



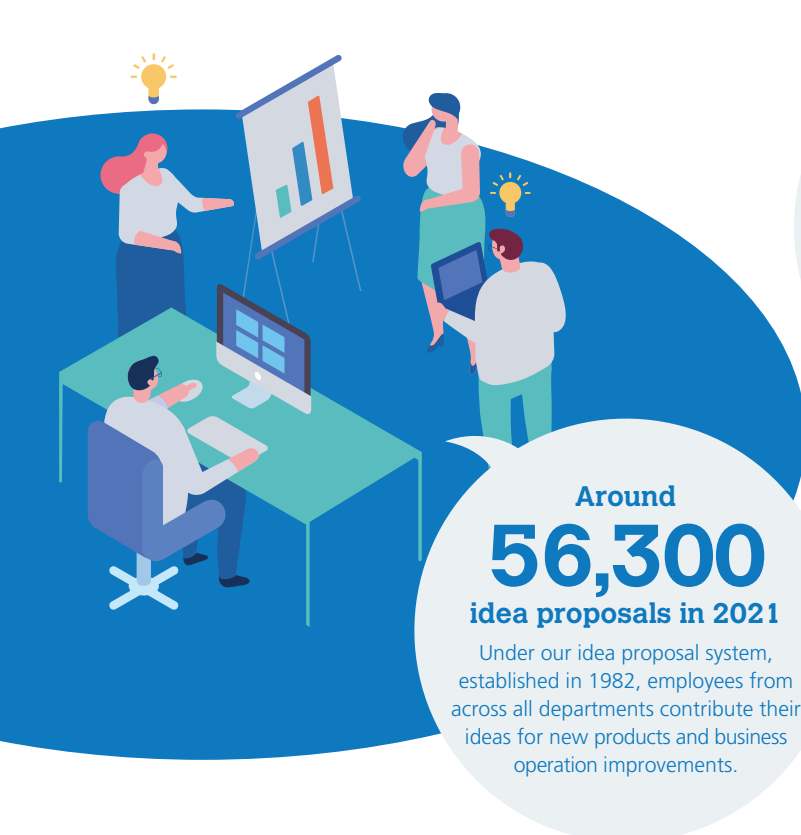
**You make a wish
and we make it
happen.**

**Integrated Report
2021**



Management principles

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



155 brands

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

Around
56,300
idea proposals in 2021

Under our idea proposal system, established in 1982, employees from across all departments contribute their ideas for new products and business operation improvements.



Corporate brand slogan

**あつたら
いいな**
をカタチにする

**“You make a wish and
we make it happen”**

Group brand charter

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

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

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

Our dream is to share the small gifts from everyday life with people the world over.

We are committed to being an innovative, development-focused company that contributes to society, builds lasting relationships with customers, and exceeds all expectations in customer satisfaction.

16.8%
operating
income margin

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

Increased dividend for
23 consecutive
fiscal periods

We strive to provide a stable return to shareholders while making investments in future growth.

Profit growth for
24 consecutive
fiscal periods

We have achieved profit growth for 24 consecutive fiscal periods since the introduction of consolidated accounting.

Contents

Our Value Creation

- 1 Our commitment
- 2 A century of value creation
- 4 Value creation process
- 10 Operational highlights

Growth Strategy

- 14 Message from the President
- 20 The CFO explains our financial strategy
- 24 Business overview
- 26 Strategies by business

ESG Initiatives

- 36 Our approach to ESG
- 38 Environmental
- 44 Social
- 50 Dialogue session with the COO and an outside director
- 56 Management team
- 58 Governance

Data Section

- 66 11-year summary
- 68 Consolidated financial statements
- 72 Our history
- 73 Corporate data / Investor information

Period covered

January 1, 2021–December 31, 2021
(FY2021: Fiscal year ended December 31, 2021)
Note: Certain subsequent information is also included.

Reporting scope

Kobayashi Pharmaceutical Co., Ltd.
and its consolidated subsidiaries

Other related information

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

Editorial policy

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



External recognition



<https://www.jpjx.co.jp/english/markets/indices/carbon-efficient/index.html>



<https://www.ftserussell.com/products/indices/blossom-japan>

2022 CONSTITUENT MSCI JAPAN EMPOWERING WOMEN INDEX (WIN)

<https://www.msci.com/our-solutions/indices/japan-empowering-women-index>

2022 CONSTITUENT MSCI JAPAN ESG SELECT LEADERS INDEX

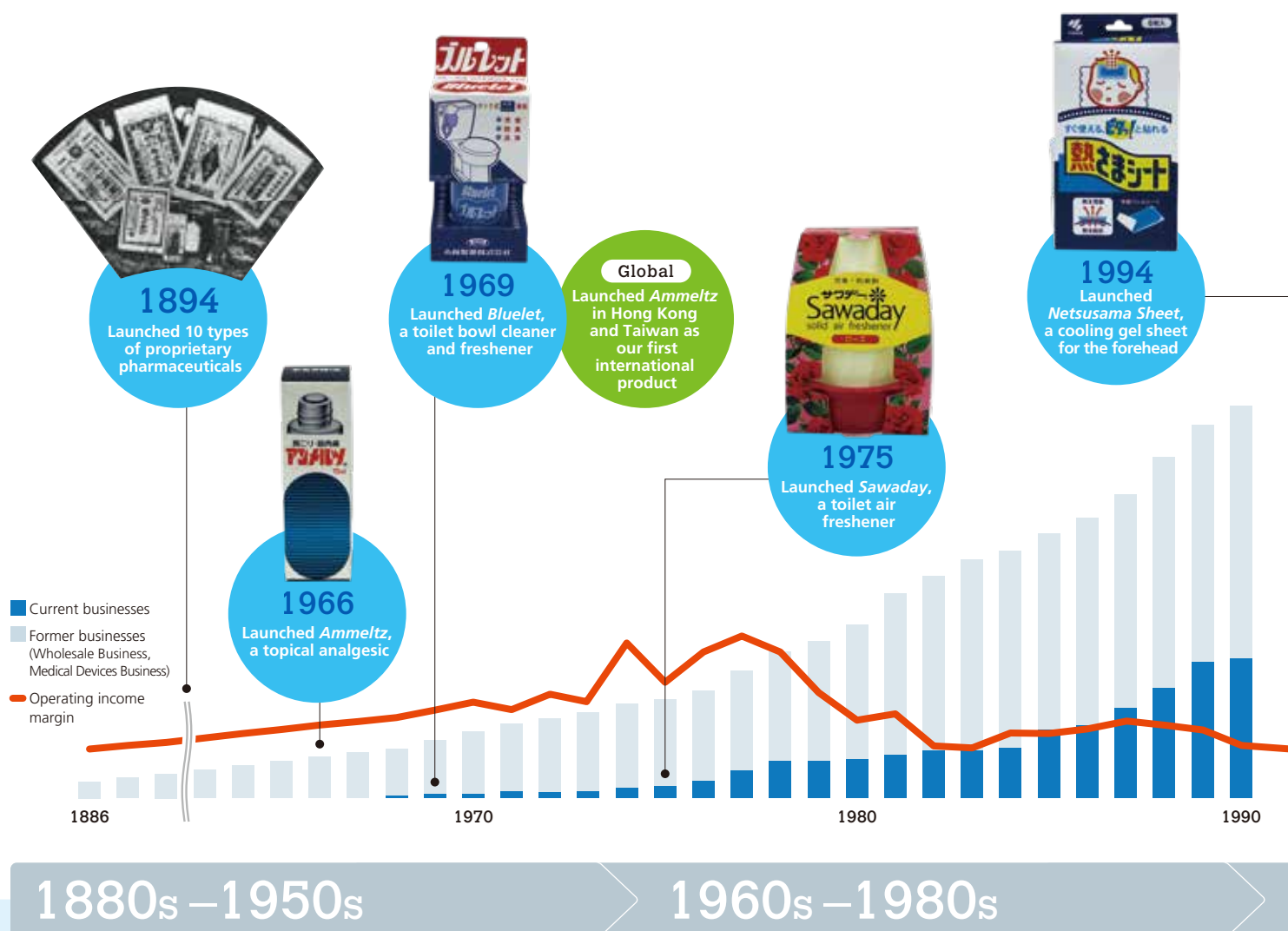
<https://www.msci.com/our-solutions/japan-esg-select-leaders-index>

THE INCLUSION OF Kobayashi Pharmaceutical Co., Ltd. IN ANY MSCI INDEX, AND THE USE OF MSCI LOGOS, TRADEMARKS, SERVICE MARKS OR INDEX NAMES HEREIN, DO NOT CONSTITUTE A SPONSORSHIP, ENDORSEMENT OR PROMOTION OF Kobayashi Pharmaceutical Co., Ltd. BY MSCI OR ANY OF ITS AFFILIATES. THE MSCI INDEXES ARE THE EXCLUSIVE PROPERTY OF MSCI. MSCI AND THE MSCI INDEX NAMES AND LOGOS ARE TRADEMARKS OR SERVICE MARKS OF MSCI OR ITS AFFILIATES.

We are pursuing M&A and accelerating deliver unique products to consumers around the world.

Our changing business portfolio

In 2008, we divested our original wholesale business, which accounted for more than half of our sales. However, since then, our consumer products business has more than doubled, and our operating income margin has risen dramatically from the 7% range to 16%. We continue to create new markets by delivering what customers wish for not only in Japan but also overseas, and are accelerating growth by actively pursuing M&A.



Popularized over-the-counter medicine as a medicine wholesaler

Building a solid business platform

Founded as a store selling general merchandise and cosmetics. Later, began focusing on the medicine industry following an infectious disease outbreak in 1885. With demand for medicine rising, built a solid business platform as a medicine wholesaler and began manufacturing proprietary pharmaceuticals.

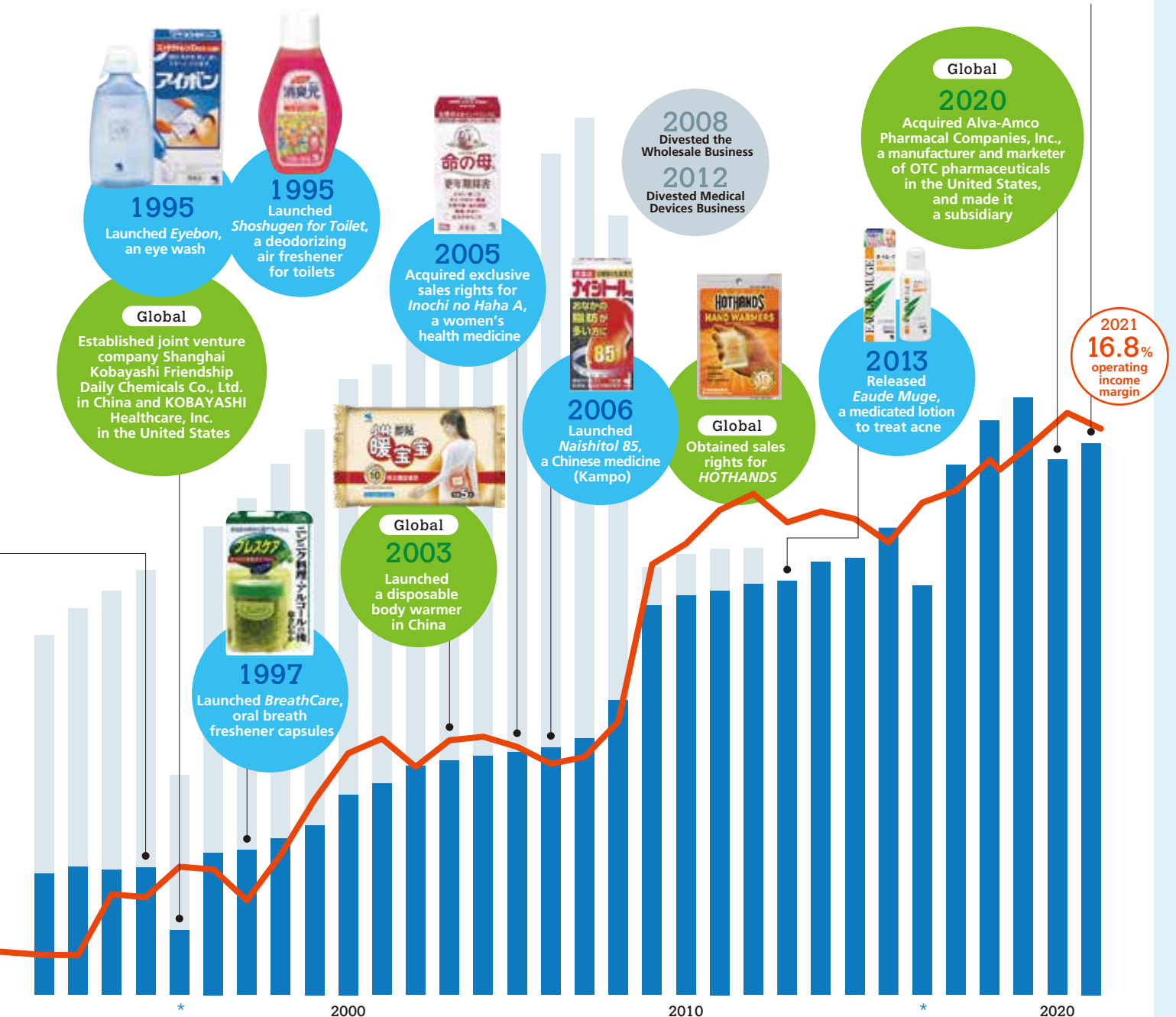
Market creation through rapid integration of Western culture

Establishing a business model with a niche strategy

Began full-scale commitment to becoming a manufacturer while retaining main business in wholesale. Created new niche markets to avoid competition with wholesale partners. Origin of our current business model.

international growth to

2021 Net sales
¥155.2 billion



1990s

2000s – present

Proposed new lifestyle ideas by delivering what consumers wish for

Growing the manufacturing business and expanding overseas

Strengthened new product development to fill unmet lifestyle needs and created numerous core brands that are the backbone of current earnings. Made full-scale foray into overseas markets.

Gained an accurate grasp of changes in living environments, and created new domestic and international markets

Concentrating on core competencies

Divested original Wholesale Business and Medical Devices Business to facilitate further development of new core businesses. Focused operating resources on manufacturing business and dramatically improved operating income margin. Aggressively conducted M&A and accelerated expansion overseas.

* Due to changes in fiscal year-end, fiscal 1995/3 was a six-month transitional period and fiscal 2016/12 was a nine-month transitional period.

Business model: Developing products to solve individual

The sources of our strength

People and systems that create new product ideas

A free and open corporate culture

Marketing that emphasizes ease of understanding

Two strategies and target KPIs

Strategy 1 “A big fish in a small pond” strategy

Small pond = ¥1 billion market

There are few competitors in small ponds, so we can secure a large market share and high profit margins.



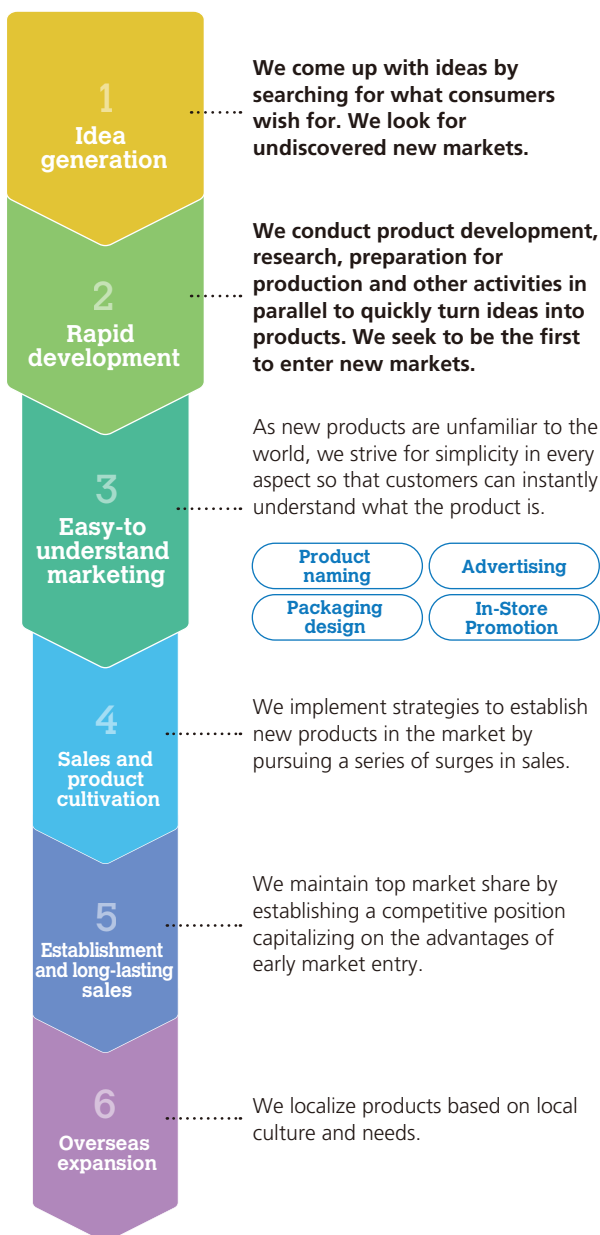
Large pond = ¥10 billion market

Competition is fierce in large ponds where everyone comes to fish. Even with the same level of sales, a high profit margin cannot be attained.



issues

Strategy ② Development of unique products



Target KPIs

1 Contribution rate of new products →P.13

Four-year contribution rate* **20%** or higher

* Sales contribution rate of new products launched within the previous four years

2 New products established in the Market

Establish 2 products every 6 months

We develop new products that deliver what consumers wish for and address unmet needs in the areas of healthcare, household products, skincare, and body warmers, both in Japan and overseas. We then cultivate these products to firmly establish them in the market. We thereby inspire new lifestyle ideas.



3 Cultivation of new Japanese products in China

Establish **5** products over 3 years

Providing something new that will delight people and societies around the world



for sustainable growth

→P.36 - 37

Strengths in the value chain



Idea Generation

Idea generation is critical to creating niche products.



Rapid Development

Being first to market and gaining the top share through rapid development is important.



Marketing

As new products are unfamiliar to the world, **easy-to-understand marketing** is essential.

Kobayashi Pharmaceutical's approach

- **Idea proposal system**
- Idea meetings
- Idea presentations
- N = 1 development
- The five development principles
- **Kobayashi-style marketability assessment**
- M&A as a development technique

- **Rapid development with a four-in-one approach (R&D, technology development, development planning, brand managers)**
- Development Committee
- **Kobayashi-style satisfaction assessment**
- Alliances (development) with technology-owning partners
- Rapid development using outside technologies
- Development leadership by top management

- **Easy-to-understand product names**
- **Easy-to-understand packaging design**
- **Easy-to-understand advertising**
- **Easy-to-understand store displays**
- Field marketing
- Approval of marketing plans by top management

Mechanisms to improve and promote value creation

- Invitation to Premium Dinner hosted by the president →P.8
- President's special award for outstanding ideas
- Recognition of proposers of similar ideas
- **Company-wide idea contest** →P.8
- 12-month award
- 30-year award

- Development portfolio management approach →P.8
- Qualified Person (QP) system
- Free-for-all discussion between top management and front-line employees
- High quality
- Retailer incentives

- CF and package design awards

Future issues

- Restore **four-year contribution rate to 20%** (improve market establishment)
- Analyze consumer behavior using AI

- Further enhancement of Kobayashi-style customer satisfaction assessment methodology aimed at encouraging repeat purchases

- Kobayashi-style online marketing
- E-commerce test-marketing techniques

Systems for fostering the corporate

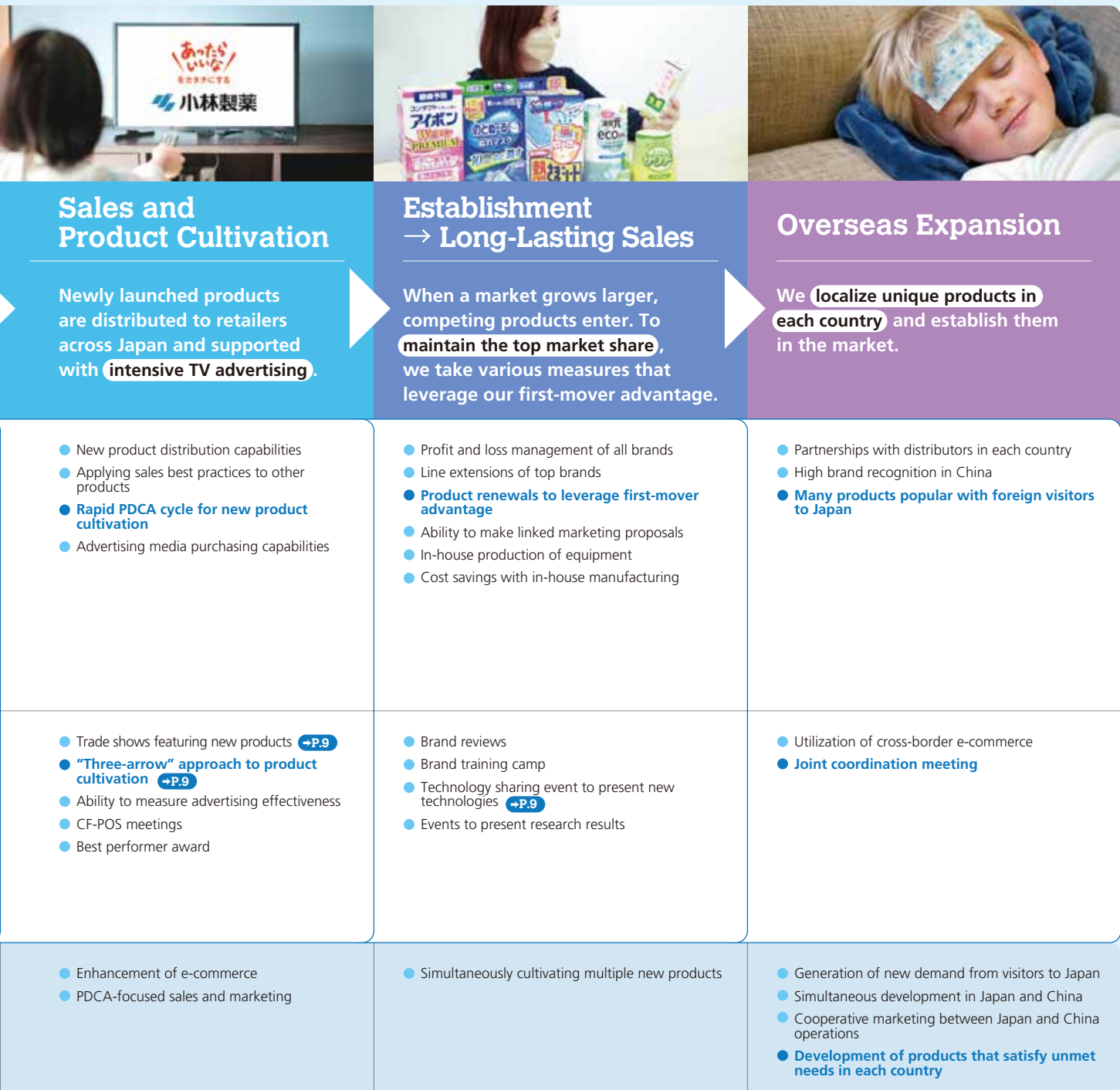
Spur-of-the-Moment Meetings

Policy on forms of address

e-Appreciation program between president and employees

Growth dialogues

An open corporate culture that avoids authoritarian or bureaucratic practices



culture underpinning value creation

Front-line visits by top management

Hiring of people with a can-do spirit and a desire to create new lifestyle ideas

Expertise in simultaneously developing, marketing and cultivating a high-diversity portfolio of more than 150 brands (DNA of a wholesaler)

Diversity

Mechanisms to improve and promote value



Idea
Generation

Company-wide idea contest

On August 22, the anniversary of the Company's incorporation, all employees take a break from their regular duties for an idea meeting held in each department. Each employee brings a product idea and the best one from each department is entered into a preliminary contest. Those selected then move on to package design, after which they are presented to the president and other executives. The winning ideas are then considered for commercialization. In 2021, a total of 3,137 ideas were submitted.



Idea
Generation

Premium Dinner

Every six months, employees who proposed the best ideas and produced outstanding results are rewarded with an invitation to dinner with top management. Praising employees whose idea proposals and actions are commendable demonstrates management's attitude of recognizing people for their initiative and efforts. We also have a program in which employees submit their outstanding results for consideration, and the winners are honored at the Premium Dinner.

Note: Held online in 2021

Rapid
Development

Development portfolio management

New product development is vital to Kobayashi Pharmaceutical's growth, but a haphazard approach is unlikely to lead to sustainable growth. We carefully manage new product development through our development project portfolio, which functions as a product launch schedule for each business division and category. This allows us to chart launch dates and sales projections for new

products over a period of approximately three years, share information on risks that have the potential to stymie development or delay launch, and reevaluate the contribution rate of new products, while optimizing the number of projects and resource allocations.



Example of development project portfolio

	Autumn 2022		Spring 2023		Autumn 2023		Spring 2024	
Category A	New product 1	¥X billion	New product 5	¥X billion	New product 9	¥X billion	New product 13	¥X billion
	New product 2	¥X billion	New product 6	¥X billion	New product 10	¥X billion	New product 14	¥X billion
	New product 3	¥X billion	New product 7	¥X billion	New product 11	¥X billion	New product 15	¥X billion
	New product 4	¥X billion	New product 8	¥X billion	New product 12	¥X billion	New product 16	¥X billion
Total projected sales	¥X billion		¥X billion		¥X billion		¥X billion	
Contribution rate of new products in Category A	XXX%		XXX%		XXX%		XXX%	

creation

Sales and
Product
Cultivation



“Three-arrow” approach to product cultivation

First Arrow

Display alongside mainstay or related products

Second Arrow

Standalone advertising in store

Third Arrow

Lineup additions and advertising

In recent years, we have focused efforts on cultivating new products to establish them in the market. Firmly establishing these products so that they continue to sell for five or ten years improves the return on development cost and effort, thus contributing to our bottom line. We have set a goal of establishing two new products every half-year. Each year,

we target two or three new products for focused investment in advertising and sales promotion, and we cultivate them by instigating a series of sales surges with our three-arrow strategy. New product development is only considered successful once a product gains a foothold in the market and this cultivation process is complete.



Sales and
Product
Cultivation

Trade shows featuring new products

We host trade shows featuring new products in Japan twice a year in spring and autumn, with approximately 3,000 distributor representatives attending. Employees from Kobayashi Pharmaceutical’s marketing and R&D departments staff product booths, where they explain the products they helped conceive. The venues are bustling, and many visitors have commented that the explanations are easy to understand. This trade show is a place to introduce new products and engage in business discussions. Our top management and the heads of business divisions also participate, and business deals with distributors are often closed at these events.

Note: Cancelled in 2021 due to the COVID-19 pandemic.



Establishment →
Long-Lasting
Sales

Technology sharing event

This event has been held annually since 2008 by the Manufacturing Headquarters. It promotes sharing of technologies and fosters mutual learning. Examples of improvements at factories are presented from four perspectives: existing technologies, advanced technologies, technologies for in-house production of equipment, and equipment maintenance technologies. All general managers of manufacturing departments, including plant managers, share information, helping to accumulate and evolve manufacturing technology. By explaining gains in operating efficiency, and examples of improvements made, the event enables skill-intensive technologies known only to a small number of people to be deployed across different departments, raising our overall manufacturing technology level.

Note: Held online in 2021

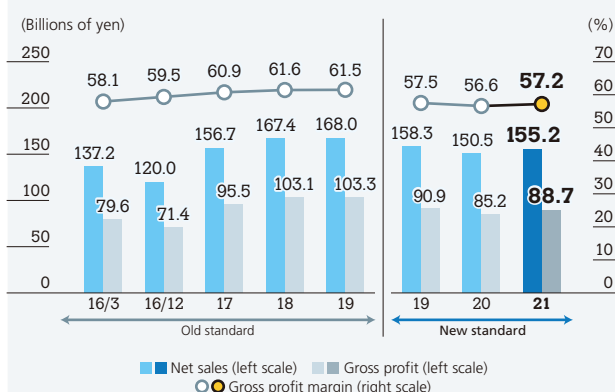


Financial highlights

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

Net sales

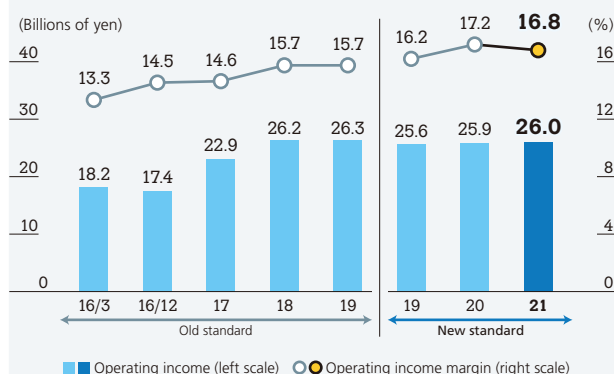
¥155.2 billion **3.1% UP**



Although the domestic business faced challenges due to the loss of inbound demand due to the spread of the novel coronavirus as well as associated requests that people refrain from going out, international business performed well, with a consequent increase in total revenue.

