Nippon Chemiphar Co., Ltd.

CORPORATE REPORT

2023

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 operated as a pharmaceutical company since its founding in 1950.

Throughout the years, we have consistently developed, manufactured, and sold distinctive, original pharmaceutical formulations. Since the year 2000, we have made generics a pillar of our business and conducted related development, manufacturing, and sales operations in-house.

We implement initiatives associated with drug discovery themes that target the development of innovative drugs, and diagnostic products that contribute to speedy diagnoses. We are also actively taking on the challenge of multifaceted development, using the alkalization therapy expertise we have cultivated over many years.

NIPPON CHEMIPHAR CORPORATE REPORT 2023

Contents

◆ Scope of Report

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

- Reporting period: FY2022 (April 1, 2022–March 31, 2023)
- 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 for the Company's future performance. These forecasts are based on information currently available to management. Consequently, they 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 related legislation, and other items not limited to the above.

Cover painting

Provided by Paralym Art,* an association that assists artists with disabilities to achieve economic independence by supporting their business.

Paralym Art®

Title: ***Niji to Hansen*** (Rainbow and Sailboats)
About the artist: **Magari Ohishi** lives in Kobe City, Hyogo Prefecture. He is known for his landscape and still life paintings. The rainbow in this work uses five colors, but was painted in such a way as to suggest that seven colors have been used. The different shapes of the sails represent the individuality of each ship, while the different directions in which each ship is sailing represent the welcoming of diversity.

* Welfare service for people with disabilities or intractable diseases who, due to reasons associated with age or physical strength, have difficulty working at companies or other conventional places of business. Through this support, individuals can receive training involving light work or other forms of employment.

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.

To attain these three goals, we are working to increase our earning capacity through the generic drugs business; deploying multilaterally the additional business foundation we are building by leveraging our alkalization therapy expertise, cultivated through Uralyt; and striving to secure further growth, over the medium to long term, through in-house drug discovery and in-licensing of new drugs.

We believe that these efforts will enable us to maximize the value of our corporate Group and achieve sustainable growth as we combine businesses that are advancing on different time horizons, as well as expand overseas the results that these businesses generate in Japan.

FY2022 topics related to our three principal goals

Goal 1: Generic drugs

Strengthen profit structures while pursuing added value and efficiency using a quality-based approach

Generic drugs and diagnostics

- In addition to further strengthening our quality assurance system, we have introduced two- and three-shift operations at both domestic and overseas factories to address the industry-wide need to ensure stable supplies

Diagnostics

Diagnostics

- We increased the production capacity of our DropScreen™ reagent, and initiated promotional support on the part of our pharmaceutical sales department, resulting in domestic installations of DropScreen measuring equipment topping 500 units

Goal 2: Alkalizer

Apply multilaterally expertise related to alkalization therapy

Alkalization therapy

- Phase 2 clinical trials of our pipeline drug DFP-17729 have ended, and the data is currently being analyzed
- We expect to bring the drug to market in FY2026

Goal 3: New drug development

Globally develop unique new drugs internally created as well as in-licenced

Drug discovery and development

- We signed a licensing agreement for the development of NC-2500 in China
- Specific out-licensing negotiations are ongoing with overseas companies for NC-2600
- NC-2800 is currently in phase 1 clinical trials
- Favorable phase 2 results for DFP-14323 were presented at an academic conference

Plus 1: Overseas Business

Generate sustainable growth by expanding results of goal-related efforts overseas

Overseas business

- In Vietnam, we have obtained approval for Rebamipide tablets
- We are applied there for another product, with administration and dosage that differ from those in Japan
- Having conducted market research on sales in the Middle East and Africa, we are narrowing down possible target countries and partners

History of value creation

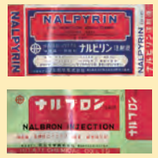
For the past 73 years, Nippon Chemiphar has remained true to the time-honored traditions we have inherited. Keeping pace with the times, we have courageously remedied issues requiring attention, and spared no effort in taking on new challenges. In a word, our history is one of “immutability.”

We will continue to strive to develop, manufacture, and sell generic drugs that can be used safely by patients and medical institutions, and continue to take on the challenge of developing new products and new drugs to increase the Group's value.

Main product developments and business strategies

1951

Manufacture and market our products, Nalpyrin and Nalbron (injectable solutions, pain relievers, and antipyretics for use by doctors).



1957

Begin marketing imported drugs.

1958

Launch sales of Donpyline tablets (therapeutic agent for neuralgia and rheumatism), manufactured in-house.

1976

Expand into the clinical diagnostics business, in anticipation of the increasing importance of pre-medication clinical tests in the future.

1983

Advance into the cosmetics and health food fields.

1988

The need for urinary alkalinization is recognized in response to increased complications in patients with gout and hyperuricemia due to changes in living conditions. Launch alkalizing agent Uralyt-U.

1993

Launch Soleton tablets (an analgesic/anti-inflammatory agent) developed in-house. The product has few side effects.

1995

Market Calvan tablets (for hypertension).

2000

Full-scale entry into the generic drug business. Change policy from being a new drug manufacturer to a manufacturer that handles both new drugs and generic drugs.

2001

Launch allergy-specific IgE measurement device DiaPack 2000 and dedicated measurement reagent IgE NC.

2003

Launch Pravastan, the first in-house developed generic drug.

2005

License out NC-2400 (lipid metabolism improving agent) to Cerenis.

2007

Three Principal Goals established as a longer-term strategy that divides our growth prospects into three stages. This remains our basic strategy to this day. In 2015, we add overseas business as Plus 1.

2020

Launch DropScreen, an allergy screening test kit. It allows 41 items to be measured with a single drop of blood. Of compact design, the kit occupies a space about the size of an A3 sheet of paper, allowing it to be used for in-hospital allergy testing.

Measuring device A-1

Specific IgE measuring kit ST-1

2020

Sign a licensing agreement with Delta-Fly Pharma for DFP-17729, a cancer microenvironment improving agent. Supports development at Delta-Fly Pharma with our expertise in alkalinization.

2021

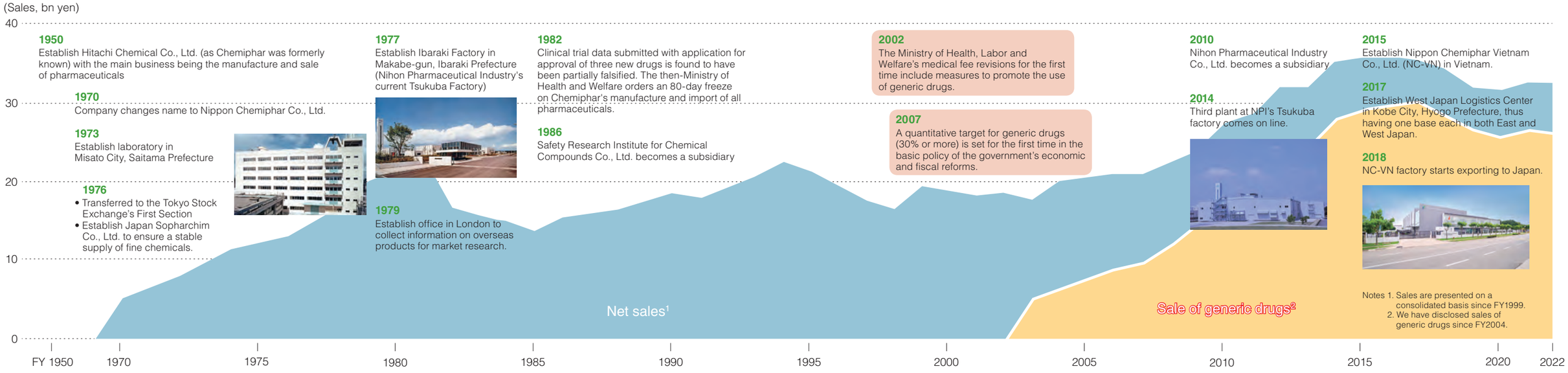
Sign a joint development agreement and option agreement for NC-2800 with Sumitomo Pharma. NC-2800 is a compound discovered at Nippon Chemiphar's drug discovery research laboratories. It has the potential to become a revolutionary antidepressant/antianxiety drug with superior efficacy and safety.

Conclude a licensing agreement with Delta-Fly Pharma for antitumor drug DFP-14323. Development targeting lung cancer is underway, and we are strengthening the pipeline in the oncology field.

Starting in 1950	Business development centered on pharmaceuticals for doctors, and business expansion against the backdrop of Japan's universal health insurance system.	Since 1980, have been restoring trust and launching new drugs	Following an incident of data falsification, new drugs are launched as we strive to regain trust.	Since 2000, expanding generic drugs	Sale of generic drugs increases, resulting from government policy promoting their use.	Since 2015, pursuing new drug and new product development and overseas expansion funded by earnings from generics business.

Business timeline

(Sales, bn yen)



Notes 1. Sales are presented on a consolidated basis since FY1999.
2. We have disclosed sales of generic drugs since FY2004.

Nippon Chemiphar Group's Value Creation Strategy

Business Model

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 of, and convenience in, pharmaceutical drugs

Input*

Human capital
Employees: 872 people (consolidated)

Financial capital
Consolidated net assets: ¥48 billion

Intellectual capital
R&D: ¥2 billion

Manufactured capital
Factories: Japan, abroad

Social and relationship capital
Work with business partners

Natural capital
Energy use (crude oil equivalent) 6,524kl

Pharmaceutical Products Segment

Pharmaceutical products

Generic drugs (pp. 11, 12)
- Develop value-added formulations that reflect medical needs
- Improve quality assurance and our stable supply system

Proprietary products and new drugs (p. 10)
- Expand product lineup by in-licensing items from other companies

Alkalizer (p. 13)
- Utilize cultivated technologies and expertise to expand application to conditions other than hyperuricemia

In-house drug discovery and development (p. 14)
- Develop and out-license items in our internal development pipeline
- Improve development accuracy through use of new technologies and collaboration with external partners
- Expand into new fields by in-licensing promising pipeline products

Diagnostics (p. 17)
- Expand the use of DropScreen, create additional reagents

Overseas expansion of pharma ceutical products business overseas (p. 18)
- Reduce manufacturing costs by using our Vietnam factory
- Market abroad products made at the Vietnam factory and preempt overseas developments
- Develop pharmaceutical products and clinical diagnostics abroad

Others Segment

Contracted testing (p. 10)
- Use a comprehensive one-stop system to provide total support for non-clinical and clinical trials

Strengths

- Integrated system to develop, manufacture, and market generic drugs
- Factories in Japan and abroad attain advanced manufacturing technology, become cost competitive
- Broader information delivery, data gathering resulting from marketing new drugs
- Expertise in alkalizers and citrate preparations
- Venture-based drug discovery research targeting early out-licensing to domestic and overseas companies
- Adoption of new technologies, collaboration with specialists in various disciplines and fields

Offered value

- Increased patient QOL
- Extended healthy life spans
- Reduced patient burdens, limited healthcare expenses
- Employees find fulfillment in personal growth through work
- Stable, sustainable shareholder returns
- Safeguarding of global environment
- Community involvement

SUSTAINABLE DEVELOPMENT GOALS

- Quality assurance and stable supply (p. 12)
- Corporate governance (p. 26)
- Compliance and risk management (p. 29)
- Initiatives to reduce environmental impact (p. 20)
- Contribution to local communities (p. 23)

Our corporate philosophy, principles of conduct, support for employee abilities, and training system (p. 24)

Sustainable growth in corporate value through value creation cycle

* Based on the IIRC framework for FY2022 results.

Message to Our Stakeholders

Since 2000, the Nippon Chemiphar Group has developed business under a management strategy focused on three principal goals: establishing a strong presence in the generics business; applying alkalizer-related expertise multilaterally; and pursuing drug discovery and development.

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

By simultaneously pursuing the above initiatives, each of which has a different timeline, we will target sustainable growth through our distinctive business model and by delivering our unique value to all our stakeholders.

Over the past three-plus years, efforts associated with new drugs have allowed us to make steady progress. This includes the licensing agreements we have concluded for anticancer drugs DFP-17729 and DFP-14323; a collaborative research and development agreement; an option agreement and commencement of phase 1 trials for NC-2800, an internally developed antidepressant and antianxiety agent candidate; as well as the licensing out of NC-2500.

