Nippon Chemiphar Co., Ltd.

CORPORATE REPORT 2021

Paralym Art®

Business Philosophy

The goal of the Nippon Chemiphar Group is to make a difference in society by providing pharmaceutical drugs and health-related services to help people become and remain healthy.

Nippon Chemiphar has been operated as a pharmaceutical company since its founding in 1950. Throughout those years, we have consistently developed, manufactured, and sold distinctive and original pharmaceutical formulations. Since the year 2000, we have made generics a pillar of our business and have endeavored to safely and conveniently supply these drugs by conducting related development, manufacturing, and sales operations in-house.

We support patients with illnesses for which there is as yet no adequate medication. This we do by implementing initiatives associated with drug discovery themes that target the development of innovative drugs. Further, we are trying to reposition drugs, using the alkalization therapy expertise we have cultivated over many years.

Nippon Chemiphar's Three Plus 1 Principal Goals

Since 2000, Nippon Chemiphar has promoted a basic management strategy based on three goals: establishing a strong presence in the generics business; becoming a leader in the field of alkalization therapy; and pursuing in-house drug discovery and development.

As initiatives designed to attain these three goals, first, we are currently striving to increase our earnings capacity by the generic drugs business. Second, we continue to conduct clinical research and pursue educational activities to become a frontrunner in the field of alkalization therapy, a remedial treatment we hope to convert into a core business in addition to the generics business.

Further, for in-house drug discovery and development, we are conducting medium- to long-term initiatives, so that we might find revolutionary candidate compounds.

By simultaneously pursuing the above initiatives, we believe the Company can achieve sustainable growth.

To this end, we intend to strengthen our overseas activities with a focus on Asia, so that we can improve the results even in those areas where achievements have already been attained.

Goal 1

Develop a distinctive generics business by making differentiation, using superior information delivery capabilities and inventive products; heighten cost competitiveness; and relentlessly pursue quality.

Goal 2

Fully utilize the results generated by clinical research into alkalization therapy.

Goal 3

Reduce risk, improve development efficiency, and roll out new drugs on a global scale by focusing on exploratory research and the early out-licensing of our compounds.

Plus 1

Apply our three goals to overseas markets centered on Asia.

NIPPON CHEMIPHAR CORPORATE REPORT 2021

◆ Contents

◆ Scope of This Report

This report contains information regarding the Nippon Chemiphar Group's business strategy, financial situation, and corporate social responsibility-related activities.

- Reporting period: FY2020 (April 1, 2020–March 31, 2021)
- Reporting companies: Nippon Chemiphar Co., Ltd. and its Group companies

Note Regarding Forward-looking Statements

Statements made in this corporate report with respect to current plans, estimates, strategies and beliefs, and other statements of Nippon Chemiphar are forecasts about the future performance of Nippon Chemiphar. These forecasts are based on information currently available to management. Consequently, these forecasts are subject to known and unknown risks and uncertainties and may differ significantly from actual results. Items that may influence forward-looking statements and forecasts include changes in the economy, changes in the business and competitive environment for Nippon Chemiphar's business, revisions to the Pharmaceutical Affairs Law and other related legislation, and other items not limited to the above.

Cover painting

Provided by Paralym Art, an association that assists people with disabilities to achieve economic independence.

Paralym Art®

Title: *Yume Ressha* (Dream Train)
About the artist: Yukibo
Yukibo began to show symptoms of schizophrenia at the age of 26. Believing in the importance of valuing one's own abilities, he continues to create works that bring people together, even now amid the spread of the COVID-19 pandemic. Many companies have incorporated *Yume Ressha* into their advertising designs.

Nippon Chemiphar Group's Value Creation Model

Business Model

Fulfilling our goals will contribute to society

Market demands

Generic drugs that lead to lightened burdens on patients and public finance

Creation of breakthrough drugs

Manufacture and stable supply of high-quality pharmaceutical drugs

Greater safety and convenience in pharmaceutical drugs

Input*

Financial capital
Consolidated net assets: ¥47 billion

Intellectual capital
R&D expenses: ¥2 billion

Human capital
Employees: 760 people (consolidated)

Manufacturing capital
Factories: Japan, Vietnam

Social and relationship capital
Collaboration with business partners

Natural capital
Energy usage (crude oil equivalent) 5,903 kl

Strengths

Integrated system including the development, manufacture, and sale of generic drugs, based on technologies from manufacturers of new drugs

Accumulation of knowledge in the hyperuricemia market and market value of our alkalinizing agent

Advanced manufacturing technology and cost competitiveness at our factories in Japan and abroad.

Search-centered, venture-type drug-discovery research, in pursuit of efficiency and development precision

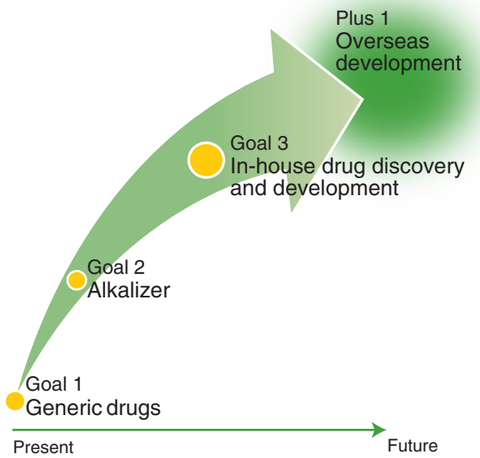
Business activities

Pharmaceutical Products
- Pharmaceuticals (Page 11)
- Drug discovery (Page 14)
- Overseas business (Page 17)

Others
- Contracted testing (Page 4)
- Diagnostics (Page 16)

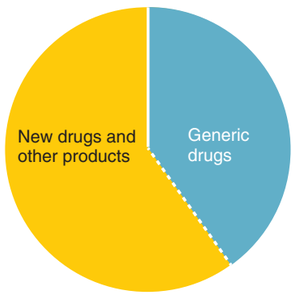
Basic strategy

Three Plus 1 Principal Goals



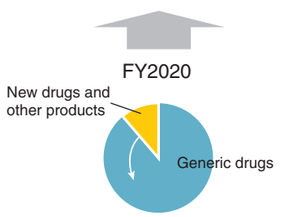
Management vision

Target



New drugs surpass generic drugs in terms of sales, and we broaden our overseas expansion

- Rollout new drugs in Japan and overseas using advanced technologies, including AI
- Increase business and earnings overseas



Offered value

- Increase in patient QOL
- Reduction of burdens on patients and public finance
- Improvement in lives and abilities of our employees
- Stable, sustainable shareholder returns
- Safeguarding of global environment

SUSTAINABLE DEVELOPMENT GOALS

- Quality assurance and stable supply (Page 12)
- Alliances (Pages 13)
- Corporate Governance (Page 18)
- Compliance and risk management (Page 20)

Our corporate philosophy and principles of conduct, support for employee abilities, and training system (Page 26)

Sustainable growth incorporate value through our value creation cycle

* Formulated based on the IIRC framework for the FY2020 results.

I Pharmaceutical Products

1. Pharmaceuticals

(1) Generic Products

To lessen the burden on patients and improve the financial situation of the nation's health insurance system, Japan's Ministry of Health, Labour and Welfare is promoting the use of generic drugs. To this end, its new target is to raise the ratio of prescriptions for generics to 80% or more of all drug prescriptions in all prefectures by the end of FY2023 (ending in March 2024). With the target have come efforts to restore societal trust in generics, following quality-related issues.

The Nippon Chemiphar Group is applying its integrated capabilities to the development, manufacture, and marketing of new drugs and generics. Regarding the latter, we are pursuing the development of those generics that fulfill the needs of patients and healthcare professionals. At the same time, we are redoubling our efforts to maintain product quality and ensure stable supplies.

☞ Please refer to page 11 for details.

(2) Proprietary Products, Drug Discovery, Marketing Rights

Nippon Chemiphar categorizes as proprietary products new drugs that it has developed, as well as new drugs and long-listed drugs in-licensed from other companies.

Among its proprietary products are three formulations that the Company developed in-house: alkalization therapeutic drug Uralyt-U, analgesic and anti-inflammatory drug Soleton, and hypertension therapeutic drug Calvan. Currently, we are collaborating with institutions in conducting clinical research into the possible use of these formulations in new areas of therapy.

Included among the new and long-listed drugs we have in-licensed from other companies are new oral intestinal cleansing agent PICOPREP (manufacturing and sales rights acquired in February 2019) and macrolide antibiotic agent Klaricid (exclusive sales launched in July 2020; manufacturing and sales rights acquired in April 2021). We expect these products to strengthen our product portfolio and anticipate utilizing them to generate synergies that will elevate our generics business.

At the same time, we are continuing to aggressively pursue drug discovery themes with the potential to lead to groundbreaking new drugs. Currently, these efforts are focused on our development pipeline, where we are cultivating new treatments with support from public funding.

☞ Please refer to page 14 for details.

2. Diagnostics

Nippon Chemiphar provides measuring equipment and reagents used to fight allergies and lifestyle-related diseases. In terms of measuring equipment and reagents related to allergies, in 2020 we began selling DropScreen™, a groundbreaking new product that enables quick allergy screenings using minimal blood samples. Currently, besides rolling out the product in Japan, we are proceeding with efforts to market it in China, where we have begun selling it through a local company with which we have concluded a technology alliance.

☞ Please refer to page 16 for details.

II Others

1. Contracted Testing

The Nippon Chemiphar Group facilitates the creation of safe, high-quality products by providing support for non-clinical and clinical trials performed when developing pharmaceutical products and medical equipment.

The Safety Research Institute for Chemical Compounds Co., Ltd., a Group company, remains focused on the development of testing methods not involving live animals.

It supports the use of the Bovine Corneal Opacity and Permeability test—that uses excised bovine corneas, normally discarded as waste in the production of beef—as well as test systems for regenerative medicine. Moreover, since the end of 2017, the Group has been applying Good Laboratory Practice-approved safety testing methods when using pigs to test medical equipment. It is the first company to do so in Japan.

Using the Bovine Corneal Opacity and Permeability test.

A good laboratory practice compliance certificate for a regenerative medication

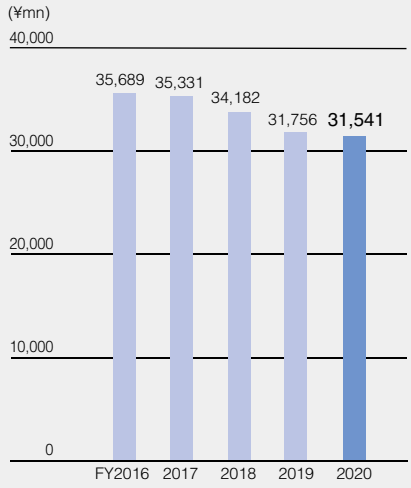
2. Healthcare-related Products

The Nippon Chemiphar Group handles a diverse array of healthcare products, including nutrients, health foods, cosmetics, and various types of creams, classified as quasi-drugs because they contain a certain concentration of particular active ingredients.

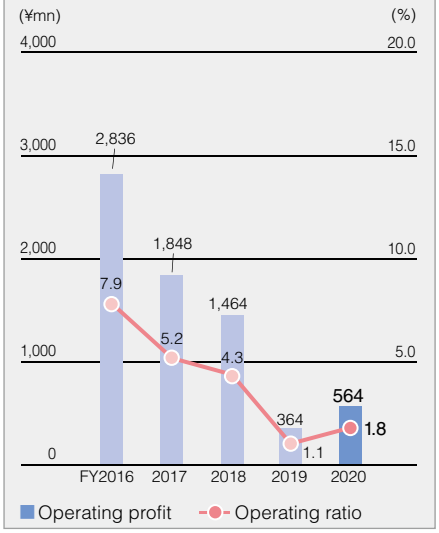
Amid the rising needs surrounding consumer self-medication, we are leveraging trustworthiness and the development expertise we have gained as a pharmaceutical product manufacturer to make a difference in people's lives and provide a high level of added value.