Operating income

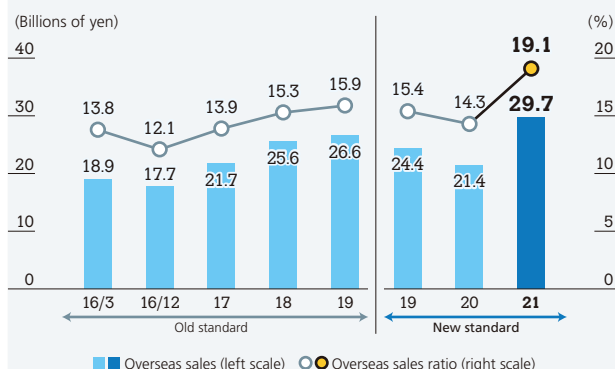
¥26.0 billion **0.5% UP**



While proactively investing in advertising and human resources, we succeeded in increasing income through a growth in revenue and by generating profit through activities aimed at reducing cost.

Overseas sales

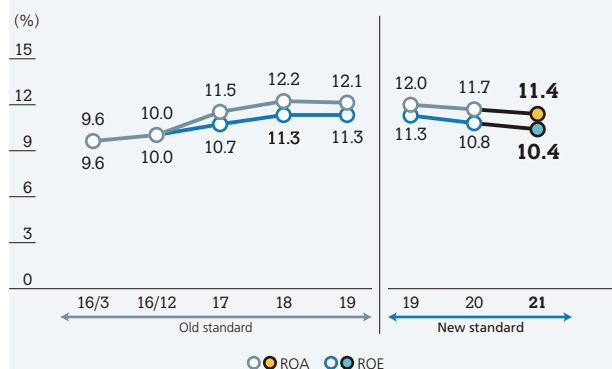
¥29.7 billion **38.5% UP**



Working from the "International Business First" theme of our Medium-Term Management Plan, the entire company focused on international business, with the consolidation of Alva-Amco Pharmacal, which was acquired in 2020, contributing to a significant increase in revenue.

ROA / ROE

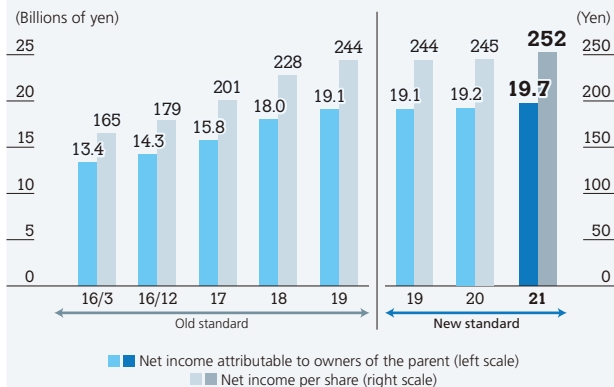
11.4% **0.3 POINTS DOWN** **10.4%** **0.4 POINTS DOWN**



Although we worked to strengthen profits at each business, and to improve capital efficiency through dividend increases and share buybacks, both ROA and ROE were down year-on-year. However, ROE was above the target figure of 10% or greater set in the Medium-Term Management Plan.

Net income attributable to owners of the parent

¥19.7 billion **2.7% UP**

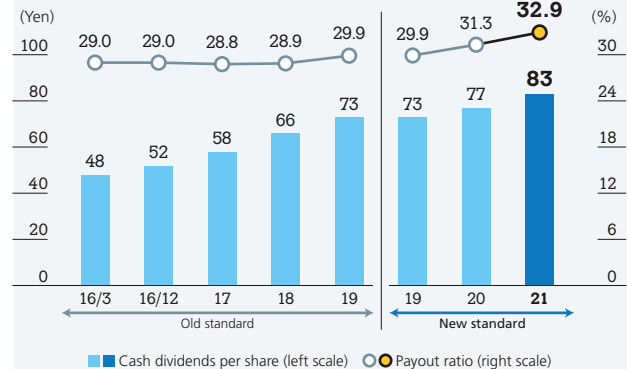


Net income increased for the 24th consecutive year. In addition to high operating income, foreign exchange gains due to a weaker yen contributed to the increase.

Note: Including impact of stock split

Cash dividends per share

¥83 **7.8% UP**

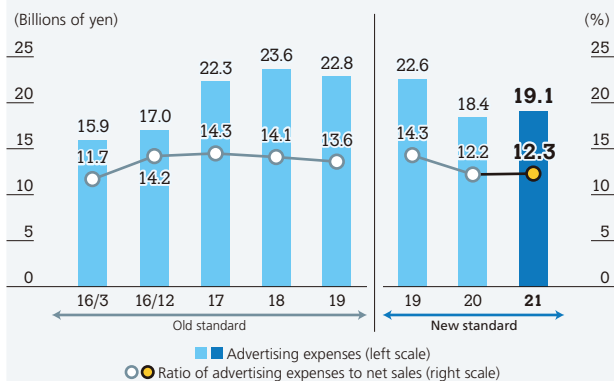


Dividends increased for the 23rd consecutive year. Our track record of paying stable dividends continued as we balanced a sound management structure with aggressive investment in growth.

Note: Including impact of stock split

Advertising expenses

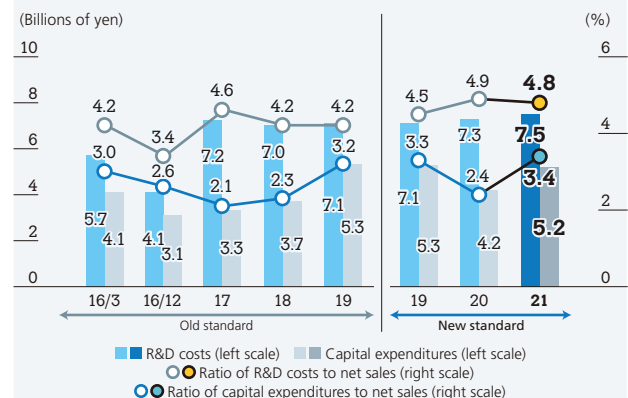
¥19.1 billion **4.1% UP**



Since Kobayashi Pharmaceutical makes many niche products, it is essential that we raise their profile to acquire new customers, which is why we actively invest in advertising every fiscal year. In 2021, we boosted investment even further, focusing on our strong international businesses.

R&D costs / Capital expenditures

¥7.5 billion **2.5% UP** ¥5.2 billion **23.8% UP**

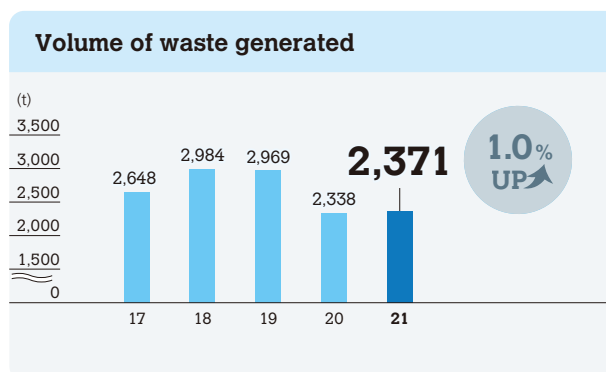
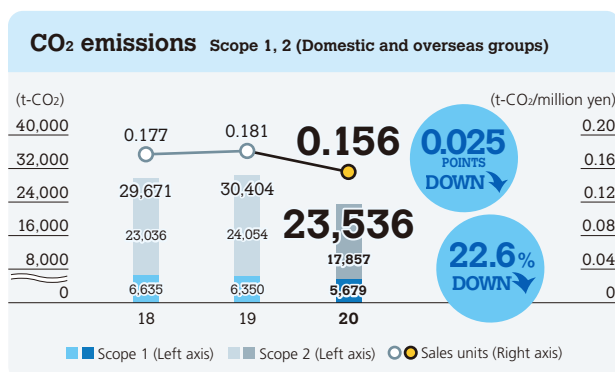


Every fiscal year we invest strongly in research and development in order to develop unique new products, and increased this investment by 2.5% in 2021.

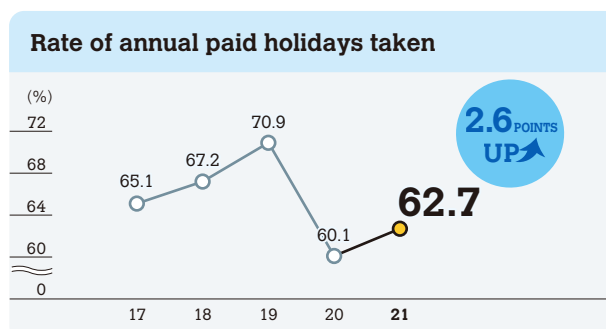
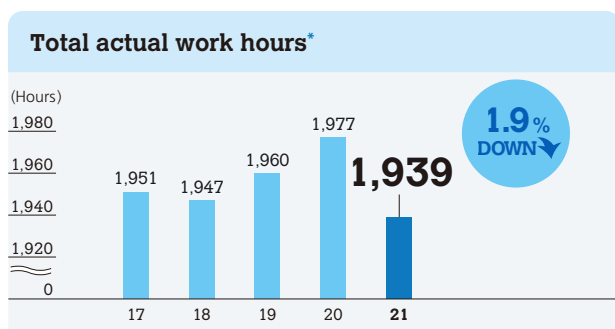
We engage in capital investment to update aging equipment in order to maintain a stable supply. To improve productivity, we are deploying unmanned and automated equipment, with investment increasing by 1 billion yen in 2021.

Non-financial highlights

Environment: Protecting our rich natural environment



Human resources: Implementing work-style reforms to maximize employee value and corporate value



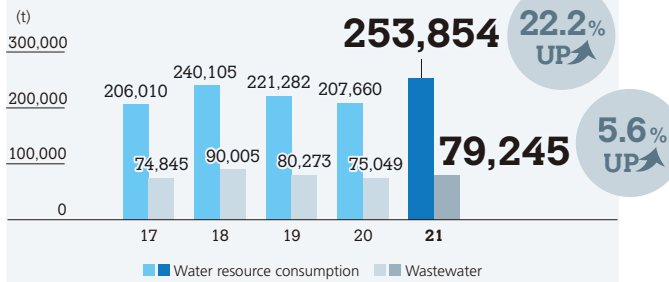
* Yearly scheduled working hours + Overtime hours – Annual paid leave hours

Product development KPIs: Generating products that consumers wish for



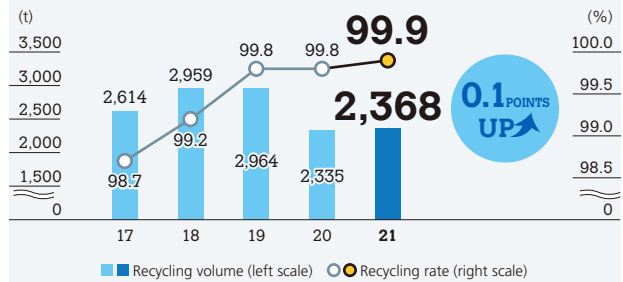
Our idea proposal system, which has been in place since 1982, is a concrete measure for management in which all employees participate. Ideas for new products and business improvements are proposed every day, with all employees participating regardless of job category or seniority. Many of the new product ideas originating from this program have grown into major hit products.

Water resource consumption / Wastewater



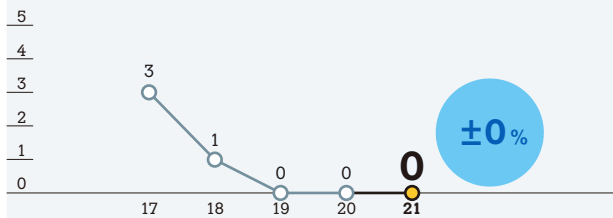
Although we used water flow meters to control water consumption and reused water from water purification systems, increased use of water to prevent snow melting and freezing at some plants, along with increased production of products that require a lot of water, resulted in an increase in both consumption of water and greater wastewater discharge.

Recycling volume / Recycling rate



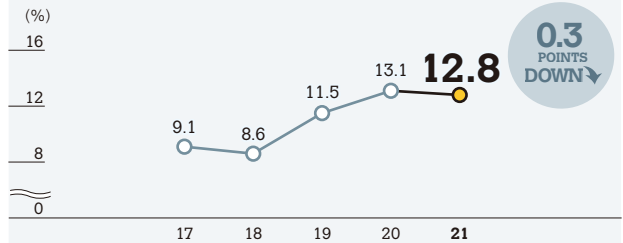
A high recycling rate of 99.9% was maintained. We will continue our shift from thermal recycling to material recycling.

Number of employees leaving due to childcare or family care



Kobayashi Pharmaceutical is improving its flexible work programs to make them easier for everyone to use, not only by further enhancing support measures for balancing work with childcare and family care, but by expanding the range of employees who can use them. As a result, the number of employees leaving for these reasons is declining.

Percentage of management positions held by women



We have set a goal of raising the percentage of management positions held by women to 16% or higher in 2022 (as at the end of January 2023) as one measure for the empowerment of women. We have implemented job rotation and training that leads to career development, promoting the advancement of women.

Note: Percentage as of January 31 of following year.

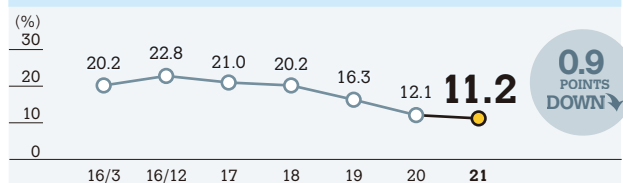
Number of brands

155 brands
1,012 SKUs*

* SKU: Stock keeping unit

Through our "big fish in a small pond" strategy and product development that delivers what consumers wish for, we launch about 30 new products annually, and create markets that did not exist before. Completely new products are less susceptible to price competition, so we are able to secure high operating income margins.

Contribution rate of new products



In recent years, we have been assessing market potential from the early stages of product development. Without loosening new product launch criteria, we aim to bring more products to market and to maintain the four-year sales contribution rate of new products* at 20% or higher.

* Four-year contribution rate of new products: Sales contribution rate of new products launched within the previous four years

Akihiro Kobayashi

Representative Director,
President and
Chief Operating Officer

We will continue
to refine the unique
approach of
Kobayashi Pharmaceutical
and to grow as a company
providing delight
to the world.

1

Thoughts on our Company vision for 2030

Contributing to a society that “leaves no one behind”

The Kobayashi Pharmaceutical Group has created and introduced to the world a long list of unique products as we seek to fulfill our brand slogan of “You make a wish and we make it happen.” We believe our purpose as a company is to recognize needs that are overlooked or too small for large corporations to handle. The products that we produce to meet these needs may not generate a large amount of sales individually, but the sheer number of needs has the ability to create markets for our Company.

We have often heard concern that the idea of “we wish we had” might just mean “we don’t really need” but our products tell a different story. Our *Eyebon* eye wash, for example, was created for

people with contact lenses or who suffered from pollen allergies who wanted a way to easily rinse their eyes for relief. People who don’t feel a need to rinse their eyes might say “we don’t really need” a product like that, but many people who find relief from using *Eyebon* now consider it indispensable.

By meeting needs like that, Kobayashi Pharmaceutical can provide products to people whose needs are too small for mass market business, and we believe this is one way that we contribute to the “leave no one behind” principle of the United Nations Sustainable Development Goals.

Aiming for global growth by providing solutions for niche issues around the world

I used to think that our products are niche even for the Japanese market so definitely so for market overseas. However, when the number of tourists to Japan began growing, so did the demand from these inbound tourists, and niche products attracted attention specifically for being niche and unique. That's when I knew that niche products could also be competitive overseas.

We began by offering products that we were also selling in Japan by establishing a foundation of sales and sales channels, then Kobayashi Pharmaceutical employees around the world began developing products geared to needs in their local markets. We also knew that Kobayashi Pharmaceutical could be called a truly global company when also developing products overseas, which is precisely

what we did with *Netsusama Sheet*. Major companies have huge brands overseas that they develop products for, making it very difficult to enter those markets and even if we did, we would face extreme competition. So, we do not aim for those markets. Rather, we apply the same strategy that we have used successfully in Japan, that is to be the "big fish in a small pond."

Our long-term target using this strategy is to attain consolidated net sales of ¥280 billion in 2030, with ¥90 billion of that amount originating in markets outside of Japan. As we progress toward this goal, we will enhance Kobayashi Pharmaceutical's presence in both Japan and the global market.

Our vision for 2030

In 2030, we aim to be a company with global management opening one new market in each country every year, and to be known as a company that is addressing issues for people and society and creating new markets (new customs) worldwide.

Consolidated net sales

¥280 billion

Of which, international business

¥90 billion

- In Japan, we are developing and cultivating unique products
- We are expanding and accelerating development of new products localized to individual markets.
- Raising the digital literacy of all employees is enabling us to apply DX to revitalize development of unique products and create new products with digital technologies
- We have had success with the approach of developing unique products in our three major markets of Europe/US, China, and Asia.

2

Status of the medium-term management plan

What the central theme of "International Business First" represents

Before the current medium-term management plan, the members of our product development department focused solely on the Japanese business, while the International Business Division handled development of products for overseas markets. However, our experience with demand from inbound tourists taught us that even niche products created for the Japanese market tapped into needs that existed overseas, and we realized the importance of allocating more product development resources to developing demand overseas. We therefore have shifted our approach to our theme of *International Business First* where we take a more expansive approach to our product development to look beyond just Japan to the array of markets overseas.

The "International Business First" approach has transformed our operations by deepening the cooperation between our domestic and international businesses to the point where developers on the

domestic side are proposing ideas that incorporate potential for overseas business.

Another approach we have is to mobilize all of our employees to constantly be thinking about possible new products we could make and ways to improve our operating efficiency. In our "Idea proposal system," all employees and executives are encouraged to submit at least one idea each month. This constant flow of ideas from all different perspectives has become part of our corporate culture in Japan, and I would like to introduce it to all of our subsidiaries worldwide.

I myself am also proposing new ideas every month and am always trying to think of new products that would work for all group companies in Japan and overseas. It's quite exciting to imagine what kinds of ideas for unique products our companies in different countries will generate.

International Business

Aiming to steadily build out our International Business strategies tailored to the specific characteristics of each region

As we advance the global expansion of our business, the first two regions we are focusing on are North America and China. The key to generating business growth in North America is to develop the synergies with Alva-Amco Pharmacal Companies, which we acquired in 2020. Alva-Amco's products have many characteristics in common with Kobayashi Pharmaceutical's products, particularly in that many are niche products and are marketed with easy-to-understand package design and product names. One point that required attention, however, was the company's limited ability to develop products with differentiated formulas, which was due to outsourcing the pharmaceutical formulation and production. We are looking to boost our businesses growth by adding Kobayashi Pharmaceutical's formulation and development capabilities to Alva-Amco's marketing capabilities. We plan to hold "Idea Meetings" with Alva-Amco to generate ideas for new and unique pharmaceutical products to introduce to the United States and European markets.

We are developing business in China by focusing on strengthening and cultivating Chinese and cross-border e-commerce sales of products that have been attracting demand from inbound tourists to Japan. The first steps in that direction are to quickly formulate online advertising and accumulate the know-how for developing new products into mainstay products. Double-digit growth is the norm in the China market, it's key factor for our

business to achieve more growth than that. Inbound demand is usually strong not only for household products and daily-use goods, but OTC medicines available at drugstores are also popular. Developing and obtaining authorization to sell pharmaceuticals in China requires a large amount of both cost and time, making it very difficult to introduce a product with any sense of speed. To date, our best-selling products in the Chinese market are body warmers, *Netsusama Sheet*, and other daily-use items. In 2021, we received approval to market *Ammeltz* in China, which has been our most sought-after OTC medicine product for inbound tourists. Beginning in 2022, we are stepping up our marketing efforts for pharmaceuticals in the China market as we seek to continue the momentum for further growth.

In the Greater Asia region, markets in many countries were affected by lockdowns and other pandemic restrictions, nevertheless, our product sales continued to grow. We intend to continue strengthening sales in each country by focusing on marketing *Netsusama Sheet* and other products that we expect to attract increasing demand.

We need to take the products that emerge from our "International Business First" approach and develop them for each market so that we can broaden our business foundation in each country.

Medium-Term Management Plan for 2020–2022

Central theme

International Business First

Outline of strategies

1. Fully commit to developing the international business
2. Further expand existing businesses
3. Enhance management capabilities from the viewpoint of ESG
4. Establish a foundation for creating innovation and new businesses
5. Apply digital technology to advance management and business innovations

Performance targets

	2021 results	2022 target	Reference: Medium-term management plan 2022 target
Net sales	¥155.2 billion	¥162.0 billion	¥162.0 billion or more
Operating income	¥26.0 billion	¥27.0 billion	¥27.0 billion or more
Operating income margin	16.8%	16.7%	16% or more
Net income	24th consecutive period of growth	25th consecutive period of growth	25th consecutive period of growth
ROE	10.4%	10.1%	10% or more
ROIC	9.6%	9.4%	9% or more
Domestic sales	¥115.9 billion	¥119.4 billion	¥122.3 billion or more
International sales	¥29.7 billion	¥32.8 billion	¥29.5 billion or more
International sales ratio	19.2%	20.2%	18% or more
Direct marketing sales	¥8.9 billion	¥9.2 billion	¥96 billion or more

Domestic Business

International Business

Key issues are raising the contribution rate of new products and honing our sales techniques

One of the most important management indicators at Kobayashi Pharmaceutical is the contribution rate of new products, which shows the ratio of new product sales to total sales. It provides a numerical indication of how we are fulfilling our fundamental mission of creating and delivering new products that consumers wish for. We even use it as a KPI for our Domestic Business.

In the past, we were putting all our effort into trying to provide products for every need, which resulted in an overwhelming number of new products. The flaw in that approach was that the rapid succession of new product releases made it difficult for the sales staff to set clear priorities, which weakened the energy we put into the sales promotions for each product and undermined the ability of the products to take root in the market.

To avoid that mistake, around 2018, we started applying stricter development standards and carefully scrutinizing product marketability from the early development stages, and then only brought to market products that met all of our requirements. We also adopted the policy of having sales and marketing work closely together to carefully nurture each product's development in the market. The new standards set a high bar and the number of new products we released dropped, which lowered the contribution rate of new products for several years. After three years, our efforts paid off in 2021. We increased the number of new products meeting the strict standards and followed with careful market development

that boosted sales and once again lifted the contribution rate of new products. We will continue reviewing and improving our mechanisms to continue developing new products with potential to become new Kobayashi Pharmaceutical signature products.

At the same time, we are exploring new development and sales models that will take full advantage of digital technologies. The limited in-store floor space presents a challenge for our OTC sales channels because slow-selling niche products tend to be given low-priority exposure. E-commerce provides unlimited "floor" space for niche products, and even gives us a platform for selling products that are not suited to in-store sales. I believe that forming a model for developing products geared to e-commerce will enable us to create an even bigger market for niche products.

One of Kobayashi Pharmaceutical's advantages is that our niche products do not have major competitors, and this makes it easier for us to build strong bonds with customers. To strengthen the link between OTC and e-commerce sales and to facilitate the e-commerce strategy of connecting directly with customers, in January 2022, we renamed the Direct Marketing Division as the Direct Marketing Management Division and integrated it into the Healthcare Division. We are eliminating organizational barriers and increasing collaboration among our sales channels to build a more flexible and agile development and sales model.

Progress of main KPIs

Item	2019 results	2021		2022 target
		Results	Progress	
Four-year contribution rate of new products	16.3%	11.2%	●	20% or more (in Japan)
Cultivating new products released in Japan and in China	—	3 products	●	5 products in 3 years
Establishment of new products	—	2020: 4 products 2021: 5 products	●	2 products every 6 months (in Japan)
Number of CSV brands; CSV brand share of total sales	—	1 brand	●	1 or more in each category: 10.0%
Employee job satisfaction	Kobayashi Pharmaceutical: 71%	Kobayashi Pharmaceutical: 70% Group in Japan: 67%	●	Group in Japan: 85% or more
Reduction of CO ₂ emissions	—	Achieved Scope 3 target Applied for SBT validation	●	Scope 1, 2: Progress towards 2030 target Scope 3: Set target
Reduction of environmental load in product development	—	Product development from 2021 Introduce ecological standards	●	Plastic: Switch to highly sustainable materials Paper: 100% sustainable
Women's participation (percentage of management positions held by women)	8.6%	12.8%	●	16%
Percentage of employees who report feeling growth through their jobs (employee attitude survey)	Kobayashi Pharmaceutical: 69%	Kobayashi Pharmaceutical: 74% Group in Japan: 68%	●	Group in Japan: 75%
Percentage of employees getting regular medical checkups; getting follow-up examinations	100%; 73%	100%; 72%	●	100%; 80%
Percentage of employees who report feeling able to work in mentally and physically good condition (employee attitude survey)	Kobayashi Pharmaceutical: 61%	Kobayashi Pharmaceutical: 66% Group in Japan: 59%	●	Group in Japan: 75%

● Sufficiently achieved ● Partially achieved ● Insufficiently achieved

Improve management and corporate value from an ESG perspective

In the future, the only way for a company to survive will be not just to generate improving business performance, but also to respond to the needs of society by addressing social issues. We fully understand this and place importance on our system of governance, protecting the environment, maintaining positive employee relations and job satisfaction, and engaging in dialogue with our investors and all stakeholders. The dialogue will give us insight to perspectives and ideas we may not be able to come up with on our own, and that will improve our ability to apply sustainability management and to increase our corporate value.

E Environment

Kobayashi Pharmaceutical has a large number of products that use plastic containers and packaging, and reducing the volume of plastic is a critical management issue for us. In 2021, we adopted in-house eco standards to further advance our efforts to lower the environmental impact of our products and operations, including by reducing our plastic usage and our CO₂ emissions. One of the key steps we are taking is to switch to using recycled resin for products that have previously used a large amount of plastic. Products with packaging that meets our eco standards are presented with “ECO” labels so consumers can easily recognize them as environmentally friendly.

Our efforts to reduce CO₂ emissions are mainly focused on working with our partner companies to streamline our activities to procure raw and other materials, which account for a significant portion of our emissions. Our target for 2030 is to have reduced the total CO₂ emissions of the Group (Scope 1 and 2) by 51% and of entire supply chain (Scope 3) by 15% compared to 2018.

S Society

Developing human resources is one area where Kobayashi Pharmaceutical needs to pay particular attention. The reason this is so important is because our human resources are the primary source of ideas for new products. We currently conduct a program called “Growth Dialogues” with the aim of creating our own unique model for human resources development. The program brings managers and employees into one-on-one conversations to discuss career aspirations, what each person needs to work on to continue their professional development, and what steps they should take in the coming six months. I hope that openly talking and thinking together will not only help employees recognize and accelerate their growth, but also give employees a real sense of how they are contributing to the Company and society.

Diversity is also important for our Company. Since long before the concept of diversity became widespread, we have been growing our business on new products that arose from all sorts of ideas from

all kinds of people. We have a corporate culture that is very open and where everyone is encouraged to contribute because we understand that being able to freely ask “what if we do it this way?” or “what about a product like that?” is essential to generating new ideas. One way we do this is to make it easy for people across all position levels to address each other. These practices create a positive corporate culture, and we intend to keep doing them as our organization continues to grow.

As we seek to promote women in the workplace, we understand that female employees face decisions about prioritizing childbirth and childcare over their careers and often set aside aspirations of attaining management positions. One way we are helping female employees that face such decisions is by providing a job rotation system to provide a wider range of experience along with training that will enable them to advance their careers.

Childbirth and childcare are experiences that enable personal growth for both men and women in ways working at a company never could. Those experiences can also lead to new ideas. They also tend to make people more efficient, which in turn makes our organization more efficient. We are creating a work environment where everyone can work with enthusiasm and need not interrupt their chosen careers for important life events.

G Governance

We have increased the number of outside directors and created new committees with the aim of improving our governance with more rigorous and effective oversight functions for our business execution. Meetings of the Board of Directors include active discussions with outside directors and corporate auditors, and I believe we have an environment where we are fully engaging monitoring functions led by outside directors.

As we seek to continue expanding our business overseas, we also must have a global perspective on governance. We are constructing a stronger governance system in preparation for the various risks we can expect to encounter worldwide.

Using DX to fortify development of products consumers wish for

Digitalization is transforming our world. Kobayashi Pharmaceutical believes accelerating the incorporation of digital technologies to our products and services is essential to fulfilling our mission of “You make a wish and we make it happen.” We are applying DX technology to mine new ideas by applying AI to analyze big data in social media, to develop new products and services equipped with AI and IoT technology, and using AI to create packaging and online advertising that is easier to understand.

We expect to introduce products with package designs created with assistance from AI some time in 2022. We are also eagerly developing products and services for fields expected to grow rapidly with DX, such as the FemTech field that applies digital technology to provide solutions for women’s healthcare and female-specific conditions.

We are also incorporating DX to make our own operations better and more efficient. We are making steady progress toward introducing a “DX Proposal System” to the business improvement proposal system that all employees participate in. The new system will add a digital perspective and will facilitate incorporating digital technologies and tools to our business operations. We are also examining the computer infrastructure system with the aim of creating stronger data links inside and outside the Company and enabling faster business execution.

We established the DX Promotion Committee in 2021 to lead the Group’s digital transformation. As the committee chair, I am spearheading measures at all Group companies to integrate DX, which will be essential for future corporate growth.

