KOBAYASHI Pharmaceutical 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)6-6222-0146
URL https://www.kobayashi.co.jp/english

KOBAYASHI Pharmaceutical Co., Ltd.

You make a wish
and we make it
happen.

Integrated Report 2025

Contents

Period covered
January 1, 2024–December 31, 2024
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)
- Corporate Governance 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 Financial Reporting Standards Foundation and the Guidance for Collaborative Value Creation formulated by Japan's Ministry of Economy, Trade and Industry were used as references in compiling this report.

Environment Social Governance
Guidance for Collaborative Value Creation

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 applied from the beginning of the fiscal year ended December 31, 2020.

External recognition

FTSE Blossom Japan Sector Relative Index
https://www.lseg.com/en/ftse-russell/indices/blossom-japan

MORNINGSTAR GenDi J
Japan ex-REIT Gender Diversity Tilt Index
TOP CONSTITUENT 2025
https://indexes.morningstar.com/gender-diversity-indexes

2024 CONSTITUENT MSCI日本株 ESGセレクト・リーダーズ指数
https://www.msci.com/indexes/index/713538

2024 CONSTITUENT MSCI日本株 女性活躍指数 (WIN)
https://www.msci.com/indexes/sustainability-indexes/japan-empowering-women-indexes

To our shareholders

Once again, we would like to offer our deepest and most sincere apologies for the great concerns and inconveniences suffered by our customers, business partners, and other related parties due to the issue caused by the Company's red yeast rice-related products (hereinafter, the Issue*1).

At the Annual Shareholders' Meeting on March 28, 2025, our shareholders entrusted us with the responsibility of establishing a new executive system. In the past year, I myself had to rediscover the core vision underlying our corporate purpose after the emergence of the cases related to the Issue, and I recognize that measures undertaken to create a new Kobayashi Pharmaceutical still remain unfinished.

Under our new system, we are placing the highest priority on compensation for affected customers and business partners while making steady progress in implementing recurrence prevention measures focused on product quality and safety.

In the wake of what has happened, we believe that nothing is more important than returning once again to our core customer-first philosophy, and we have included customer-first management in the current fiscal year's management guidelines. With our efforts centered on this policy, we are focused on such topics as the sincere provision of compensation for affected persons even as we foster a culture that places the highest priority on product quality and safety, strive to bring balance to management, and create environments that inspire all employees across the Company to continue working.

There are many employees at the Company, myself included, who hold Kobayashi Pharmaceutical dear to their hearts. To encourage every individual to take pride in their work, we will strive to be faithful leaders who respect on-site staff and maintain close contact with such operations.

To ensure that such a problem never occurs again, we are continuing to progress with rebuilding efforts, sparing no expense in the area of product quality and safety, while also working to improve the efficacy of advertisements, optimize SKUs*2, and reappraise unprofitable businesses in order to secure sustainable profitability.

From a financial perspective, we are focusing on the balance sheet in addition to profit and loss, striving to improve capital efficiency, and promoting management mindful of ROE. We are also actively providing returns to shareholders and are hopeful that evaluations of the Company will improve across a variety of perspectives.

In our pursuit of a new Kobayashi Pharmaceutical, we begin all efforts with a customer-first mindset and are implementing reforms with the Company and its employees working as one. I would like to humbly ask for your continued support as we move into the future.

July 2025

Norikazu Toyoda
Representative Director, President and Chief Executive Officer

*1 Cases where a portion of the red yeast rice ingredients in the Company's red yeast rice-related products were found to have possibly contained components that were outside the Company's expectations (hereinafter, "red yeast rice-related cases" or "the Issue").
*2 Stock Keeping Units

Message from the President

Norikazu Toyoda

Representative Director,
President and Chief Executive Officer

Building a new Kobayashi Pharmaceutical with humility, sincerity, and gratitude

Our pledge to restore trust

Before anything else, our first priority is addressing matters regarding compensation for customers and business partners affected by the Issue. In addition, we are enacting steady and sincere recurrence prevention measures to ensure nothing like this ever happens again at Kobayashi Pharmaceutical.

As a part of the Company's recurrence prevention measures, beginning in January 2025, we have shifted our business system significantly, moving from one that divides its operations by business category to one that groups operations by function (a function-based headquarters system). Based on this new organizational structure, we will take a thoroughly customer-first approach, proceeding with initiatives focused on product quality and safety while resolutely continuing to hold discussions on the sources of issues and where to allocate resources. Because the level of expertise we require is quickly increasing, such evaluations are essential.

Message from the President

For product quality management, we must carefully ascertain whether our first (on-site manufacturers),* second (supervisors of such processes),* and intermediate line (those in between these groups)* lines of defense are functioning without redundancies, as well as whether too much is being asked of employees as the number of processes they handle increases. This requires that we clearly understand the gates—quality control checkpoints—that each product must pass at each stage to assure quality and safety before proceeding to the next step in development. In this way, we can continue to fulfill our mission of providing desirable products all around the world, and I believe we will be able to deliver products of unassailable quality to satisfy customers.

* First line: R&D Department, Manufacturing Headquarters, factories, and other sites for manufacturing
Intermediate line: Product quality management departments within the above organizations that handle self-regulation
Second line: Interdepartmental organizations that conduct audits of manufacturing sites from an independent standpoint

When actually carrying out measures addressing various management issues, we must go beyond the strictures of the conventional Group Officers' Meeting to ensure swift and robust discussions. The Management Executive Committee, a group comprising five executive officers where I serve as chairman, functions as a "decision committee" that can swiftly reach resolutions.

I understand that the impetus for breaking free of dependence on the founding family is a desire to discard the habits and culture of looking to the founders for help. To realize this change, I have organized the Management Executive Committee as a "decision committee," allowing for responsible deliberations that facilitate prompt decisions.

In addition, as an initiative to strengthen consciousness regarding product quality and safety as well as to not allow the memory of the Issue to slip away, we commenced product quality and safety education for all officers and employees in January 2025. Specifically, we set monthly training themes and conducted self-studies of previous cases (through videos, etc.) for each working role. Following this, we gathered employees by division, with managerial staff acting as facilitators conducting workshops. By promoting product quality and safety, we hope to trigger mutual discussions between members that will prompt the application of the concepts learned to the execution of duties, thus promoting a sense of these concepts as matters personally affecting everyone.

We furthermore have designated March 22, the day that the Issue was announced, as Quality and Safety Day. Going forward, all employees will be encouraged to use this day to deeply reflect on the Issue and take it on as their own personal issue. Through continuous initiatives that carve such lessons into our hearts, we painstakingly work to prevent the memories of these cases from fading.

More than a year has passed since the announcement of the Issue, and we have continued to enact wide-ranging initiatives geared toward recurrence prevention and regaining trust. We have reopened communications with customers, and as a step towards contributing to society through our products, we have also decided to resume advertising. The advertisement that we published in various major newspapers on May 13, 2025 expressed our determination to society. We again articulated our commitment to placing the highest priority on compensating customers whose health was impaired and business partners who sustained losses, all on the stage provided by the press. While we do not believe that this sort of corporate advertisement will immediately restore society's trust, we explained how Kobayashi Pharmaceutical is changing, and while evaluating the effects of this messaging, we will continue to expand advertising for our products.

Product advertising entails helping customers understand our products, and how they can be used to resolve their issues and aid them in realizing healthier and more comfortable lifestyles. Sales remained low following the temporary pause in advertising after the announcement of the Issue, but our many loyal customers continued to support us despite our difficulties. By letting customers know what we have to offer through the restart of product advertisements, we believe we can help repay our debt to these customers, even if only a little.

Reforms open a path to the future

As we pour our full effort into compensation and preventing recurrence, we must also create new growth strategies to bring us to the next stage and change aspects of operations as called for. To do so, we are focusing on the following two areas: ensuring well-balanced management and transforming organizational culture.

Message from the President

1. Ensuring well-balanced management

A reevaluation of our vision for the Company reminds us of its strength, specifically, that it has the ability to consistently produce unique new products that can fill niches and has does so for every year it has existed. Over many decades, the Company has maintained a culture in which at least one idea has been proposed by an employee every month, and this tradition of considering ideas for new products or work-style reforms is a core value for our employees. This culture is the driving force behind the Company's unique concepts and new products. I believe this is not something that can be easily replicated by other companies.

Leveraging our unwavering strengths based on a philosophy of creation and novelty, we will continue to create unique new products. However, this does not mean uniformly expanding in every category, but rather identifying the best areas for greater investment, pursuing the balanced development of new products, and selling products that customers will keep on using for a long time.

From the midst of an ongoing changes in the domestic market due to demographic graying and population decline, new problems and needs will emerge, and by continuing to provide comfort to our customers, the Company will grow. Furthermore, drawing on personal experience, I believe it is likely we will see accelerated growth in our international business. We are in the process of determining which areas to make large investments in overseas, and, in the course of committing the necessary resources, we are able to invest in new opportunities for growth, such as through M&A, as we have done in the U.S.

Until now, we have had poor management efficiency despite our focus on business expansion. Moving forward, we will focus more on efficiency in management. We will continue to invest in product quality and safety so that nothing like the Issue ever happens again, strive to improve advertising efficacy, optimize SKU numbers, and reorganize unprofitable businesses, and more to improve our capacity to earn profits through structural transformation. In addition, we will further allocate cash produced in this way toward growth investments as well as to investment in human capital. By doing so, our employees, who are overflowing with the ideas that are the source of the Company's strength, will be able to be even more passionate in their work.

2. Transforming organizational culture

As I reflect deeply on the Issue, I am focused on transforming our organizational culture to strive alongside all of our staff to create a new Kobayashi Pharmaceutical. There are many employees at the Company who are full of passion and love Kobayashi Pharmaceutical. We must transform our organizational culture such that it is able to draw out the abilities of these employees to the maximum extent.

Because of these cases, every employee in the Group (approximately 3,500 people), including directors, is considering which elements of our culture should be changed and which parts are wonderful and must stay as they are, and are verbally sharing the organizational culture that they would like to see at the new Kobayashi Pharmaceutical. While each employee certainly has a hand in shaping this organizational culture, one person, in this case me, has to take responsibility for providing leadership during this transformation.

Currently, the dozen or so project members recommended by their various offices and management for engaging in discussions on organizational culture transformation are doing so in a lively and passionate manner. I am personally one of those who loves Kobayashi Pharmaceutical, but even I am sometimes overwhelmed by the passion of these project members. Right now, every employee seems to be wrapped up in deep discussions regarding their vision for the Company's organizational culture. To realize these visions, we plan to identify those values we hold as important and the actions that should be taken in line with our new "Action Standards," which will be published this December.

Management that creates the future Kobayashi Pharmaceutical

To ensure that nothing like the Issue ever happens again, we must strengthen our management system. To this end, we invited Mr. Yoshihito Ota, who has collaborated with the management of KYOCERA Corporation and Japan Airlines Co., Ltd. and gathered experience from contributing to the business reorganization at Japan Airlines, to join us, appointing him as our Chairman of the Board. I believe that Chairman Ota will not only contribute to the supervision of operations as an outside director, but also join in management as an inside director with an outside perspective. In particular, Chairman Ota and I are cooperating to demonstrate the first of the three pillars of the recurrence prevention measures: a new Kobayashi Pharmaceutical that all staff work as one to rebuild.

As far as how duties are split between Chairman Ota and myself, I handle operations, while Chairman Ota supports me.

Specifically, we expect Chairman Ota to fulfill the following roles:

1. **As an inside director, monitor and provide advice on vital management issues.**
   - Meet regularly with the President (2–3 times per month)
2. **Provide advice and support for executive-level and manager leadership education as well as for organizational culture transformation**
   - From July on, conduct leadership study sessions with such members as executive officers
3. **Through dialogue with employees in and around job sites, support the creation of an environment in which employees work in an optimistic and lively manner**
   - Visits such sites as factories, sales locations, and research facilities

Message from the President

As for day-to-day guidance, he has provided advice regarding various topics like how to best utilize the strengths of our factories and draw on our origins as a manufacturer, and we have had the chance to once again learn how sincerity contributes to achieving our performance targets.

This advice, which includes the concept of breaking free from dependence on the founding family, begin with the idea that there is a need to transform mindsets at the executive level. With this in mind, the leadership study sessions, which have thus far specifically targeted executive officers, will prove to be a huge first step toward transforming our organizational culture, and we expect that Chairman Ota will contribute greatly to these efforts.

With these employees, success is a certainty

I learned the fundamentals of domestic sales over the seven and a half years from joining the Company in 1987 to 1995, when I was put in charge of domestic marketing, mainly for perfumes and *Bluelet*. In 2006, I was appointed as President of our European subsidiary, which had locations in the U.K., where I served for seven years. Then, in 2015 I was appointed as the President of our U.S. subsidiary, where I served for almost eight years.

When I first arrived in the U.S., I established a holding company in a bid to unify our sales and manufacturing operations, strengthening capabilities in both areas as well as the headquarters' ability to provide oversight. In tandem with this I established a product development division, creating a structure capable of the local development of new products to address local needs. In addition to these initiatives, I further executed two M&As that expanded our businesses in the healthcare field. This lead to sales growth for our U.S. subsidiary, the operations of which in 2015 had mainly centered on body warmers, from approximately $70 million at the time of my appointment (or approximately ¥10.0 billion, assuming an exchange rate of US$1 = ¥140) to around double that at $141 million (or approximately ¥20.0 billion) when I left in 2022.

Having this sort of experience in domestic and international locations under my belt is something I consider to be a personal strength and is reflected in my belief in the importance of accurately understanding the specific problems faced at job sites and implementing direct countermeasures without being held back by existing frameworks. Businessmen like me value humility, sincerity, and gratitude, and we recognize that even if we consider ourselves capable, there are things that we still cannot accomplish. Thus, we realize constant humility and a willingness to learn is what brings personal growth. Sincerity allows reality to remain unclouded and lets the truth be recognized. Gratitude allows both those around you and you yourself to enjoy working, thus supporting growth all around.

When I was approached regarding a possible appointment as President, I felt a great unease, both due to the confusing times we were in and the fact that a company that had for many years been presided over by its founding family would now be turning to me. However, the profound love I felt for this company, which had been central to my personal growth for many years, eclipsed my doubts, and in the end the belief that I could not shirk this call to duty won out. I realized I needed to bring all my abilities to bear in service of Kobayashi Pharmaceuticals.

For many employees, their first and strongest impulse was to do something to help after the emergence of the Issue. For me, however, it was not my desire to accomplish something, but rather my belief that as long as there were employees like these I would be able to do so, that played the greatest role in supporting my decision.

Since my appointment as President, I have sent every employee a "One Team Communications" email newsletter at least once a week. This is my take on former President Yamane's "Scram Communications." Its two major themes are improving product quality and motivating employees by keeping the memories of lessons learned from the Issue fresh, but I also sometimes share my feelings and thoughts. When I was the President of our U.S. subsidiary, I distributed an email newsletter to every employee once a month. The topics covered were related to the 12 parts of the "Kobayashi Way," which provided a model for activities. Of these, I particularly focused on the concepts behind the phrases "easy to understand" and "sense of ownership."

I would like to work alongside the Group's employees on an ongoing basis to discover the products that align with the times. To this end, we will embrace a philosophy of creation and novelty to ensure a constant stream of products that will be treasured by customers for years, products that they would say they would have problems doing without. This is the mission of Kobayashi Pharmaceuticals and source of our corporate value. Difficulties compel us to return to our foundations and carefully rebuild areas found to be lacking. Thanks to our outstanding employees, I am confident in our ability to do so.

To better guide these employees, we are currently formulating a long-term vision for 2035 that will provide a base that the new Kobayashi Pharmaceutical can be built upon. We plan to announce this long-term vision and the direction of medium-term management plans in August of this year and hope that you, too, will look forward to it.

Voluntary recall of red yeast rice-related products

		Kobayashi Pharmaceutical	External (Ministry of Health, Labor and Welfare, Consumer Affairs Agency, Osaka City, etc.)
2016		• Began production of red yeast rice-related products and acquired sales business from another company	
2021		• Began direct marketing of *Benikoji CholesteHelp*, a food with function claims, across Japan • Began physical store sales of *Benikoji CholesteHelp*, a food with function claims, across Japan	
2024	Jan.	15 • Received first report of a case from a medical doctor 31 • Received report of a case from a consumer	
	Feb.	1 • Received case reports from medical doctors • Received case report from a consumer	
	Mar.	22 • Requested consumers to discontinue use of red yeast rice-related products and announced voluntary recall • Held a press conference 25 • Publicly disclosed the number of hospitalizations and the serial numbers of products that may contain unintended ingredients 26 • Announced first report of a death 27 • Announced a report of a death, etc. 28 • Announced a report of a death • Held the 106th Annual Shareholders' Meeting 29 • Announced a report of a death • Held a press conference	22 [Other] Voluntary recall begins at companies using Kobayashi Pharmaceutical's red yeast rice ingredients 26 [Ministry of Health, Labor and Welfare] Requested Osaka City to take measures including ordering the disposal of the products [Consumer Affairs Agency] Accepted withdrawal of functional claims for the products 27 [Osaka City] Issued recall order to the Company for the products 29 [Ministry of Health, Labor and Welfare] Announced at press conference that the causative substance may be puberulic acid [Other] Held first meeting of relevant ministers regarding response to red yeast rice incident 30 [Ministry of Health, Labor and Welfare] [Consumer Affairs Agency] Established joint telephone consultation service [Ministry of Health, Labor and Welfare] [Osaka City] Conducted on-site inspection of the Company's Osaka Plant 31 [Ministry of Health, Labor and Welfare] [Osaka City] Conducted on-site inspection of the Company's Wakayama Plant
	Apr.	1 • Announced extended health consultation hours and began accepting product returns 4 • Started publishing case statistics on the Company's website 5 • Announced online product returns 25 • Began providing compensation for incurred medical expenses, etc. 26 • Announced establishment of the fact-finding committee Ongoing • Started continuously offering compensation to companies that use the Company's red yeast rice ingredients	1 [Other] Japanese Society of Nephrology conducted "Questionnaire Survey on Renal Injury Associated with *Benikoji CholesteHelp*" (interim report) 3 [Osaka City] Held first meeting with the Osaka City Food Poisoning Control Headquarters 9 [Ministry of Health, Labor and Welfare] Held joint press conference with the Japanese Society of Nephrology 12 [Consumer Affairs Agency] Published report on the results of comprehensive review of the deleterious effects on health attributable to foods with function claims 19 [Ministry of Health, Labor and Welfare] National Institute of Health published a report on progress on identifying causes associated with the product (multiple compounds detected in addition to puberulic acid) [Consumer Affairs Agency] Held first review meeting on foods with function claims 24 [Consumer Affairs Agency] Held second review meeting on foods with function claims 26 [Osaka City] Held second meeting of Osaka City Food Poisoning Control Headquarters
	May	10 • Announced first quarter financial results for FY2024 (extraordinary loss of ¥3.8 billion related to the Issue and withdrawal of earnings forecast)	7 [Other] Japanese Society of Nephrology conducted "Questionnaire Survey on Renal Injury Associated with *Benikoji CholesteHelp*" (second interim report) 8 [Consumer Affairs Agency] Held review meeting on functional food labeling (third meeting) 10 [Consumer Affairs Agency] Held review meeting on functional food labeling (fourth meeting) 21 [Consumer Affairs Agency] Held review meeting on functional food labeling (fifth meeting) 23 [Consumer Affairs Agency] Held review meeting on functional food labeling (sixth meeting) 24 [Ministry of Health, Labor and Welfare] Held joint press conference with Osaka City (status report on survey results of effects on health) 28 [Ministry of Health, Labor and Welfare] Published interim report on cause investigation by National Institute of Health Sciences (puberulic acid found to have kidney toxicity) 29 [Osaka City] Held third meeting of Osaka City Food Poisoning Control Headquarters 31 [Other] Held first meeting of relevant ministers regarding response to red yeast rice incident
2024	Jun.	21 • Announced withdrawal of sponsorship and exhibit at the Osaka Healthcare Pavilion at the 2025 World Exposition 28 • Announced total number of inquiries related to deaths and cases under investigation	3 [Consumer Affairs Agency] Consumer Affairs Committee held general meeting (summary of functional food labeling meetings) 28 [Ministry of Health, Labor and Welfare] Minister held emergency press conference, including comments on the Company's press release 30 [Other] Japanese Society of Nephrology held its 67th Annual Meeting, reported survey results on kidney damage associated with *Benikoji CholesteHelp*
	Jul.	23 • Announced change of representative directors and partial return of compensation • Announced summary based on the results of the fact-finding committee's investigation 26 • Announced a finding of insufficient reporting to the Ministry of Health, Labor and Welfare (relating to the number of companies covered in the initial report)	
	Aug.	1 • Announced an update on the finding of insufficient reporting to the Ministry of Health, Labor and Welfare (relating to the number of companies covered in the initial report) 8 • Announced withdrawal from the red yeast rice related business • Announced start of full-scale compensation for customers who suffered ill health effects (began August 19th) • Announced second quarter financial results for FY2024 (cumulative extraordinary losses of ¥7.9 billion related to the Issue and revised earnings forecast) 13 • Announced the finding of insufficient reporting to the Ministry of Health, Labor and Welfare (number of cases investigated) 21 • Announced updates on the finding of insufficient reporting to the Ministry of Health, Labor and Welfare (number of cases investigated)	23 [Osaka City] Held fourth meeting with Osaka City Food Poisoning Prevention Headquarters and announced approximately 95% product recall rate 27–28 [Osaka City] Conducted on-site inspections of the Company's Osaka Plant
	Sep.	17 • Announced recurrence prevention measures	1 [Consumer Affairs Agency] [Ministry of Health, Labor and Welfare] Began requiring provision of information on ill health effects caused by foods with function claims, etc. 18 [Ministry of Health, Labor and Welfare] Published report on causal investigation by the National Institute of Health Sciences (puberulic acid found to have kidney toxicity, Compound Y and Compound Z found not to have kidney toxicity) [Ministry of Health, Labor and Welfare] Held first meeting of working group on response to ill health effect information on cases related to red yeast rice-related products
	Oct.	8 • Announced that executive officers, outside directors, and Audit and Supervisory Board members would return part of their compensation	8 [Other] Japan Direct Marketing Association issued improvement recommendations to the Company 10 [Osaka City] Held fifth meeting with Osaka City Food Poisoning Prevention Headquarters 22–24 [Ministry of Health, Labor and Welfare] Held second meeting of working group on responding to ill health effect information regarding cases involving red yeast rice-related products
	Nov.	8 • Announced third quarter financial results for FY2024 (cumulative extraordinary losses of ¥10.1 billion related to the Issue and revised earnings forecast)	20–21 [Ministry of Health, Labor and Welfare] Held third meeting of working group on responding to ill health effect information regarding cases involving red yeast rice-related products
	Dec.	2 • Announced changes to personnel and organization	24 [Ministry of Health, Labor and Welfare] Held fourth meeting of working group on responding to ill health effect information regarding cases involving red yeast rice-related products 26 [Osaka City] Held sixth meeting with Osaka City Food Poisoning Prevention Headquarters
2025	Jan.	21 • Published press release regarding personnel changes among the representative director and directors	
	Feb.	10 • Announced full year financial results for FY2024 (cumulative extraordinary losses of ¥12.7 billion related to the Issue) • Announced progress of recurrence prevention measures	
	Mar.	21 • Held first Quality and Safety Day 28 • Submitted notification of the establishment of the Corporate Governance Committee	19 [Osaka City] Submitted its detailed food poisoning report to the Ministry of Health, Labor and Welfare

Formulation of the recurrence prevention measures

In light of points in the investigation report issued by the fact-finding committee, the Company published the "Notice Regarding the Formulation of the Recurrence Prevention Measures, Etc." on September 17, 2024, and formulated the recurrence prevention measures, which are based on the following three pillars.

Outline of the Recurrence Prevention Measures (three pillars)

1. Changing Mindsets and Enhancing Systems concerning Quality and Safety

- Work to thoroughly implement "quality and safety first" and change the mindsets concerning quality and safety of our officers and employees
- Clarify responsible departments and improve quality control to enhance the quality assurance and management systems

2. Fundamental Changes to Corporate Governance

- Reform the composition of the Board of Directors to manage the new Kobayashi Pharmaceutical
- To regain the trust of stakeholders and realize the new Kobayashi Pharmaceutical, we will establish a system to operate appropriately and make the right decisions

3. Rebuilding a New Kobayashi Pharmaceutical through Unity

- To increase risk sensitivity and value creation capabilities, we will implement measures to eliminate the Company's inherent tendency toward homogeneity and strengthen diversity
- Rebuild the Company through unity with all officers and employees

1. Changing Mindsets and Enhancing Systems concerning Quality and Safety

First, we will provide a discussion forum to encourage all employees to participate wholeheartedly in training and come to view quality and safety as their "own responsibility" while reconfirming the importance of "providing peace of mind to our customers." The management team is also increasing opportunities for dialogue with employees involved in maintaining and managing quality to foster a "quality and safety first" mindset. Next, we have clarified the roles and responsibilities of the quality and safety departments, and established a specialized department to build a new quality control system and apply greater expertise. This restructuring went into effect as of January 1, 2025. In addition to strengthening the factory management system, we are accelerating cooperation with the manufacturing and R&D divisions to improve manufacturing collaboration as well as governance systems.

Going forward, we will strengthen the capabilities of our manufacturing sites and rebuild our quality management system, while simultaneously refining our quality control standards and product quality audits.

2. Fundamental Changes to Corporate Governance

In light of the Company's current situation, we have revised the ideal composition for its Board of Directors and have looked to both internal and outside sources in our selection of human resources to serve as representative director and directors, revamping the Board's composition. We are also reviewing the Company's executive structure with the goal of increasing expertise and improving both the quality and speed of decision making.

To strengthen our crisis management system, we have revised our risk management system based on specific emergency response scenarios and strengthened the emergency response and risk information escalation systems.

Going forward, under the new Board of Directors, we will work even more closely with the Company's Audit and Supervisory Board members to enhance the oversight of internal controls and quality management.

3. Rebuilding a New Kobayashi Pharmaceutical through Unity

First, we undertook to reform our human resources system in order to secure and assign talent with a focus on expertise and diversity, and to develop executive talent that values such diversity. Next, we launched a Company-wide project in December 2024 to establish a new vision and encourage a corporate culture that puts that vision into practice.

We are determined to never forget the Issue, and we have designated March 22—the day the Issue was publicized—to be the annual Quality and Safety Day, in order to keep the Issue at the forefront of our minds as we work to transition into a new Kobayashi Pharmaceutical.

Progress of the recurrence prevention measures

Progress in implementing the Company's recurrence prevention measures is as follows. Our intention is to continuously review the effectiveness of measures that have already been implemented or introduced, and to continually review their effectiveness.

As of August 5, 2025

Number*	Recurrence prevention measures		Status: Planning stage	Status: Preparation for implementation	Status: Implementation complete	Implementation period
1.	Changing Mindsets and Enhancing Systems Concerning Quality and Safety					
(1)	Changing Mindsets: "Quality and Safety First"					
(A)	Education and Training on Quality and Safety					
	Conducting training and education on quality and safety for all employees		■	■	■	Implemented (Jun. 2024)
(B)	Messages on Quality and Safety from the President					
	Regular messages from the president		■	■	■	Implemented (Aug. 2024)
(C)	Increase Opportunities for Dialogue with Employees					
	Regular dialogue between management and employees to increase engagement in maintaining and managing quality and safety		■	■	■	Implemented (Aug. 2024)
(D)	Formulate Management Plan with the Highest priority on Quality and Safety First					
	Incorporate quality and safety first into the management plan		■	■	■	Implemented (Nov. 2024)
	Position quality and safety measures into the center of the medium-term		■	■	■	Implemented (Aug. 2025)
	Create an environment that enables the necessary investments to improve quality and safety		■	■		Aug. 2025
	Select necessary businesses and concentrate resources on those businesses		■	■		Aug. 2025
(2)	System Enhancement 1: The Quality Assurance System					
(A)	Clarifying Responsible Departments					
	Clarify the role of the Reliability Assurance Headquarters		■	■	■	Implemented (Jan. 2025)
(B)	Improving Quality Control Systems					
	Increase the expertise in the first line	Transition to a function-based headquarters system	■	■	■	Implemented (Jan. 2025)
		Assign full-time quality control staff to quality control departments	■	■	■	Implemented (Jan. 2025)
		Review human resources rotation	■			Dec. 2025
	Strengthen the interactive collaboration between divisions in the first and second lines	Reorganize quality-related departments	■	■	■	Implemented (Jan. 2025)
		Reorganize quality-related committees	■	■	■	Implemented (Jan. 2025)
(C)	Creating a New Specialized Department					
	Establish departments focused on product development and manufacturing-related laws and regulations		■	■	■	Implemented (Jan. 2025)
(3)	Enhancing Systems (2): Management Systems					
(A)	Improving Plant Governance Systems					
(a)	Regular audits by the Quality Management Department and third parties					
	Regular factory audits by the Manufacturing Headquarters	Overall quality inspections (autonomous)* * Oral products, products that come into contact with the skin	■	■	■	Implemented (Jul. 2024)
		Regular internal audits	■	■	■	Implemented (Apr. 2025)
	Establish a third-party check system	Third-party factory audits	■	■	■	Implemented (Oct. 2024)
		Continuously implement third-party audits	■			Oct. 2025
(b) (c)	Establish a Factory Manufacturing Development Department					
	• Strengthen factory management functions (establish the Factory Manufacturing Development Department) • Strengthen interaction and communication between the Manufacturing Headquarters and factories		■	■	■	Implemented (Jan. 2025)
(d)	Establish comprehensive hygiene management standards					
	Establish hygiene management standards for oral products (excluding pharmaceutical products)		■	■	■	Implemented (Jul. 2025)
	Establish hygiene management standards for products that come into contact with the skin (excluding pharmaceutical products)		■			Dec. 2025
	Establish hygiene management standards for all product categories		■			Dec. 2026
(B)	Developing Relevant Rules					
	Centralization of laws, regulations and various guidelines according to product category		■	■		Dec. 2025
	Thorough penetration of quality assurance policy		■	■	■	Implemented (Oct. 2024)
	Synchronize quality activities of manufacturing, research, and quality departments Clarify manufacturing quality action policy		■	■	■	Implemented (Mar. 2025)
(C)	Reviewing Workflows					
(a)	Collaboration Between Development Departments and Plants					
	Regularly hold mass production review meetings		■	■	■	Implemented (Apr. 2025)
	Establish cross-departmental quality improvement team between the development department and the Manufacturing Headquarters		■	■	■	Implemented (Dec. 2024)
(b)	Improvement of Manufacturing Management and Maintenance Control, etc., in New Technology Areas					
	Reconsider PMI processes when entering new technology fields or expanding the business		■	■	■	Implemented (Oct. 2024)
	Develop human resources engaged in acquisition and establish a system for feedback from external experts		■	■		Dec. 2025
	Strengthen manufacturing management and quality maintenance management systems after starting continuous production of acquired businesses		■			Dec. 2025
(c)	Strengthening Product Inspections					
	Consider and conduct multiple tests appropriate for assessing product characteristics and procedures to detect contamination of non-specified ingredients		■	■		Aug. 2025
	* Plans currently under way to introduce new inspection methods; we also plan to make continuous updates to meet requirements and technical standards					
(D)	Reforming Personnel Evaluation Systems					
	Reform personnel systems with a focus on evaluating activities that contribute to quality and safety		■	■		Dec. 2025

* Each main section corresponds to the three recurrence prevention measures.