In addition, we have generated consistent advances through innovation-related initiatives, which include the launch of our DropScreen allergy diagnostic product. In the category of generic drugs, we have increased the strength of our quality initiatives and are also solidifying our business foundation by implementing Group-wide structural reforms that enhance efficiency throughout our supply chain. At the same time, we have reinforced our production system, which comprises an extensive network of facilities and many employees.

山口一城

Kazushiro Yamaguchi
President & CEO
June 2023

Interview with the President

Q1 Looking back, what kind of year was FY2022?

A1 In addition to the NHI drug price revisions implemented in April 2022 as in the previous year, the need to respond to alternative demand resulting from quality issues at other companies had a significant impact on our business operations.

Since FY2021, numerous generic drug manufacturers have been found to have violated laws and regulations regarding their manufacturing and quality control. This has resulted in the suspension of their operations and product shipments, with the consequent shortage of generic drugs persisting to this day.

During the first half of FY2022, we responded to this additional demand by utilizing inventory, while also ramping up production. However, we found it difficult to meet all the demand. Owing to the domestic labor shortage, securing personnel at our Group plants did not go as well as planned. At the same time, we were not able to increase sufficiently the production of items outsourced to other companies.

In the second half of the fiscal year, we were still compelled to make shipment adjustments on a number of products. Then, for manufacturing-related reasons, December saw us having to suspend shipments of some items we had produced ourselves.

As a result, sales of pharmaceuticals decreased 6.7% year on year to ¥26,148 million, and consolidated net sales dipped 2.9% year on year to ¥31,559 million.

Q2 How will the Nippon Chemiphar Group increase production?

A2 We plan to do so by increasing headcount, revising work shifts, and making capital investments.

Given the urgent need for the generic drug industry to meet market demand and regain trust, the Group will continue to increase headcount, as well as review our factory work shifts in Japan and abroad, while upgrading our production system and equipment. These efforts, coupled with capital investment, will serve to increase production.

Then we are working to secure multi-source from multiple manufacturing sites, to ensure that supplies are stable. As we continue to improve quality, we will set up a system to enable us to boost production as soon as possible, and thereby help alleviate the current supply shortages.

Q3 What is your earnings outlook for FY2023?

A3 Sales of pharmaceuticals are expected to decline, due to NHI drug price revisions. But we anticipate growth in consolidated sales, thanks to factors such as the more widespread use of DropScreen.

In terms of our FY2023 earnings outlook, we expect sales of pharmaceuticals to decline for a number of reasons, such as the NHI drug price revisions implemented in April.

Consolidated Sales and Profit

(¥mn)

	FY2022 (Results)		FY2023 (Forecast)		
	Amount	Distrib. (%)	Amount	Distrib. (%)	YOY (%)
Net sales	31,559	100.0	32,700	100.0	+3.6
Pharmaceutical products	30,543	96.8	—	—	—
Pharmaceuticals	26,148	82.9	25,870	79.1	(1.1)
Diagnostics	2,780	8.8	4,500	13.8	+61.8
Others segment	1,015	3.2	—	—	—
Operating profit	(241)	—	200	0.6	—
Ordinary profit	58	0.2	100	0.3	+70.4
Profit attributable to owners of parent	339	1.1	60	0.2	(82.3)

However, we forecast an increase in consolidated net sales of 3.6% year on year to ¥32.7 billion. This should result from continued domestic market penetration of DropScreen, and the predicted growth in demand for contract testing.

Our forecast is for an operating profit of ¥200 million and a profit attributable to owners of the parent of ¥60 million. This is expected to result from factors such as a rise in the cost-of-sales ratio, due to NHI drug price revisions; higher purchase prices, reflecting soaring raw material and energy costs; and increased research and development outlays.

We anticipate expanded capital investment, since we are planning to add equipment to the No. 3 plant at the Tsukuba Factory to ramp up production. We also have plans to deal with other factories that are now growing old. Although we forecast a decrease in profit attributable to owners of the parent, we nevertheless plan to pay dividends of ¥50.0 per share (for a payout ratio of 300.8%). In the interests of maintaining stable shareholder returns, this will be the same amount as in the last fiscal year.

Q4 What degree of market penetration have you achieved for the DropScreen allergy screening kit?

A4 At the end of FY2022, we had installed more than 500 units. On the back of our pharmaceutical sales department's promotional support, we soon expect to achieve our immediate goal of installing 1,000 units in Japan.

Not only is the DropScreen kit a space-saving product, but it requires only a small amount of blood to screen 41 items simultaneously and in a short time. Thanks to this, we believe that the device is creating an in-hospital market for immediate allergy testing which, traditionally, primarily has been outsourced.

One of the greatest advantages of DropScreen is that it makes immediate diagnosis possible, thus allowing for treatment regimens to be quickly arranged. We have received feedback stating that the small-volume blood sampling required has helped examinations go more

smoothly, especially when involving young children.

Our sales department's promotional support, which began in October last year, has delivered solid results in the form of expanded product sales. So we are confident of reaching 1,000 installations in Japan by the end of FY2023. Moreover, we are planning to develop more reagents and improve several aspects of our current measurement equipment.

Since the device is attracting the attention of overseas companies, we are still working on it, taking into consideration compliance with individual countries' laws and regulations, and continuing to seek out partners. We are aiming for an overseas sales launch around 2027.

Q5 In terms of Chemiphar's new drug pipeline, how is the NC series of original compounds coming along?

A5 NC-2800 is now in phase 1 development, under the AMED program, and we have signed a licensing agreement with a Chinese company for NC-2500.

Antidepressant and antianxiety drug NC-2800 (an opioid delta receptor agonist) has been adopted by the Japan Agency for Medical Research and Development (AMED) for its CiCLE Project. And we have concluded a joint research and development agreement and an option agreement with Sumitomo Pharma Co., Ltd. Sumitomo Pharma has joined the project as a partner organization, and development is proceeding. Although phase 1 trials will take a little longer than initially anticipated, we plan to complete phase 2a by around 2027.

In February 2023, we concluded a licensing agreement for NC-2500 (a xanthine oxidoreductase inhibitor, hereinafter referred to as an XOR inhibitor) with Nanjing Neiwa Faith Pharmaceutical Co., Ltd. (NF) in China for gout and hyperuricemia. The agreement has granted NF exclusive licenses for the development, manufacture, and sale of the XOR inhibitor.

The agreement enables us to use know-how NF will obtain through development of the inhibitor, for gout and hyperuricemia in China, to expand to other regions.

Having added chronic cough to the indications for NC-2600 (a P2X4 receptor antagonist), we are currently conducting specific out-licensing negotiations with companies abroad. Since this is a first-in-class peripheral antitussive agent, we expect out-licensing to be possible relatively quickly.

Q6 What can you tell us about the progress of trials for anticancer agents DFP-17729 and DFP-14323, for which you have a licensing agreement with Delta-Fly Pharma Co., Ltd.?

A6 Both products have completed phase 2 trials, and preparations are currently underway for the implementation of the next phase.

Phase 2 trials using DFP-17729 for pancreatic cancer patients were completed in FY2022, and the data is currently being analyzed in preparation for the next phase. DFP-17729 improves the cancer microenvironment and is expected to be a breakthrough therapy for refractory cancers by alkalizing acidic microenvironments. This is the first time ever that our know-how, accumulated over many years, on alkalization therapy is to be utilized for anticancer drug development, and it can be described as a truly an innovative undertaking.

DFP-14323 also has shown favorable results in phase 2 trials on lung cancer patients, and Delta-Fly Pharma is preparing to conduct phase 3 trials based on those results. DFP-14323 strengthens the immune response of cancer patients by binding to aminopeptidase N that is present on the surface of cancer immunocompetent cells, and will enhance efficacy of standard anticancer drugs without increasing the side effects. It has potential to be a therapeutic agent for elderly and terminal cancer patients.

Q7 We understand that you have announced the Group's transition from the Tokyo Stock Exchange's Prime Market to the Standard Market.

A7 We applied for listing on the Standard Market this June, having decided that doing so would enable shareholders to feel secure in owning and trading Company shares.

In December 2021, we submitted a market segment criteria compliance plan for FY2022 to FY2026, designed to meet the Tokyo Stock Exchange's (TSE's) Prime Market listing requirements. Since then, we have been following that plan.

Then, in FY2022, despite experiencing a slight delay in securing earnings in our generics business, we made steady progress in our management strategies. Among the many initiatives that have been progressing as planned, we recorded earnings growth for DropScreen and other areas of our diagnostics business; diversified application of our alkalizing agents into the area of cancer treatment; reported new drug discoveries; enhanced our IR activities; and increased the number of shares we have in circulation.

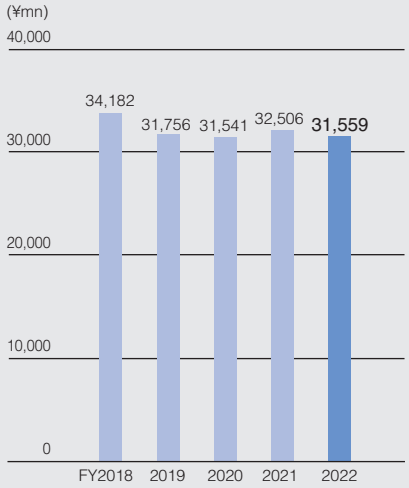
However, according to the April 2023 revision of the TSE's rules, it was announced that the continued listing criteria's transitional steps would end on March 31, 2025. Although we already had put in place a five-year plan to meet TSE listing criteria, the possibility now arose that our shares might temporarily be designated as being under supervision.

Recognizing the urgent need to ensure that shareholders feel comfortable about owning and trading our Company's shares, we applied for listing on the TSE Standard Market. We expect to make the transition on October 20 this year.

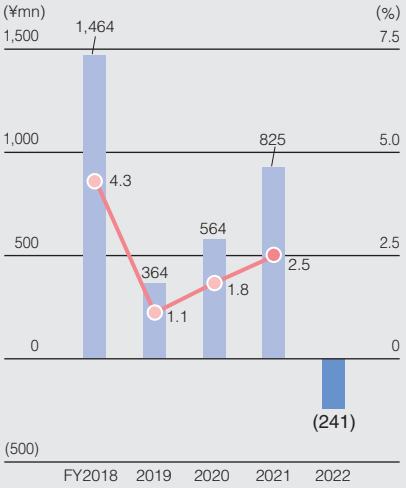
Nonetheless, all of the initiatives contained in our plan to meet the continued listing criteria remain fundamental to our management strategy, and we will pursue them so as to maximize our corporate value and achieve sustained growth. I trust that we will have the ongoing support of our stakeholders as the Nippon Chemiphar Group's efforts to innovate steadily bear fruit.