Advancing into new business domains

We are also focusing our energy on establishing the foundation that will enable us to pursue innovation and the creation of new businesses. I would like us to aggressively invest in long-term, large-scale business directions, such as health foods and supplements, drugs with new indications, and health services. Some of our efforts are already generating substantial market response, such as our *Koba-Guard* long-acting antibacterial agent and *Nintest* cognitive function screening kit.

Producing and marketing these types of products means meeting strict regulations and facing significant risk, but I am

confident that they also represent major opportunities. We plan to continue advancing in new directions even in areas that will present significant challenges.

In the same way we ask and welcome employee opinions about developing new products, we will ask for their ideas for new businesses as we seek to grow our business in new domains.

I consider the purpose of the Kobayashi Pharmaceutical Group’s existence to be to put into practice our Management Principle: We never stop creating and innovating in our pursuit of something new that will delight people and society. Our objective is to produce products that improve the lives of our customers by meeting needs that they have not yet perceived. Our ability to do this requires that we be deeply involved with our customers and always have them in mind.

We will enhance our corporate value by using our extraordinary consumer awareness to build strong relationships of trust with our customers and by valuing the dialogue we have with our investors, business partners, employees, and all stakeholders. I want Kobayashi Pharmaceutical to be a company that delivers what consumers wish for and that is indispensable to society.

Akihiro Kobayashi

Representative Director,
President and Chief Operating Officer



While continuing to increase profit, raise dividend payments, and steadily improve EPS, we will work to generate increasingly higher ROE and to be an “exemplary company” for shareholders.



Review of FY2021

Even in the COVID-19 pandemic conditions, we increased net income for the 24th consecutive period and raised our dividend for the 23rd consecutive period.

The business environment remained unforgiving in 2021 as the coronavirus pandemic led to concern about a global economic slowdown while consumption markedly declined in Japan as people stayed at home and in-bound tourism evaporated.

In these challenging conditions, we were able to boost sales supported by new product introductions in the Domestic Business and strong business growth in the International Business, particularly in the United States and China, driven by the “International Business First” strategy of the medium-term management plan.

As a result, net income rose for a 24th consecutive period and the Company raised the dividend per share for the 23rd consecutive period. We intend to continue growing sales to further boost profits, raising the dividend payout, and steadily improving EPS to provide investment return for our shareholders.

Satoshi Yamane

Senior Executive Director and
Chief Financial Officer

Investment strategy

In addition to capital efficiency and profitability, we also take ESG impacts into account.

Investments to accelerate sustainable growth are vital. Two of our current investment strategies are to invest ¥30 billion in M&A in the three years beginning in 2020 and ¥60 billion in large-scale facilities (factories and research institutes) in the six years to 2025.

Our current investment focus is on building the management resources for the International Business in line with our “International Business First” strategy and on improving the efficiency of our management resources in Japan, including the integration of the Direct Marketing Division and Healthcare Division begun in January 2022 that will strengthen our domestic e-commerce and online business strategy.

The sustainable growth of a company is only possible after strengthening both its financial and non-financial performance. Strengthening non-financial performance essentially means strengthening Environmental, Social, and Governance (ESG). When we make investments, we first examine capital efficiency and profitability, and then take ESG impacts into account.

Investing in growth

	Description	Amount	Period
M&A	China, US, Japan acquisitions	¥30 billion	2020-2022
Capital investment	New building construction	¥40 billion	2020-2025
	Central R&D Laboratory relocation	¥20 billion	2020-2026

M&A

Mergers and acquisitions (M&A) are major growth drivers for Kobayashi Pharmaceutical. When we consider an M&A opportunity, we base our decision on potential synergies with our marketing, development, technology, and sales capabilities, and on whether it will enable us to enter a new business area, such as research or technological fields, for example. If we acquire a company or business with low profitability, it will lower the Group's overall profitability, so it is important to be conscious of the cost of capital as we proceed. When pursuing M&A, we set specific minimum targets for ROIC and the internal rate of return (IRR). Decisions are based on a comprehensive approach that takes into account quantitative evaluation, including forecasts of the payback period and cumulative profit/loss, and qualitative evaluation, including relationship to and synergies with our strategy and core business. Some investments have wide-reaching and long-term synergistic effects—our acquisitions of Kiribai Chemical Co., Ltd. and Heat Max, Inc. represent two examples—so we should carefully examine the potential contribution to our corporate value from a long-term perspective.

Recent activity includes the 2020 acquisition of Alva-Amco Pharmacal Companies, Inc. of the United States to expand our footprint in branded over-the-counter (OTC) consumer health

products in North America. We are now carefully working on the post-merger integration (PMI) to ensure the acquisition generates the intended synergistic effects. We plan to accelerate our growth further by pursuing similar M&A transactions in the future.

Capital expenditures

To support growth in the Domestic Business and International Business, in 2022, we will begin full-scale investment in four major factories in Sendai and Toyama in Japan, Hefei in China, and Dalton, Georgia, in the United States.

These investments have five main objectives:

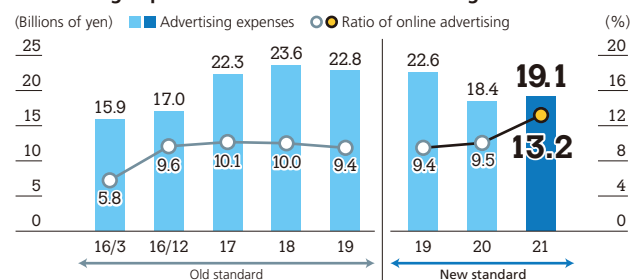
- 1) Meet global demand, primarily for OTC pharmaceuticals
- 2) Conform to global standards (PIC/S) for manufacturing OTC pharmaceuticals
- 3) Reduce costs
- 4) Reduce environmental impact
- 5) Reduce labor needs (robotize factories) to prepare for future labor shortages

Advertising

We have approximately 150 brands. Excluding long-established ones, many of our products are new market-creating niche products, which may not see particularly large sales individually. For these new market-creating niche products, it is essential that consumers discover what they are and what they do, especially immediately following their launch. Advertising on television is the most efficient method for raising product awareness and represents roughly 80% of our spending on advertising. However, online advertising is more effective for generating sales among consumers who are aware of but have not yet purchased a product. We intend to maximize sales by harnessing the advantages of both TV and online advertising and by pursuing the most effective advertising ratio for each brand.

We do not increase or decrease our advertising investment indiscriminately based only on growth in sales and profit. Rather, the president meticulously controls the amount of investment while looking at sales trends and the response to advertising for each brand and media format, and the effect on the bottom line.

Advertising expenses / ratio of online advertising



The CFO explains our financial strategy

Research investment

Domestic Business We invest to continue developing and offering numerous products that consumers wish for every year, and this is our strength. Our medium-to-long-term business themes require sophisticated technologies and can take a considerable amount of time to bring to market. To boost sales following these themes, we have designated specific fields, such as immunity, thermotherapy, and dementia, where we are pursuing M&A to acquire the needed technologies and entering into collaborations with partner companies.

International Business We are investing in research to accelerate our ability to expand our “deliver products that consumers wish for” approach abroad. Body warmers and *Netsusama Sheet* currently make up a large portion of our overseas sales. However, sales of these products are heavily influenced by weather conditions and temperatures. To reduce our exposure to external conditions, we are advancing R&D in the healthcare field, particularly high-margin OTC drugs.

DX

DX involves a variety of initiatives, such as streamlining operations of administrative departments, boosting production efficiency of

manufacturing departments, and innovating the way sales departments market products. The most important area for digital transformation at Kobayashi Pharmaceutical is product development. This is because we need to identify new emerging needs from changes in customer lifestyles and mindsets quicker than anyone else. Therefore, it is important to better understand consumer needs using AI and big data. Investment in such digital technology is vital to our business.

Human resources

A company is defined by its people. To increase corporate value, we need to refine our unique market-creating business model and develop the human resources to implement it. As part of our investment in human resource development, we will enhance frameworks that make Kobayashi Pharmaceutical a fulfilling place to work where employees take pleasure in creating new value and where results are appropriately recognized. As a development-focused company, robust investment in human resources is particularly important.

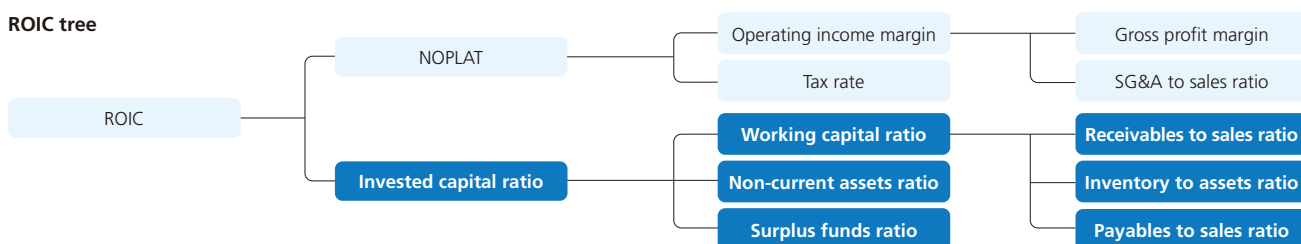
Measures to improve capital efficiency

We have created ROIC trees, and conduct management focused on profitability and capital efficiency.

We began practicing ROIC management in 2019 to evaluate capital efficiency not only when we execute investments and subsequent evaluations but also in day-to-day business operations. We created ROIC trees for each business to manage them with a focus on

capital efficiency and profitability. ROIC trees are also used in making decisions on whether to withdraw from businesses. If ROIC is low, we analyze the cause and consider and implement improvement measures.

ROIC tree



Policy for retained earnings

We will maintain ample retained earnings to conduct flexible management.

We manage our business with a long-term perspective to enable sustainable growth. On that basis, we need to maintain ample retained earnings to conduct flexible management regardless of the business environment. The importance of this has grown even more during the COVID-19 pandemic. In securing retained earnings, we take the following points into account:

1) Maintaining the ability to flexibly and proactively make necessary

investments for growth, such as new product development and M&A;

2) Earning the trust of partners, employees and other stakeholders by ensuring a sound financial position; and

3) Securing the necessary funds to overcome recessions or emergency situations and ensure we do not miss opportunities to increase corporate value.

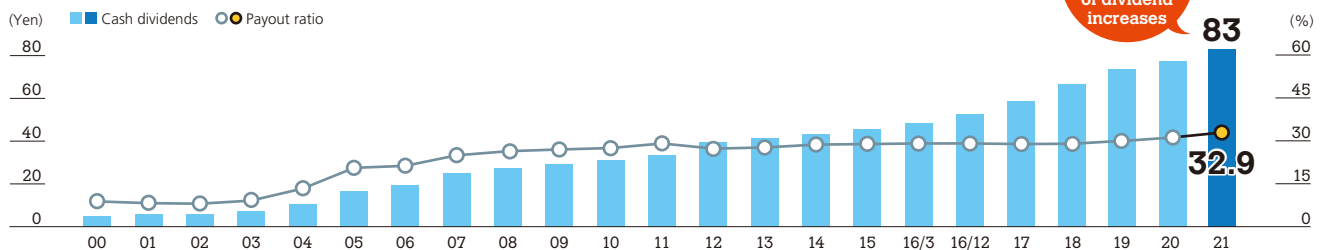
Shareholder return policy

We will continue to focus on measures to provide solid shareholder returns, including dividend increases and share repurchases.

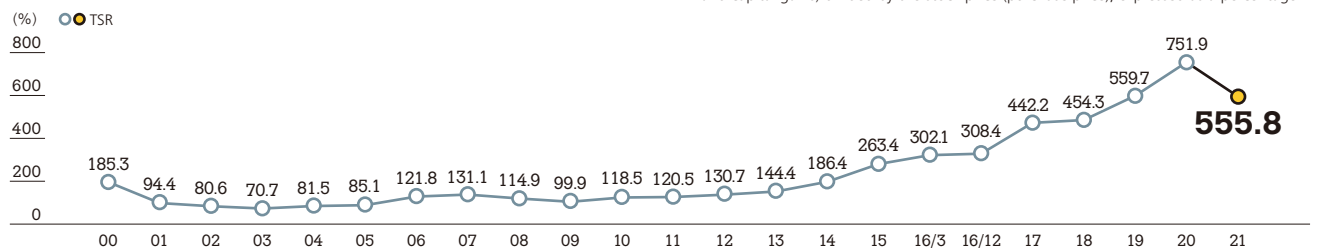
Our basic policy for shareholder returns is to increase dividends while making necessary investments for growth, and to continually increase earnings per share by increasing profit and making share repurchases as necessary. In 2021, we increased our dividend by ¥6 per share from 2020, marking the 23rd consecutive period of dividend increases. We will continue to focus on measures to

provide solid shareholder returns. In addition, our target for ROE in 2022, the final year of the medium-term management plan, is 10% or higher. Going forward, we will first aim to quickly achieve ROE of 13% or higher by investing in our sustainable growth and achieving returns in excess of capital costs.

Dividends



Total return shareholder return* since IPO



* Total shareholder return: Returns to shareholders from stock investment (mainly dividends and capital gains) divided by the stock price (purchase price), expressed as a percentage.

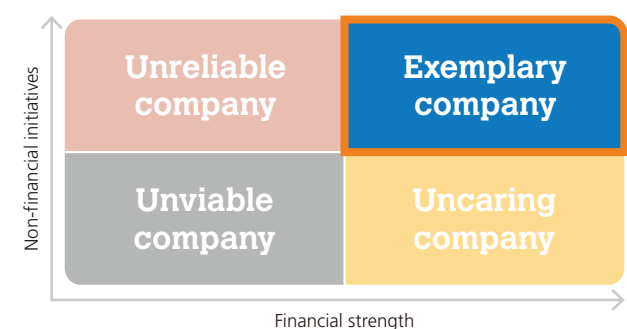
To our shareholders

“Striving to be an exemplary company,” we will create exciting businesses and products.

Since becoming an executive officer in 2004, I have been advocating “striving to be an exemplary company” as the basis for our management strategy. This means becoming a business group that is recognized for the excellence of its non-financial strengths—corporate culture, management philosophy, and policies—in addition to its financial strengths. We have been focusing particular attention on non-financial, or ESG initiatives in recent years, which form one aspect of the strategic framework of our medium-term management plan. However, being an exemplary company is only possible through sustainability backed by solid financial performance. As a manufacturer, we believe it is most important to strengthen our ability to create businesses and products that excite people. We will steadily execute measures that will make us an exemplary company that is valued and supported by

its stakeholders, and that will continue to deliver benefits to stakeholders.

Four kinds of companies



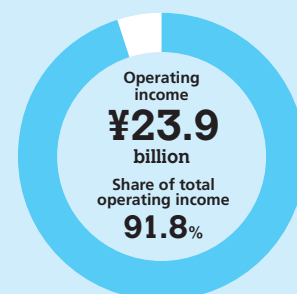
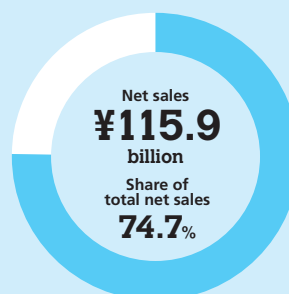
Overview of 2021

Domestic Business



Hananoa Inochi no Haha EAUDE MUGE

- 155 brands in four categories: healthcare, household products, skincare, and body warmers
- Creation of approximately 30 new products per year



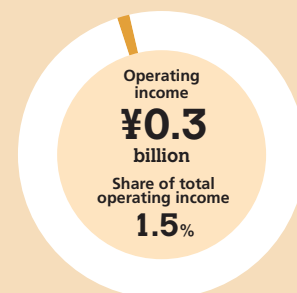
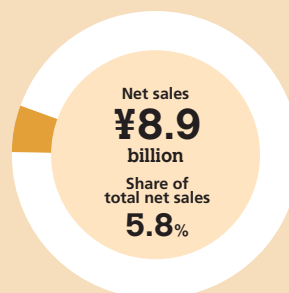
- Sales of 35 items as new products (¥4.9 billion yen increase)
- Reduction in inbound demand (down ¥1.3 billion year-on-year)
- Increase in demand for sterilization and hygiene products dropped in comparison to the previous period (down ¥1 billion year-on-year)
- Reduction in demand due to requests from restrain in going out (down ¥600 million year-on-year)
- Other existing products (down ¥3.7 billion year-on-year)

Direct Marketing Business



EDICARE Lutein Hifumido

- Marketing skincare products and nutritional supplements through our own website and over the phone
- Marketing high priced products unique to direct marketing otherwise not carried in stores



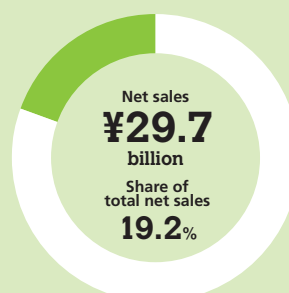
- Health foods and foods with functional claims performed strongly (up ¥500 million year-on-year)
- Skin care products performed poorly, with reduced earnings (down ¥500 million year-on-year)

International Business



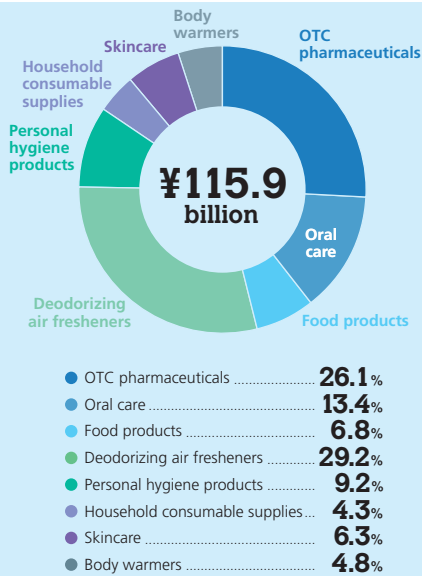
Body warmers Netsusama Sheet Ammeltz

- Sales in 15 countries and regions such as the United States, China, Asia, etc.
- 84% brand-name recognition in the China area



- United States: Increased earnings due to strong sales of body warmers and consolidation of Alva-Amco Pharmaceutical (up ¥4.8 billion year-on-year, of which ¥2.8 billion was attributable to Alva-Amco Pharmaceutical)
- China (mainland): Increased sales in reaction to a lockdown in the previous fiscal year, and the strong performance of body warmers (up ¥2.1 billion year-on-year)
- China (Hong Kong): Increased sales due to strong domestic demand (up ¥300 million year-on-year)
- Southeast Asia: Increased earnings due to strong performance in each country (up ¥1 billion year-on-year)

Net sales by category



Environmental awareness

Strengths

- Ability to develop unique products and deliver what consumers wish for
- Ability to stimulate new demand through the creation of new markets in areas with little competition
- Ability to develop products in a short time frame based on rapid development and use of outsourced production

Weaknesses

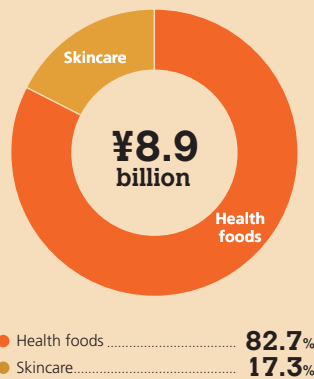
- Marketing investment dispersed among a large number of brands
- Erosion in market share of our products due to emergence of private label brands

Opportunities

- Growing healthcare needs due to aging population
- Changes in lifestyle patterns caused by COVID-19 and new needs emerging from these changes
- Increasing awareness of self-medication

Threats

- Weaker in-bound tourism demand and economic stagnation caused by COVID-19
- Contraction in demand for our products due to the emergence of technological innovation and alternatives
- Unfavorable conditions for business discussions due to decrease in the number of drugstores and industry consolidation



Strengths

- Product development capabilities and high quality cultivated in the development of OTC pharmaceuticals
- Differentiation from competitors due to direct marketing of OTC pharmaceuticals
- Thoughtful engagement with customers using direct contact points with end users

Weaknesses

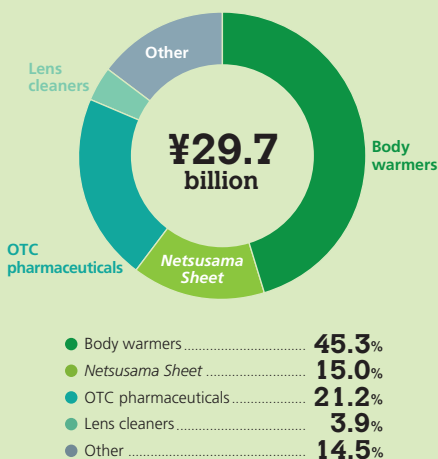
- Longer development timelines than competitors due to our emphasis on quality

Opportunities

- Broadened scope of application of foods with function claims
- Growing number of direct marketing users following COVID-19

Threats

- In the event of personal information leaks, loss of trust could impact sales
- Rising delivery costs and call center personnel expenses



Strengths

- Number-one share in the U.S. body warmer market
- Number-one share in the cooling gel sheet market in each country
- High name recognition of Kobayashi Pharmaceutical in China

Weaknesses

- Changing situation due to pandemics such as COVID-19
- High percentage of products susceptible to seasonality, such as warm winters and cold and flu season, etc.

Opportunities

- Room for sales growth from lifestyle differences
- Burgeoning middle class and economic expansion in China and Southeast Asia

Threats

- The effects of exchange rate fluctuations
- Strong brand power in China also entails reputation risk
- Changes in regulations by national governments or economic conditions, etc.



Domestic Business



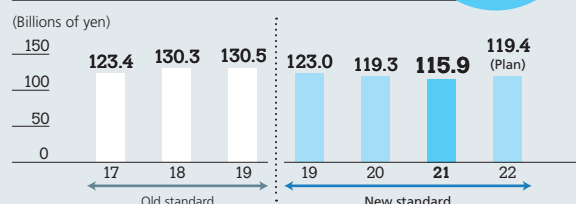
Direct Marketing Business

Net sales

Domestic Business

¥115.9 billion

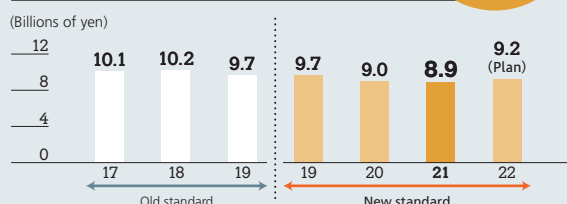
YoY
change
97%



Direct Marketing Business

¥8.9 billion

YoY
change
99%



Domestic Business (healthcare products)

Direct Marketing Business

Building on synergies between in-store and mail-order sales to accelerate business growth

Looking back on 2021

Healthcare products for the domestic market business experienced strong growth with products such as *Inochi no Haha*, for women going through menopause, *Hananoa* for washing germs and dirt from the nose, and *Itoyouji* floss picks for interdental cleaning. We are also rapidly developing products to address the problems arising from the spread of COVID-19, and have released six new products. Of these, *Zerora* toothpaste themed on the concept of using complete disinfection to prevent periodontal disease, and *Nodonoal Nightect* throat spray, which is used to treat symptoms such as a sore or swollen throat caused by inflammation while sleeping or when going to bed, are performing particularly well.

In the direct marketing business, we focused on expanded web advertising and on the development of new foods with functional claims, and worked to cultivate new customers and to encourage existing customers to purchase these new products. New products in this genre that did particularly well were *Benikoji Cholestehelp*, which helps lower LDL cholesterol and *Nightmin Nemuru Chikara*, which supports healthy sleep.

Fujito Owaki

Senior General Manager of
Healthcare Products Division
Managing Executive Officer



Outlook for the future

From January 2022, the Direct Marketing Division was placed under the umbrella of the Healthcare Division, promoting synergies with the in-store retail business in Japan with the goal of facilitating a "V-recovery" in the direct marketing business. There are two major points in this regard.

The first is increased efficiency in product development. Cooperating in research and development of products and categories common to both businesses permits rapid, efficient development of new products. The second is the development of businesses that leverage the strengths of each. In combining their wealth of experience in the development and cultivation of an extensive range of products and brands through in-store sales with the knowledge acquired through internet advertising and direct communication with mail-order customers, we are endeavoring to accelerate business growth.

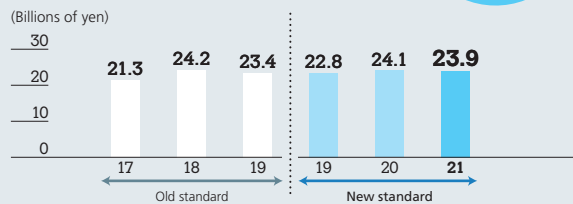
We are evaluating the use of mail-order platforms for some of our over-the-counter products sold in 2022, and the two businesses are also working together in product development in order to make operations more efficient.

Furthermore, we are formulating medium-term strategies (research and development roadmaps) for each of the top twenty selling brands at these divisions. For example, we will move ahead with research and development into obesity and the prevention of COVID-19 infection, helping to solve social issues.

Operating income

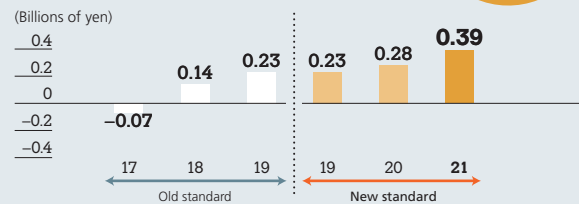
Domestic Business

¥23.9 billion

YoY
change
99%

Direct Marketing Business

¥0.3 billion

YoY
change
140%

Domestic Business (household products)

We will improve our ability to come up with creative ideas and develop products to help resolve social issues.

Looking back on 2021

In domestic business, we also released 12 new household products, including strong performers such as *Liquid Bluelet Okudake Disinfection EX Fragrance*, a good match for the regular sterilization needs brought on by the COVID-19 pandemic, *Nightmin Mimihogu Time*, which offers new value in the expanding market for products that permit restful sleep at a time when insomnia is a social issue, and *Onaka yo Kairo*, which was created around the unique concept of being a product that women could use with peace of any mind at any time of year. Taken as a whole, new products contributed 14% more to sales year-on-year.

We are also taking on the challenge of new business domains, with products such as the long-lasting *KOBA-GUARD* antimicrobial agent and the *Nintest* odor-based cognitive function screening kit intended to expand our sales channels through commercial-use routes.

Further inbound demand decreased as the number of foreign nationals visiting Japan dropped. However, advertising aimed at improving brand recognition and purchasing in China for brands such as *Sarasaty Lingerie Soap* and *Shoshugen* room fresheners was also undertaken by the Domestic Business Division, helping to secure sales from shipments overseas (outbound sales), centering on China.



Nobuo Sakuta
Senior General Manager of
Household Products Division
Executive officer

Outlook for the future

In 2022, we hope to improve our ability to come up with creative ideas by enhancing our ability to glean insights from consumer interviews. Furthermore, we are moving ahead with collaboration with other companies; one example includes establishing a system for working with toilet manufacturers to evaluate ideas in the cleaning agents category.

On the structural front, we divide household products into the three categories of global cleaning agents, air fresheners, and thermo/wellness care, and will work to put in place a system that facilitates efficient product development and marketing that takes globalization into account.

We are focusing on product development from an ESG perspective as an initiative for the medium- to long-term. The products handled by this division utilize large amounts of plastic, and CO₂ emissions are consequently high. To address this issue, we are actively moving ahead with development of products with a low impact on the environment. Furthermore, we will support products that help to resolve concerns specific to women, and work to support the quality of life enjoyed by women. At the same time, we will endeavor to create a diversity-rich organizational culture that allows us to put these measures into practice, and in which all people can continue to offer ideas.

Strategy
1

Strengthening development capabilities

In an effort to create high-quality ideas, we will broaden our outlook and be flexible in our adoption of a range of methodologies. In the digital domain, for example, we will leverage AI-based technology to create ideas, and work to develop new products fitted with digital technologies (see page 30). Additionally, by proactively pursuing alliances with startup businesses, we will accelerate innovation as we seek to offer all-new products and services.

We are also working to improve our marketability research, and are currently evaluating a development flow that presents product concepts to consumers from the idea creation stage using internet-based surveys to assess marketability and acceptability, and subjecting these concepts to a process of refining. This will avoid development rework and provide us a deeper understanding of consumers, and as a result, allow us to create unique, better-differentiated concepts and maximize value for our customers.

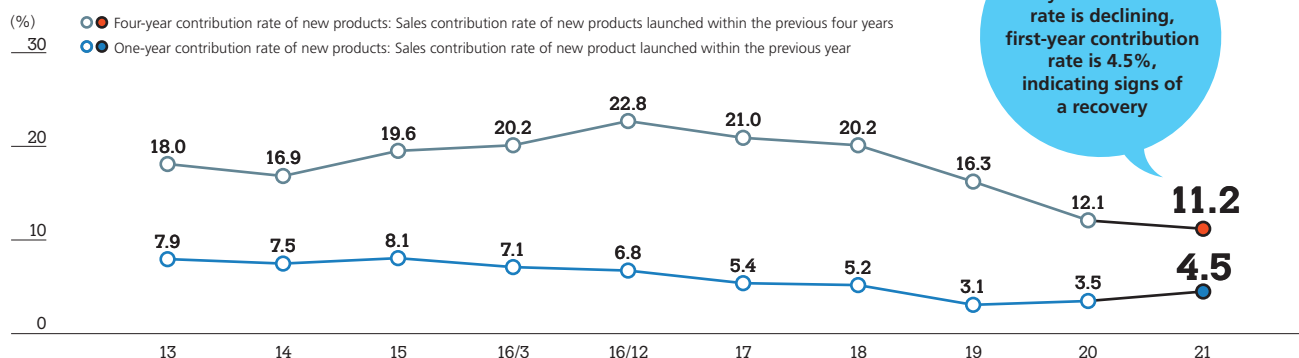
Kobayashi Pharmaceutical is also engaged in the development of products that will allow us to expand overseas. Right from the start of development we have a system in place that allows us to develop products that can also be sold in China in terms of intellectual property, formulation, and functional quality, and is aimed at achieving sales overseas. We will hold monthly meetings for cooperation between Japan and China that allow visualization

of the progress of such development, while ensuring that the domestic and international divisions are on the same page, allowing for rapid development.