Financial Highlights

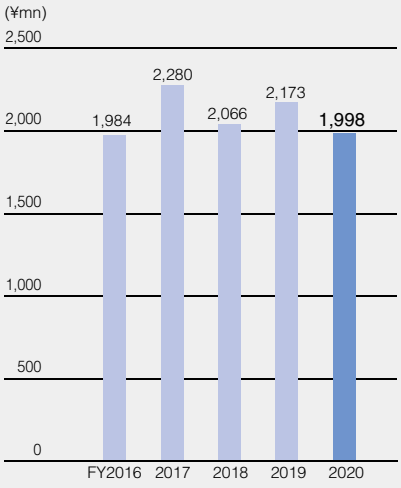
Net Sales



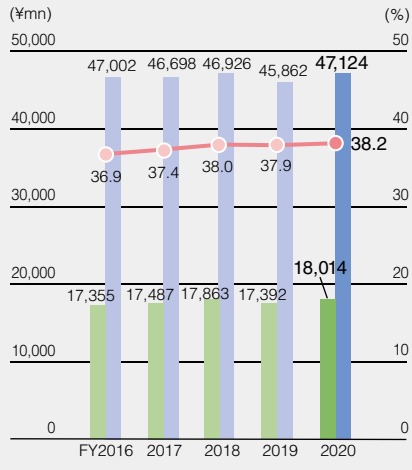
Operating Profit



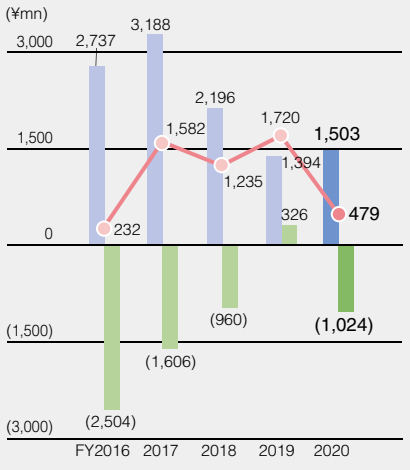
R&D Expenses



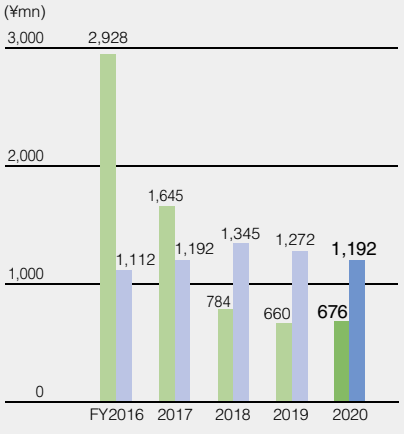
Total Assets, Net Assets, Equity Ratio



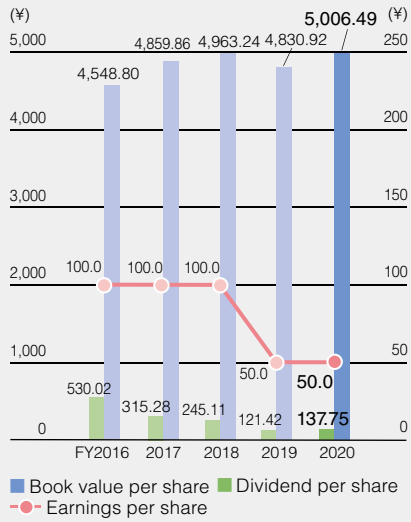
Cash Flows



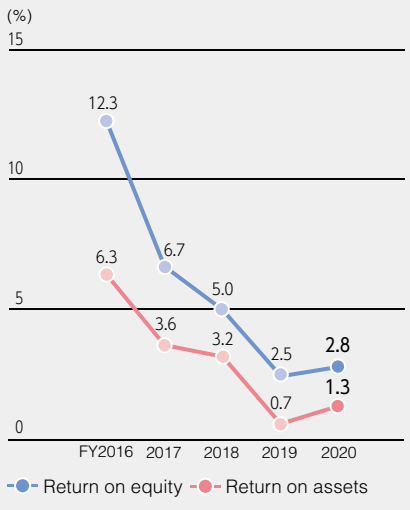
Capital Expenditure, Depreciation Expense



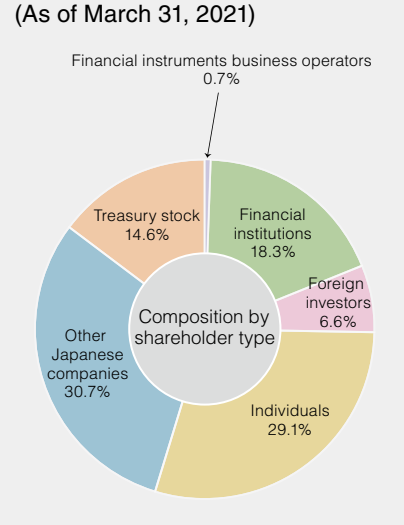
Amounts per Share



ROE, ROA



Composition of Shareholders (As of March 31, 2021)



Message to Our Stakeholders

Since 2000, the Nippon Chemiphar Group has developed business under a management strategy focused on three principle goals: establishing a strong presence in the generics business; becoming a leader in the field of alkalization therapy; and pursuing proprietary drug discovery and development.

We enhanced this strategy in 2015, by adding one goal: Plus 1. The step represents our expansion into overseas markets, centered on Asia, that will allow us to improve results even in the three areas where we already have logged achievements.

By simultaneously pursuing the above initiatives, each of which has a different timeline, we believe the Company can build a distinctive business model and achieve sustainable growth.

The Nippon Chemiphar Group will adhere to this growth strategy in order to lower patient costs, reduce government healthcare expenditure, as well as ensure that our contribution to society and business expansion are maintained. We plan to follow this path despite ongoing changes in Japan's economic and pharmaceutical industry environments.

We look forward to the continued support of all our stakeholders in these endeavors.

山口一城

Kazushiro Yamaguchi
President & CEO
June 2021

Interview with the President

Q1 **Please explain the impact that the COVID-19 pandemic has had on the pharmaceutical industry, the course of market conditions, and the Company's response to these factors.**

A1 **The pandemic had an industry-wide negative impact of about 3–5% on the pharmaceutical drug market in FY2020. It was a year during which we employed new ways of providing information, such as inside sales and remote consultations.**

More than one year has passed since April 2020, when Japan imposed the first COVID-19-related state of emergency in seven prefectures, including Tokyo. During this time, Japan has encountered three waves of infections, despite the declarations, and subsequent lifting, of states of emergency. As I participate in this interview (in June 2021), we are experiercing a third state of emergency, in effect for ten prefectures, including Tokyo and Osaka.

Over the past year, Japan has struggled to increase the number of beds available in hospitals and at other locations, as well as to develop therapeutic agents, but the progress of these initiatives continues to be clouded by considerable uncertainty.

Vaccines have become available in Japan, although later than in some nations. However, vaccination efforts are moving in the right direction, thanks in part to cooperation from the private sector, including occupation-related, area-based inoculation.

Economic and social activities in Japan continue to incur serious damage as a result of these conditions. Quantifying the impact of adverse factors on the Nippon Chemiphar Group is prohibitively difficult, while restrictions on visits to hospitals and other medical facilities have prevented us from providing information to these institutions in person, as was common before.

Q2 Issues related to the quality of generic drugs in Japan have received a great deal of attention recently. Could you describe the relevant initiatives being implemented by the Nippon Chemiphar Group?

A2 We are drawing on other's experience with a series of prior issues, renewing our commitment to quality control, and ensuring that drug supplies remain stable.

Even this year, issues stemming from manufacturing methods that deviate from documented procedures have been a frequent occurrence at other companies that manufacture and sell generic drugs.

In some instances, this has resulted in serious health problems. The substantial harm associated with such matters, and their repeated occurrence, has caused a truly regrettable situation that may lead members of the Japanese public to be suspicious of both the drugmakers in question and the generics industry as a whole. Thus we must learn from the problems, renew our commitment to thorough quality control, and ensure that the supply of drugs remains stable.

To this end, the Group conducted a special internal investigation in January. Three factories were targeted that are operated by Nihon Pharmaceutical Industry Co., Ltd. (NPI), which handles manufacturing for the Nippon Chemiphar Group. The investigation focused on three particularly pertinent issues: the possible inclusion of inappropriate raw materials; use of procedure manuals that include operations which had not been approved; and the reporting systems used when tests or inspections return abnormal values. Our investigations uncovered no problems.

In April, we appointed a corporate officer to the position of Chief Pharmaceutical Officer in a bid to strengthen our management system. Currently, we are striving to further buttress management by establishing Group-wide standards of good manufacturing practice and streamlining our quality assurance framework.

We are constantly intensifying our efforts to strengthen and stabilize supplies which, to date, have included diversification of procurement sources for active pharmaceutical ingredients, introduction of seismic base isolation systems at the NPI Tsukuba Factory, and the implementation of a distribution system with one center in eastern Japan and another in western Japan.

Q3 Please share the details and effects of the structural reforms implemented in FY2020.

A3 The reforms centered on Group pharmaceutical sales, further optimized the size of our sales staff, consolidated our sales bases in Japan, and targeted extensive increases in resource efficiency.

The business environment in Japan's generics market has changed significantly over the past 10 years, due in part to repeated reforms made to the NHI drug pricing system (such as price-range consolidation) and intensifying competition stemming from the increasing prominence of authorized generics.

The Nippon Chemiphar Group has undertaken efforts targeting a variety of improvements in operations and efficiency throughout its supply chain, including product development and manufacture. In July last year, we capped these efforts by reforming the Group's pharmaceutical sales structure, in a push to allow us to achieve sustainable growth irrespective of any changes in the business environment.

In terms of organizational restructuring, Nippon Chemiphar merged its pharmaceutical sales system with that of NPI and established a Group Pharmaceutical Sales Headquarters to oversee the combined system's implementation.

At the Group Pharmaceutical Sales Headquarters, we have set up a Group-wide system to support a range of sales channels and facilitate transactions conducted over both Nippon Chemiphar's existing wholesale routes and distributor routes associated with NPI. We began to experience the system's substantial beneficial impact in the latter half of FY2020.

In terms of overall structural reform, rather than seeing downsizing as essential, I find it imperative that we respond to environmental changes by implementing fresh initiatives. I believe that our structural reforms were a bold response to rapid environmental changes in Japan's pharmaceutical market.

Q4 What is your outlook for performance in FY2021, ending March 31, 2022?

A4 We expect an effective increase in sales, due in part to sales channel diversification and the full-year impact of products launched during FY2020. However, we also project a decline in profits related to the NHI drug price revision and higher drug discovery and development costs.

Consolidated Sales and Income

(¥mn)

	FY2020 (Results)		FY2021 (Forecast)	
	Amount	Distrib. (%)	Amount	Distrib. (%)
Net sales	31,541	100.0	31,000	100.0
Pharmaceutical products	30,423	96.5	—	—
Pharmaceuticals	27,322	86.6	26,550	85.6
Generics	25,532	80.9	24,700	79.7
Proprietary products, new drugs	1,790	5.7	1,850	6.0
Other segment	1,117	3.5	—	—
Operating profit	564	1.8	350	1.1
Ordinary profit	582	1.8	280	0.9
Profit attributable to owners of parent	495	1.6	80	0.3

In the fiscal year ending March 31, 2022, we expect there to be downward pressure on sales, stemming from the April NHI drug price revision, and numerical limitations placed on medical examinations during the COVID-19 pandemic.

At the same time, we predict an increase in sales resulting from expansion in the volume of generic drug transactions achieved through ongoing sales channel diversification efforts, as well as the full-year contribution from Klaricid we in-licensed in FY2020.

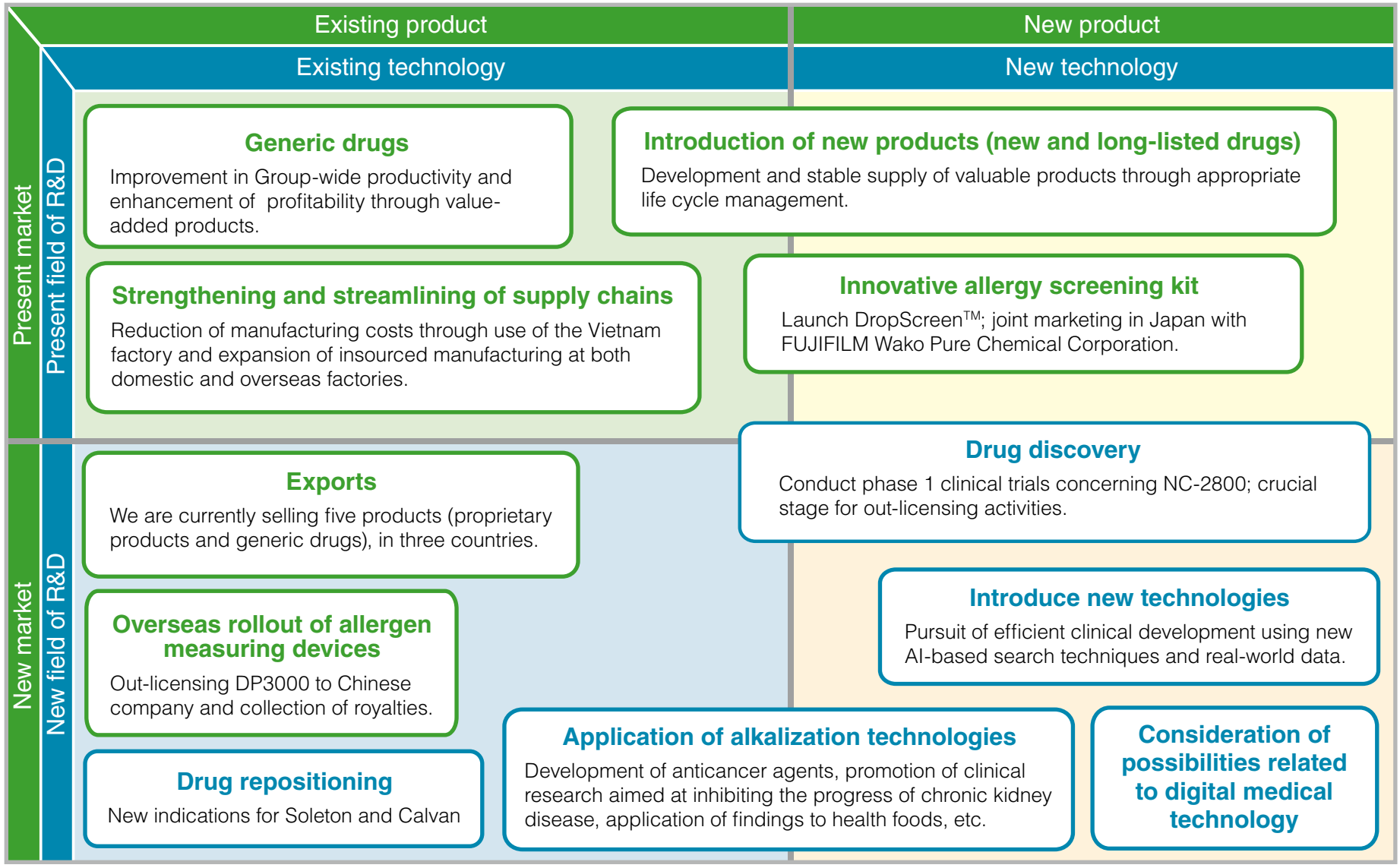
In addition, a limited increase in demand is expected, associated with customers seeking different pharmaceutical

(Continue to page 10.)