Progress of the recurrence prevention measures

As of August 5, 2025

Number*	Recurrence prevention measures		Status: Planning stage	Status: Preparation for implementation	Status: Implementation complete	Implementation period
2.	Fundamental Changes to Corporate Governance					
(1)	Breaking Free of Dependence on the Founding Family in Managing the Company					
	Resignation of the chairman and president		■	■	■	Implemented (Jul. 2024)
	Further strengthen the supervisory function of the Board of Directors, the majority of which is made up of outside directors		■	■	■	Implemented (Mar. 2025)
(2)	Re-examining Organizational Structures					
	Consider transitioning to a "company with a nominating committee, etc." structure		■	■		Mar. 2026
	Reform the composition of the Board of Directors, increase the number of outside directors, and strengthen supervisory functions by appointing an outside director as Chairman of the Board		■	■	■	Implemented (Mar. 2025)
(3)	Strengthening Supervision by Board of Directors					
(A)	Strengthening Supervision by Outside Directors					
	Review the operations of the Board of Directors	Change the system for appointing the Chairman of the Board	■	■	■	Implemented (Jul. 2024)
		Implement reviews of agendas for Board of Directors meetings	■	■	■	Implemented (Jul. 2024)
		Improve system for sharing information between outside directors and Audit and Supervisory Board members	■	■	■	Implemented (Jul. 2025)
		Establish rules on the terms of service for outside directors	■	■	■	Implemented (Mar. 2025)
(B)	Strengthen Cooperation between the Board of Directors and Executive Management (establish regular meetings, etc.)					
	Establish system to provide prompt and appropriate information to the Board of Directors	Strengthen cooperation between the Board of Directors and executive management	■	■	■	Implemented (Jul. 2024)
		Establish escalation system for risk information	■	■	■	Implemented (Aug. 2024)
(C)	Timely Sharing of Information with Audit and Supervisory Board Members					
	Encourage communication between the Audit and Supervisory Board and the Board of Directors and the executive management		■	■	■	Implemented (Jun. 2025)
(4)	Review of Executive Committee Meetings and Abolishing the Group Operating Meeting (GOM)					
	Reorganize meetings	Establish Management Executive Meeting (clarify executive decision-making organization)	■	■	■	Implemented (Nov. 2024)
		Establish Group Council (collection of diverse opinions)	■	■	■	Implemented (Jan. 2025)
		Establish various expert committees (strengthen expert discussions, incorporate third-party perspectives)	■	■	■	Implemented (Mar. 2025)
(5)	Establishing a Crisis Management System					
(A)	Response System with the President in Charge					
	Establish system for prompt, expert decision-making (establish Quality and Safety Specialized Committee and Quality and Safety Emergency Meeting)		■	■	■	Implemented (Mar. 2025)
(B)	Risk Management System for Emergencies					
	Strengthen collaboration between the Risk Management Department and the Board of Directors secretariat through reorganization		■	■	■	Implemented (Jan. 2025)
	Establish risk management system for normal times		■	■	■	Implemented (Mar. 2025)
(C)	Internal Information Sharing System for Emergencies					
	Reorganize the escalation process for risk information in the event of an emergency		■	■	■	Implemented (Mar. 2025)
	Formulate policy on risk information for escalation to the Board of Directors		■	■	■	Implemented (Mar. 2025)
(6)	Enhancing Risk and Compliance Systems					
(A)	Reorganizing the Governance Promotion Meeting					
	Establish the Risk and Compliance Committee		■	■	■	Implemented (Mar. 2025)
(B)	Organizational Management with Integrity as a Code of Conduct					
	Promote integrity-focused management	Establish specialized department for promoting integrity management	■	■	■	Implemented (Jan. 2025)
		Implement integrity training for directors	■	■	■	Implemented (Jun. 2024)
		Foster a culture of integrity management	■	■		Dec. 2025
(7)	Improving External Communication and Information Distribution					
	Activate internal and external communication through new organizational structure with enhanced specialization		■	■	■	Implemented (Jan. 2025)
(8)	Prioritize Quality and Safety in Business Operations					
	Reform business portfolio strategy and decide what to discontinue (select business and focus resources)		■			Aug. 2025
	Consider reducing SKUs		■			Aug. 2025
	Reallocate necessary personnel, budget, and other resources		■			Jan. 2026
3.	Rebuilding a New Kobayashi Pharmaceutical through Unity					
	Secure, assign, and develop human resources with a focus on expertise and diversity		■	■		Jan. 2026
	Reform organizational culture (promote organizational culture transformation)		■	■		Nov. 2025
	Continue efforts to ensure the issue is not forgotten by designating March 22nd (the day the issue was made public) as Quality and Safety Day		■	■	■	Implemented (Mar. 2025)

* Each main section corresponds to the three recurrence prevention measures.

Efforts to Restore Trust

Transition to a Function-Based Organization

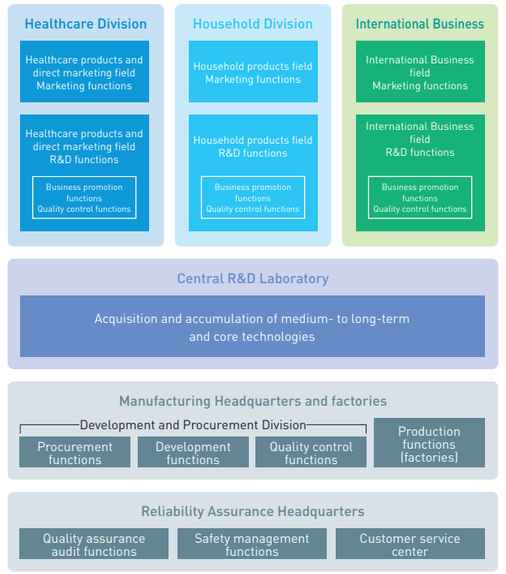
Under the previous division-based system, the manufacturing side of the first line of defense (R&D departments, Manufacturing Headquarters, and factories) were unable to apply their full expertise, and the quality control department had to handle both quality control and business promotion. The second line (then, the Reliability Assurance Headquarters) was taking on tasks other than quality audits, which was also an issue.

To realize a quality and safety first approach throughout our organization, we implemented a structural redesign on January 1, 2025, aimed at enhancing the expertise of our on-site staff, the people responsible for ensuring product quality. The previous system, which divided marketing and R&D by business, was suspended and a centralized function-based system that consolidates previously divided functions was adopted. This move was intended to consolidate the expertise and experience of specialist human resources as well as to create lines of reporting that generate daily discussions in line with such expertise, and this system will enable each department to fully perform the functions it is designed for.

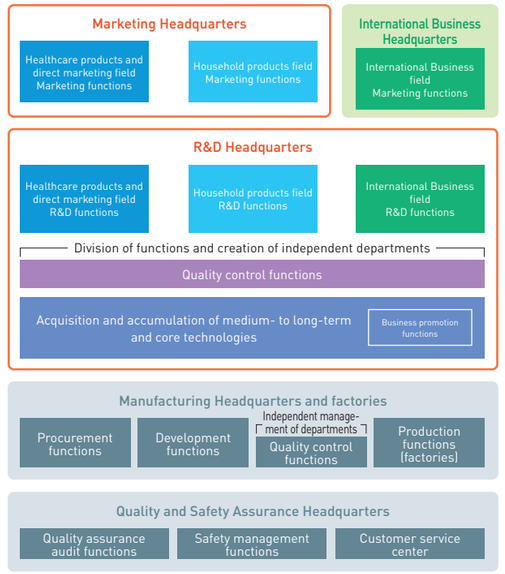
In addition, to reinforce the original purpose of the quality control department, it has been reorganized within both the R&D and manufacturing divisions.

Furthermore, the department formerly known as the Reliability Assurance Headquarters has been clearly positioned to act with independence and objectivity in executing both quality assurance and safety management audits, responsibilities that distinguish it from other business divisions, the Manufacturing Headquarters, and factories. To further emphasize the duties of this department, its name was changed in January 2025 to the Quality and Safety Assurance Headquarters and it is charged with executing process audits of quality control systems across all business divisions, the Manufacturing Headquarters, and factories, in addition to auditing Company-wide quality and safety systems. The new headquarters is also responsible for Company-wide quality training.

Previously



From January 1, 2025



Message from the Head of the Quality and Safety Assurance Headquarters

Always consider quality from the customer's perspective and build a system that provides satisfactory value

Hiroo Yamasaki
Executive Officer
Senior General Manager of Quality and Safety Assurance Headquarters

During the investigation by the fact-finding committee and the Osaka City food poisoning control headquarters, there were various comments about the Company's manufacturing methods and awareness of quality. Because my primary focus since joining the Company has been on the R&D of products that our customers will genuinely love, I feel great shame at this incident.

Past challenges in quality control

Kobayashi Pharmaceutical excels at creating attractive products that serve untapped needs, and we have consistently introduced such products across a wide variety of categories to the world.

However, leading up to the incident, a number of development projects were progressing and the Reliability Assurance Headquarters began to focus more on auditing the appropriateness of the then-quality control system than on how individual products were faring, which likely led to oversights. Specifically, coordination between the Reliability Assurance Headquarters and onsite management was ambiguous, so although the Headquarters received reports and consultations from the manufacturing sites about development defects, its primarily focus was on acting as the brakes. As a result, there was confusion about how to address and eradicate problems.

Because the allocation of Company-wide resources favored new product R&D, repeated short-term personnel rotations may have led to insufficient employee expertise and response to changing quality standards.

Against this backdrop, when we began implementing preventive measures, we were met with feedback indicating difficulty in understanding distinctions among departments and a lack of reliable system coordination. Therefore, it was concluded that the system needed to be restructured to make it easier for everyone to understand and implement and that reforms were needed to raise quality awareness.

Every employee should work with the customer in mind

Raising the standard of quality requires more than tightening up management. We need to be looking at who this quality is for—the customer—the values they hold and the metrics they judge products by. To ensure that every customer feels happy choosing Kobayashi Pharmaceutical products, we need to provide products and services that guarantee quality from the customer perspective. We must take a hard look at our Quality Management System (QMS), as this is what will sustain these efforts, and make sure its values permeate throughout the Company.

Specifically, we will first raise quality awareness among those on the first line of defense on the ground and establish a system that can guarantee standard quality in the onsite product design and manufacturing process. Those on the intermediate line will then manage onsite quality control (QC), and the second line's Quality and Safety Assurance Headquarters will audit overall processes as well as some individual product audits. This system will ensure overall quality with the proper functionality across all three lines of defense. In fiscal 2025, we will focus on strengthening roles within each line and cooperative action between the intermediate (R&D and manufacturing) and the final lines.

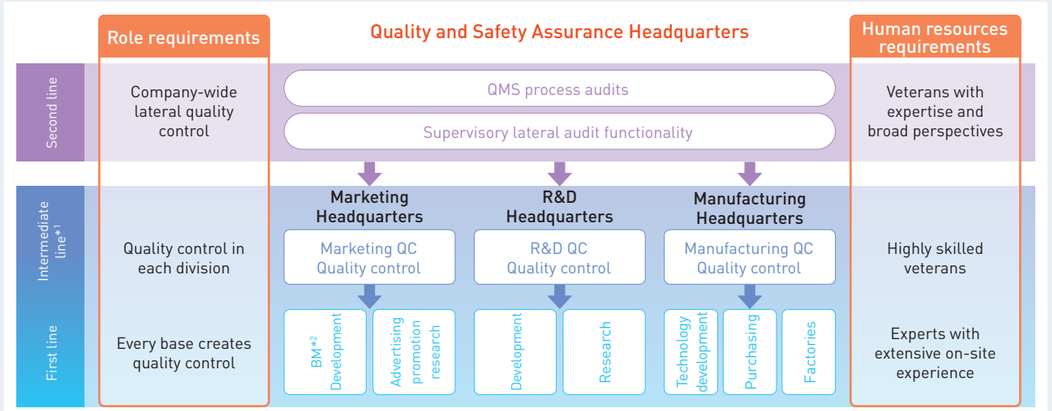
We are working on developing specialists to support this system. Previously, we rotated employees relatively often so that they could benefit from a variety of onsite experiences. Going forward, we need to develop career paths for people with onsite experience on the first line, to ensure those on the intermediate line acquire management experience in research or factory quality control, and, among those on the second line, to nurture quality assurance auditors with the skills and experience they need to improve the expertise and QMS audit effectiveness of the Quality and Safety Assurance Headquarters. The Quality and Safety Assurance Headquarters will become a highly specialized department that handles audits of both QMS processes and individual products, effectively assuring Company-wide quality. It will also be crucial to devote adequate resources to the establishment of a system to maintain and manage a certain guaranteed level of quality through functional QMS at every manufacturing site, and to continually provide quality training while enhancing the daily evaluation system.

In 2025, the R&D Headquarters, Manufacturing Headquarters, and Quality and Safety Assurance Headquarters (the three of which are directly responsible for manufacturing) established the new Quality and Safety Specialized Committee, and this committee meets weekly to discuss internal quality-related issues. We actively deliberate on questions from every department and make decisions that put the customer first. This is just one example of our initiatives, and I hope that by providing more opportunities for the customer-first mindset to permeate will encourage lasting changes in our employees.

Similarly, we must always consider quality from the customer's point of view and build mutually beneficial relationships both internally and externally with those who collaborate with us. Once we achieve that, we will build a system in which providing value to customers is second nature.

Aiming to realize a new Kobayashi Pharmaceutical, we are striving to realize major changes in the methodologies and approach we have used to date and to work together as a team to transition to an organization that truly understands its customers.

Quality improvement system (concept)



*1 An intermediate function between the first and second lines of defense
*2 Brand managers

Message from the Head of the R&D Headquarters

Putting thorough consideration, expertise, and heart into our product development

Yuji Matsushima
Director
Managing Executive Officer
Senior General Manager of
R&D Headquarters

In January 2025, as part of measures introduced to prevent the recurrence of the incident announced in the preceding September, we abolished our previous organizational system under which marketing and research and development were conducted separately by business category. This was accompanied by a transition to a functional headquarters system that consolidates the functions of the Healthcare Division, Household Division, and Central R&D Laboratory into the Marketing Headquarters and R&D Headquarters.

Strengthening quality and safety systems through the transition to the functional headquarters system

The biggest difference between the previous system and the new functional headquarters system is the approach to quality control. Formerly, the quality control department was responsible for both quality control and promoting development. This meant that, in effect, it had to serve as both the accelerator for and the brakes on development and that there was no single entity dedicated exclusively to maintaining oversight.

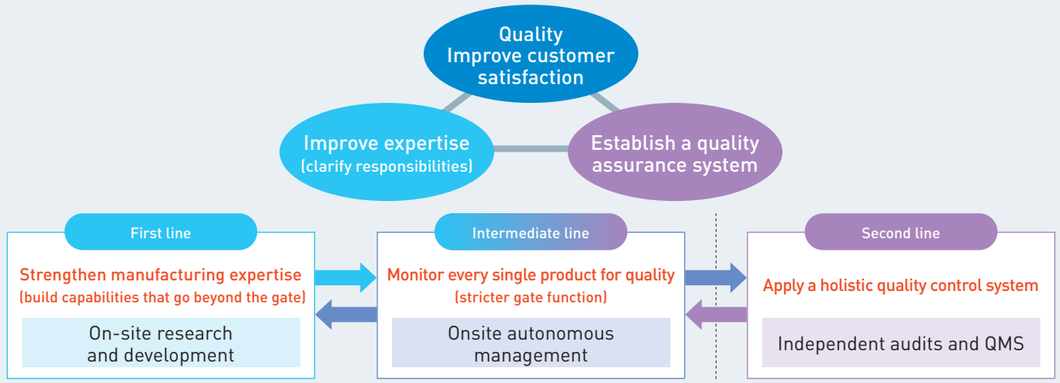
Under our new functional headquarters system, R&D will still have its own accelerator and brakes, but the new quality control department will be there to monitor and apply the brakes when appropriate. As the Senior General Manager of R&D, I also keep close watch on both the accelerator and the brakes and have the flexibility to attack problems when called for, while the head of quality and safety assurance is certainly capable of applying the brakes. This two-layered brake structure is the biggest difference between the two systems.

The R&D department is the first line of defense with an internal quality control management structure for product design and formulation serving as an intermediate defense before the second and final line of defense embodied by the Quality and Safety Assurance Headquarters acting independently to ensure quality across the entire Company.

Future quality control will require thorough collaboration between the R&D Headquarters, Manufacturing Headquarters, and Quality and Safety Assurance Headquarters. Discussions at the Quality and Safety Specialized Committee, which includes the three Senior General Managers, have also been very effective in aligning inter-departmental perspectives on quality as well as to identify and share challenges.

Strengthen onsite capabilities to utilize the functional headquarters system and increase quality awareness

The key to fully leveraging the functional headquarters system and improving the quality control system will be strengthening onsite capabilities. Quality control acts as a safeguard to prevent any product with a defect from entering the market, and the most fundamental solution is to improve onsite capabilities in order to prevent such products from being made in the first place.



In R&D, for every stage from the planning and design stage onward, due consideration to ease of product testing and formulation during manufacturing is essential. Furthermore, design capability must be flexible and robust but highly resilient against pressures in the manufacturing and usage environments.

Specifically, R&D is the act of going from zero to one, i.e., the creation of something from nothing more than an idea. Manufacturing, on the other hand, is essentially the consistent reproduction of one thing to obtain one hundred. The vectors of design and production are totally different, and it can often be challenging to translate a process used in the lab to factory production. Sometimes, it is simply impossible. To support such translation, we have to convert the axis of the R&D vector to match that of production in order to reproduce that one lab creation into one hundred items. While maintaining Kobayashi Pharmaceutical's distinctive rapid development pace, we will strengthen these translation functions to create methods suitable for manufacturing with a focus on formulation design.

Another important aspect of strengthening onsite capabilities is strengthening our expertise. To improve our expertise related to pharmaceuticals in line with the Pharmaceuticals and Medical Devices Act (Act on Securing Quality, Efficacy and Safety of Products Including Pharmaceuticals and Medical Devices), and to food products in line with the Food Sanitation Act and Hazard Analysis and Critical Control Point (HACCP), we have reorganized our R&D by category (healthcare products, household products, international) and established reporting lines. The Research Department includes the Fundamental Research Department and the Life Science Research Department, which work from a medium- to long-term perspective and collaborate with the development side to focus on improving the standard of product development. In addition, we are working to avoid frequent personnel rotations for those in specialist positions and focus instead on cultivating the human resources who can improve their expertise in line with our technology strategy.

Developing new high-quality products that deliver ongoing satisfaction

To date, Kobayashi Pharmaceutical's "a big fish in a small pond" growth model has balanced the creation of new markets with expansion in markets where there are few competitors. Recently, however, I believe that our horizons have grown and we need to focus beyond expanding our small pond. I believe we should be placing more emphasis on our products' performance—specifically, their ability to solve our customers' problems—and allocate development resources more wisely.

I like to think of the evolution to the new Kobayashi Pharmaceutical in terms of the Japanese martial art philosophy of *shuhari*. The *shu* of *shuhari* refers to understanding fundamentals. *Ha* means to think for oneself and express originality. Finally, *ri* refers to transcendence, or to create and innovate. If we enhance our expertise but stop at the first stage of this philosophy, our claim to uniqueness will melt away. However, if we move on to the other two aspects without fully mastering the fundamentals, we risk running into issues with quality. Kobayashi Pharmaceutical's strength is backed by a culture rooted in a strong pioneering spirit, and, although this is very important, I believe that we must also establish these fundamentals to ensure we acquire the correct knowledge, experience, and skills. With this in mind, we will harken back to our origins of providing things that delight people and society with all our heart.

Our new laboratory currently under construction in Osaka Prefecture will contain R&D and manufacturing facilities and will adopt an activity-based working approach that allows its employees to choose when, where, and with whom they undertake their work and fulfill their duties. Our team at Kobayashi Pharmaceutical will use this space to further explore and enhance their knowledge.

Message from the Head of the Manufacturing Headquarters

Regain trust by making ideas on the ground visible and steadily implement them

Hiroya Nakamura
Executive Officer
Senior General Manager
of the Manufacturing
Headquarters

When I first became head of Manufacturing Headquarters, I was given the opportunity not only to tour the Company's factories, but to speak directly with our original equipment manufacturing (OEM) partners. I have been involved in manufacturing in some capacity at Kobayashi Pharmaceutical for over 30 years, but because of the opportunities I had this time to speak directly with our manufacturing partners, I was able to accumulate a wealth of ideas on how to further improve manufacturing processes. To ensure that we move forward and transform our manufacturing operations, I have resolved to adopt a humble attitude and seek to learn from both external sources and personnel on the manufacturing front lines.

Implementing functional recurrence prevention measures in the workplace

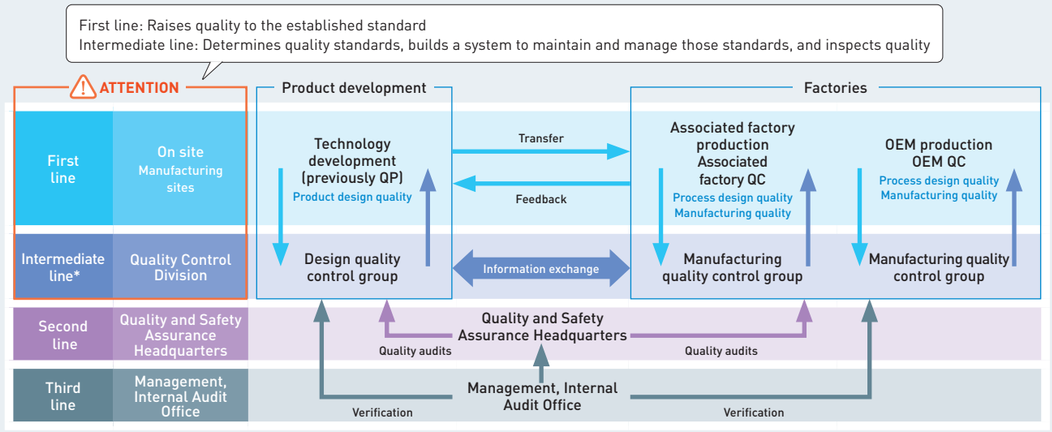
To achieve the objectives of the recurrence prevention measures, the Manufacturing Headquarters needed to clearly define on-site roles to ensure that operations run smoothly and function properly.

Since announcing the recurrence prevention measures, the Manufacturing Headquarters has taken three steps, starting with the establishment of the Quality Control Division.

Previously, the Quality Management Department operating under the Development and Procurement Division was responsible for product quality control. However, because it operated in parallel with the Development and Purchasing departments, the checks and balances structure was weak. The creation of the new Quality Control Division and under it a new Quality Control Department specializing in pharmaceutical and healthcare products as well as personal and house care products strengthens the functionality of the Company's quality control structure.

Our second step was to establish the Factory Manufacturing Development Department within the Factory Management Division. Previously, despite being charged with managing all of the Company's factories, there was no lateral organization, making the implementation of initiatives aimed at achieving existing and introducing new quality standards challenging, especially as each factory operates independently. Going forward, the Factory Manufacturing Development Department will incorporate and share the best practices and feedback from every factory, further raising the overall standards of our manufacturing.

New approach for stronger quality control: **Three lines of defense**



Even though the Quality Control Department is the primary body responsible for quality assurance, the Quality and Safety Assurance Headquarters and management will work to ensure that the implementation is Company-wide and includes all operations, from R&D and technology development to running factories

* An intermediate function between the first and second lines of defense

The third step was the creation of a department to handle legal matters related to manufacturing. Previously, each department independently handled any issues that came up. Now, however, we maintain a team of experts in manufacturing regulations and a system to enforce them.

Putting the customer first is key to establishing high standards and firsthand experience

Unfortunately, our manufacturing division is suffering from a loss of trust on the part of customers and society. I believe that regaining trust will depend on our ability to demonstrate the soundness of our manufacturing solutions and implement them steadily.

However, even before I became a senior general manager, I felt it was a challenge to create a workplace environment in which people feel free to speak their minds. I knew that our frontline workers possessed a wealth of ideas, but recognized that as an organization we lacked the required structure for sharing and implementing them. It is often said that it takes a certain amount of courage to speak up and create a workplace open to new ideas, but, ideally, none of us should require courage to speak up. I try to put this approach into practice by listening to as many different opinions as possible in the meetings I participate in.

For example, at the weekly Quality and Safety Specialized Committee meetings, members responsible for manufacturing hold advanced discussions based on scientific data and on-site information. I believe that making decisions based on factual data and prioritizing quality and safety is an excellent way to put the customer first.

All relevant topics may be discussed at meetings, and we encourage employees to bring up anything that concerns them—even it is negative—so that issues can be quickly addressed. This also ensures that we can see for ourselves how we have truly shifted toward putting the customer first in our day-to-day judgements. I believe that such meetings help to instill a customer-first approach. I believe that it is crucial to listen to a variety of opinions in order to make a proper judgements and have resolved to never put off soliciting opinions when making a decision.

Whenever I'm unsure of a decision, I go back to basics and consider if and how I would want my own family to use this product. I think the reason the Company has such a strong history of innovation is because we avoid rejecting unconventional ideas that people find interesting.

Backed up by this DNA, I believe that we will be able to raise the quality of innovation even higher by creating a workplace environment that encourages everyone to speak their minds, thus driving forward the new Kobayashi Pharmaceutical.

Governance and corporate culture reform

Basic approach to corporate governance

We believe that increasing shareholder value is a top priority to realize the Company's fundamental management policy of maximizing corporate value. To achieve this, we believe that prompt and accurate disclosure and increased management transparency are crucial. Thus, we are implementing a number of initiatives to enhance corporate governance.

Kobayashi Pharmaceutical's corporate culture is one of openness, in which anyone can express their opinions, and we actively create opportunities for employees to discuss their views with top management. We believe that developing and maintaining this corporate culture contributes to effective corporate governance.

Reform of the Board of Directors

The Company is implementing measures to ensure diversity and reduce homogeneity with a focus on two of the three pillars of the recurrence prevention measures announced on September 17, 2024, namely, Fundamental Changes to Corporate Governance, and Rebuilding a New Kobayashi Pharmaceutical through Unity. To regain the trust of stakeholders and realize a new Kobayashi Pharmaceutical, we have determined that we need to reform the composition of our Board of Directors.

As a result, at the Annual Shareholders' Meeting held on March 28, 2025, eight of ten candidates for director were appointed to the Board. To ensure the effectiveness of the Board of Directors' supervision, the Company has maintained a membership that comprises a majority of outside directors while also increasing the number of outside directors from four to six. This year, we appointed a new Director and Chairman from outside the Company with an eye to strengthening checks and balances on the actions of inside directors and executive officers as well as to reinforce supervision. In addition, to maintain corporate activities while fulfilling our responsibilities to society as a manufacturer of pharmaceutical and food products, we have appointed new directors with a wealth of experience and knowledge in the research of such products. To further strengthen both internal controls and quality controls, which are key to recurrence prevention, we have appointed new directors with extensive legal knowledge as well as directors with broad experience in internal control and risk management.

These appointments were made after deliberation by the Nomination Committee and the Board of Directors, ensuring that the candidates possess sufficiently broad expertise and insight across the entire spectrum of management.

On the other hand, Akihiro Kobayashi, in charge of compensation for damages, and Yoshiro Katae, involved in preventing recurrence of this issue, remain on the Board as outside directors, while remaining mindful of continuity of business.

The reform of and appointment of members to the Board of Directors is also discussed in Outside Director Mr. Katae's message.

The skills matrix as required by the Company is as follows:

Matrix of Required Skills

	Corporate management	Global business	Organizational management, human resources development	ESG, sustainability	Marketing, sales	Finance and accounting	Legal affairs, risk management	DX IT/ Digital	New R&D	New Medical/ Pharmaceutical
Yoshihito Ota	●	●	●	●						
Norikazu Toyoda		●	●		●					
Yuji Matsushima			●						●	●
Akihiro Kobayashi	●	●	●	●	●			●		
Yoshiro Katae		●	●	●			●			
Akio Takahashi	●		●			●				
Masato Mori	●	●	●	●		●	●			
Shinsuke Matsumoto			●	●			●			
Misa Kusumoto		●	●		●			●		
Toshiaki Monkawa			●						●	●

* The above list does not encompass all of the knowledge, experience, or abilities possessed by the Company's directors.

Governance System

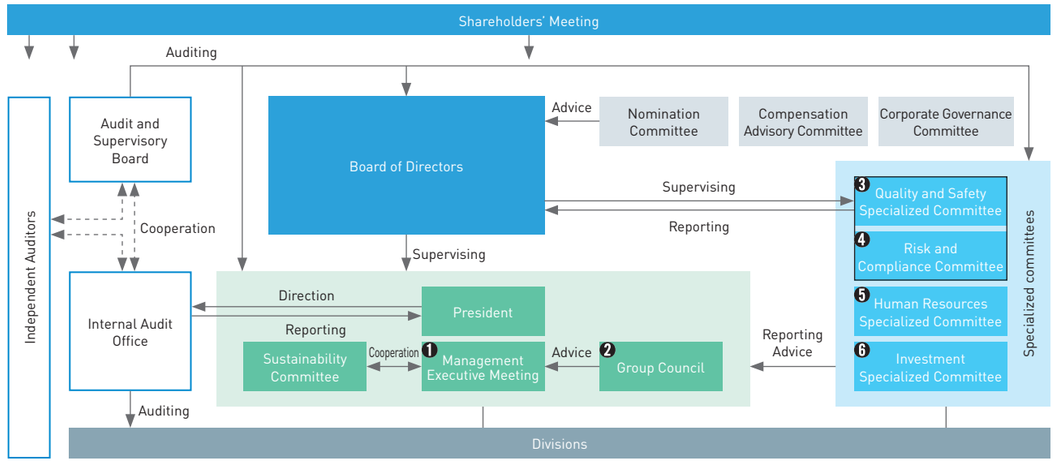
We determined that the weekly Group Operating Meeting (GOM) of executive officers had been proven insufficient in dealing with the incident. This was because rather than discussing issues and making business decisions, the focus of the GOMs, which had many participants, had become passively listening to departmental reports.