A development system aimed at expansion overseas



Contribution rate of new products



New product

Nightmin MimiHogu Time

Relax your ears for a better night's sleep with a soothing, warm and dreamy sound sensation*

In recent years changing lifestyles have brought with them a great deal of stress, and there is a growing need to, address the problems that many people have encountered with falling asleep or only sleeping lightly. Kobayashi Pharmaceutical focused on the difficulties that people have falling asleep, and in August 2021 launched *Nightmin MimiHogu Time*, which utilizes a new approach for relaxing people by using sound insulation and by warming their ears.

* Blocks out peripheral sound and promotes restful sleep



Inspired by
"baby ears"
A hit on
social networks

Yohei Imura
Marketing Brand Management
Group, Thermal Control and
Wellness Care Category,
Household Products Division

Inspired by sleeping babies' ears

This idea was the result of a company-wide project to develop new products on the theme of "sleep." We interviewed doctors and other knowledgeable personnel who informed us that warming the terminal nerves in the hands and feet before going to sleep is beneficial, and so we decided to focus on the ears. At an evaluation meeting, a project member mentioned that babies' ears become warm when they go to sleep, which led the group to try warming their ears. On discovering how good it feels to warm one's ears, it was universally decided to commercialize the idea. The product gained attention among consumers and was featured on many social networking sites, and response to it was so strong that it sold out on release; sales are still strong.

Strategy
2

Cultivating existing products

Healthcare Direct marketing

We focused on activities aimed at strengthening our research and development roadmap and improving product satisfaction. In addition, we crafted medium- and long-term strategies (research and development roadmaps) for our top twenty brands in division sales, seeking to achieve an evolved style of production by clearly defining the research and development activities required for sustained growth. As of 2021 research and development roadmaps have been formulated and reviews completed for nine brands, and we intend on completing the remaining 11 in 2022.

In our activities aimed at improving product satisfaction, we are working to improve product design and evaluation methods in a way that matches the characteristics of each category. These efforts will allow us to build a scheme for the development of processes that generate high levels of satisfaction and repeat business.

Household products

Working from the theme of strengthening our branding, Kobayashi Pharmaceutical is following the brand vision and roadmap we have created with our major brands as we develop products and communicate with our customers, and work on plans to enhance our technologies. We hold regular discussions to ensure that marketing personnel and those in research and development share the same vision, and have put in place systems to allow everyone to strengthen our brands, regardless of their position. Among these we have instituted a plan for the growth of Bluelet, the top

brand in its category. Although the usage rate of this product has been sluggish due to the spread of tankless toilets amongst other new trends, we are working to further strengthen the brand by enhancing the appeal of its disinfecting properties and thus improving the loyalty of existing customers, and by developing high-profile products to attract new customers.

Furthermore, in the air freshener category, we launched value-added air fresheners for toilets (with an appealing antimicrobial effect) and entryways (intended to prevent odors). Going forward, we will continue to add items to target a wider range of antimicrobial uses, and in the medium- to long-term cooperate with our Central Research Center to move ahead with the development of new products incorporating more value.



Healthcare Products for the research and development roadmap: Naishitol

This is a Chinese herbal medicine known as Bofu-Tsusho-San that is effective against visceral fat. In March 2021, we held a seminar at the Japan Society for the Study of Obesity focusing on the effectiveness of Naishitol Bofu-Tsusho-San in a preventative awareness program aimed at obesity. Going forward, we will continue joint research and pursue research and development and academic dissemination.



Household products Products strengthened against competition: Shoshugen for Toilet Antibacterial+

Coats the floor with antimicrobial substances to inhibit the growth of bacteria. * The deodorant ingredient remains on the walls to prevent odors from becoming ingrained in the walls and fully eliminates persistent odors that spread throughout the bathroom.

* Based on tests (bacteria species, temperature, etc.) conducted by Kobayashi Pharmaceutical. Not effective against all bacteria.

Strategy
3

Use of the web and e-commerce, and creation of synergies through business restructuring

Beginning in January 2022 we embarked on business restructuring in which the Direct Marketing Division was placed under the umbrella of the Healthcare Division to form the Direct Marketing Management Division. This has allowed us to bring the Direct Marketing Division's customer management capabilities and experience with internet advertising to bear, building know-how in e-commerce and web-based advertising throughout the Healthcare Division.

Regarding web-based advertising, we will endeavor to elevate our web-based communication to a new level and are evaluating content posted by users on Instagram and Twitter. To that end, we established our Online Marketing Promotion Group in January 2022. This Group will consolidate our web advertising, engage in web-based advertising for a range of brands, and proactively boost the ratio of web-based advertising for brands where it is effective to do so.

In order to accelerate e-commerce business growth, we will put in place test sales methods for new products in e-commerce. We believe that this will increase the efficiency with which we develop and establish new products in the market, which will lead to improved profitability.

New organization (Healthcare Division)

Strategy
4

Using digital transformation to develop products

We are working to build and operate systems that use AI to assess the quality of product packaging and advertisements, as well as systems that are able to use big data from social networking services such as Twitter to effectively determine what consumer needs are not being met. We are also promoting new efforts that make extensive use of digital and analog techniques which leverage

AI and other technologies to provide effective visualization of the technologies possessed by Kobayashi Pharmaceutical and link them with ideas.

Furthermore, in addition to utilizing digital technologies in production development, we are working to create products and services that feature AI and the IoT.

Examples
of the use
of DX

Using AI in trademark searches

At Kobayashi Pharmaceutical we are developing and selling many products in a range of categories such as medical items, household products, and cosmetics. The number of searches on trademark representations and displays required for creative packaging, advertising, and point-of-purchase advertising is growing with every year and there was a need for us to pursue efficiency. Faced with this requirement, we used AI to perform advance screening of the use of these at other companies. As a result, we have been able to reduce the number of survey requests made to external vendors by approximately half, contributing to significant increases in both precision and efficiency.

Examples of trademarks

Trademarked words	Graphic trademarks	3D trademarks	Combined trademarks
<ul style="list-style-type: none"> Bluelet Sawaday Shoshugen Netsusama Sheet Ammeltz Naishitol Inochi no Hahaz Attaraiina (what consumers wish for) 			

Notes:

1. A mark used to distinguish among products, services, and other providers. There are trademarks other than those listed above.
2. Trademarked names, slogans are in Japanese.

Strategy
5

Development of new domains

We are working to create businesses tasked with future growth, proactively entering into collaboration with businesses in different industries. We are linking this to future results by implementing a PDCA cycle based on our medium-term management plan. The following products in particular, which were launched in recent years, have been extremely well received in various quarters.

The first of these is *KOBA-GUARD*, a long-lasting antimicrobial agent. To achieve accelerated growth going forward, it is vital that we create new customers and put in place a stable repeat sales system. Accordingly, we are increasing the number of technical personnel on staff and strengthening our technical sales systems.

The second is *Nintest*, a cognitive function screening kit that was released in September 2021. One of the keys to growing our sales is to increase the number of touchpoints we have with our customers, and with that in mind we are cooperating with government agencies and universities in a consortium to prevent dementia. Moreover, we are endeavoring to grow sales by improving technical cooperation with our sales partner, Eiken Chemical Co. Ltd. We are also participating in a Health Visualization Project that uses our *Hakareru* series of IoT-based urine testing devices, and believe that all of these activities will aid in resolving social issues.

In addition to solution-provision services, we hope to establish Kobayashi Pharmaceutical as a technology brand.

Product in a new domain

***Nintest* odor-based cognitive function screen kit**

Test subjects are asked to smell six different fragrance solutions that have been sprayed into testing cups, and their level of cognitive function is determined from a score calculated based on their responses. The test takes just five minutes and places little burden on the subject.



Product in a new domain

***Hakareru* health visualization urine test**

Simply attaching a stick to a measuring device, then applying a few drops of urine to it allows the uric acid, uric sugar, and sodium/potassium in the urine to be measured. Measurement data is then analyzed and stored in the cloud and can be checked and managed using a terminal such as a smartphone.

New
product

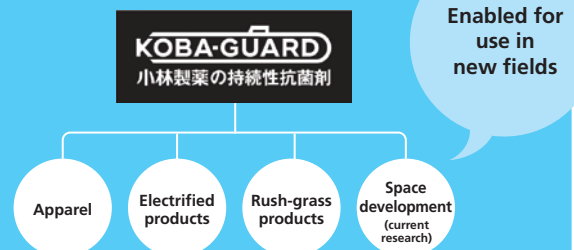
Taking on the challenge of the raw materials business and technology branding

***KOBA-GUARD* long-lasting antimicrobial agent**

KOBA-GUARD is a long-lasting antimicrobial agent owned by Kobayashi Pharmaceutical. The technology used in this test was originally developed to control the proliferation of molds and other microorganisms in the enclosed spaces of U.S. nuclear submarines. After acquiring this technology, Kobayashi Pharmaceutical undertook research into processing methods for a wide range of materials such as textiles and hard substances, before marketing the Kobayashi Pharmaceutical's *KOBA-GUARD* long-lasting antimicrobial agent. The primary characteristics of *KOBA-GUARD* are as follows:

- Bonds strongly with substances for a long-lasting antimicrobial effect
- Can be used on wide variety of substances, from fibers to metals
- Effective against a range of bacteria, molds, and viruses
- Extremely safe

Although there are many antimicrobial agents available, we are able to better leverage the characteristics of *KOBA-GUARD* by utilizing our knowledge and experience in product development to apply it in fields where it has never been used before. Capitalizing on the broad range of processes to which it can be applied, we are bringing *KOBA-GUARD* to bear in a variety of different industries, and with



the growing need for a range of antimicrobial products brought on by the COVID-19 pandemic, we are receiving an increasing number of inquiries regarding this product.

Furthermore, beginning in 2020, we have been engaged in joint research and development with JAXA (the Japan Aerospace Exploration Agency) and Nihon Parkerizing Co., Ltd., into antimicrobial agent adherence technologies. Looking to the future, we will work to take these technologies further, with the goal of utilization in spacecraft.

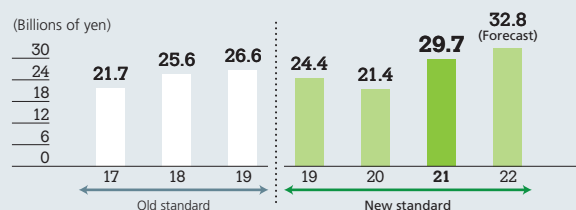


International Business

Net sales

¥29.7 billion

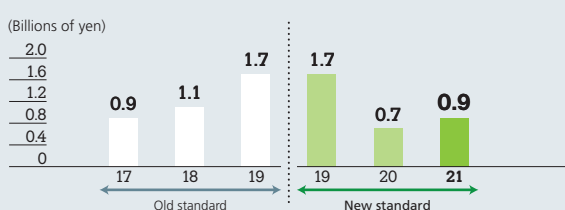
YoY
change
139%



Operating income

¥0.9 billion

YoY
change
130%



We will offer products around the world that utilize strategies tailored to each region to solve problems

Kazuhito Miyanishi
Director and
Senior General Manager of
International Business Division



Looking back on 2021

We were able to establish points of contact in the United States, China, and Taiwan between consumers and one of our primary products, body warmers, by setting up on sales floors early in the season. In China and the United States in particular, improving e-commerce promotion such as web-based advertising proved successful, leading to an increased market in e-commerce that is experiencing ongoing growth with the COVID-19 pandemic.

Sales of *Netsusama Sheet* grew in China and other Asia countries, as well as in the United Kingdom. Demand grew in Asia in particular with the product seeing use to counter the fevers people experienced as a side effect of COVID-19 vaccination, and we were able to capture that demand effectively through web-based advertising and in-store point-of-purchase advertising. In China, COVID-19 has led to a steady increase in the use of delivery services as a way for consumers to purchase items, which in turn has led us to use O2O (Online to Offline) channels, including web-based advertising, to reach people. These measures have been successful, and led to a significant recovery. Moreover, in the United Kingdom we use platforms such as Amazon as well as web-based advertising to create demand.

Operation of Alva-Amco, a US-based company that we acquired in 2020, is progressing well; in addition to acquiring a niche pharmaceutical brand in the United States, we have also strengthened our pharmaceutical sales platform and gained effective methods of marketing.

Outlook for the future

In 2022, we will focus on three themes: “creating successful cases of over-the-counter drug sales,” “establishing test method of e-commerce sales/advertising,” and “developing new touch points with consumers.”

For over-the-counter pharmaceutical sales, we plan on expanding sales of *Ammeltz* and *Bifunaito* in China, while the addition of Alva-Amco to the Kobayashi Pharmaceutical development team in the United States has allowed us to achieve great strides in product development, and we intend to expand this business going forward. In Asia, we will endeavor to grow the share of the *Ammeltz* brand in each country, and will begin to offer *Ammeltz GOLD Patch*, which has done well since its launch as a new product in Thailand, in other countries.

As a test of sales and advertising in e-commerce, we will establish effective methods of inspiring customers to purchase and try products via e-commerce, and plan to deploy the rapid PDCA methods for web-based advertising that we have obtained through Alva-Amco to Amazon in the United Kingdom, and to other countries.

Additionally, to develop touch points with new consumers, we will actively work to create brand experiences and points of contact between consumers and our brands. We plan to expand O2O measures further in China, while in Asia we intend to enhance local and regional distribution and address the demand for shopping around at local stores that will occur after the COVID-19 pandemic.

Regional strategies for 2022

		United States	China / Hong Kong	Southeast Asia
Risks	Long-term	<ul style="list-style-type: none"> Decreased demand for body warmers due to a mild winter 	<ul style="list-style-type: none"> Reputational risk due to high recognition rate and high business brand evaluation Possible governmental strengthening of regulations 	<ul style="list-style-type: none"> Changing economic environment
	Short-term	<ul style="list-style-type: none"> Slowdown in consumer spending due to high inflation 	<ul style="list-style-type: none"> Implementation of lockdowns in many areas 	<ul style="list-style-type: none"> Lockdown in various places Reduced inbound tourists from China
Opportunities		<ul style="list-style-type: none"> Penetration of self-medication given the factors of insurance system, etc. Acquired Alva-Amco Pharmacal Large number of consumers yet to try body warmers 	<ul style="list-style-type: none"> High GDP growth rate Sense of trust in Japanese products Penetration of the Kobayashi Pharmaceutical brand 	<ul style="list-style-type: none"> High GDP growth rate Population increase Immature market (opportunity for early participation) Sense of trust in Japanese products
Focus Products		<ul style="list-style-type: none"> Body warmers OTC pharmaceuticals 	<ul style="list-style-type: none"> Japanese products (test-marketing and focus on prospective products) OTC pharmaceuticals 	<ul style="list-style-type: none"> Netsusama Sheet (method of use and enhance recognition rate) OTC pharmaceuticals

Mainstay brands currently rolled out internationally

	U.S.	China (Mainland)	Hong Kong	Singapore	Malaysia	Thailand	Indonesia	Philippines	Taiwan	U.K.	Australia	U.A.E.	Vietnam	South Korea
Netsusama Sheet														
Body warmers														
Ammeltz														
Lens cleaner														

Strategy 1 Improved products / Cooperation with domestic business

For Hong Kong, staff in Japan and Hong Kong cooperated to utilize advertising that met with success in Japan to good effect for the local market there.

Additionally, in China, where the bar to apply for food with functional claims is high, our food team in Japan, which has a wealth of experience in acquiring data for such applications, helped with development, and took on the challenge of developing unique supplements not found in China.

Successful advertising in Hong Kong (toilet cleaning tablet)



**Strategy
2**

Development in North America

In addition to products from Alva-Amco, we are localizing Kobayashi Pharmaceutical's successful development model for niche products. By gaining grasp of the needs of customers in the United States and actively engaging in the development of new products, we plan to grow and expand as a general manufacturer of healthcare products.

We are also working to expand our product lineup based on our existing brands. Even existing products can be developed and nurtured further by using easy-to-understand advertising that exemplifies Kobayashi Pharmaceutical.

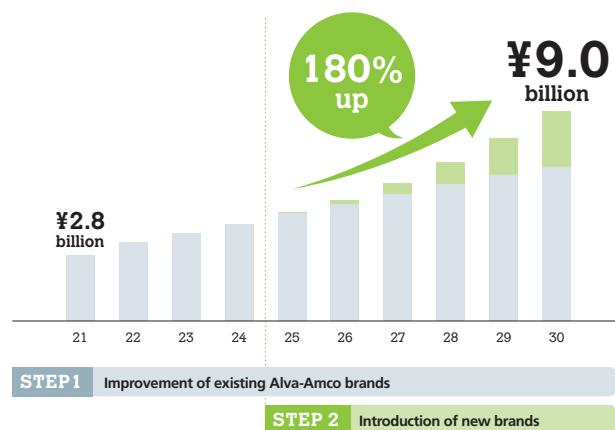
We are also attempting to establish and promote awareness of new customs. For example, the body warmers so essential to winter life in Japan are only employed in situations such as when camping, skiing, or hunting, and there is thus potential to improve the usage rate. Accordingly, we are working to promote interest in these products by offering more points of contact with consumers on- and offline through promotions on e-commerce sites, which have seen increasing numbers of purchasers with the onset of the COVID-19 pandemic, and by improving distribution to the grocery stores that they visit on a daily basis. We intend to encourage everyday use of these products so that customers make it a habit, thus increasing sales.

In other efforts, we are engaged in the development of new products aligned with regional needs that offer added value.

Existing major brands



Image of existing brand development and the introduction of new brands


**Message
from the
President of
Alva-Amco**

Integrating the strengths of Kobayashi Pharmaceutical and Alva-Amco will generate further growth

Since joining the Kobayashi group in 2020, Alva has made strong progress in internal operations through a robust post-merger integration process including improvements to accounting, sales forecasting, market analysis and new product development. These gains have helped bring enhanced clarity to our existing business and allowed for a sharpened focus on future growth objectives. The Alva team welcomed four members from Kobayashi to our offices in Chicago. With their arrival, they brought expertise in New Product Development, Formulation, IT Systems, and Supply Chain management. Integrating their expertise into our existing processes has helped improve Alva as an organization and will continue to do so as we execute our plans for growth in the OTC Health and Wellness space.

Our future growth targets are firmly rooted in the achievement of two strategic objectives:

1. Expansion of the current category footprint of our existing brands;
2. Expansion into incremental categories with the development of new brands.

We will achieve these goals with the application of PDCA methodology to the following tactics:

1. Careful and continual assessment of market data
2. Accurate targeting of opportunity areas in brick-and-mortar stores and the expanding e-commerce realm;
3. Efficient and well researched marketing tactics, utilizing the ever-evolving landscape of omnichannel communications partners;
4. Continual improvements in supply chain management, leveraging relationships with current supplier partners while simultaneously developing new relationships with partners of the future.

Micah Gerchenson
President,
Alva-Amco Pharamcal
Companies, LLC



Strategy
3

Expansion in China

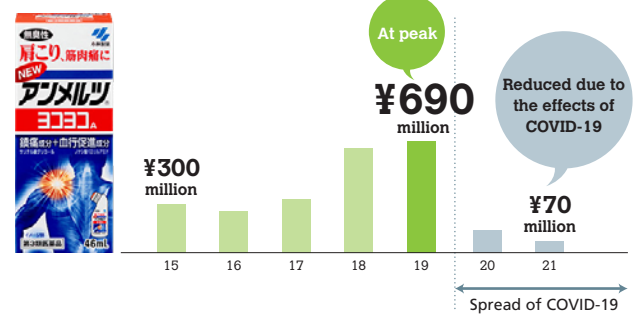
Regarding over-the-counter products, we began sales of general-purpose pharmaceuticals by basing our efforts from Jiangsu Zhongtan Pharmaceuticals Co., Ltd., (now Jiangsu Kobayashi Pharmaceutical Co., Ltd.). *Ammeltz*, which we have been developing since 2005, was approved as a prescription medication in 2011, and in 2021 approval was received to switch to use as an over-the-counter medication. The results of test sales were favorable, and full-blown sales began in April 2022. We will seek to achieve sales of approximately ¥200 million in the first fiscal year, and ¥600 million in 2025. Inbound demand exists for *Ammeltz* products, and we plan to implement and develop sales systems to bring these products to customers in China.

Although current sales channels are evenly divided between online and offline sales, offline sales include O2O sales in which online orders are made at a store. In recent years, the O2O market has been growing significantly, and we will continue to distribute our products to brick-and-mortar stores as a steppingstone to conquering the online market.

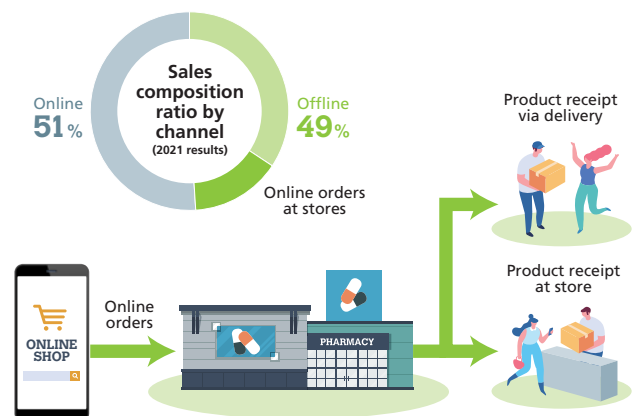
We also plan to strengthen sales at large e-commerce malls such as T-mall and Jingdong. We will conduct test sales of the air fresheners, cleaning agents, and health foods we sell in Japan in these e-commerce malls, expanding sales on those products to assess whether there is to be a demand to brick-and-mortar stores, and developing them further into pillars of our business following on from body warmers and *Netsusama Sheets*. To that end, it is important that we possess advanced know-how in areas such as analysis of customer information and market data, and the ability to reflect these rapidly in our marketing activities. Accordingly, we will strengthen the systems we use to collaborate with specialist data analysis companies, and improve our data analysis abilities

and the manner in which we utilize them. Going forward, we will evaluate the possibility of in-house production.

Ammeltz inbound sales



Ratio and structure of O2O at stores



Roadmap from introduction and development of new products in China

	Household products	Body warmers (China)	Pharmaceuticals	Oral care, cosmetics, etc.
Autumn 2021				
Spring 2022	<ul style="list-style-type: none"> ● Lingerie soap A ● Lingerie soap B ● Heat protection A 		<ul style="list-style-type: none"> ● Topical medication A ● Topical medication B ● <i>Ammeltz</i> 	<ul style="list-style-type: none"> ● Breath care ● Skin care ● Lens cleaner
Autumn 2022	<ul style="list-style-type: none"> ● Cleaning agent A ● Air freshener A ● Air freshener B 	<ul style="list-style-type: none"> ● Body warmer A ● Body warmer B 		

Our approach to ESG

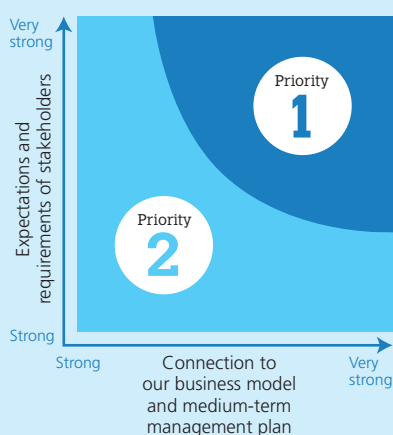
Over the past 50 years, Kobayashi Pharmaceutical has created new lifestyle ideas and new markets by delivering what consumers wish for. The products created through this process have become indispensable for consumers experiencing specific problems. Moving forward, we will seek out such problems and come up with solutions by looking at various social issues not just from a business standpoint but also from ESG perspectives, in order to support comfortable, convenient lives for all customers and their active participation in society. That is our mission and is how we will contribute to the realization of a society that leaves no one behind.

Establishment of a dedicated ESG department

To incorporate ESG into Kobayashi Pharmaceutical's management, the Sustainability Strategy Promotion Group was established in 2020 within the Management Planning Department of the Corporate Administration Headquarters. This dedicated unit will work to enhance internal ESG promotion and related activities.

Identifying material issues

Criteria for identifying and prioritizing material issues



Material issues

Priority
1

E	<ul style="list-style-type: none"> Reduction of CO₂ emissions and waste Resource management (raw materials and water) Environmental supply chain 	<ul style="list-style-type: none"> Development of eco-friendly products (CO₂ management at each product lifecycle stage and product development eco indicators)
S	<ul style="list-style-type: none"> Activities to create shared value Respect for human rights Evaluation of suppliers based on corporate social responsibility criteria 	<ul style="list-style-type: none"> Diversity, health, and growth of employees Fair advertising and labeling, and quality management Strengthening of relationship with customers
G	<ul style="list-style-type: none"> Highly transparent governance 	<ul style="list-style-type: none"> Risk management Compliance

Priority
2

E	<ul style="list-style-type: none"> Biodiversity Environmental market opportunities 	<ul style="list-style-type: none"> Environmental and social impact on assets and business operations
S	<ul style="list-style-type: none"> Anti-corruption and fair competition IT security 	<ul style="list-style-type: none"> Social contribution activities Intellectual property management

Operational process

**STEP
1**

Identification of Issues

Identify issues that we should address based on our understanding of stakeholder expectations and requirements, referencing international guidelines on the social responsibility of organizations, including ISO 26000 and GRI guidelines.

**STEP
2**

Prioritization

Prioritize the issues identified from the standpoints of "level of expectations and requirements of stakeholders" and "degree of connection to our business model and the medium-term management plan."

**STEP
3**

Confirmation of Validity and Finalization








Confirm the validity of the issues by interviewing members of management and consulting with subsidiaries and departments, then finalize issues through approval by the Board of Directors.

**STEP
4**

Review (PDCA Cycle)

Conduct reviews based on the progress of initiatives, changes in social conditions, and requests from stakeholders, and make course corrections as necessary.

ESG activities at a glance

	Basic Policies	Themes	Main Activities	Relevant SDGs
<div>Environmental</div> <div>P.38-43</div>	<ul style="list-style-type: none"> Enhance environmental management across the Group, including overseas Begin activities targeting product lifecycles and supply chains Conduct appropriate disclosure and training 	Reduction of CO ₂ emissions	<ul style="list-style-type: none"> Acquisition of SBT initiative certification for 2030 targets (compared to 2018, Scope 1 and 2 are 51% down, with Scope 3 down 15%), and initiatives aimed at achieving them Construction of new factory buildings that are highly environmentally efficient, and introduction of the use of renewable energy Respond to CDP climate change questionnaire (most recently received a "B-" score) 	
		Reduction of waste and management of chemical substances	<ul style="list-style-type: none"> Continued participation in proof-of-concept testing of container recovery Evaluation of a code of conduct and achievement targets based on the Company's Chemical Substance Management Policy 	
		Resource management (water)	<ul style="list-style-type: none"> Set 2030 targets for reduction of water consumption and implement PDCA cycle Respond to CDP water security questionnaire (most recently received a "B" score) 	
		Biodiversity	<ul style="list-style-type: none"> Comply with the Convention on Biological Diversity (Nagoya Protocol on Access and Benefit Sharing) 	
		Product development eco indicators	<ul style="list-style-type: none"> Launch and establish portfolio of products with eco labeling and set targets as percentage of sales Reduce plastic in all products and track environmental impact Begin measurement of CO₂ emissions at each product lifecycle stage (Scope 3) Convert to sustainable sources of paper/pulp and palm oil 	
		Disclosure, external assessment and training	<ul style="list-style-type: none"> Respond appropriately to CDP (questionnaires on climate change, water security, and forestry) Respond appropriately to TCFD recommendations (disclosure of climate change-related risk together with financial information) Raise awareness and provide training to employees Disclose ESG data on corporate website 	
<div>Social</div> <div>P.44-49</div>	Relationship with Employees	The physical and mental health, diversity, and abilities of our employees is a top priority as employees are among our most important resources. We are building a relationship in which the Company and employees help each other to grow over the long term	<ul style="list-style-type: none"> Promote empowerment of women and diversity; promote more women to management positions Implement work-style reforms Conduct "growth dialogues" and improve task-setting capabilities (using task-setting form) Use employee awareness survey as a general indicator Continue to use Diversity Index 	  
		Mental and physical health	<ul style="list-style-type: none"> Expand the percentage of employees receiving health exams and follow-up exams (100% testing rate for health exam) Add health promotion activities (improve health literacy, programs to create shared value) 	
		Reinforce and expand the Kobayashi Way	<ul style="list-style-type: none"> Thoroughly implement key measures for shaping the company culture, such as the idea proposal system, e-Appreciation, policy on forms of address, and Spur-of-the-Moment Meetings, and expand them to overseas sites 	
	Relationship with Customers	We will improve our ability to meet the expectations and earn the trust of customers by identifying with and listening to them, both in product development and after release	<ul style="list-style-type: none"> Maintain honesty in packaging and advertising (all media) Ensure due consideration of ethics when proposing easy-to-understand marketing and creative media Establish, publicly disclose and internally promote a policy for fair advertising and labeling 	 
		Fair advertising and labeling		
		Strengthening of relationships with customers	<ul style="list-style-type: none"> Provide packaging, containers and information that are easy to understand and use (e.g. universal design principles, accessible packaging) 	
	Relationship with Society and Common Interests with All Stakeholders	Global quality control	<ul style="list-style-type: none"> Ensure quality and establish customer inquiry/response systems for products sold outside Japan 	
		Social contribution	<ul style="list-style-type: none"> Clarify social contribution policy Enhance social contribution activities 	
		Respect for human rights	<ul style="list-style-type: none"> Formulate a human rights policy Conduct activities to raise human rights awareness among all Group company employees and track outcomes, using the Diversity Index and other tools Expand systems such as consultation and reporting hotlines to all business sites to identify and preempt human rights risks, and review and disclose the usage of those systems on a regular basis 	
		Responsible procurement	<ul style="list-style-type: none"> Formulation of CSR procurement standards and the operation of a CSR evaluation system Implement ongoing assessments and a PDCA cycle for suppliers from the perspective of corporate social responsibility 	
<div>Governance</div> <div>P.58-65</div>		Shared value	<ul style="list-style-type: none"> Set themes for the creation of shared value for at least one brand in each category, and monitor the sales share of products that create shared value at a Company-wide level 	
		Further enhancement of transparency (Board of Directors reforms)	<ul style="list-style-type: none"> Enhance discussions on medium-term management plan, sustainability, risks, and capital productivity Consider further enhancement of disclosure 	
		Risk management	<ul style="list-style-type: none"> Promote continuous evolution of risk management Respond appropriately to legal disclosure requirements and TCFD recommendations 	
		Compliance	<ul style="list-style-type: none"> Set targets and implement PDCA cycle for governance of overseas subsidiaries Prepare business conduct guidelines and guidebook for the entire company 	

E nvironmental



Basic approach

Kobayashi Pharmaceutical established the Kobayashi Environmental Statement and the Environmental Action Guidelines in December 2001 to further enhance environmental conservation activities based on its Management Principles. By sharing the statement and guidelines throughout the Group, we have worked to increase awareness about environmental conservation. In February 2019, in a move to reflect international developments related to climate change such as the Paris Agreement and the SDGs, we revised these as the Kobayashi Pharmaceutical Group Environmental Statement 2030 and the New Environmental Action Guidelines, respectively. We will work toward sustainable growth, with the statement and guidelines serving as standards for advancing our environmental activities based on their clear affirmation of our commitment to contributing to solutions.