Management Strategy: Ansoff Growth Matrix

We are developing a multi-faceted strategy for expanding our pharmaceutical products business that is grounded in our three plus 1 principal goals.

Drug discovery | From manufacture to sale of pharmaceuticals



Management Strategy: Roadmap

Timeline of activities leading to achievement of our three plus 1 principal goals. (FY2021–2030)

Item	Area	Activity	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Generics	For domestic market	Launch value-added generics and introduce products from other companies	Aim to launch two or more value-added products per year.									
Alkalizer	New applications for alkalizer	DFP-17729 anticancer agent	Phase 1 and 2 for pancreatic cancer		Phase 3		Application, approval, and launching					
		Consider expanding applications to include additional chronic kidney disease-related indications	PMDA counseling and consultations		Examine new potential therapeutic use for chronic kidney disease-related indications, move to clinical phase						Application, approval, and launching	
			(Try to cut time for clinical trials and costs by analyzing real world data with AI.)									
		Utilize technology and knowledge to make functional foods and trademarked products		Launch four products during FY2022–2025				Sequentially launch two other health-related products.				
Drug discovery	Licensing out	NC-2800: Conduct phase 1 and 2a trials; out-license	Conduct phase 1 and 2a trials in accordance with AMED's CiCLE program					Licensee Company will conduct phase 2b and 3 trials				
		NC-2600: Out-license for new applications			Out-license as a treatment for chronic cough, contribute to earnings through the achievement of milestones.							
		NC-2500/NC-2700: Progress to phase encompassing out-licensing and development			Out-license NC-2500 for new indications in addition to gout and hyperuricemia. Push NC-2700 to the development stage through fundraising, etc.							
	Creation of new compounds	Discover new compounds by utilizing AI	Create new compounds		Preclinical phase/ license out		Discovery of new compounds through the application of new methods.					
Overseas business	Pharmaceuticals	From export to local development and production	Sell five products to four countries		Sell 10 products to five countries			Ongoing efforts aimed at expanding our product lineup and the number of countries in which these products are sold.				
					Manufacture six products in Vietnam		Gradually move focus to a business model predicated on highly profitable local development and manufacture.					
	Diagnostics	License DP3000- and IgE NC-rerated business in the Chinese market	Intermediate goods associated with IgE NC		Addition of 36 approved items for measurement				Subsequent addition of approved items for measurement.			
		Expand sales of DropScreen™	Expand domestic market		Aim to achieve continuous business expansion through the grouping of measuring reagents into product series.							
			Development of an overseas reagent lineup			Sequential launch in Europe, the Americas, and Asia						

providers, in response to quality issues affecting products from other makers.

Starting in the current fiscal year (ending March 31, 2022), we will apply new accounting standards, as a result of which sales are forecast to decline year on year. That said, we expect actual sales to increase about 10% year on year, despite the impact of the NHI drug pricing revision.

Even given the impact of the full-year effects generated by the structural reforms we implemented last fiscal year, we expect profits to decline for the current one. There are two primary reasons for this: first, the impact of a higher cost-of-sales ratio caused by the NHI drug price revision; and, second, an increase in R&D expenses associated with phase 1 studies related to NC-2800, a promising therapeutic agent for emotional modulation that was launched with the support of public funding.

Q5 You have reached a new agreement with Sumitomo Dainippon Pharma Co., Ltd. regarding NC-2800, correct?

A5 Yes, we concluded a collaborative research and development agreement and an option agreement with the company for NC-2800, an antidepressant and antianxiety agent candidate, which is under development with public funding support from the Japan Agency for Medical Research and Development (AMED).

The agreements were concluded in June 2021, after NC-2800 had been adopted as an R&D project under the Cyclic Innovation for Clinical Empowerment (CiCLE) program by AMED and we moved forward with research and development of NC-2800 as the representative institution of the project.

Sumitomo Dainippon Pharma had become interested in NC-2800 and understood both its use as a δ opioid receptor agonist and its distinctive profile. Under the R&D agreement, Sumitomo Dainippon Pharma will participate in the CiCLE project as a collaborating institution, and phase 1 studies will start in July 2021.

According to the option agreement, we have granted Sumitomo Dainippon Pharma the option of entering a licensing agreement when phase 2b studies begin, probably in the middle of this decade. That will allow it to develop and market NC-2800 worldwide, while Nippon Chemiphar receives option fees, milestone payments, and royalties as development progresses.

Sumitomo Dainippon Pharma has an extensive track record and abundant experience related to the development of treatments for psychiatric disorders and has global operations. Therefore, by concluding these agreements, in addition to the public funding received from AMED, we have gained a very strong partner that will provide valuable assistance in developing and launching NC-2800.

The partnership will enhance the probability of success and the speed of development through phase 1 and subsequent studies, so that this innovative drug might be delivered to patients worldwide.

Q6 Please tell us about the Nippon Chemiphar Group's medium- to long-term strategies.

A6 We have chosen several themes with which we are striving to generate innovation and contribute to society.

The Ansoff Growth Matrix on page 8 depicts initiatives related to the Nippon Chemiphar Group's three goals, while the roadmap on page 9 displays processes and goals corresponding to the themes in the matrix and related to the creation of business value over the medium to long term (through 2030). In each quadrant, the growth matrix depicts the development of each of the Group's businesses. Of the initiatives listed, those related to domestic ethical drugs and diagnostics are likely to give the greatest boost to current earning power.

As the domestic business environment becomes increasingly harsh, we will target earnings expansion by launching value-added generic drugs, as well as by in-licensing long-listed drugs and other products. We also plan to expand domestic sales of the DropScreen™ allergy screening kit (launched in 2020), while simultaneously accelerating its overseas rollout.

Further, I expect development of alkalization treatments to become a growth driver. We in-licensed DFP-17729 from Delta-Fly Pharma, Inc., the phase 1 studies of which were completed in April, while the phase 2 studies are underway. Within the next few years, we plan to start phase 3 studies and expect to submit a new-drug application in the middle of the decade.

Further, we hope to expand the indications for our alkalization agent to include chronic kidney disease, at the same time considering potential adaptations of alkalization technologies for use in functional food products.

We have been trying to out-license other drug candidates that we expect will contribute to future earnings, through initial contract payments and royalties. By means of the above efforts, we will continue to innovate as we work on several different themes simultaneously, thereby contributing to society through ongoing innovation.

* Phase 1 clinical trials of NC-2800 began in July 2021.

Pharmaceutical Products

Overview of FY2020 Operations

(1) Generic Products

Despite strong performance from products launched in FY2020, sales of generic drugs amounted to ¥25,532 million (down 3.4% year on year), having declined due to the impact of National Health Insurance drug price revisions implemented in October 2019 and April 2020, as well as the restrictions on medical examinations resulting from the COVID-19 pandemic.

Meanwhile, sales of original design manufacturing (ODM) products[1] increased, mainly as a result of orders placed for items released in FY2020. Consequently, generics' overall sales, including those generated by ODM products, came to ¥26,696 million (down 2.3% year on year).

(2) Proprietary Products, Drug Discovery, Marketing Rights

In July 2020, the Company's sales of in-licensed macrolide antibiotic agent Klaricid, proprietary products, and new drugs came to ¥1,790 million (up 31.4% year on year).

(¥mn)

	FY2019		FY2020		
	Amount	Distribution (%)	Amount	Distribution (%)	YOY (%)
Total (a+b)	27,788	100.0	27,322	100.0	(1.7)
a. Generics	26,425	95.1	25,532	93.4	(3.4)
To medical institutions	25,442		24,531		(3.6)
To other makers[2]	983		1,000		+1.8
b. Proprietary products and new drugs	1,362	4.9	1,790	6.6	+31.4
Uralyt	842		730		(13.3)
Others	520		1,059		+103.7
Total (a+c)	27,322	–	26,696	–	(2.3)
c. ODM generics	896	–	1,164	–	+29.9

1. Sales of products manufactured on an outsourcing basis for other companies that have manufacturing and sales approval.
2. Sales to other manufacturers of products for which the Nippon Chemiphar Group has manufacturing and sales approval.

I Initiatives Involving Generics

In order to hold down rising healthcare expenses, the Japanese government for some time has been promoting the use of generic drugs. As a result, demand for these has increased sharply.

However, as generics already account for close to the government's target of 80% of all drugs prescribed and the market is approaching maturity, annual NHI drug price revisions are pushing down profitability.

At the same time, market demand for quality assurance and stable supplies is rising to new heights, reflecting the multiple product quality issues that have occurred in Japan. This has forced generic drug manufacturers in Japan to concentrate, to an unprecedented degree, on quality assurance and stable supplies.

In 2000, the Nippon Chemiphar Group made generic drugs a pillar of its business and, taking full advantage of its aptitude for handling all processes associated with generic drugs (including development, manufacture, and sale), the Group has cultivated new markets as a pioneer among drug developing companies that provide generics.

Applying the expertise gained through these initiatives, we will secure profitability through cost reduction efforts that primarily involve using our overseas manufacturing sites. At the same time, we will maintain high quality, stable supplies, while enhancing our presence by delivering distinctive added value through efforts including the dissemination of reliable information and product manufacturing that meets the needs of medical professionals and patients.

Future Initiatives

(1) Development

Following the expiry of the patents of those original drugs that generally have maintained a fixed market size, we expect that new generics will be created. In the meantime, competition among companies is growing increasingly intense, due primarily to the prevalence of authorized generics.

To maintain a good reputation within the market under these conditions, we must strive to improve our overall development capabilities by launching products ahead of other companies and implementing efforts, such as the development of value-added formulations that meet the needs of medical workplaces.

We aim to develop products that are highly regarded in relevant markets by concentrating our development resources and implementing efficient procedures.

☞ Please refer to page 23 for information on tablet imprint and packaging.

(2) Manufacturing

To reduce the cost of sales, we are currently transferring manufacturing from our production sites in Japan to the highly cost-competitive Nippon Chemiphar Vietnam factory.

At the same time, we are creating added value by using the advanced technological capabilities of our Tsukuba factory. Once operations at the Vietnam factory are fully underway, we expect that the cost of manufacturing there will be about 20–30% less than in Japan.

In addition to the resultant savings, the Group's annual production capacity will gradually expand from 1.4 billion pills to 2.0 billion pills. Transferring product production to our highly cost-competitive Vietnam factory will help us reduce our cost of sales. At the same time, the Nippon Chemiphar Group is targeting higher productivity in its manufacturing division by utilizing the advanced technology of its Tsukuba mother factory to create added value.

☞ Please refer to page 17 for overseas manufacturing.

(3) Quality Assurance

To ensure quality control and production management of the highest standards, our quality assurance efforts comply with good quality[1] and good manufacturing practices.[2]

Thus, to confirm that we properly manage the drugs we provide, we evaluate the degree to which the raw materials and additives we use in production conform to stipulated standards; assess our methods of procurement and storage of materials; and appraise how we ship our products.

1. According to quality standards for drugs, quasi-drugs, cosmetics, and products such as regenerative medicine.
2. According to laws on the control of the manufacture and quality of drugs and quasi-drugs.

Response to Quality Issues

Special Internal Investigations

- January 2021: Investigated three factories operated by Nihon Pharmaceutical Industry Co., Ltd. (NPI)

  At each factory we checked: whether incorrect raw materials had been used; that the procedure manuals did not have instructions that had not been approved; and what systems were used for communicating with superiors when tests and inspections returned abnormal values. None of the investigations uncovered any issues.

- February 2021: Distributed information to medical professionals

  Nippon Chemiphar and NPI gave medical professionals information regarding the supervisory and production management systems we have in place.

Enhancement of management systems

- Personnel changes on April 1, 2021

  We appointed a corporate officer as general manager of manufacturing and sales in order to strengthen management's ability to ensure quality.

- Group quality standards

  We aim to set good manufacturing practice standards for the entire Group and strengthen our quality assurance system by unifying any disparate systems in the Group.

In addition, we regularly audit our manufacturing sites and external manufacturing contractors in accordance with Japanese government ordinances, and ensure that our production and quality control efforts comply with the principles of good manufacturing practice.

At our manufacturing sites, we manage raw materials through barcode systems and double-checking procedures, while carrying out annual checks and quality management procedures to assess the quality of our products.

(4) Ensuring a Stable Supply Structure

a. Logistics Management System

As generics become more prevalent, individual manufacturers are taking on growing responsibilities with regard to supply stability, requiring carefully crafted logistics systems. In September 2019, the Company expand its distribution system nationwide, together with Otsuka Warehouse Co., Ltd. This allows us to improve the quality of our logistics by cutting lead times, tracking transit status in real time, and preventing incorrect deliveries.

b. Double-sourcing Active Pharmaceutical Ingredients

Providing a steady supply of drugs requires efforts to both reinforce manufacturing capacity and ensure the stable procurement of active pharmaceutical ingredients (APIs). The Ministry of Health, Labour and Welfare's roadmap, designed to further promote the use of generic drugs, addresses the stable procurement of APIs and calls for double sourcing (having multiple suppliers). To meet the requirement, we are strengthening our survey and evaluation efforts to secure optimal API suppliers in Japan and overseas.