To resolve this, we abolished GOMs and streamlined executive decision making to improve its quality and speed. In addition, we established a new Management Executive Meeting as the final decision-making body of the Kobayashi Pharmaceutical Group. To provide a forum for sharing departmental information and discussing issues from diverse perspectives, we also established the Group Council, which is composed of the executive officers and the heads of each division.

Furthermore, under the strong leadership of the Representative Director, President and Chief Executive Officer, we have taken steps to improve decision making quality and speed at the Management Executive Meeting and to ensure decisions made across the Company prioritize quality and safety. These include the establishment of four new specialist committees under the Management Executive Meeting: the Quality and Safety Specialized Committee, the Risk and Compliance Committee, the Human Resources Specialized Committee, and the Investment Specialized Committee.

The following lays out the Company's new corporate governance structure, restructured in line with the second pillar, Fundamental Changes to Corporate Governance, of the recurrence prevention measures published on September 17, 2024.

Corporate governance system



Newly established meetings and expert committees

	Role	Frequency	Members
❶ Management Executive Meeting	As the final decision-making body for the Kobayashi Pharmaceutical Group's executive department, this meeting started in November 2024 as a forum for the timely, intensive discussion of critical management matters and for making prompt decisions.	Twice per month in principle (Since April 2025)	Representative Director, President and Chief Executive Officer (Chairman and CEO), full-time Audit and Supervisory Board members, and others chosen by the CEO (a small number of executive officers)
❷ Group Council	This council is a space where information from each department is exchanged and issues are discussed from a variety of perspectives. It has been clearly positioned as a forum for the expression of opinions on improving the quality of deliberations at the Management Executive Committee and various other management matters.	Twice per month in principle (Since April 2025)	Representative Director, President and Chief Executive Officer (Chairman and CEO), full-time Audit and Supervisory Board members, and others chosen by the CEO (Senior General Managers, head of the Human Resources Department, head of the Legal Department, head of the Management Planning Department, and the heads of the Quality Control Divisions of the R&D Headquarters and Manufacturing Headquarters)
❸ Quality and Safety Specialized Committee	Examine and respond to management issues related to quality	Once per week (Additional meetings may be held as needed)	Chair: Senior General Manager of R&D Headquarters Vice chair: Head of Quality and Safety Assurance Headquarters Members: Heads of the Manufacturing Headquarters, Public Relations & General Affairs Headquarters, Quality Assurance and Audit Department, Quality Control Division, Research QC Department, Fundamental Research Department, Legal Department, and other department managers
❹ Risk and Compliance Committee	Internal controls and medium- to long-term risk management	Once per month (Additional meetings may be held as needed)	Chair: Head of the Public Relations & General Affairs Headquarters Members: Heads of the Legal Department, Management Planning Department, Human Resources Department, Corporate Headquarters, etc. Observers: Full-time Audit and Supervisory Board members, Head of the Internal Audit Office
❺ Human Resources Specialized Committee	Considers and plans human resources strategies, considers succession plans	Twice per month	Chair: Representative Director, President and Chief Executive Officer Members: Heads of the Human Resources Department and Management Planning Department, etc.
❻ Investment Specialized Committee	Examines the profitability of investments and the soundness of business plans	Twice per month	Chair: Senior General Manager of the Finance Headquarters Members: Managers of the Finance Department and the Management Planning Department, etc.

* To realize the quality and safety first approach we are striving for, we have established direct reporting lines for important matters related to product quality and safety and compliance between the Quality and Safety Specialized Committee and the Risk and Compliance Committee to the Board of Directors, bypassing the Management Executive Committee.

Governance and Corporate Culture Reform

Establishing a crisis management system

For the Issue, we did not establish a countermeasures committee, and the Company's response was instead discussed at weekly GOMs (management meetings). One reason for this was that the Company's crisis management regulations stipulated the creation of a Crisis Management Headquarters and were designed primarily to deal with large-scale natural disasters. This meant that such a structure was really not suited to making quick decisions regarding public announcements and product recalls in the event of a pressing issue with the potential for exerting a serious negative impact on consumer well-being.

Therefore, we have undertaken to strengthen the Company's crisis management, by strengthening our emergency response and risk information escalation systems.

In concrete terms, since March 2025, in the event of an incident, we will promptly hold a quality and safety emergency meeting with the president if said incident could indicate a problem with product quality or safety that threatens human health. If there is a risk of significant impact on consumer health or lives, such as with the Issue, with the potential for a large-scale product recall, we will promptly establish a Crisis Management Headquarters and implement a Company-wide response.

Internal information communication system in the event of an emergency

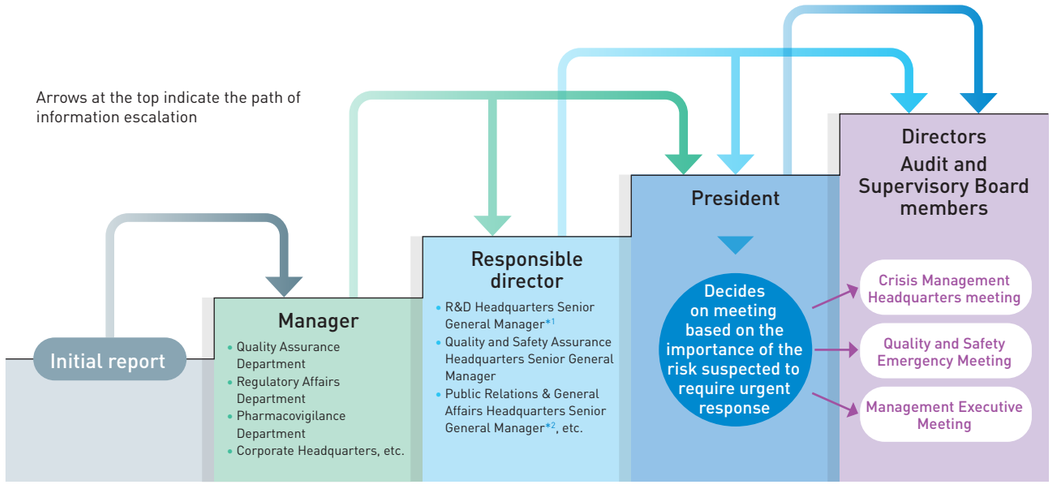
In this case, although there was a need to promptly and appropriately share internal information while also protecting personal and insider information, there was ambiguity in the reporting system to the Board of Directors, and the speed of internal information sharing was insufficient, as was pointed out in the fact-finding committee's report.

After reviewing the Board of Directors' structure of authority regarding the escalation of risk, we revised it as well. Rather than only the president holding this authority, under the new system, responsible directors of each division, such as the heads of R&D, quality and safety assurance, public relations & general affairs, can escalate risk information to the Board when necessary.

Furthermore, rather than considering only risks that are deemed extremely important for escalation to the Board of Directors, we now allow the escalation to the Board of information deemed to have significant potential of risk.

We began this practice in January 2025, and it was made into a rule in March 2025.

Emergency information escalation



*1 The R&D Headquarters Senior General Manager chairs the Quality and Safety Specialized Committee.
*2 The Public Relations & General Affairs Headquarters Senior General Manager chairs the Risk and Compliance Committee

Creating a New Kobayashi Pharmaceutical

Taking the first step in reforming human resources

Kobayashi Pharmaceutical has a long history as a family-run organization, and we have tended to act in line with the guidance and direction, which naturally has led to increased homogeneity. This led to an environment that encouraged conformity and in the case of the recent crisis stronger questioning and bolder statements of opinion should have been heard when reports of ill effects on health began to come in. However, few questions or objections were raised about the Company's response to the Issue as reported by the Reliability Assurance Headquarters or the person in charge of the business department at the time, and a collective consensus was reached.

As we reviewed the Company's relationship with its founding family, we decided to that a shift toward more diverse human resources was needed in each department and that the development of management-level human resources who value and respect people's differences was needed to eliminate homogeneity and strengthen said diversity.

Since the incident, our recruitment of human resources has focused on personnel who will aid in the implementation of recurrence prevention measures and prioritized the budget for such personnel, including those for the first line of defense for quality control in the R&D and Manufacturing Headquarters, as well as those for the second line of defense in terms of quality assurance audits at the Quality and Safety Assurance Headquarters.

In January 2025, we proceeded by focusing on the skills and experience required for each position when assigning human resources and we will continue to expand our system for managing employee data and appropriately allocating human resources. In terms of evaluations, we will first focus on revising the personnel system to enhance expertise, with the goal of introducing this approach throughout the Company from January 2026. Along with these organizational changes, we are reconfirming important positions and building a system to systematically train candidates by visualizing their selection and training status.

Beginning organizational culture transformation

To achieve "3. Rebuilding a New Kobayashi Pharmaceutical through Unity," one of the recurrence prevention measures, we launched an organizational culture transformation in December 2024. This project was led by the then-manager of our International Business (now president of the Company), and project members were assigned from a wide range of disciplines, including personnel from development, quality control, sales, head office, and manufacturing departments, and the project began implementing its concrete activities in March 2025.

Through these activities, we will continue to transform our corporate culture and make the needed reforms, thereby transitioning into a new Kobayashi Pharmaceutical based on the voices of those on the ground.

Quality and Safety Day Initiative

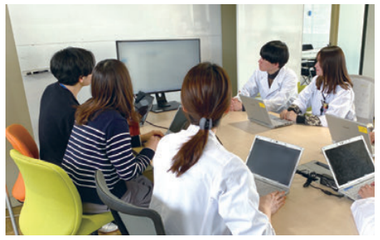
We are determined to never forget the Issue and to ensure that such a quality issue never recurs. Therefore, we have designated March 22—the day the Issue was publicized—to be Quality and Safety Day. We are reflecting on the feedback of society as a whole on the Issue, and we will implement annual initiatives to contribute to cultivating and strengthening a culture that puts quality and safety first.

Every year, we will review society's feedback on the Issue, its causes, and the Company's response. We will also continue to monitor the progress of initiatives that contribute to cultivating and strengthening a quality and safety-first culture, and to discuss new challenges.

On March 21, 2025,* one year after the announcement of the Issue, we implemented an initiative for all employees (approximately 3,200 people) at business sites and Group companies across Japan, encouraging every employee to consider the Issue themselves and reflect on their own prioritization of quality and safety in their workplace.

Through this initiative, each employee examined their responsibilities and determined to work together to regain trust in the whole Company.

* March 22, 2025, was a Saturday, so this event was held on Friday, March 21, a business day, instead.


Discussions at each department


Employees from across Japan participate

Message from the Chairman

Yoshihito Ota
Chairman of the Board

Thinking of our partners and customers, overcoming obstacles, and carving out a path to the future grounded in sincere reflection

What I value most as I take on the office of Chairman

All of us at Kobayashi Pharmaceutical sincerely feel the weight of responsibility regarding the Issue and continue to place the highest priority on compensation. We are also thoroughly implementing initiatives to enforce recurrence prevention measures and are striving to respond in good faith to every one of our customers, business partners, and related individuals who have been affected.

I have been similarly involved in management restructuring at Japan Airlines Co., Ltd. (hereinafter, JAL) and MTG Co., Ltd. Such restructuring can be fundamentally hampered if employees are not on board with it. At the same time, a sense of urgency is also paramount. I, myself, am coming from outside the Company, so I must begin by gradually alleviating any feelings of discomfort among employees due to unfamiliarity and become a known entity. Once the ice has been broken, I can carefully explain my ideas to allow them to become accepted. However, issues can arise at this point if there is agreement with my general remarks but opposition in detail. In such cases, it is best to promptly move forward in those areas in which consensus has been reached. I have received feedback on my personal style, called impatient or even pushy, but also consistent; I act in perfect accordance with my ideas. While I appreciate the value of gaining sympathy and acceptance, I also believe that a constant feeling of urgency is important if progress is to be achieved.

When I first arrived at the Company, I felt that in spite of the lively and optimistic messaging I was seeing, there was an underlying trauma caused by deep wounds upon its soul, and if I were not able to assuage the unease this was generating, even a little, there would be no way for it to regain its original shape. Other corporations facing such harsh conditions would surely react similarly.

If one is not careful when assessing a situation, it is impossible to move forward

There have been a variety of discussions on the cause of the Issue, but I believe that there may be areas where maintaining the status quo has become too entrenched due to a long period of smooth management. Because of the Issue, the Company has had to reexamine conventional working practices. It must be noted that each individual employee's earnest desire to ensure product quality and create methods on their own to do so is of primary importance to these efforts.

Next, among measures being undertaken to prevent recurrence, the Company aims to break free of excessive dependence on not only the founding family but other third parties and engage in autonomous decision making. Individual employees, especially those in the management team, must truly strive to be autonomous and self-reliant, determine and act on what they believe to be correct, and take responsibility should a problem occur.

Human beings can have a tendency to cling to the familiar when something occurs. It seems that it is a very human instinct to avoid taking responsibility.

"Why do companies exist?" "What is the purpose of management?" "What is the purpose of growth?" If one is not careful, it is easy to fail to make considerations and judgements for oneself and end up exchanging one dependency for another.

Independent thinking gives rise to the initiative to take action and inspires a feeling of ownership and responsibility. People are more inclined to work if the plan is their own and they will also gain knowledge by pushing themselves. Moreover, as it is their plan they will be better able to explain it to subordinates and answer any and all questions, and this, in turn, is more likely to ensure the listeners understand and accept the plan.

The most important point is that one must act from a starting point that assumes that people are inherently good and then make judgements as a human being as to what is correct.

The leaders I have met at the Company are unanimous in saying that they are blessed with amazing employees. With this belief, I believe that we will be able to overcome our current difficult situation.

Think independently, act on your convictions, and take responsibility. To train leaders capable of doing this we established Leader Training Sessions to take place beginning in July 2025, with around 40 participants. JAL and MTG, companies that have trained incredible management teams through similar leadership education, have continued to conduct this style of training session in perpetuity.

In addition to educating leaders, the JAL Philosophy was an important factor supporting JAL's remarkably successful restructuring. Following many heated debates among the ten members of JAL's management team, the JAL Philosophy—itself based on the philosophy of Mr, Kazuo Inamori—was established a year after the company's fall

into bankruptcy and was adopted as the central mindset driving it forward. JAL's team includes its star pilots and cabin crew, as well as others working in sales, facilities, ground handling, and staffing departments, and even many non-regular employees. All of these people wear the same JAL uniform, regardless of position or employment type, and were educated in this philosophy in order to orient them toward providing services inspired by a common principle and mindset, which, in turn, caused JAL to become an organization with a strong sense of unity.

The creation of a new Kobayashi Pharmaceutical requires a resolute dedication to upholding a central mindset that drives efforts that resonate in the hearts of individual employees, inspiring them to act in accordance with this set of values and to strive to realize this future. By rallying everyone around this central mindset and spreading it as an organizational culture, we will ensure that our vision for the future, our most heartfelt desire, is shared and connected with the power needed to bring it to life.

This means that such factors as thinking from the customer's perspective, having more consideration for your team members, and eliminating waste are vital. Notably, the Company's workforce in terms of number of employees is weighted more towards the manufacturing division, so it is important to help these employees want to work harder.

An issue to be introduced: Revising what was once common practice

According to the 2024 State of the Global Workplace Report issued by the U.S. analytics company Gallup, Inc., with a score of 6%, Japan ranked lowest in the world for employee engagement, an international metric that indicates the ratio of employees who feel passion for their work. This is huge deviation from the United States, which sits at 33%. In other words, the proportion of employees at Japanese companies who truly wish to work hard is an overwhelming minority.

The Company may reply that their employees are working hard, but it is necessary to be objective when determining how true this statement may be.

For example, the idea proposal system, often referenced as one of the Company's strong points, has been operating for over 40 years. It is a method of soliciting ideas from employees and has been an important asset to the Company, it is the point of origin for many products. However, from the standpoint of idea generation, production itself cannot be the endpoint; rather, it is necessary to evaluate how an idea ultimately turned out, whether it became a product, how much funding went into developing and making it, and how much profit it brought. Moreover, the system should not be limited to proposing new products, but also include proposing even small improvements to daily work. Each employee should constantly feel a passion for creating better products, making work more efficient, and contributing to the Company's development. Every employee should be able to assume this sort of managerial perspective in order to be active and lively every day they work.

Although Kobayashi Pharmaceutical is a manufacturer, its main focus has traditionally been on marketing. However, we need to be aware that the products we are selling are items that employees at manufacturing sites have put all their effort into creating; we need to cultivate an appreciation of manufacturing. While it is true that it is sometimes difficult to understand the conditions at individual factories due to them being operated by subsidiaries, it is exactly for this reason that it is important to increase interest in process of manufacturing itself and give these sites more attention.

For this and other reasons, I am highlighting both what have been common internal practices as well as ones which may seem slightly odd.

In conclusion

Kobayashi Pharmaceutical has many employees, not just at its headquarters but also at factories and sales offices, who have entrusted their livelihoods to the Company. I would like to ensure that all employees have optimistic, bright hearts and that they truly feel pride in Kobayashi Pharmaceutical.

Kobayashi Pharmaceutical's culture and mission has been and will continue to be to deliver safe and reliable products that customers want and need.

It is imperative that we are able to reward our shareholders through our business performance so that they feel glad to be holding Kobayashi Pharmaceutical shares and continue to do so with peace of mind.

On March 28 of this year, a new Board of Directors, with outside directors comprising over half of its members, was appointed. As most of these outside directors are new to the position, the executive side shared carefully prepared in-depth explanations of matters pertaining to the Company matters, and, as the Chairman of the Board, I truly feel as though we have had an auspicious beginning. Many significant issues lie before us, not only the Issue, but also how much profit we can expect from successive large-scale investments made in recent years, how much growth we can recoup, and how to develop our international business. The Board of Directors has held a number of thorough discussions on themes such as these, and we would like to contribute to the further development of Kobayashi Pharmaceutical.

Messages from the Outside Directors

Importance of aiming for quality, even at the management level, in line with our purpose

Newly Appointed

Outside Director
Masato Mori

As a director, what are some of your aspirations and resolutions? In what ways do you try to leverage your skills and knowledge?

I joined the workforce after graduating from university and then went on to study accounting at a graduate school in the United States before moving to an audit firm that provided advisory services, including on the introduction of internal control systems. In my current capacity as a university professor, my research focuses on two main areas: effective internal control systems for organizations and financial statement analysis for corporate entities. Drawing on the skills I have acquired through my work experience in these fields as well as the knowledge I have accumulated as a researcher, I would like to contribute to the management and monitoring of risks that have the potential to substantially impair the Company's corporate value, while also working to introduce and establish mechanisms aimed at its further enhancement.

What elements do you think are key to achieving a new Kobayashi Pharmaceutical, and what role would you like to play in achieving this?

I believe the key lies in management that meets the expectations of stakeholders. First, from the perspective of our customers, I believe the Company's brand slogan, "You make a wish, and we make it happen," to be its ultimate purpose and that delivering health and comfort to customers through its products is the natural result of embracing this concept. To realize this purpose, I believe that all the Company's directors and employees must approach their daily tasks in a mindful and appropriate manner. My contribution to this goal will be to introduce effective internal controls, my area of expertise, and to develop enterprise risk management on a Company-wide basis.

What expectations do you have for a new Kobayashi Pharmaceutical?

From a shareholder perspective, rather than focusing solely on quantitative expansion (such as continuous revenue and profit growth) as reflected in the income statement, it is important to pursue qualitative improvement with a greater focus on the balance sheet and cash flow. Specifically, I believe it is important to improve ROA by improving two key indicators: the profit margin on net sales in the income statement and the total asset turnover ratio on the balance sheet. It is also important to improve ROE by verifying an appropriate capital structure ratio (leverage) is being maintained. Furthermore, I would like this new version of Kobayashi Pharmaceutical to strive to achieve a virtuous cycle of consistently meeting the expectations of such external stakeholders as customers, shareholders, and business partners, thereby rewarding its employees, its valued internal stakeholders.

Transforming the corporate culture and swiftly evolving into a new Kobayashi Pharmaceutical

Newly Appointed

Outside Director
Akio Takahashi

As a director, what are some of your aspirations and resolutions? In what ways do you try to leverage your skills and knowledge?

Over the course of my forty-year career in the securities industry, I have been both an industry insider providing services as a corporate growth advisor and an outside investor focused on corporate development and private equity. I would like to offer my opinions on improving corporate value from the broad perspective I have thus developed.

What elements do you think are key to achieving a new Kobayashi Pharmaceutical, and what role would you like to play in achieving this?

Various measures aimed at ensuring the Company's evolution into a new Kobayashi Pharmaceutical have already been launched. Needless to say, it is the hard work of the Company's directors and employees that will determine its success. However, there is no denying that there are times when it is hard to achieve a clean break from old ways of thinking. It is my intention to approach this issue from an objective, external perspective, applying both the brakes and the accelerator as necessary.

What expectations do you have for a new Kobayashi Pharmaceutical?

From a securities market perspective, Kobayashi Pharmaceutical is fundamentally a good company. With a unique approach to operations based on its philosophy of making people's wishes happen, the Company has a history of high profitability and stable growth. Therefore, its PER, PBR, and other indicators have historically been valued higher than the market average. While providing proper support to those affected by the Issue, it is my hope to work together toward the early realization of a new Kobayashi Pharmaceutical with an improved corporate culture.

Putting quality and safety first, contributing to people and society even further

Newly Appointed

Outside Director
Shinsuke Matsumoto

As a director, what are some of your aspirations and resolutions? In what ways do you try to leverage your skills and knowledge?

In my capacity as a lawyer, I primarily handle M&A and corporate governance matters. I also have experience serving as an outside director for listed and unlisted companies and in teaching at universities and graduate schools. Drawing on this knowledge and experience, I am looking to contribute to Kobayashi Pharmaceutical's corporate governance reform, particularly with regard to the recurrence prevention measures of the Issue. Going forward, I aim to play a role in monitoring and supervising M&A activities undertaken by Kobayashi Pharmaceutical to ensure all undertakings are appropriate.

What elements do you think are key to achieving a new Kobayashi Pharmaceutical, and what role would you like to play in achieving this?

Although I have only recently been appointed as an outside director, even from my brief time here, I feel that the Kobayashi Pharmaceutical team boasts a lineup of highly capable and talented employees. I believe that if every employee directs their passion for new product development and marketing into improving quality and safety, a new Kobayashi Pharmaceutical that prioritizes quality and safety is attainable. I intend to invite all employees to join me in considering how to implement such a change in mindset while making every effort to achieve that goal.

What expectations do you have for a new Kobayashi Pharmaceutical?

Kobayashi Pharmaceutical has contributed to people and society by solving issues that have often been overlooked with unprecedented ideas and technologies. The Company sincerely apologizes for any concern or inconvenience this quality issue may have caused customers, business partners, and other related parties. Reflecting on this incident, the new Kobayashi Pharmaceutical will prioritize quality and safety above all else while striving to contribute to society and achieve further growth by releasing new products that excel in terms of both quality and safety.

Messages from the Outside Directors

Restoring society's trust and providing sustainable value

Newly Appointed

Outside Director
Misa Kusumoto

As a director, what are some of your aspirations and resolutions? In what ways do you try to leverage your skills and knowledge?

Drawing on my experience in marketing and brand management, I aim to help rebuild trust in the Company's brand and support value creation from a consumer perspective. Also, in my role as an outside director, I intend to contribute to improving the soundness and transparency of management with a focus on governance and corporate culture. I will contribute to enhancing corporate value through ongoing dialogues with management and employees undertaken from a multifaceted and comprehensive perspective.

What elements do you think are key to achieving a new Kobayashi Pharmaceutical, and what role would you like to play in achieving this?

Recovering trust by thoroughly prioritizing quality and safety and rebuilding a corporate culture in which employees can take pride in their work are important. To achieve this, transparent governance and two-way communication between management and the front lines are essential. At Board of Directors meetings, I will continue to support the Company's transformation into a trusted enterprise by confirming the appropriateness of management decisions while keeping in mind the customer perspective and conditions on the front lines.

What expectations do you have for a new Kobayashi Pharmaceutical?

I feel that the spirit of "You make a wish, and we make it happen" embodies Kobayashi Pharmaceutical's identity and is the source of its strength. While cherishing that aspiration, I hope that the Company will rebuild its trust-based relationship with society and provide sustainable value. The creation of an environment in which diverse human resources are empowered to perform to their full potential and pursue innovation under sound governance will drive future growth.

Improving employee morale and delivering useful products to the world

Newly Appointed

Outside Director
Toshiaki Monkawa

As a director, what are some of your aspirations and resolutions? In what ways do you try to leverage your skills and knowledge?

I have spent many years working as a nephrologist. My research has also focused on nephrology, particularly the study of the renal tubules. Health problems caused by the Issue were due to damage to the renal tubules, leading me to believe that my clinical and research activities could prove useful to those affected in terms of compensation and preventing recurrence. Furthermore, having been involved in organizational management at universities for many years, I believe that my experience will be useful in instituting Company reforms and sustaining employee morale.

What elements do you think are key to achieving a new Kobayashi Pharmaceutical, and what role would you like to play in achieving this?

I believe that the Company's first priority should be its plan for compensating those who suffered damage in the Issue as well as the companies involved. Compared to drug-related ill effects, identifying victims and providing compensation for those affected by food poisoning takes time. Now, one year after the incident, this identification has progressed, and a compensation system framework has been established. Furthermore, as I believe that Kobayashi Pharmaceutical's greatest asset comprises the energy and ideas of its employees, I intend to help boost employee morale and establish a system for delivering products that are useful to society.

What expectations do you have for a new Kobayashi Pharmaceutical?

In addition to ensuring that compensation for individuals and companies that suffered damages in the Issue proceeds properly, I hope to restore the Company's image as a vibrant organization that brings wishes to life. As some of the Company's products come into direct contact with the skin while others are ingested in the form of food or medicine, a system that ensures quality and safety is essential. I will personally work to help build an organization that instills confidence in investors and boosts employee morale.

New Kobayashi Pharmaceutical: Prioritizing Health and Safety

Outside Director
Yoshiro Katae

How have deliberations changed at Board of Directors meetings since the occurrence of the issue with red yeast rice-related products?

Since the incident, the Board of Directors' discussions have taken on an unprecedented degree of urgency as we work to address the situation. We began by swiftly ensuring a thorough understanding of the facts. This was followed with the establishment of the fact-finding committee on April 26, 2024, which started investigating objectively in collaboration with external experts. Once the Board received the committee's report, its top priorities were to promptly and sincerely respond to affected customers, implement product recalls, and thoroughly disclose all relevant information, while simultaneously having exhaustive discussions aimed at pinpointing the root cause of the issue.

The Board of Directors has been greatly reformed, but how did these events affect the Nomination Committee and its discussions? What sets of skills were prioritized?

The Company decided to make the reform of its Board of Directors and approach to corporate governance top priorities among the various recurrence prevention measures. To this end, the Nomination Committee examined how the Board of Directors should work to maximize corporate value and repeatedly discussed this topic, focusing on the following points.

Our first priority was to overhaul the composition of the Board of Directors with a focus on diversity. We believe that the key to creating a new Kobayashi Pharmaceutical and regaining the trust of our stakeholders is to ensure our Board of Directors is sufficiently non-homogenous. To this end, we created a system that welcomes new perspectives and promotes the reform of our corporate culture.

Next, to enhance the Board's ability to exercise supervisory duties, we not only maintained an outside director majority but increased the number of such persons from four to six. We specifically appointed new outside directors boasting a wealth of experience in risk management and corporate law to strengthen our supervision of internal controls and quality control. In addition, we incorporated specialist knowledge of medical care, pharmaceuticals, and R&D to strengthen the expert supervision of the Board of Directors.

Responsibly managing compensation for damages was also a top priority for us. By retaining Mr. Akihiro Kobayashi, who served as president at the same of the Issue, in a new capacity as the person in charge of compensation, we hope to demonstrate the sincerity of our determination to compensate those affected.

Furthermore, to help transform our corporate culture and transition into a new, highly transparent entity, we appointed an experienced manager from outside the Company to act as an executive director and Chairman of the Board, thereby enhancing supervision. As part of our efforts to improve management transparency, we also appointed an outside director who is very experienced in engaging in dialogue with the market and information disclosure.

Our final topic of focus was restoring public perception of our brand based on our new business strategy. To this end, we appointed an individual with extensive international business experience as Representative Director, President and Chief Executive Officer and an individual with a wealth of knowledge in marketing and branding as an outside director to help create a system to implement the Company's transition.

By discussing these priorities at length, the Nomination Committee strove to realize a balanced Board of Directors capable of restoring trust, preventing recurrence, and achieving future growth.

What are your thoughts on utilizing your skills and knowledge to realize a new Kobayashi Pharmaceutical, and what are your expectations for the Company in that regard?

In the case of the Issue, as the report provided by the fact-finding committee indicated that there was insufficient prioritization of health and safety in when receiving reports of cases of serious ill health effects. Therefore, it is crucial for us to reform our corporate culture to one that encourages every employee to believe that health and safety are of utmost priority, both for ourselves and for the customer.

To enable employees to understand deeply why health and safety should be top-priority issues and to take action to that end, we need to establish an environment in which employees feel free to raise concerns and know that such behavior is rewarded. Furthermore, this must be incorporated into the corporate culture, so that employees' mindsets encompass more than simply following the rules.

As an outside director, I will meticulously supervise the progress of the recurrence prevention measures from an objective, independent perspective. To improve the effectiveness of internal controls and the quality control system, I would like to apply my expertise in crisis management and compliance to establish a governance system with a high degree of transparency, and thus contribute to regaining the trust of the Company's stakeholders.

In addition to regaining this trust, we also need to ensure sustainable growth to realize a new Kobayashi Pharmaceutical. From my position within the Board of Directors, I will actively support the formulation and implementation of new business strategy rooted in health and safety. I am confident that by continuing to provide high-quality, valuable products that meet the needs of our customers and contribute to society as a whole, we can truly transform and evolve into a new Kobayashi Pharmaceutical.

Kobayashi Pharmaceutical's top priorities

Progress of compensation procedures

Since the Issue first arose, we had been paying compensation to customers who experienced ill health effects following the use of the Company's *Benikoji CholesteHelp* or other similar products (hereinafter, red yeast rice-related products). We began by recommending that customers who had used the Company's red yeast rice-related products and were concerned about their health to visit a medical institution and paid for the initial examination. After April 25, 2024, as a temporary measure until the cause was accurately identified, we had been paying compensation in the form of covering the actual medical expenses of customers who had been identified as being able to draw a reasonable correlation between the use of the Company's red yeast rice-related products and their symptoms. Taking into account the progress of the investigation into the cause, from August 19, we started providing full-scale compensation, including for damages, to customers who suffered ill health effects as a result of taking the Company's red yeast rice-related products.