Financial Highlights

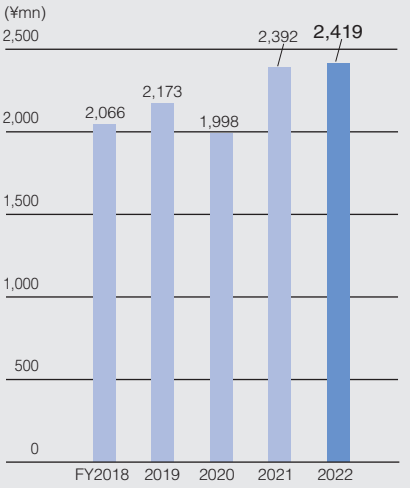
Net Sales



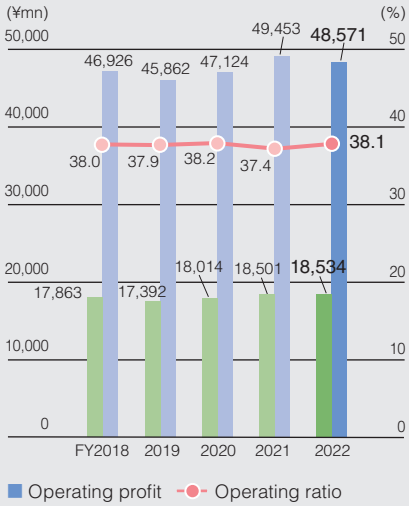
Operating Profit



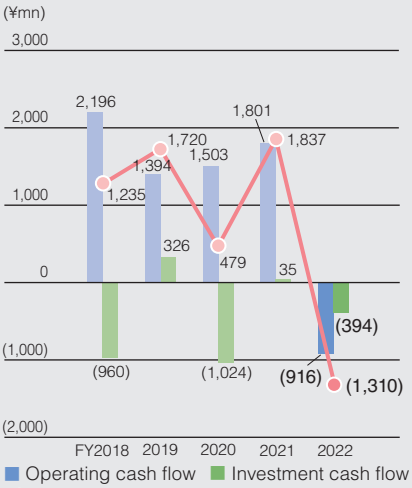
R&D Expenses



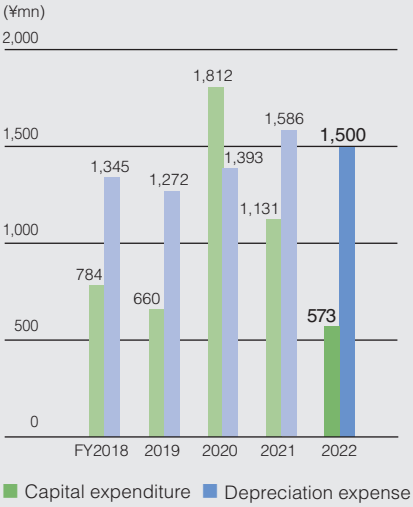
Total Assets, Net Assets, Equity Ratio



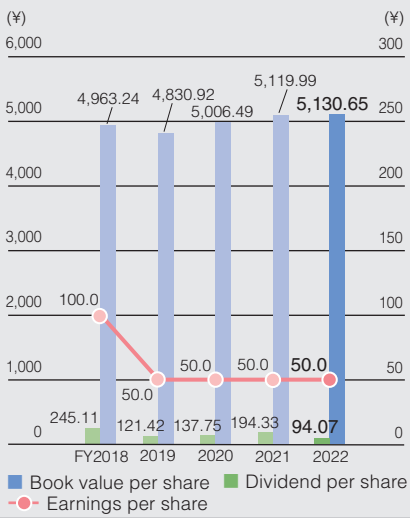
Cash Flows



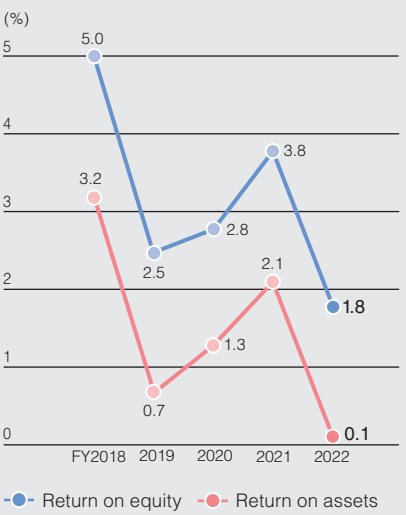
Capital Expenditure, Depreciation Expense



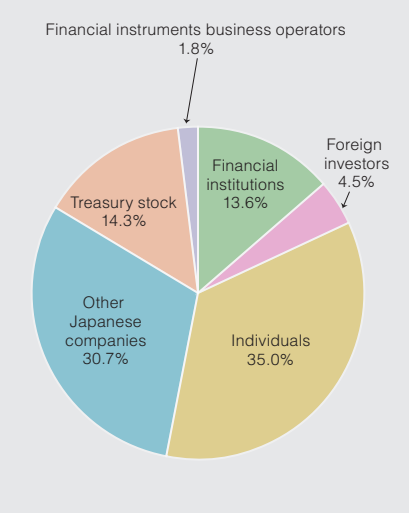
Amounts per Share



ROE, ROA



Composition of Shareholders (As of March 31, 2023)



I Pharmaceutical Products Segment

1. Pharmaceuticals

(1) Generic products

While the market has reached maturity as the government's target for the usage rate of generics is close to being attained, several manufacturers have experienced quality problems. The industry now faces the challenge of having to restore trust. Given the circumstances, Nippon Chemiphar—which develops, manufactures, and sells generics—will continue to improve the quality of their products while ensuring that supplies are stable. At the same time, the Company will go on developing products that meet the needs of patients and healthcare professionals.

In addition, we are using the experience and expertise we accumulated through the sale of new drugs to provide and collect information regarding the proper use of pharmaceutical drugs, while conducting promotional activities targeting medical professionals, in part through events such as research conferences.

☞ Please refer to page 11 for details.

(2) Proprietary products and new drugs

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

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.

Included among the new and long-listed drugs we have in-licensed from other companies are new oral intestinal cleansing agent PICOPREP and macrolide antibiotic agent Klaricid. We expect these to strengthen our product portfolio and anticipate utilizing them to generate synergies that will help expand our generics business.

We are planning to take on the challenge of drug discovery themes aimed at the development of groundbreaking new drugs, including pipelines developed with the support of public funds. We are also working on the licensing in of drugs with potential synergistic effects with areas in which we have our own expertise and pipelines.

☞ 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 2020, we began selling DropScreen, a groundbreaking new product developed in-house that allows quick allergy screenings to be carried out using minimal blood samples. Since the product's launch, we have received tremendous feedback from medical institutions and patients.

We are planning to accelerate the domestic and overseas deployment of DropScreen, and develop diagnostics into an earnings pillar for the Group. In addition, in 2022, we began marketing the new glycohemoglobin analyzer HLC-723®GR01 developed by Tosoh Corporation.

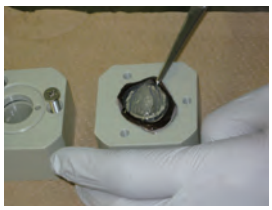
☞ Please refer to page 17 for details.

II Others Segment

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 Group company Safety Research Institute for Chemical Compounds Co., Ltd. has set up an internal system to support clinical and non-clinical studies conducted to help develop a number of therapeutic modalities. These include pharmaceutical drugs, medical devices, and regenerative medicine-related products. Thanks in part to this system, the institute has attained a distinctive status among contract research organizations 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 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 active ingredients.

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

Line up of our healthcare-related products

Pharmaceutical Products

I Initiatives Involving Generics

In Japan, as the fulfillment of the government's target of 80% generic drug usage by volume draws near, the market is reaching maturity. In addition, due to quality issues at other companies, the public has grown increasingly leery of the quality assurances given by companies handling generics and their ability to maintain stable supplies. Moreover, the business environment has become ever more severe, due to repeated NHI drug price revisions.

We have been developing the market for generic drugs by capitalizing on our strength as an integrated developer, manufacturer, and seller. In recent years, we have sought to secure profitability by reducing costs by manufacturing overseas. While maintaining a stable supply of generics, we will continue to enhance our quality assurance and strengthen our earnings base by providing added value that only we can deliver. This we will do by using reliable information and continuing to create products that meet market needs.

1. Development

Competition among pharmaceutical companies is growing increasingly intense. Primarily, it is a result of both the prevalence of authorized generics and the increasing difficulty of developing them.

To maintain our good reputation in the market despite this, we must improve our overall development capabilities. We shall do so by launching products ahead of other companies; improving the accuracy of development through cooperation with academia; and developing value-added formulations that meet the needs of the medical profession.

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 22 for information on tablet imprint and packaging.

2. Manufacturing

Aiming to improve productivity and reduce manufacturing costs at Nippon Chemiphar Vietnam's factory, we are currently working to offshore production from our factories sites in Japan. As the plant approaches normal operational capacity, the cost of manufacturing there is expected to drop 20–30% below our Japan levels.

In addition to offshoring products to our highly cost-competitive Vietnam factory, we plan to utilize the advanced technological capabilities of our main Tsukuba factory to create added value and enhance Group manufacturing productivity. To meet the increased demand resulting from other companies' quality problems, we plan to increase capital investment and headcount. To this end, in FY2022 we commenced two- and three-shift operations at our domestic and overseas factories.

☞ Please refer to page 18 for overseas manufacturing.

Tsukuba factory

Vietnam factory

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]

In order to confirm that we appropriately manage the drugs we manufacture, 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.

We are constantly making every effort to strengthen our Group-wide reliability assurance system to fulfill our fundamental responsibilities as a maker of pharmaceutical products. This we do primarily through our Group Quality Assurance Management Department. At the same time, we conduct periodic audits of our Group's and contract manufacturing site.

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.

4. Ensuring a Stable Supply Structure

(1) Logistics management system

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

(2) Double-sourcing active pharmaceutical ingredients

Providing a steady supply of drugs requires efforts both to reinforce manufacturing capacity and ensure the stable procurement of active pharmaceutical ingredients (APIs).

To meet the requirement, we are strengthening our survey and evaluation efforts to secure optimal multi-source API supplies in Japan and overseas.

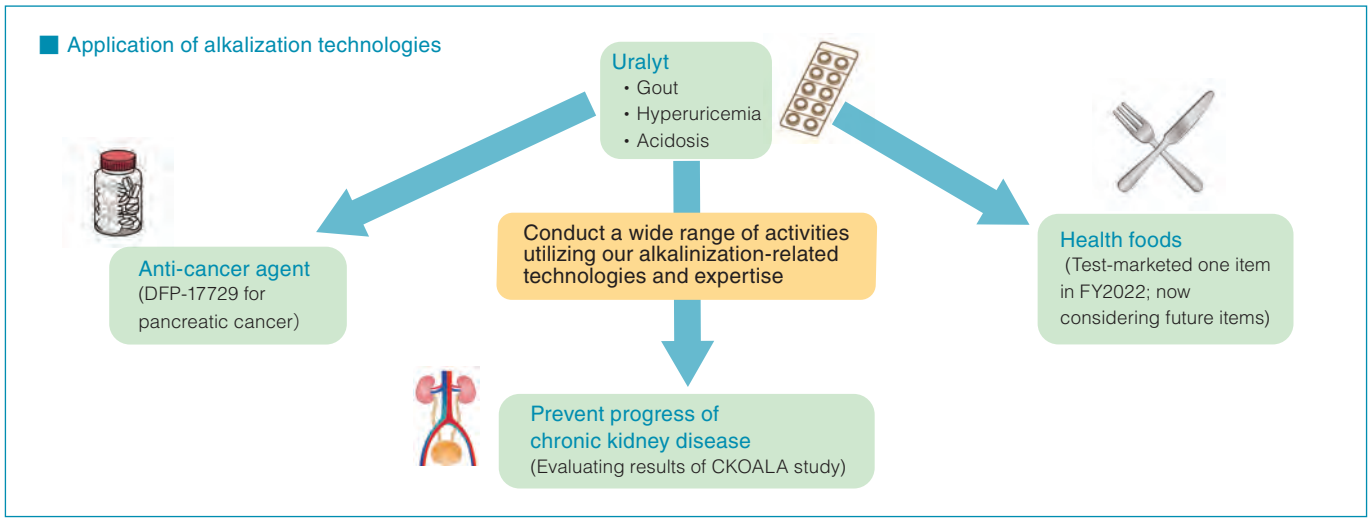
5. Sales

In response to the changes in the environment surrounding generic drugs, we are seeking to take advantage of a diverse range of sales channels that will synergize with the distinctive attributes of both Nippon Chemiphar and Nihon Pharmaceutical Industry Co., Ltd.

In addition, the Nippon Chemiphar Group is moving ahead with initiatives aimed at enhancing characteristics that highlight the advantages of its formulations, revamping its sales force automation efforts (sales support systems), and streamlining sales efforts through the application of AI technology.

II Alkalizer

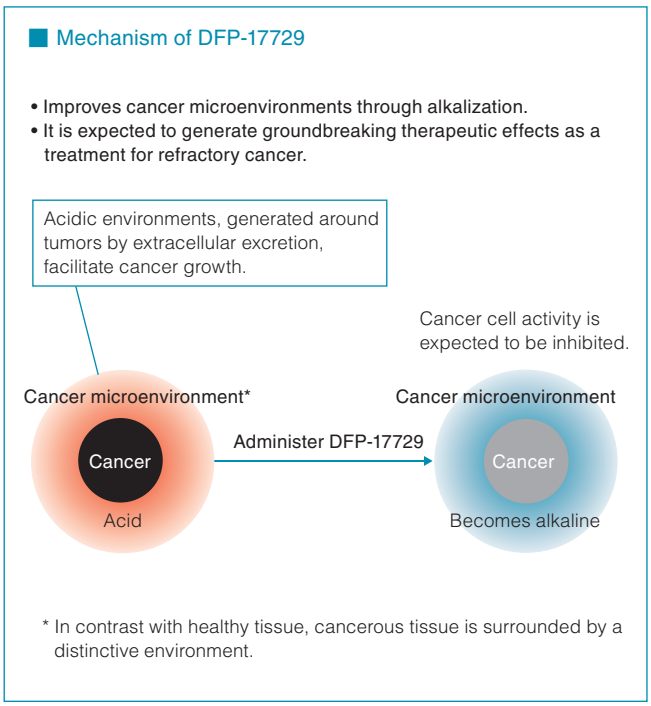
Since the launch of Uralyt in 1988, we have been working to cultivate alleviation of aciduria and alkalization therapy. By utilizing our know-how accumulated over many years, we are trying to expand alkalization therapy to various fields, such as new therapeutic areas and application to health food.