(5) Sales

In recent years, the environment surrounding generics has experienced tremendous changes, including the intensification of competition caused by the rising prominence of authorized generics and drastic NHI drug price revisions that have accompanied price range consolidation efforts.

That has caused us to: conduct initiatives to enhance those details that incorporate the advantages of our formulations; regroup our sales staff through Group structural reforms; and implement innovations associated with salesforce automation.

At the same time, we are supporting a diverse range of generic drug sales channels, in part by generating of sales over stronger channels involving NPI.

In response to restrictions—resulting from the pandemic—on visits to medical institutions, we are developing efficient sales activities, employing online consultations, and using other inside sales methods.

II Alkalizer

Since the launch of Uralyt in 1988, we have striven to alleviate aciduria symptoms and spread awareness regarding alkalization treatment. In addition, we are conducting multifaceted development using alkalization-related technologies and clinical trial results that we have enriched over the course of many years, as well as data currently being returned by clinical research regarding alkalization treatment that is underway at various institutions.

1. Multifaceted Development of Alkalization Treatment

In March 2020, we concluded a licensing agreement with drug discovery venture Delta-Fly Pharma, Inc. concerning DFP-17729, an anticancer drug that improves cancer microenvironments through alkalization.

A clinical trial using DFP-17729 to treat patients with terminal pancreatic cancer was launched in November 2020, and advanced to phase 2 in April 2021.

Over many years prior to the trials, we had collaborated with Tohoku University to support its ongoing clinical research (CKOALA study) aimed at clarifying the relationship between urinary alkalinization medications and chronic kidney disease (CKD). Currently, we are conducting additional data analyses, facilitated by extensive use of AI and real-world data, and will explore possible expansion in indications for urinary alkalinization medications in the future.

Further, we are applying alkalization technologies and clinical research data as we develop functional foods and other products. We expect the products to be commercially viable as commodities in a few years.

2. Awareness Activities

In recent years, hyperuricemia has, again, been attracting attention. Recognition of the condition merely as a precursor to gout has subsided in favor of a focus on the condition's relationship with metabolic syndrome and cardiovascular events.

With our main focus on Uralyt, we are conducting educational activities regarding the importance of alleviating aciduria symptoms associated with gout and hyperuricemia. These activities have included our joint sponsorship of the Hyperuricemia and Metabolic Syndrome Research Forum, and online informative activities conducted through our website.

III Alliances

In February 2019, Nippon Chemiphar in-licensed the PICOPREP compound from Ferring Pharmaceuticals Co., Ltd. Then in July 2020, we in-licensed Klaricid, a macrolide antibiotic formulation, from Mylan EPD G.K. We plan to continue in-licensing new and long-listed drugs and enhancing our product portfolio, while using it to generate synergy that bolsters our generics business.

1. PICOPREP

The oral intestinal cleansing agent PICOPREP is used for whole bowel irrigation. The product's active ingredients are magnesium oxide, anhydrous citric acid, and sodium picosulfate hydrate (a stimulative laxative), which are combined with the salt-based laxative magnesium citrate.

We aim to make patients more receptive to the idea of undergoing a colonoscopy by raising awareness of this drug's pleasant orange flavor, its compatibility with a wide range of beverages, and the fact that only a small dose need be taken.

Most important, we see the drug as having the potential to assist in the early detection of colon cancer, the sufferers of which are increasing in number, as are their mortality rates.

2. Klaricid

Klaricid is a gold-standard macrolide antibiotic agent containing clarithromycin. It was approved for manufacture and sale in 1991, following joint development by Dainabot Co., Ltd. (now Mylan EPD G.K.) and Taisho Pharmaceutical Co., Ltd.

In July 2020, Mylan transferred exclusive sales rights for Klaricid to Nippon Chemiphar, which then independently launched sales and information dissemination activities. On April 20, 2021, we received both sales and manufacturing approval for Klaricid and will use this drug as a lead, while intensifying our approach to medical institutions. We hope to demonstrate the synergy between Kraricid and our generics business, and to enhance our product portfolio by in-licensing other long-listed drugs with extensive brand strength.

IV In-house Drug Discovery and Development

We are working to develop new breakthrough drugs against diseases for which there are no appropriate therapeutic drugs. To maximize the speed at which we can launch our products on the market, we focus on exploratory research and conduct venture-based drug discovery research. This involves out-licensing, at an early stage, the development of compounds we have discovered to highly specialized companies in Japan and abroad. Aiming to implement AI-based drug development and other new techniques, we are tackling drug development themes that might lead to innovative new drugs.

1. Development Pipeline

As of June 2021

In-house drug development　Other companies' or physician-initiated development

Item	Function (Target)	Preclinical	Phase 1	Phase 2	Notes
NC-2400	PPAR-δ agonist (Lipid metabolism abnormalities)				・Finished phase 1. ・Licensed to Abionyx Pharma SA (France).
NC-2500	XOR inhibitior (Hyperuricemia, gout)				・Phase 1 has ended and we are conducting licensing-out activities. ・Explored possibilities for application as a treatment for neurodegenerative diseases.
NC-2600	P2X4 receptor antagonist (Neuropathic pain, chronic cough)				・Phase 1 has ended and we are conducting licensing-out activities. ・Began out-licensing for application as a treatment for chronic cough.
NC-2700	URAT1 inhibitior (Hyperuricemia, gout)				・Finished preclinical trial and are conducting licensing-out activities.
NC-2800	δ opioid receptor agonist (Depression and anxiety)				・Selected by AMED for its funding program in January 2018; Sumitomo Dainippon Pharma Co., Ltd. participates in June 2021. ・Plan to start Phase 1 in July 2021.
DF-17729	Cancer microenvironment improving agent (Pancreatic cancer)				・Developed by Delta-Fly Pharma, Inc. ・From April 2021, moved to phase 2a trial.
Soleton	COX inhibitor (Diffuse-type tenosynovial giant cell tumor and others)				・Physician-initiated clinical trial was started. ・Achieved the objective number of trial participants and plan to conduct data analysis.
Calvan	α1β1 blocker (Huntington's disease)				・Licensed to SOM Biotech S.L. (Spain). ・Finished phase 2a trial.

(1) NC-2800, a δ Opioid Receptor Agonist (For depression, anxiety)

NC-2800 is a chemical compound with strong potential as an anti-depression and anti-anxiety treatment that the Company discovered through collaborative study with the University of Tsukuba, Kitasato University, and the National Center of Neurology and Psychiatry.

The Japan Agency for Medical Research and Development (AMED) selected this compound for inclusion under its industry–academia collaboration program in 2015 and, with the agency's support, we conducted preclinical trials.

As a result, the compound received high acclaim for its potential as a therapeutic drug candidate.

In 2018, AMED's CiCLE project* selected it for public funding and support, which helped facilitate the launch of a phase 1 trial in July 2021.

In addition, in June 2021, we signed two agreements concerning NC-2800 with Sumitomo Dainippon Pharma Co., Ltd. The first agreement involves collaborative research and development of NC-2800, while the second is an option contract that affords Sumitomo Dainippon Pharma the right to exercise exclusive global development and sales rights for NC-2800.

* Theme of R&D: Development of a breakthrough emotion-regulating agent with a mechanism for activating δ opioid receptors; AMED is providing support from March 30, 2018, until March 31, 2027.

(2) NC-2600, a P2X4 Receptor Antagonist (For neuropathic pain and chronic cough)

In joint research with Kyushu University, we have developed a new formulation to treat neuropathic pain. Since FY2012, the Company has been carrying out research with the support of the Japan Science and Technology Agency and, since FY2015, with that AMED. In FY2014, we discovered NC-2600. It is a development candidate that appears to be potentially effective through oral administration. We completed phase 1 testing in FY2017, and currently are

conducting licensing-out activities involving domestic and international companies.

We are exploring NC-2600's potential as a first-in-class drug, and have launched new out-licensing activities primarily targeting chronic cough as an indication for the development candidate. At the same time, we will create further licensing-out opportunities for NC-2600, thereby increasing its value.

(3) NC-2500, a XOR Inhibitor, NC-2700, a URAT 1 Inhibitor (For gout, hyperuricemia)

• NC-2500

It is thought that NC-2500 suppresses uric acid production by inhibiting xanthine oxidoreductase, an enzyme involved in the production of uric acid, and decreasing serum uric acid levels.

It should be noted that current drug therapies for lowering uric acid pose a risk of an acute gout attack due to the sharp decrease in uric acid levels. However, in NC-2500 phase 1 trials, we confirmed that it functions uniquely to gradually lower serum uric acid levels, suggesting that it may rectify this issue. At present, we are out-licensing the compound to companies in Japan and abroad while examining the potential for joint development.

• NC-2700

This is a chemical compound formulation that, unlike NC-2500, promotes the excretion of uric acid from the body by inhibiting the transporter URAT1, which is responsible for the re-absorption of uric acid in the kidneys.

We have completed preclinical trials on this drug and are out-licensing it to companies in Japan and abroad.

(4) DFP-17729, a Cancer Microenvironment Improving Agent (for pancreatic cancer)

In March 2020, we concluded a licensing agreement for the pipeline drug DFP-17729, with Delta-Fly Pharma, Inc. (DFP), a Japanese venture drug discovery company. Using module technology—and its original concept, Module Drug Development—DFP focuses on new anticancer drugs. With its technology, the venture company expects to shorten the research and development period required to develop anti-cancer agents and reduce the risks involved.

DFP-17729 is expected to generate groundbreaking therapeutic effects as a treatment for refractory cancer by alkalizing the acidic environment caused around tumors by cancer cells as they grow.

Targeting patients with end-stage pancreatic cancer, DFP currently is conducting a clinical trial, which entered phase 2 in April 2021. During this phase, DFP will compare the survival time of patients who receive treatment combining DFP-17729 and anti-cancer medications with that of patients who receive treatment involving anti-cancer medication alone.

Based on the results obtained during this phase, DFP will evaluate DFP-17729's efficacy and safety, while also considering whether to proceed to a phase 3 trial and apply for early approval from the Pharmaceuticals and Medical Devices Agency.

2. Repositioning of Existing Drugs

Pharmaceuticals are generally classified as new drugs or generic drugs, while some new drugs are also classified as long-listed drugs. These latter drugs are new drugs with expired patents but, because they have been used over many years in clinical practice, much expertise exists regarding their safety and usage.

Furthermore, experience and research from medical professionals have indicated that some of these medicines may have indications other than those for which they were originally intended. Like new medicines, these drugs await development for use against diseases for which no particularly effective medications are available. To discover similar new uses for our long-listed drugs, the Company is supporting research through collaboration with external agencies.

3. Access to New Technologies

To create further promising pharmaceutical product candidates, we must use innovative drug discovery methods by adopting innovative information technologies and using AI. We concluded capital and business alliances with MOLCURE Inc. (in November 2018) and SUSMED, Inc. (August 2020) with the aims of applying new technologies, raising reproducibility associated with the creation of promising drug discovery themes, and improving the speed and efficiency of various processes. Through these agreements we are developing collaborative efforts to support specific themes.

Collaborative Research and Development Agreement and Option Agreement concerning Candidate Compound NC-2800

Nippon Chemiphar and Sumitomo Dainippon Pharma Co., Ltd. formed a collaborative research and development agreement and an option agreement concerning candidate compound NC-2800, which is the subject of a research and development project adopted under the CiCLE program of AMED. Under the terms of the agreements, Sumitomo Dainippon Pharma will participate in this project as a contributing organization, collaborating with Nippon Chemiphar to advance the research and development of NC-2800. In addition, Sumitomo Dainippon Pharma has acquired from Nippon Chemiphar the exclusive optional right to enter into a license agreement for the global development and marketing rights of this drug once its development reaches the phase 2b study stage.

With the conclusion of these agreements, the two companies will push ahead with the development of this highly innovative Japanese drug to facilitate its prompt delivery to patients worldwide.

V Diagnostics Business

Reflecting the Group's awareness of the need to support medical care, we develop and market clinical laboratory equipment and reagents well suited to meet the needs of patients and medical professionals. Currently, we are marketing our products in Japan and overseas, as we also develop business in China through a technology tie-up.

Given that the number of patients suffering from allergies and lifestyle-related diseases is continuing to grow, the early devising of diagnostic and treatment plans is essential. To this end, the rapid availability of test reports, based on the Group's products, is a major contributor to the swift assessment of test results.

1. DropScreen™

Together with Riken, a large national scientific research institute in Japan, Nippon Chemiphar has developed the DropScreen™ specific IgE measuring kit ST-1, a new extracorporeal diagnostic kit that combines the Company's allergy measurement reagent technologies with screening systems based on microarray technologies researched by Riken.

In October 2019, the Company acquired manufacturing and marketing rights for the kit. Since February 2020, the Company and FUJIFILM Wako Pure Chemical Corporation have been jointly marketing the kit and the DropScreen™ A-1 measuring device (manufactured and distributed by Ueda Japan Radio Co., Ltd.) in Japan.

Product characteristics

The DropScreen™ kit was developed bearing in mind the discomfort experienced by individuals undergoing small-volume blood sampling, and the need for greater familiarity regarding allergy screening.

This breakthrough diagnostic kit can screen for 41 allergens in just 30 minutes using only a single drop (20 microliters) of blood (whole blood, blood plasma, or blood serum), making it possible for those being tested to obtain test results quickly. It is ideal for use on children and those with an aversion to syringes, since whole blood samples can be taken from fingertips. Due to these features, it is highly regarded by a wide range of clinical departments, including those specializing in the treatment of allergies.