There are four types of compensation, including medical expenses and transportation expenses for treatment, compensation for emotional distress caused by symptoms, compensation for absence from work due to symptoms, and compensation for those unable to fully recover and due to the development of a disability as well as for lost future income. As of July 31, 2025, we have received approximately 1,310 applications for compensation. Of these, approximately 840 were backed by documentation and among these approximately 780 have been verified.

For those eligible for compensation, we make payments as medical treatment and transportation costs are submitted. After that, we propose compensation in the form of type two, three, and four as previously mentioned (such as compensation for emotional distress or absence from work) to those whose health is stable or who have made a full recovery before proceeding with a settlement agreement, following which we will promptly pay compensation.

In April 2024, we identified 52 companies we had direct dealings with and distributed to them applications they could use to request compensation for corporate losses related to recalls and disposal by business partners who supplied red yeast rice-related products, and they, in turn, have passed on the forms to their downstream partners, and have begun processing the claims. Because each company's business model, product category, and sales methods differ, we provide compensation after confirming the costs associated with recalls for each company individually.

In all of our compensation efforts, we are committed to our policy of seriously listening to customer feedback, offering support, and sincerely responding to each case. In cases where documentation is not sufficient, we conduct additional interviews, interview the attending physicians, or consult experts. We sincerely apologize for any additional inconvenience this may cause, but we believe it is crucial to carefully listen to every single customer's claim to ensure thoroughness and provide sincere, appropriate compensation.

Through these compensation efforts, we are acutely aware of the trust the Company has lost in this matter, as well as the inconvenience and concern caused to our customers in both the physical and mental sense. We believe that taking responsibility must be our top priority until the very last claim has been taken care of.

Message from the Head of the Compensation Claim Management Headquarters

Sincerely listen to our customers, offer support, and take responsibility

Kei Sato
Executive Officer
Senior General Manager of Compensation Claim Management Headquarters

We sincerely apologize to our valued customers, shareholders, and all other Company stakeholders for the significant inconvenience and concern they have experienced regarding red yeast rice-related products. The Compensation Claim Management Headquarters has been working tirelessly to fully understand and record the extent of damage caused, as well as to provide compensation.

Tasks for the Compensation Claim Management Headquarters to transform into a new Kobayashi Pharmaceutical

I first became involved in compensation responses after the announcement of the Issue on March 22, 2024, upon which I was suddenly transferred from the sales team to provide support for recall-related compensation for the raw materials business. I was appointed as the head of the Compensation Claim Management Headquarters in late May, and we began swiftly moving forward. The newly established Compensation Claim Management Headquarters handles both compensation for individual customers who have suffered ill health effects and for companies affected by the raw material recalls, both domestically and internationally. With a target of August 2024, we wanted to provide compensation to our customers as soon as possible, and in just two months we quickly got the finalization of the compensation policy under way and we began implementing it.

We also worked to develop a system to integrate and summarize the compensation process, and we were able to begin providing compensation as scheduled on August 19th.

Of course, it was a rocky beginning, but whenever we found a problem, our team held discussions to solve it, so it was truly a learning process for everyone in those early days. Every member of the Compensation Claim Management Headquarters has listened to customer feedback, taken it seriously, and worked closely with customers to alleviate their concerns and dissatisfaction, and we have kept this approach at the center of our hearts as we have moved forward with actions to today. This belief will remain steadfast, and I intend to continue working diligently to ensure everyone involved in the Company's compensation response works with a sense of responsibility and sincerity.

Because our headquarters hears the genuine voices of our customers, we are acutely aware of the seriousness of this incident. Therefore, we fully understand that we have a mission and responsibility to ensure that the lessons learned from the Issue are not forgotten in the Group, no matter how much time passes. We will provide compensation that is sincere and appropriate, and our greatest mission is to share what we hear from customers with management and employees across the Company in addition to sharing previously unknown concerns voiced by our partner companies and the reality of inconveniences that customers are still dealing with. This information provides a foundation that will be crucial for new Kobayashi Pharmaceutical to ensure long-lasting changes moving forward.

The focus of the business world tends to be on of economic benefits and drawbacks, but I believe our focus should be on people-driven ethics. It will be crucial that we never forget about the Issue and always prioritize fairness and honesty, and this will be crucial to building a new Kobayashi Pharmaceutical. I intend to continue to pursue this important task as the Senior General Manager of the Compensation Claim Management Headquarters.

Message from the Head of the Marketing Headquarters

We are committed to manufacturing with heart from the customer's perspective and continuously strive to ensure customer satisfaction.

Atsushi Onoyama
Managing Executive Officer
Senior General Manager of
Marketing Headquarters

As we address the red yeast rice issue, we are once again returning to a customer-first approach, ensuring that everyone from top management to the front lines is focused on delivering value to our customers, and that customer satisfaction takes priority in terms of quality. We are reemphasizing this approach on a Group-wide basis.

The Marketing Headquarters's policy is to prioritize customer satisfaction. Our role begins with the creation of quality products that reflect a thorough understanding of what will ensure customer satisfaction continues after product release with the confirmation that satisfaction has been achieved. This, in turn, leads to repeat purchases. We believe it is important to confirm customer satisfaction at each stage of the product life cycle, from planning to post-release use, and conduct specifically targeted checks while continually striving toward improvement.

Each division leverages its expertise and promotes development through collaboration

Under the traditional division system, for example, as the General Manager of the Household Division, marketing and R&D organizations were under my jurisdiction. However, because most of the then-senior management positions within the division, including my own, were filled by people from the Marketing Division, decisions on product development and launches were made without sufficient consideration of the R&D perspective.

Following the reorganization to a function-based Headquarters system in January 2025 as part of the recurrence prevention measures, various functions were consolidated and responsibilities delegated to the Marketing Headquarters and the R&D Headquarters. Going forward, the headquarters will work together closely, honing their respective areas of expertise and discussing issues from a variety of perspectives before making decisions on product development.

Specifically, the Development Participation Committee, which is responsible for making decisions on new product development, consists of myself as chair and the Senior General Managers of R&D, Sales, Manufacturing Headquarters, and Quality Assurance. Each member brings their own expertise and diverse perspectives to the table and discussions of how to best satisfy our customers and advance product development.

Furthermore, we are creating a system that facilitates smooth communication at all levels, from Senior General Managers down to managers, so that issues can be identified quickly and a wider range of perspectives can be incorporated into product development, resulting in products that offer a high level of customer satisfaction.

Aiming to create products that become an integral part of daily life around the world

The Marketing Headquarters's mission is to identify overlooked issues, develop products to address them, and communicate the appeal of those products to customers in an easy-to-understand manner. We will refine Kobayashi Pharmaceutical's unique marketing strengths, formalize them to ensure their sustainability, and pass them on to future generations. To that end, individual expertise and abilities must be honed to entirely new level, and both individuals and organizations must become capable of thinking, acting, and making decisions autonomously. In establishing the Marketing Headquarters, we have been enhancing our unique educational programs and are working to foster and enrich our human resources.

When evaluating our products' performance during use, we thoroughly consider the customer's perspective and, through continuous improvement, we strive to create products that we can confidently recommend to our family and friends. We believe that the mindset of striving to create products that satisfy customers around the world, earn their appreciation, and ultimately become an integral part of their lives is the essence of manufacturing with heart.

The present moment is indeed a crucial period as we lay the foundation for a new Kobayashi Pharmaceutical. Accordingly, in May 2025 we resumed corporate advertising, which had been suspended for over a year in Japan, with a focus on prioritizing compensation, highlighting recurrence prevention measures, and aiming to rebuild trust. Also in May, we resumed product advertising, launching an online campaign prioritizing brands whose recognition had declined to the point of affecting retail sales. Drawing on the expertise we have cultivated during the advertising hiatus, including the meticulous updating and enhancement of our brand website, packaging, and in-store promotional materials, we will use the resumption of advertising as an opportunity to build the foundation for further evolution in our marketing.

“Quality enhancement
II
Higher customer satisfaction”

Quality in a narrow sense	Quality in a broad sense
Suitability of product features (Functionality in terms of durability, performance, etc.)	Provides value and satisfaction for customers (Meets expectations)

* Including not only products, but customer service, after-sales care, and sincere responsiveness to defects

Our customers are the ultimate judge of quality,
which can thus be defined as the level of customer satisfaction.

= Providing outstanding satisfaction to people and the community (Management Principles)

= Returning to the roots of user-oriented development (Customer needs)

Message from the CFO

Boldly change what needs to be changed and boost earnings power through balanced management resource allocation

Yumi Nakagawa
Executive Officer
Senior General Manager of Finance Headquarters

The Finance Headquarters was reformed in January 2025 and adopted a policy for the current fiscal year focused on enhancing the CFO Unit by becoming a group of experts applying their knowledge to drive corporate value improvement. Demonstrating outstanding professionalism, all staff will strive wholeheartedly and with dedication.

Performance forecast for FY2025

In fiscal 2024, the previous fiscal year, the Company recorded an extraordinary loss of ¥12.7 billion due to the voluntary recall of red yeast rice-related products, resulting in a difficult year. This extraordinary loss includes all reasonably estimable losses that may occur in the future.

In fiscal 2025, the current fiscal year, we forecast net sales to come in at ¥171 billion, a year-on-year increase of 3.3%, operating income to be ¥14 billion, down 43.7%, and net income attributable to owners of the parent to be ¥10.5 billion, up 4.3%. I will begin by explaining why we are expecting this decrease in operating income, with a focus on how the expected results differ from the previous fiscal year.

First, we expect to see a sales increase of ¥3.7 billion due primarily to returns from the International Business.

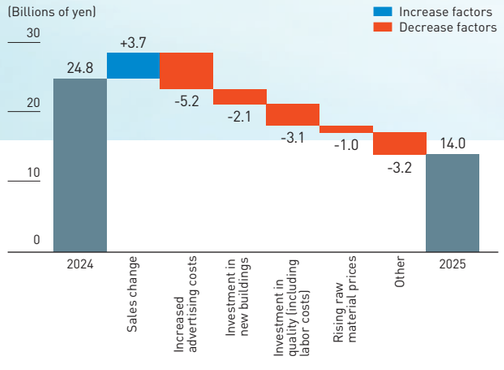
We also forecast a ¥5.2 billion year-on-year increase in advertising expenses along with the resumption of spending that had been suspended in the previous year. However, we expect it will take some time for new advertising efforts to yield results, the effects might not appear until the second half of fiscal 2025 or in fiscal 2026.

We also expect to see a ¥2.1 billion decrease in profit from investment in new buildings due largely to higher depreciation expenses and operating costs from the construction in Hefei, China, and Sendai, Japan.

We have earmarked ¥3.1 billion for investment in quality, an amount that includes ¥2.3 billion in personnel expenses to cover across-the-board increases in base salaries. The remaining ¥800 million will be directly applied to quality improvement over the course of fiscal 2025, including spending toward the recruitment of human resources and improvement of employee skills.

Assumptions for the fiscal 2025 results forecast (Factors affecting operating income)

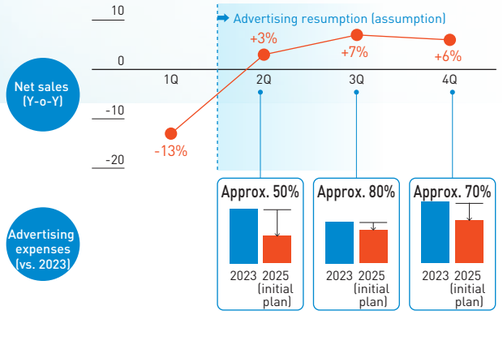
- Stepped up investment in quality and human resources
- Large-scale capital investment (such as in new buildings) both in Japan and overseas to support international growth
- Higher expenses due to resumption of domestic advertising



Assumptions for the fiscal 2025 results forecast (Domestic advertising outlook)

Advertising in Japan resumed in the second quarter. We plan a reduced volume of advertisements compared to 2023, having increased efficiency by narrowing down the brands to be advertised and shifting to online advertisements.

Quarterly domestic sales and advertising expenses forecast (initial plan)



Regarding the other expected ¥3.2 billion decrease, ¥1.6 billion of this will be accounted for by outsourcing expenses. Examples of outsourcing include general outsourcing to external companies, hiring external lecturers and consultants for employee training and education, and collaborative analysis with external research institutions.

Year-on-year increases in personnel and outsourcing expenses are not typically this high but were incurred due to the suspension of certain activities in the previous fiscal year due to the Issue. For fiscal 2025, we are working on the assumption that these activities will be resumed at normal levels and so expect a rebound in related expenses.

In addition to strengthening our investments in quality, we plan to invest proactively in growth, such as in human resources and the resumption of other activities that were halted last year.

Due to this increased scope of investment, we expect operating income in fiscal 2025 to decrease 43.7% year on year to ¥14 billion.

Restarting Advertising and the Outlook for the Domestic Business

We resumed corporate advertising in May 2025, and since then, have slowly resumed television and online product advertising. Profit will still be lower in the first quarter, but we expect to see improvement from the second quarter onwards once the resumption of advertising starts to take effect, in turn leading to annual domestic profit being restored to a typical level.

Aside from these assumptions, we need to determine how customers will actually respond to resumed advertising and how that response will affect our sales forecast for fiscal 2025.

The healthcare products business, especially with regard to the food products category, struggled in fiscal 2024 due to the Issue. However, we achieved higher year-on-year sales of household products, and we once again appreciated the strength of our products. After advertising was suspended, sales of healthcare products gradually declined, but the suspension did not have as big of an effect on household products. Even against this difficult backdrop, we were able to learn many things, and we plan to apply what we have learned to our new growth trajectory for the future.

Sales from inbound tourists for both fiscal 2023 and fiscal 2024 were on par with pre-pandemic levels, and with international tourist numbers continuing to increase due to Expo 2025 held in Osaka, Kansai, we expect to see even further growth.

Message from the CFO

The future growth of Kobayashi Pharmaceuticals will be driven by the International Business

In the International Business, we sell body warmers, cooling gel sheets for the forehead, and *Ammeltz* external analgesic, mainly in the U.S., China, and Southeast Asia, and we are working to increase sales by actively investing in advertising and sales promotions. To meet growing overseas demand, we have invested in new buildings in Hefei, China, and Sendai, Japan, to expand production, so we expect to see overseas sales grow even more.

Next, I will discuss an overview of business performance by region of our international business for fiscal 2024.

The scope of sales in the United States is large, and our main product there is body warmers, so we acquired U.S.-based Focus Consumer Healthcare in October 2023, a seller of supplements and OTC drugs, to support the expansion of our sales channels and product range. Sales have increased, and exchange rate fluctuations have also positively impacted profit.

In China, sales were sluggish due to the suspension of advertising from March 22, 2024, when the company announced a voluntary recall of red yeast rice-related products. After advertising was resumed in August, we recorded a year-on-year sales rise for September and October, but this was followed by sluggish demand for cooling gel sheets due to lower rates of influenza and other infectious diseases causing fever, and revenue for the year was down.

In Southeast Asia, the mainstay products cooling gel sheets and *Ammeltz* performed well, and sales increased thanks to the impact of exchange rate fluctuations stemming from the weak yen, also contributing to higher revenue. Sales in Southeast Asia are trending positively, and I believe this pattern will continue into the future. We will also strive to prevent any supply shortages by considering future demand growth.

Going forward, the Company will position the International Business as its chief growth driver, and further accelerate growth. We will formulate appropriate strategies and allocate the necessary management resources after carefully analyzing the characteristics of every country in which we operate.

Toward medium- to long-term growth

1. Promote structural reforms

- **Implement portfolio management**
  → Promote transformation for medium- to long-term business growth

Optimize SKUs	→ Improve production and quality by reducing SKU size 25%
Improve advertising efficiency	→ Improve efficiency 20% by shifting to online advertising
Change product mix	→ Recover profit structure

- **Review unprofitable businesses**
  → Reduce fixed costs, utilize human capital, expand resources for investing in quality and safety, and implement significant management reforms, including consolidating unprofitable businesses

2. Basic development policy for growth recovery

- **Develop products that encourage repeat consumer purchasing (products that will become established market fixtures for the medium to long term within five years)**
- **International Business growth**
  →Efficiently allocate limited capital resources by pursuing focused growth investment in each country.
  For example, aggressively expand into new potential growth markets in Southeast Asia after Thailand and Malaysia
- **Prepare for new businesses**
  → Determine our competitive fields and consolidate resources

Return to fiscal 2023 profit levels in three years (by fiscal 2028 at the latest)

Growth direction for the medium to long term

We are currently preparing our August presentation of the new direction our medium- to long-term plan will take. Here, I outline the thought process going into this plan's formulation.

First, we are focusing on structural reforms, taking an approach that is more conscious of portfolio management. Consequently, we will reduce SKUs by about 25%, improve advertising efficiency by around 20%, and change the product mix to improve profitability.

For example, of the 81 *Bluelet* SKUs, we are planning to cut 18 in the first half of fiscal 2025. We have already compiled a list of SKUs to eliminate in Japan, and we will carefully examine SKUs in our international businesses as well and expand our optimization efforts.

We will clarify areas for growth, transformation, and action—including non-core categories requiring reorganization—to implement this structural reform.

Next, in terms of growth measures, we will examine our new product development and focus on creating products that customers will want to use again and again, rather than on creating myriad variations.

In the International Business, we will work to further drive growth by taking a balanced approach to implementing measures and allocating resources. With a three-year timeline (by fiscal 2028 at the latest), we will work on building new businesses and steadily implementing measures as we strive to restore profits to levels recorded before the red yeast rice issue and return the Company to a growth trajectory.

As CFO, I believe that the first step to achieving this growth is to achieve a high ROE and maintain it over the long term. In fiscal 2024, ROE sat at a relatively low 4.8%, and I would like to see it hit double digits as soon as possible. We will work to devise a management strategy that balances financial soundness with cost management, while simultaneously implementing measures for profit improvement.

Kobayashi Pharmaceutical is in a very strong position financially, so one of the major themes of the next medium-term management plan now being formulated is focused on the most effective use of cash. Our current top priority is paying compensation, but in the future we will be able to allocate cash to growth investments and shareholder returns.

These investments for growth will include both domestic and international M&A. The selection of high-quality investments requires that the size and potential of potential targets be determined and evaluated in accordance with relevant indicators that take into account the cost of capital.

In terms of shareholder returns, we announced an increase in dividends for fiscal 2024 and are planning to continue to steadily increase dividends as it is in the best interest of our shareholders. We will also flexibly acquire treasury stock. The Company's basic policy for financial management is to build the earnings power necessary for growth and offer good returns for our shareholders.

Resolving to realize a new Kobayashi Pharmaceutical

To regain trust, we must carefully and steadily move forward one step at a time. At the Finance Headquarters, we are accountable to both the stock market and our investors. I believe that prompt public disclosure when appropriate will help us regain trust. I believe it is also crucial to actively create opportunities for regular dialogue and to carefully respond to any questions that arise.

A crucial part of my job is to reflect the invaluable feedback and opinions of our stakeholders—including expectations that are communicated through dialogue—in the management of the Company.

I believe that the Company should make bold changes when needed. Furthermore, I would like to further leverage those of our unique strengths that ought to remain untouched and encourage our transformation into a new, stronger Kobayashi Pharmaceutical.

I have a wide range of experience at a number of different companies, but one of the first things I noticed when I joined Kobayashi Pharmaceutical was the strength of its employees. For example, I have seen similar incidents occur at other companies. Oftentimes, interpersonal relationships became strained, or a significant number of employees decided to leave the company. However, at Kobayashi Pharmaceutical, I have seen employees determined to come together to overcome a very difficult situation with strong unified spirit. The Company also did not see a sudden increase in employee turnover.

The Company has great potential, and I believe that if we can properly leverage the capabilities of our strong human resources, we can do better than a return to typical performance and instead chart a new trajectory for growth.

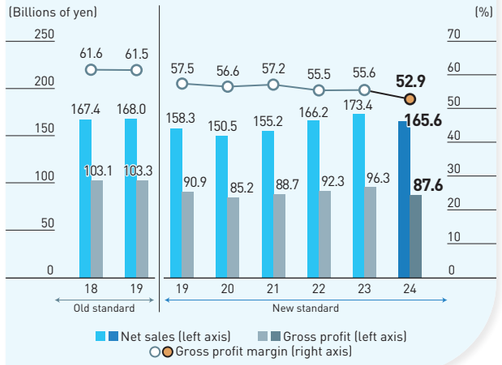
To achieve this goal, the Finance Headquarters will endeavor to generate, allocate, and invest cash to support earnings power and growth, and we will work to ensure favorable shareholder returns. We will continue to communicate with our stakeholders on both the current situation and our future targets. We appreciate your continued feedback and support.

Financial highlights

Net sales

4.5% DOWN

¥165.6 billion

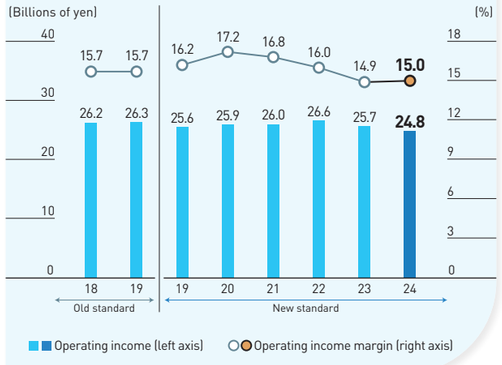


In the Domestic Business, although the introduction of new products contributed to a rise in inbound demand, such factors as the impact of the voluntary recall of red yeast rice-related products along with poor showings from operations involving existing products and direct marketing resulted in a sales decline. On the other hand, driven by foreign currency translation effects and the acquisition of Focus Consumer Healthcare, LLC, the International Business saw sales increase.

Operating income

3.6% DOWN

¥24.8 billion

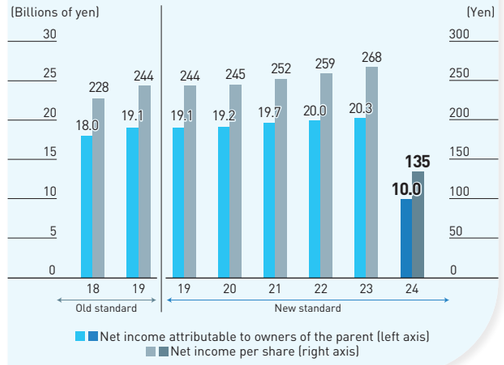


Despite the positive effect of a hiatus in spending on advertising, profit decreased due to lower sales, higher labor costs, and a rise in depreciation expenses for Focus Consumer Healthcare, LLC, which was acquired in October 2023.

Net income attributable to owners of the parent

50.5% DOWN

¥10.0 billion

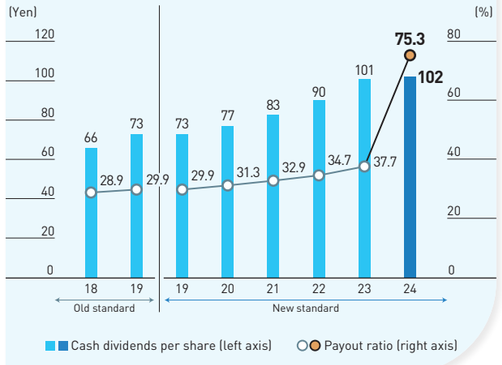


Net income fell due to an extraordinary loss of ¥12.7 billion associated with the voluntary recall of red yeast rice-related products.

Cash dividends per share

1.0% UP

¥102

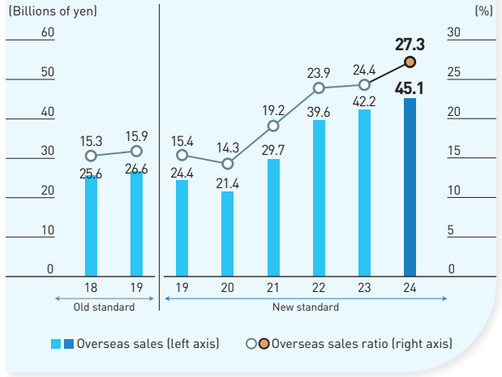


By balancing the maintenance of a sound management structure with proactive investment, we have continued to steadily increase dividends. Thus, FY2024 was our 26th consecutive year of increased dividends.

Overseas sales

6.8% UP

¥45.1 billion



Sales decreases in mainland China and Hong Kong were offset by positive results in other countries and regions, resulting in an increase in total sales.

ROA / ROE

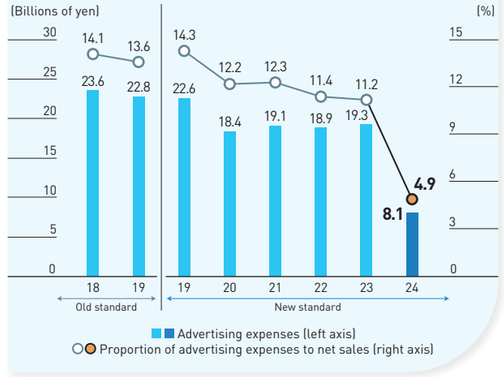
10.1% 0.3 POINTS DOWN　**4.8%** 5.3 POINTS DOWN

Despite efforts to improve capital efficiency, both ROA and ROE were down year on year.

Advertising expenses

58% DOWN

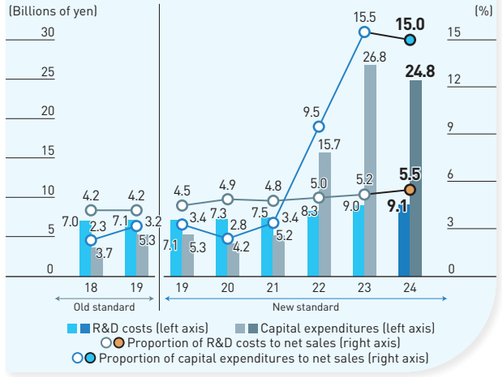
¥8.1 billion



In line with the announcement of the voluntary recall of red yeast rice-related products on March 22, 2024, advertising for all products was suspended in Japan and mainland China until July 2024, resulting in lower advertising expenses.

R&D costs / Capital expenditures

¥9.1 billion 1.2% UP　**¥24.8 billion** 7.5% DOWN



Reflecting our ongoing policy of investing strongly in R&D on an annual basis with an eye to developing unique new products, R&D costs rose 1.2% in FY2024. Although capital expenditures declined 7.5% in FY2024, large-scale investments progressed in line with plans, including the completion of a new factory in China that started operations in April 2024 as well as construction on a new pharmaceutical product plant for the Sendai facility that is scheduled to start operations in 2025.

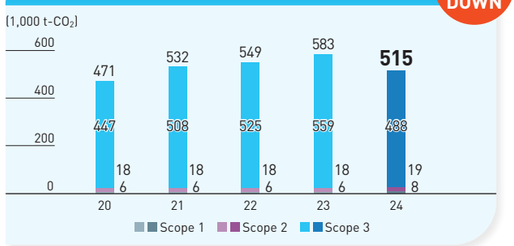
Non-financial highlights (Kobayashi Pharmaceutical and Group companies)

Environment

Addressing global environmental issues and contributing to the realization of a sustainable society

CO_2 emissions

11.7% DOWN

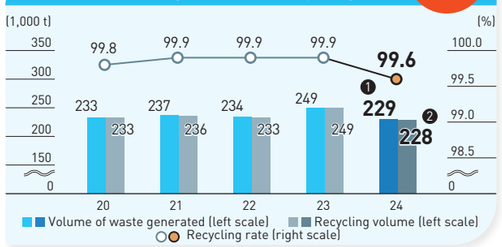


Scope 1 and 2 emissions increased due to new buildings at many domestic and overseas plants. Regarding Scope 3 emissions, in Category 1 (products/services purchased), which accounts for the highest proportion of emissions, reduced domestic sales and improvements to low-emission products helped reduce emissions.

Note: Domestic and overseas Group companies

Volume of waste generated / Recycling rate

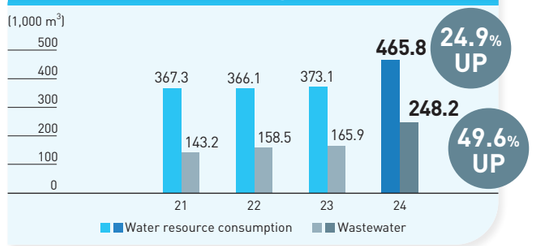
1 8.2% DOWN 2 0.3 POINTS DOWN



Amounts for 2024 and beyond have been amended and refined from the original data for the purpose of aggregation.

Water resource consumption / Wastewater

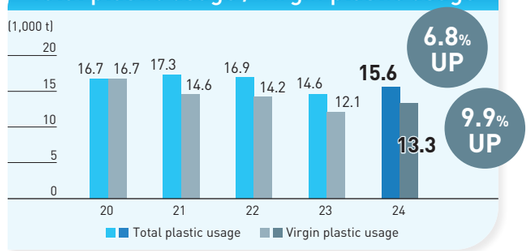
24.9% UP 49.6% UP



Water resource consumption and wastewater amounts have increased due to new buildings at domestic and overseas plants.

Total plastic usage / Virgin plastic usage

6.8% UP 9.9% UP



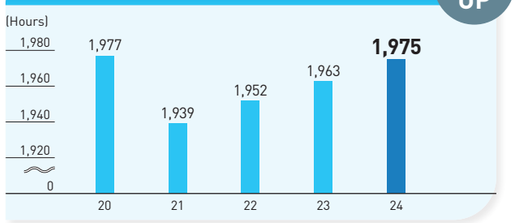
In FY2024, we formulated plastic reduction targets and are proactively utilizing such materials as recycled plastic and biomass-derived plastic. However, in FY2024, a greater proportion of net sales were of products that contain little recycled or biomass-derived plastic, causing total usage and virgin plastic usage to increase.

Human resources

Implementing work-style reforms to maximize employee value and corporate value

Total actual work hours

0.6% UP

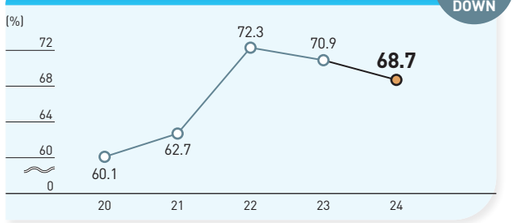


The increase in total actual work hours over the past few years is attributable to an increase in challenges and projects regarding new opportunities made available by business growth. We are revising our business portfolio and evaluating how to enhance labor efficiency and, as labor productivity improves, will continue to realize working environments in which employees can create greater value.