1. Development in Oncology

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

By alkalizing tumor microenvironments, DFP-17729 has been shown to suppress cancer cell activities and facilitate the efficacy of anticancer agents in non-clinical studies.



Delta-Fly Pharma completed Phase 2 clinical study for end-stage pancreatic cancer in 2022 and have been analyzing data for the next phase study. We expect that DFP-17729 could be launched in FY2026 at the earliest.

Later, we will consider expanding its application to other types of cancer.

2. Treatment for Chronic Kidney Disease

It is said that some 13.3 million people suffer from chronic kidney disease (CKD) in Japan. Once it progresses, dialysis is required and, since the number of patients on dialysis in Japan is increasing, steps must be taken to reduce related medical costs.

For many years, we have supported the clinical research (CKOALA study)* conducted at Tohoku University to clarify the relationship between urinary alkalization medications and CKD. Based on research results, we are considering how to develop the treatment for CKD by using AI and real-world data.

* The title of the study is "Investigation of the renal protective effect of oral alkalizing agents in chronic kidney disease."

3. Application to Food Products

By applying alkalization know-how we have accumulated through Uralyt and clinical researches, we are trying to expand to health-promoting foods. In FY2022, we conducted test sales of one item. Based on the data obtained, we are considering future plans.

III Drug Discovery and Development

We are working to develop new breakthrough drugs to combat diseases for which currently there are no appropriate therapeutic drugs. To this end, we are conducting venture-like drug discovery research, through which we license out compounds—discovered through internal exploratory research—to highly specialized domestic and overseas companies at early stages of development. To expand our pipeline and incorporate AI and other rapidly evolving digital technologies in our drug discovery methods, we have been pursuing alliances with companies and research institutions that are conducting cutting-edge research in their respective fields.

As of March 2023

In-house drug development | Development through alliances | Development by licensees

Item	Target	Preclinical	Phase 1	Phase 2	Phase 3	Notes
NC-2400	PPAR-δ receptor agonist for lipid metabolism abnormalities					• Finished phase 1 trials • Licensed to Abionyx Pharma SA (France)
NC-2500	XOR inhibitor for hyperuricemia, gout					• Since February 2023, development for gout and hyperuricemia has been underway at an out-licensed Chinese company • Exploring possibilities for applications for neurodegenerative diseases
NC-2600	P2X4 receptor antagonist for neuropathic pain, chronic cough					• Phase 1 has ended and we are conducting licensing-out activities for chronic cough in addition to neuropathic pain
NC-2700	URAT1 inhibitor for hyperuricemia, gout					• Finished preclinical studies and are conducting licensing-out activities
NC-2800	δ opioid receptor agonist for depression and anxiety					• Selected by AMED for its funding program in January 2018 • Concluded a collaborative research and development agreement and an option agreement with Sumitomo Pharma Co., Ltd. and began phase 1 trials
DFP-17729	Cancer microenvironment improving agent for pancreatic cancer					• Concluded a license agreement with Delta-Fly Pharma, Inc. and acquired exclusive rights to market in Japan • Analyzing phase 2 data for next stage study
DFP-14323	Anti-cancer agent for non-small cell lung cancer					• Concluded a license agreement with Delta-Fly Pharma and acquired exclusive marketing rights in Japan • Analyzing phase 2 data to prepare for phase 3
Calvan	α1β1 blocker for Huntington's disease					• Licensed to SOM Biotech SL (Spain), completed phase 2a trial, and presented the data at a conference in October 2021

1. New Drug Pipeline

In addition to developing compounds identified through exploratory studies conducted both at our drug discovery research laboratories and with collaborating research institutions, we have been expanding our pipeline by in-licensing drugs concerning which we both possess extensive expertise and expect to generate synergies with existing pipeline products.

2. In-house Development Pipeline

(1) NC-2800, a δ opioid receptor agonist for anxiety and depression

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

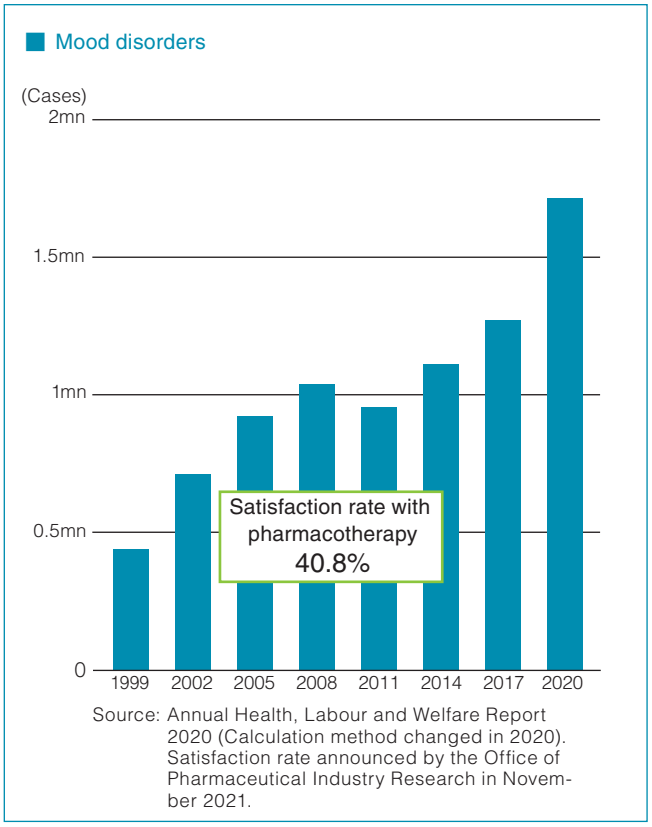
The Japan Agency for Medical Research and Development (AMED) selected this compound for its industry–academia collaboration program in 2015 and, with the agency's support, we conducted preclinical trials.

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, with which a phase 1 trial was started in July 2021. In June of that year, we had concluded a collaborative research and development agreement and an option agreement for NC-2800 with Sumitomo Pharma Co., Ltd.

While each year sees more patients with mood disorders, such as depression and anxiety, only about 40% of the patients are satisfied with the drug treatment they receive. NC-2800 is expected to be a first-in-class drug with an excellent balance between safety and efficacy, and minimal impact in terms of side effects.

* Project name: Development of innovative mood regulators activating δ opioid receptors.
Period: From March 30, 2018 to March 31, 2028.



Source: Annual Health, Labour and Welfare Report 2020 (Calculation method changed in 2020). Satisfaction rate announced by the Office of Pharmaceutical Industry Research in November 2021.

(2) NC-2600, a P2X4 receptor antagonist for neuropathic pain and chronic cough

In joint research with Kyushu University, we have developed a new drug candidate to treat neuropathic pain. Since FY2012, the Company has been carrying out research and development with the support of the Japan Science and Technology Agency, taken over by AMED in FY2015. With the support of AMED, we completed phase 1 trials in FY2017.

In FY2020, we added chronic cough to the primary indications of the compound. While moving to enhance its value by collaborative research for various indications, we have been conducting out-licensing activities of the compound to domestic and overseas companies.

(3) NC-2500, an XOR inhibitor; NC-2700, a URAT 1 inhibitor for gout, hyperuricemia

• NC-2500

It should be noted that current drug therapies for lowering uric acid pose a risk of causing an acute attack of gout, due to the sharp decrease in uric acid levels. However, in NC-2500 phase 1 trials, we confirmed its unique property to lowers blood uric acid levels gradually, suggesting it may rectify this issue. In February this year, we signed a licensing agreement with a Chinese company, which is working to develop the drug in China. (See box below).

In addition, preliminary data indicates that NC-2500 is effective against neurodegenerative disorders such as Alzheimer's disease. So we are exploring the possibility of expanding the application of NC-2500 to include such disorders.

• NC-2700

This is a new chemical compound that, unlike NC-2500, promotes the excretion of uric acid from the body by inhibiting the transporter URAT 1, which is responsible for the re-absorption of uric acid by the kidneys.

Non-clinical studies have shown that NC-2700 facilitates the excretion of uric acid but ameliorates aciduria, thereby helping to prevent kidney damage and kidney stones, which are concerns when uric acid is excreted. We seek to out-license the compound to domestic and overseas companies.

3. In-licensing Pipeline

(1) DFP-17729, a cancer microenvironment improving agent for pancreatic cancer

In March 2020, we concluded a licensing agreement for DFP-17729, with Delta-Fly Pharma.

DFP-17729 is expected to generate groundbreaking therapeutic effects for refractory cancer by alkalizing the acidic environment around tumors, that facilitates cancer growth.

Delta-Fly Pharma is developing this for end-stage pancreatic cancer and completed phase 2 trials in FY2022.

Licensing Agreement for NC-2500 in China

In February 2023, we signed an exclusive licensing agreement with Nanjing Neiwa Faith Pharmaceutical Co., Ltd. (NF) for it to develop, manufacture, and sell NC-2500 for gout and hyperuricemia in China.

The onslaught of industrialization and urbanization, together with the aging of the population, have caused an increase in lifestyle-related disease in China. Thus, the number of gout patients is expected to grow.

Since the agreement allows us to deploy to other regions the expertise that NF acquires through in-country development, we will do all we can to maximize the compound's value.

In this study, DFP-17729 was administered together with chemotherapies, and was compared with the use of chemotherapies alone in over-all survival. Data analysis for efficacy and safety is underway to prepare for the next phase of trials.

☞ Please refer to page 13 for DFP-17729.

(2) DFP-14323, an anti-cancer agent (non-small cell lung cancer)

Lung cancer is the fourth-most common cancer by site both in men and women.

A National Cancer Center Research Institute survey* shows that, in 2019, some 120,000 cases were diagnosed as lung cancer in Japan. In 2022, lung cancer caused 76,000 deaths in Japan, which is the highest number by site.

In March 2022, we concluded a licensing agreement with Delta-Fly Pharma for DFP-14323. The substance targets epidermal growth factor receptor (EGFR) mutation-positive non-small cell lung cancer.

Previous studies have suggested that DFP-14323 strengthens the immune response of cancer patients by binding to aminopeptidase N, which is found on the surface of cancer immunocompetent cells. In this way, the substance reduces the dose required of standard anticancer drugs, and enhances their efficacy without increasing the side effects. That makes DFP-14323 a promising therapeutic agent, especially for late-stage and elderly cancer patients.

Phase 2 trials for EGFR mutation-positive non-small cell lung cancer at stages 3 and 4 have been completed. The results were presented at the American Society of Clinical Oncology meeting held in June 2022. Preparation to start phase 3 trials is currently underway.

* National Cancer Center Research Institute, Cancer Statistics in Japan 2023.

■ Final Progression-free Survival (PFS) Report

The median PFS in phase 2 trials of DFP-14323 with 20 mg/day of afatinib: 23.0 months.
* Although the standard dose of afatinib is 40 mg/day, a half dose was administered in the trials.

For reference
Afatinib 40 mg/day phase 3 median PFS: 11.1 months
Osimertinib 80 mg/day phase 3 median PFS: 18.9 months

Key Selection Criteria
- Non-small cell lung cancer
- Stage III/IV or postoperative recurrence
- Common EGFR mutations (Del 19 or L858R)
- Performance status 0–2
- No prior systemic chemotherapy or definitive thoracic radiotherapy

4. Repositioning of Existing Drugs

As long-listed drugs have been used over many years in clinical practice, much expertise exists regarding their safety and use.