Specific IgE measuring kit ST-1

Measuring device A-1

2. Expansion into the Chinese Market

In October 2019, the National Medical Products Administration (NMPA), a Chinese supervisory authority, granted approval to several measuring reagents (out of IgE NC's total lineup of 60) associated with DP3000, the world's fastest allergy testing equipment, and allergy testing reagent IgE NC.

In FY2020, we began commercially selling these measuring reagents, on a trial basis, through local partners in China. Since then, we have steadily gained approval for more measuring reagents, and plan to launch full-scale promotions of the agents at the end of FY2021.

IgE NC: Reagent to measure allergen-specific IgE

DP3000: Device measures allergen-specific IgE

DropScreen™ Changes Allergy Testing

The number of individuals requiring allergy testing continues to grow, yet the primary conventional testing method for allergies generally remains the blood test. For this, a syringe is used to take a blood sample that, when tested in a laboratory, will reveal, after some time, the level of specific antibodies present in the blood.

To reduce the discomfort people experience when undergoing allergy-related blood tests, we developed the DropScreen™ kit, which was launched in February 2020. Requiring only one drop of blood, the testing process has been favorably assessed by many medical institutions for its ability to test for 41 allergens in but 30 minutes, using only a single drop of blood.

The kit provides a convenient and quick testing method that we expect will change common wisdom regarding allergy testing.

Takahiro Mataki
Manager
Diagnostics Business Department

Overseas Development

Securing production capacity, as demand for generic drugs expands, is critical for a company that manufactures such drugs. Further, we must respond to periodic NHI drug price revisions and the severe competitive environment through cost reductions. Japan's falling birthrate and population, aging society, and public finance-related considerations all point to a shrinking domestic market.

To address these issues and maintain growth, we established Nippon Chemiphar Vietnam Co., Ltd. (NC-VN) in March 2015. In addition to enhancing manufacturing capacity, and reducing costs associated with its factory in Vietnam, NC-VN is developing sales channels in a range of countries, which will serve as a stepping stone to overseas markets, primarily in rapidly growing Asia.

The Vietnam factory

I Manufacturing

NC-VN, which has focused on expanding its manufacturing capacity, reducing costs, and functioning as a stepping stone for future overseas expansion, began commercial production for Japan in its factory in November 2018. While maintaining a particular focus on items expected to generate cost benefits, it is gradually expanding the lineup of items it manufactures, which currently comprises six products (as of March 31, 2021).

We plan to continue lowering costs by moving product manufacturing from domestic factories to the Vietnam factory, while preparing to act as an outside enterprise, taking on manufacturing from outsourcing companies.

II Development

To market our products overseas effectively, in April 2019, we set up the Overseas Technology Development Department, incorporating some of the operations of our generic drugs development division. We currently are preparing to launch our products in overseas market in advance of Japan within the next few years.

III Sales

We are working with local distributors to sell our proprietary products and generic drugs in Thailand, China (including Hong Kong), and South Korea. As of March 2021, we had approval for the sale in those countries, of five products (core products and generic drugs), which are already on the market. We have applications under review for three products in two countries, and are preparing to increase the number of products and the countries in which they are available.

☞ Please refer to page 16 for the details of diagnostics business.

Activities in China

In 2020, an authoritative Chinese academic society conducting hypertension-related research included Calvan tablets within its guidelines as a standard treatment option. Accordingly, we restarted selling these tablets through a local company in April 2021. In the future, we expect to launch full-scale marketing activities in major Chinese cities.

At the same time, we are planning to expand our achievements in China through two types of products: those for which applications have been accepted and corresponding tests have begun, and those that are expected to undergo local biological equivalence studies.

Briefing on the launch of Calvan tablets (April 2021, Chengdu, Sichuan Province, China)

CSR: Maintaining Society's Trust

I CSR Initiatives

The Nippon Chemiphar Group conducts CSR activities based on its established fundamental CSR policy which states, in part, that "We owe our stakeholders continued commitment to improving the health of society at large, by providing quality products and services."

While we work to fulfill our social responsibilities as a company, we are also promoting measures aimed at helping resolve societal issues related to the Sustainable Development Goals adopted at the UN summit held in September 2015.

II Management Systems

1. Corporate Governance

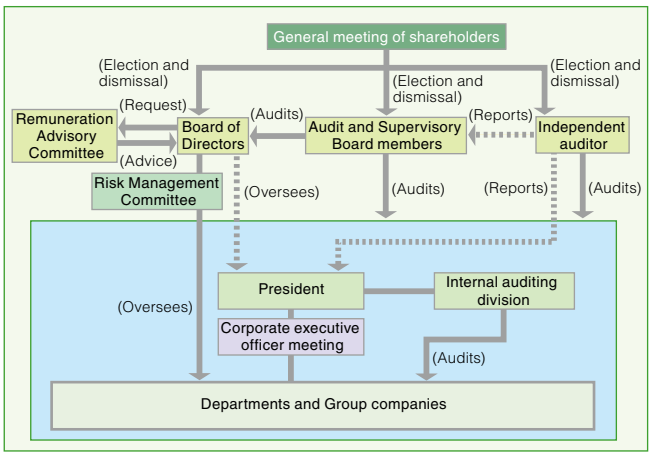
(1) Underlying Philosophy

We take very seriously the managerial responsibilities with which our shareholders have entrusted us. Thus we strive to ensure that our management organization and operations are appropriate. Our top priority is to guarantee that management is fair by making it as transparent as possible.

(2) Organization

We are reinforcing corporate governance with the aim of boosting management transparency and efficiency. We have divided the management functions into two main areas: decision-making and supervisory functions; and executive functions. The former functions are handled by directors (Board of Directors) and the latter by corporate officers (at Corporate Executive Officer meetings). Nippon Chemiphar has a board of company auditors, the Audit & Supervisory Board. Members participate in Board of Directors' and other important meetings, thereby determining the overall activities of the directors and executive officers, while conducting audits from a strictly neutral perspective.

Management Organization



Structural Overview (As of June 18, 2021)

Organizational Composition	Board of Directors, Audit and Supervisory Board
Number of directors (of whom are outside directors)	6 (2)
Number of audit and supervisory board members (of whom are outside members)	3 (2)
Director's term of office	Two years
Adoption of an executive officer system	Yes

Main Meetings, Attendance during FY2020

Board of Directors' meetings	13 times
Outside director attendance	100%
Outside audit and supervisory board member attendance	100%
Audit and Supervisory Board meetings	16 times
Outside audit and supervisory board member attendance	100%

(3) Auditing

Our Audit & Supervisory Board members ensure the legality of our operations by inspecting them and ensuring they meet our auditing standards and auditing plan. They attend Board of Directors' and other important management-level meetings, as well as inspect and verify reports they receive from directors, Audit & Supervisory Board members, and employees. Should the need arise, they also verify operations and assets.

This has allowed the Company to set up auditing functions that buttress our fundamental policies, priorities, and execution of business. In addition, we have sought to strengthen our internal controls by establishing the President's Office Internal Audit Division, a unit that will be responsible for internal executive department audits.

(4) Selection of Directors. Audit & Supervisory Board Members

(a) Directors

Before appointing someone to our Board of Directors, we check to ensure they are of flawless character, and have the appropriate insight and level of professional expertise, broad experience, superior ability, and a deep sense of responsibility. (Please refer to the skills matrix on page 19.) They must also display advanced professional proficiency, and thorough

knowledge of its efforts to enhance corporate governances while generating Group-wide business value in accordance with the Innovation Roadmap. (Please see page 9.)

Candidates for the position of inside director are reviewed to ensure that their performance and managerial ability are excellent, that they have fulfilled their operational responsibilities thus far, and that they are able to observe the Company's operations from a broad perspective.

Meanwhile, candidates for the position of outside director must meet the independence standards stipulated both by the Tokyo Stock Exchange and our Company.

Candidates for the post of director are selected by the president and CEO and, following approval by the Board, are appointed to their positions in line with annual shareholder meeting resolutions.

(b) Audit & Supervisory Board Members

Before appointing an Audit & Supervisory Board member, we closely examine the candidates and select an individual of excellent character and insight, with a high level of professional expertise, wide-ranging experience, superior abilities, and a deep sense of responsibility.

A candidate for the post of inside Audit & Supervisory Board member is evaluated to ensure that they are well-versed in our operations and have the aptitude necessary to audit the appropriateness and level of propriety of our directors as they perform their duties.

A candidate for the post of outside Audit & Supervisory Board member must meet the independence standards of both the Tokyo Stock Exchange and our Company.

(5) Compensation for Directors, Audit & Supervisory Board Members

The maximum permissible amount of basic compensation awarded to each director and Audit & Supervisory Board member is determined by shareholder meeting resolutions. This ensures shareholder participation in the monitoring process. With Board authorization, the president and CEO determines each director's basic compensation, ensuring that the amounts remain within the maximum permissible range and that the final decision is based on the special achievements and financial results associated with each director.

The basic compensation for each Audit & Supervisory Board member is determined through discussions among Audit & Supervisory Board members.

In addition, we have also a share-based compensation system that is not subject to the limits placed on basic compensation. The system allows restricted shares to be given as compensation to inside directors.

(6) Policies Regarding Compensation for Individual Directors

Fundamental Policy

Our basic policy regarding compensation for directors requires that the compansation be an incentive for generating increased corporate and shareholder value through improved financial results. Thus, the compensation of a director must be set at a level commensurate with their responsibilities.

Basic compensation for inside directors comprises fixed monetary compensation and occasional predetermined share-based remuneration.

Outside directors receive only basic compensation, based on their respective duties.

Method of Determination

Reflecting resolutions adopted by the Board of Directors, the President and CEO decides the details of each director's basic compensation according to our Compensation Determination Policy.

Subsequently, the Board consults with the Compensation Advisory Committee to ensure that the President and CEO's decisions comply with this policy, and later receives a report detailing the committee's response.

The Board determines the number of shares to be awarded each inside director as share-based remuneration. This follows a review of the Compensation Advisory Committee report with recommendations for the appropriate ratio of inside directors' compensation (fixed monetary and non-monetary) to general compensation.

(7) Compensation Advisory Committee

We set up the Compensation Advisory Committee to serve as a consultative body for our Board. The committee comprises three members, two of whom are independent

Director Experience and Expertise (skills matrix)

	Current Position	Corporate Management	R&D/ New Business	Sales/Marketing	Overseas Business/ International Experience	Intellectual Property	Legal/Risk Management	Financial Affairs/ Accounting/ Financing
Kazushiro Yamaguchi	President and CEO	√	√	√				√
Masanori Kutsuwada	Director and Senior Managing Corporate Officer				√		√	√
Tomio Yamakawa	Director and Managing Corporate Officer		√		√	√		
Masahide Yasumoto	Director and Corporate Officers		√	√				√
Yuji Harada	Outside Director	√			√			√
Masaki Yoshino	Outside Director				√	√	√	

outside directors. Reflecting Board resolutions, the President and CEO determines the details of each director's compensation, in accordance with our Compensation Determination Policy.

The Board then consults with the Compensation Advisory Committee to ensure that the President and CEO's decisions comply with the policy, and later receives a report detailing the committee's response.

(8) Evaluating the Board's Effectiveness

To evaluate the overall effectiveness of the Board of Directors, we deliver self-evaluation questionnaires each year to all Board and Audit & Supervisory Board members. The data compiled from the responses is then analyzed and discussed by the Board. In FY2020, it was found that the Board, on the whole, had been effective.

We will continue to analyze and evaluate the Board's effectiveness in a bid to increase it, while taking the steps necessary in areas needing examination or improvement.

2. Internal Controls and Risk Management

(1) Internal controls

We have established a Fundamental Internal Control Policy based on the Companies Act and the Regulation for Enforcement of the Companies Act. In addition, we have set up a framework that ensures our operations are appropriate in terms of risk management compliance, the efficient performance of professional duties, and reliable financial reporting.