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

Rate of annual paid holidays taken

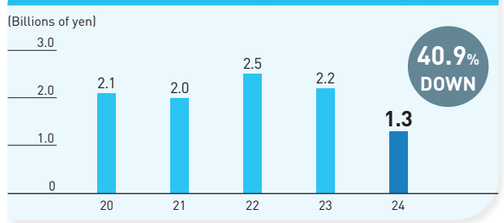
2.2 POINTS DOWN



Efficient work-styles contribute to further growth in employees' private lives as they bring such benefits as more personal time and play a foundational role in improving the Company lifestyle for workers. In 2020 and 2021, the rate of paid holidays taken fell due to a reduced need for time off as workers stayed home during the COVID-19 pandemic, but in 2022 and since the rate has returned to its original level. We will continue to recommend work-styles and ways of taking leave that are conscious of work-life balance.

Overall human resource development and training expenses

40.9% DOWN

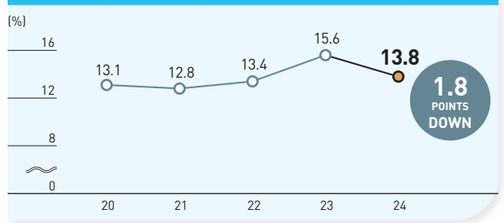


To place the highest priority on responses to the Issue, we have revised many previously planned human resource development and training activities. So that recurrence prevention measures continue to be steadily implemented, we will continue to make the necessary investments in individual employees, our most vital form of capital.

Note: Kobayashi Pharmaceutical (non-consolidated)

Percentage of management positions held by women

1.8 POINTS DOWN



We have set a target for the percentage of management positions held by women to at least 16% for 2025 (by January 1, 2026). Our efforts have been hampered however as we work to revise future policies and target values in the wake of the Issue, which led to the establishment of Compensation Headquarters, as well as large-scale organizational changes taken with the goal of making progress on recurrence prevention measures.

* Percentages are as of January 1 of the following year.

Product development KPIs

Generating products that consumers wish for

Number of idea proposals

FY2024

Approx. 38,300

New product ideas

Approx. 22,500

Business improvement ideas

Approx. 15,800

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

Number of brands (domestic)

Approx. 150 brands

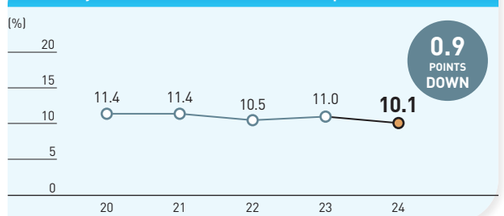
Approx. 1,000 SKUs*

* SKU: Stock keeping unit

Through our "a 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 previously exist. Completely new products are less susceptible to price competition, so we are able to secure high operating income margins.

Four-year contribution rate of new products (domestic)

0.9 POINTS DOWN



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 that can be loved by customers over the long term to market and to improve the four-year contribution rate of new products.*

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

Business Overview

Domestic Business

- Approx. 150 brands in four categories: healthcare, household products, body warmers, and direct marketing
- Creation of approximately 30 new products per year

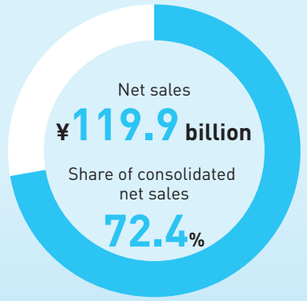
Main products

Shoshugen

Cooling gel sheets

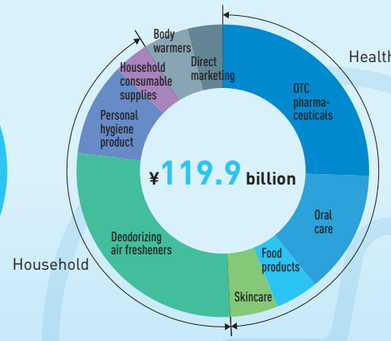
Eyebon

Overview of 2024



- Inbound demand increased in line with growth of tourism in Japan (up ¥2.9 billion year on year)
- New products *Shoshugen ZERO* and *Hip Cure* contributed to growth (up ¥4.6 billion year on year)
- Sales of existing products decreased due to the recall of red yeast rice-related products and the suspension of advertising (down ¥14.1 billion year on year)
- More returns of body warmers than usual due to warmer-than-average winter (down ¥900 million year on year)
- Sales declined due to cancellation of subscription-type purchases (down ¥3 billion year on year)

Net sales by category



- OTC pharmaceuticals 25.7%
- Oral care 13.6%
- Food products 4.8%
- Skincare 5.2%
- Deodorizing air fresheners . . . 27.7%
- Personal hygiene product 10.4%
- Household consumable supplies . 3.7%
- Body warmers 5.0%
- Direct marketing 3.8%

International Business

- Sales in such areas as the United States, China, Southeast Asia, etc.
- Active investment in advertising and promotions
- Overall sales in the International Business have more than tripled over the past decade

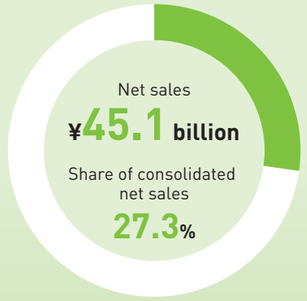
Main products

Body warmers

Cooling gel sheets

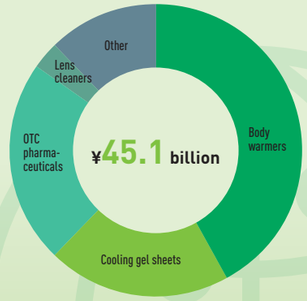
Ammeltz

Overview of 2024



- U.S.: Sales increased thanks to the acquisition of Focus in October 2023 (up ¥4.1 billion year on year)
- Mainland China: Sales decreased due to halted advertising until August 2024 and lower demand for cooling gel sheets (down ¥2.3 billion year on year)
- Hong Kong: Sales declined due to lessened tourism demand from mainland China (down ¥200 million year on year)
- Southeast Asia: Sales increased despite a return to average demand for cooling gel sheets (up ¥600 million)
- Other regions: Body warmers and cooling gel sheets performed well, especially in the U.K. (up ¥600 million year on year)

Net sales by category



- Body warmers 42.2%
- Cooling gel sheets 20.2%
- OTC pharmaceuticals 22.7%
- Lens cleaners 3.1%
- Other 11.9%

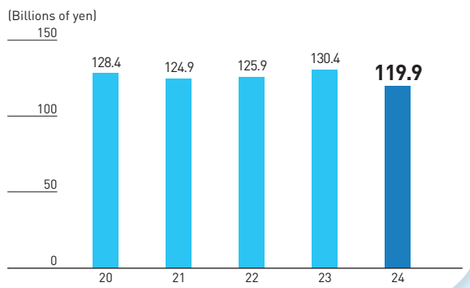
Domestic Business

In the Domestic Business, net sales for fiscal 2024 amounted to ¥119.9 billion (down 8.1% year on year), and operating income was ¥23.2 billion (up 5.4% year on year).

Net sales

YoY change -8.1%

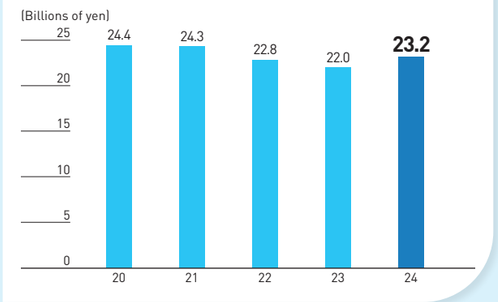
¥119.9 billion



Operating income

YoY change 5.4%

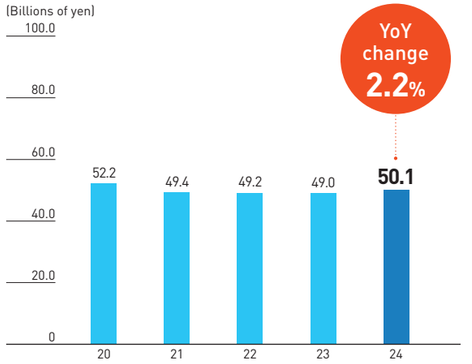
¥23.2 billion



Note: Segment information for years prior to the fiscal year ending December 31, 2023, has been retroactively adjusted to reflect changes in the organization of segments.

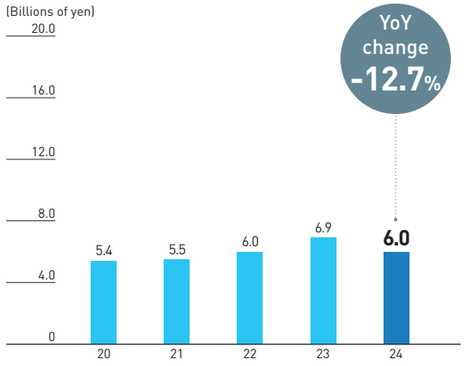
Net sales by category

Household



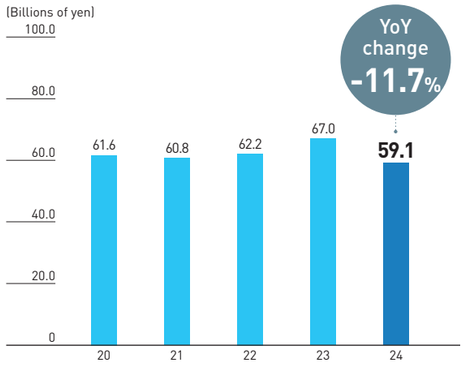
Net sales were ¥50.1 billion (up 2.2% year on year). Toilet air fresheners drove sales, and even though the price of *Bluelet* scented toilet cleaner was upwardly revised, sales remained steady. In addition, the launch of new products, such as *Shoshugen ZERO*, a fragrance-free deodorizer, and *Sawaday+ &Emotion*, a functional air freshener, contributed to results in excess of those of the previous year. Going forward, we will continue accelerating development of products with high added value, strengthening profitability, and improving brand power.

Body warmers



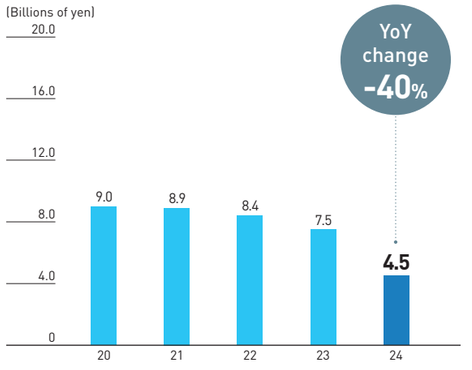
Net sales came in at ¥6 billion (down 12.7% year on year). Sales during the October to December 2024 season were strong due to the seasonal drop in temperatures, but the January to March 2024 was a warmer-than-average winter, leading to an increase in returns of unsold products after the previous year's warmer-than-average winter temperatures, and overall sales decreased. To decrease our profit structure's dependency on weather, we will focus on all-season heat-related healthcare products using our core heating technologies. We plan to incorporate more products with high added value and accelerate our efforts towards decarbonization, such as reducing manufacturing-related CO_2 emissions, to transition to a more sustainable enterprise.

Healthcare



Net sales were ¥59.1 billion (down 11.7% year on year). The voluntary recall of red yeast rice-related products and suspended advertising impacted results, but sales of *BreathCare* were up thanks to rising demand as the shift away from masks prompted consumers to seek ways to freshen and prevent bad breath. Sales of new products such as *Hip Cure*, a cream for body acne, also contributed to performance. As Japan's population ages, the self-administered medication market is growing, and we are aiming for growth by developing products to capture these needs while simultaneously focusing on restoring trust.

Direct marketing



Net sales were ¥4.5 billion (down 40.0% year on year). This was primarily attributable to suspended advertising after the voluntary recall of red yeast rice-related products, which limited opportunities to reach new customers and led to an increase in cancellations of subscription purchases. Going forward, as stated in the press release published on July 8, 2025, we have decided to discontinue sales of products through mail-order online sales as well as a call center in December 2025, and to transition to a system selling such products through other companies' e-commerce sites and retail stores.

Notice regarding termination of online product sales and call center and future sales system (Japanese)
https://www.kobayashi.co.jp/newsrelease/2025/20250708_01/

Domestic Business

New products released in FY2024 (32 total)

New product development is proceeding in line with plans and, with 32 products launched in 2024, contributed ¥4.6 billion in sales.

Retail store app promotional initiatives

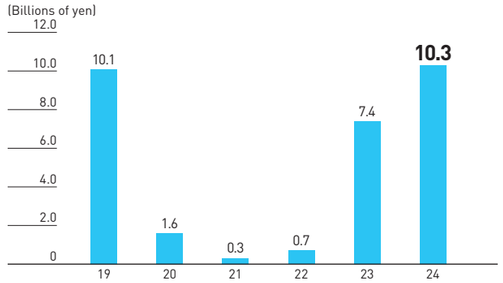
Our products are often advertised on retailers' online shopping websites, apps, or other media. Despite our temporarily halt in advertising, markets for new products were cultivated through retailers' in-app promotions, which quickly spread awareness of and promote in-store sales and consumption of new products. As a result, some new products saw higher sales.

Example of a new product promotion

Growth of inbound sales

An increase in inbound tourism drove inbound sales to ¥10.3 billion in fiscal 2024, despite being somewhat impacted by the red yeast rice-related issue. This figure surpassed the inbound pre-pandemic sales results of fiscal 2019. Such healthcare products as *Naishitol* and *Inochi no Haha* are the most popular products in this market.

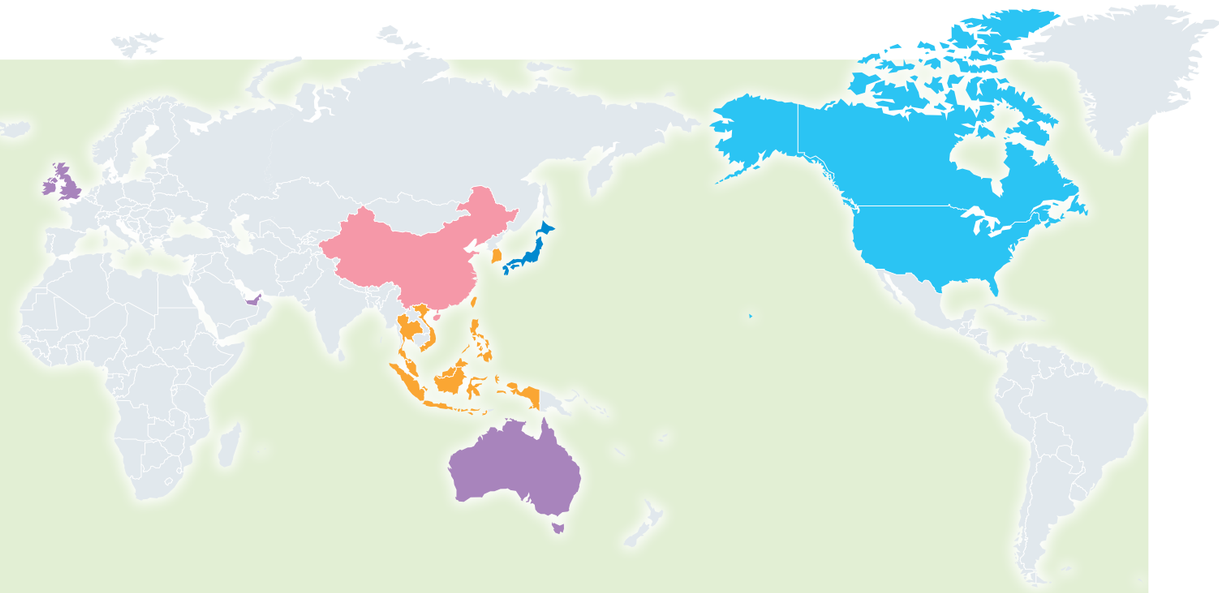
Inbound sales trends



Ranking of inbound sales

Ranking	FY2019	FY2024
1	*Inochi no Haha*	*Naishitol*
2	*Sakamu Care*	*Inochi no Haha*
3	*Ammeltz*	*Nodonool*
4	*BreathCare*	Nutritional supplements
5	*Eyebon*	Lens cleaners

International Business



Net sales in the International Business were ¥45.1 billion (up 6.8% year on year) and operating income was ¥1.2 billion (down 60.5% year on year).

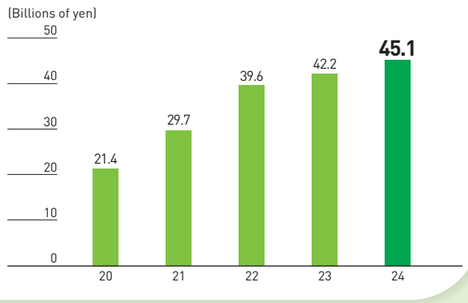
By region, sales and profit were negatively impacted by low sales in mainland China and Hong Kong, while in the United States, sales of body warmers were down and we recorded depreciation in connection with Focus Consumer Healthcare, LLC, which we acquired in October 2023.

* Impacts of exchange rate fluctuations: +¥3.0 billion in net sales, +¥360 million in operating income

Net sales

YoY change 6.8%

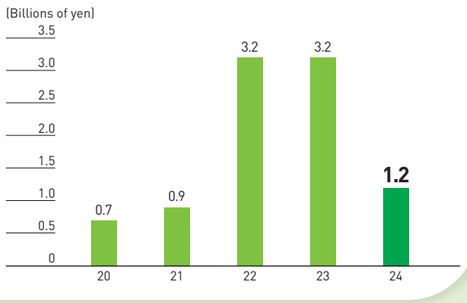
¥45.1 billion



Operating income

YoY change 40%

¥1.2 billion

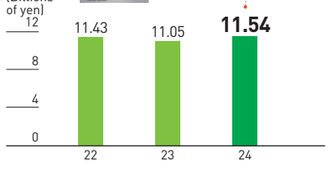


Net sales by product

North America

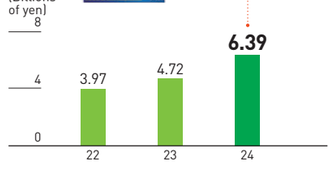
Body warmers

Compared to the previous period +4% (-3%)



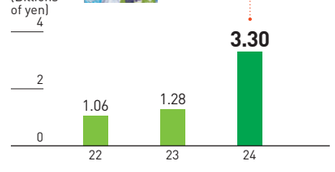
Pharmaceutical products

Compared to the previous period +35% (+26%)



Other

Compared to the previous period +158% (+140%)

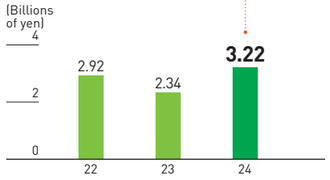


Despite sluggish sales of body warmers due to the warmer-than-average winter (January to March), pharmaceutical and other products saw higher sales thanks to the contributions of Focus Consumer Healthcare, which we acquired in October 2023, as well as the impact of exchange rate fluctuations.

Mainland China

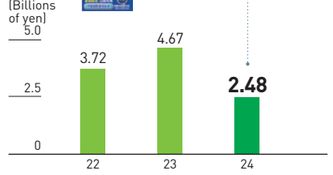
Body warmers

Compared to the previous period +37% (+30%)



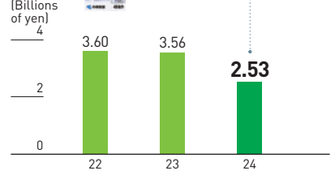
Cooling gel sheets

Compared to the previous period -47% (-50%)



Other

Compared to the previous period -29% (-33%)

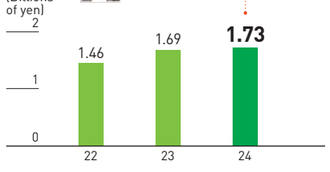


Advertising was suspended until August 2025 as a result of the red yeast rice issue, resulting in a sluggish overall performance. In addition, sales of cooling gel sheets were down due to lower infection rates for diseases like influenza. However, sales of body warmers rebounded from the previous year's poor showing due to a warm winter as well as expanded retail distribution volume.

Southeast Asia

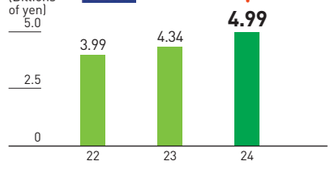
Pharmaceutical products

Compared to the previous period +2% (-4%)



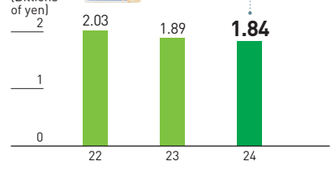
Cooling gel sheets

Compared to the previous period +15% (+9%)



Other

Compared to the previous period -3% (-8%)



Despite the absence of such special circumstances as the high rates of infectious disease seen in previous years to spur demand for cooling gel sheets, profit increased, largely due to expanded distribution. With regard to other products, sales of body warmers were sluggish in Taiwan due to mild winter weather from January to March, resulting in lowered profit.

Note: Figures in parentheses do not reflect the impacts of exchange rate fluctuations

International Business

Fulfilling wishes around the world

Mainland China

Column

Production in China

The Company maintains independent factories in mainland China that manufacture body warmers, cooling gel sheets, and various household products. *Ammeltz* is manufactured in Japan and then exported. We have also laid the groundwork to meet the ever-growing demand for cooling gel sheets by opening a new building at our factory in mainland China in April 2024.

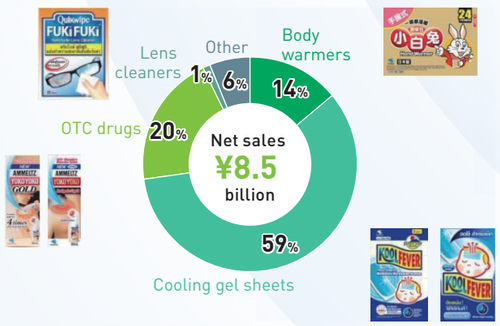
Further expanding OTC drug operations and accelerating the launch of household products

We launched the topical analgesic *Ammeltz* in 2022, we are continuing to expand our product distribution in retail. We are focusing on launching household products that will appeal to inbound tourists, with recent efforts centered on bolstering sales of heatstroke preventives and toilet air fresheners.

Expanding demand for cooling gel sheets

Before the COVID-19 pandemic, this cooling gel sheet product was mainly used to treat children with fever; however, because fever is a common side effect of vaccines, even among adults, usage rose and it gained a wider following. Going forward, we will continue expanding retail outlets that sell this product.

Southeast Asia



Expanding demand for cooling gel sheets

As in mainland China, demand for cooling gel sheets is growing and we expect it to increase even further as we expand the number of stores carrying our products and as awareness of this product's heatstroke prevention capabilities spreads.

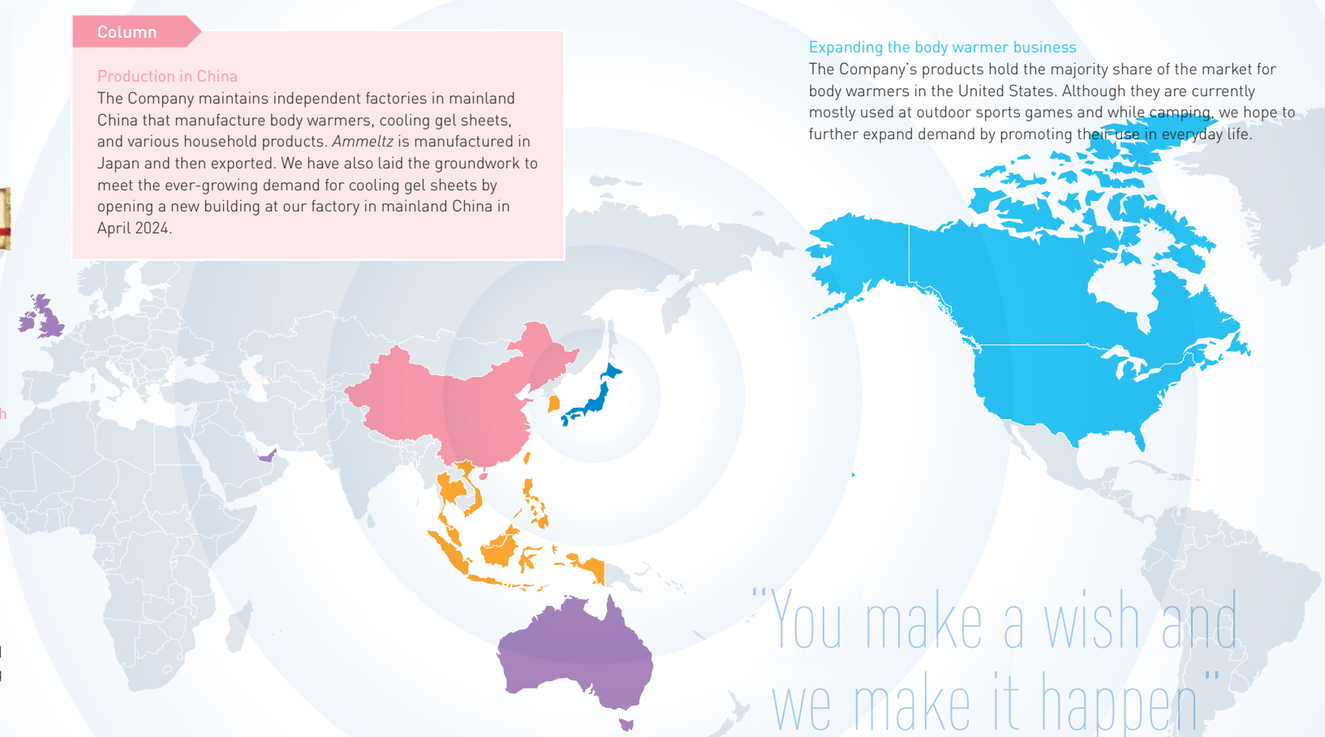
Column

Production in Southeast Asia

At present, the majority of our body warmers and cooling gel sheets products are manufactured in mainland China and then shipped to various regions for local sale. Our new Southeast Asian production base in Thailand is under construction and will manufacture cooling gel sheets in addition to other products to meet the demand we expect to continue growing in Southeast Asia. We are also building a new pharmaceutical production facility at our Japan-based Sendai factory in order to enhance our ability to supply pharmaceutical products for the International Business in Asia and elsewhere. In these ways, we are actively investing in our future international growth.

Strengthening OTC drug-related operations

In Southeast Asia, regulations do not significantly impact the launch of pharmaceutical products, which means that expansion in these markets is relatively easy. We will continue to develop such OTC drugs as *Ammeltz*, which is performing well with inbound sales.



North America

Expanding the body warmer business

The Company's products hold the majority share of the market for body warmers in the United States. Although they are currently mostly used at outdoor sports games and while camping, we hope to further expand demand by promoting their use in everyday life.

Expanding OTC drug operations through M&A

In 2020, we acquired Alva-Amco Pharmacal Companies, which offers a unique niche-focused lineup of OTC drugs and other personal care products, and in 2023, we acquired Focus Consumer Healthcare, which manufactures OTC drugs and supplements. Going forward, we will continue to launch new products with an eye to establishing a supplement business in the United States and further expanding our OTC drugs business.

Column

Production in the United States

We manufacture and sell body warmers, OTC drugs, and supplements primarily through Company-operated factories and OEMs in the United States. In addition, to accommodate growing demand for body warmers, we increased production capacity through facilities expansion at Kobayashi America Manufacturing, LLC.

Other

Expanding our lineup of body warmers, cooling gel sheets, and lens cleaners

We are expanding our range of body warmers, cooling gel sheets, and lens cleaners, primarily in the UK and Australia. Body warmers are performing particularly well in the UK, thanks to sales area growth and wider retail distribution.

Expanding into new countries

We are strengthening sales in Vietnam, with particular focus on cooling gel sheets. We also plan to continue to expand our lineup of products.

Our approach to sustainability

Basic sustainability policies

The Group believes that "providing something new that will delight people and society," one of its management principles, brings it into closer harmony with people, society, and the environment, and this, in turn, contributes to its sustainable growth as a corporation supporting a sustainable society.

By further synchronizing sustainability in society and sustainability in the Kobayashi Pharmaceutical Group, this concept supports the creation of new lifestyle habits by leading to the production of never-before-seen products, in turn providing the possibility for new growth in new markets created by the Group. By widening our perspectives regarding various social issues, we can discover the problems that may have been overlooked in the lives of individuals, and through our products and services we can contribute to the realization of a society where nobody is left behind.

People, society, the environment, and us

People

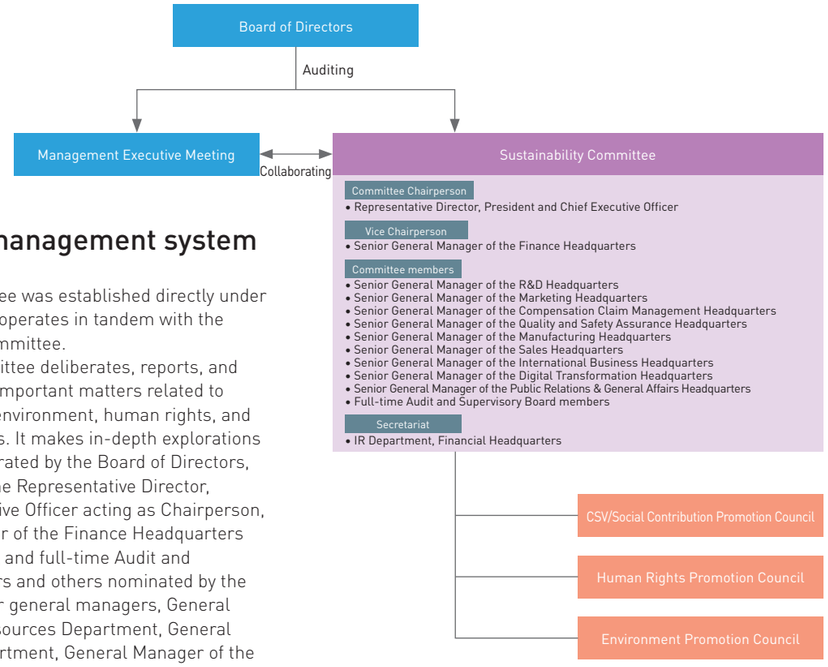
Cultivating a free and open corporate culture that produces diverse ideas in line with the concept "you make a wish and we make it happen," we allow every individual in society to demonstrate their individuality and create value . We have invested in initiatives that maximize the value produced by each of our staff; such as systems and mechanisms to foster this type of company culture, career development support, human resource systems themed around a sense of growth, and the creation of environments that realize diverse work-styles; and we seek to connect this to the creation of corporate value. In addition, in accordance with the Group's Human Rights Policy, we maintain a dialogue across the entire supply chain aimed at ensuring respect for human rights.

Society

We address social issues that give rise to "wishes" for resolutions to the problems faced by individuals, and by making our ideas a reality, we hope to contribute to improved health and welfare. By promoting social contribution activities that allow people to feel delight in their lives, initiatives undertaken in cooperation with various stakeholders that utilize our mutual strengths, and carrying out activities and other efforts that utilize the specialized skills and knowledge of our employees, we seek to coexist with and develop regional societies.