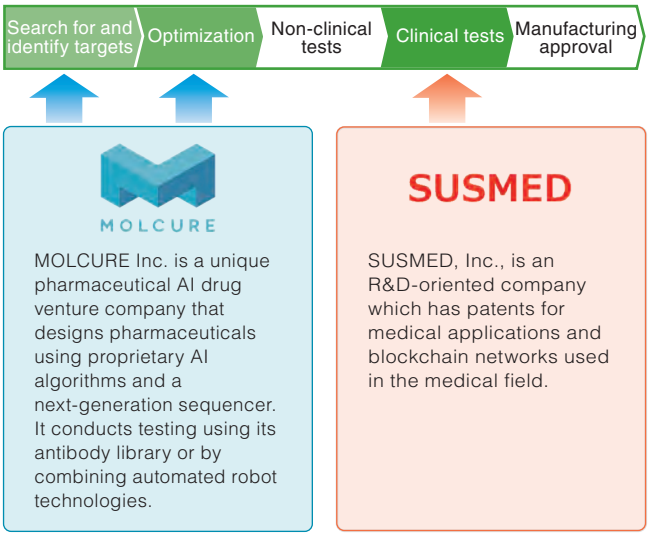
Further, the experience and research of medical professionals indicate that some of these medicines may have efficacy for other than the original indications. As with new medicines, development for diseases for which there are currently no particularly effective medications is awaited.

To discover new uses for our long-listed drugs, we are supporting research in Japan and abroad. In Europe, Spain-based SOM Biotech is developing our Calvan tablets for Huntington's disease and other conditions. Its phase 2a trial results were disclosed at an academic conference in October 2021.

5. 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. In fiscal 2022, we set up an AI promotion office within our drug discovery research laboratories. We had concluded capital and business alliances with MOLCURE Inc. (in November 2018) and SUSMED, Inc. (August 2020) with the primary aims of applying new technologies, raising reproducibility associated with the creation of promising drug discovery themes, and improving the speed and efficiency of development. Through these agreements we are developing collaborative efforts to support specific themes.

■ Collaboration with partners expected to speed up and streamline drug discovery processes



IV Diagnostics Business

Our products are making a substantial contribution at a time when a growing number of people are suffering from allergic and lifestyle-related diseases. By delivering speedy test results, the products make possible early diagnosis and the compilation of appropriate treatment plans. We will continue to develop and sell clinical testing equipment and reagents to meet the needs of both medical institutions and patients, thereby supporting future healthcare. Further, we are conducting marketing activities designed to expand our business both in Japan and overseas.

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. We launched sales of the kit in February 2020. In FY2022, we resolved the domestic market penetration bottleneck by ramping up production of reagents. We will continue to accelerate deployment of the kit in Japan and abroad.

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, which can be installed in small spaces, 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. Using it for children and those with an aversion to syringes is ideal, 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. Traditionally, allergy testing primarily has been outsourced to third parties. However, with DropScreen, we are cultivating a new market for in-house allergy testing.

Specific IgE measuring kit ST-1

Measuring device A-1

2. Launched Sales of New Models of Glycohemoglobin Analyzers

In September last year, we began selling the new HLC-723 GR01 automatic glycohemoglobin analyzer, developed by Tosoh Corporation. It provides more accurate results than the previous model, but measurements at a similarly high speed.

HLC-723 GR01

Further Development of DropScreen

DropScreen A-1's compact exterior belies its complex inner structure. Due to this complexity, designing the product was challenging, and right up until the time of shipment we had to address a wide variety of minute details. These included part placement, proper achievement of light shielding in the product's camera section, and adjustment of mechanisms associated with the mixing of sample specimens and fluids.

DropScreen A-1's features have evolved as it has permeated the market, and we are committed to further improving the quality and stability of this product. In collaboration with Nippon Chemiphar, we will apply the expertise we have accumulated through its development to creating a succeeding model.

Hironobu Takahashi
Executive Officer, Operational Headquarters Deputy Manager
and Marketing Department Manager,
Ueda Japan Radio Co., Ltd.

V Overseas Business

As demand for prescription drugs grows, securing production capacity is critical for manufacturers. Further, as the business environment becomes increasingly severe, due to such factors as repeated NHI drug price revisions, manufacturing costs must be reduced if business is to be sustainable.

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 at its factory in Vietnam, NC-VN is developing sales channels in several countries, which will serve as stepping stones to overseas markets, primarily in Asia.

1. Manufacturing

Having worked to expand manufacturing capacity, reduce costs, and expand overseas, NC-VN began commercial production for the Japanese domestic market at its factory in November 2018. Once the factory in NC-VN achieves normal operating levels, production costs are likely to be 20–30% less than manufacturing in Japan.

Gradually, we have been expanding the number of products manufactured at NC-VN. Our focus has been on items with strong cost advantage potential and, as of May this year, we are manufacturing eight products there. Responding to supply shortages in Japan, we strengthened our manufacturing capabilities in FY2022 by switching to two-shift operations at the NC-VN factory. We will continue to use the factory to cut manufacturing costs, strengthen manufacturing capacity, and improve our competitiveness in the generic drug market.

2. Sales

We are working with local distributors to sell our proprietary products and generic drugs in Thailand, China (including Hong Kong), Vietnam, and South Korea. As of May 2023, we have marketing approval for seven products, which are on the market in those four countries. We have applications under review for three products in two countries, and plan to increase the number of target countries and products.

(1) Application and approval status in Vietnam

Last July, we applied for approval for a product with an administration and dosage different from that in Japan. In addition, we received approval for Rebamipide tablets in December. This is the first time that an oral drug—already approved in Japan and manufactured in Vietnam—has gained approval for sale in Vietnam. We are preparing for the market launch within this year.

Further, we are considering using our Vietnam factory to expand our market to neighboring countries and regions.

(2) Business expansion in China

In China, online medical consultations have spread rapidly due to the COVID-19 pandemic. In parallel, the number of prescriptions for our Calvan tablets is increasing, with online hospitals having started to prescribe the product last year.

In May 2023, we obtained approval for Epinastine tablets. It is the first Japanese-made generic drug that has undergone local bioequivalence testing and has cleared the latest Chinese pharmaceutical regulations. We are preparing to make our first shipments later this fiscal year.

In Hong Kong, all public hospitals have been prescribing our cilostazol tablets since 2017 and, since we have won bids for the next three years, sales will continue through 2026.

We are currently applying for approval of one generic drug in China. Our plan is to steadily generate results in that country, through development of licensing business by transferring technology to local companies.

(3) Joint project with International Finance Corporation

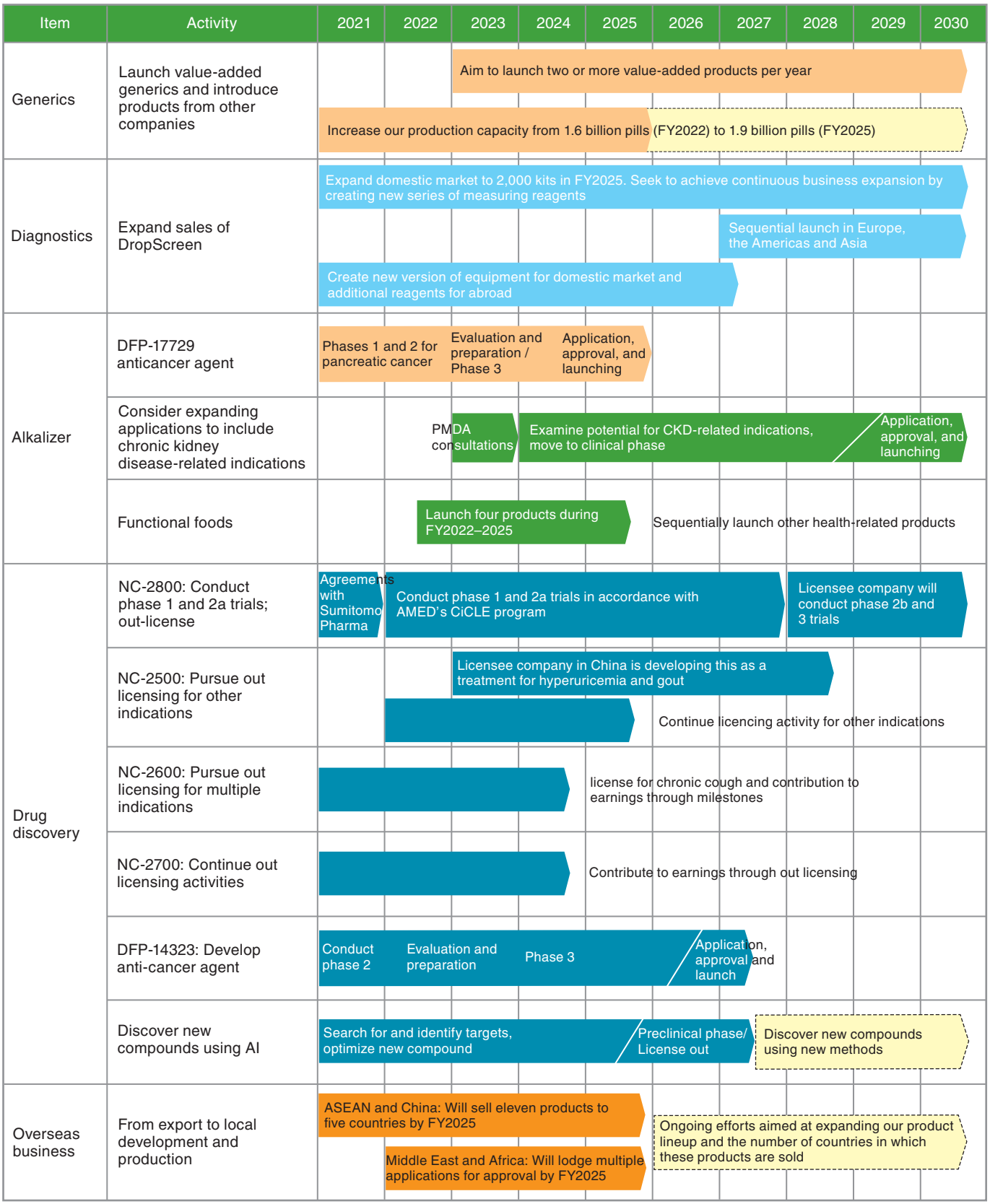
In March 2022, we concluded an advisory agreement with the International Finance Corporation (IFC), a member of the World Bank Group, concerning studies targeting the local marketing of generic drugs in Asia, the Middle East, and Africa.

Utilizing the IFC's advice and network, we are now narrowing down potential countries and partners. Together, we will both work to ensure that people in emerging markets have access to affordable, high-quality medicines, and expand in ASEAN markets and beyond.

Chemiphar and IFC members at Vietnam factory

VI Management Strategy: Roadmap

Timeline of activities leading to achievement of our three plus 1 principal goals.



ESG Initiatives for a Sustainable Society

Since the Corporate Governance Code, most recently revised in June 2021, includes provisions concerning sustainability, corporate and individual efforts to achieve a sustainable society have accrued greater importance. As a result, the Nippon Chemiphar Group will promote initiatives to address environmental, social, and governance (ESG) issues related to its business activities.

In this way, the Group will attain both the Sustainable Development Goals adopted at the UN Summit in September 2015, as well as recommendations made by the Task Force on Climate-related Financial Disclosures, an international body that monitors, and makes recommendations about, the global financial system in order to promote international financial stability. To facilitate our initiatives, in December 2021 we formulated a Basic Sustainability Policy and formed a Sustainability Committee, chaired by our president and CEO.

Basic Sustainability Policy

Through its business philosophy to "make a difference in society by providing pharmaceutical drugs and health-related services to help people become and remain healthy" and its business activities, the Group is working to enhance its corporate value and contribute to developing a sustainable society.

I Environment-related Initiatives

If society is to be made sustainable, we believe that companies must consider the environmental impact of their business activities. Thus we ensure that our pursuits reduce our impact.