Kobayashi Pharmaceutical Group environmental statement 2030

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

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

New environmental action guidelines

1. Legal and regulatory compliance; independent, proactive task-setting and PDCA cycle

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

2. Response to climate change

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

3. Consideration for resources and biodiversity

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

4. Reduction and recycling of waste; appropriate chemical substance management

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

5. Development and provision of eco-friendly products and services

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

6. Initiatives throughout the supply chain

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

7. Sharing of action guidelines and enhancement of environmental awareness

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

Management system

In order to strengthen our environmental management system, in 2018, we enhanced the Group Environmental Committee, which began discussions on matters such as what the Kobayashi Pharmaceutical Group should strive for in the medium and long term, and the re-examination of environmental issues. The managers of all business units associated with product development are committed to this system, with five working groups, and one task force established under the umbrella of the committee. Within the Management Planning Department, the Sustainability Strategy Promotion Group works to improve the PDCA cycle and support the working groups as the secretariat of the Group Environmental Committee.

Additionally, in 2022, the Eco Strategy Promotion Group was established within Manufacturing Headquarters as a way of promoting efforts to reduce the environmental impact of product development.



Group Environmental Committee

The Group Environmental Committee meets four times a year to discuss proposals and reports from each working group, and reports to the Board of Directors at least once annually. Reports and items for discussion are received from each working group and discussed. In 2021, a broad range of topics were addressed, centering on the primary themes of reductions in CO₂ emissions, and product development eco indicators.

List of agendas

	Major agenda items
Meeting 1 (January 26)	CO ₂ emission reductions, product development eco indicators
Meeting 2 (April 12)	CO ₂ emission reductions, product development eco indicators, CO ₂ reduction trends overseas, plastic trends
Meeting 3 (July 27)	CO ₂ emission reductions, positive district trends
Meeting 4 (October 28)	CO ₂ emission reductions, product development eco indicators, resource management (water), resource recycling

Promoting reduction of environmental impact throughout the supply chain

The Sustainability Strategy Promotion Group was newly established within the Management Planning Department in 2020 in line with global trends such as the SDGs and the Paris Agreement. One of the missions of this Group is to communicate trends related to sustainability, and develop strategies to address them. For environmental themes, this Group acts as a secretariat for the Group Environmental Committee, which manages and supervises environmental management throughout the Group, operates and supports working groups for each major theme, and undertakes initiatives to improve external evaluations. Furthermore, the Sustainability Strategy Promotion Group also engages in CSV activities intended to resolve social issues through business activities, as well as initiatives for human rights. Kobayashi Pharmaceutical is endeavoring to reduce environmental impact throughout the supply chain. In addition to customers and shareholders, employees are also important stakeholders. To promote sustainability activities to our employees, we distribute an e-mail magazine on sustainability, and hold a monthly "Sustainability MeetUp!" workshop for executives and employees to raise awareness of issues such as climate change, diversity, and CSR procurement.

In order to delight people and society, we will work to offer products that offer solutions to a range of social issues in a manner unique to Kobayashi Pharmaceutical.

Saori Sakata

Manager of Sustainability Strategy Promotion Group, Management Planning Department, Corporate Headquarters



We develop unique products with less environmental impact

Working to reduce environmental impact has become a matter of course for companies, for whom it is now a social responsibility. In 2022, in response to social trends such as this, we established the Eco Strategy Promotion Group within Manufacturing headquarters. Our activities are focused on the formulation and operation of the Kobayashi Pharmaceutical Product Development Eco Standards, an independent standard for calculating and analyzing CO₂ emissions, and on finding materials that reduce environmental impact. For containers and packaging we emphasize efforts that focus on the "4Rs": "Reduce," "Reuse," "Recycle," and "Renewable." In recent years we have focused particularly on reducing the amount of petroleum-derived plastics we use, and in 2021 began to switch to environmentally friendly plastics such as recyclable plastics and biomass plastics, starting with top-selling brands *Shoshugen* and *Liquid Bluelet Okudake*.

We are engaged in developing unique items that have minimal impact on the environment, while offering products that are attractive to our customers.

Narutomo Shiraki

Manager of Eco Strategy Promotion Group, Manufacturing Technology Development Department, Manufacturing Headquarters



Responding to climate change (Disclosure based on a TCFD framework)

Kobayashi Pharmaceutical deems responding to climate change to be the most important issue of the ESG themes. Based on the recommendations of the TCFD (Task Force on Climate-related Financial Disclosures), which we endorsed in 2019, we are conducting analyses of scenarios, and are moving ahead with efforts within the following framework.



Governance

Kobayashi Pharmaceutical has established a Climate Change Response Taskforce within the Group Environmental Committee, which is chaired by the senior executive director.

The CO₂ Emission Reduction Working Group, which is also under the auspices of the Group Environmental Committee, is tasked with setting CO₂ reduction targets and evaluating reduction measures.

Based on numerous climate change scenarios, in 2019, the Taskforce identified risks and opportunities for Kobayashi Pharmaceutical that are associated with climate change. A detailed examination of 2020 content was conducted, and the results reported to the Board of Directors.

Strategy

Using the “2°C Scenario” and “4°C Scenario” released by the International Energy Agency (IEA) and the Intergovernmental Panel

Results of scenario analysis

	World in 2°C increase	World in 4°C increase
Environmental/ Social changes	10% increase in rainfall	20% increase in rainfall
	50 cm rise in sea level	80 cm rise in sea level
	Ethical actions to prevent GHG	Curbing of outdoor activity, outdoor work becomes difficult
	Rise in fungal activity	Vegetational changes, decrease in flora and fauna
GHG	Introduction of carbon tax	
	Carbon credit purchase cost	
	Cost reduction through energy conservation	
	Sale of emission credits	
Business locations	Increased frequency of flood damage	
	Increased water use	Cost of relocating factories from low-lying areas
Raw materials (natural resources)	Price increases due to reduced yields	Halting of procurement due to extinction
	Stable supply due to increased yields	
	Price reductions due to increased yields	
Changes in demand	Changes in areas where body warmers are sold/market shrinking	
	Creation of new markets due to ethical orientation	
	Increased sales of products to counter heatstroke	

■ Risk ■ Opportunity

on Climate Change (IPCC), and in 2019, we identified risks and opportunities for Kobayashi Pharmaceutical associated with climate change, and arranged the results of these efforts as follows, in line with TCFD guidelines.

In 2021, we conducted a study of divisional countermeasures to address the risks and opportunities identified.

Going forward, we will update measures to address risks and opportunities, and estimate the resulting financial impact.

Risks and opportunities for Kobayashi Pharmaceutical associated with climate change

	Risks and Opportunities	Measures
Physical risks	• Risk of factory stoppage	• Evaluation of risk avoidance and measures to alleviate this issue
	• Compliance with greenhouse gas-related regulations	• Evaluation of measures to reduce emissions • Simulation of carbon tax implementation
Transition risks	• Risks and opportunities for the body warmer business	• Evaluation of risk avoidance and measures to alleviate this issue • Evaluation of measures to leverage opportunities
	• Risks and opportunities associated with fluctuations in the cost of raw materials	• Securing of multiple procurement sources and looking for alternative materials
	• Responding to the need for measures against heatstroke	• Reevaluation of existing development/technology roadmap • Evaluation of risk avoidance and measures to alleviate this issue
	• Consideration of climate change trends regarding product development	• Looking for new needs brought on by climate change

Risk management

All risks, including those related to climate change are evaluated by the Risk Management Committee, which is chaired by the company president, in terms of their effect and frequency.

Medium- and long-term risks that require input from management to reduce are designated as “high-priority Group-wide risks,” and are reported to the Board of Directors, while the Committee approves risk reduction plans and manages progress.

Indices and targets

The Company has set the targets of lowering CO₂ emissions (with 2018 as the reference point) for the entire Group by 51% for Scope 1 and 2, and by 15% for Scope 3, by 2030.

We are currently applying to obtain SBT Initiative certification for these targets.

Reduced CO₂ emissions

Systems for promoting reduced CO₂ emissions

Comprising members of the product development divisions (the Household Products, Healthcare, and International Business Division), Manufacturing Headquarters, Central R&D Laboratory, and Corporate Administration Headquarters, the CO₂ Emissions Reduction Working Group addresses a broad range of themes, from setting long-term targets for CO₂ reduction to discussions on specific measures to achieve that reduction. It convenes for meetings once monthly, regularly reporting to and taking part in discussions at the Group Environmental Committee, the Group Officers' Meeting, and meetings of the Board of Directors.

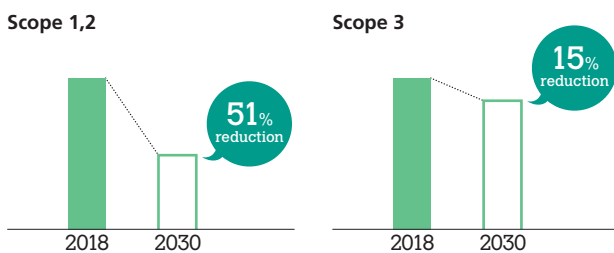


A meeting of the Group Environmental Committee

Setting long-term reduction targets

Kobayashi Pharmaceutical deems responding to climate change to be the most important issue of the ESG themes, and has set the targets of lowering CO₂ emissions (with 2018 as the reference point) for the entire Group by 51% for Scope 1 and 2, and by 15% for Scope 3, by 2030.*

This goal has been set based on the SBT, which is also the level required by the Paris Agreement, which was adopted in 2015, and the Company is currently in the process of applying for SBT initiative certification.



* Scope 1, 2, and 3
 Scope 1: Direct emissions from a business itself
 Scope 2: Indirect emissions associated with the use of electricity, etc., provided by other companies
 Scope 3: All indirect emissions other than those of Scope 2

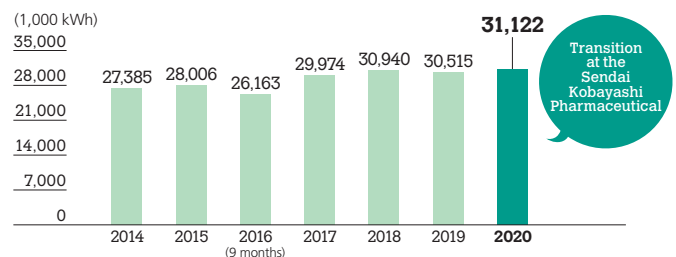
Initiatives to reduce Scope 1 and 2 emissions

Kobayashi Pharmaceutical has facilities in a variety of locations, primarily in Japan, such as factories, offices, and laboratories. Scope 1 and 2 CO₂ emissions are particularly high from factories in Japan. Accordingly, we will move ahead with efforts to curb the use of electricity in factories, such as updating air conditioners, improving the insulation of heating and cooling equipment, and transitioning to LED lighting, etc., while switching to zero CO₂ emission electric power at major factories in Japan, prompted by anticipated increases in energy use brought on by coming increases in production.

Sendai Kobayashi Pharmaceutical transitioned to zero CO₂ emission electricity in 2020.

Going forward, we will continue to work towards our long-term reduction targets for 2030 by switching to zero CO₂ emission electricity in stages.

Electricity use at factories in Japan



Initiatives to reduce Scope 3 emissions

Scope 3 emissions make up approximately 95% of the CO₂ emissions of the entire Kobayashi Pharmaceutical Group. We develop products in association with many suppliers, and thus reducing CO₂ emissions across the entire supply chain is of vital importance.

At the procurement policy briefing held for suppliers every year, Kobayashi Pharmaceutical announced its CO₂ emissions targets for 2021 and asked suppliers to reduce their own CO₂ emissions.

Additionally, we will evaluate CO₂ emission reduction activities achieved through products in working groups and promote their implementation.

Further, beginning in 2022, we will take part in the CDP Supply Chain Program operated by CDP (an international environmental non-profit organization that operates a global environmental information disclosure system). Through this program, we will endeavor to engage with suppliers to encourage them to reduce their CO₂ emissions.

Breakdown of CO₂ emissions

Scope 1	1%
Scope 2	4%
Scope 3	95%



Development of environmentally friendly products

Establishment and operation of Kobayashi Pharmaceutical Product Development Eco Standards

We have always emphasized consideration for the environment in our product development, and since 2011 have put in place our own system of standards called the Product Development Eco Indicators. We assess the environmental impact of our products at the developmental stage, requiring products to meet these criteria before they are launched. The parameters of this standard were reviewed and operating methods were revised in 2020 in order to allow us to reduce the burden on the environment at a higher level.

In 2021, in order to provide a visual representation of reductions in environmental load during product development, we established the new in-house Kobayashi Pharmaceutical Product Development Eco Standards, which contribute to reducing environmental load. We display the ECO label on products that meet one or more of these standards.

Standard items

Item	Conferring criteria
Procurement of raw materials	(1) At least 50% plant-derived raw material by content (organic ingredients) (2) At least 10% recycled raw material by content
Material procurement and product design	(3) Containers and packaging are at least 10% recycled raw material (4) Containers and packaging are at least 20% plant-derived raw material (5) Waste reduced by at least 10% compared to reference products* (6) Waste reduced by at least 10% compared to reference products* (7) Refill and replenishment containers and packaging that can reduce unit weight by volume by at least 50% compared to the actual product body (8) Raw material weight in content reduced by at least 10% compared to reference products*
Complete lifecycle	(9) Reduction of CO ₂ emission by at least 10% compared to the reference product* at any stage in the product life cycle (procurement and disposal of content, procurement and disposal of containers and packaging, manufacturing, logistics, or use)

* Standard products are products sold in 2018, or, when products were released in 2019 or afterwards, products at the time of release.

The ECO label

The ECO label expresses our feelings for the environment in an easy-to-understand manner and is in alignment with the thinking behind our corporate slogan, "You Make a Wish and We Make It Happen." By displaying the reasons for the criteria on the packages of products that meet the requirements of the Kobayashi Pharmaceutical Product Development Eco Standards, and providing a visual representation of the reduction in environmental load, we allow our customers to choose products in the store based on an environmental perspective as well as on product concept and performance.



Contributing to a circular society

Use of sustainable raw materials

In an effort to reduce the amount of oil-based plastic we use, from spring 2021, we at Kobayashi Pharmaceutical switched to the use of environmentally friendly resins with a low impact on the environment, such as recycled and biomass plastic, a move centered on our *Shoshugen for rooms*, *Shoshugen for Toilet*, and *Liquid Bluelet* products that use particularly large amounts of plastic.

We are also moving ahead with the use of paper produced with due consideration for sustainability for our packages and included documents.

Example



Management of water resources

At Kobayashi Pharmaceutical, we view water issues, which are forecast to become much more severe, as an important environmental problem, and we are working to identify and reduce risks, centering our efforts around the Water Resource Management Working Group.

In 2021, we instituted a policy on water resource management, and going forward we intend to promote further activities.

Reduction of waste

Achieving a circular economy in which resources are circulated through reuse and recycling activities rather than consumed is an effective measure against climate change and a way to solve a variety of waste problems.

Kobayashi Pharmaceutical is working with local government bodies and other businesses on initiatives aimed at achieving a circular society.

Participation in the MEGURU BOX proof-of-concept recovery of used plastic in Kitakyushu city

Since July 2021, more than 10 companies and organizations have been working together to collect used plastic containers from retail stores and public facilities in Fukuoka Prefecture's Kitakyushu city, participating in a project intended to systemize the recycling of resources.



Recovery of
used plastic
containers

MEGURU BOX containers placed in retail stores and public facilities

Participation in the Kobe Plastic Next project intended to achieve "horizontal recycling" of refill packs

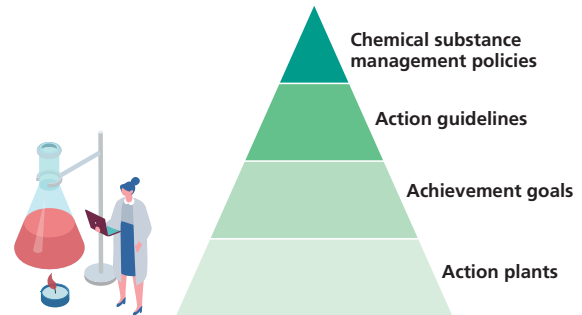
Since October 2021, 16 household goods manufacturers, and recycling companies in Kobe city have cooperated to collect used refill packs for household products such as detergent and shampoo from retail shops in a project intended to pursue "horizontal recycling" of these into other refill packs.

Management of chemical substances

For some time now, we have engaged in management of chemical substances, such as the emission of PRTR substances. We are strengthening our management of chemical substances, prompted by a desire to develop products that have little impact on the environment, and which people can use with greater safety.

In 2021, we crafted a policy on the use and handling of chemical substances, and instituted and operated working groups in-house in order to facilitate the creation of appropriate governance structures and chemical substance management. These working groups began evaluation of specific action guidelines and achievement goals based on our Chemical

Substances Management Policy, seeking to construct and operate management systems to allow our customers to use our products with peace of mind.



External evaluation

CDP is an international environmental non-profit organization that operates a global environmental information disclosure system, and requests the disclosure of environmental information on enterprises. In 2019, Kobayashi Pharmaceutical began responding to questions on climate change and water security.

In 2021, our score on climate change improved from a "C" (2019 and 2020) to a "B-". We received a "B" for water security and responded to questions on forests for the first time (simple answers were not scored).

Going forward, we will proactively disclose environmental information and provide visual representation of our problems based on the CDP score report, while operating a PDCA cycle aimed at achieving improvement.

	Climate change	Water security	Forest
2019	C	B	(Not answered)
2020	C	B	(Not answered)
2021	B-	B	Simple answers



Social

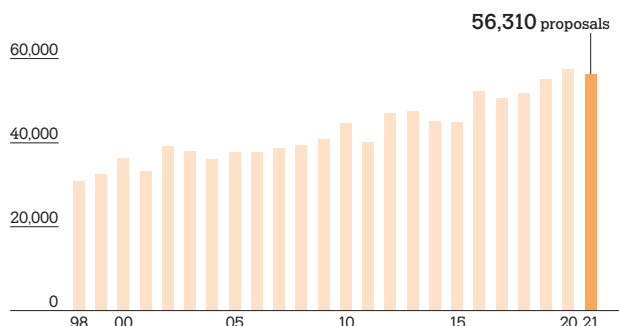


Relationship with employees

Emphasizing diversity

We believe that in order for us to respond promptly to the many and varied needs of consumers, the employees that make up our organization must possess diverse values and ways of thinking. Kobayashi Pharmaceutical is a company that has grown with the support of the varied ideas of our employees, so for us, “diversity management” is a prerequisite to success. Ours is a culture in which everyone feels comfortable expressing their opinions, and in which all are respected. Kobayashi Pharmaceutical has always been, and will remain, a company that accepts different opinions.

Number of proposals for our idea proposal system



Active participation of women

Kobayashi Pharmaceutical has placed greater importance on creating an environment that allows a diverse range of employees to take an active role, and particularly on the advancement of women, with the intent of promoting diversity in our decision-making. Many women face unavoidable limits on the times and places they are able to work, creating gender differences in the experiences, career path, and the environments in which people are able to concentrate on work. As a company, we intend to implement measures to address these issues, which we hope will increase the ratio of women in management roles.

In 2021, 19 articles entitled “HR & Diversity” were published in our web-based in-house newsletter. We held a panel discussion featuring three general managers, entitled “What is diversity promotion?” and converted the content of the discussion into a video and included it in an article that was extremely well received. We also held training for female leaders, in which participants were made aware of a variety of management styles, and learned to picture themselves as leaders who are confident in their own strengths.

Going forward, we will leverage these initiatives to promote diversity in our decision-making processes and further enhance our corporate culture of acceptance of diversity.

Changes in the ratio of women in management roles (Percentage as of January 31 of following year.)

year	2013	2014	2015	2016	2017	2018	2019	2020	2021
Number of people	16	17	15	17	19	19	26	31	30
Ratio	7.5%	7.3%	8.2%	8.8%	9.1%	8.6%	11.5%	13.1%	12.8%

Non-consolidated Kobayashi Pharmaceutical, excluding non-managers and seconded employees

Implement work-style reforms

Kobayashi Pharmaceutical maintains a positive corporate culture that allows the free and open exchange of opinions and has taken on the challenge of achieving workstyle reform that eliminates the restrictions on working times and locations. In addition to creating an environment in which employees with a diverse range of backgrounds can demonstrate their capabilities without feeling any limits, we hope to contribute to making their personal lives more fulfilling.

In February 2022, we introduced a system allowing side jobs along with liberalization of the dress code. By maintaining and enhancing a culture in which people are able to voice a range of opinions, we will implement our own style of diversity management.

Flex System

Apr. 2019 Introduced flex system for childcare and family care
Jan. 2020 Updated flex system (expanded eligibility to all employees in principle; abolished core time)

Work-from-Home Systems

Jan. 2020 Introduced a work-from-home system for childcare and family care and a work-from-home system that can be used during childcare leave
Mar. 2020 Inaugurated work-from-home systems for use during the COVID-19 pandemic. These were expanded for all personnel, and the number of days worked from home altered flexibly to suit COVID-19 infection status

Reduction in the number of daily working hours required

Jan. 2021 Number of working hours required per day altered from 8 to 7.75

Raising awareness of diversity

To promote understanding and greater awareness of diversity in our employees, in 2018, we began using the Diversity Index.* This provides a numerical and visual representation of the level of diversity promotion.

* An index that provides a visual representation of the actual state of an organization, offering an indicator that can be used by investors to evaluate a company by quantifying aspects of the organization's actual status which cannot be assessed solely from public information alone, such as the number and percentage of women in the organization. This index also clarifies what progress the company is making on its initiatives.



Supporting personal growth

At Kobayashi Pharmaceutical, we support a diverse range of employees in their efforts to acquire the knowledge, skills, experience, and abilities that will allow them to accomplish more challenging tasks and engage in different types of work. In particular, the one-on-one growth dialogs held between supervisors and their subordinates play a key role in encouraging employees to grow. Supervisors provide their subordinates with opportunities for growth that suit their individual challenges, utilizing a “teach, entrust, and then praise” cycle aimed at achieving growth.

We also have a variety of programs available for group training of different levels and job functions.

Growth dialogues

Beginning in 2018, we introduced “Growth Dialog Sheets” to allow people to grow faster through their work. Carried out for employees at the level of Group manager (Section chief) or lower, this program is intended to create an environment and culture that allows these members to experience growth through dialogs with their superiors, and by the manner in which their superiors express the nature of that growth to them. Additionally, these initiatives are allowing us to develop training methods in a systematic manner.

Systems for dialog on personal growth



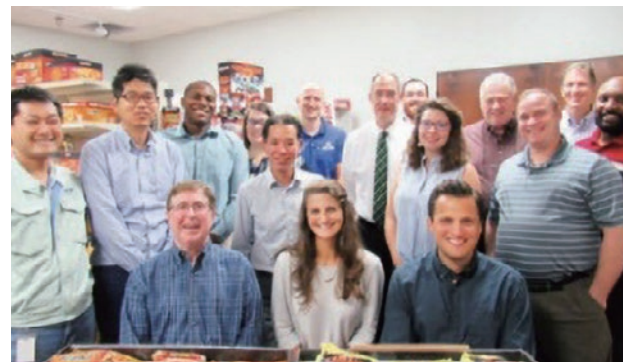
Development of personnel with a global mindset

Kobayashi Pharmaceutical must urgently train personnel with a global mindset in order to achieve further growth. As our overseas businesses expand, we dispatch personnel to those locations who will play a key role in taking these businesses forward. These people are chosen from among the best in each division in the company. We offer an overseas study program intended to foster a global mindset, helping people to acquire language skills, instill a desire to participate in business overseas, and inspire them to take on new challenges.

Number of employees posted overseas from Japan

Fiscal year	2014	2015	2016	2017	2018	2019	2020	2021
No. of expats	16	21	30	36	47	51	55	58

Our subsidiaries overseas are also improving their ability to hire locally, and as of the end of 2021, have hired 823 local staff. Going forward, we will strengthen the exchange of personnel between company headquarters and our overseas subsidiaries to ensure that we are even more globally competitive.



Kobayashi Healthcare International, Inc.

Career

In 2021, we began accepting requests for transfers to other work section based on self-request forms. In the first year, approximately 40% of the 90 people who submitted an application were transferred.

Physical and mental health

Kobayashi Pharmaceutical views the mental and physical health of each employee as extremely important. In order to provide a visual representation of these factors, we have conducted surveys of employee awareness since 2019.

Ensuring psychological safety

Kobayashi Pharmaceutical focuses on creating an environment where it is easy to innovate, in which everyone can feel free to offer an opinion. Initiatives such as the idea proposal system, the policy on forms of address, e-Appreciation, and Spur-of-the-Moment Meetings help employees feel secure, and serve as a source of a diverse range of ideas.

Idea proposal system	A system that allows anyone to offer proposals for ideas. More than 50,000 ideas are received each year.
Policy on forms of address	A system under which the use of job titles is forbidden, based on the idea that everyone is equal at work.
e-Appreciation program between president and employees	A system for offering praise to good initiatives. The president sends e-mails directly to employees.
Spur-of-the-Moment Meetings	Productively used among employees as a forum for frequent exchange of opinions.

Systems to preserve lifestyles and health

Kobayashi Pharmaceutical views each and every employee as important and focuses on protecting their livelihoods. We have put a range of system in place to offer employees peace of mind in their daily lives, such as a health management systems that also encompasses employees' families, and a system to provide compensation in the unfortunate event that it is difficult to work.

Health management system	The company bears expenses incurred when employees or their families undergo any form of medical examination or advanced medical care.
Compensation system	The company bears the costs of enrollment in life insurance, long-term income compensation, and a system of survivor benefits as provisions against unexpected occurrences.

Implementation of employee awareness surveys

At Kobayashi Pharmaceutical, we view employees as important assets to the company, and believe that making jobs more rewarding for them will increase productivity for the company as a whole and lead to sustained growth.

Accordingly, beginning in 2019, we have conducted employee awareness surveys as a way to perform regular "checkups" on the health of the company, and to maintain and improve the relationship between it and employees by observing this relationship from a fixed point. Providing a visual representation of employee awareness, which is not in itself visible, allows the management to consider measures for improvement, and staff at each department

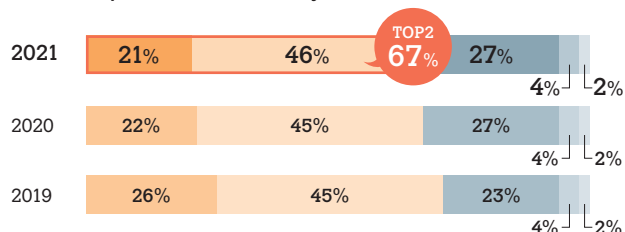
to discuss the results of the survey with each other seeking to achieve changes and improvements in the Environment.

