CORPORATE REPORT 2024

KAKEN PHARMACEUTICAL CO., LTD.




Bringing Smiles to Everyone

KAKEN helps improve the quality of life of patients by serving as many people as possible to return smiles of happiness to their faces, through supplying superior pharmaceuticals.
In this endeavor, we always strive to be "the best," rather than pursuing the scale of business.
We aspire to be, and to remain, a company that can create "Joys" for patients, society and our employees.
We also hope to contribute to society by demonstrating KAKEN's distinctive and vigorous presence.

Corporate Philosophy

KAKEN helps improve the quality of life of patients by serving as many people as possible to return smiles of happiness to their faces, through supplying superior pharmaceuticals.

Business Philosophy

KAKEN "Three Joys"

Joy for patients

We strive to create and supply efficacious drugs that satisfy the needs of patients and medical professionals.

Joy for society

We recognize our social responsibility as a pharmaceutical company, engage in all activities with high ethical standards, and aspire to earn society's trust.

Joy for employees

Our objective is to become a company with vitality and presence whose employees enjoy and take pride in their work.

Working to Fulfill Our Corporate Philosophy

Ayaka Sasaki
Regional Marketing & Sales Department II

Joy for patients

We endeavor to think and act with aspirations of excellence and with responsibility based on a patient-first perspective, focusing on integrity, attention to detail and speed.

Yasuhiko Sato
Quality Assurance Department

Joy for patients

Whenever we're unsure about a decision, we think of patients' smiles of joy. That is what drives us to provide safe, high-quality pharmaceutical products.

Tatsuro Seki
Corporate Planning & Coordination Department

Joy for society

We engage with stakeholders in solving problems to help create a sustainable society where people experience joy.

Ryo Niizawa
Human Resources Department

Joy for employees

We provide self-development and training opportunities to enable each employee to grow as a professional.

CONTENTS

Value Creation Story

2 KAKEN At a Glance
4 A History of Value Creation
6 Value Creation Process
8 KAKEN's Six Types of Capital
10 Value Chain
12 Striving to Create Greater Value
Good Design Award Dialogue

Strategy

14 President's Message
18 Material Issues
20 Long-Term Business Plan 2031 —KAKEN Vision for Transformation— Progress and Achievements
26 Growth Strategy
30 Message from the Director in Charge of the Corporate Planning & Coordination Department

Working toward Sustainable Value Enhancement

32 Sustainability Strategy
34 Environmental Management
38 Compliance and Risk Management
40 Management Team
42 Strengthening Corporate Governance
47 Messages from Outside Directors
48 Strengthening Relationships with Stakeholders to Achieve Sustainability / Respecting Human Rights
49 Human Resource Strategy / Creating Fulfilling Workplaces
52 Strengthening Human Resource Development

Financial and Corporate Data

54 FY2023 Operating Results and Financial Condition
94 11-Year Financial and Non-Financial Highlights
96 Corporate and Share Information

Editorial Policy

Our policy in issuing this report is to help KAKEN's various stakeholders (including shareholders and investors) to understand the Company's management foundation and strengths, as well as the sustainable growth it aspires to achieve through creation of corporate value in the future. We have compiled the report using the *International Integrated Reporting Framework* by the IFRS Foundation and *Guidance for Collaborative Value Creation* by the Ministry of Economy, Trade and Industry as reference.

Reporting Period

FY2023 (April 1, 2023 to March 31, 2024)
Note: Some information from before and after the period above is included.

Scope of This Report

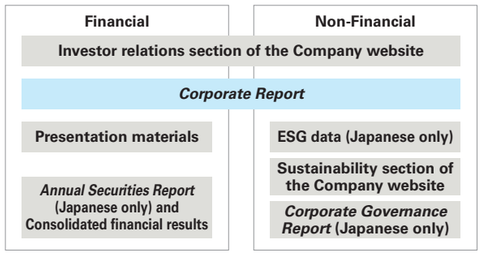
Kaken Pharmaceutical Co., Ltd. ("the Company" or "KAKEN") and its consolidated subsidiaries (collectively, "the KAKEN Group" or "the Group")

Cautionary Statement

This report contains forward-looking statements on the Group's business. They are projections based on information available at the time this report was written, and may differ from actual results due to a variety of factors. In addition, although this report includes information related to pharmaceuticals (including those under development), these statements are not intended to be advertisements or medical advice.