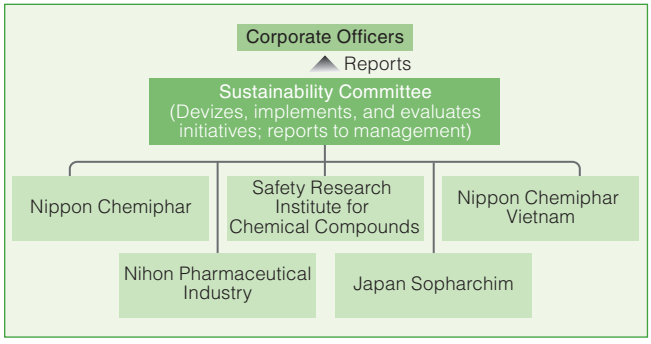
1. Basic Policies

We recognize the need to:

(1) Minimize our footprint across all areas of business—including in R&D, manufacturing, and sales—by efficiently using resources and energy, minimizing waste, reusing, and recycling.
(2) Focus on environmental conservation.
(3) Release impartial, appropriate information about environmental conservation to boost corporate transparency.
(4) Make employees eco-conscious; teach them how to protect the environment.

2. Environmental Conservation

Our Sustainability Committee devises, implements, and evaluates environment-related conservation initiatives for the entire Group. Our steps to protect the global environment are a Group-wide theme. In addition, we have launched a campaign to conserve electricity, and provide in-house training to enhance awareness of environment-related activities.



3. Impact of Group Operations

(For the period from April 1, 2022 to March 31, 2023, for the Nippon Chemiphar Group)

Items Used for Our Business Activities

INPUT

Energy	FY2021	FY2022	YOY (%)
Electricity	17,605kWh	18,501kWh	+5.1
Gasoline	330kl	334kl	+1.4
Heavy oil	94kl	99kl	+5.4
Light oil	279kl	273kl	(2.2)
Kerosene	742kl	826kl	+11.3
LPG	2t	2t	+4.4
Town gas	279,303Nm^3	273,357Nm^3	(2.1)
Total	240,992GJ	252,865GJ	+4.9
Resource			
Water (consumption by factories, laboratory)			
Tap water	34,410m^3	33,833m^3	(1.7)
Well water	100,062m^3	95,649m^3	(4.4)
Total	113,608m^3	109,069m^3	(4.0)
Materials			
Raw materials	754t	654t	(13.3)
Packaging materials	227t	259t	+14.3
Total	978t	913t	(6.6)

OUTPUT

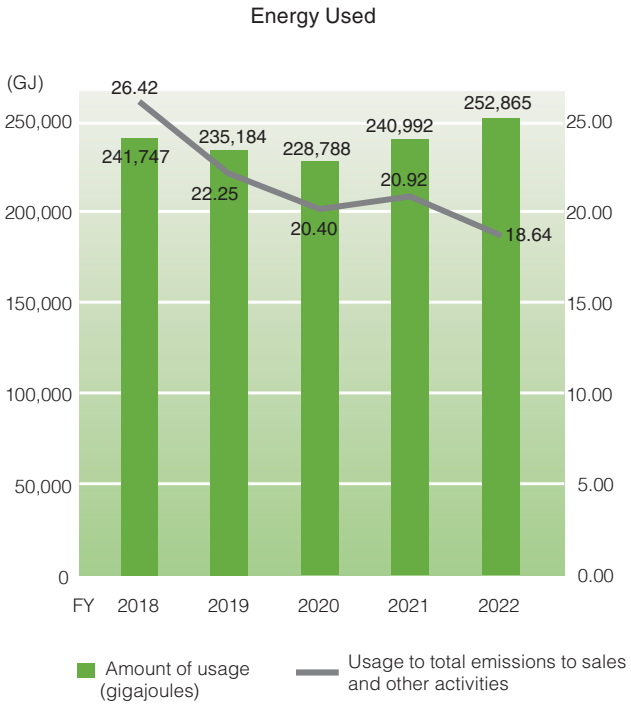
Into Atmosphere	FY2021	FY2022	YOY (%)
CO_2 emissions	11,511t-CO_2	12,116t-CO_2	+5.3
PRTR-related substances	0.00t	0.00t	±0
As Industrial Waste Water (from factories, laboratory)			
Used water	40,516m^3	43,772m^3	+8.0
PRTR-related substances	0.00t	0.00t	±0
As Waste			
General waste	180t	153t	(15.1)
Industrial waste	216t	242t	+12.0
PRTR-related substances	3.00t	3.40t	+13.3

RECYCLING

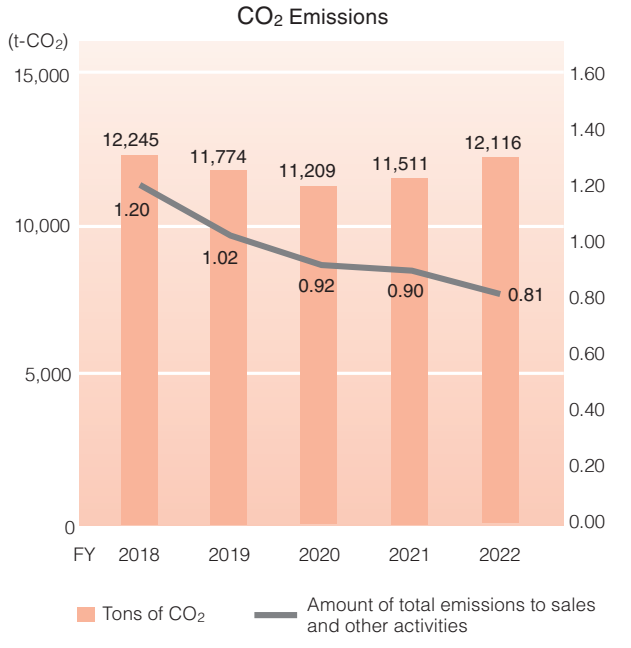
	FY2021	FY2022	YOY (%)
Container and packaging recycling	30t	37t	+24.8

Note: The above tables and charts apply to the period from April 1, 2022 to March 31, 2023, for all Nippon Chemiphar Group offices.

● INPUT



● OUTPUT



II 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 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 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.

(1) Role of MRs

Nippon Chemiphar has some 200 MRs across Japan. It strives to supply information promptly to medical institutions through pamphlets and newsletters. To this end, we collect information on drug side effects; provide patient guidance and consultation services on drug use; and disseminate news about medical fee revisions.

In similar fashion, we are providing IT-based information to help prevent the spread of the coronavirus.

We work to ensure the efficiency of our MRs through 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 nutrition-related and exercise therapies, as well as health management.

Through these 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 a customer support office that provides information on the appropriate use of our pharmaceuticals.

2. Strengthening Our Quality Assurance and Supply Systems

In recent years, the domestic pharmaceutical industry has faced an urgent need to restore public trust in generic drugs, due to such issues as quality-related improprieties having been observed among several generic drugmakers. At the Nippon Chemiphar Group, the Group Quality Assurance Department, set up in April 2022, plays a central role in examining issues; solving problems; proposing, then implementing, unified management standards and methods; as well as further strengthening the entire Group's level of quality assurance.

In addition, to ensure a stable supply of pharmaceuticals, even during demand surges and natural disasters, we are expanding our pool of API suppliers, carrying out capital investments, and increasing our staff headcount.

☞ Please refer to page 12 for details regarding quality assurance and stable supply.

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.

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 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 easily 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.

III 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

Nippon Chemiphar's Soka office conducts annual fire drills, and in June 2022 it was awarded a certificate of commendation by Saitama Prefecture's Misato City Fire Prevention and Safety Association for its rigorous safety management, legal compliance, and exemplary facility management.

In November of the same year, two employees from the Soka office received awards from Misato City, identifying them as having contributed to the city's development over many years.

Nippon Chemiphar and Nihon Pharmaceutical Industry Co., Ltd. made donations in December to Chikusei City, Ibaraki Prefecture (the location of Nihon Pharmaceutical Industry's Tsukuba Factory) through the corporate version of Japan's hometown tax system. For a second consecutive year, the donations helped the Western Ibaraki Medical Organization to support projects.

Shinichi Kudo (center), president of Nihon Pharmaceutical Industry Co., Ltd., holds a letter of appreciation he received at last year's presentation ceremony.

2. Volunteer Activities

We have established an in-house system of volunteer leave that encourages employees to take part in volunteer activities. These include social welfare initiatives and rescue efforts in disaster areas.

We support people with disabilities through donations to Hands On Tokyo, the NPO which supports those with disabilities among other activities.

3. Educational Support in Vietnam

Nippon Chemiphar Vietnam has set up a scholarship at the University of Medicine and Pharmacy in Ho Chi Minh City, southern Vietnam. The Nippon Chemiphar 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 human resource development in Vietnam and other ASEAN members.

Nippon Chemiphar and university members in December 2022 at the University of Medicine and Pharmacy, Ho Chi Minh City.

4. 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 postcards 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.

IV 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 respects 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.

(As of March 31, 2023)

Plan (April 1, 2022–March 31, 2023)	Result
Have women account for more than 10% of managers.	12.3%

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

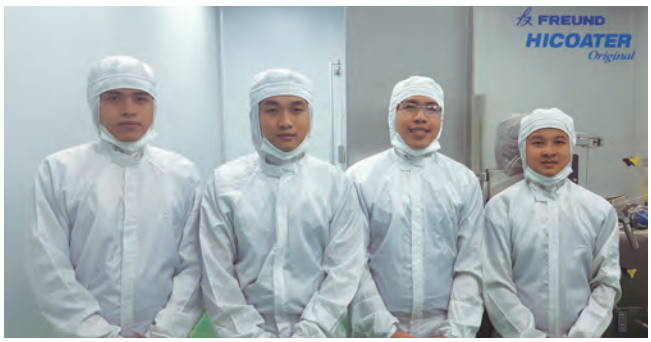
Furthermore, recognizing that promoting the active participation of female employees starts with the involvement in the childcare process, we set up the Papa Quota System. It requires all male employees with children under two years of age to take childcare leave. We expect the system will help raise 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' 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.

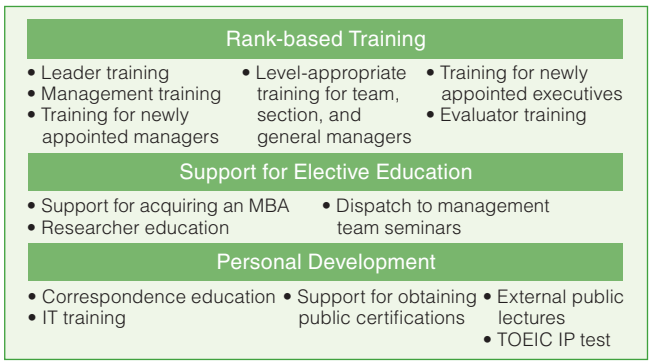


Some of the staff at the Vietnam factory

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 Resource Capabilities



4. Employee Questionnaires; Factory Mentoring Programs

To supply high-quality pharmaceuticals, it is essential to foster a workplace culture that places top priority on quality. We cannot strengthen our work system and foster a culture of quality without there being a mutually beneficial relationship between personal and organizational growth.

To this end and to judge awareness of important issues, NPI's Tsukuba Factory regularly distributes questionnaires to employees. A cloud-based system has been introduced to simplify responding to questionnaires, as well as the collection of completed documents and their analysis.

In FY2022, we put in place a mentor system in each department. It uses mid-career employees, who are well positioned to provide employee guidance while at the same time doing their work. To date, we have had a degree of success with having directors act as mentors, holding regular interviews and providing advice. Since last fiscal year, we have been introducing a system of mentoring to several generations of factory employees.

As the voices of our employees are heard and their issues made clear, we will continue to implement initiatives to improve our organization.

5. 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.

6. 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.

Since FY2021, we have made it easier for employees to use paid leave, as well as reduce and manage overtime. In addition, we have 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.

The systems include flextime, which allows employees to adjust their starting and finishing times according to operational circumstances; a discretionary work system; a comeback registration system that promotes the reinstatement of employees who have left the workplace for such reasons as childcare, nursing care, or a change in the workplace of their spouse; an employment contract non-relocation clause, for employees who cannot move from their current place of work for reasons such as nursing care or the workplace of their spouse; and a reemployment system that allows senior employees to continue working after retirement.

We have adopted various approaches 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.

Following the introduction of teleworking, staggered working hours, and online conferences, we are continuing our efforts to protect our stable supply of pharmaceutical products from disruption, while protecting the safety of our employees.

7. 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 that started in FY2021. The system is based on the idea that employees should be lively, energetic, and focused 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.

V Management System

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

To improve management efficiency and strengthen corporate governance, we have separated the decision-making and supervisory functions from our business execution functions. The former have been delegated to the Board of Directors (eight members with two-year terms), at least one third (three members) of whose members are outside directors; the latter functions are the purview of the Corporate Executive Officers Meeting.