Furthermore, three of the questions in this survey feature in the current medium-term management plan as key performance indicators: "Employee job satisfaction (pride)," "Feeling they have grown through their work," and "who are able to work in good physical and mental health."

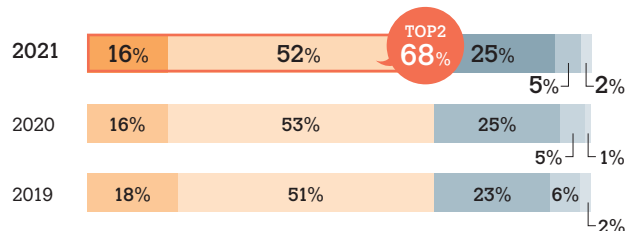
Employee awareness survey result (Group as a whole)

■ Agree completely
 ■ Agree somewhat
 ■ Neither agree nor disagree
 ■ Disagree somewhat
 ■ Disagree completely

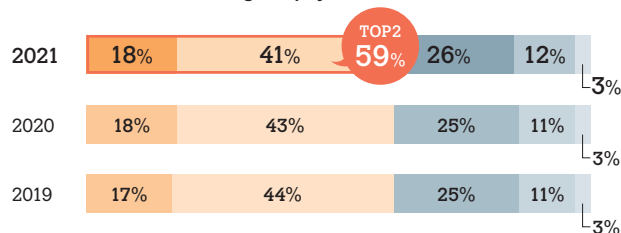
① You feel proud to work at Kobayashi Pharmaceutical



② You feel that there are times when you are growing through your work



③ You are able to work in good physical and mental health



Scope: 2019: Kobayashi Pharmaceutical only. From 2020 onwards: Employees working in the Kobayashi Group in Japan.

Relationship with customers/society

CSV activities

We focus on CSV activities that leverage our corporate strengths to resolve social issues and improve sustainable company value. We instituted educational activities on hormone balance in women using *Inochi no Haha White*, our health medication for women, and undertook initiatives including the supply chain with regard to *Salacia 100* food for specified health use. In 2021, we held “Social Value Visualization” workshops for five product brands to provide visual representation of the social values that brands can create, and the social issues they may solve.

CSVs for trial cultivation of medicinal plants in Toyonaga district, Ootoyo-Cho, Kochi Prefecture

Beginning in 2016, Kobayashi Pharmaceutical concluded a joint research agreement with Kochi Prefecture’s Makino Botanical Garden regarding plant resources and has been engaged in joint research. In 2021, coinciding with the trial cultivation of medicinal plants in the mountainous region of Higashi Toyonaga, we leveraged our knowledge of herbal medicines and traditional Japanese medicine to solve local issues specific to mountainous areas, working in cooperation with local people and Kochi University’s Center of Education and Research for Hope-Emergence/Faculty of Regional Collaboration.



Trial cultivation of herbal medicines in Toyonaga district, Ootoyo-cho, Kochi Prefecture



Workshops with students at the Faculty of Regional Collaboration at Kochi University

CSV for cognitive function assessment and health promotion using *Nintest*

Based on needs such as this, in 2021, Kobayashi Pharmaceutical developed the *Nintest* kit for assessing the state of cognitive function by smelling fragrances. There is estimated to be around 6 million people aged 65 over in Japan with dementia (as of 2020), and thus efforts to address this issue will be increasingly important in Japan as its society ages.

As this is an issue for many local governments, we started initiatives to promote cognitive function and health using *Nintest* in conjunction with these institutions.

Looking to the future, we will cooperate with relevant people in trial efforts to cultivate medicinal plants and work with local regions to offer people a healthy, enriching life.



The *Nintest* fragrance-based cognitive function screening kit



An in-house workshop

Respect for human rights

We recognize that respect for human rights is a precondition for our business activities, and that it must be treated as a corporate responsibility. In August 2019, Kobayashi Pharmaceutical announced that we would participate in the United Nations Global Compact (UNGC), and support its 10 principles, including human rights. Our policy regarding human beings is defined in the basic policy laid out in the Kobayashi Pharmaceutical Global Compliance Policy, which stipulates respect for human rights and non-participation in violations of human rights. Looking to the future, however, we will formulate a human rights policy in accordance with the UN Guiding Principles on Business and Human Rights, which is the global standard.



Responsible procurement

At Kobayashi Pharmaceutical, we believe that human rights violations by our business partners are an important issue that management should address for the long term. This led to our establishment of the Kobayashi Pharmaceutical Basic Procurement Policy, which we follow in the procurement of raw materials, and which includes policies intended to strengthen respect for human rights, and to fulfil our corporate social responsibility.

At a procurement policy briefing held in 2020, we shared this policy with our suppliers, and conducted a survey of 40 major suppliers of raw materials to assess the risk of human rights violations. In 2021, after analyzing and sharing the results of a survey conducted in 2020, we performed a similar survey of 62 of our primary (Tier 1) suppliers of raw materials, and 367 secondary (Tier 2) suppliers. Additionally, to promote understanding of CSR procurement, we performed CSR procurement training for all employees in purchasing departments using the CSR Procurement Training Tool Set (a lecture and game), created by Global Compact Network Japan.

Going forward, we will institute CSR procurement standards based on the human rights policies that we are currently evaluating, and move ahead with initiatives such as a CSR evaluation system.



CSR procurement training

Improving in-house awareness of ESG and social issues

As we promote ESG initiatives throughout the company, we believe that it is essential that each and every employee engage in such activities in their own work on their own initiative. Although communication from top management improves employee understanding of ESG policies and the need for them, they must take on ESG on a personal basis.

Accordingly, since August 2020, we have held “Sustainability MeetUp!” online every month as a forum allowing employees to learn about, consider, and discuss a range of social issues together. To date, these events have featured a variety of different themes each time, including guests from NPOs and other companies, and introductions of in-house initiatives. The workshops are intended for all employees, with people in a wide variety of positions and

employee status choosing to voluntarily participate. Moreover, since they are held completely online, employees participating from Hokkaido to Okinawa in Japan, and from local subsidiaries in locations as disparate as the United States, Indonesia, China, and Australia are able to take part and deepen the discussions with a range of perspectives.

Held 17 times up until December 2021, with a cumulative total of 2,541 people participating from around the world, these workshops are attended by many employees throughout the Kobayashi Pharmaceutical Group. With employee understanding deepening every time they attend, we are beginning to see results from our efforts, such as the fact that we receive many suggestions for how to make improvements by revising our operations and products from a more sustainable standpoint. In future, we will continue to hold workshops every month, and are considering plans to collaborate with other companies.

Month held	Theme	Content
January 2021	Sustainable urban development	Learning about sustainable urban development in Shimokawa-cho, Hokkaido, winner of the Chief's Award in the SDGs Awards
February 2021	Plastic issues	Explaining issues with plastics, and thinking about our efforts to address them and relationship to them
March 2021	Education and peace overseas	Guest from an NGO working to build schools in Myanmar, looking at peace, education, and CSR procurement
April 2021	Diversity	Thinking about diversity as perceived overseas, with a staff member posted overseas as a guest
May 2021	Renewable energy	Learning about Kobayashi Pharmaceutical's efforts towards renewable energy
June 2021	Unconscious bias	Introducing unconscious bias as seen from a sensationalist example, and thinking about its relationship with this company
July 2021	Social contribution activities	Understanding Kobayashi Pharmaceutical's activities to contribute to society, and thinking about what we ourselves can do
August 2021	Diversity	Introduction and discussion of Kobayashi Pharmaceutical's efforts to employ people with disabilities prompted by the Paralympic Games
September 2021	Disaster prevention	Thinking about the relationship between disaster prevention and Kobayashi Pharmaceutical, and Sustainability, in conjunction with Disaster Prevention Day
October 2021	Examples of SDGs at other companies	Learning about SDGs initiatives embraced by Saraya K.K., with its CEO, Mr. Daishima, as a guest
November 2021	Circular economy	Learning about the latest trends regarding circular economies, featuring a guest from an environmental consulting company
December 2021	Governance	Learning about the meaning of governance and relevant initiatives at Kobayashi Pharmaceutical, with the manager of the General Affairs Division as a guest



Online workshop

Social contribution activities

The Kobayashi Foundation

The Foundation's purpose is to provide support for children with disabilities or illnesses, as well as their families—in short, to identify their wishes and address them. By soliciting applications from a wide range of people and organizations working in this field, and supporting their activities, the Foundation aims to contribute to bringing greater delight to society as a whole.



Online presentation ceremony

Supporting those involved with schools

Since 2010, Kobayashi Pharmaceutical has worked to transform toilets in elementary schools into more comfortable spaces with its “Western Toilets for Elementary Schools!” initiative, bringing smiles to children's faces and improving their health. In 2021, we donated to eight new schools for a total of 128 schools.

To protect children from the spread of novel coronavirus, we felt it important to provide education on issues such as handwashing and toilet ventilation and provide appropriate information regarding hygiene management in toilets to teachers and staff. We cooperated with Japan Toilet Labo to create posters for students and provide documentation on hygiene management for school toilets to teachers and staff, which was published on a website. Going forward, we will continue to provide optimal support while responding to changes in the environments around children.



A hygiene awareness poster

Bluebird Children's Support Project

Since 2016, we have worked with Foodbank Yamanashi to offer food support to single-parent families under the auspices of the Bluebird Children's Support Project. In addition to donations to support operating expenses, we provide Kobayashi Pharmaceutical products such as Netsusama Sheets, body warmers, and masks. Additionally, in 2021, we offered additional support to assist with the construction of a warehouse.



**As a company providing
solutions to society,
raise awareness of social issues
and conduct management
that emphasizes dialogue**

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

Kunio Ito
Outside Director



President and COO Akihiro Kobayashi and Outside Director Kunio Ito recently connected online to share their perspectives on what the Company needs to be in the future to ensure it will generate sustainable corporate value, and on the effectiveness of the Company's governance and the future direction of its management.



1

Governance effectiveness



Board of Directors discussions

Ito

The Board of Directors of Kobayashi Pharmaceutical always has very lively discussions. Since the meeting time is limited, Chairman and CEO Kazumasa Kobayashi skillfully guides the meetings so we have discussions that I think are quite intense and deep. I would like to assure investors that the Board's discussion agenda includes diligent discussion of ESG issues and initiatives, including TCFD. The president takes great care in leading the discussions and sometimes explains matters himself. The internal officers are very attentive and eager to actively participate. The secretariat also does an excellent job of preparing the agenda for each session, and seems very earnest about continuing to make governance better. If there is anything that could be improved—and I've already conveyed this to the Board—I think that more time in the discussions needs to be given to the three areas of personnel, strategy, and risk.

Kobayashi

We know how critically important it is to hear opinions from outside the Company and make it a point to provide ample time in the Board meetings for outside officers to fully state their views. I always try to keep an open perspective when talking with internal officers, but it's not always possible. Hearing the comments from outside officers at the Board meetings helps us get a clearer grasp of the larger picture so we can further improve. Discussions about the three areas you pointed out are already under way, and we plan to give more time to them in the future.

Ito

I agree with you that the most important role of the outside officers is to give an objective opinion from an outside perspective. When I attend the Board of Directors meetings, I am always asking myself, "will this fulfill our duty of accountability to investors and stakeholders?" It's important to also carefully consider why and how an issue came to be on our discussion agenda. I also think it's important that we state our opinions without being overly concerned about how they might be taken. Even if someone is eager to obtain approval for an idea so it can be quickly implemented, we need to carefully consider each idea from the medium- and long-term perspectives and from as many angles as possible. That is the perspective I take when providing my input.

I've been following Kobayashi Pharmaceutical since even before it became a listed company, and the steady progress it has been making as a corporation is extremely gratifying. Its corporate value is already high, but that doesn't mean that it should stop building its value. We need to continue having in-depth discussion about what we can do to sustainably enhance the Company's value.

Evaluating governance effectiveness

Kobayashi

The General Affairs Department assesses the effectiveness of the Board of Directors through surveys and follow-up interviews with each outside officer. I have a sense that these assessments have led to some small changes in what the Board discusses at its meetings.

Ito

In addition to the surveys, there are also evaluation meetings that only the outside officers participate in. The outside officers all want to make Kobayashi Pharmaceutical better, and they are not afraid to voice some very harsh criticisms. I heard that you read the minutes from the meetings. I am very impressed by that. Normally, the secretariat would report a summary of the discussion content to the Board, but you wanted to see what was actually said. That courage is truly laudable. Then, without fail, the points that we decided

needed to be improved were accurately presented to the Board of Directors.

Kobayashi

I had heard that the discussion included some harsh criticism, so I felt that I needed to know the specific details. Reading the actual minutes of the meeting gave me insight to the perspectives that the outside officers would bring to the discussion at the Board of Directors meeting. Based on that experience, in future discussion agendas for the board meetings, we're going to deliberately include more topics that have high strategic importance and that are related to medium- and long-term management issues.



2

The future direction of management



Further enhancing our growth potential

Ito

The focus on using M&A as a growth driver is going extremely well. The careful examinations of the target companies prior to the acquisitions appear to be keeping the moves from producing any substantial impairment charges.

Kobayashi

The companies we are targeting are ones where we think we can steadily build earnings once they become part of the Group. To date, we have only been acquiring relatively small companies, so any impairment charges have been quite minimal. I would like to broaden our scope to medium-sized firms, but that will entail more risk, so very careful scrutiny will be needed.

Ito

Yes, more care will be needed. As with the acquisition of Alva, bringing in the company will give rise to synergies with the Kobayashi Pharmaceutical marketing methods and formulation technology. The Company will also have to consider firms for M&A in fields that it is looking to develop new businesses. Therefore, I think management should start looking for more than just direct synergies. I would like it to decide the specific fields where it wants to focus on creating value and the functions it will need to realize that value, then create a long list of M&A candidates.

Kobayashi

Yes, I see your point. For example, one area we need to improve is our digital knowledge. So, we need to add to our target list companies that use digital technologies in their product development and with digital marketing know-how.

Ito

Kobayashi Pharmaceutical has a fabulous track record of increasing sales, profits, and dividends, which gives investors a great sense of safety. The question is what to do with the capital and cash it has accumulated. Internal reserves are relatively easy to increase, but can be a challenge to decrease. Allocating 100% or more of the profits to dividend payouts or buying back and canceling company shares are common, but another option could be using the cash for M&A.

Large investments in M&A or other areas can sometimes trigger a brief drop in the bottom line, but we shouldn't jump to the conclusion that that's a bad thing. If there is a reasonable explanation for the decline, then it could actually end up having a positive impact on corporate value. The streak of profit growth may end, but if management provides a convincing future-oriented explanation for allowing the bottom line to dip, then investors are likely to take a positive view of the move. I would like the Board of Directors to continue discussing what the Company can do to boost its earning power to the next level and another level beyond that.

Kobayashi

I agree. I would like us to be looking at the big picture, where a temporary drop in the bottom line is insignificant.

Ito

To do that, the Company should strengthen the team and network it has for exploring new businesses. We should take the initiative ourselves to identify candidates and not wait for a securities company to propose a list. Of course, I don't mean solely on our own, but that we should take a "double-handed" management approach that works with outside consultants with a focus on not just deepening our businesses but searching for new directions so it can sow new seeds. While following new trends and changes in consumer preferences, it will be important to strengthen the existing businesses as we sow seeds for new businesses.



Bringing out the best of Kobayashi Pharmaceutical through ESG

Ito

I would like to encourage Kobayashi Pharmaceutical to become an ESG leader in its industry. It may not be able to lead in all areas, but it should be able to step to the forefront in an area like adopting the TCFD framework since many Japanese companies are still hesitant to commit to disclosure of Scope 3 emissions.

Kobayashi

We are trying to do that. For the past few years, we've been developing and refining our ESG-oriented management and that approach is gradually spreading throughout the Company. We can't accomplish that by just doing what everyone else does. It's important that we construct an approach that is unique to us, and it's an urgent task for us to make that the priority.

Ito

What is the social contribution that only Kobayashi Pharmaceutical can make? I think we can find it by thinking about our approach of delivering what consumers wish for or, in this case, delivering what society wishes for but doesn't have yet. In other words, the social issue in the pharmaceutical industry is the "unmet medical needs." I believe that our business model of delivering unique products that consumers wish for makes us a company that is addressing social issues.

I believe that the process of creating products from new ideas has become the norm for our employees. But we would need to make that stronger so we can apply it to social issues, and there are still many things that need addressing when it comes to social issues. I would really like the Company's employees to be creative and offer a full range of ideas. It could be extremely satisfying if, for example, we had ideas that can help extend healthy life expectancy.

Kobayashi

That's been my view for the past several years, but what got me to that point was an advisory meeting a few years ago, that you were also at. Former Vice President Yutaka Kobayashi once said that, just like our Itoyoji dental floss & pick product helps extend healthy life expectancy by reducing cavities, every little bit we can do is part of creating shared value (CSV).

Ito

In our current focus area of developing digital products, rather than pursuing large projects, I want us to use the Company's strengths to make products that are convenient, useful on a daily basis, and that are easy for older people to use. I think that's right on point with what makes Kobayashi Pharmaceutical unique, our desire to "improve our ability to meet the expectations and earn the trust of customers by identifying with and listening to them during product development." Adding digital technologies presents



opportunity for the Company and will lead to us offering even more appealing products.

Kobayashi

You as well as the outside officers have been talking about the importance of digital technology for quite some time, and although it took some time for the Company as a whole to grasp the potential, we have been advancing with tremendous speed since the DX Promotion Committee was created. We are already developing products with digital technology. The creation of the e-commerce channel may generate only a small volume of sales at first, but it promises to be a huge opportunity for a niche player like us. Online sales of somewhat higher-priced products can grow depending on how they are marketed, and we can then follow the success of those products by releasing lower-priced versions in stores. Those types of products becoming more common could give us an opening to contribute even more to society. I've been telling our front-line employees to aggressively pursue ideas for those kinds of products.

Ito

The speed and intensity that Kobayashi Pharmaceutical puts into product development once it sets a target is impressive. The Company's ability to respond to change is certainly one of its strong points.

Kobayashi

The Company's employees all have a strong sense for taking on challenges, and when we begin something new they always have many ideas. How management can effectively harness and then enhance the full power of our employees is making human resource development increasingly important.

I think digitalization and taking on challenges will be key themes in the next three-year plan. I'd like to see all of our employees really attack new challenges and develop their capabilities. You

Dialogue session with the COO and an outside director

can't learn without trying and failing, and using the failures to create success is how you grow so you can take on more challenges. I'd really like to have a healthy balance of taking on challenges and learning from our failures. Taking the zeal we have in Japan for developing new products and creating a similar drive in other countries will create synergies among our businesses. Ideally, in the future, products created in one country could become hit products in other countries—products from the United States can become popular in Japan or products that originated in China will be sold in Europe.

Ito

I agree that Kobayashi Pharmaceutical has a strong spirit of taking on challenges, and that does indeed require a corporate culture that tolerates failure. Experience is gained by taking on challenges, and the more experience employees have, the more engaged they are in their work. That is a strong message that I hope you will share wholeheartedly with employees.

Kobayashi

We have so many product brands that many younger employees are put in charge of product development early in their careers. We purposely assign marketing projects requiring a lot of discretionary decision-making to younger employees, which is probably more responsibility than most companies would be willing to give. We really want employees to build the experience they will need to grow and develop so they can take on even bigger projects.

Ito

The *Human Resources Version of the Ito Review** that the Ministry of Economy, Trade and Industry released in September 2020 emphasized the need for companies to match their management strategies with their human resources strategies. When a medium-to-long-term strategy is created, there is inevitably a gap with existing human resources. It is therefore important to visualize that gap as soon as possible and start reskilling by beginning measures to learn new skills and techniques.



Kobayashi

The Ito Review was very helpful. Given that one of our main strategies right now is "International Business First," we understand the need to create a personnel system and plans for hiring and training that match our objectives. We are currently planning out how we will revise the system and, through trial and error, are aiming to make a somewhat more flexible system. In our hiring practices, we recognize that we need to explore various approaches, especially since we need to add more personnel to accelerate the newly launched digitalization strategy.

Ito

I often tell our Human Resources Department that the management and human resources strategies should not be considered as separate strategies.

If we do not change the Human Resources Department so it links to our management strategies, it will not be able to respond to the issues and topics of our managers. Also important is how close the president, financial officer, and human resources officer are communicating with each other. The revised Corporate Governance Code will significantly increase the emphasis on investment in and disclosure to human capital. Since we invest heavily in human capital, it's essential that the financial and human resources officers have a mutual understanding in order to determine how much to invest and the proper level of detail in the information disclosure. I hope you will encourage dialogue on this topic as well.

I think the Company has room to be even better in this area. Human capital is people who all have their own individual characteristics, so special care is needed to bring out each person's potential. Management of human capital therefore means investing ample funds in the areas where it is most needed. I believe Kobayashi Pharmaceutical is a company that can do this.

Kobayashi

We cultivate high-level human resources by providing plentiful education and opportunities. We seek to provide work where

employees feel they are growing as they do their jobs, so they are happy to be working at the Company. A larger vision like that is essential. I'm starting to see that Kobayashi Pharmaceutical has that sort of relationship between the Company and its employees.

Ito

One of the unique characteristics of Kobayashi Pharmaceutical is that it is a family-owned business. A great advantage of a family business is the ability to take a long-term perspective in the Company's management. It's also easier to take risks for long-term growth to guide the Company toward growth. Another benefit is that it is easier to foster cohesiveness. At the same time, there are disadvantages as well, such as the need to be vigilant about not becoming too insular. That's true of any company, of course, but it's a very important point.

A family-run business can face serious problems if the company leader does not have self-discipline. Managers who are closely related can even fall prey to emotional issues. In that respect, everyone at Kobayashi Pharmaceutical is very self-controlled.

That self-control was evident in the incident we talked about earlier in which you read for yourself the minutes of a meeting in which the outside officers had voiced some harsh criticism. Nevertheless, it seems inevitable that people might want to say only what they think you would like to hear. Since you will have fewer advisors, you will need to take it upon yourself to encourage them to be frank and to say everything they are thinking. I encourage you to be very diligent in that regard. It's also important to listen openly to employees so you can hear their frank opinions.

Kobayashi

Yes, I agree. It's not always easy to open oneself up to possible criticism, but it is important and I will certainly try.

Ito

As I mentioned earlier, I really would like the Company's management and employees to contemplate the deep meaning and content of the slogan "You make a wish and we make it happen" and for them to have a stronger awareness that we are a company that is helping solve social issues. If we can do that, then we will be able to create even better products.

I also want to emphasize dialogue, which I think is extremely important. Dialogue is different from conversation because dialogue is communication that presumes diversity, which is an area where Japanese companies have been weak. Good dialogue increases psychological safety and supports co-creation. I encourage both the Company's executives and employees to continue improving their dialogue skills.

Kobayashi

That advice is well taken. Myself, the members of Group Officers Meeting (whose main members are executive officers) and all of us can, I think, establish a good dialogue by being more direct in our discussions with the Board of Directors, and also by receiving frank responses from the Board. I will certainly pay particular attention to that.

* Ministry of Economy, Trade and Industry, *Report of the Study Group on Improvement of Sustainable Corporate Value and Human Capital* published in September 2020, which is also called a Human Resources Version of the *Ito Review*. The *Ito Review* was published in 2014 and has had a substantial influence on companies and investors.



Directors



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

Attendance at Board meetings	100% (13 out of 13 times)
Number of shares held in this company	224,336
Existence of special interests	None

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



Akihiro Kobayashi
Representative Director, President and Chief Operating Officer

Attendance at Board meetings	100% (13 out of 13 times)
Number of shares held in this company	9,264,704
Existence of special interests	None

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



Satoshi Yamane
Senior Executive Director

Attendance at Board meetings	100% (13 out of 13 times)
Number of shares held in this company	7,957
Existence of special interests	None

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



Kazuhito Miyanishi
Director

Attendance at Board meetings	80% (8 out of 10 times)
Number of shares held in this company	2,843
Existence of special interests	None

Mar. 1986 Joined the Company
Mar. 2007 General Manager of Household Marketing Department, Marketing Office
Mar. 2011 General Manager of International Sales Department, International Business Division
Jun. 2012 Executive Officer and Senior General Manager of International Business Division (current)
Mar. 2021 Director (current)



Kunio Ito
Outside Director

Attendance at Board meetings	100% (13 out of 13 times)
Number of shares held in this company	—
Existence of special interests	None

Apr. 1992 Professor, Faculty of Commerce and Management, Hitotsubashi University
Aug. 2002 Dean of the Graduate School of Commerce and Management, Hitotsubashi University
Dec. 2004 Vice President of Hitotsubashi University
Dec. 2006 Professor, Graduate School of Commerce and Management, Hitotsubashi University
Jun. 2007 Member of the Independent Committee of the Company
Jun. 2013 Outside Director of the Company (current)
Jan. 2015 Director, Center for CFO Education and Research, Hitotsubashi University (current)
Apr. 2015 Adjunct Professor, Graduate School of Commerce and Management, Hitotsubashi University
Apr. 2018 Adjunct Professor, School of Business Administration, Hitotsubashi University
Apr. 2020 Professor Emeritus of the Department of Business Administration of the Graduate School of Business Administration of Hitotsubashi University (current)



Kaori Sasaki
Outside Director

Attendance at Board meetings	100% (13 out of 13 times)
Number of shares held in this company	—
Existence of special interests	None

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



Chiaki Ariizumi
Outside Director

Attendance at Board meetings	100% (13 out of 13 times)
Number of shares held in this company	—
Existence of special interests	None

Apr. 1987 Joined Bank of Japan
May 1998 Deputy Assistant to Director, International Department (Head of Europe and North America Group, Global Economic Research Division)
Jul. 2009 Director, Secretariat of the Policy Board (Head of Business Federation Liaison Group)
Jun. 2019 Director, Information System Services Department
Jan. 2020 Personnel and Corporate Affairs Department
Mar. 2020 Outside Audit and Supervisory Board Member of the Company
Mar. 2022 Outside Director of the Company (newly appointed)



Yoshiro Katae
Outside Director

Attendance at Board meetings	100% (13 out of 13 times)
Number of shares held in this company	—
Existence of special interests	None

Apr. 1981 Joined Komatsu Ltd.
Jan. 2003 Appointed General Manager of the General Administration Division, Osaka Plant, Production Headquarters, Komatsu Ltd.
Apr. 2013 Executive officer, General Manager of the General Administration Division Responsible for Crisis Management, Komatsu Ltd.
Jul. 2013 Manager, Secretarial Office Responsible for Crisis Management, Komatsu Ltd.
Oct. 2015 Manager, Secretarial Office and General Manager, Komatsu Economic Strategy Research Center, Komatsu Ltd.
Apr. 2017 Manager, Secretarial Office, responsible for compliance and crisis management, Komatsu Ltd.
Apr. 2018 Senior Executive Officer, Komatsu Ltd.
Jul. 2019 Consultant, Komatsu Ltd. (Current)
Mar. 2022 Outside Director of the Company (newly appointed)

Audit and Supervisory Board members



Akitoshi Yamawaki

Full-time Audit and Supervisory Board Member

Attendance at Board meetings	100% (13 out of 13 times)
Attendance at auditors' meetings	100% (13 out of 13 times)
Number of shares held in this company	—
Existence of special interests	None

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



Takashi Kawanishi

Full-time Audit and Supervisory Board Member

Attendance at Board meetings	100% (10 out of 10 times)
Attendance at auditors' meetings	100% (10 out of 10 times)
Number of shares held in this company	—
Existence of special interests	None

Mar. 1990 Joined the Company
 Mar. 2014 General Manager of R&D Planning and Administration Department, the Central R&D Laboratory
 Jan. 2020 General Manager of the General Affairs Department, the Corporate Headquarters
 Jan. 2021 Assigned to the Corporate Headquarters (current)
 Mar. 2021 Audit and Supervisory Board Member (current)



Ryuji Sakai

Outside Audit and Supervisory Board Member

Attendance at Board meetings	100% (13 out of 13 times)
Attendance at auditors' meetings	100% (13 out of 13 times)
Number of shares held in this company	—
Existence of special interests	None

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



Yoko Hatta

Outside Audit and Supervisory Board Member

Attendance at Board meetings	100% (13 out of 13 times)
Attendance at auditors' meetings	100% (13 out of 13 times)
Number of shares held in this company	—
Existence of special interests	None

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

Executive officers

Naoki Ayabe

Senior General Manager of Sales Headquarters

Fujito Owaki

Senior General Manager of Healthcare Products Division

Tetsuji Nishioka

Senior General Manager of Manufacturing Headquarters

Takuya Matsushita

General Manager of China Strategy Department, International Business Division

Atsushi Sato

Head of Sales Management Division, Dupty Senior General Manager, Sales Headquarters

Nobuo Sakuta

Senior General Manager of Household Products Division

Notes:

1. Director Kazuhito Miyanishi was chosen at the 103rd Ordinary General Meeting of Shareholders held on March 26, 2021, and thus has a different number of attendances and times held.
2. Chiaki Ariizumi was chosen as an outside director at the 104th Ordinary General Meeting of Shareholders held on March 30, 2022, and thus attended as an outside auditor prior to that.
3. Auditor Takashi Kawanishi was chosen at the 103rd Ordinary General Meeting of Shareholders held on March 26, 2021, and thus has a different number of attendances and times held.