The environment

Because we never forget that business only exists with the support of a rich natural environment, we strive to effectively utilize natural resources. Also, working alongside our stakeholders, we are strongly committed to addressing global environmental issues through such measures as shifting towards carbon neutrality and a circular society as well as promoting the conservation of biodiversity, by turning ideas to resolve these issues into products and services.



Sustainability management system

The Sustainability Committee was established directly under the Board of Directors and operates in tandem with the Management Executive Committee.

The Sustainability Committee deliberates, reports, and holds dialogues regarding important matters related to sustainability, such as the environment, human rights, and social contribution activities. It makes in-depth explorations of matters that later deliberated by the Board of Directors, and its members include the Representative Director, President and Chief Executive Officer acting as Chairperson, the Senior General Manager of the Finance Headquarters acting as Vice Chairperson, and full-time Audit and Supervisory Board members and others nominated by the Chairperson (various senior general managers, General Manager of the Human Resources Department, General Manager of the Legal Department, General Manager of the Management Planning Division, persons in charge of every Quality Control Headquarters at R&D Headquarters and Manufacturing Headquarters, etc.). The Committee meets once every two months.

Further promote sustainability management and strengthen dialogue with stakeholders

Yumi Nakagawa
Executive Officer
Head of Sustainability Promotion

The Group carried out organizational changes on January 1, 2025, creating a new system following the transfer of the Sustainability Strategy Promotion Department, previously under the Sustainability Management Department, into the IR Department within the Financial Headquarters.

This system will facilitate the integration of financial and non-financial management information and will contribute to both a sustainable society and the realization of sustainable corporate growth.

As the importance of sustainability increases, stakeholder expectations and demands also rise. In order to respond to expectations regarding the realization of a sustainable society, we are further strengthening our sustainability management.

Specifically, we are actively addressing important social issues, such as environmental conservation and respect for human rights, as well as formulating a governance system that can respond to the trust placed in us.

On the environmental side, we are pursuing initiatives related to measures responding to climate change, realizing a circular society, and biodiversity conservation.

For respect for human rights, we are identifying impacts on human rights for all our stakeholders, promoting human rights due diligence to prevent and mitigate such impacts based on the Kobayashi Pharmaceuticals Group Human Rights Policy.

In addition, we regularly evaluate the effectiveness of initiatives, ensuring our ongoing social responsibility through transparent disclosures of the results.

Moreover, to promote sustainability management, dialogue with various stakeholders is an absolute necessity. We reflect opinions derived from extensive dialogue with customers, business partners, shareholders and investors, regional societies, our employees, and more, in our management and are diligent in explaining such efforts. In doing so, we strive to contribute to a sustainable society and improve our corporate value.

Environment

Basic approach

The Company 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 the prevention of global warming and the 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 the depletion and contamination of underground resources, biological resources, and water resources, and other environmental impacts, we will give consideration to resource conservation, the 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 we 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

As a subordinate organization to the Sustainability Committee, we have established the Environmental Promotion Council. The council's membership includes various department heads and persons in charge of operations who work together in creating reports on regarding the monthly progress of initiatives, and engage in discussions centered on the major themes of climate change, circular societies, and biodiversity conservation. With the Sustainability Department, located within the IR Department of the Financial Headquarters, serving as secretariat, the Council strengthens the execution of PDCA cycles for each theme and supports sustainability efforts.

Environmental topics presented at the Sustainability Committee

The following topics related to the environment were presented, reported, and deliberated on at the Sustainability Committee through the Environmental Promotion Council in 2024 (Sustainability Committee meetings for April and May 2024 were cancelled).

List of agenda items

Date held	Contents
Jan.	• Set sustainability budget
Feb.	• Set implementation targets for sustainable palm oil
Mar.	• Report CDP 2023 results • Carbon neutral declaration
Jun.	• GHG mitigation strategy
Jul.	• GHG emission review • Report of analysis based on the TNFD Framework
Aug.	•GHG mitigation strategy • GHG mitigation activity review
Sep.	• Revise ecological indicators • Evaluate the 2050 Long-Term Environmental Vision
Oct.	• Review rates by which the ECO label, a product development ecological standard, was granted • Direction of a circular economy • Evaluate the 2050 Long-Term Environmental Vision • (Outside guest lectures) Evaluation Methods for Decarbonization Investments ——Promoting Decarbonization and Increasing Corporate Value
Nov.	• Sustainability budget for the 108th business term • GHG mitigation strategies • Evaluate the recycling of used disposable body warmers
Dec.	• Report related to external collaboration in resource recycling • Evaluate the recycling of used disposable body warmers • Evaluate the 2050 Long-Term Environmental Vision

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

Kobayashi Pharmaceutical deems responding to climate change to be the most important sustainability theme. 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.

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Governance

Kobayashi Pharmaceutical has established a Climate Change Response Taskforce within the Sustainability Committee, which is chaired by the Representative Director, President and Chief Executive Officer.

The Environmental Promotion Council, which also operates under the auspices of the Sustainability Committee, is tasked with setting reduction targets for plastics and GHGs, considering reduction measures, and monitoring progress.

Policies and plans pertaining to these activities and the progress made under measures that are undertaken are deliberated and reported on in meetings and instructions received from the Board of Directors are acted on.

Strategy

In our 2022 scenario analyses, we considered the 1.5°C scenario in which "the global average temperature rise stays under 2°C and we strive to limit the rise to 1.5°C," as we anticipate the Paris Agreement targets to be met and decarbonization to be realized. We also considered the 4°C scenario in which global climate change countermeasures do not sufficiently progress. For both, we have updated the anticipated climate change risks and opportunities and calculated the financial impact, accordingly. We have arranged the results of these efforts as follows in line with the TCFD Guidance 3.0 announced by METI in 2022.

Company-wide

Type of risk or opportunity			Overview of risk or opportunity	Financial impact 1.5°C	Financial impact 4°C	Response measures
Risks	Transition	Policy/regulation	Taxation on Scope 1 and 2 emissions due to carbon tax introduction	Small	Small	• Introduce renewable energy to relevant factories
			Taxation on Scope 3 emissions due to carbon tax introduction	Large	Medium	• Procure low-carbon raw materials and switch to low-carbon specifications
		Market/technology	Increase in price of environmentally friendly resins	—	—	• Evolve and systematically implement Product Development Eco Indicators • Reduce resin use and transition to refillable packaging
			Increase in price of renewable energy	Small	Small	• Promote energy conservation
		Market/reputation	Transition to environmentally friendly products made by other companies	Medium	Small	• Work with suppliers to shift to low-carbon materials
	Physical	Chronic	Increase in price of naturally derived materials (fragrances, herbal medicines, plant-based raw materials)	Medium	Medium	• Make procurement locations and raw materials more diverse • Consider alternative raw materials

Household Division and Healthcare Division

Type of risk or opportunity			Overview of risk or opportunity	Financial impact 1.5°C	Financial impact 4°C	Response measures
Risks	Transition	Policy/regulation	Increased cost of container and packaging recycling	Small	Small	• Evolve and systematically implement Product Development Eco Indicators • Reduce resin use and transition to refillable packaging
		Market/reputation	Avoidance of high-carbon products	Medium	Medium	• Switch to low-carbon materials • Upsell and shift to low-emission products
		Acute	Uncertainty around raw material supply due to natural disasters	—	Medium	• Switch to low-carbon materials • Upsell and shift to low-emission products
	Physical	Chronic	Decrease in sales due to fewer outings	Small to medium	Large	• Develop products exclusively for e-commerce, and expand internal direct marketing and e-commerce
		Chronic	Decrease in sales of body warmers due to global warming	Medium	Large	• Add more functions and develop business models
Opportunities		Products/services	Development of new products to meet the needs from of people who are going out less and of the e-commerce market	Medium	Medium	• Provide and strengthen exclusive e-commerce products • Develop antiperspirants, heatstroke prevention products, and infectious disease prevention products

Going forward, we will continue to update our measures for each risk and opportunity and to create further opportunities.

Risk management

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

Medium- and long-term risks that require input from management to effect reductions are designated "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 GHG emissions (with 2018 as the reference point) for the entire Group at 51% for Scopes 1 and 2, and 15% for Scope 3 by 2030.*

We have obtained SBTi certification for these targets.

* Scopes 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

Reducing greenhouse gas (GHG) emissions

The Company views measures to counter the effects of climate change to be the most important sustainability theme.

Comprising members of the product development divisions, Manufacturing Headquarters, Central R&D Laboratory, and Corporate Administration Headquarters, the Environmental Promotion Council, which operates under the auspices of the Sustainability Committee, holds discussions on such subjects as the reporting of progress on GHG emissions reduction across the entire Group as well as reduction measures. In addition to regularly convened meetings, it reports to and takes part in discussions at the Sustainability Committee and meetings of the Board of Directors.

A meeting of the Sustainability Committee

GHG emission reduction targets

- Reduce Scope 1 and 2 GHG emissions by 51% by 2030 (compared to 2018)
- Reduce Scope 3 GHG emissions by 15% by 2030 (compared to 2018)

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

These targets were certified for the 1.5°C level by the SBT Initiative* as of October 2022.

Additionally, the Company strives for carbon neutrality across Scope 1 and 2 for the entire Group by 2050.

* SBTi website
https://sciencebasedtargets.org/

SCIENCE BASED TARGETS
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

Changes in the Group's GHG emissions (domestic and overseas)

(Unit: 1000 t-CO_2)

	2018	2019	2020	2021	2022	2023	2024
Scope1	7	6	6	6	6	6	8
Scope2	23	24	18	18	18	18	19
Scope3	596	616	447	508	525	559	488

Initiatives regarding reduction in Scope 1 and 2

Transition to CO_2-free energy

Operating in a variety of locations, Kobayashi Pharmaceutical maintains such facilities as factories, offices, and laboratories. Because most are located in Japan, the Company's Scope 1 and 2 GHG emissions are proportionately higher from domestic sources. 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 CO_2 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 CO_2 emission electricity in 2020 and, in 2023, Toyama Kobayashi Pharmaceutical and Kobayashi Pharmaceutical Plax did the same for a portion of the electricity they consume.

Going forward, we will continue to work towards our long-term reduction targets for 2030 by switching to zero CO_2 emission electricity in stages.

Initiatives to reduce Scope 3 emissions

Working together with suppliers

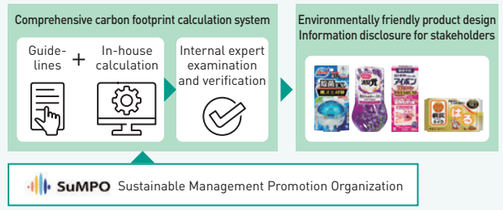
Approximately 95% of the Group's CO_2 emissions are attributable to Scope 3 sources. We pursue collaborative development with a multitude of suppliers, prioritizing the reduction of CO_2 emissions throughout our supply chain.

Furthermore, since 2022 we have been working with suppliers to reduce GHG emissions as a member of the CDP Supply Chain program implemented by the CDP (an international environmental not-for-profit charity that runs a global disclosure system) .

CDP SUPPLY CHAIN MEMBER

Visualizing GHG emissions

We are creating a visual representation of GHG emissions for each product, starting from raw material procurement and through to manufacture and disposal. In order to consider measures for reduction, we have established a carbon footprint calculation system and have obtained third-party comprehensive carbon footprint calculation system certification from the Sustainable Management Promotion Organization (SuMPO). We are the third company in Japan to obtain this certification, and the first general consumer goods manufacturer to do so. We will continue to strive to reduce the environmental impact of our product development and contribute to the realization of a sustainable society.



Development of environmentally friendly products

Operation of Kobayashi Pharmaceutical Product Development Eco Standards

Since 2011, we have had 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.

In 2021, 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.

As of 2024, about 22%* of products have received the label.

* Sales ratio of products bearing the label compared to net sales of all products.

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 by weight in content reduced by at least 10% compared to reference products*
Complete life cycle	(9) Reduction of CO_2 emissions 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)

* Reference products are products sold in 2018, or, for products released in 2019 or later, products at the time of release.

The ECO label

The ECO label expresses the Company's feelings for the environment in an easy-to-understand manner and is in alignment with the thinking behind its corporate brand 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 in the form of a label, we allow our customers to choose products based on an environmental perspective as well as on product concept and performance.

Product development that gives shape to unique products

The ECO label, a visualization of the reduction of environmental impact

Contributing to a circular society

Many of the Company's products use plastic. The processing of conventional fossil fuel-derived virgin plastics emits large quantities of GHGs, which are said to be a factor in the progression of climate change.

In addition, plastic waste in the oceans has also become a problem, and because reducing the amount of virgin plastic made from fossil fuels is one of our responsibilities to society as a corporation, we set a plastic reduction target in 2024.

By reducing the amount of plastic used in products, we contribute to a circular society.

Plastic reduction target

33% reduction from the 2020 level in the use of fossil fuel-derived virgin plastic per unit of net sales by 2030

The Group's plastic* usage (domestic)

	2020	2021	2022	2023	2024
Total plastic used (1000 t)	16.7	17.3	16.9	14.6	15.6
Virgin plastic used (1000 t)	16.7	14.6	14.2	12.1	13.3
Consolidated net sales (¥100 billion)	1.5	1.6	1.7	1.7	1.7
Ratio of virgin plastic used per unit of net sales (kg/millions of yen) Virgin plastic usage/ consolidated net sales	111.2	94.3	85.3	69.8	80.1
Reduction rate since base year (2020)	—	-15%	-23%	-37%	-28%

* Container packaging plastic

Initiatives regarding reducing plastic

▼ Reduce

Abolish plastic eye-catching stickers

Regarding the Kobayashi Pharmaceutical Product Development Eco Indicators, conditions for launching products used as standards to be met during product development, the Company has announced that it will abolish the use of the plastic eye-catching stickers it has attached to products to date in line with its drive to reduce its plastic use. By devising new package designs, switching to eco-friendly materials and other such efforts, we can maintain visibility to customers while developing products that help mitigate environmental load.

Removing shrink labels from *Hananoa*

For *Hananoa* nasal rinse, instead of using plastic shrink labels we are laser printing logos and product information directly onto the bottles, thereby reducing our plastic usage.

Laser printing allows us to maintain manufacturing line speed while creating whatever decorative effect the process of commercialization calls for.

This initiative was awarded the Daily Necessities and General Merchandise Packaging Award in the Japan Packaging Contest 2022 for being the first initiative of its kind in the healthcare products industry.

▼ Reuse

Shoshugen SAVON brand reduces plastic use by approximately 76% with the introduction of its first refillable products

We launched *Shoshugen SAVON* air freshener as the first refillable large-capacity liquid product in the *Shoshugen* brand line.

The main body of the product previously needed to be disposed of after use, however, by making the main body of *Shoshugen SAVON* refillable, we were able to reduce the amount of plastic used for packaging by 76%.*

There were many challenges in developing a refillable product, including the unique structure of *Shoshugen* products and the fact that the concept of refillable products was slow to catch on in this category, leading to a total development period of 12 years.

* Compared to the amount of plastic used to replace the main body of the product

▼ Recycle

Taking on the challenge of "horizontal recycling" with refill packs through collaboration that goes beyond the boundaries of competition

Since October 2021, Kobayashi Pharmaceutical has participated in the Kobe Plastic Next: Joining Forces to Recycle Refill Packs project,* along with 18 household goods manufacturers and recycling companies in Kobe city, all working in cooperation to collect used refill packs for household products such as detergent and shampoo from retail shops in a project intended to promote the horizontal recycling of gathered packs into new packs.

By June 2024, approximately 4.17 tons of refill packs were collected.

* Kobe Plastic Next: Joining Forces to Recycle Refill Packs website (Japanese only)
https://kobeplasticnext.jp/next/tsumekaepackrecycle/

KOBE PLASTIC NEXT みんなでつなげよう。つめかえパック リサイクル

Collecting used disposable body warmers and beginning pilot tests on reusing iron powder

In collaboration with the city of Kobe, we began to collect used disposable body warmers and conduct pilot tests on recycling them in 2024.

As of May 31, 2025, we have collected a total of 3.3 tons of used disposable body warmers and are conducting initiatives to reuse the iron powder and iron materials they contain.

▼ Renewable: Transitioning to renewable resources

Eyebon, first* eye wash on the market using bottles made with biomass raw materials

Compared with our other pharmaceutical products, the *Eyebon* bottle uses a particularly large amount of plastic, so we have changed the bottle body to one made from plastic that contains biomass raw materials. With this change, we expect to see a 19-ton annual reduction in our oil-based plastic use while maintaining the same functionality and quality as conventional packaging.

* First eye wash in the OTC pharmaceutical product market (as of December 2022, Kobayashi Pharmaceutical survey)

Reducing waste

By improving production efficiency, effectively using resources, thoroughly separating waste, and recycling, we are working toward the reduction of waste and realization of zero emissions.*

* Generally, zero emissions refers to thoroughly separating and recycling in order to eliminate industrial waste disposed of through simple incineration or landfill. The Company defines zero emissions as less than 1% of the total volume of waste generated being disposed of at final disposal sites.

Industrial waste volume and recycling rate (domestic)

		FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Volume of waste generated	Total amount	2,984 t	2,969 t	2,338 t	2,371 t	2,342 t	2,497 t	2,292 t
	Final disposal amount	25 t	5 t	4 t	3 t	3 t	3 t	9 t
Recycling volume		2,959 t	2,964 t	2,335 t	2,368 t	2,339 t	2,494 t	2,283 t
Recycling rate		99.2%	99.8%	99.8%	99.9%	99.9%	99.9%	99.6%

Water resources

In the Kobayashi Pharmaceutical Group, we view water resource issues, which are forecast to become much more severe, as an important environmental problem, and we are working to reduce water use while undertaking water quality conservation at all of our production plants in Japan.

In 2022, we set new qualitative targets for reducing water use and going forward intend to further promote these activities.

To achieve these reduction targets, we have formulated water management plans at eight domestic production plants with the goal of reducing water usage.

Qualitative targets for reducing water usage

We continuously monitor our water usage (intake) as well as the amount and quality of wastewater we produce and are striving to reduce annual usage where possible while maintaining the stable production of high-quality products. We will continue to identify water risks related to our business and strive to reduce such risks.

Group water usage (domestic and overseas)

(Unit: 1,000 m³)

		2021	2022	2023	2024
Intake	Domestic plants	263.0	255.2	258.0	330.2
	Overseas plants	104.2	110.9	115.1	135.6
Wastewater	Domestic plants	84.6	95.2	96.3	139.8
	Overseas plants	58.7	63.3	69.6	108.4

Initiatives to reduce water usage

In addition to using water as a raw material in such products as the *Shoshugen* deodorizing air freshener, *Liquid Bluelet Okudake* deodorizing air freshener for use in toilet cleaning, and *Eyebon* eye wash, the Company also uses water for such process as cleaning production lines when changing over to other products. To reduce our water intake volume, we review production methods and introduce water-saving equipment in addition to pursuing other such initiatives.

Utilizing recycled water

Sendai Kobayashi Pharmaceutical is striving to reduce its intake by reusing wastewater generated by a pure water EDI system for secondary use of gray water and cleaning tower water.

Participation in external initiatives

In 2024 we joined the Water Project, a public-private partnership that promotes initiatives aimed at maintaining or restoring healthy aquatic environments. By sharing information with other companies regarding initiatives related to water risks and water itself, the Company is able to better evaluate how to promote its own initiatives.

Toyama Kobayashi Pharmaceutical is registered as a Groundwater Protector, a group that conserves regional natural environments and strives toward healthy regional development. Through cooperation with regional groundwater conservation efforts, each plant upholds environment-related laws and regulations and collaborates with local groups, thereby conserving water resources.

Water Project

Understanding conditions and responding to water risks

The Company utilizes the World Research Institute (WRI)'s Aqueduct Overall Water Risk Map tool, which identifies areas of high water stress at production sites, to evaluate the water risk at each of its domestic and overseas production sites. Of the Group's 13 plants, we identified two where the water stress score was "High" for FY2024 by using Aqueduct's Baseline Water Stress indicator. Regarding these water risks, we will continue to evaluate how to reduce intake and promote the recycling of resources.

Number of business locations in water-stressed regions and intake

Water stress		Number of sites	Intake (1,000 t)	Ratio to total intake amount
Extremely High	(>80%)	0	0	0%
High	(40-80%)	2	104.6	28%
Medium - High	(20-40%)	3	18.8	5%
Low - Medium	(10-20%)	8	249.6	67%
Low	(<10%)	0	0	0%
Total number of sites		13	373.1	100%

Scope: Domestic and overseas production sites

Example initiative in water-stressed regions

At Hefei Kobayashi Pharmaceutical, we have installed a condensation collection tank in its spray drying line. The water thus collected is reused in boilers, thereby reducing water intake.

Biodiversity conservation

Sustainable raw material procurement

Recognizing that our business is built on ecosystem services made possible by biodiversity, a critical foundational component of the global environment, we are committed to sustainable raw material procurement. In particular, paper and palm oil are both important raw materials for the Company. To ensure zero deforestation in its procurement of these raw materials, the Company supports and adheres to the No Deforestation, No Peat and No Exploitation (NDPE) commitment to promote sustainable procurement.

- We safeguard regions with high conservation values (HCV) and high carbon stock (HCS) forests.
- To respect and defend the rights of workers, indigenous communities, and local societies, we secure Free, Prior and Informed Consent (FPIC) before commencing operations.

Procurement targets for sustainable palm oil

Transition to 100% RSPO-certified oil by 2030
Target: within Japan (excluding OEM/ODM; Toyama Kobayashi Pharmaceutical, Sendai Kobayashi Pharmaceutical, Ehime Kobayashi Pharmaceutical, Kiribai Kobayashi Pharmaceutical, Aloe Pharmaceutical)

Initiatives regarding sustainable procurement

Participation in the Roundtable on Sustainable Palm Oil (RSPO)*1

As the first step of resolving various issues surrounding palm oil, the Company participated in RSPO.

To continue to procure sustainable palm oil, we will strive to earn the RSPO Supply Chain Certification,*2 acquire RSPO-certified oil, and pursue other such efforts.

*1 RSPO requests compliance with laws and regulations, economic sustainability, and environmental and social profitability in the production of sustainable palm oil. These requirements are set out in the RSPO Principles and Criteria (P&C), which encompass seven principles and 40 criteria. Only palm oil produced in a manner that satisfies these criteria may be RSPO certified.
RSPO website: https://rspo.org/

*2 RSPO Supply Chain Certification: This system certifies that a chain of custody system has been created to ensure that the entire supply chain utilizes RSPO-certified materials and has been audited by a third party.

Sustainable paper procurement

To create individual boxes and cardboard mounts for products, we mainly use materials made of paper and pulp. When procuring these materials, we adhere to our "Basic Mindset regarding Biodiversity Conservation" and "Basic Mindset regarding Sustainable Raw Material Procurement." Working in cooperation with suppliers, we seek out sustainable paper that is backed by FSC or similar certification.*3

*3 A certification for paper created by the Forest Stewardship Council (FSC) based on standards for responsible forest management as well as forest product processing, and distribution. This certification is granted to products that utilize wood sourced from properly managed forests or that is low-risk. By selecting FSC-certified products, we support not only the responsible stewardship of forests but also local ecologies and communities while contributing to forest preservation.

Nature-related dependencies and impacts (disclosures based on the TNFD*4 framework)

The Company endorses the principles of the Taskforce on Nature-related Financial Disclosures (TNFD) and is pursuing related initiatives.

The Company utilizes the ENCORE*5 tool from the TNFD to categorize its nature-related dependencies and impacts and has conducted an initial evaluation.

*4 Taskforce on Nature-related Financial Disclosures (TNFD): An international organization that has developed a framework of disclosure recommendations and guidance that encourages and enables private companies and financial institutions to properly evaluate, disclose, and act on nature-related dependencies, impacts, risks and opportunities. The organization was officially launched in June 2021 through the United Nations Environment Programme Finance Initiative (UNEP FI), United Nations Development Programme (UNDP), World Wildlife Fund (WWF), and Global Canopy (a U.K.-based NGO).

*5 Exploring Natural Capital Opportunities, Risk and Exposure (ENCORE): A tool for evaluating dependencies and impacts on natural capital for each business sector and production process. Developed in cooperation with such organizations as the United Nations Environment Programme World Conservation Monitoring Centre under the leadership of the Natural Capital Finance Alliance.

Heatmap of dependencies and impacts for major items in the upstream supply chain and direct operations (please refer to the next page)

The results of this evaluation indicate a high risk of dependency regarding the procurement of raw materials from plants in the upstream supply chain as well as a high risk of impact on land-based ecosystems and high water usage. The Company is conducting detailed analyses regarding such matters as business scale, dependencies on nature and land-based ecosystems, and water usage, with its principal focus on operations related to raw plant materials derived from palm trees and natural medicines.

Dependencies

Item			Mitigating direct impacts: Pollutant Analysis	Pollutant Dilution	Pollutants Filtration/ accumulation	Pollution control	Disaster control: Water flow dampers	Climate control	Epidemic control	Flood/ storm safeguards	Erosion/ landslide prevention	Pest/ invasive species control
Procurement	Raw materials	Plant-derived raw materials	M	M	M	—	H	VH	VH	VH	VH	VH
		Animal-derived raw materials	M	L	M	L	L	M	M	M	L	L
		Mineral (iron)	—	—	—	—	—	M	—	—	M	—
		Petrochemical raw materials	VL	L	L	L	—	L	—	M	L	—
	Packaging	Paper	L	L	—	—	—	—	—	—	—	—
Manufacturing			VL	—	VL	—	—	—	—	—	L	—

Impacts

Item			Transitions in usage of land, fresh water, and salt water: Usage of land-based ecosystems	Usage of fresh water-based ecosystems	Usage of marine ecosystems	Resource usage/ supplementation: Water usage	Other resource usage	Climate change: GHG emissions	Pollution/removing pollution: Atmospheric pollution other than GHGs	Water pollution	Solid pollution	Land pollution	Impediments to daily life
Procurement	Raw materials	Plant-derived raw materials	VH	—	—	—	L	—	—	H	—	H	—
		Animal-derived raw materials	VH	—	—	VH	—	H	—	M	—	M	—
		Mineral (iron)	VH	—	—	VH	—	H	H	—	—	—	H
		Petrochemical raw material	H	—	—	H	—	H	H	H	H	H	—
	Packaging	Paper	—	—	—	VH	—	—	M	H	—	H	—
Manufacturing			—	—	—	H	—	—	M	H	H	H	—

Clarifying the Chemical Substances Management Policy

The Kobayashi Pharmaceutical Group positions the appropriate management of chemical substances as an important material issue in its business activities. 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.

We clarified our Chemical Substances Management Policy in 2022. In our chemical substance management system, chemical substance regulation management committees, formed by members of relevant departments, monitor information on regulations related to chemical substances both in Japan and overseas as well as revise responses and manage operations.

Chemical Substances Management Policy

The Kobayashi Pharmaceutical Group has created and operates an appropriate governance system for chemical substance management throughout the product life cycle, from the selection and procurement of raw materials through the manufacture, distribution, use, and disposal of products, with the aim of providing products that customers can use safely. In addition to complying with various laws and regulations, we are promoting the proper use of chemical substances and conduct our own independent assessment of product and raw material risks in accordance with overseas regulatory trends, domestic and overseas industry standards, and other guidelines. We strive to present product safety and proper use information in a way that is easily accessible as part of our risk communication with our customers and other stakeholders.

External evaluation

The CDP, located in the U.K., is an international NGO that works on issues in such environmental fields as climate change.

This organization requests information disclosures from major corporations and cities around the world on how they are handling such matters as climate change and water usage while also conducting its own investigations and evaluations.

In 2024, the Company received a "B" score from the CDP with regard to "Climate Change," "Water Security," and "Forests." "Forests" showed a notable improvement from 2023, when we received a "D" for palm oil and a "B-" for wood.

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

		2021	2022	2023	2024
Climate Change		B	B	B	B
Water Security		B	B	B	B
Forests	Palm oil	—	C	D	B
	Wood	—	C	B-	
Supplier Engagement		D	A-	A-	A-

Social

S Relationships with stakeholders

Basic approach towards employees

The most important factor empowering our business model of pursuing niches is our ability to listen to the many voices of society and consumers and thereby find the things they wish they could have and give shape to them. This ability comes from our people, so we are implementing various human capital initiatives.

Through these efforts, we are steadily strengthening our human capital and thereby ensuring our ability to place top priority on compensation and the prevention of a recurrence of an incident like that relating to the Issue. At present, we are also advancing organizational culture transformation with the aim of raising awareness and strengthening quality and safety systems.

The strengthening of quality and safety systems requires the active recruitment of external talent with the necessary expertise. In addition, we will strive to raise employee awareness and skills and optimize human resources placement. In response to the Issue, we are prioritizing the recruitment of human resources to work in quality control at the R&D Headquarters and Manufacturing Headquarters, our first line of defense, as well as personnel to carry out quality assurance audits at the Quality and Safety Assurance Headquarters, which is our second line of defense. We temporarily suspended new graduate hiring immediately after the Issue's occurrence, but it was resumed in September 2024, and we welcomed 83 new graduates who are eager to help transform Kobayashi Pharmaceutical in April 2025.

The Company's full-time employee turnover rate is expected to be approximately 3% in 2025, and all employees are taking the necessary steps to respond to the Issue.

The Corporate Culture Reform Project is an inter-departmental effort to bring employees together to invent Kobayashi Pharmaceutical. Across the Group, employees and management are reexamining our philosophy and code of conduct to clarify where change is required and the words and actions needed to encourage behavioral shifts towards an enhanced organizational culture. Through these activities, we will clarify the nature of awareness and types of actions that will be required in the future, reformulate a new Kobayashi Pharmaceutical human capital strategy as well as a new growth strategy, and launch the initiatives necessary to realize these strategies.

Implementation of employee awareness surveys

We believe that employees are important management capital, and enhancing their job satisfaction and awareness of quality will lead to improved productivity and standards throughout the Company, leading to sustainable growth.

Since 2019, we have been performing regular "checkups" on the health of the Company by conducting surveys of employee awareness with an eye to understanding current compliance awareness and areas that need improvement at the corporate and workplace levels. We have been conducting compliance awareness surveys since 2012, and by rendering the intangible attitudes of employees visible, we are aiming to increase job satisfaction and improve the Company overall.

To more efficiently conduct such surveys, in 2024, these two surveys were integrated as the Kobayashi Engagement Survey in order to improve issue identification and counter-measure planning as well as to make it easier for employees to participate.

The revised indicators for the survey that will be designated as KPIs will be included and disclosed in the medium-term management plan currently being formulated. Going forward, we plan to improve our analysis and invigorate discussions on the ground to better leverage the results of our surveys.

