.04	1,402.64	1,549.16	1,711.77	1,766.06	1,818.10	1,947.82	2,102.49
Financial ratios	(%)										(%)
Gross profit margin	54.6	55.6	57.1	58.3	57.4	57.4	57.4	58.1	59.5	60.9	61.6
Operating income margin	12.6	13.2	14.2	14.7	13.9	14.2	14.0	13.3	14.5	14.6	15.7
Net margin	7.0	7.2	7.1	8.9	10.0	9.7	9.7	9.8	11.9	10.1	10.8
Current ratio	183.7	218.3	257.3	271.3	273.7	308.7	323.2	329.9	273.9	262.3	280.8
Return on assets (ROA)	12.4	13.3	14.3	14.2	12.2	11.4	10.5	9.6	10.0	11.5	12.2
Return on equity (ROE)	11.5	11.5	10.6	12.2	11.2	10.2	9.4	9.6	10.0	10.7	11.3
Equity ratio	60.9	64.0	67.9	68.8	73.1	74.2	74.8	75.1	71.2	70.3	72.0
Debt-equity ratio (times) <sup>6</sup>	0.01	0.02	0.0003	0.00005	0.00004	0.00005	0.00029	0.00127	0.00134	0.00126	0.00304
Price-earnings ratio (PER) (times) <sup>7</sup>	15.1	17.0	16.9	14.5	15.3	19.8	28.2	29.8	27.9	36.4	32.8

1. Cash flow from operating activities + Cash flow from investing activities

2. Increase in property, plant and equipment and intangible assets as shown in Segment Information in the Notes to Consolidated Financial Statements.

3. Current assets – Current liabilities

4. Including impact of stock split

5. Cash flow from operating activities ÷ Number of shares issued

6. Interest-bearing debt ÷ Shareholders' equity

7. Current share price ÷ Earnings per share

Note: The Company changed its fiscal year-end to December 31 from March 31 effective from fiscal 2016/3. Consequently, fiscal 2016/12 is a transitional period comprising the nine months from April 1, 2016 to December 31, 2016.

(Japanese GAAP) (Consolidated)

The summary of financial statements presented on pages 52–67 is not subject to audit procedures by a certified public accountant or an independent auditor.

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



(Breakdown of sales to external customers)

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

#### Overseas Consumer Products Business

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

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

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

(Breakdown of sales to external customers)

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

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

#### Direct Marketing Business

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

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

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

#### Other Businesses

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

As a result, the Company posted net sales of 6,669 million yen (+1.6% year on year) and segment income (ordinary income) of 2,652 million yen (–12.4% year on year). Operating income was 642 million yen (–15.2% year on year).

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

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

(Consolidated Financial Position)

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

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

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

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

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

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

(Consolidated Cash Flow)

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

#### Cash flows from operating activities

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

#### Cash flows from investing activities

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

#### Cash flows from financing activities

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

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

Forecast for FY Ending December 31, 2019

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

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

Trend of Cash Flow Indicators

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

Shareholders' equity ratio: Shareholders' equity/Total assets

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

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

Interest coverage ratio: Operating cash flow/Interest payments

\* These indicators are calculated based on consolidated financial results.

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

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

(4) Forecast for FY Ending December 31, 2019

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

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

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

In the Domestic Consumer Products Business segment, the Company will launch 10 new products this spring with the aim of stimulating new demand and also strengthen its existing product lineup to accelerate sales.

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

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

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

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

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

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

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

2. Basic Policy for the Selection of Accounting Standards

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



## 3. Consolidated Financial Statements and Main Notes

## (1) Consolidated Balance Sheet

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

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

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

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

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

(Consolidated Comprehensive Income Statement)

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



(3) Consolidated Statement of Shareholders' Equity  
Previous consolidated fiscal year (January 1, 2017 to December 31, 2017)

(Millions of yen)

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

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

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

(Millions of yen)