Governance



Governance at a glance

Board Meetings

13

Inside directors

4



Outside directors

4



Nomination Committee

6

Inside directors

2



Outside directors

3



External expert

1



Compensation Advisory Committee Members

5

Inside directors

2



Outside directors

3



Composition of Board of Directors and Audit and Supervisory Board

12

Inside officers

6



Outside officers

6



Audit and Supervisory Board Meetings

13

Meetings with Institutional Investors and Analysts

168

Number of briefings for individual investors held

0

Note: To prevent the spread of novel coronavirus, no briefings were held in 2021

Corporate governance

Basic policy

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

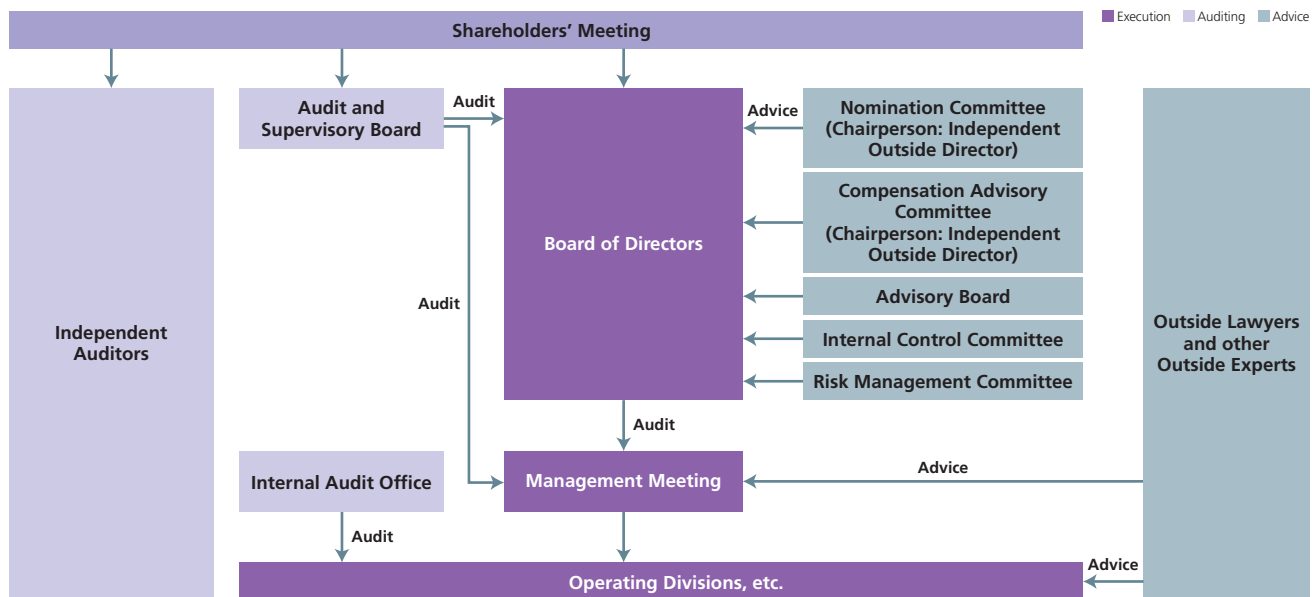
One advantage of our management structure centered on the founding family is the ability to make management decisions with a long-term perspective. However, there is also a risk of self-serving behavior by top management, so we appoint outside directors with strong supervisory capabilities, and ensure oversight functions to enable speed-oriented management and bold reforms. To sustain this management approach, we have introduced a range of systems and structures designed to enhance corporate governance.

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

Management structure

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

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



Status of committees

Management Meeting	We have adopted an executive officer system to clarify the separation of supervision and execution. The Management Meeting, consisting mainly of executive officers, is held four times a month to discuss key matters relating to execution.
Board of Directors	The Board of Directors consists of eight directors, four of whom are outside directors. Meetings are also attended by the four Audit and Supervisory Board members, two of whom are outside Audit and Supervisory Board members. Attendees provide oversight of various matters, including those discussed at the Management Meeting. At Board of Directors meetings, outside directors and outside Audit and Supervisory Board members actively participate and engage in dialogue, ensuring a well-functioning system of checks and balances from an outside perspective.
Advisory Board	As a supporting arm to the Board of Directors and Management Meeting, the Advisory Board, consisting of outside directors, the chairman, the president, and relevant officers, meets once every six months. The Advisory Board provides guidance from a broad perspective on significant business issues and management policy, which is in turn reflected in the daily management of the Group.
Compensation Advisory Committee	Comprising independent outside directors, the president, and the director tasked with personnel, the Compensation Advisory Committee ensures transparency in the process for determining director compensation and is chaired by an independent outside director.
Nomination Committee	Comprising independent outside directors, the president, and the director tasked with personnel, the Nomination Committee ensures transparency and fairness in the process for selecting director and executive officer candidates and is chaired by an independent outside director.
Internal Control Committee	The Internal Control Committee consists of the officer in charge of internal control and management personnel involved in internal control, and deliberates primarily on basic issues relating to compliance and internal control systems. The committee also formulates basic internal control policies and monitors the internal control systems at the Company and its affiliates.
Risk Management Committee	The Risk Management Committee, consisting of principal officers, has been established to prevent the manifestation or minimize the impact of business risks that may affect the Kobayashi Pharmaceutical Group. The committee is responsible for creating and implementing risk management systems.

Selection of officers

Directors

Candidates are chosen based on the following points, on the content of the findings of the Nomination Committee, and on deliberations at meetings of the Board of Directors.

(Inside directors)

Inside directors must embody the Company's management principles and code of conduct, be knowledgeable concerning our business, with a wealth of experience and a high level of insight, and have extensive knowledge and understanding of management in general, and of corporate governance.

(Outside directors)

Because they must supervise our management from an independent standpoint in the execution of their duties, outside directors must be able to express their opinions clearly to inside directors and executive

officers, and have extensive experience and acumen in specialized fields that are useful to the Company, in order to offer appropriate advice on our management strategy and business execution.

Audit and Supervisory Board members

Decisions on candidates are made after deliberations by the Board of Directors once it has obtained the approval of the Audit and Supervisory Board on persons who have the requisite knowledge and insight to perform audit work on Company management in the execution of their duties.

Composition of the Board of Directors

Independent outside directors make up half (four members) of the Board of Directors (which comprises eight people). When outside Audit and Supervisory Board members are included, there are 12

participants in the Board of Directors, six of whom are outside officers. At meetings of the Board, independent outside directors and outside Audit and Supervisory Board members are proactive in making statements based from an external perspective, and extremely active discussions take place in an open atmosphere. Outspoken exchanges of opinions occur, and there are sometimes split opinions concerning votes on agenda items.

Additionally, we believe that balancing the terms of appointment of independent outside officers is important to maintaining the effectiveness of discussions at meetings of the Board. Those who have served as independent outside officers for a long time are able to supervise and offer suggestions based on a deep understanding of our management strategy and the characteristics of our business, while people with a relatively short term in office are able to supervise and offer advice from a free perspective unswayed by precedent at Kobayashi Pharmaceutical.

In order to improve our corporate value continuously, it is essential that discussions at Board of Directors meetings feature a variety of viewpoints. Currently, three of those participating on the Board are women. Going forward, we will work to ensure the diversity of the Board.

Skill matrix

Since people are the key to supporting our business model, we place particular emphasis on organizational management and development of human resources. Furthermore, in addition to protective aspects such as finance and accounting, and legal and risk management, we believe that we must strengthen our marketing—an area in which we are traditionally strong—and further, to achieve further growth, improve our capabilities in the areas of global business, ESG/sustainability, and DX, the elements of the skills matrix.

	Corporate management	Global business	Organizational management, human resources development	ESG, sustainability	Marketing, sales	Finance and accounting	Legal affairs, risk management	DX IT/Digital
Kazumasa Kobayashi	●	●	●	●	●			
Akihiro Kobayashi	●	●	●	●	●			
Satoshi Yamane			●	●		●	●	●
Kazuhiro Miyazaki		●	●		●			
Kunio Ito			●	●		●	●	●
Kaori Sasaki	●		●	●	●			●
Chiaki Ariizumi			●			●	●	●
Yoshiro Katae			●	●			●	

Independent outside officers

Name	Reasons for appointment
Kunio Ito	In addition to being engaged in accountancy and business administration for many years as a university professor, and having extensive corporate management experience and serving as an outside officer of other companies, Mr. Ito plays a central role in a governmental study group on the sustainable growth of companies. At Kobayashi Pharmaceutical, based on the knowledge he gained through these activities, he has fulfilled a management oversight function focused on the enhancement of corporate value, including improvement of capital efficiency, human capital management, and DX (digital transformation). Based on this experience and track record, we nominated Mr. Ito as a candidate for outside director in the hope that he will continue to perform supervisory functions that help elevate our Company's corporate value, and thus, he was elected at a general meeting of shareholders. Although he has no experience in company management other than as an outside officer, we believe that for the above reasons he will be able to appropriately perform his duties as an outside director.
Kaori Sasaki	In addition to her achievements and insights as a corporate manager, Ms. Sasaki has extensive experience in corporate management as an outside officer in other companies. Furthermore, as the founder and chair of the International Conference for Women in Business, she has been a pioneer in diversity management for many years. At Kobayashi Pharmaceutical, she contributes to improving corporate value by offering supervision and consultation in areas such as product development and DX (digital transformation) from a consumer standpoint, as well as promoting women's activities and work style reforms, both essential to promoting diversity-based management. Based on this experience and track record, we nominated Ms. Sasaki as a candidate for outside director in the hope that she will continue to perform supervisory functions that help elevate our Company's corporate value, and thus, she was elected at a general meeting of shareholders.
Chiaki Ariizumi	Ms. Ariizumi has spent many years analyzing economic conditions and financial markets in Japan and internationally for the Bank of Japan, engaging with corporate management regarding the bank's policies and decisions related to economic conditions. She currently, audits the business activities of Kobayashi Pharmaceutical as an outside Audit and Supervisory Board member, bringing to the role a wealth of knowledge and experience gained with the Bank of Japan, along with an ongoing consideration for the healthy growth of the Japanese economy as a whole. She offers accurate suggestions and advice regarding management of Kobayashi Pharmaceutical from an objective standpoint, and we believe from this track record that we can expect her to supervise our directors in the execution of their duties as an outside director. As such, we nominated her as a candidate for appointment as a new director, and she was elected at a general meeting of shareholders. Although she has no experience in company management other than as an outside officer, we believe that for the above reasons she will be able to appropriately perform her duties as an outside director.
Yoshiro Katae	As an executive officer at Komatsu Ltd., Mr. Katae has a wealth of experience and insight regarding risk management and compliance, particularly in global corporations. From this experience and track record, we believe that he will offer recommendations for the overall management of the Company, thus helping to increase corporate value in the medium- to long-term and contributing to appropriate monitoring of our management strategy of strengthening our international business, and to that end, we nominated him as a candidate for appointment as a new director and he was elected at a general meeting of shareholders. Although he has no experience in company management other than as an outside officer, we believe that for the above reasons he will be able to appropriately perform his duties as an outside director.

Officer compensation

Policies, etc., for the determination of content such as officer compensation

At a meeting of the Board of Directors held on September 28, 2020, Kobayashi Pharmaceutical enacted a policy for determining the content of items such as compensation for individual directors. The Board consults with the Compensation Advisory Committee in advance with regard to the content of resolutions it adopts and receives reports on these from the Committee.

Policy for determination of content of compensation for individual directors

- (a) The compensation system motivates the Group to achieve sustainable growth and improve corporate value in the medium- to long-term
- (b) The compensation system must be strongly linked to company performance, and should motivate directors to achieve the results desired in the duties to which they are assigned

- (c) The compensation system must share common interests with shareholders and improve awareness of shareholder-focused management
- (d) Processes for deciding compensation must be highly transparent and objective
- (e) To build and improve competitiveness, compensation levels must be conducive to obtaining outstanding management personnel

Overview of compensation system for directors

Compensation of directors is designed to further motivate directors to work toward enhancing the Company's business performance and medium-to-long-term growth. It consists of basic compensation, short-term incentive compensation, which varies according to business performance each year, and long-term incentive compensation, which varies according to the Company's medium- to long-term performance.

Note: Compensation of outside directors and Audit and Supervisory Board members consists of basic compensation only because they are independent from business execution.

Overview of content of compensation system and compensation calculation methods

Type of compensation (composition)	Overview of the compensation system and calculation methods
Basic compensation (70%)	Basic compensation is fixed monetary compensation, revised yearly based on performance to encourage directors to execute duties and achieve results in a steady manner commensurate with their position. The value of basic compensation is calculated by multiplying (i) the value of the previous year's basic compensation by (ii) a coefficient set using qualitative evaluation based on the achievement ratio for company-wide performance (consolidated sales, EPS, and ROE) for the previous year, together with the level of activity anticipated for the current fiscal year.
Short-term incentive compensation (30%)	Monetary compensation linked to single-year performance, intended to encourage directors to achieve their operational targets each fiscal year. It is calculated by multiplying (i) 30/70 of the basic compensation by (ii) a coefficient that is calculated based on a qualitative evaluation set according to a year-on-year comparison of evaluation indices (consolidated operating margin and EPS), together with the level of activity anticipated for the current fiscal year.
Long-term incentive compensation (-)	Monetary compensation linked to medium- to long-term results, intended to promote management that emphasizes improvement of business and share values over the medium- to long-term. It is calculated by multiplying (i) points set in advance to role by (ii) a coefficient calculated based on a qualitative evaluation set according to the achievement ratio of evaluation indices set in the medium-term management plan (consolidated sales, EPS, ROE) and the contribution that the person in question has made to ESG and to sustainable business growth, and (iii) the average closing price of the stock for each day in December of the final fiscal year of the medium-term management plan.

Total amount of compensation by position, types of compensation and number of officers receiving each type of compensation

Officer title	Total amount of compensation (Millions of yen)	Total amount of compensation by type (Millions of yen)		Number of Basic officers
		Fixed compensation	Performance-based compensation	
Directors (excluding outside directors)	471	324	147	4
Audit and Supervisory Board members (excluding outside members)	35	35	—	3
Outside officers	87	87	—	6

Notes:

- Directors of the Company do not receive payment of salaries as employees other than the payment amounts shown at left.
- The upper limit on total compensation for directors was set at ¥900 million per year (including ¥100 million for outside directors) at the 97th General Shareholders' Meeting held on June 26, 2015.
- The upper limit on total compensation for Audit and Supervisory Board members was set at ¥80 million per year at the 91st General Shareholders' Meeting held on June 26, 2009.
- Includes compensation paid to one member of the Audit and Supervisory Board who resigned at the close of the 103rd General Shareholders' Meeting held on March 26, 2021.

Total amount of compensation of officers receiving compensation of more than ¥100 million

Name	Position	Total amount of compensation by type (Millions of yen)		Total compensation (Millions of yen)
		Fixed compensation	Performance-linked compensation	
Kazumasa Kobayashi	Representative Director, Chairman of the Board and Chief Executive Officer	211	95	307

Evaluation of the effectiveness of the Board of Directors

Kobayashi Pharmaceutical recognizes that vigorous discussion by the Board of Directors is vital to corporate governance, and to increasing corporate value. Accordingly, an assessment of the effectiveness of the Board of Directors is conducted every year seeking to improve our operations.

Effectiveness evaluation process

- Oct. 2021 Questionnaire survey (subjects: all directors and Audit and Supervisory Board member)
- Nov. 2021 Individual interviews (subjects: all directors and Audit and Supervisory Board member)
- Dec. 2021 Board of Directors evaluation meeting (participants: all outside directors and outside Audit and Supervisory Board member)

Results of effectiveness evaluation

Items rated as “Not problematic” or “Generally acceptable” in the survey are as follows.

- Number of Board members and diversity of comprising members
- Decision-making capability of outside officers (knowledge, experience, and ability)
- Concurrent positions held by outside officers
- Reflection and deliberation on opinions and questions from outside officers
- Frequency and operation of Board meetings
- Allocation of items to be discussed by the Board of Directors, and those to be entrusted to management
- Atmosphere conducive to a risk-taking agenda
- Frequency and content of reports on the status of directors’ execution of duties
- Investor feedback
- Decision-making and provision of information required for managerial decisions

Additionally, the following opinions were received in individual interviews

- Diversity has been sufficiently ensured with reference to the knowledge, experience, specialties, and gender distribution of inside and outside officers
- Outside officers are ensured fair and impartial opportunities to express their opinions, and these are reflected sufficiently
- Significant themes in the medium-term management plan, etc., appear to reflect the requests of outside officers, and substantive discussions are now gradually taking place

Conversely, discussions on the direction of the management strategy and the medium-term management plan, as well as progress reviews of risk and important tasks to be executed—all domains that have continued to be the subject of criticism—were seen as receiving more opportunities for discussion than in the past. However, some opined that further time should be reserved for discussion and confirmed that there is still room for improvement.

The Board of Directors of Kobayashi Pharmaceutical has been assessed as being appropriately operated, with improving effectiveness.

Problems and countermeasures

The above evaluation results were reported to the January 2022 meeting of the Board of Directors, based on which future issues and countermeasures were discussed. A summary of this is as follows.

Issues

- Ensuring opportunities for discussion on medium- to long-term managerial issues and important issues (below, “Important Agenda Items”*) at Board meetings
- Take measures to ensure more effective discussions on Important Issues

* Important Agenda Items: ESG, international strategy, human resources strategy, capital policy, DX strategy, EC strategy, measures against natural disasters, progress reviews on important tasks to be executed, reports on the status of task execution by executive officers, etc.

Opinions were offered stating that to allow effective discussion on these Important Agenda Items, (1) Operation of the Board of Directors must be adapted to allow discussion of Important Issues systematically and without omission and (2) In addition to increasing the actual time allotted to Board meetings themselves, it is necessary to provide more opportunities for discussion and for information sharing outside of the Board of Directors.

Based on these opinions, we will carry out the following measures (some measures have already been implemented in response to issues found last year).

Countermeasures

(Implemented in 2021)

- Complete review of agenda item criteria for Board meetings
 - To secure more time for discussion of Important Agenda Items in Board meetings by delegating authority to the executive side (the Management Meeting) and increasing the monetary standard for inclusion in Board meeting agenda
- Major revisions to the annual calendar for Board of Directors meetings for 2022
 - To create an environment in which Important Agenda Items can be discussed systematically without omission

(Planned for implementation in 2022)

- Expansion of Board meeting timeframe (planned for implementation from the second half of FY2022)
 - To secure more time for discussion of Important Agenda Items in Board meetings
- Establishment of forums other than Board meetings for discussions and exchange of information
 - Increasing of informational input prior to discussion/ establishment of a meeting for focused evaluation of the medium-term management plan in order to clarify main discussion points through advance discussion, and to make deliberation on Important Agenda Items more realistic
 - Establishment of off-site meetings to energize communication between Board members

While putting these measures firmly into action, we will continue to repeatedly evaluate and improve the effectiveness of Board meetings, working to improve these meetings. We believe that by doing this we will strengthen the corporate value creation processes of our Group, leading to further improvements to our corporate value.

Risk management

Kobayashi Pharmaceutical groups risks into three categories and has set up frameworks to manage risk in each category.

For medium- to long-term risks (potential risks), the Risk Management Committee chaired by the president was established in 2017 and has begun comprehensive activities to identify business risks from a long-term perspective and to take action before they develop into specific problems. In 2018, after discussions in four meetings of the Risk Management Committee,

which included training by outside experts, we identified high-priority Group-wide risks as medium-to-long-term risks that should be reduced with the involvement of management. General managers are now leading risk reduction activities for high-priority Group-wide risks utilizing a framework for formulating and monitoring the progress of risk reduction plans, and regularly reporting on progress to the Board of Directors.

Regarding business risks and potential short-term risks, the Monthly Report Committee aggregates and considers responses to all departmental risk information. In addition, we are establishing

Business and other risks

Major risks	Description	Primary responses and current status
(1) Environment risks for business	<ul style="list-style-type: none"> Rapid changes in consumer needs Increased cost of advertising, etc., due to the changing competitive environment 	<ul style="list-style-type: none"> Development of new products that meet consumer needs Formulation of new strategies for existing products reflecting environmental changes Reduced impact from a diversified product lineup Increased efficiency of advertising spend due to an improved media mix
(2) Risks of business models that introduce new products aggressively	<ul style="list-style-type: none"> Reduction in the number of new products released Increased competition at launch due to the presence of competing products 	<ul style="list-style-type: none"> Creation of new ideas through a proposal system for all employees Securing items for product releases using a new product portfolio
(3) Risks of demand fluctuations due to climate change and unseasonable weather	<ul style="list-style-type: none"> Reduced sales of strongly seasonal products Burden imposed by carbon tax due to the trend towards reducing greenhouse gases Reduced demand due to increased awareness of ethical issues 	<ul style="list-style-type: none"> Development of healthcare products by our hand warmer business Adjustment of shipment volumes based on a range of data Evaluation of medium- to long-term risks by the Group Environmental Committee Launching of a cross-departmental project for reduction of greenhouse gas emissions from a Scope 3 standpoint
(4) Risks of business overseas	<ul style="list-style-type: none"> Reduced investment recovery efficiency due to regulatory changes and slower economic growth in different countries Significant variation in exchange rates 	<ul style="list-style-type: none"> Status reports from the executive director responsible for China at the weekly Management Meeting Reduced improvement risks due to incremental, logical investment decisions and revision of investment plans Monitoring of major currency exchange rates
(5) Risk of business acquisitions and alliances	<ul style="list-style-type: none"> Failure due to unexpected events and environmental changes Loss of goodwill or other intangible assets 	<ul style="list-style-type: none"> Exhaustive due diligence Decisions to invest after discussion of residual risks and opportunities for growth
(6) Risks of securing and utilizing human capital	<ul style="list-style-type: none"> Less promotion of activities by a diverse range of people without regard to gender or nationality Delayed response to intensifying competition in the labor market Insufficient measures to improve employee awareness of the contributions made by the businesses with which they are associated 	<ul style="list-style-type: none"> Flat corporate culture Fostering an awareness of growth through growth-related dialog between supervisors and their subordinates Promotion of specific activities aimed at inspiring women to focus on their careers Implemented systems for working from home, flexible working times, side-jobs, and a free dress code, in order to create an environment in which people with a diverse range of lifestyles can take an active role
(7) Product safety risks	<ul style="list-style-type: none"> Design defects Quality defects Erroneous responses to reports of adverse drug reactions 	<ul style="list-style-type: none"> Risk reduction by the dedicated quality audit department (Reliability Assurance Headquarters) Timely assessment when serious design or quality defects are suspected
(8) Risks in procuring raw materials for products	<ul style="list-style-type: none"> Increased procurement costs due to fluctuating exchange rates Rising raw material costs due to sudden increases in crude oil prices Inhibited supply of products to the market due to halts in production and distribution during disasters 	<ul style="list-style-type: none"> Absorption of the cost of sudden increases in the price of limited raw materials resulting from large sale volumes Prompt securing of raw materials using a Product BCP System Explaining CSR procurement in the Procurement Policy Briefing
(9) Legal and regulatory risk	<ul style="list-style-type: none"> Cessation of development and sale of products due to changes in laws and regulations Fluctuations in sales due to changes in import and export regulations 	<ul style="list-style-type: none"> Information gathering and prompt responses centered on the Legal and Intellectual Property Department
(10) Risks associated with information security	<ul style="list-style-type: none"> Compensation for and loss of trust due to leakage of personal information Temporary cessation of business activities and leaks of know-how due to cyber attacks 	<ul style="list-style-type: none"> Implementation of information security systems Thorough employee training Third-party evaluation of information security Backup of important digital data on remote servers
(11) Risks related to compliance	<ul style="list-style-type: none"> Serious compliance violations by the Kobayashi Group or its employees 	<ul style="list-style-type: none"> Compliance questionnaire targeting employees and personnel responsible for external business partners Establishment of a dedicated hotline for compliance issues (the Employee Consulting Center)
(12) Risks associated with litigation and intellectual property	<ul style="list-style-type: none"> Delays in implementation of frameworks for the management of intellectual property assets Third-party infringement of intellectual property rights Compensation for and loss of trust incurred due to infringement of the intellectual property rights of Kobayashi Pharmaceutical 	<ul style="list-style-type: none"> Checking for infringement and non-infringement of intellectual property rights Proactive creation and strategic application for intellectual property rights at the product development stage
(13) Risks due to natural- and human-caused disasters	<ul style="list-style-type: none"> Stoppages or delays of operations, loss of assets, or human casualties, etc., brought about by natural- or human-caused disasters 	<ul style="list-style-type: none"> Formulation of Business Continuity Plans (BCP) Construction of crisis management systems When a crisis occurs, prompt discussion and responses in the weekly Management Meeting
(14) Risks due to outbreaks of serious infectious diseases	<ul style="list-style-type: none"> Lower sales associated with the reduction in opportunities for people to go out brought on by restrictions imposed by local governments Deteriorating economic conditions due to prolonged and normalized spread of infectious diseases Suspension of business activities such as product manufacturing due to the occurrence of infections on business premises 	<ul style="list-style-type: none"> Development and sale of new products suitable for the "new normal" that has resulted from the spread of infectious disease Planning of countermeasures and identification of risks of infection by the Crisis Management Headquarters Operation with minimized risk of operation halts

Note: Refer to the annual securities report for details

a structure in which the Management Meeting will take measures to address risks that are judged to require the involvement of management. When a crisis occurs, a Crisis Management Headquarters will be set up immediately to quickly implement response measures.

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

Management of intellectual property

Working from our corporate slogan of “You make a wish, and we make it happen,” we believe that our systems for creating ideas for new products are one source of our strength. From the standpoint of honing such strengths, we promote investment in intangible assets such as human and intellectual capital through DX investment, mergers and acquisitions, and investment in human resources, all oriented towards the development of new products.

Regarding intellectual property in particular, we have adopted a business model of creating new markets with wholly unique products, insisting on naming and advertising that communicates product characteristics in an easy-to-understand manner, and

endeavor to protect our products with trademark rights. Our Legal and Intellectual Property Department cooperates with each business division from the early development stages of product development to predict how the markets they are developing will look in the future, and employs a multifaceted strategy for product protection that includes patents and designs, securing global intellectual property rights, and taking measures to prevent counterfeiting. In 2020, these activities earned us the Intellectual Property Achievement Award from the Commission of the Japan Patent Office.

Internal controls

Kobayashi Pharmaceutical is building internal frameworks to ensure that operations are conducted, and financial statements are prepared, in compliance with the Companies Act and the Financial Instruments and Exchange Act of Japan, and to adhere to relevant laws and regulations. As part of these frameworks, the Internal Control Committee meets twice each year. An outside attorney serving as an advisor monitors the Kobayashi Pharmaceutical Group's internal control and compliance systems, and provides recommendations and advice to the Board of Directors on measures for improvement.

For details, see the Basic Policy on Internal Control Systems (in Japanese only).
<https://www.kobayashi.co.jp/corporate/governance/>

Additionally, we are working to provide visual representation of our internal controls, listing internal control activities so that any omissions are immediately obvious, and color-coding them blue, yellow, or red according to the progress of the activity. Further, we are promoting and supervising internal control activities by regular reporting to the Management Meeting and the Board of Directors.

Promotion of compliance

Working from the belief that promoting compliance is one of the most important issues for management, our top management and the senior management at business divisions regularly issue messages intended to bolster awareness.

To increase compliance awareness and spread knowledge of compliance among all employees and directors across the Kobayashi Pharmaceutical Group, we are systematically conducting training by job classification (officers, managers, new employees, etc.) that incorporates topics tailored to each job level. Furthermore, we continue to instill compliance awareness among all employees through the Group newsletter and e-learning programs (attendance rate: 100%) available via the Group intranet, and in 2020 began “15-minute training” sessions in which managers at each department serve as instructors for compliance-themed discussions. These sessions give every employee an opportunity to think about compliance-related themes each month, and are becoming extremely effective tools for improving awareness of compliance.

We have also established Employee Consulting Centers both internally and externally (in a law office; also available to overseas employees) as a dedicated hotline for employees to anonymously report compliance violations or ask general questions on compliance issues. This helps resolve matters that arise.

15-minute training sessions

January: The role of the employee consultation hotline (internal reporting system)
 February: What should one never do on a social networking service?
 March: What terms constitute pregnancy-related harassment?
 April: What is integrity?
 May: What happens when small improprieties are ignored?
 June: Thinking about disaster preparation (Safety confirmation)
 July: What is gender-based harassment?
 August: Working towards work style reform
 September: When do people consult the compliance hotline?
 October: Towards preventing information leaks caused by USB memory
 November: Breaking the fraud triangle
 December: Points for smooth communication

E-learning

January: Disaster awareness and crisis management
 February: Cybersecurity month
 March: Business activities and environmental protection
 April: Handling of personal information
 May: The Pharmaceutical and Medical Device Act
 June: When someone you love develops mental health issues
 July: The 10 biggest threats to information security in 2021
 August: Learning from recent discrimination cases in Japan
 September: The Premiums and Representations Act
 October: Rules for bringing in or importing goods from abroad
 November: Personal information and privacy
 December: Diversity index

Communication with shareholders and investors

At Kobayashi Pharmaceutical, we recognize that shareholders and investors (“shareholders, etc.”) are important stakeholders, and we emphasize constructive dialogue with them for the Company’s sustainable growth. We have systems in place for ensuring that

valuable opinions, centering on those arising from dialogue with shareholders, etc., are shared with top management and reflected in improvements to the running of the Company.