One example of the effectiveness of the results of surveys on employee awareness is as follows. Recently, scores on prospects for the future have been trending lower, so from 2022 to 2023, employees volunteered for group discussions and we also held training sessions for directors to dig deeper into the issue and consider countermeasures for the Company's future. Through this process, participants reexamined the Company's role and purpose in society as well as its ability to uncover what customers wish for and how to turn those wishes into reality. Participants also sought to articulate our shared desire to assist in expanding the possibilities of people in line with our purpose.

Strengthening communication with employees

The Company has outlined three pillars of policies to prevent recurrence of the Issue. In line with one of these pillars, "Changing Mindsets and Enhancing Systems concerning Quality and Safety," we are implementing reforms to increase awareness of quality and safety as our first priority through such means as opportunities for dialogue with employees and messages from the president directed to all employees about quality and safety.

Messages from the president includes content to facilitate positive changes in our corporate culture and motivate employees to maintain impeccable standards. These messages from the president are distributed twice a week to all employees through Company-wide newsletters, at internal presentations of the Company's management policies, and at start-of-the-year and other briefings that offer opportunities to regularly disseminate information as well as the president's thoughts and opinions.

In terms of opportunities for dialogue with employees, we hold Company-wide workshops with the president as well as workshops with directors and management. In addition, we hold workshops when the president visits Group factories, offices, and laboratories in Japan.

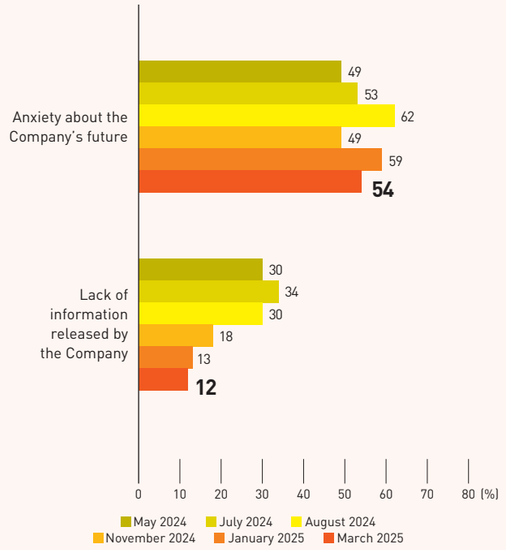
Conducting regular internal surveys

Since the Issue, we have been conducting regular surveys of employees and have implemented a system to incorporate employee feedback in management. In total, we have conducted seven surveys (in May, July, August, October, and November 2024, and in January and March 2025), including the Kobayashi Engagement Survey in October 2024. Comparing the results of the first survey in May 2024 with the latest results in March 2025, there has been a substantial improvement in scores regarding the Company's information dissemination.

Before the August 2024 survey, employees expressed a desire to be updated on the status of the investigation and the details of measures to improve quality moving forward. Since the announcement of the recurrence prevention measures, many employees have wanted information about the Company's growth strategy, and going forward plans call for sharing this information by sharing messages from management with employees through our web-based in-house newsletter.

In contrast, anxiety about the Company's future has remained high, and issues raised included the need for establishing consistent quality and safety policies as well as strengthening the resources needed to implement these policies, improving human resources development, and strengthening management communication with those on the ground. Going forward, we will work to resolve these challenges and thereby boost employee engagement.

Results of employee awareness surveys



Establishing the Internal Communication Group

On January 1, 2025, we established the Internal Communication Group under the Public Relations Department to facilitate communication between management and employees, foster mutual trust, and improve employee engagement in response to the previously mentioned challenges. The Internal Communication Group conducts surveys and manages the Company's web-based in-house newsletter.

We have established a system to share management messaging and other important Company information in the web-based in-house newsletter and quickly share correct information with employees.

We are aiming to build a work environment that maximizes the value employees create. The newsletter accurately communicates employees' awareness and workplace status to management, while at the same time promptly communicating management information to employees, thereby helping improve employee job satisfaction and awareness of quality, all of which will enable the Company to grow sustainably.

Respect for human rights

One of Kobayashi Pharmaceutical's management principles is "providing something new that will delight people and society." We recognize that respect for human rights in line with our management principles is a precondition for our business activities, and that it must be treated as a corporate responsibility. In August 2019, Kobayashi Pharmaceutical announced that it would participate in the United Nations Global Compact (UNGC) and support its 10 principles, including human rights.

Establishment of an external consulting center

At the Group, we believe that the establishment and operation of a relief center benefits human rights due diligence while supporting the Group's commitment to respecting human rights. Furthermore, such a center can play an important role in ensuring that the human rights of stakeholders who are difficult to reach through typical due diligence are respected.

The Group has established an internal reporting system for all Group directors and employees that enables them to report any actual or potential violations of Company rules (including the Kobayashi Pharmaceuticals Group Human Rights Policy) or applicable laws and regulations in each country or area.

In July 2024, the Company established an external consultation service for possible human rights violations in the Group's business activities. As of March 31, 2025, the Company received four consultations about human rights matters, but none of these cases necessitated specific action.

Human rights consultations	4
Other (consultations on matters other than human rights)	46
Total (from July 2024 to March 2025)	50

Going forward, we will continue to strive for an environment that makes it easier for stakeholders to use these consultation services, and we will continuously review the systems and implementation of each service.

Responsible procurement

Establishment of CSR Procurement Policy

The Kobayashi Pharmaceutical Group conducts procurement in line with its Basic Procurement Policy. Furthermore, we established a new CSR Procurement Policy in 2024 promoting undertaking socially responsible procurement activities in cooperation with our suppliers. The intention of this policy is to ensure responsible procurement throughout the supply chain. In addition, it covers seven principal areas of operations: system governance, human rights and labor, the environment, anti-corruption, partnerships, expectations for suppliers, and social contribution. Maintaining positive relationships with our suppliers is important to us, and we believe it is crucial to fulfill our social responsibilities together.

Procurement policy announcement session

We hold briefing sessions on our procurement policies every year for our major business partners in Japan. In 2024, ninety companies participated remotely. In addition to explaining the Company's business strategies and new product developments, we also discuss opinions and share best practices with the aim of understanding and improving efforts aimed at addressing environmental and social issues as well as stepping up our procurement policies with regard to quality, cost, and delivery. Through such efforts, we are working to build positive relationships with our business partners while pursuing innovations that bring delight.

Conducting responsible procurement

In Japan, we evaluate our major suppliers against the United Nations Global Compact's ten principles across four areas using EcoVadis, a global sustainability rating provider, as well as Company surveys. We classify the results of our suppliers' evaluations into four categories: excellent, low risk, medium risk, and high risk. We provide feedback and corrective measures to suppliers found to be at risk. In 2024, such measures included the provision of CSR-related consultation services, and improvements to their PDCA cycles were confirmed by their improved evaluation scores. We will continue to provide the necessary corrective measures and work with our suppliers to realize sustainable procurement.

CSV activities

We established the Company's purpose in February 2023, and the entire Company is working together to contribute to solving social issues while striving to achieve corporate growth. To put our purpose into practice, we work on CSV activities that leverage our corporate strengths to resolve social issues and improve sustainable corporate value.

Educational Programs for Parents & Children: Vaginal Discharge

Sarasaty, first launched in 1988, was the first panty liner in Japan to use gentle-on-the-skin cotton, and this brand has contributed to society by providing products that support women's comfort and health.

Vaginal discharge can be an indicator of health, and a correct understanding of it is crucial. However, schools offer very limited information on it and the reality is that even many adults lack sufficient knowledge.

We had the idea to inform more people about our high-quality Hakushu cotton material, and this wish aligned with the local government of Sakaiminato, Tottori Prefecture. In February 2024, we held the first educational program for parents and children about vaginal discharge in Sakaiminato, which is where Hakushu cotton is produced, to provide an opportunity for elementary school students and their parents to learn about both the bodily function and how cotton is grown and processed.

In addition to lessons on vaginal discharge, the workshop included quizzes, a hands-on experience in extracting seeds from harvested cotton, and a simple experiment to see how much vaginal discharge *Sarasaty* can absorb, deepening their understanding.

We conducted a follow-up survey after the program, and found that all of the children enjoyed participating, and parents reported that it was beneficial to be given the opportunity to learn about things that can be difficult to explain to children. Through this program, parents and children learned about vaginal discharge and panty liners and were able to take the opportunity to learn more about their own bodies.

We will continue to conduct educational activities about vaginal discharge, as well as contribute to addressing issues together with local governments.

A presentation by an employee

Spreading awareness about acne prevention in collaboration with Kansai University Hokuyo High School and Kirindo

Kobayashi Pharmaceutical is implementing initiatives to solve issues in society in collaboration with various stakeholders.

For example, in February 2023, we registered for the Kansai University SDGs Partner System and are implementing SDG-related initiatives by exchanging human and intellectual resources and utilizing material resources. As part of this program, also in 2023, we participated in the Katana Project at Kansai University Hokuyo High School, which challenges students to take on social issues. In the course of this project, high school students work with a number of companies to develop practical problem-solving strategies to achieve the SDGs.

Acne during teenage years can lead to negative feelings like embarrassment while decreasing self-confidence and interest in engaging in activities with friends, making this a major social issue for young people. In this project, we took *Eaude Muge,* one of Kobayashi Pharmaceutical's strongest products, and worked with Kirindo, a Kansai-area drugstore chain, and Hokuyo High School students to develop communication that catches the interest of middle and high school students while informing them about the correct way to prevent acne.

The students worked with *Eaude Muge*'s marketing and development teams to conduct market research at drugstores and also surveyed students. They found that over 60% of middle and high school students suffer from acne. Based on these results and their own experiences with acne during this life stage, they formulated hypotheses, and generated several ideas for effective, appealing communication.

The audio advertisements and posters that they created actively contributed to acne prevention awareness through Kirindo's in-store announcements and product signage.

Going forward, we will continue to work with various stakeholders to conduct activities aimed at solving social issues by leveraging the strengths of Kobayashi Pharmaceutical's products.

Social contribution activities

Donating Western-style toilets to 10 new schools, bringing the total to 158

Since 2010, we have been donating Western-style toilets to elementary schools with the aim of improving toilet space at such schools and raising children's awareness of good defecation and hygiene habits. In fiscal 2024, we donated new toilets to ten schools across Japan, increasing our total donations to 158 schools, creating comfortable toilet spaces for many children.

Before and after renovations

Workshops at elementary schools

In addition to providing tangible support through the donation of toilets, we also provide intangible support to help ensure a comfortable toilet environment and encourage sustainability awareness among children.

From November 2023 to February 2024, we conducted workshops on how to correctly clean toilets and use them cleanly at two elementary schools in Shiso City, Hyogo Prefecture, with which the Company has a partnership agreement.

We received positive feedback from children on these workshops, and many expressed a desire to try cleaning at home while displaying improved attitudes toward cleaning toilets and other chores.

We will continue to help raise awareness and encourage positive behaviors through these activities for children who dislike toilets because they smell or are dirty. Through these activities, we will make school life more comfortable and hygienic, thereby supporting children's mental and physical health.

Toilet Monster game used in the workshops to encourage children to clean by depicting toilet grime as monsters

A lesson during the workshops

Health management initiatives

Health management declaration

Based on the 2022 Health Management®* Declaration, we view employee health to be an important management resource and are conducting various initiatives to enable employees to proactively maintain and improve their health.

Kobayashi Pharmaceutical Group Health Management Declaration

The Kobayashi Pharmaceutical Group has adopted "You make a wish and we make it happen" as its corporate brand slogan. Products and services aligned with the "You make a wish and we make it happen" concept are born from individual employees' ideas. We regard the health of each and every employee as an important management resource and will strive to improve our health management.

* "Health Management" is a registered trademark of the NPO Kenko Keiei Kenkyukai.

Health management system

The Health Management Promotion Department works Under the direction of the president (Chief Health Management Officer) to implement health management initiatives, working together with the Work-Style Reform Department, the ESG Promotion Department, the Safety and Health Committee, labor unions, and health insurance associations.

For further details about the Company's health management initiatives, please see the following website (Japanese only).
https://www.kobayashi.co.jp/contribution/employee/healthmanage.html

Certified as a Health & Productivity Management Outstanding Organization 2025

Kobayashi Pharmaceutical Co., Ltd. and consolidated subsidiaries Ehime Kobayashi Pharmaceutical Co., Ltd. and Kobayashi Pharmaceutical Distribution Co., Ltd. were certified as the Health & Productivity Management Outstanding Organizations 2025 under the large enterprise category in recognition of their efforts to strategically promote employee health from a management perspective. In addition, Kobayashi Pharmaceutical was certified as a White 500 company for the first time, an award given to the top 500 companies implementing excellent health and productivity initiatives.

2025 健康経営優良法人 KENKO Investment for Health 大規模法人部門 ホワイト500

Kobayashi Pharmaceutical Co., Ltd.

2025 健康経営優良法人 KENKO Investment for Health 中小規模法人部門

Ehime Kobayashi Pharmaceutical Co., Ltd. and Kobayashi Pharmaceutical Distribution Co., Ltd.

Health management goals

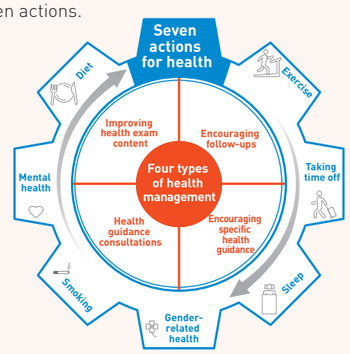
Our goals are to help every employee realize their dreams and to ensure that our employees are robust in regard to both the passion they bring to their work and their health, both physical and mental. Accordingly, we have prioritized the following issues: preventing lifestyle-related diseases, instituting mental health measures, and encouraging work-style diversity, and we evaluate their effectiveness with relevant indicators. Among these indicators, we position those that contribute to organizational productivity and vitality and ensure constant improvement as priority indicators, and employ PDCA cycles to realize improvements based on results and surveys.

Our end goal is to raise health awareness among employees, and to do this we are aiming to create a Company environment in which every employee feels content and can pursue better physical and mental health while bringing passion to their work.

Please see the Kobayashi Pharmaceutical website for further details on priority indicators and performance (Japanese only).
https://www.kobayashi.co.jp/contribution/employee/healthmanage.html

Autonomous health management initiatives

We believe that health and productivity management is a joint endeavor involving a company and its employees voluntarily working toward mutual goals, and we have categorized the efforts entailed into four types of management and seven actions.



Four types of health management

We once again achieved a 100% participation rate for complete medical exams and brain exams. In addition, we have a system in place for conducting health exam follow-ups and thoroughly encourage employees to pursue further testing as recommended in addition to providing health guidance consultations (in fiscal 2024, the employee follow-up rate was 90.6% while the health guidance consult rate was 100% among a total of 1,650 employees).

Conducting health checkups that go beyond legal requirements

To swiftly detect and prevent diseases that are not easy to detect through regular health exams, we provide complete medical exams and brain exams at the Company's expense. In fiscal 2024, we added lung CT scans*1 and bone density tests,*2 expanding the system to allow employees to undertake these tests with no out-of-pocket expenses. If follow-up is required, both exam and travel costs will be covered by the Company, and we proactively encourage employees to complete follow-up exams.

*1 For people over 50 years old
*2 For women over 40 years old

Promoting health guidance interviews and the improvement of health literacy

In-house public health nurses and other medical staff provide health guidance to employees whose exams turn up findings needing follow-up and who need to improve their lifestyle habits. In addition, public health nurses offer information on quitting smoking, diet, exercise, and more and promote the improvement of employees' health awareness and health literacy.

(Kobayashi Pharmaceutical, non-consolidated)

	FY2022	FY2023	FY2024
Regular health exams (including complete medical exams)	100%	100%	100%
Follow-up exam rate	90.8%	87.1%	90.6%
Health guidance interview rate	96.3%	100%	100%

Seven actions for health

We have determined seven areas of priority, including lifestyle factors such as exercise, diet, sleep, smoking, in addition to mental health, gender-related health, and taking sufficient time off, and we are implementing initiatives that encourage employees to take charge of their own health.

Providing exercise opportunities

For the second consecutive year, Kobayashi Pharmaceutical has been certified as a Sports Yell Company in 2025 for the second consecutive year by the Japan Sports Agency, recognizing our commitment to promoting sports activities to contribute to the health of our employees.

As part of our initiatives, we hold walking events in the spring and fall, and we have also designated an exercise month, promoted secondary exercise activities, provided exercise videos (such as stretching and yoga) as part of physical seminars, and implemented "walking Fridays" allowing employees to wear sneakers to work. In a survey after conducting these activities, 65% of employees said they made an effort to exercise during this time.

SPORTS YELL COMPANY 2025

Mental health support

We operate an internal consultation service called the Health Center for Mind and Body and have developed an external consultation service (employee assistance program) to assist in dealing with stress and helping prevent mental health problems; provide interview-based guidance for those who work long hours; and offer support and treatment for those returning to work after a break as well as those and balancing treatment and work.

We will continue to promote health management from multiple perspectives so that our employees can continue to be healthy both physically and mentally.

Governance

Management team (As of March 28, 2025)

Directors

Newly Appointed

1 Chairman of the Board
Yoshihito Ota

- Attendance at Board meetings: —
- Number of Company shares held: —
- Existence of special interests: None

Apr. 1978 Joined KYOCERA Corporation
Jun. 2003 Executive Officer, KYOCERA Corporation
Feb. 2010 Deputy Trustee and Assistant to the Chairman Japan Airlines Co., Ltd.
Jun. 2010 Director and Managing Executive Officer, KYOCERA Corporation
Dec. 2010 Senior Managing Executive Officer, Japan Airlines Co., Ltd.
Feb. 2012 Assistant to the President and Senior Managing Executive Officer, Japan Airlines Co., Ltd.
Dec. 2015 Representative Director and Chairman, KYOCERA Communication Systems Co., Ltd.
Jun. 2018 Outside Director, Konoike Transport Co., Ltd. (current)
Sep. 2019 Chairman, MTG Co., Ltd.
Dec. 2019 Director and Chairman, MTG Co., Ltd.
Dec. 2021 Director and Chairman, EVERING Co., Ltd.
Mar. 2025 Chairman of the Board of the Company (current)

Newly Appointed

2 Representative Director, President and Chief Executive Officer
Norikazu Toyoda

- Attendance at Board meetings: —
- Number of Company shares held: 4,046
- Existence of special interests: None

Dec. 1987 Joined the Company
Jan. 2006 President, Kobayashi Healthcare Europe, Ltd. (international sales company)
Dec. 2012 Manager, Europe, America & China Strategy Department, International Business Division
Mar. 2015 Manager, Europe & America Strategy Department, International Business Division
Jul. 2015 Manager, Europe & America Strategy Department, International Business Division and President, Kobayashi Healthcare International, Inc.
Mar. 2023 Executive Officer and General Manager, International Business Division
Jan. 2025 Executive Officer and General Manager, International Business Headquarters
Mar. 2025 Representative Director, President and Chief Executive Officer (current)

Newly Appointed

3 Director
Senior General Manager of R&D Headquarters
Yuji Matsushima

- Attendance at Board meetings: —
- Number of Company shares held: 232
- Existence of special interests: None

Apr. 2003 Joined Fujisawa Pharmaceutical Co., Ltd. (now Astellas Pharma Inc.)
Apr. 2014 Seconded to Office of Healthcare Strategy, Cabinet Secretariat
Oct. 2017 Manager, Advanced Chemistry Laboratory, Modality Research Center, Research Division, Astellas Pharma Inc.
Apr. 2020 Joined the Company
Jul. 2020 Manager, Research and Development Department, Central R&D Laboratory
Jan. 2023 Head of Central R&D Laboratory
Mar. 2023 Executive Officer and Head of Central R&D Laboratory
Jan. 2025 Executive Officer and General Manager, R&D Headquarters
Mar. 2025 Director and Managing Executive Officer, R&D Headquarters (current)

4 Director
(in charge of compensation claim management)
Akihiro Kobayashi

- Attendance at Board meetings: 100% (17 out of 17 times)
- Number of Company shares held: 9,264,704
- Existence of special interests: None

Mar. 1998 Joined the Company
Jun. 2001 Executive Officer, President of Manufacturing Company
Jun. 2004 Director, President of International Sales Company and Marketing Officer
Jun. 2007 Executive Director
Mar. 2009 Senior Executive Director, Senior General Manager of Manufacturing and Sales Operations Department
Jun. 2013 Representative Director, President and Chief Operating Officer
Aug. 2024 Director in charge of compensation claim management (current)

5 Outside Director
Yoshiro Katae

- Attendance at Board meetings: 100% (17 out of 17 times)
- Number of Company shares held: —
- Existence of special interests: None

Apr. 1981 Joined Komatsu Ltd.
Jan. 2003 Osaka Plant GM, General Affairs Department, Production Division of Komatsu Ltd.
Jul. 2013 Executive Officer, Secretary General (in charge of Crisis Management) of Komatsu Ltd.
Oct. 2015 Executive Officer and Secretary General (in charge of Crisis Management) of Komatsu Ltd. and GM, Komatsu Economic Strategy Research Center
Apr. 2017 Executive Officer and Secretary General (Supervising General Affairs & Compliance and Crisis Management) of Komatsu Ltd.
Apr. 2018 Senior Executive Officer of Komatsu Ltd.
Jul. 2019 Advisor of Komatsu Ltd. (current)
Mar. 2022 Outside Director of the Company (current)

Newly Appointed

6 Outside Director
Akio Takahashi

- Attendance at Board meetings: —
- Number of Company shares held: —
- Existence of special interests: None

Apr. 1978 Joined Daiwa Securities Co. Ltd.
Apr. 2009 Director, Senior Executive Managing Director, Daiwa Securities SMBC Co. Ltd. (now Daiwa Securities Co. Ltd.)
Jun. 2012 Director and Executive Vice President, Daiwa Securities Group Inc.
Apr. 2015 President and Representative Director, Daiwa Investment Management Co., Ltd.
Dec. 2015 Outside Director, Green Thermal Co., Ltd.
Mar. 2016 Outside Director, Kantatsu Co., Ltd.
Jul. 2017 Outside Director, Biomass Fuel Co., Ltd. (current)
Jun. 2019 Outside Director, Suzumo Machinery Co., Ltd. (current)
Dec. 2019 Outside Director, MTG Co., Ltd.
Mar. 2025 Outside Director of the Company (current)

Notes:
1. Attendance at Board of Directors meetings in fiscal 2024
2. Company shares held as of December 31, 2024
3. The Company has adopted an executive officer system, Directors Norikazu Toyoda and Akihiro Kobayashi serve as executive officers, and Yuji Matsushima also serves as managing executive officer.

Newly Appointed

7 Outside Director
Masato Mori

- Attendance at Board meetings: —
- Number of Company shares held: —
- Existence of special interests: None

Apr. 1979 Joined Kokusai Denshin Denwa K.K. (now KDDI CORPORATION)
Sep. 2000 Joined JAPAN Telecom Co., Ltd. (now SoftBank Corp.)
Jul. 2005 Joined Chuo Aoyama Audit Corporation
Jun. 2007 Joined Tohmatsu Audit Corporation (now Deloitte Touche Tohmatsu LLC)
Jul. 2010 Director, Deloitte Touche Tohmatsu LLC
Oct. 2013 Representative Director, Crowe Horwath Global Risk Consulting K.K.
Apr. 2017 Professor, Department of Global Innovation Studies, Faculty of Global and Regional Studies, Toyo University (current)
Jun. 2018 Outside Audit & Supervisory Board Member, Tecnos Japan Incorporated
Mar. 2019 Outside Audit & Supervisory Board Member, VELTRA Corporation
Jun. 2020 Outside Director and Audit & Supervisory Committee Member, Tecnos Japan Incorporated, Outside Director and Audit & Supervisory Committee Member, Pado K.K. (now Def Consulting, Inc.) (current)
Mar. 2023 Outside Director and Audit & Supervisory Committee Member, VELTRA Corporation (current)
Mar. 2025 Outside Director of the Company (current)

Newly Appointed

8 Outside Director
Shinsuke Matsumoto

- Attendance at Board meetings: —
- Number of Company shares held: —
- Existence of special interests: None

Apr. 1997 Registered with Dai-Ichi Tokyo Bar Association; Nishimura & Partners (now Nishimura & Asahi [Gaikokuho Kyodo Jigyo])
Oct. 1999 Nagashima & Ohno (now Nagashima Ohno & Tsunematsu)
Sep. 2002 New York Office, Skadden, Arps, Slate, Meagher & Flom LLP
Mar. 2003 Admitted to the New York State Bar
Apr. 2004 Nakamura & Tsunoda
Jan. 2005 Partner, Nakamura, Tsunoda & Matsumoto (current)
Dec. 2005 Registered with Tokyo Bar Association
Mar. 2017 Outside Audit & Supervisory Board Member, Betrend Corporation (current)
Jun. 2023 Outside Audit & Supervisory Board Member, Soken Chemical & Engineering Co., Ltd. (current)
Mar. 2025 Outside Director of the Company (current)

Newly Appointed

9 Outside Director
Misa Kusumoto

- Attendance at Board meetings: —
- Number of Company shares held: —
- Existence of special interests: None

Apr. 1994 Joined P&G Far East Inc. (now The P&G Japan Limited)
Oct. 1997 Senior Assistant Brand Manager for "SK-II," P&G Far East Inc.
Oct. 1999 New Brand Development Manager, Food & Beverage Category, P&G Far East Inc.
Oct. 2001 Marketing Consultant (current)
Oct. 2013 Outside Lecturer, GLOBIS Management School (current)
Feb. 2022 Director and CMO, Cell Factor Inc. (current)
Feb. 2024 Outside Director, Northsand, Inc. (current)
Mar. 2025 Outside Director of the Company (current)

Audit & Supervisory Board Members

11 Full-time Audit & Supervisory Board Member
Akitoshi Yamawaki

- Attendance at Board meetings: 100% (17 out of 17 times)
- Attendance at auditors' meetings: 100% (13 out of 13 times)
- Number of Company shares held: 2,481
- Existence of special interests: None

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

12 Full-time Audit & Supervisory Board Member
Takashi Kawanishi

- Attendance at Board meetings: 100% (17 out of 17 times)
- Attendance at auditors' meetings: 100% (13 out of 13 times)
- Number of Company shares held: 1,108
- Existence of special interests: None

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

13 Outside Audit & Supervisory Board Member
Yoko Hatta

- Attendance at Board meetings: 100% (17 out of 17 times)
- Attendance at auditors' meetings: 100% (13 out of 13 times)
- Number of Company shares held: —
- 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, International Christian University
Jun. 2015 Outside Audit & Supervisory Board Member of the Company (current)
Jun. 2016 Outside Audit & Supervisory Board Member, Nippon Paper Industries Co., Ltd.
Jun. 2020 Outside Director, Nippon Paper Industries Co., Ltd. (current)
Jun. 2022 Outside Director, Ajinomoto Co., Inc. (current)
Jun. 2022 Outside Director and Audit & Supervisory Committee Member, KOEI CHEMICAL COMPANY, LIMITED (current)

14 Outside Audit & Supervisory Board Member
Sumio Moriwaki

- Attendance at Board meetings: 100% (17 out of 17 times)
- Attendance at auditors' meetings: 100% (13 out of 13 times)
- Number of Company shares held: —
- Existence of special interests: None

Apr. 1981 Joined Ishii Law Office
Jun. 1985 Graduated from Harvard Law School (LL.M.)
Apr. 1991 Partner, Ishii Law Office (current)
Apr. 1999 Instructor, Legal Training and Research Institute of Japan (Defense of Civil Affairs)
Apr. 2007 Visiting Professor, Faculty of Law, The University of Tokyo
May 2015 Member, Judicial System Research Committee, Japan Federation of Bar Associations
Jun. 2017 Outside Director, JSR Corporation Outside Director, Topy Industries Limited
Mar. 2023 Audit & Supervisory Board Member of the Company (current)

Executive Officers (Excluding Those Also Serving as Directors)

Managing Executive Officer
Senior General Manager of Marketing Headquarters
Atsushi Onoyama

Executive Officer
Senior General Manager of Compensation Claim Management Headquarters
Kei Sato

Executive Officer
Senior General Manager of Quality and Safety Assurance Headquarters
Hiroo Yamasaki

Executive Officer
Senior General Manager of Manufacturing Headquarters
Hiroya Nakamura

Executive Officer
Senior General Manager of Sales Headquarters
Kenji Kobori

Executive Officer
Senior General Manager of International Business Headquarters
Koji Akita

Executive Officer
General Manager of China Strategy Department, International Business Headquarters
Takuya Matsushita

Executive Officer
Senior General Manager of Digital Transformation Headquarters
Ryo Ishido

Executive Officer
Senior General Manager of Finance Headquarters
Yumi Nakagawa

Executive Officer
Senior General Manager of Public Relations & General Affairs Headquarters
Takayuki Kimura

Corporate governance

Officer compensation

Policies, etc., for the determination of such content 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 on the content of resolutions it adopts and receives reports on these from the Committee.

Policy for the 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 the compensation system for directors

Compensation for 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, and long- term incentive compensation.

Overview of content of compensation system and compensation calculation methods

Type of compensation (composition)	Outline of the 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 next fiscal year.
Short-term incentive compensation (30%)	Monetary compensation is linked to single-year performance and 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 EBIDA margin and EPS) and the anticipated level of activity in the next fiscal year.
Long-term incentive compensation (-)	Monetary compensation is linked to medium- to long-term results and intended to promote management that emphasizes the improvement of business and share values over the medium- to long-term. It is calculated by multiplying (i) role-based points set in advance 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 compared with the goal set for the final fiscal year of the medium-term management plan.

Notes: 1. Compensation of outside directors and Audit and Supervisory Board members consists of basic compensation only because they are independent from business execution.
2. The total amount for basic compensation and short-term incentive compensation will be divided by twelve and paid in cash each month. Long-term incentive compensation is paid in cash once every three years after the Shareholders' Meeting (April) that takes place immediately after the period of the medium-term management plan finishes.

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, IR Department, the director in charge of the Public Relations & General Affairs Department, the Public Affairs Department, or the General Affairs 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

Annual Shareholders' Meeting (held in March 2025)	
Attendance	92
Vote participation rate	88.75%

Meetings with institutional investors and analysts	
Number of times held	285

Dialogue with individual investors	
Number of times held	0
Participants	0

Risk management

Subsequent to the issue, the Company received a report from the fact-finding committee, the content of which is as described in the press release titled "Summary of the Board of Directors Meeting Discussing the Investigative Committee's Report," published on July 23, 2024. To prevent a recurrence, the Company formulated its response to the incident and the points made in the report, as detailed in the press release titled "Notice Regarding the Formulation of the Recurrence Prevention Measures, Etc.," published on September 17, 2024. These preventive measures include a review of the Company's internal control systems and risk management structure, and we are currently implementing improvements based on these measures.