Position of the Corporate Report in Information Disclosure

To communicate with stakeholders, we use various tools to disseminate a wide range of information in addition to the information in this report. Our purpose in issuing this report is to tell our value creation story by integrating financial and non-financial information.



Investor relations section of the Company website | ESG data (Japanese only) | Sustainability section of the Company website

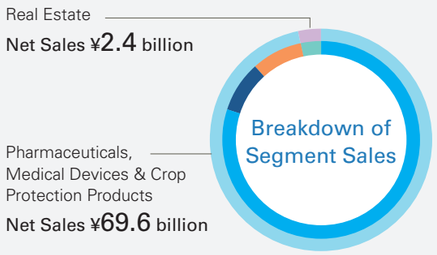
KAKEN At a Glance

Consolidated Results (Year Ended March 31, 2024)

Net Sales
¥72.0 billion

Operating Profit
¥9.5 billion

ROE
5.7%



KAKEN operates pharmaceuticals and real estate businesses.

The Pharmaceuticals, Medical Devices & Crop Protection Products segment accounts for 96.6% of net sales, and consists of pharmaceuticals (mainly prescription pharmaceuticals), and crop protection products (primarily fungicides and paddy rice herbicides).

The Real Estate segment supports the pharmaceuticals business with a stable source of revenue consisting of income from Bunkyo Green Court, a property redeveloped on land that the Company assumed ownership of from RIKEN, the Institute of Physical and Chemical Research.

For details, see pages 26–29

First in Class*

* Breakthrough drugs. New drugs that are the first in their categories to be approved.

Onychomycosis treatment
Clenafin

Oral antifungal drugs were the only onychomycosis treatment available in Japan, but those drugs sometimes led to adverse drug reactions, such as liver damage, and to drug interactions. In response to demand for an effective topical treatment with fewer safety concerns, KAKEN launched Japan's first topical treatment for onychomycosis in 2014, providing a new treatment option.

Anti-osteoarthritis agent
Artz

Local injections of steroids have been used in the treatment of painful joint diseases such as knee osteoarthritis (a common concern of the elderly), but there were calls for the development of safer, more effective drugs. Hyaluronic acid was demonstrated to be effective in treating these conditions, and KAKEN launched the world's first hyaluronic acid intra-articular injection, contributing to the alleviation of symptoms in conditions such as knee osteoarthritis.

Primary axillary hyperhidrosis treatment
Ecclock

The first-line treatment for primary axillary hyperhidrosis was topical aluminum chloride therapy, but since it was not covered by national health insurance (not NHI-listed) in Japan, a new topical treatment was sought. In 2020, KAKEN launched Ecclock, the first NHI-listed primary axillary hyperhidrosis treatment, giving patients a new treatment option. KAKEN is also focused on ensuring dosage forms can be used safely, including treatment application that does not require direct contact with the liquid medicine.

Lumbar disc herniation treatment
Hernicore

Lumbar disc herniation treatment was previously limited to two options: conservative therapy or surgery. In August 2018, KAKEN provided a new treatment option with the launch of Hernicore, Japan's first intradiscal enzyme injection therapy using condoliase as the active ingredient. KAKEN aims to establish Hernicore as a treatment option that sits between conservative therapy and surgery.