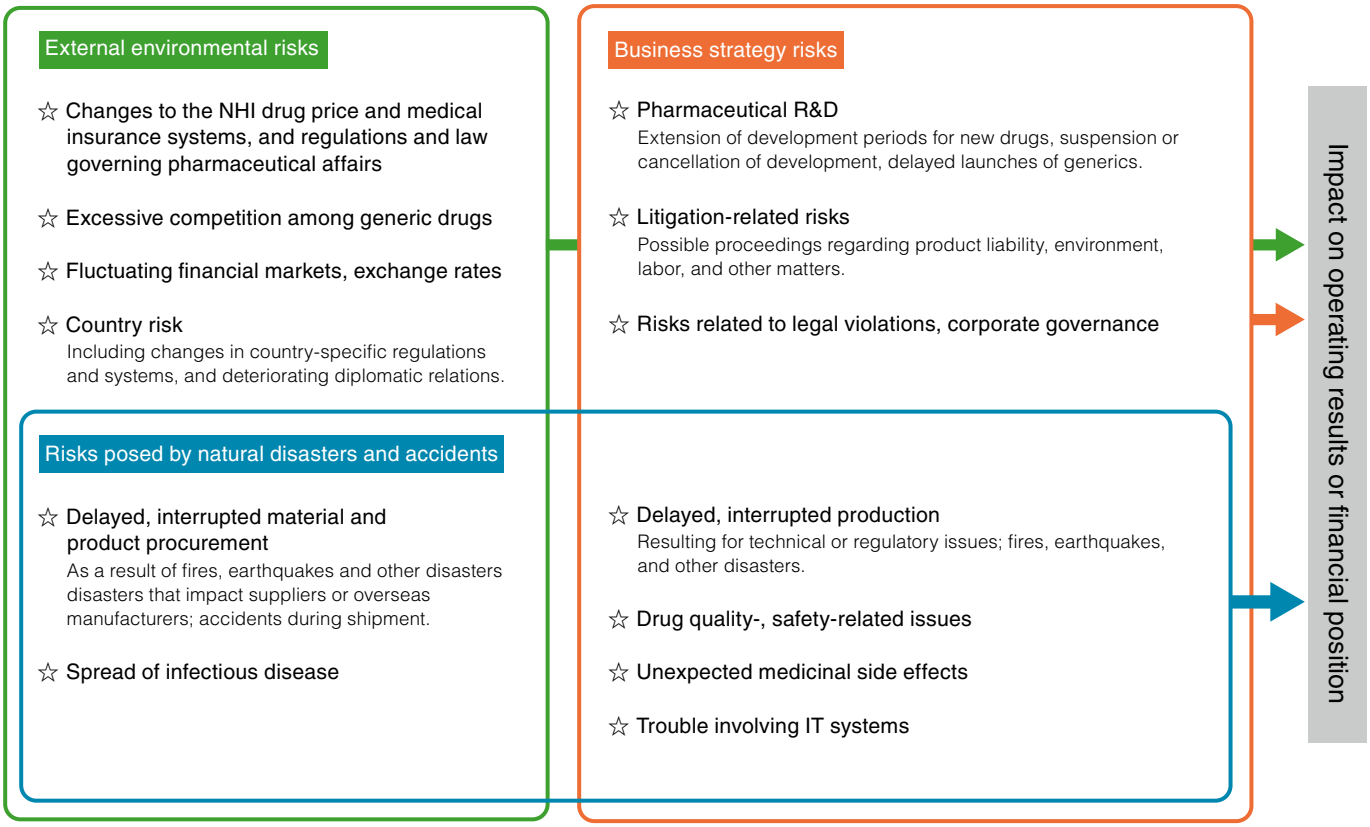
Further, we have created an Internal Auditing Division, which operates under the direct supervision of the president and CEO. This division cooperates with various committees, including the Risk Management Committee, to investigate the appropriateness of our operations and suggest improvements.

(2) Risk management

In accordance with our Fundamental Internal Control Policy, we have established a set of risk management rules to foster comprehension, management, and response to a variety of risks that have significant impact on the administration of our businesses.

The rules include provision for the creation of a Risk Management Committee, with the director in charge of risk management serving as its chairperson. We also have set up individual committees to respond to risks related to compliance and information security, and are sharing relevant information with our employees.

Business and Other Risks (Presented in securities report)



3. Directors, Audit & Supervisory Board Members, and Corporate Officers (As of June 18, 2021)

(Back row, from left)
Outside Director Yuji Harada; Director and Corporate Officer Masahide Yasumoto; Outside Director Masaki Yoshino

(Front row, from left)
Director and Senior Managing Corporate Officer Masanori Kutsuwada; President and CEO Kazushiro Yamaguchi; Director and Managing Corporate Officer Tomio Yamakawa

(Back row, from left)
Outside Audit & Supervisory Board Members (part-time) Tsuyoshi Takahashi and Naoshige Shindo

(Front row)
Audit & Supervisory Board Member (full-time) Sakaru Makino

(Back row, from left)
Corporate Officers Koki Hayamizu and Jiro Shimada

(Front row, from left)
Corporate Officers Shinichi Kudo, Yasushi Hatakeda, and Shinji Nakajima

III Medical Professionals and Patients

It is said that drugs cannot fulfill their proper roles unless they are used together with the appropriate information. Bearing this in mind, we are quick to provide medical institutions with accurate information about the proper use of our drugs. We do this through our medical representatives (MRs), who are located nationwide.

At the same time, we work to collect information on quality and safety, consolidate collected safety particulars, and provide this to assist in creating new pharmaceutical preparations.

1. Initiatives to Ensure Proper Use of Drugs

We train our MRs to provide information and we teach them about the proper use and efficacy of our products. With the patient always in mind, we strive to cultivate human resources who can serve as members of team-based healthcare for pharmacotherapy partners.

A variety of information is available on our website. Information targeting medical professionals includes news about National Health Insurance price revisions, and guidance on administering drugs.

We also supply information about generics, and provide recipes for therapeutic food and other information for patients. We make available various leaflets about new drugs and generics, providing information to meet medical institutions' needs.

Further, we provide separate websites for medical professionals and patients concerning hyperuricemia and gout. The data is tailored to their different needs and levels of knowledge.

(1) Role of MRs

Nationwide, we have approximately 200 MRs, whose function is to provide information on the use of drugs and instructions for patients, as well as to meet other needs of medical institutions.

Through them, we are providing IT-based information to help prevent the spread of the novel coronavirus pandemic.

We work to ensure the efficiency of our MRs by maintaining ties with medical institutions, particularly core hospitals that are central to regional healthcare.

(2) Platform for Learning

The Company conducts seminars and has study groups for various medical conditions, including dementia and lifestyle-related illnesses.

We provide medical professionals with the most up-to-date information and opinions related to treatment.

(3) Support Materials

For physicians and pharmacists we publish a periodical by means of which we share our latest information. We also produce pamphlets that provide guidance on various types of nutrition-related and exercise therapies, as well as on health management.

Through these supporting materials, we are doing our best to help improve the quality of healthcare.

(4) Response to Inquiries Swift

To ensure accurate and speedy responses to telephone inquiries from medical professionals and patients, we have established a customer support office to help provide information on the appropriate use of our pharmaceuticals.

2. Strengthening Supply System

We are diversifying our active pharmaceutical ingredient procurement partners and stepping up inspections of local manufacturing facilities in order to provide a stable supply of medications. We continue to improve our supply framework throughout our supply chain, from development and manufacturing to sales.

Support for stable supplies comes from the Group's Tsukuba Factory, which has the industry's first fully seismically isolated structure in this earthquake-prone nation. Our factory in Vietnam also helps maintain product supply levels.

To help thwart the spread of the coronavirus, we are recommending telework and staggered working hours, while implementing measures including online conferencing. We will continue striving to prevent interruptions to our supply of pharmaceutical products by adopting appropriate countermeasures at our factories.

3. Quality, Information Paramount

We are working on initiatives to ensure the quality of both generics and proprietary products, as well as to provide information more effectively. At the same time, we are devising ways to improve the visibility and user-friendliness of our products.

When packaging our products, we take ample care to ensure the safety and security of medical professionals and patients alike. Examples of such activities include using press-through packaging sheets for oral medications and employing external packaging to prevent exposure to anticancer medications.

Product Initiatives Aimed at Safety and Convenience

Improving Visibility and Convenience

Visibility

1. Matte press-through packaging
   Reduced shine makes it easier to read the information and instructions written on the aluminum backing of medication packaging.
2. Universal design font
   For sheets of press-through packaging and outer packaging, we use a font that is highly legible, to prevent misreading.

Convenience

3. Tablet imprint
   All tablets are scored on both sides, with the name of the drug and the maker printed on the top and bottom half, respectively, on one side, and the bottom and top half on the other side.

Enhancing Safety—Special Packing for Anticancer Drugs

Designed to reduce exposure

After filling a vial with medication, any remaining anti-cancer agent is cleaned away from the outer surface of the vial, which is then wrapped in film.

The product's label features a pennant to prevent the bottle from rolling away.

Prevents bottles breaking, contents spilling

Cushioning material is placed at the bottom of the vial before it is covered in shrink-wrap film.

IV Community Participation

As members of local communities and society, we support projects that benefit the communities and society in which our offices are located. Our aim is to grow, while being an integral part of society.

1. Cooperation with Local Communities

Combining regional contribution and environmental promotion, we conduct cleanup activities—around Nippon Chemiphar's headquarters, Soka office, and the Tsukuba Factory of Nihon Pharmaceutical Industry—and hold blood drives on an ongoing basis.

2. Volunteer Activities

We have established an internal volunteer leave system that encourages employees to take an active part in volunteer activities, including social welfare initiatives and rescue efforts in disaster areas.

We support people with disabilities through donations to NPO Hands On Tokyo and another association that also supports those with disabilities among other activities.

3. Recycling, Support for Developing Countries

We help developing countries through such activities as collecting pet bottle caps, books and miswritten postcards. In Japan, caps and books can be collected and sold to recycling companies, while cards can be exchanged through the postal service for money. Group companies have been generating donations in this way since 2011.

Books donated by employees to raise funds for developing countries.

4. Educational Support in Vietnam

Nippon Chemiphar Vietnam has established the Nippon Chemiphar Scholarship system at the University of Medicine and Pharmacy in Ho Chi Minh City, southern Vietnam. The scholarship aims to support the development of human resources who will play a crucial role in the expansion of Vietnam's pharmaceutical industry by assisting students who have exhibited excellent academic ability, but are struggling with financial challenges.

The Nippon Chemiphar Group will continue to support development in Vietnam and other ASEAN countries.

Manager Hiroshi Kanbara (right, of Nippon Chemiphar's Vietnam factory) delivers a promissory certificate during the scholarship award ceremony.

V Environment-related Initiatives

In order to help make our society more sustainable, we believe that companies must consider the environmental impact of their business activities.

The Nippon Chemiphar Group ensures that its pursuits are conducted in accordance with the basic policies it has formulated, endeavoring to reduce its environmental impact.

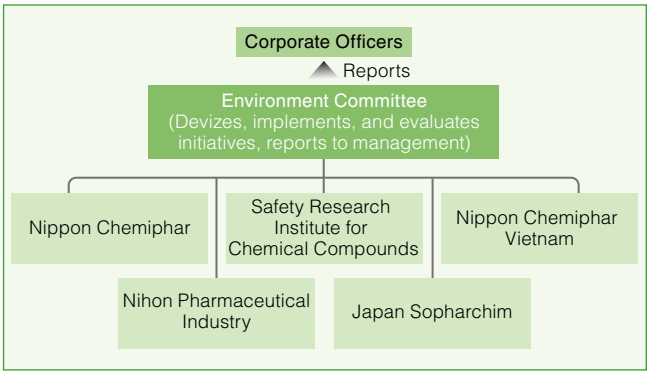
1. Basic Policies

(1) We seek to minimize our footprint throughout our business—including in R&D, manufacturing, and sales—by using resources and energy efficiently, minimizing waste, reusing, and recycling.

(2) Our Group's management system focuses on environmental conservation.
(3) Our corporate transparency benefits from the release of impartial, appropriate information concerning the conservation of the environment.
(4) We are striving to make our employees eco-conscious and to teach them how to protect the environment.

2. Environment Conservation

We have an Environment Committee to devise, implement, and evaluate environment-related conservation initiatives for the entire Company. Our initiatives to protect the global environment are a Company-wide theme. In addition, we have launched a campaign to conserve electricity, and in-house training to enhance awareness of environment-related activities.



3. Impact of Group Operations

Materials Used in Our Business Activities

INPUT

		FY2019	FY2020	YOY (%)
Energy				
	Electricity	16,544 KWH	16,552 KWH	+0.0
	Gasoline	510 kl	359 kl	(29.6)
	Heavy oil	107 kl	100 kl	(6.1)
	Light oil	305 kl	252 kl	(17.5)
	Kerosene	700 kl	678 kl	(3.1)
	LPG	2 t	2 t	(4.5)
	Town gas	248,399 Nm³	288,679 Nm³	+16.2
	Total	235,184 GJ	228,788 GJ	(2.7)
Resource				
Water (consumption by factories, laboratory)*				
	Tap water	35,184 m³	31,693 m³	(9.9)
	Well water	86,152 m³	92,684 m³	+7.6
	Total	99,015 m³	106,204 m³	+7.3
Materials				
	Raw materials	413 t	449 t	+8.7
	Packaging materials	97 t	102 t	+5.9
	Total	510 t	551 t	+8.2

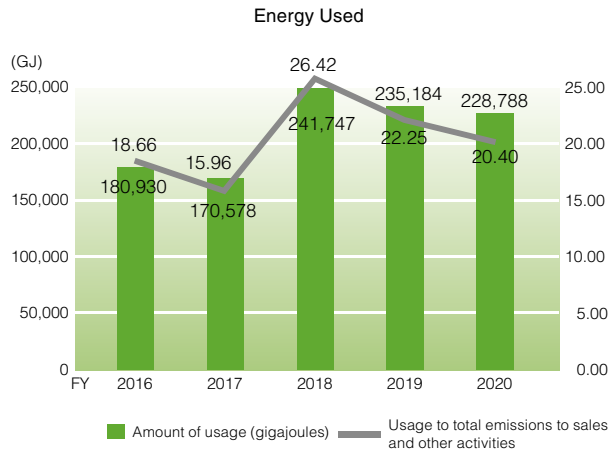
OUTPUT

		FY2019	FY2020	YOY (%)
Into Atmosphere				
	CO_2 emissions	11,774 t-CO_2	11,209 t-CO_2	(4.8)
	PRTR-related substances	0.00 t	0.00 t	±0
As Industrial Waste Water (from factories, laboratory)				
	Used water	38,510 m³	42,994 m³	+11.6
	PRTR-related substances	0.17 t	0.00 t	(100.0)
As Waste				
	General waste	143 t	144 t	+0.6
	Industrial waste	156 t	185 t	+19.0
	PRTR-related substances	3.07 t	3.00 t	(2.3)

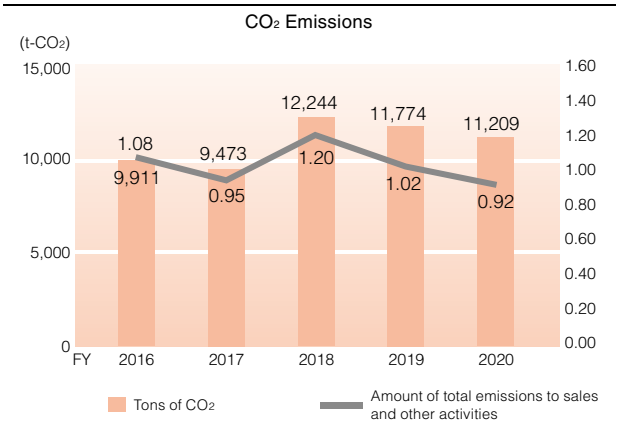
RECYCLING

	FY2019	FY2020	YOY (%)
Container and packaging recycling	15 t	18 t	+22.2

● INPUT



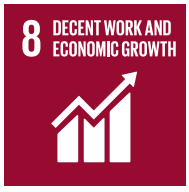
● OUTPUT



* Commercial production was launched at our factory in Vietnam in November 2018, pushing up our FY2018 energy usage.
Note: The above tables and charts apply to the period from April 1, 2020 to March 31, 2021, for all Nippon Chemiphar Group offices.