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

	Accumulated other comprehensive income					Subscription rights to shares	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Re-measurements of retirement benefit plans	Accumulated other comprehensive income total		
Balance at period start	13,267	9	403	(2,038)	11,642	36	153,811
Change during current period							
Dividends from surplus							(4,819)
Net income attributable to owners of the parent							18,023
Purchase of treasury stock							—
Disposal of treasury stock							392
Retirement of treasury stock							—
Transfer to capital surplus from retained earnings							—
Net changes of items other than shareholders' equity	(631)	(7)	(722)	239	(1,121)	(36)	(1,158)
Total change during current period	(631)	(7)	(722)	239	(1,121)	(36)	12,437
Balance at current period end	12,636	2	(318)	(1,798)	10,520	—	166,249

## (4) Consolidated Statement of Cash Flows

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

## (Segment information)

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

	(Millions of yen)							
	Reportable Segments				Other (Note 1)	Grand Total	Adjustment (Note 2)	Consolidated (Note 3)
	Domestic Consumer Products Business	Overseas Consumer Products Business	Direct Marketing Business	Total				
<b>Net sales</b>								
Net sales to outside customers	123,494	21,767	10,179	155,441	1,319	156,761	—	156,761
Inter-segment sales and transfers	6,342	1,044	—	7,386	5,242	12,628	(12,628)	—
<b>Total</b>	<b>129,836</b>	<b>22,811</b>	<b>10,179</b>	<b>162,827</b>	<b>6,561</b>	<b>169,389</b>	<b>(12,628)</b>	<b>156,761</b>
<b>Segment income (loss)</b>	<b>20,831</b>	<b>828</b>	<b>(72)</b>	<b>21,588</b>	<b>3,027</b>	<b>24,616</b>	<b>(424)</b>	<b>24,191</b>
<b>Segment assets</b>	<b>79,552</b>	<b>24,434</b>	<b>1,725</b>	<b>105,712</b>	<b>11,004</b>	<b>116,717</b>	<b>102,114</b>	<b>218,831</b>
<b>Other items (Note 4)</b>								
Depreciation	1,913	413	34	2,360	188	2,549	377	2,926
Goodwill depreciation	12	580	—	593	—	593	—	593
Interest income	23	40	0	63	299	363	(90)	273
Interest expenses	41	85	—	126	2	129	(90)	38
Increase in property, plant, and equipment and intangible assets	2,252	573	46	2,872	172	3,045	315	3,360

- (Notes)
1. "Other" represents businesses that are not included in reportable segments, such as the transportation business, manufacture and sale of plastic containers, insurance agencies, real estate management, and advertisement planning and production.
  2. Adjustment details are as follows:
    - (1) Adjustments of -424 million yen in segment income (loss) are eliminations among segments, and profits and expenses not distributed to the relevant business segment.
    - (2) Assets of group companies included in Adjustment totaled 102,114 million yen, mainly consisting of extra funds for investment by the parent company (cash and securities), funds for long-term investment (investment securities), and assets related to administrative departments.
    - (3) Depreciation of 377 million yen posted in Adjustment is depreciation related to the assets of group companies.
    - (4) Interest income of -90 million yen and interest expenses of -90 million yen posted in Adjustment are eliminations among segments, and profits and expenses not distributed to the relevant business segment.
    - (5) Increase in property, plant, and equipment and intangible assets of 315 million yen posted in Adjustment is an increase in the assets of group companies.
  3. Segment income is adjusted with ordinary income presented in Consolidated Financial Statements.
  4. Increase in depreciation, property, plant, and equipment and intangible assets includes an increase in long-term prepaid expenses and amortization of long-term prepaid expenses.



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

(Millions of yen)

	Reportable Segments				Other (Note 1)	Grand Total	Adjustment (Note 2)	Consolidated (Note 3)
	Domestic Consumer Products Business	Overseas Consumer Products Business	Direct Marketing Business	Total				
Net sales								
Net sales to outside customers	130,379	25,646	10,245	166,271	1,207	167,479	—	167,479
Inter-segment sales and transfers	6,777	994	—	7,771	5,461	13,233	(13,233)	—
Total	137,156	26,641	10,245	174,043	6,669	180,712	(13,233)	167,479
Segment income	24,006	1,028	148	25,183	2,652	27,836	(462)	27,374
Segment assets	82,344	25,415	1,797	109,558	12,445	122,003	108,985	230,989
Other items (Note 4)								
Depreciation	1,941	443	31	2,416	187	2,603	360	2,964
Goodwill depreciation	68	371	—	439	—	439	—	439
Interest income	33	69	0	103	310	414	(125)	289
Interest expenses	55	105	—	160	—	160	(125)	35
Increase in property, plant, and equipment and intangible assets	2,882	2,468	39	5,390	687	6,078	336	6,415