Expertise from Focusing on Specific Therapeutic Areas

KAKEN provides new treatment options to patients with a focus on prescription pharmaceuticals in the areas of dermatology and orthopedics. By concentrating on specific therapeutic areas, we are able to conduct information provision suited to patient needs in those areas, and have built strong trust with medical professionals. As a result, we are able to reflect patient feedback obtained from medical professionals in new drug development and formulation improvements. KAKEN will continue to contribute to improving patients' quality of life by actively collaborating with companies in Japan and overseas to pursue joint research and clinical development, in addition to advancing its in-house drug discovery, thus providing a variety of products that are the first of their kind in Japan or the world.

- Dermatology
- Orthopedics
- Other Areas

Market Information

● Onychomycosis

Onychomycosis is an infectious disease of the toenails or fingernails caused by the Trichophyton fungus. Symptoms include white or yellow nail discoloration, and thickening of the nail.

The results of the "Large-scale Epidemiological Survey on the Actual Situation and Latent Morbidity of Tinea Pedis and Tinea Unguium (Foot Check 2023)," announced by the Japan Organization of Clinical Dermatologists in April 2024, revealed that one in six Japanese people had some kind of tinea of the feet, with one in seven having tinea pedis (athlete's foot), and one in 13 having tinea unguium (onychomycosis).

● Hyperhidrosis

Hyperhidrosis is a condition characterized by excessive sweating caused by hyperthermia of the head, face, palms, soles of the feet and armpits, or by emotional distress, or issues independent of those factors. As such, it interferes with daily activities. According to the primary focal hyperhidrosis diagnosis guidelines, symptoms of primary focal hyperhidrosis* are reported in one in eight Japanese people. Most primary focal hyperhidrosis patients suffer from sweating of the armpits, affecting one in 17 Japanese people.

* Excessive sweating of armpits, palms or other parts of the body despite the absence of other illnesses or disabilities that cause increased sweating

Breakdown of Athlete's Foot and Onychomycosis

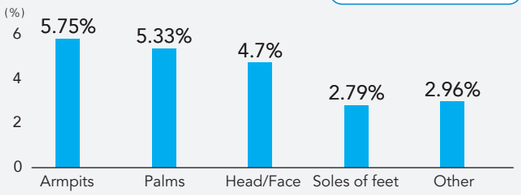
1 in 6 Japanese people have some kind of tinea of the feet, either tinea pedis (1 in 7) or tinea unguium (1 in 13)

Source: Hatake, Yasuki, et al. *Journal of the Japan Organization of Clinical Dermatologists* 41, no. 1 (2024): 66-76.

Breakdown of Primary Focal Hyperhidrosis

(Above: Proportion of total population of Japan.
Below: By part of body where the condition occurs).

Hyperhidrosis affects one in eight people in Japan



Source: Fujimoto T, et al; J Dermatol. 2013;40 (11):886-890.

A History of Value Creation

With a deep dedication to meeting the needs of patients, KAKEN conducts collaborative research and development and clinical development with companies in Japan and overseas, in addition to in-house drug discovery, to provide products that are the first of their kind in Japan or the world.

KAKEN's History

Founding Ideas

With its origins in the Institute of Physical and Chemical Research (Riken), which was established in 1917, the Company started its business in 1948 as Kagaku Kenkyusho. Its first president, Yoshio Nishina, who has been called the father of modern physics in Japan, said that his mission was to apply basic scientific research and its findings to industry, and began manufacturing and selling pharmaceuticals as a way of implementing theoretical research in business.

1940s

Technologies developed by Riken form the roots of Kaken Pharmaceutical

With its roots in Riken, which has made many contributions to modern science in Japan, KAKEN has provided medicines to meet the needs of the times based on its technological development capabilities. The Company applied Riken's culturing techniques to commercialize penicillin, which had been attracting interest as a treatment specifically for pneumonia, an intractable disease at the time. KAKEN took the lead in penicillin production in Japan. It went on to introduce streptomycin, a specific treatment for tuberculosis, as well as related products, forming the business foundation that led to the KAKEN of today.