VI Employees

The Nippon Chemiphar Group believes employee diversity in terms of gender, gender orientation, nationality, workstyle, and values to be the cornerstone of corporate vitality and growth that leads to the enhancement of corporate value. The Group is striving to create a corporate culture that enlivens the individuality and talents of each employee.



1. Women's Participation and Advancement

We hire women, promote women to management positions, and incorporate a variety of viewpoints and ways of thinking in business management. We will continue to make our workplaces enjoyable and the work fulfilling through the presence of hardworking female veteran employees and managers, who serve as role models for ambitious female colleagues.

Our support for participation by women involves efforts to raise awareness among all employees. As an example of our approach, we conduct surveys of employee awareness and needs concerning the promotion of active participation by women. Further, through the Company newsletter, we inform staff about topics related to work–life balance; roundtable discussions held by female employees raising children; and the activities of men who have taken childcare leave. We formulated an action plan, based on the Act on Promotion of Women's Participation and Advancement in the Workplace (See table below). We plan to continue our efforts to create an organization that enables female employees and managers to take pride in their work.

Men who have taken childcare leave take part in roundtable discussions.

(As of March 31, 2021)

Plan (April 1, 2020–March 31, 2021)	Result
Have women account for more than 10% of managers.	9.4%

Furthermore, based on the recognition that promoting the active participation of female employees starts with male involvement in the childcare process, we established the Papa Quota System, which requires all male employees with children under two years of age to take childcare leave. We anticipate that this system will provide an opportunity to raise awareness regarding participation in the childcare process. A minimum of five days' childcare leave is recommended under the system, with a maximum of five days' leave as paid leave.

2. Diversity Initiatives

We believe that employee diversity—including differences in sex, gender roles, nationality, workstyles, and individual values—provide foundations for company vitality and growth, thereby boosting corporate value. The Group is working to create a corporate culture that draws on the various characteristics and abilities of its employees, while at the same time promoting the participation and advancement of women in the workplace.

In response to an increase in business with companies abroad, resulting from the establishment of the Vietnam factory, we are recruiting—without regard for nationality or gender—human resources highly specialized in our Group's strategic areas.

We are continuing to develop employment opportunities for people with disabilities in order to provide a workplace environment that is comfortable for everyone.

Some of the staff at the Vietnam Factory

3. Mechanisms, Training Systems That Use Employee Abilities

We provide employees with training and support systems, tailored to different ages and types of work, in order to expand their capabilities and develop next-generation managers. We support our employees by conducting performance-based evaluations; applying rating standards that assess managerial ability; encouraging the acceptance of challenges; establishing personnel systems that accommodate a variety of workstyles to fit each employee's life stage; and promoting diversity. And to develop human resources that can play an active role on the global stage, we send researchers to university overseas, support employees studying to earn an MBA, and subsidize the TOEIC test.

Support to Increase Human Resources Capabilities

Rank-based Training

- Leader training
- Management training
- Training for newly appointed managers
- Level-appropriate training for team, section and general managers
- Training for newly appointed executives
- Evaluator training

Support for Elective Education

- Support for acquiring an MBA
- Researcher education
- Dispatch to management team seminars

Personal Development

- Correspondence education
- IT training
- Support for obtaining public certifications
- External public lectures
- TOEIC IP test

4. Harassment Prevention and Mental Health

In order to prevent our employees from being perpetrators or victims either within or outside the Company, all employees learn about sexual, power, and maternity harassment.

Company regulations prohibit sexual harassment and we have a sexual harassment prevention manual. In addition, we have in place internal and third-party hotlines for preventing, and improving responses to, various types of harassment.

Finally, we strive to maintain and improve employee mental health by conducting yearly stress checks on all our staff, and offering interviews and guidance conducted by physicians to interested parties.

5. Supporting Work–Life Balance

In recent years, we have promoted work–life balance by eliminating long working hours, having overtime-free days, in principle prohibiting overtime after 8:00 p.m., and facilitating morning overtime, should additional work be necessary.

In FY2019, we made it easier for employees to use paid leave, as well as reduce and manage overtime. In addition, we raised employee awareness regarding workstyles and implemented ongoing follow-up efforts in support of work–life balance. We have a variety of systems that enable all staff to demonstrate their skills and, at the same time, work in a comfortable environment. These systems include a flextime system that allows employees to adjust their start and end times according to operational circumstances; a discretionary work system; a comeback registration system that promotes the reinstatement of employees who have left their workplaces for reasons such as childcare, nursing care, or changes in the workplaces of their respective spouses; and a reemployment system that allows senior employees to continue working after retirement.

We have adopted various systems that take into consideration each employee's personal circumstances and preferences. When we select a work environment for our staff, we ensure that they can make full use of their experience and expertise.

We introduced a number of work-related measures designed to protect our employees from the novel coronavirus pandemic that began at the end of FY2019. These measures involve recommending teleworking and staggered working hours, introducing open plan office designs, and implementing online conferencing. We will continue to strive to prevent interruptions to our stable supply of pharmaceutical products while protecting the safety of our employees.

6. Promoting the Use of Paid Leave

As part of our efforts to promote work–life balance, we implemented a pre-registration system for 10 days of annual paid leave to start in FY2021. The system is based on the idea that employees should be lively, energetic, and radiantly intense not only in their work, but at home and when pursuing their hobbies.

We believe that ensuring happiness in the private lives of our employees will ultimately enable us to provide better products and services. Accordingly, we recommend that employees who make use of this pre-registration system take consecutive days of paid leave whenever possible.

Ten-year Consolidated Performance Overview

		FY2011 (Ended March 31, 2012)	FY2012 (Ended March 31, 2013)	FY2013 (Ended March 31, 2014)	FY2014 (Ended March 31, 2015)
Income Statement:	Net sales	28,513	31,944	31,893	35,118
	Pharmaceutical products segment	27,325	30,864	30,773	34,168
	Generics[1]	19,614	23,790	24,291	27,749
	Proprietary products and new drugs[1]	5,676	4,776	4,277	3,374
	Other segment	1,188	1,079	1,119	949
	Cost of sales	12,871	14,922	15,128	18,352
	Selling, general and administrative expenses	12,718	13,147	13,437	13,480
	R&D expenses	1,790	1,936	1,668	1,755
	Operating profit	2,923	3,873	3,327	3,285
	Ordinary profit	2,776	3,714	3,206	3,217
	Profit attributable to owners of parent	1,439	2,125	1,887	1,899
Financial position at year end:	Total assets	33,790	35,488	40,106	41,428
	Total net assets	10,230	12,408	13,501	15,626
Cash flow from:	Operating activities	1,753	1,912	1,892	2,438
	Investing activities	(227)	(1,422)	(2,499)	(2,072)
	Financing activities	63	(713)	(205)	(137)
Capital expenditure and other:	Capital expenditure	1,014	1,153	3,366	1,710
	Depreciation and amortization	747	840	862	1,200
Amounts per share:[2]	Earnings per share (¥)	346.21	517.70	461.97	474.49
	Book value per share (¥)	2,489.19	3,022.76	3,369.70	3,900.05
	Dividends per share (¥)	50.0	100.0	100.0	100.0
Indexes:	EBITDA (millions of yen)	3,744	4,747	4,252	4,588
	Operating income to sales (%)	10.3	12.1	10.4	9.4
	Return on equity (%)	15.0	18.8	14.6	13.1
	Return on assets[3] (%)	8.6	10.7	8.5	7.9
	Debt-to-equity ratio (%)	113.1	90.6	89.7	80.1
	Equity ratio (%)	30.3	34.9	33.6	37.7
	Dividend payout ratio (%)	14.4	19.3	21.6	21.1
	Number of employees	682	679	699	743

Notes:
1. Starting with this report, sales generated by generic drugs, proprietary products, and new drugs will be calculated based on corresponding shipment figures.
2. As we conducted a 10 :1 reverse stock split on October 1, 2016, per share data have been adjusted as if the split had been conducted at the start of FY2010.
3. Return on assets = Ordinary profit / [(total assets for the previous term + total assets for this term) / 2].
4. Announced on May 14, 2021.

Analyses of Operating Results and Financial Position for FY2020

I. Summary of FY2020 Business Results

1. Net Sales

The pharmaceutical drugs market remains in a difficult business environment exacerbated by NHI drug price revisions conducted in October 2019 and April 2020 and the COVID-19 pandemic. Within this business environment, the Company achieved sales of ¥30,423 million in the Pharmaceuticals Products segment, which, having fallen only 0.7%, were nearly level year on year. The Company achieved this result thanks in part to strong sales of generic drugs launched in FY2020 that were mainly attributable to the strengths of these drugs' formulations. Also contributing were full-scale sales from Klaricid, introduced in July 2020.

In the Other segment, sales amounted to ¥1,117 million, also nearly level year on year, having fallen only 0.5%. Consequently, consolidated net sales in FY2020 came to ¥31,541 million, down 0.7% year on year.

2. Profit

In the first half, the Company reported operating loss due to tough conditions, such as the impact of NHI drug price revisions and the COVID-19 pandemic. Despite this, the Company achieved a full-year operating profit of ¥564 million (up 54.8% YOY) and profit attributable to owners of the parent of ¥495 million (up 13.4% YOY). These results were partly due to steady earnings contributions from generic drugs launched in June and December 2020 and Klaricid.

Operating profit and net profit were boosted by cost-related improvements achieved through Group structural reforms, including branch office consolidation and personnel optimization; efforts to implement tighter controls on

(Millions of yen)

FY2015 (Ended March 31, 2016)	FY2016 (Ended March 31, 2017)	FY2017 (Ended March 31, 2018)	FY2018 (Ended March 31, 2019)	FY2019 (Ended March 31, 2020)	FY2020 (Ended March 31, 2021)	Forecast for FY2021[4] (Ending March 31, 2022)
35,602	35,689	35,331	34,182	31,756	31,541	31,000
34,509	34,551	34,279	32,682	30,632	30,423	—
28,857	29,294	29,872	28,315	26,425	25,532	24,700
2,888	2,308	2,009	1,548	1,362	1,790	1,850
1,092	1,137	1,051	1,500	1,123	1,117	—
18,803	19,449	19,535	19,654	19,200	20,097	—
13,653	13,403	13,947	13,063	12,190	10,879	—
1,889	1,984	2,280	2,066	2,173	1,998	2,400
3,145	2,836	1,848	1,464	364	564	350
2,945	2,849	1,696	1,512	307	582	280
1,961	2,054	1,160	881	436	495	80
43,644	47,002	46,698	46,926	45,862	47,124	—
16,041	17,355	17,487	17,863	17,392	18,014	—
2,450	2,737	3,188	2,196	1,394	1,503	—
(151)	(2,504)	(1,606)	(960)	326	(1,024)	—
(935)	787	(1,741)	110	(961)	29	—
1,172	2,928	1,645	784	660	676	1,000
1,178	1,112	1,192	1,345	1,272	1,192	1,300
499.12	530.02	315.28	245.11	121.42	137.75	22.25
4,099.74	4,548.80	4,859.86	4,963.24	4,830.92	5,006.49	—
100.0	100.0	100.0	100.0	50.0	50.00	50.00
4,280	4,104	3,025	2,987	1,704	1,897	—
8.8	7.9	5.2	4.3	1.1	1.8	—
12.4	12.3	6.7	5.0	2.5	2.8	—
6.9	6.3	3.6	3.2	0.7	1.3	—
81.1	85.3	84.0	85.7	85.2	84.0	—
36.7	36.9	37.4	38.0	37.9	38.2	—
20.0	18.9	31.7	40.8	41.2	36.3	224.7
756	769	816	846	807	760	—

spending; and delays affecting some R&D expenses, which were pushed back to FY2021.

II. Annual Forecasts

For FY2021 (ending March 31, 2022), the Company projects consolidated net sales of ¥31,000 million. The Company expects upward impact from factors such as expanded sales of generic drugs achieved through sales channel diversification efforts that began several years ago, and full-year contributions from Klaricid, which was introduced in FY2020.

However, it projects that this impact will be offset by downward NHI drug price revisions conducted in April 2021 and an ongoing decline in medical consultations caused by the COVID-19 pandemic.