In addition, we have formed an Audit and Supervisory Board comprising members who conduct rigorous and neutral audits concerning the overall execution of duties performed by directors, executive officers, and other personnel. This they do in part through active participation in meetings of the Board of Directors and other key bodies within the Company. The Audit and Supervisory Board comprises one full-time and two part-time (outside) members.

Our outside directors and outside Audit and Supervisory Board members satisfy the independence standards stipulated both by the Tokyo Stock Exchange and Nippon Chemiphar and, therefore, are not subject to undue influence from our Company.

As required by the Tokyo Stock Exchange, the Company has notified the exchange that it has designated its outside directors and outside Audit and Supervisory Board members as independent officers.

At the same time, we are striving to strengthen our internal management system through risk management and the development of in-house control systems. We are promoting sound corporate activities and enhancing our corporate governance in accordance with our Fundamental Internal Control Policy and Legal Compliance Code of Conduct.

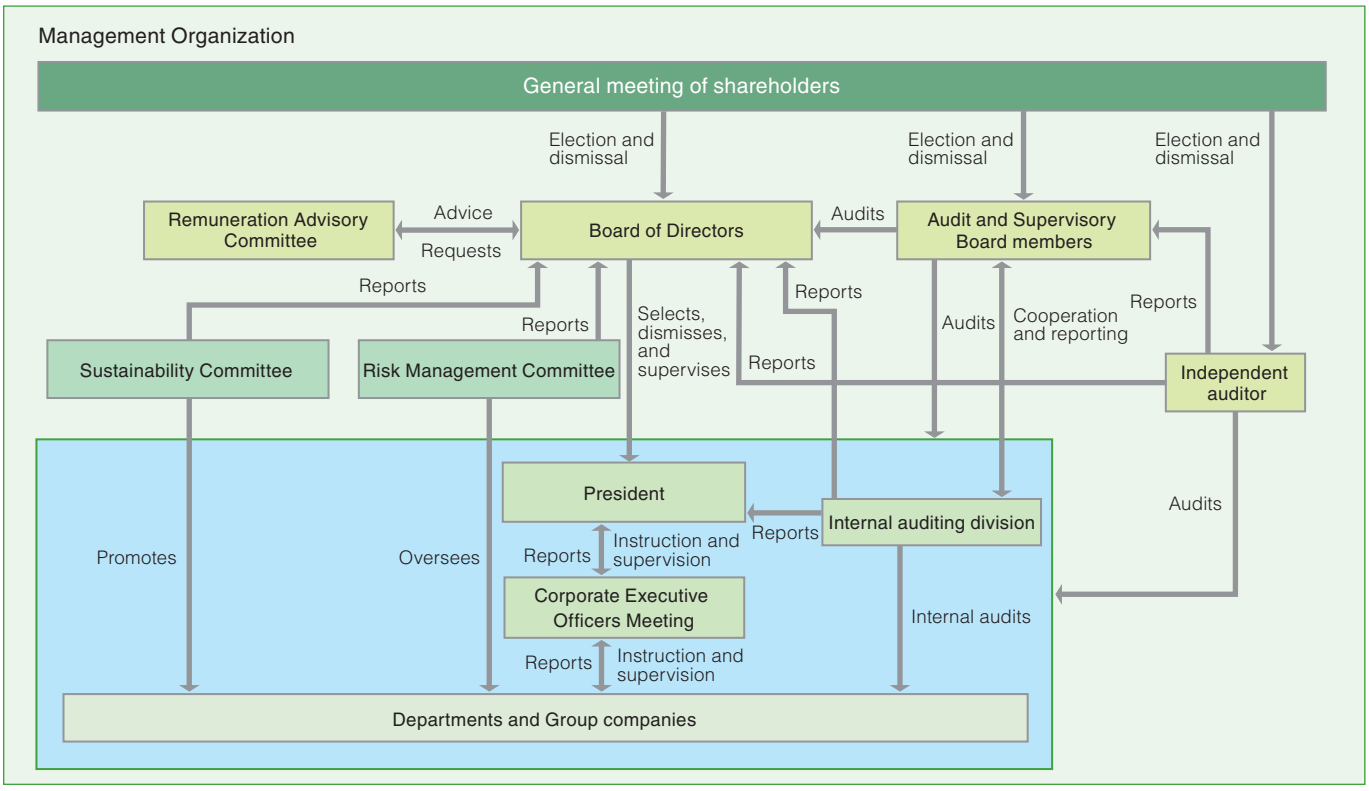
We expect these efforts to further strengthen the trust-based relationships we maintain with our shareholders and stakeholders, thereby enhancing our corporate value.

(3) Directors, Audit and 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 deep sense of responsibility (please refer to the skills matrix on page 27). They must also display advanced professional proficiency, and thorough knowledge of the Board's efforts to enhance corporate governance while generating Group-wide business value in accordance with the Innovation Roadmap.

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.

Director Experience and Expertise (skills matrix)

	Current Position (as of June 2023)	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 Senior Managing Corporate Officer	√	√		√	√		
Masahide Yasumoto	Director and Managing Corporate Officer	√	√	√				√
Koki Hayamizu	Director and Corporate Officer		√		√	√		
Yuji Harada	Outside Director	√			√			√
Masaki Yoshino	Outside Director				√	v	√	
Naoko Omukai	Outside Director				√	v	√	

(b) Audit and Supervisory Board Members

Before appointing an Audit and 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 and 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 and Supervisory Board member must meet the independence standards of both the Tokyo Stock Exchange and our Company.

(4) Director Compensation

The maximum amount of remuneration for the Company's directors is determined by a resolution of the General Meeting of Shareholders. Each director's base remuneration is determined by the president and CEO according to Board of Directors' proxy resolutions in compliance with the Company's Compensation Determination Policy. This policy was shaped by our Board of Directors and can be summarized as follows.

Compensation

Type	Outline
Base compensation	A fixed, monthly, cash remuneration the amount of which reflects the recipient's position, responsibilities, and years in office. It is based on the Company's business results, and evaluations of the individual's business performance.
Non-monetary compensation	The Board shall determine the appropriate details, size, and amount of stock-based compensation that is provided as an incentive to some or all inside directors to promote management that will sustainably enhance corporate and shareholder value by improving the Company's business performance. The Board shall also reveal how stock-based compensation is calculated, the timing and conditions according to which it is to be granted, and other relevant matters.

(a) Basic Policy

The Company's basic policy for determining individual director compensation is to set said compensation at levels commensurate with the responsibilities of the director in question, while also considering the role of compensation as an incentive for promoting management targeting sustainable growth in corporate and shareholder value through improved business performance.

Specifically, inside directors receive both monetary compensation (base compensation) that is fixed, in addition to non-monetary compensation that is not fixed. Outside directors receive only base compensation.

(b) Composition

Inside directors' compensation comprises a fixed monetary amount plus non-monetary compensation that is determined relative to their general compensation. They are allotted optimal percentages to ensure that their compensation serves as an incentive to focus on improving business performance, and so enhance corporate and shareholder value. The percentages are determined based on a director's position, responsibilities, and tenure; the Company's performance; employee salary levels; and compensation levels at companies of similar size and in comparable industries or business categories.

Outside directors, meanwhile, receive only base compensation, in the form of fixed monetary remuneration.

(c) 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 an inside director's compensation (fixed monetary and non-monetary) relative to general compensation.

(5) Remuneration Advisory Committee

The Company set up the Remuneration Advisory Committee as an advisory body to the Board of Directors. The committee comprises three members, two of whom are independent outside directors.

(6) Compensation of Audit and Supervisory Board Members

The maximum amount of total compensation for Audit and Supervisory Board members is determined by a resolution of the General Meeting of Shareholders. Meanwhile, the members of this board meet to decide the amount of compensation each member shall receive.

(7) 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 and Supervisory Board members. The data compiled from the responses is then analyzed and discussed by the Board. In FY2022, 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.

Main Meetings, Attendance during FY2022

	Board of Directors' Meeting (attendance rate)	Audit and Supervisory Board Meetings (attendance rate)
Outside directors	12 times (100%)	—
Outside auditors	12 times (100%)	16 times (100%)

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.

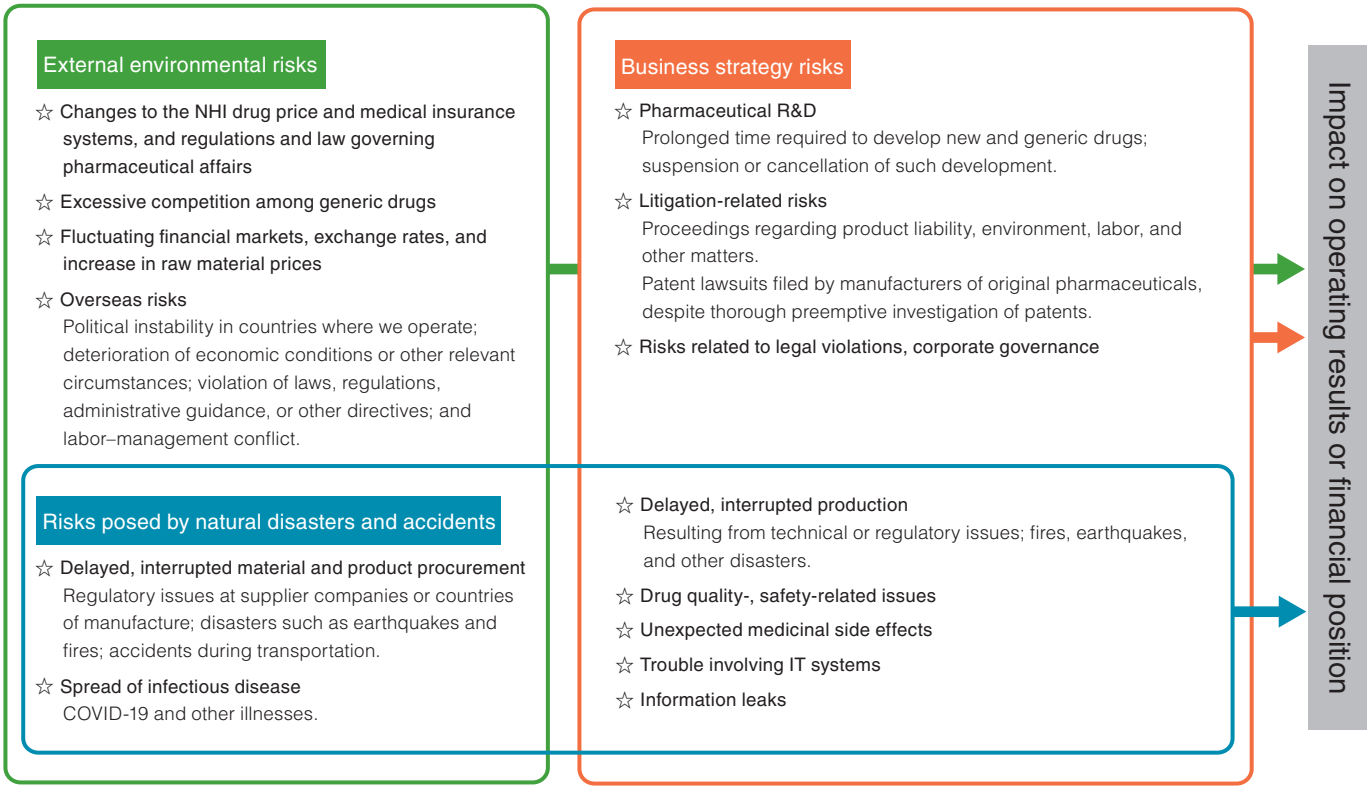
Further, we have created an Internal Auditing Division, which operates under the direct supervision of the president and CEO. This division cooperates with various committees, including the Risk Management Committee, to investigate the appropriateness of our operations and suggest improvements.