- (Notes) 1. "Other" represents businesses that are not included in reportable segments, such as the transportation business, manufacture and sale of plastic containers, insurance agencies, real estate management, and advertisement planning and production.
2. Adjustment details are as follows:
- (1) Adjustments of -462 million yen in segment income are eliminations among segments, and profits and expenses not distributed to the relevant business segment.
- (2) Assets of group companies included in Adjustment totaled 108,985 million yen, mainly consisting of extra funds for investment by the parent company (cash and securities), funds for long-term investment (investment securities), and assets related to administrative departments.
- (3) Depreciation of 360 million yen posted in Adjustment is depreciation related to the assets of group companies.
- (4) Interest income of -125 million yen and interest expenses of -125 million yen posted in Adjustment are eliminations among segments, and profits and expenses not distributed to the relevant business segment.
- (5) Increase in property, plant, and equipment and intangible assets of 336 million yen posted in Adjustment is an increase in the assets of group companies.
3. Segment income is adjusted with ordinary income presented in Consolidated Financial Statements.
4. Increase in depreciation, property, plant, and equipment and intangible assets includes an increase in long-term prepaid expenses and amortization of long-term prepaid expenses.

(Per share information)

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

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

(Millions of yen)

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

(Important subsequent events)

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

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

(1) Reasons for Stock Repurchases

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

(2) Details of Stock Repurchases

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

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

Number of outstanding shares : 82,050,000 shares

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

Our History

1886	Founder Chubei Kobayashi established Kobayashi Seidaido, an unlimited partnership company, in Monzen-cho, Naka-ku, Nagoya The Company sold general merchandise and cosmetics
1894	Launched 10 types of proprietary pharmaceuticals including <i>Daikomaru</i> , <i>Ichinichimaru</i> and <i>Tamushichinki</i>
1912	Established Kobayashi Daiyakubou, a limited partnership company, in Hiranomachi, Higashi-ku, Osaka
1919	Incorporated as Kobayashi Daiyakubou, Co., Ltd. in Kyomachibori, Nishi-ku, Osaka through a merger involving unlimited partnership company Kobayashi Seidaido and limited partnership company Kobayashi Daiyakubou Kichitaro Kobayashi is appointed as the first president
1939	Launched <i>Hakkiri</i> , a headache medicine
1940	Spun off the manufacturing division of Kobayashi Daiyakubou, to establish Kobayashi Pharmaceutical Co., Ltd. Juso Plant began operations in Higashi-yodogawa-ku, Osaka (currently Yodogawa-ku)
1948	Saburo Kobayashi is appointed as the second president
1956	Kobayashi Daiyakubou Co., Ltd. and Kobayashi Pharmaceutical Co., Ltd. were merged and renamed Kobayashi Pharmaceutical Co., Ltd. Relocated the Head Office to Dosho-machi, Higashi-ku, Osaka (currently Dosho-machi, Chuo-ku)
1958	Teruko Kobayashi is appointed as the third president
1966	Launched <i>Ammeltz</i> , a topical analgesic
1969	Launched <i>Bluelet</i> , a toilet bowl cleaner and freshener, and entered household products market
1972	Formed partnership with C.R. Bard, Inc. of the U.S. to establish medical devices importer Japan Medico, Inc. and enter the medical devices market
1975	Launched <i>Sawaday</i> , a toilet air freshener, and entered the air fresheners market
1976	Kazumasa Kobayashi is appointed as the fourth president Japan Medico, Inc. became Medicon, Inc., a joint venture company with C.R. Bard, Inc.
1983	Established Toyama Kobayashi Pharmaceutical Co., Ltd. (Toyama City, Toyama Prefecture)
1988	Angel Ltd. was made a consolidated subsidiary of Kobayashi Pharmaceutical Co., Ltd. to acquire a manufacturing site (Niihama City, Ehime Prefecture)
1992	Established Kobayashi Medical as part of the Medical Devices Business
1993	Established Sendai Kobayashi Pharmaceutical Co., Ltd. (Kurokawa-gun, Miyagi Prefecture)
1996	Launched <i>Toughdent</i> , a denture cleanser
1998	Established Shanghai Kobayashi Friendship Daily Chemicals Co., Ltd., a joint venture company in China Established Kobayashi Healthcare, LLC in the U.S.
1999	Listed on the Second Section of the Osaka Securities Exchange Launched mail order sales of nutritional supplements, marking the start of the Direct Marketing Business
2000	Listed on the First Section of the Tokyo Stock Exchange and Osaka Securities Exchange Established the Central R&D Laboratory in Ibaraki City, Osaka Prefecture Spun off the trade division to form Kobashou Co., Ltd.