The Company has factored into its projections for FY2021 demand for its products that resulted from recalls of other companies' products conducted at the end of 2020 However, this impact has only been incorporated on a limited basis due to future uncertainties.

Meanwhile, the Company also projects ¥350 million in operating profit and ¥80 million in profit attributable to owners of the parent. The Company forecasts upward impact from the full-year contribution of structural reforms implemented in FY2020. However, it also projects that operating profit and profit attributable to owners of the parent. will decline year on year primarily due to a higher cost of sales ratio resulting from NHI drug price revisions and the recording of R&D expenses related to phase 1 clinical trials for NC-2800, which will be launched with support from public funding.

III. Dividend Forecasts

As mentioned above, we project a decline in net profit attributable to owners of the parent. However, in accordance with our aim to provide shareholder return, we forecast a dividend per share of ¥50.0 (with a payout ratio of 224.7%).

Consolidated Balance Sheets

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2021 (FY2020) and 2020 (FY2019)

(Millions of yen)

	FY2019	FY2020
Assets		
Current assets:		
Cash and deposits	10,079	10,584
Notes and accounts receivable—trade	7,368	7,978
Electronically recorded monetary claims	3,993	4,043
Merchandise and finished goods	4,400	4,720
Work in process	1,249	1,132
Raw materials and supplies	1,615	1,647
Income taxes receivable	161	—
Other current assets	446	339
Total current assets	29,314	30,446
Non-current assets:		
Property, plant, and equipment		
Buildings and structures	15,977	15,938
Accumulated depreciation	(10,456)	(10,799)
Buildings and structures, net	5,521	5,139
Machinery, equipments, and vehicles:	8,622	8,837
Accumulated depreciation	(6,607)	(6,999)
Machinery, equipment, and vehicles, net	2,014	1,838
Tools, furniture, and fixtures:	2,366	2,381
Accumulated depreciation	(2,022)	(2,092)
Tools, furniture, and fixtures, net	344	289
Land	5,064	4,831
Lease assets	486	433
Accumulated depreciation	(246)	(234)
Lease assets, net	240	198
Construction in progress	—	12
Total property, plant, and equipment	13,185	12,309
Intangible assets:		
Patent right	25	21
Trademark right	—	68
Franchise	100	949
Lease assets	32	30
Software	146	162
Telephone subscription right	18	9
Total intangible assets	324	1,242
Investments and other assets:		
Investment securities	1,853	2,026
Long-term prepaid expenses	318	270
Retirement benefit assets	—	128
Leasehold and guarantee deposits	94	74
Deferred tax assets	419	267
Others	412	418
Allowance for doubtful accounts	(61)	(61)
Total investments and other assets	3,037	3,124
Total non-current assets	16,547	16,676
Deferred assets:		
Bond issuance cost	0	0
Total Deferred assets	0	0
Total assets	45,862	47,124

(Millions of yen)

	FY2019	FY2020
Liabilities		
Current liabilities:		
Notes and accounts payable—trade	1,745	1,777
Electronically recorded obligation	5,436	5,750
Short-term borrowings	400	384
Current portion of long-term borrowings	2,660	2,420
Lease obligations	104	84
Accounts payable-other	240	209
Income taxes payable	63	262
Accrued consumption taxes	72	91
Accrued expenses	2,143	2,057
Deposits received	136	137
Provision for sales returns	1	1
Provision for sales promotion expenses	395	415
Others	339	512
Total current liabilities	13,739	14,102
Non-current liabilities:		
Bonds payable	200	200
Long-term loans payable	11,537	12,114
Lease obligations	198	165
Provision for directors' retirement benefits	445	461
Net defined benefit liability	590	140
Deferred tax liabilities for land revaluation	1,115	1,047
Others	642	876
Total non-current liabilities	14,730	15,006
Total liabilities	28,470	29,109
Net Assets		
Shareholders' equity:		
Capital stock	4,304	4,304
Capital surplus	1,303	1,303
Retained earnings	12,186	12,655
Treasury stock	(3,187)	(3,187)
Total shareholders' equity	14,607	15,076
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	571	714
Revaluation surplus of land	2,513	2,357
Foreign currency translation adjustments	(62)	(223)
Remeasurements of defined benefit plans	(262)	72
Total accumulated other comprehensive income	2,759	2,921
Subscription rights to shares	25	17
Total net assets	17,392	18,014
Total liabilities and net assets	45,862	47,124

Consolidated Statements of Income

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2021 (FY2020) and 2019 (FY2019)

(Millions of yen)

	FY2019	FY2020
Net sales	31,756	31,541
Cost of sales	19,202	20,097
Gross profit	12,554	11,443
Reversal of provision for sales returns	1	0
Gross profit, net	12,555	11,444
Selling, general, and administrative expenses	12,190	10,879
Operating profit	364	564
Non-operating income:		
Interest income	0	1
Dividend income	52	34
Rent income on non-current assets	6	6
Share of profit of entities accounted for using equity method	18	17
Foreign exchange gains	—	11
Dividend income of insurance	13	12
Contribution for facilities	45	7
Subsidies for employment adjustment	—	52
Others	14	29
Total non-operating income	152	172
Non-operating expenses:		
Interest expenses	124	122
Foreign exchange losses	58	—
Commission fees	9	9
Others	18	22
Total non-operating expenses	210	154
Ordinary profit	307	582
Extraordinary income:		
Gain on sales of non-current assets	—	56
Gain on sales of investment securities	475	232
Gain on reversal of share acquisition rights	—	9
Total extraordinary income	475	299
Extraordinary losses:		
Business restructuring expenses	—	167
Loss on valuation of investment securities	49	—
Total extraordinary losses	49	167
Profit before income taxes	732	713
Current	139	320
Deferred	156	(101)
Total income taxes	296	218
Profit	436	495
Profit attributable to non-controlling interests	—	—
Profit attributable to owners of the parent	436	495

Consolidated Statements of Comprehensive Income

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2021 (FY2020) and 2020 (FY2019)

(Millions of yen)

	FY2019	FY2020
Profit	436	495
Other comprehensive income:		
Valuation difference on available-for-sale securities	(507)	143
Foreign currency translation adjustment	7	(161)
Remeasurements of defined benefit plans	(48)	335
Total other comprehensive income	(548)	317
Comprehensive income	(112)	812
Total comprehensive income attributable to:		
Owners of the parent	(112)	812
Minority interests	—	—

Consolidated Statements of Income

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2021 (FY2020) and 2020 (FY2019)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at April 1, 2019	4,304	1,303	12,113	(3,187)	14,535
Changes in the fiscal year					
Dividends of surplus			(363)		(363)
Profit attributable to owners of the parent for fiscal year			436		436
Purchase of treasury shares				(0)	(0)
Disposal of treasury shares					—
Reversal of revaluation reserve for land					—
Net changes of items other than shareholders' equity					
Total changes of items during period	—	—	72	(0)	72
Balance at March 31, 2020	4,304	1,303	12,186	(3,187)	14,607
Changes in the fiscal year					
Dividends of surplus			(181)		(181)
Profit attributable to owners of the parent for fiscal year			495		495
Purchase of treasury shares				(0)	(0)
Disposal of treasury shares		(0)		0	0
Reversal of revaluation reserve for land			155		155
Net changes of items other than shareholders' equity					
Total changes of items during period	—	(0)	469	(0)	468
Balance at March 31, 2021	4,304	1,303	12,655	(3,187)	15,076

(Millions of yen)

	Shareholders' equity					Subscription rights to shares	Total net assets
	Valuation difference on available-for-sale securities	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at April 1, 2019	1,079	2,513	(70)	(213)	3,308	19	17,863
Changes in the fiscal year							
Dividends of surplus							(363)
Profit attributable to owners of the parent for fiscal year							436
Purchase of treasury shares							(0)
Disposal of treasury shares							—
Reversal of revaluation reserve for land							—
Net changes of items other than shareholders' equity	(507)		7	(48)	(548)	5	(542)
Total changes of items during period	(507)	—	7	(48)	(548)	5	(470)
Balance at March 31, 2020	571	2,513	(62)	(262)	2,759	25	17,392
Changes in the fiscal year							
Dividends of surplus							(181)
Profit attributable to owners of the parent for fiscal year							495
Purchase of treasury shares							(0)
Disposal of treasury shares							0
Reversal of revaluation reserve for land							155
Net changes of items other than shareholders' equity	143	(155)	(161)	335	161	(8)	153
Total changes of items during period	143	(155)	(161)	335	161	(8)	622
Balance at March 31, 2021	714	2,357	(223)	72	2,921	17	18,014

Consolidated Statements of Cash Flows

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2021 (FY2020) and 2020 (FY2019)

(Millions of yen)

	FY2019	FY2020
Cash flows from operating activities:		
Profit before income taxes	732	713
Depreciation	1,272	1,393
Increase (decrease) in provision for sales promotion expenses	(54)	19
Increase (decrease) in provision for directors' retirement benefits	(22)	16
Decrease in net defined benefit liability	(89)	(121)
Interest and dividend income	(53)	(35)
Subsidies for employment adjustment	—	(52)
Interest expenses	124	122
Foreign exchange gains (losses)	58	(11)
Gains (losses) on sales of non-current assets	—	(56)
Gain on sales of investment securities	(475)	(232)
Loss on valuation of investment securities	49	—
Gain on reversal of share acquisition rights	—	(9)
Business restructuring expenses	—	167
Increase (decrease) in notes and accounts receivable—trade	1,397	(665)
Increase in inventories	(896)	(255)
Decrease (inecrease) in other current assets	(131)	22
Decrease in long-term prepaid expenses	42	32
Increase in notes and accounts payable—trade	208	341
Increase (decrease) in accrued consumption taxes	(117)	24
Decrease in other current liabilities	(260)	(88)
Increase in other non-current liabilities	220	233
Other, net	(115)	99
Subtotal	1,889	1,658
Interest and dividend income received	61	44
Interest expenses paid	(125)	(122)
Subsidies for employment adjustment received	—	52
Business restructuring expenses paid	—	(154)
Income taxes paid	(431)	(136)
Income taxes refund	–	161
Net cash provided by operating activities	1,394	1,503
Cash flows from investing activities:		
Payments into time deposits	(96)	(96)
Proceeds from withdrawal of time deposits	96	96
Purchase of property, plant, and equipment	(433)	(381)
Purchase of intangible assets	(15)	(1,207)
Proceeds from sales of property, plant, and equipment	—	285
Purchase of investment securities	(6)	(54)
Proceeds from sales of investment securities	778	326
Proceeds from collection of guarantee deposits	16	24
Other, net	(14)	(16)
Net cash provided by (used in) investing activities	326	(1,024)
Cash flows from financing activities:		
Net decrease in short-term loans payable	(32)	(16)
Proceeds from long-term loans payable	2,250	3,210
Repayments of long-term loans payable	(2,706)	(2,872)
Purchase of treasury shares	(0)	(0)
Cash dividends paid	(364)	(182)
Other, net	(109)	(108)
Net cash provided by (used in) financing activities	(961)	29
Effect of exchange rate changes on cash and cash equivalents	(12)	(4)
Net increase in cash and cash equivalents	745	505
Cash and cash equivalents at the beginning of the fiscal year	9,254	10,000
Cash and cash equivalents at the end of the fiscal year	10,000	10,505

Corporate Data

Company Name: Nippon Chemiphar Co., Ltd.
Founded: June 16, 1950
Capitalization: ¥4,304 million
Securities Exchange: Tokyo Stock Exchange (First Section)
Employees: 760 (Consolidated, as of March 31, 2021)
Website: https: //www.chemiphar.co.jp/english/

Office Locations

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Fax: +81-3-3864-5940

Discovery Research Laboratories:
1-22, Hikokawado, Misato City, Saitama Prefecture, 341-0005, Japan

Group Companies

Subsidiaries:
Nihon Pharmaceutical Industry Co., Ltd.
Safety Research Institute for Chemical Compounds Co., Ltd.
Nippon Chemiphar Vietnam Co., Ltd.

Affiliated Company:
Japan Sopharchim Co., Ltd.

History

1950	Hitachi Chemical Co., Ltd. (as Chemiphar was formerly known) is set up
1969	Nihon Pharmaceutical Industry Co., Ltd. (NPI) becomes an affiliated company
1970	Company changes name to Nippon Chemiphar Co., Ltd.
1971	Listed on Tokyo Stock Exchange (Second Section)
1976	Listed on Tokyo Stock Exchange (First Section) and starts diagnostics business Establishes Japan Sopharchim Co., Ltd. (currently an affiliated company)
1986	Safety Research Institute for Chemical Compounds Co., Ltd. becomes a subsidiary
1988	Launches Uralyt-U (soluble powder)
1993	Launches Soleton Tab. 80
1995	Launches Calvan Tab.
2010	NPI becomes a wholly owned Chemiphar subsidiary; Chemiphar spins off its Ibaraki Factory to NPI (NPI's current Tsukuba Factory)
2012	Launches DP3000
2014	New plant at NPI's Tsukuba Factory comes on line
2015	Establishes Nippon Chemiphar Vietnam Co., Ltd.
2017	Establishes West Japan Distribution Center, resulting in one base each in eastern and western Japan
2018	Vietnam factory starts exporting to Japan
2019	Acquires approval for the manufacture and sale of PICOPREP from Ferring Pharmaceuticals Co., Ltd.
2020	Launches DropScreen™ Acquires sales rights for Klaricid from Mylan EPD G.K.

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