Specifically, we have reorganized the related committees, including the Risk Management Committee and, in February 2025, established a new Risk and Compliance Committee.

This committee meets more frequently than the previous Risk Management Committee, and, in addition to consolidating risk information for every division and formulating responses, it will enhance its comprehensive understanding and evaluation of risks, response prioritization, and oversight of the formulation and implementation of countermeasures. The findings of the committee's deliberations will be presented at the Management Meeting, which is attended primarily by executive officers, and then reported to the Board of Directors.

In the event a crisis occurs, a Crisis Management Headquarters and a Quality and Safety Emergency Council, led by the president, will be set up immediately to quickly implement response measures.

In the event we are made aware of information that necessitates the establishment of a Crisis Management Headquarters of Quality and Safety Emergency Council, or if we are made aware of information that is likely to have an impact on our business, the person in charge of the relevant department or the responsible director will promptly report to the president and the director or president will promptly report to the Board of Directors.

Business and other risks

Major risks	Description	Primary responses and current status
(1) Environment risks for business	• Rapid changes in consumer needs • Changes in the sales environment, including new product launches from competitors and a decline in our price negotiation power due to customer consolidation	• Development of products that meet evolving consumer needs • Formulation of new strategies for existing products reflecting environmental changes • Reduced impact from a diversified product lineup
(2) Risks of business models that introduce new products aggressively	• Reduction in the number of new product releases • Overly harsh competition at launch due to competitors	• 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	• Reduced sales of strongly seasonal products • Burden imposed by carbon tax due to the trend toward reducing greenhouse gases • Reduced demand due to increased awareness of ethical issues • Danger of damage to reputation and social credibility if unable to comply with strengthened regulations or hit greenhouse gas reduction targets	• Development of body warmers in the healthcare field that are less dependent on weather • Adjustment of shipment volumes based on a range of data • Evaluation of medium- to long-term risks by the Environmental Promotion Council of the Sustainability Committee • In each product category, consider reduction measures targeting the products that are the largest emitters of greenhouse gases • Engagement with suppliers to reduce greenhouse gas emissions
(4) Risks of business overseas	• Reduced investment recovery efficiency due to regulatory changes and slower economic growth in different countries • Significant fluctuation in exchange rates	• Reports from overseas subsidiary presidents • Reduced investment recovery risks through incremental, logical investment decisions and the revision of investment plans • Monitoring of major currency exchange rates
(5) Risk of business acquisitions and alliances	• Failure due to unexpected events and environmental changes • Loss of goodwill or other intangible assets	• Exhaustive due diligence • Investment decisions based on discussions of residual risks and opportunities for growth • Identification of issues and acquisition of specialized knowledge through interviews with external experts
(6) Risks of securing and utilizing human capital	• Higher number of retirees • Delayed acquisition and development of the human resources needed to strengthen the product quality system	• Resolution of organizational issues through workshops with the president, one-on-one meetings with employees, and by taking employee opinions into consideration • Prioritizing the acquisition of the human resources needed to strengthen the product quality system • Initiatives for human resource development (clarification of required skills, redesign of training plans to establish such skills, and revision of human resource placement policies, including personnel rotation)
(7) Product safety risks	• Design defects • Quality defects • Erroneous responses to reports of adverse drug reactions	• Risk reduction by the dedicated quality audit department (Quality and Safety Assurance Headquarters) • Strengthening of awareness and product quality and safety systems through measures to prevent a recurrence of such events as the red yeast rice issue
(8) Risks in procuring raw materials for products	• 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 • Adverse impacts on the environment and human rights in the supply chain	• Formulation of a business continuity plan (BCP) • Purchasing of raw materials from multiple suppliers, focusing on top-selling items • Explaining CSR procurement in the Procurement Policy Briefing • Assessment of human rights risks at business partners
(9) Legal and regulatory risk	• 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	• Information collection and rapid response centered on the Quality and Safety Assurance Headquarters • Establishment of a new department specializing in conformance with laws and regulations related to product development and manufacturing
(10) Risks associated with information security	• Compensation for and loss of trust due to leakage of personal information • Temporary cessation of business activities and leaks of trade secrets due to cyber attacks	• Management of personal information system • Evaluation of information security response level • Backup of important digital data on remote servers
(11) Risks related to compliance	• Serious compliance violations by the Kobayashi Group or its employees	• Compliance questionnaire targeting employees and personnel responsible for external business partners • Establishment of a dedicated hotline for compliance issues (the Employee Consulting Center) • Promotion of integrity-based management
(12) Risks associated with litigation and intellectual property	• Increased costs related to intellectual property rights management • Third-party infringement of intellectual property rights • Compensation for and loss of trust incurred due to the infringement of the intellectual property rights of Kobayashi Pharmaceutical • Legal action	• Checking for infringement and non-infringement of intellectual property rights • Using digital technology to reduce the cost of intellectual property rights management • Proactive creation and strategic application for intellectual property rights at the product development stage • Examination and clarification of contract terms before transactions, careful discussions with business partners, and strengthened compliance with laws and regulations
(13) Risks due to natural disasters	• Stoppages of or delays in operations, loss of assets, or the occurrence of human casualties, etc., brought about by natural disasters	• Formulation of a business continuity plan (BCP) • Construction of crisis management systems focused on a Nankai Trough earthquake • Employee safety training
(14) Risks to reputation	• Critical response to advertising on social media	• Confirmation of compliance with legal and ethical requirements for advertising at the Quality and Safety Assurance Headquarters • Consultation with relevant departments when risk is recognized
(15) Risks from contingent liabilities	• Recall of Kobayashi Pharmaceutical products, recall of red yeast rice-related ingredients for companies, and liability for compensation for customers who suffered adverse health effects	• Reasonably estimated provisions for such compensation will be allocated

Note: Refer to the annual securities report for details

Management of intellectual property

Working from our corporate brand 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 such intangible assets 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 endeavoring 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 has established a Risk and Compliance Committee that meets once a month to discuss, report, and exchange opinions on important topics including risks, compliance, governance, and internal controls to better implement its internal control system with regard to such topics and to monitor the systems in place.

The Senior General Manager of the Public Relations & General Affairs departments acts as chair, and members include the heads of the Corporate Department and the Internal Audit Office, as well as members of the Audit and Supervisory Board. The committee deliberates on internal control, governance, and compliance systems, and regularly reports the contents of its discussions to the Board of Directors, Executive Committee, and Group Council.

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

In addition, the Company lays out its internal control activities so that any oversights can be easily spotted, and we are working to monitor and manage them from a top-down perspective. The Risk and Compliance Committee regularly reviews these activities.

Compliance promotion system

With the knowledge that promoting "quality and safety first" is one of the Company's most pressing issues, top management periodically sends messages to all directors and employees encouraging them to prioritize quality and safety while taking appropriate action.

To increase compliance awareness and spread knowledge of compliance we also systematically conduct job category-related training for officers, managers, new employees, etc., as well as training covering topics tailored to participants' experience levels for new graduates and mid-career hires.

Furthermore, all domestic Group employees are provided with e-learning programs designed to instill compliance awareness. Also, every month managers at each department serve as instructors, holding 15-minute compliance training sessions and leading compliance-themed discussions for employees. These sessions ensure that every employee is aware of compliance issues.

In January 2025, we initiated a new Quality and Safety Training program for all directors and employees to ensure that the necessary mindset and skills are thoroughly instilled.

15-minute training sessions: Themes in 2024

January:	Kobayashi Pharmaceutical Group Code of Ethics
February:	Compliance awareness survey
March:	The importance of sleep for occupational health and safety
April:	The work environment
May:	Applying the 3 ships principle for stronger teams
June:	The Kobayashi Pharmaceutical Group's environmental initiatives
July:	Drawing the line between the public and private
August:	Harassment by customers
September:	Natural disaster preparedness
October:	Corporate social responsibility
November:	Employee Consulting Center (whistleblower protection)
December:	Quality—the foundation of our company

E-learning: Themes in 2024

January:	Compliance
February:	Information security
March:	Repudiation of anti-social forces
April:	Information security (personal information)
May:	Preventing insider trading
June:	Rules for importing goods from abroad
July:	Information security (ransomware)
August:	Health management and challenges specific to women
September:	Act against Unjustifiable Premiums and Misleading Representations
October:	Customer harassment (inappropriate customer behavior)
November:	Information security
December:	The Pharmaceuticals and Medical Devices Act

Internal reporting and consultation system

The Kobayashi Pharmaceutical Group has established Employee Consulting Centers as dedicated points of contact for employees to submit compliance-related reports, ask questions, voice concerns, and receive consultations.

In Japan, two of these centers are internal, with one handling compliance, including such issues as violations of laws and regulations as well as internal rules in addition to instances of bribery, corruption, and other conduct counter to corporate ethics, and the other handling harassment. We have also set up an external consulting center (through a law office) and are striving to improve employee satisfaction by accepting consultations not limited to such business matters as compliance and harassment but including private issues. At the internal centers in Japan, reports and consultations can be engaged in anonymously. At the external centers, anonymity from the Company is assured for those engaged in reports and consultations. In addition to full-time employees, such personnel as temporary workers, part-time workers, retired employees, employees of business partners and others can also use this service to make reports or receive consultations.

Once a whistleblower submits a report or engages in consultation, a counselor designated by the general manager of the General Affairs Department, who also oversees the Employee Consultation Centers, will investigate the case. During the course of this investigation, interviews and other examinations will be conducted while ensuring the content of the report or consultation and the identity of the person coming forward are protected. If a suspected compliance violation is confirmed, corrective and preventive measures will be implemented and communicated with the person who came forward, along with the results of the investigation. Retaliation or other detrimental actions against any person who has submitted a report or requested consultation are prohibited by internal Company regulations as is any investigation aimed at identifying a person who comes forward in such manner.

Overseas, every local subsidiary has established similar compliance reporting points of contact (including for anonymous submission), and investigations and responses are handled by the departments in charge of internal reporting (Public Relations & General Administration Headquarters, and Corporate Headquarters).

In 2024, of the 80 reports received, four cases involved compliance issues, and the Company swiftly took corrective action.

Number of reports and consultations in the past five years (excluding private cases at external consulting centers)

	2020	2021	2022	2023	2024
Number of reports and consultations	29	39	55	91	80

11-year summary

	Old standard					Old standard	New standard*9					
	2015.3	2016.3	2016.12*8	2017.12	2018.12	2019.12	2019.12	2020.12	2021.12	2022.12	2023.12	2024.12
For the fiscal period					(Millions of yen)							(Millions of yen)
Net sales	128,344	137,211	120,051	156,761	167,479	168,052	158,340	150,514	155,252	166,258	173,455	**165,600**
Cost of sales	54,718	57,518	48,638	61,238	64,359	64,705	67,364	65,248	66,478	73,927	77,079	**77,997**
Gross profit	73,626	79,693	71,412	95,522	103,119	103,346	90,975	85,265	88,773	92,331	96,375	**87,603**
Selling, general and administrative expenses	55,708	61,432	54,003	72,596	76,830	76,991	65,317	59,322	62,707	65,662	70,595	**62,742**
Operating income	17,917	18,260	17,409	22,925	26,289	26,355	25,658	25,943	26,065	26,669	25,780	**24,860**
Ordinary income	18,843	17,949	19,499	24,191	27,374	27,851	27,851	27,726	28,015	28,281	27,330	**26,861**
Income before income taxes	20,056	18,755	19,802	22,572	25,304	26,804	26,804	26,635	27,636	27,950	27,559	**13,914**
Net income attributable to owners of the parent	12,448	13,466	14,321	15,863	18,023	19,139	19,139	19,205	19,715	20,022	20,338	**10,067**
Cash flow from operating activities	15,445	14,329	16,097	22,350	20,007	20,089	20,089	23,986	22,419	31,914	18,360	**11,246**
Free cash flow*1	10,904	3,396	15,577	29,390	11,944	15,017	15,017	11,330	30,410	17,601	(1,216)	**(7,169)**
Depreciation	2,644	2,544	2,112	2,926	2,967	3,583	3,583	3,837	3,973	4,360	4,929	**6,615**
Capital expenditures*2	3,584	4,448	4,352	3,360	3,796	5,315	5,315	4,265	5,278	15,794	26,887	**24,861**
Research and development expenses	5,289	5,788	4,121	7,239	7,031	7,110	7,110	7,338	7,522	8,327	9,004	**9,109**
At year-end					(Millions of yen)							(Millions of yen)
Current assets	115,990	120,347	128,646	142,346	151,824	162,712	163,046	164,225	181,889	172,892	158,331	**144,468**
Non-current assets	70,340	68,650	72,587	76,484	76,963	70,685	70,685	74,141	70,664	82,934	109,142	**120,900**
Current liabilities	35,890	36,481	46,975	54,274	55,053	53,433	53,767	50,107	50,703	51,809	56,111	**46,423**
Non-current liabilities	10,829	10,492	10,938	10,744	7,485	7,307	7,307	5,675	6,250	6,118	6,545	**5,473**
Net assets	139,611	142,023	143,320	153,811	166,249	172,657	172,657	182,583	195,600	197,900	204,816	**213,471**
Total assets	186,331	188,997	201,234	218,831	228,787	233,398	233,732	238,366	252,554	255,827	267,473	**265,368**
Working capital*3	80,100	83,865	81,670	88,072	96,771	109,279	109,279	114,118	131,186	121,083	102,220	**98,045**
Interest-bearing liabilities	40	181	192	194	506	19	19	13	1	—	—	**—**
Per-share data*4					(Yen)							(Yen)
Net income	152.73	165.56	179.12	201.31	228.05	244.08	244.08	245.71	252.36	259.63	268.16	**135.42**
Cash dividends	45.00	48.00	52.00	58.00	66.00	73.00	73.00	77.00	83.00	90.00	101.00	**102.00**
Payout ratio (%)	29.5	29.0	29.0	28.8	28.9	29.9	29.9	31.3	32.9	34.7	37.7	**75.3**
Cash flow*5	181.6	168.5	189.3	272.4	243.8	244.8	244.8	292.3	273.2	408.9	235.2	**144.0**
Net assets	1,711.77	1,766.06	1,818.10	1,947.82	2,102.49	2,208.94	2,208.94	2,335.93	2,515.53	2,600.04	2,749.17	**2,862.28**
Financial ratios					(%)							(%)
Gross profit margin	57.4	58.1	59.5	60.9	61.6	61.5	57.5	56.6	57.2	55.5	55.6	**52.9**
Operating income margin	14.0	13.3	14.5	14.6	15.7	15.7	16.2	17.2	16.8	16.0	14.9	**15.0**
Ordinary income margin	14.7	13.1	16.2	15.4	16.3	16.6	17.9	18.4	18.0	17.0	15.8	**16.2**
Net margin	9.7	9.8	11.9	10.1	10.8	11.4	12.1	12.8	12.7	12.0	11.7	**6.1**
Current ratio	323.2	329.9	273.9	262.3	275.8	304.5	303.2	327.7	358.7	333.7	282.2	**311.2**
Return on assets (ROA)	10.5	9.6	10.0	11.5	12.2	12.1	12.0	11.7	11.4	11.1	10.5	**10.1**
Return on equity (ROE)	9.4	9.6	10.0	10.7	11.3	11.3	11.3	10.8	10.4	10.2	10.1	**4.8**
Equity ratio	74.8	75.1	71.2	70.3	72.7	73.9	73.9	76.6	77.4	77.3	76.4	**80.2**
Debt-equity ratio (times)*6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
Price-earnings ratio (PER) (times)*7	28.2	29.8	27.9	36.4	32.8	38.0	38.0	51.3	35.8	34.8	25.3	**46.0**

1. Cash flow from operating activities + Cash flow from investing activities
2. 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
8. The Company changed its fiscal year-end to December 31 from March 31 effective from the fiscal year ended March 31, 2016.
Consequently, the fiscal year ended December 31, 2016 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 applied from the beginning of the fiscal year ended December 31, 2020.

Consolidated balance sheet

(Millions of yen)

As of December 31, 2023 and 2024	2023.12	2024.12
ASSETS		
Current assets		
Cash and deposits	71,536	**50,873**
Notes and accounts receivable—trade	53,028	**49,442**
Short-term investment securities	8,300	**14,872**
Merchandise and finished goods	13,308	**15,143**
Work in process	1,767	**2,091**
Raw materials and supplies	7,006	**6,929**
Other	3,427	**5,174**
Allowance for doubtful accounts	(44)	**(58)**
Total current assets	158,331	**144,468**
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	10,611	**32,461**
Machinery, equipment and vehicles, net	5,152	**6,476**
Tools, furniture and fixtures, net	1,501	**2,485**
Land	4,900	**5,947**
Leased assets, net	964	**815**
Construction in progress	24,534	**19,261**
Total property, plant and equipment	47,665	**67,448**
Intangible assets		
Goodwill	9,655	**9,260**
Trademark rights	8,792	**8,220**
Software	2,664	**2,662**
Other	501	**530**
Total intangible assets	21,614	**20,674**
Investments and other assets		
Investment securities	32,124	**24,617**
Long-term loans receivable	1,132	**1,269**
Retirement benefit asset	292	**750**
Deferred tax assets	2,647	**3,087**
Real estate for investment, net	2,678	**2,650**
Other	2,163	**1,730**
Allowance for doubtful accounts	(1,176)	**(1,328)**
Total investments and other assets	39,862	**32,777**
Total non-current assets	109,142	**120,900**
Total assets	267,473	**265,368**

(Millions of yen)

As of December 31, 2023 and 2024	2023.12	2024.12
LIABILITIES		
Current liabilities		
Notes and accounts payable—trade	8,745	**8,264**
Electronically recorded obligations—operating	8,560	**6,424**
Accounts payable—other	25,037	**17,117**
Lease obligations	379	**343**
Income taxes payable	4,059	**1,913**
Accrued consumption taxes	788	**346**
Provision for bonuses	2,705	**2,840**
Provision for product recall-related losses	—	**3,970**
Other	5,836	**5,202**
Total current liabilities	56,111	**46,423**
Non-current liabilities		
Lease obligations	608	**503**
Deferred tax liabilities	2,594	**1,554**
Net defined benefit liability	939	**1,005**
Other	2,403	**2,409**
Total non-current liabilities	6,545	**5,473**
Total liabilities	62,656	**51,896**
NET ASSETS		
Shareholders' equity		
Capital stock	3,450	**3,450**
Capital surplus	522	**522**
Retained earnings	205,681	**208,240**
Treasury stock	(24,766)	**(24,767)**
Total shareholders' equity	184,887	**187,445**
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	12,819	**12,469**
Foreign currency translation adjustment	6,403	**12,300**
Re-measurements of retirement benefit plans	259	**563**
Total accumulated other comprehensive income	19,483	**25,333**
Share acquisition rights	446	**688**
Non-controlling interests	—	**4**
Total net assets	204,816	**213,471**
Total liabilities and net assets	267,473	**265,368**

Consolidated income statement

(Millions of yen)

Years ended December 31, 2023 and 2024	2023.12	2024.12
Net sales	173,455	**165,600**
Cost of sales	77,079	**77,997**
Gross profit	96,375	**87,603**
Selling, general and administrative expenses		
Promotion expenses	3,690	**3,435**
Freight and warehousing expenses	4,704	**5,294**
Advertising expenses	19,348	**8,140**
Salaries, allowances and bonuses	14,849	**16,289**
Retirement benefit expenses	887	**765**
Taxes and dues	930	**753**
Depreciation	2,076	**3,433**
Amortization of goodwill	1,128	**1,407**
Rent	1,521	**1,558**
Commission fees	5,419	**5,160**
Research and development expenses	9,004	**9,109**
Other	7,035	**7,391**
Total selling, general and administrative expenses	70,595	**62,742**
Operating income	25,780	**24,860**
Non-operating income		
Interest income	214	**207**
Dividend income	548	**608**
Real estate rent	295	**300**
Foreign exchange gains	40	**330**
Compensation income	451	**347**
Other	636	**683**
Total non-operating income	2,187	**2,477**
Non-operating expenses		
Interest expenses	29	**28**
Rent cost of real estate	105	**106**
Provision of allowance for doubtful accounts	154	**151**
Other	347	**189**
Total non-operating expenses	637	**476**
Ordinary income	27,330	**26,861**
Extraordinary income		
Gain on sales of non-current assets	11	**21**
Gain on sales of investment securities	436	**635**
Other	14	**4**
Total extraordinary income	461	**662**
Extraordinary loss		
Loss on disposal of non-current assets	70	**72**
Losses related to defective products	—	**12,524**
Other	161	**1,012**
Total extraordinary loss	232	**13,609**
Income before income taxes	27,559	**13,914**
Income taxes—current	8,297	**5,240**
Income taxes—deferred	(1,076)	**(1,398)**
Total income taxes	7,221	**3,842**
Net income	20,338	**10,071**
Net income attributable to non-controlling interests	—	**4**
Net income attributable to owners of the parent	20,338	**10,067**

Consolidated statement of comprehensive income

(Millions of yen)

Years ended December 31, 2023 and 2024	2023.12	2024.12
Net income	20,338	**10,071**
Other comprehensive income		
Valuation difference on available-for-sale securities	2,473	**(350)**
Foreign currency translation adjustment	2,051	**5,896**
Adjustment for retirement benefits	1,093	**304**
Total other comprehensive income	5,618	**5,850**
Comprehensive income	25,957	**15,921**
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of the parent	25,957	**15,917**
Comprehensive income attributable to non-controlling interests	—	**4**

Consolidated statement of shareholders' equity

January 1, 2023 to December 31, 2023

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at period start	3,450	522	194,285	(14,482)	183,775
Change during current period					
Dividends from surplus			(7,226)		(7,226)
Net income attributable to owners of the parent			20,338		20,338
Purchase of treasury stock				(11,999)	(11,999)
Disposal of treasury stock		(1,715)		1,715	—
Transfer from retained earnings to capital surplus		1,715	(1,715)		—
Net changes of items other than shareholders' equity					
Total change during current period	—	—	11,396	(10,283)	1,112
Balance at period-end	3,450	522	205,681	(24,766)	184,887

(Millions of yen)

	Accumulated other comprehensive income					
	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	Total net assets
Balance at period start	10,346	4,352	(834)	13,864	260	197,900
Change during current period						
Dividends from surplus						(7,226)
Net income attributable to owners of the parent						20,338
Purchase of treasury stock						(11,999)
Disposal of treasury stock						—
Transfer from retained earnings to capital surplus						—
Net changes of items other than shareholders' equity	2,473	2,051	1,093	5,618	185	5,804
Total change during current period	2,473	2,051	1,093	5,618	185	6,916
Balance at period-end	12,819	6,403	259	19,483	446	204,816

January 1, 2024 to December 31, 2024

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at period start	**3,450**	**522**	**205,681**	**(24,766)**	**184,887**
Change during current period					
Dividends from surplus			**(7,508)**		**(7,508)**
Net income attributable to owners of the parent			**10,067**		**10,067**
Purchase of treasury stock				**(0)**	**(0)**
Net changes of items other than shareholders' equity					
Total change during current period	**—**	**—**	**2,559**	**(0)**	**2,558**
Balance at current period-end	**3,450**	**522**	**208,240**	**(24,767)**	**187,445**

(Millions of yen)

	Accumulated other comprehensive income						
	Valuation difference on available-for sale securities	Foreign currency translation adjustment	Re-measure-ments of retirement benefit plans	Accumulated other comprehensive income total	Share acquisition rights	Non-controlling interests	Total net assets
Balance at period start	**12,819**	**6,403**	**259**	**19,483**	**446**	**—**	**204,816**
Change during current period							
Dividends from surplus							**(7,508)**
Net income attributable to owners of the parent							**10,067**
Purchase of treasury stock							**(0)**
Net changes of items other than shareholders' equity	**(350)**	**5,896**	**304**	**5,850**	**241**	**4**	**6,096**
Total change during current period	**(350)**	**5,896**	**304**	**5,850**	**241**	**4**	**8,654**
Balance at current period-end	**12,469**	**12,300**	**563**	**25,333**	**688**	**4**	**213,471**

Consolidated statement of cash flows

(Millions of yen)

Years ended December 31, 2023 and 2024	2023.12	2024.12
Cash flow from operating activities		
Income before income taxes	27,559	**13,914**
Depreciation	4,929	**6,615**
Amortization of goodwill	1,128	**1,407**
Increase (decrease) in provision for product recall-related losses	—	**3,970**
Interest and dividend income	(763)	**(815)**
Interest expenses	29	**28**
Loss (gain) on sales of investment securities	(436)	**(635)**
Loss (gain) on sales and retirement of non-current assets	59	**50**
Decrease (increase) in notes and accounts receivable—trade	(3,781)	**4,780**
Decrease (increase) in inventories	(3,175)	**(1,144)**
Increase (decrease) in notes and accounts payable—trade	(1,390)	**(2,931)**
Increase (decrease) in accounts payable—other	1,918	**(6,060)**
Increase (decrease) in accrued consumption taxes	(167)	**(456)**
Other	76	**(771)**
Total	25,986	**17,951**
Interest and dividend income received	754	**801**
Interest expenses paid	(22)	**(34)**
Income taxes paid	(8,358)	**(7,471)**
Net cash provided by operating activities	18,360	**11,246**
Cash flow from investing activities		
Payments into time deposits	(45,132)	**(30,293)**
Proceeds from withdrawal of time deposits	50,216	**35,405**
Expenditure for purchase of short-term investment securities	(4,000)	**(2,000)**
Proceeds from sales and redemption of securities	4,000	**4,000**
Purchase of property, plant and equipment	(12,756)	**(26,056)**
Proceeds from sales of property, plant and equipment	5	**22**
Purchase of intangible assets	(813)	**(573)**
Purchase of investment securities	(220)	**(18)**
Proceeds from sales of investment securities	531	**959**
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(11,176)	**—**
Other	(231)	**138**
Net cash provided by (used in) investing activities	(19,576)	**(18,415)**
Cash flow from financing activities		
Purchase of treasury stock	(12,000)	**(0)**
Cash dividends paid	(7,223)	**(7,505)**
Other	(239)	**(262)**
Net cash provided by (used in) financing activities	(19,463)	**(7,768)**
Effect of exchange rate change on cash and cash equivalents	890	**1,220**
Net increase (decrease) in cash and cash equivalents	(19,789)	**(13,717)**
Cash and cash equivalents at beginning of period	79,480	**59,690**
Cash and cash equivalents at end of period	59,690	**45,973**

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, the Company's second president, was appointed

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, the Company's third president, was appointed

1966
- Launched *Ammeltz,* a topical analgesic

1969
- Launched *Bluelet,* a toilet bowl cleaner and freshener, entering the household products market

1972
- Formed partnership with U.S.-based C.R. Bard, Inc. to establish medical devices importer Japan Medico, Inc., entering the medical devices market

1975
- Launched Sawaday, a toilet air freshener, entering the air freshener market

1976
- Kazumasa Kobayashi, the Company's fourth president, was appointed 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
- Made Angel Ltd. a consolidated subsidiary of Kobayashi Pharmaceutical Co., Ltd. and thereby acquired 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
- 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 operations related to Tochucha (eucommia leaf tea), from Hitachi Zosen Corporation

2003
- Angel Ltd. renamed Ehime Kobayashi Pharmaceutical Co., Ltd.

2004
- Yutaka Kobayashi, the Company's fifth president, was appointed

2005
- Obtained exclusive sales rights to the 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 a share exchange
- Spun off the manufacturing division of Kiribai Chemical Co., Ltd., establishing 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, the Company's sixth president, was appointed
- 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 Hompo Co., Ltd., a manufacturer of health and other products made using Japanese plums, a subsidiary

2020
- Made Alva-Amco Pharmacal Companies, Inc. a subsidiary to develop and grow the OTC pharmaceutical business in North America, changing its name to Alva-Amco Pharmacal Companies, LLC

2022
- Transitioned to Prime Market in line with the market reorganization of the Tokyo Stock Exchange

2023
- Made Focus Consumer Healthcare, LLC a subsidiary to expand and develop supplements and general pharmaceutical products in North America

2024
- Established KOBAYASHI Pharmaceutical Manufacturing (Thailand) Co., Ltd. in Thailand to ensure a stable supply of household products in Southeast Asia
- Satoshi Yamane, the Company's seventh president, was appointed

2025
- Norikazu Toyoda, the Company's eighth president, was appointed

Corporate data / Investor information (As of December 31, 2024)

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	Norikazu Toyoda, Representative Director, President and Chief Executive Officer (appointed March 28, 2025)
Employees	3,615 (consolidated), 1,665 (non-consolidated)
Consolidated Subsidiaries	36 (14 domestic, 22 overseas)

Investor information

Common stock	¥3,450 million
Shares authorized	340,200,000
Shares issued	78,050,000
Shareholders	58,270
Stock exchange listing	Prime Market, Tokyo Stock Exchange
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.
- Meitan Hompo Co., Ltd.
- Kobayashi Pharmaceutical Plax Co., Ltd.
- SP-Planning, Inc.
- Archer Corporation
- Suehiro Sangyo Co., Ltd.
- Kobayashi Pharmaceutical Distribution Co., Ltd.
- Kobayashi Pharmaceutical Value Support Co., Ltd.
- Kobayashi Pharmaceutical Global E-commerce Co., Ltd.
- Kobayashi Pharmaceutical Sales Promotion Co., Ltd.
- Kobayashi Pharmaceutical Challenged Co., Ltd.
- True Nature Co., Ltd.

Consolidated subsidiaries (overseas)

- Kobayashi Healthcare, LLC
- Hefei Kobayashi Daily Products Co., Ltd.
- Kobayashi Pharmaceutical (Hong Kong) 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 Pharmaceutical Manufacturing (Thailand) Co., Ltd.
- Focus Consumer Healthcare, LLC
- Kobayashi Consumer Products, LLC
- Kobayashi America Manufacturing, LLC
- Mediheat, Inc.
- Berlin Industries, Inc.
- Perfecta Products, Inc.
- Alva-Amco Pharmacal Companies, LLC
- Kobayashi Healthcare Europe, Ltd.
- Hefei Kobayashi Pharmaceutical Co., Ltd.
- Kobayashi (China) Co., Ltd.

Major shareholders

Name	Percentage of total shares held (%)
Akihiro Kobayashi	12.46
Japan Trustee Services Bank, Ltd. (trust account)	9.42
The Kobayashi Foundation	8.07
Oasis Japan Strategic Fund Ltd.	5.19
Ikuko Watanabe	3.13
Forum Co., Ltd.	2.79
OASIS JAPAN STRATEGIC FUND Y LTD.	2.74
Oasis Investments II Master Fund Ltd.	2.62
Yukako Iue	2.51
Eko Co.	2.29

Notes:
1. The Company holds 3,711,181 shares of treasury stock but is excluded from the above list of major shareholders.
2. Percentage of total shares held is calculated excluding treasury stock.

Shareholder composition