2001	Made Kiribai Chemical Co., Ltd., a body warmer manufacturer, a subsidiary (Yodogawa-ku, Osaka) Established Kobayashi Healthcare Europe, Ltd. in the U.K.
2002	Established Kobayashi Pharmaceutical (Hong Kong) Co., Ltd. in Hong Kong Made Shanghai Kobayashi Friendship Daily Chemicals Co., Ltd. a wholly owned subsidiary, changing the company name to Shanghai Kobayashi Daily Chemicals Co., Ltd. Took over the health food business, mainly for <i>Tochucha</i> (eucommia leaf tea), from Hitachi Zosen Corporation
2003	Angel Ltd. renamed Ehime Kobayashi Pharmaceutical Co., Ltd.
2004	Yutaka Kobayashi is appointed as the fifth president
2005	Obtained exclusive sales rights for women's health medicine <i>Inochi no Haha A</i> from Sasaokayakuin Corporation
2006	Made eVent Medical Ltd., a medical device manufacturer in Ireland, a subsidiary Made Heat Max, Inc., a body warmer manufacturer in the U.S., a subsidiary
2008	Kobashou Co., Ltd. and Mediceo Paltac Holdings Co., Ltd. conducted share exchange Spun off the manufacturing division of Kiribai Chemical Co., Ltd. to establish Kiribai Kobayashi Pharmaceutical Co., Ltd. Obtained trademark rights for <i>Bisrat Gold</i> from Ishihara Chemical Co., Ltd.
2009	Established Kobayashi Pharmaceutical (Singapore) Pte. Ltd. in Singapore
2010	Spun off the medical device division into Kobayashi Medical Co., Ltd.
2011	Transferred all eVent Medical Ltd. shares in a management buy-out Established Kobayashi Healthcare (Malaysia) Sdn. Bhd. in Malaysia Established Kobayashi Pharmaceutical (Taiwan) Co., Ltd. in Taiwan
2012	Made Grabber, Inc., a body warmer manufacturer in the U.S., a subsidiary Established PT. Kobayashi Pharmaceutical Indonesia in Indonesia Established Hefei Kobayashi Daily Products Co., Ltd. in China Sold 80 percent of Kobayashi Medical Co., Ltd. (currently Japan Medicalnext Co., Ltd.) shares to Mitsubishi Corporation
2013	Made Rokuyo Pharmaceutical Co., Ltd., a manufacturer of pharmaceutical products, quasi-pharmaceutical products and cosmetics, a subsidiary Established Kobayashi Healthcare Australia Pty., Ltd. in Australia Transferred all Japan Medicalnext Co., Ltd. shares to Mitsubishi Corporation Established Hefei Kobayashi Pharmaceutical Co., Ltd. in China Akihiro Kobayashi is appointed as the sixth president Established Kobayashi Healthcare (Thailand) Co., Ltd. in Thailand Made Juju Cosmetics Co., Ltd., a cosmetics manufacturer, into a subsidiary
2015	Acquired <i>Ganyaku Hitifuku</i> brand from Hitifuku Inc. Dissolved the joint venture with U.S. company Bard International Inc. and sold all its shares to Medicon, Inc.
2016	Acquired monascus purpureus business from Gunze Limited Made Perfecta Products, Inc., a company engaged in the planning and sale of OTC pharmaceuticals and cosmetics in the U.S., a subsidiary
2017	Acquired exclusive marketing rights in Japan for <i>Bioil</i> from Union-Swiss (Pty) Ltd. (headquartered in South Africa)
2018	Made Jiangsu Zhongdan Pharmaceutical Co., Ltd. a subsidiary, changing the company name to Jiangsu Kobayashi Pharmaceutical Co., Ltd.