Policies for dialogue with shareholders

- We actively engage in dialogue with shareholders, etc. to contribute to the Company’s sustainable growth.
- Senior management, the IR officer or IR Department conduct dialogue with shareholders, etc., taking into account their attributes, the timing of the dialogue, the Company’s business resources and other factors.
- In dialogue with shareholders, etc., feedback is provided to the Board of Directors on shareholders’ views regarding the Company’s sustainable growth.

Results of dialogue with shareholders

General Shareholders’ Meeting (held in March 2021)	
Attendance	31
Vote participation rate	92.6%
Meetings with institutional investors and analysts	
Number of times held	168
Dialogue with individual investors	
Number of times held	0
Participants	0

Note: To prevent the spread of novel coronavirus, no briefings were held in 2021.

11-year summary

Old standard

	2012.3	2013.3	2014.3	2015.3	2016.3
For the fiscal period (Millions of yen)					
Net sales	131,166	121,532	127,293	128,344	137,211
Cost of sales	54,635	51,732	54,193	54,718	57,518
Gross profit	76,531	69,799	73,099	73,626	79,693
Selling, general and administrative expenses	57,233	52,895	54,977	55,708	61,432
Operating income	19,298	16,903	18,122	17,917	18,260
Ordinary income	20,092	18,677	18,769	18,843	17,949
Income before income taxes	19,822	18,853	19,666	20,056	18,755
Net income attributable to owners of the parent	11,726	12,176	12,307	12,448	13,466
Cash flow from operating activities	17,250	9,242	13,513	15,445	14,329
Free cash flow ¹	14,320	(17,362)	6,553	10,904	3,396
Depreciation	2,447	2,623	2,680	2,644	2,544
Capital expenditures ²	1,920	3,135	3,959	3,584	4,448
Research and development costs	4,385	4,544	4,930	5,289	5,788
At period-end (Millions of yen)					
Current assets	102,538	94,353	105,614	115,990	120,347
Non-current assets	45,352	62,753	65,304	70,340	68,650
Current liabilities	37,791	34,477	34,216	35,890	36,481
Non-current liabilities	8,220	7,757	9,749	10,829	10,492
Net assets	101,879	114,872	126,953	139,611	142,023
Total assets	147,890	157,106	170,919	186,331	188,997
Working capital ³	64,747	59,876	71,398	80,100	83,865
Interest-bearing liabilities	5	4	6	40	181
Per-share data⁴ (Yen)					
Net income	143.18	148.69	150.28	152.73	165.56
Cash dividends	39.00	41.00	43.00	45.00	48.00
Payout ratio (%)	27.2	27.6	28.6	29.5	29.0
Cash flows ⁵	202.9	108.7	158.9	181.6	168.5
Net assets	1,242.04	1,402.64	1,549.16	1,711.77	1,766.06
Financial ratios (%)					
Gross profit margin	58.3	57.4	57.4	57.4	58.1
Operating income margin	14.7	13.9	14.2	14.0	13.3
Ordinary income margin	15.3	15.4	14.7	14.7	13.1
Net margin	8.9	10.0	9.7	9.7	9.8
Current ratio	271.3	273.7	308.7	323.2	329.9
Return on assets (ROA)	14.2	12.2	11.4	10.5	9.6
Return on equity (ROE)	12.2	11.2	10.2	9.4	9.6
Equity ratio	68.8	73.1	74.2	74.8	75.1
Debt-equity ratio (times) ⁶	0.00005	0.00004	0.00005	0.00029	0.00127
Price-earnings ratio (PER) (times) ⁷	14.5	15.3	19.8	28.2	29.8

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

2. Capital expenditures = Increase in property, plant and equipment + Increase in intangible assets

3. Current assets – Current liabilities

4. Including impact of stock split

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

6. Interest-bearing liabilities ÷ Shareholders' equity

7. Current share price ÷ Earnings per share

Old standard				New standard ⁹		
2016.12 ⁸	2017.12	2018.12	2019.12	2019.12	2020.12	2021.12
(Millions of yen)						
120,051	156,761	167,479	168,052	158,340	150,514	155,252
48,638	61,238	64,359	64,705	67,364	65,248	66,478
71,412	95,522	103,119	103,346	90,975	85,265	88,773
54,003	72,596	76,830	76,991	65,317	59,322	62,707
17,409	22,925	26,289	26,355	25,658	25,943	26,065
19,499	24,191	27,374	27,851	27,851	27,726	28,015
19,802	22,572	25,304	26,804	26,804	26,635	27,636
14,321	15,863	18,023	19,139	19,139	19,205	19,715
16,097	22,350	20,007	20,089	20,089	23,986	22,419
15,577	29,390	11,944	15,017	15,017	11,330	30,410
2,112	2,926	2,967	3,583	3,583	3,837	3,973
4,352	3,360	3,796	5,315	5,315	4,265	5,278
4,121	7,239	7,031	7,110	7,110	7,338	7,522
(Millions of yen)						
128,646	142,346	151,824	162,712	163,046	164,225	181,889
72,587	76,484	76,963	70,685	70,685	74,141	70,664
46,975	54,274	55,053	53,433	53,767	50,107	50,703
10,938	10,744	7,485	7,307	7,307	5,675	6,250
143,320	153,811	166,249	172,657	172,657	182,583	195,600
201,234	218,831	228,787	233,398	233,732	238,366	252,554
81,670	88,072	96,771	109,279	109,279	114,118	131,186
192	194	506	19	19	13	1
(Yen)						
179.12	201.31	228.05	244.08	244.08	245.71	252.36
52.00	58.00	66.00	73.00	73.00	77.00	83.00
29.0	28.8	28.9	29.9	29.9	31.3	32.9
189.3	272.4	243.8	244.8	244.8	292.3	273.2
1,818.10	1,947.82	2,102.49	2,208.94	2,208.94	2,335.93	2515.53
(%)						
59.5	60.9	61.6	61.5	57.5	56.6	57.2
14.5	14.6	15.7	15.7	16.2	17.2	16.8
16.2	15.4	16.3	16.6	17.9	18.4	18.0
11.9	10.1	10.8	11.4	12.1	12.8	12.7
273.9	262.3	275.8	304.5	304.5	327.7	358.7
10.0	11.5	12.2	12.1	12.0	11.7	11.4
10.0	10.7	11.3	11.3	11.3	10.8	10.4
71.2	70.3	72.7	73.9	73.9	76.6	77.4
0.00134	0.00126	0.00304	0.00011	0.00011	0.00007	0.00000 ¹⁰
27.9	36.4	32.8	38.0	38.0	51.32	35.82

8. The Company changed its fiscal year-end to December 31 from March 31 effective from fiscal 2016/3.

Consequently, fiscal 2016/12 is a transitional period comprising the nine months from April 1, 2016 to December 31, 2016.

9. The "Accounting Standard for Revenue Recognition" (Accounting Standards Board of Japan (ASBJ) Statement No. 29, March 30, 2018) and "Implementation Guidance on the Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 30, 2018) have been early applied from the beginning of the fiscal year ended December 31, 2020.

10. The D/E ratio is rounded to six decimal places. The actual value for 2021 is 0.000008

Consolidated balance sheet

As of December 31,
2020 and 2021

	2020.12	2021.12
ASSETS		
Current assets		
Cash and deposits	78,253	95,024
Notes and accounts receivable-trade	52,850	55,169
Short-term investment securities	16,085	14,022
Merchandise and finished goods	8,960	8,853
Work in process	1,548	1,388
Raw materials and supplies	3,631	4,866
Other	2,917	2,587
Allowance for doubtful accounts	(21)	(22)
Total current assets	164,225	181,889
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	7,961	8,158
Machinery, equipment and vehicles, net	4,729	5,055
Tools, furniture and fixtures, net	1,397	1,450
Land	4,739	4,695
Leased assets, net	656	608
Construction in progress	1,337	2,555
Total property, plant and equipment	20,821	22,524
Intangible assets		
Goodwill	7,284	7,189
Trademark rights	4,030	3,721
Software	1,286	1,538
Other	192	207
Total intangible assets	12,794	12,658
Investments and other assets		
Investment securities	34,474	29,466
Long-term loans receivable	700	816
Deferred tax assets	1,443	1,489
Real estate for investment, net	2,765	2,735
Other	1,908	1,840
Allowance for doubtful accounts	(766)	(866)
Total investments and other assets	40,525	35,482
Total non-current assets	74,141	70,664
Total assets	238,366	252,554

(Millions of yen)

As of December 31,
2020 and 2021

	2020.12	2021.12
LIABILITIES		
Current liabilities		
Notes and accounts payable-trade	7,558	9,293
Electronically recorded obligations-operating	8,368	8,151
Short-term loans payable	13	1
Accounts payable-other	20,968	21,187
Lease obligations	170	169
Income taxes payable	4,371	3,836
Accrued consumption taxes	1,417	639
Provision for bonuses	2,797	2,486
Other	4,441	4,936
Total current liabilities	50,107	50,703
Non-current liabilities		
Lease obligations	505	460
Deferred tax liabilities	1,357	1,564
Net defined benefit liability	1,920	1,978
Provision for directors' retirement benefits	40	41
Other	1,852	2,206
Total non-current liabilities	5,675	6,250
Total liabilities	55,783	56,954
NET ASSETS		
Shareholders' equity		
Capital stock	3,450	3,450
Capital surplus	4,183	4,183
Retained earnings	187,071	200,534
Treasury stock	(19,763)	(23,706)
Total shareholders' equity	174,941	184,461
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	10,449	10,953
Foreign currency translation adjustment	(1,517)	1,166
Re-measurements of retirement benefit plans	(1,290)	(1,034)
Total accumulated other comprehensive income	7,641	11,085
Share acquisition rights	—	53
Total net assets	182,583	195,600
Total liabilities and net assets	238,366	252,554

Note. The "Accounting Standard for Revenue Recognition" (Accounting Standards Board of Japan (ASBJ) Statement No. 29, March 30, 2018) and "Implementation Guidance on the Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 30, 2018) have been early applied from the beginning of the fiscal year ended December 31, 2020.

Consolidated income statement

(Millions of yen)

Years ended December 31,
2020 and 2021

	2020.12	2021.12
Net sales	150,514	155,252
Cost of sales	65,248	66,478
Gross profit	85,265	88,773
Selling, general and administrative expenses		
Promotion expenses	3,204	3,336
Freight and warehousing expenses	4,401	4,091
Advertising expenses	18,404	19,163
Salaries, allowances and bonuses	11,888	12,911
Retirement benefit expenses	812	864
Provision for directors' retirement benefits	1	1
Taxes and dues	729	718
Depreciation	872	1,533
Amortization of goodwill	269	862
Rent	1,321	1,363
Commission fees	5,141	5,200
Research and development expenses	7,338	7,522
Other	4,936	5,138
Total selling, general and administrative expenses	59,322	62,707
Operating income	25,943	26,065
Non-operating income		
Interest income	279	131
Dividend income	468	457
Real estate rent	302	300
Foreign exchange gains	—	481
Compensation income	600	600
Other	696	419
Total non-operating income	2,346	2,390
Non-operating expenses		
Interest expenses	21	18
Rent cost of real estate	96	128
Foreign exchange losses	216	—
Provision of allowance for doubtful accounts	135	116
Non-deductible consumption taxes	—	105
Other	94	71
Total non-operating expenses	563	441
Ordinary income	27,726	28,015
Extraordinary income		
Gain on sales of non-current assets	4	1
Gain on sales of investment securities	261	1
Gain on sale of shares of subsidiaries and associates	—	150
Total extraordinary income	265	153
Extraordinary loss		
Loss on disposal of non-current assets	68	71
Impairment loss	1,122	309
Loss on valuation of investment securities	9	67
Other	155	82
Total extraordinary loss	1,356	531
Income before income taxes	26,635	27,636
Income taxes - current	7,818	7,923
Income taxes - deferred	(388)	(2)
Total income taxes	7,430	7,920
Net income	19,205	19,715
Net income attributable to owners of the parent	19,205	19,715

Consolidated statement of comprehensive income

(Millions of yen)

Years ended December 31,
2020 and 2021

	2020.12	2021.12
Net income	19,205	19,715
Other comprehensive income		
Valuation difference on available-for-sale securities	(2,762)	504
Foreign currency translation adjustment	(930)	2,683
Adjustment for retirement benefits	199	255
Total other comprehensive income	(3,494)	3,444
Comprehensive income	15,710	23,160
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of the parent	15,710	23,160
Comprehensive income attributable to non-controlling interests	—	—

Consolidated statement of shareholders' equity

January 1, 2020 to December 31, 2020

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at period start	3,450	4,183	173,650	(19,762)	161,521
Change during current period					
Dividends from surplus			(5,784)		(5,784)
Net income attributable to owners of the parent			19,205		19,205
Purchase of treasury stock				(0)	(0)
Net changes of items other than shareholders' equity					
Total change during current period	—	—	13,421	(0)	13,420
Balance at current period-end	3,450	4,183	187,071	(19,763)	174,941

(Millions of yen)

	Accumulated other comprehensive income				Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Re-measurements of retirement benefit plans	Accumulated other comprehensive income total	
Balance at period start	13,212	(586)	(1,489)	11,136	172,657
Change during current period					
Dividends from surplus					(5,784)
Net income attributable to owners of the parent					19,205
Purchase of treasury stock					(0)
Net changes of items other than shareholders' equity	(2,762)	(930)	199	(3,494)	(3,494)
Total change during current period	(2,762)	(930)	199	(3,494)	9,925
Balance at current period-end	10,449	(1,517)	(1,290)	7,641	182,583

January 1, 2021 to December 31, 2021

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at period start	3,450	4,183	187,071	(19,763)	174,941
Change during current period					
Dividends from surplus			(6,253)		(6,253)
Net income attributable to owners of the parent			19,715		19,715
Purchase of treasury stock				(3,943)	(3,943)
Net changes of items other than shareholders' equity					
Total change during current period	—	—	13,462	(3,943)	9,519
Balance at current period-end	3,450	4,183	200,534	(23,706)	184,461

(Millions of yen)

	Accumulated other comprehensive income					Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Re-measurements of retirement benefit plans	Accumulated other comprehensive income total	Share acquisition rights	
Balance at period start	10,449	(1,517)	(1,290)	7,641	—	182,583
Change during current period						
Dividends from surplus						(6,253)
Net income attributable to owners of the parent						19,715
Purchase of treasury stock						(3,943)
Net changes of items other than shareholders' equity	504	2,683	255	3,444	53	3,497
Total change during current period	504	2,683	255	3,444	53	13,016
Balance at current period-end	10,953	1,166	(1,034)	11,085	53	195,600

Consolidated statement of cash flows

(Millions of yen)

Years ended December 31,
2020 and 2021

	2020.12	2021.12
Cash flow from operating activities		
Income before income taxes	26,635	27,636
Depreciation	3,837	3,973
Impairment loss	1,122	309
Amortization of goodwill	269	862
Interest and dividends income	(747)	(588)
Interest expenses	21	18
Loss (gain) on sale of shares of subsidiaries and associates	—	(150)
Loss (gain) on sales of investment securities	(261)	(1)
Loss (gain) on valuation of investment securities	9	67
Loss (gain) on sales and retirement of non-current assets	64	69
Decrease (increase) in notes and accounts receivable-trade	1,588	(1,523)
Decrease (increase) in inventories	1,309	(462)
Increase (decrease) in notes and accounts payable-trade	(984)	813
Increase (decrease) in accounts payable-other	(3,194)	(177)
Increase (decrease) in accrued consumption taxes	266	(794)
Other	1,225	193
Total	31,160	30,247
Interest and dividend income received	813	654
Interest expenses paid	(15)	(17)
Income taxes paid	(7,972)	(8,464)
Net cash provided by operating activities	23,986	22,419
Cash flow from investing activities		
Payments into time deposits	(51,271)	(49,285)
Proceeds from withdrawal of time deposits	53,401	53,432
Proceeds from sales and redemption of securities	6,623	7,728
Purchase of property, plant and equipment	(3,795)	(3,663)
Proceeds from sales of property, plant and equipment	15	10
Purchase of intangible assets	(354)	(522)
Purchase of investment securities	(6,620)	(182)
Proceeds from sales of investment securities	705	402
Proceeds from sale of shares of subsidiaries and associates	—	200
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(11,355)	—
Other	(5)	(129)
Net cash provided by (used in) investing activities	(12,656)	7,991
Cash flow from financing activities		
Net increase (decrease) in short-term loans payable	(5)	(12)
Purchase of treasury stock	(0)	(3,943)
Cash dividends paid	(5,784)	(6,251)
Other	(227)	(169)
Net cash provided by (used in) financing activities	(6,019)	(10,377)
Effect of exchange rate change on cash and cash equivalents	(425)	797
Net increase (decrease) in cash and cash equivalents	4,884	20,830
Cash and cash equivalents at beginning of period	56,272	61,157
Cash and cash equivalents at end of period	61,157	81,987

Our history

- 1886** ● Founder Chubei Kobayashi established Kobayashi Seidaido, an unlimited partnership company, in Monzen-cho, Naka-ku, Nagoya
The Company sold general merchandise and cosmetics
- 1894** ● Launched 10 types of proprietary pharmaceuticals including *Daikomaru*, *Ichinichimaru* and *Tamushichinki*
- 1912** ● Established Kobayashi Daiyakubou, a limited partnership company, in Hiranomachi, Higashi-ku, Osaka
- 1919** ● Incorporated as Kobayashi Daiyakubou, Co., Ltd. in Kyomachibori, Nishi-ku, Osaka through a merger involving unlimited partnership company Kobayashi Seidaido and limited partnership company Kobayashi Daiyakubou
Kichitaro Kobayashi is appointed as the first president
- 1939** ● Launched *Hakkiri*, a headache medicine
- 1940** ● Spun off the manufacturing division of Kobayashi Daiyakubou, to establish Kobayashi Pharmaceutical Co., Ltd.
Juso Plant began operations in Higashi-yodogawa-ku, Osaka (currently Yodogawa-ku)
- 1948** ● Saburo Kobayashi is appointed as the second president
- 1956** ● Kobayashi Daiyakubou Co., Ltd. and Kobayashi Pharmaceutical Co., Ltd. were merged and renamed Kobayashi Pharmaceutical Co., Ltd.
Relocated the Head Office to Dosho-machi, Higashi-ku, Osaka (currently Dosho-machi, Chuo-ku)
- 1958** ● Teruko Kobayashi is appointed as the third president
- 1966** ● Launched *Ammeltz*, a topical analgesic
- 1969** ● Launched *Bluelet*, a toilet bowl cleaner and freshener, and entered household products market
- 1972** ● Formed partnership with C.R. Bard, Inc. of the U.S. to establish medical devices importer Japan Medico, Inc. and enter the medical devices market
- 1975** ● Launched *Sawaday*, a toilet air freshener, and entered the air fresheners market
- 1976** ● Kazumasa Kobayashi is appointed as the fourth president
Japan Medico, Inc. became Medicon, Inc., a joint venture company with C.R. Bard, Inc.
- 1983** ● Established Toyama Kobayashi Pharmaceutical Co., Ltd. (Toyama City, Toyama Prefecture)
- 1988** ● Angel Ltd. was made a consolidated subsidiary of Kobayashi Pharmaceutical Co., Ltd. to acquire a manufacturing site (Niihama City, Ehime Prefecture)
- 1992** ● Established Kobayashi Medical as part of the Medical Devices Business
- 1993** ● Established Sendai Kobayashi Pharmaceutical Co., Ltd. (Kurokawa-gun, Miyagi Prefecture)
- 1996** ● Launched *Toughdent*, a denture cleanser
- 1998** ● Established Shanghai Kobayashi Friendship Daily Chemicals Co., Ltd., a joint venture company in China
Established Kobayashi Healthcare, LLC in the U.S.
- 1999** ● Listed on the Second Section of the Osaka Securities Exchange
Launched mail order sales of nutritional supplements, marking the start of the Direct Marketing Business
- 2000** ● Listed on the First Section of the Tokyo Stock Exchange and Osaka Securities Exchange
Established the Central R&D Laboratory in Ibaraki City, Osaka Prefecture
Spun off the trade division to form Kobashou Co., Ltd.
- 2001** ● Made Kiribai Chemical Co., Ltd., a body warmer manufacturer, a subsidiary (Yodogawa-ku, Osaka)
Established Kobayashi Healthcare Europe, Ltd. in the U.K.
- 2002** ● Established Kobayashi Pharmaceutical (Hong Kong) Co., Ltd. in Hong Kong
Made Shanghai Kobayashi Friendship Daily Chemicals Co., Ltd. a wholly owned subsidiary, changing the company name to Shanghai Kobayashi Daily Chemicals Co., Ltd.
Took over the health food business, mainly for *Tochucha* (eucommia leaf tea), from Hitachi Zosen Corporation
- 2003** ● Angel Ltd. renamed Ehime Kobayashi Pharmaceutical Co., Ltd.
- 2004** ● Yutaka Kobayashi is appointed as the fifth president
- 2005** ● Obtained exclusive sales rights for women's health medicine *Inochi no Haha A* from Sasaokayakuhin Corporation
- 2006** ● Made eVent Medical Ltd., a medical device manufacturer in Ireland, a subsidiary
Made Heat Max, Inc., a body warmer manufacturer in the U.S., a subsidiary
- 2008** ● Kobashou Co., Ltd. and Mediceo Paltac Holdings Co., Ltd. Conducted share exchange
Spun off the manufacturing division of Kiribai Chemical Co., Ltd. to establish Kiribai Kobayashi Pharmaceutical Co., Ltd.
Obtained trademark rights for Bisrat Gold from Ishihara Chemical Co., Ltd.
- 2009** ● Established Kobayashi Pharmaceutical (Singapore) Pte. Ltd. in Singapore
- 2010** ● Spun off the medical device division into Kobayashi Medical Co., Ltd.
- 2011** ● Transferred all eVent Medical Ltd. shares in a management buy-out
Established Kobayashi Healthcare (Malaysia) Sdn. Bhd. in Malaysia
Established Kobayashi Pharmaceutical (Taiwan) Co., Ltd. in Taiwan
- 2012** ● Made Grabber, Inc., a body warmer manufacturer in the U.S., a subsidiary
Established PT. Kobayashi Pharmaceutical Indonesia in Indonesia
Established Hefei Kobayashi Daily Products Co., Ltd. in China
Sold 80 percent of Kobayashi Medical Co., Ltd. (currently Japan Medicalnext Co., Ltd.) shares to Mitsubishi Corporation
- 2013** ● Made Rokuyo Pharmaceutical Co., Ltd., a manufacturer of pharmaceutical products, quasi-pharmaceutical products and cosmetics, a subsidiary
Established Kobayashi Healthcare Australia Pty., Ltd. in Australia
Transferred all Japan Medicalnext Co., Ltd. shares to Mitsubishi Corporation
Established Hefei Kobayashi Pharmaceutical Co., Ltd. in China
Akihiro Kobayashi is appointed as the sixth president
Established Kobayashi Healthcare (Thailand) Co., Ltd. in Thailand
Made Juju Cosmetics Co., Ltd., a cosmetics manufacturer, into a subsidiary
- 2015** ● Acquired Ganyaku Hitifuku brand from Hitifuku Inc.
Dissolved the joint venture with U.S. company Bard International Inc. and sold all its shares to Medicon, Inc.
- 2016** ● Acquired monascus purpureus business from Gunze Limited
Made Perfecta Products, Inc., a company engaged in the planning and sale of OTC pharmaceuticals and cosmetics in the U.S., a subsidiary
- 2017** ● Acquired exclusive marketing rights in Japan for Bioil from Union-Swiss (Pty) Ltd. (headquartered in South Africa)
- 2018** ● Made Jiangsu Zhongdan Pharmaceutical Co., Ltd. a subsidiary, changing the company name to Jiangsu Kobayashi Pharmaceutical Co., Ltd.
- 2019** ● Made Meitan Hongo Co., Ltd., a manufacturer of health and other products made using Japanese plum, a subsidiary
- 2020** ● Made Alva-Amco Pharmacal Companies, Inc., a subsidiary to develop and grow the OTC pharmaceutical business in North America, changed the company name to Alva-Amco Pharmacal Companies, LLC

Corporate data / Investor information (As of December 31, 2021)

Corporate data

Corporate Name	KOBAYASHI PHARMACEUTICAL CO., LTD.
Incorporated	August 22, 1919
Head Office	4-4-10 Doshomachi, Chuo-ku, Osaka 541-0045, Japan
Representative	Akihiro Kobayashi, Representative Director, President and Chief Operating Officer
Employees	3,451 (consolidated), 1,607 (non-consolidated)
Consolidated Subsidiaries	35 (14 domestic, 21 overseas)

Investor information

Common Stock	¥3,450 million
Shares Authorized	340,200,000
Shares Issued	82,050,000
Shareholders	20,902
Stock Exchange Listing	Tokyo Stock Exchange First Section
Transfer Agent / Account Management Institution for Special Accounts	Mitsubishi UFJ Trust and Banking Corporation

Group Companies

● Domestic Business ● International Business ● Other Business

Consolidated Subsidiaries (Domestic)

- Toyama Kobayashi Pharmaceutical Co., Ltd.
- Sendai Kobayashi Pharmaceutical Co., Ltd.
- Ehime Kobayashi Pharmaceutical Co., Ltd.
- Kiribai Kobayashi Pharmaceutical Co., Ltd.
- Aloe Pharmaceutical Co., Ltd.
- Kobayashi Pharmaceutical Plax Co., Ltd.
- SP-Planning, Inc.
- Archer Corporation
- Suehiro Sangyo Co., Ltd.
- Kobayashi Pharmaceutical Distribution Co., Ltd.
- True Nature Co., Ltd.
- Kobayashi Pharmaceutical Value Support Co., Ltd.
- Kobayashi Pharmaceutical Global E-commerce Co., Ltd.
- Meitan Hongo Co., Ltd.

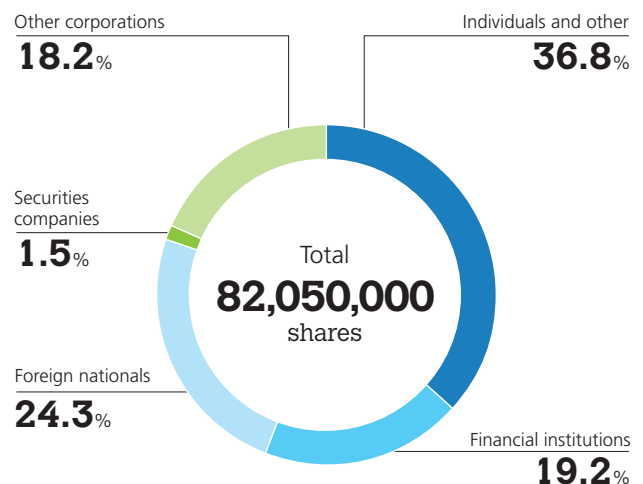
Consolidated Subsidiaries (Overseas)

- Kobayashi Healthcare, LLC
- Kobayashi Healthcare Europe, Ltd.
- Shanghai Kobayashi Daily Chemicals Co., Ltd.
- Hefei Kobayashi Daily Products Co., Ltd.
- Hefei Kobayashi Pharmaceutical Co., Ltd.
- Kobayashi Pharmaceutical (Hong Kong) Co., Ltd.
- Kobayashi (China) Co., Ltd.
- Jiangsu Kobayashi Pharmaceutical Co., Ltd.
- Kobayashi Pharmaceutical (Singapore) Pte. Ltd.
- Kobayashi Pharmaceutical (Taiwan) Co., Ltd.
- Kobayashi Healthcare (Malaysia) Sdn. Bhd.
- PT. Kobayashi Pharmaceutical Indonesia
- Kobayashi Healthcare Australia Pty., Ltd.
- Kobayashi Healthcare (Thailand) Co., Ltd.
- Kobayashi Healthcare International, Inc.
- Kobayashi Consumer Products, LLC
- Kobayashi America Manufacturing, LLC
- Mediheat, Inc.
- Berlin Industries, Inc.
- Perfecta Products, Inc.
- Alva-Amco Pharmacal Companies, LLC

Major shareholders

Name	Percentage of total shares held (%)
Akihiro Kobayashi	11.92
Japan Trustee Services Bank, Ltd. (trust account)	9.63
The Kobayashi Foundation	7.72
State Street Bank and Trust Company 505223	5.64
Ikuko Watanabe	3.16
Custody Bank of Japan, Ltd. (trust account)	3.08
Ohtori Co., Ltd.	2.80
Forum Co., Ltd.	2.66
Yukako Iue	2.39
Teruhisa Miyata	1.98

Shareholder composition



Notes:

- The Company holds 4,314,084 treasury stock, but is excluded from the above list of major shareholders.
- Percentage of total shares held is calculated excluding treasury stock.

KOBAYASHI Pharm. Co., Ltd.

KDX Kobayashi Doshomachi Bldg.,
4-4-10 Doshomachi, Chuo-ku, Osaka 541-0045, Japan
Tel +81 (0)6-6222-0142 Fax +81 (0)6-6222-4261
URL <https://www.kobayashi.co.jp/english>