(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 21, 2023)

(Back row, from left)
Outside Director Masaki Yoshino, Yuji Harada and Naoko Omukai; Director and Corporate Officer Koki Hayamizu
(Front row, from left)
Director and Senior Managing Corporate Officer Tomio Yamakawa; President and CEO Kazushiro Yamaguchi; Director and Senior Managing Corporate Officer Masanori Kutsuwada; Director and Managing Corporate Officer Masahide Yasumoto

(From left)
Audit & Supervisory Board member (full-time) Sakaru Makino, Outside Audit & Supervisory Board members (part-time) Rumi Yamaguchi and Naoshige Shindo

(Back row, from left)
Corporate Officers Fumio Tangiku and Takahiro Mataki
(Front row, from left)
Corporate Officers Shinji Nakajima, Shinichi Kudo, and Hirofumi Miyata

4. Messages from Outside Directors

Yuji Harada
Outside Director

Experience and knowledge contribute an external perspective

Nippon Chemiphar has co-opted generic drugs, the use of alkalizing agents, and new drug discovery into its basic management strategy and, by applying this master plan overseas, it is working to ensure the sustainable development of the Group. It is a deeply earnest company that works diligently from the top down, with the entire Company united in ambitiously undertaking the challenge of innovation.

The environment surrounding the pharmaceutical industry remains extremely challenging. This is due to a series of scandals involving generics manufacturers that have resulted in supply shortages; yearly drug price revisions; and sharp hikes in raw material and energy costs. A constant effort is needed to solve these and related problems.

The role of outside directors is to provide management with advice and supervise corporate governance in order to help improve corporate value. Throughout my career, I have observed a range of different companies, having been involved in the management of financial institutions, think tanks, and automobile manufacturers.

I hope to put to good use what I have learned from my working background by focusing on providing advice that may help find a solution to the challenges facing the industry. Since the work of pharmaceutical manufacturers affects not only people's health, but also their lives, I believe that it is essential that operations be carried out in an orderly manner and guided by solid governance.

A look at recent corporate scandals reveals that there have been many incidents stemming from longstanding practices and the failure to do what is right. Hence, regardless of industry, I treat company misconduct as an object lesson and advise that governance should be under constant scrutiny.

The Nippon Chemiphar Board of Directors operates most effectively. But, while explanations are provided in advance and untoward incidents are reported promptly, I believe it is necessary to keep a close eye on the situation at the execution level. For this reason, I make it a rule to check the materials and minutes of corporate officers' meetings, since it is the executive-level, decision-making body. If necessary, I even refer to the officers in charge to get a full understanding.

Nippon Chemiphar's major strengths are its strong leadership and accurate, swift, and bold decision-making. That said, since it is a listed company with general shareholders, it must have a strong governance system. Since it is the critical duty of an outside director to effectively harmonize these two attributes, I intend to leverage my perspective as an outside third party to provide advice and contribute to the Company.

Masaki Yoshino
Outside Director

An outside director in an era of change

I have practiced law for 28 years, and have served as an outside director of Nippon Chemiphar for four years. Before taking up my role with Nippon Chemiphar, I served as an auditor and outside director at several other listed companies.

The Company, with a management philosophy that pharmaceuticals should be at the heart of comprehensive healthcare, is making significant contributions to society. My role as part of that is to assume an independent standpoint, receive reports on business execution, ensure the Company philosophy is fully exercised, and check whether there are any inappropriate areas of business execution.

As an attorney, the first thing I look at is the legality of business execution, and the part it plays in corporate culture. I have found that Nippon Chemiphar places top priority on the legality and appropriateness of its business execution, as well as on having thorough quality control. As an outside director, I can see no problems.

Meanwhile, Japanese society is also undergoing change. Not only corporate laws, but also corporate governance codes are constantly being revised, while the public's attitude to companies is constantly changing. The UN's SDGs and the concept of diversity and inclusion, barely known just 10 years ago, are now taken for granted as corporate responsibilities. It is in this context that I provide supervision and advice from an outside perspective, to enable the Company to respond appropriately to society's new demands.

Nippon Chemiphar has cultivated areas of business that have seen significant growth, such as alkalizing and the DropScreen kits, and the Group has potential for further overseas expansion. In my role as an attorney, I have substantial experience doing business with non-Japanese companies, and wish to provide support at that level as well.


NIPPON CHEMIPHAR CO.,LTD.
日本ケミファ株式会社

Corporate Data

I Ten-year Consolidated Performance Overview

		FY2013 (Ended March 31, 2014)	FY2014 (Ended March 31, 2015)	FY2015 (Ended March 31, 2016)	FY2016 (Ended March 31, 2017)
Income Statement	Net sales	31,893	35,118	35,602	35,689
	Pharmaceutical products segment	30,773	34,168	34,509	34,551
	Generics	24,291	27,749	28,857	29,294
	Proprietary products and new drugs	4,277	3,374	2,888	2,294
	Diagnostics[1]				
	Others segment	1,119	949	1,092	1,137
	Cost of sales	15,128	18,352	18,803	19,449
	Selling, general and administrative expenses	13,437	13,480	13,653	13,403
	R&D expenses	1,668	1,755	1,889	1,984
	Operating profit	3,327	3,285	3,145	2,836
	Ordinary profit	3,206	3,217	2,945	2,849
	Profit attributable to owners of parent	1,887	1,899	1,961	2,054
Financial position at year end	Total assets	40,106	41,428	43,644	47,002
	Total net assets	13,501	15,626	16,041	17,355
Cash flow from	Operating activities	1,892	2,438	2,450	2,737
	Investing activities	(2,499)	(2,072)	(151)	(2,504)
	Financing activities	(205)	(137)	(935)	787
Capital expenditure and other	Capital expenditure	3,366	1,710	1,172	2,928
	Depreciation and amortization	862	1,200	1,178	1,112
Amounts per share[2]	Earnings per share (¥)	461.97	474.49	499.12	530.02
	Book value per share (¥)	3,369.70	3,900.05	4,099.74	4,548.80
	Dividends per share (¥)	100.0	100.0	100.0	100.0
Indexes	EBITDA (millions of yen)	4,252	4,588	4,280	4,104
	Operating income to sales (%)	10.4	9.4	8.8	7.9
	Return on equity (%)	14.6	13.1	12.4	12.3
	Return on assets[3] (%)	8.5	7.9	6.9	6.3
	Debt-to-equity ratio (%)	89.7	80.1	81.1	85.3
	Equity ratio (%)	33.6	37.7	36.7	36.9
	Dividend payout ratio (%)	21.6	21.1	20.0	18.9
	Number of employees	699	743	756	769

Notes:
1. We have disclosed sales of diagnosistics since FY2021.
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 FY2013.
3. Return on assets = ordinary profit / [(total assets for the previous term + total assets for this term) / 2].
4. Announced on May 12, 2023.

II Analyses of Operating Results and Financial Position for FY2022

I. Summary of FY2022 Business Results

1. Sales

Looking at the Pharmaceutical Products segment, in generic pharmaceuticals, we responded to substitute demand stemming from quality issues at our competitors, while sales of products launched in recent years were also strong. However, in addition to the impact of NHI drug price revisions, we continued to have to make shipment adjustments on some products, particularly from 3Q onward, due to manufacturing capacity issues, including products outsourced to other companies. In addition, shipments of some products were suspended in December last year to confirm manufacturing processes. Sales of generic drugs ended up falling 5.6% YOY. Sales of proprietary products and new drugs also decreased 23.3% YOY due to the impact of NHI drug price revisions. Meanwhile, sales of diagnostics grew 28.5% YOY as growing expansion in domestic use of the allergy screening kit and reagent DropScreen™ gained momentum, driven by new added production capacity as well the start of promotional support from our pharmaceutical sales department since 3Q. As a result, combined sales in the Pharmaceutical Products segment decreased by 3.0% YOY to ¥30,543 million.

In the Others segment, sales came to ¥1,015 million, higher year on year thanks to the steady performance of contract testing.

Consequently, consolidated net sales came to ¥31,559 million (down 2.9%YOY).

2. Profit

The Company recorded a consolidated operating loss of ¥241 million. Although we made efforts to reduce the cost of sales and recurring expenses, a higher cost of

(Millions of yen)

FY2017 (Ended March 31, 2018)	FY2018 (Ended March 31, 2019)	FY2019 (Ended March 31, 2020)	FY2020 (Ended March 31, 2021)	FY2021 (Ended March 31, 2022)	FY2022 (Ended March 31, 2023)	Forecast for FY2023[4] (Ending March 31, 2024)
35,331	34,182	31,756	31,541	32,506	31,559	32,700
34,279	32,682	30,632	30,423	31,501	30,543	—
29,872	28,315	26,425	25,532	26,283	24,803	24,640
2,009	1,548	1,362	1,790	1,754	1,345	1,230
				2,613	2,780	4,500
1,051	1,500	1,123	1,117	1,004	1,015	—
19,535	19,654	19,200	20,097	23,432	23,374	—
13,947	13,063	12,190	10,879	8,248	8,425	—
2,280	2,066	2,173	1,998	2,392	2,419	2,820
1,848	1,464	364	564	825	(241)	200
1,696	1,512	307	582	1,022	58	100
1,160	881	436	495	700	339	60
46,698	46,926	45,862	47,124	49,453	48,571	—
17,487	17,863	17,392	18,014	18,501	18,534	—
3,188	2,196	1,394	1,503	1,801	(916)	—
(1,606)	(960)	326	(1,024)	35	(394)	—
(1,741)	110	(961)	29	(793)	144	—
1,645	784	660	1,812	1,131	573	3,700
1,192	1,345	1,272	1,393	1,586	1,500	1,450
315.28	245.11	121.42	137.75	194.33	94.07	16.62
4,859.86	4,963.24	4,830.92	5,006.49	5,119.99	5,130.65	—
100.0	100.0	50.0	50.00	50.00	50.00	50.00
3,025	2,987	1,704	2,099	2,727	1,682	—
5.2	4.3	1.1	1.8	2.5	—	—
6.7	5.0	2.5	2.8	3.8	1.8	—
3.6	3.2	0.7	1.3	2.1	0.1	—
84.0	85.7	85.2	84.0	78.9	81.0	—
37.4	38.0	37.9	38.2	37.4	38.1	—
31.7	40.8	41.2	36.3	32.8	53.2	300.8
816	846	807	760	809	872	—

sales ratio due to NHI drug price revisions as well as the scheduled consumption of R&D expenses drove up SG&A costs, in addition to which profit was impacted by shipment suspensions of certain products in December. As a result of factors including foreign exchange gains, ordinary profit was down 94.3% YOY to ¥58 million, while profit attributable to owners of parent was down 51.6% YOY to ¥339 million reflecting a gain on the sale of investment securities.

II. Annual Forecasts

For FY2023 (ending March 31, 2024), we anticipate a decline in sales of the Pharmaceutical Products segment due to the impact of the NHI drug price revisions implemented in April this year, but we also project ongoing growth in domestic market penetration for DropScreen as well as sales growth in contract testing. We therefore forecast consolidated net sales of ¥32,700 million, up 3.6% YOY.

At the profit level, in addition to a rise in the cost of sales ratio due to NHI drug price revisions, we expect an increase in purchase prices, due to rising raw material and energy costs. We therefore forecast operating profit of ¥200 million and profit attributable to owners of the parent of ¥60 million.

III. Dividend Forecast

Although we forecast a drop in profit attributable to owners of the parent, in the interest of maintaining stable shareholder returns, we plan to pay a dividends of ¥50.0 per share (for a payout ratio of 300.8%).

IV. Capital Expenditure

We are budgeting for total capital expenditure of ¥3,700 million, as we envision additional installations at Building No. 3 of our Tsukuba Factory to meet the need for increased production.

III Corporate Data

Company Name: Nippon Chemiphar Co., Ltd.
Founded: June 16,1950
Capitalization: ¥4,304 million
Securities Exchange: Tokyo Stock Exchange (Prime Section)
* Scheduled to transit to TSE Standard Market on October 20, 2023
Employees: 872 (Consolidated, as of March 31, 2023)
Website: https: //www.chemiphar.co.jp/english/

IV Domestic Locations

Head Office:
2-2-3, Iwamoto-cho, Chiyoda-ku, Tokyo 101-0032, Japan
Tel.: +81-3-3863-1211
Fax: +81-3-3864-5940
Discovery Research Laboratories:
1-22, Hikokawado, Misato City, Saitama Prefecture, 341-0005, Japan

V 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.

VI 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 80
1995	Launches Calvan
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.

Nippon Chemiphar Co., Ltd.

2-2-3, Iwamoto-cho, Chiyoda-ku, Tokyo 101-0032, Japan
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