Corporate Data / Investor Information (As of December 31, 2018)

Corporate Data

Corporate Name	KOBAYASHI PHARMACEUTICAL CO., LTD.
Incorporated	August 22, 1919
Head Office	4-4-10 Doshomachi, Chuo-ku, Osaka 541-0045, Japan
Representative	Akihiro Kobayashi, Representative Director, President and Chief Operating Officer
Employees	3,271 (consolidated), 1,346 (non-consolidated)
Consolidated Subsidiaries	39 (17 domestic, 22 overseas)

Group Companies

● Domestic Consumer Products Business ● Overseas Consumer Products Business ● Other 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.
- Aloe Pharmaceutical 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.
- True Nature Co., Ltd.
- Kobayashi Pharmaceutical Value Support Co., Ltd.
- Kobayashi Pharmaceutical Global E-commerce Co., Ltd.
- Kobayashi Pharmaceuticals of America, Inc.

Investor Information

Common Stock	¥3,450 million
Shares Authorized	340,200,000
Shares Issued	82,050,000
Shareholders	18,499
Stock Exchange Listing	Tokyo Stock Exchange First Section
Transfer Agent / Account Management Institution for Special Accounts	Mitsubishi UFJ Trust and Banking Corporation

Consolidated Subsidiaries (Overseas)

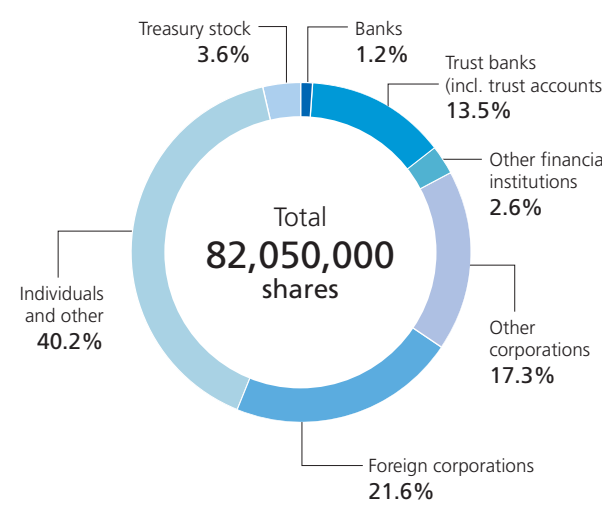
- Kobayashi Healthcare, LLC
- Kobayashi Healthcare Europe, Ltd.
- Shanghai Kobayashi Daily Chemicals Co., Ltd.
- Hefei Kobayashi Daily Products Co., Ltd.
- Hefei Kobayashi Pharmaceutical Co., Ltd.
- Kobayashi (China) Co., Ltd.
- Jiangsu Kobayashi Pharmaceutical Co., Ltd.
- Shanghai Kobayashi Pharmaceutical 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 Australia Pty., Ltd.
- Kobayashi Healthcare (Thailand) Co., Ltd.
- Kobayashi Healthcare International, Inc.
- Kobayashi Consumer Products, LLC
- Kobayashi America Manufacturing, LLC
- Grabber, Inc.
- Mediheat, Inc.
- Berlin Industries, Inc.
- Perfecta Products, Inc.

Major Shareholders

Name	Percentage of Total Shares Held (%)
Akihiro Kobayashi	11.7
Kobayashi International Scholarship Foundation	7.6
Yukako Iue	6.5
State Street Bank and Trust Company 505223	6.3
The Master Trust Bank of Japan, Ltd. (trust account)	3.6
Ikuko Watanabe	3.1
Japan Trustee Services Bank, Ltd. (trust account)	2.9
Ohtori Co., Ltd.	2.8
Forum Co., Ltd.	2.6
Teruhisa Miyata	2.3

Notes: The Company holds treasury stock, but is excluded from the above list of major shareholders.  
Percentage of total shares held is calculated excluding treasury stock.

Shareholder Composition







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4-4-10 Doshomachi, Chuo-ku, Osaka 541-0045, Japan  
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