The Company's first office building

1960s

Growth driven by the establishment of new research facilities and a strengthened sales structure

Based on ideas from academia, KAKEN developed products from new viewpoints, including Japan's first digestive enzyme preparation in capsule form and the world's first oral anti-inflammatory enzyme preparation. The Company also applied its technologies to addressing social problems. In response to Minamata disease (methylmercury poisoning), for example, it successfully synthesized an antifungal agent to replace organic mercury compounds that were the primary medicines for athlete's foot at the time. In the 1970s, the Company opened new research facilities, and built a system capable of adapting to increasingly stringent laws and regulations, and enhanced its sales capabilities. The Kyoto Research Institute in particular was equipped with state-of-the-art equipment and tools, demonstrating highly reliable safety testing (preclinical studies).

Kyoto Research Institute (established in 1975)

1990s

Provision of medicines of excellent quality in a drive to be "the best"

In the 1990s, KAKEN increased its R&D investment and further improved its technologies. The Company became the first in the world to successfully synthesize and develop benzylamine-derived butenafine hydrochloride. Used as a treatment for athlete's foot, it had a chemical structure completely different from that of existing athlete's foot medicines, and grew into strategic global product Mentax. For Artz, which had been sold in ampoule form, the Company launched Artz Dispo, a kit product with a disposable pre-filled syringe, to reduce the risk of infection. Underpinning the Company at this time was its belief, set forth in the late 1980s, in striving to be "the best company, even if not the biggest."

Mentax, which was awarded the Okochi Memorial Grand Production Prize

2000s and beyond

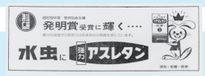
Advancing priority research themes through organizational improvements and concentration of resources Launched Long-Term Business Plan 2031 in FY2022

The Drug Research Center and the CMC Center cooperate and collaborate in discovery research, focusing their financial and human resources on R&D themes in fields where their strengths can best be utilized—the immune system, the nervous system and infectious diseases. In FY2022, KAKEN launched Long-Term Business Plan 2031, and is working to enhance its corporate value based on its vision of being 1) a company that contributes to longer healthy life expectancy by developing and supplying innovative new drugs in a speedy manner, and 2) a research-based pharmaceutical company with a global presence, primarily in the areas of dermatology and orthopedics. In addition, we renewed our brand logo to gain broader recognition from stakeholders as we develop our business globally. The shape of the logo, which spreads out in three directions, uses the "K" in KAKEN as a motif to express the "Three Joys"—Joy for patients, Joy for society, and Joy for employees—that comprise our business philosophy. It reflects our dedication to always taking on new challenges while pursuing more advanced technology and reliable quality.

Brand logo renewal

Dermatology

- 1953 Athletan



- 1992 Mentax

- 2001 Fiblast

- 2014 Clenafin

- 2020 Ecclock

Orthopedics

- 1987 Artz (ampoule)

- 1988 Adofeed

- 1992 Procylin

- 1993 Artz Dispo (syringe)

- 2018 Hernicore

Other Areas

- 1978 Brufen

- 1989 Ebrantil

- 1995 Pronase MS

- 1998 Seprafilm

- 1999 Lipantil (capsules) (now Lipidil (tablets))
- 2011 Lipidil (tablets)

- 2016 Regroth

- 2023 NexoBrid

Value Creation Process

With the aim of fulfilling its corporate philosophy of "help improve the quality of life of patients by serving as many people as possible to return smiles of happiness to their faces, through supplying superior pharmaceuticals," the KAKEN Group provides drugs and information that contribute to the quality of life of patients from a distinctive viewpoint. We will continue striving to create value based on our unique strengths.

Corporate Philosophy

KAKEN helps improve the quality of life of patients by serving as many people as possible to return smiles of happiness to their faces, through supplying superior pharmaceuticals.

INPUT

Financial Capital
Safe and sound financial position

Manufacturing Capital
Operating base that ensures stable supply

Human Capital
A team of professionals who help to achieve the "Three Joys"

Intellectual Capital
The source of new treatment options for patients

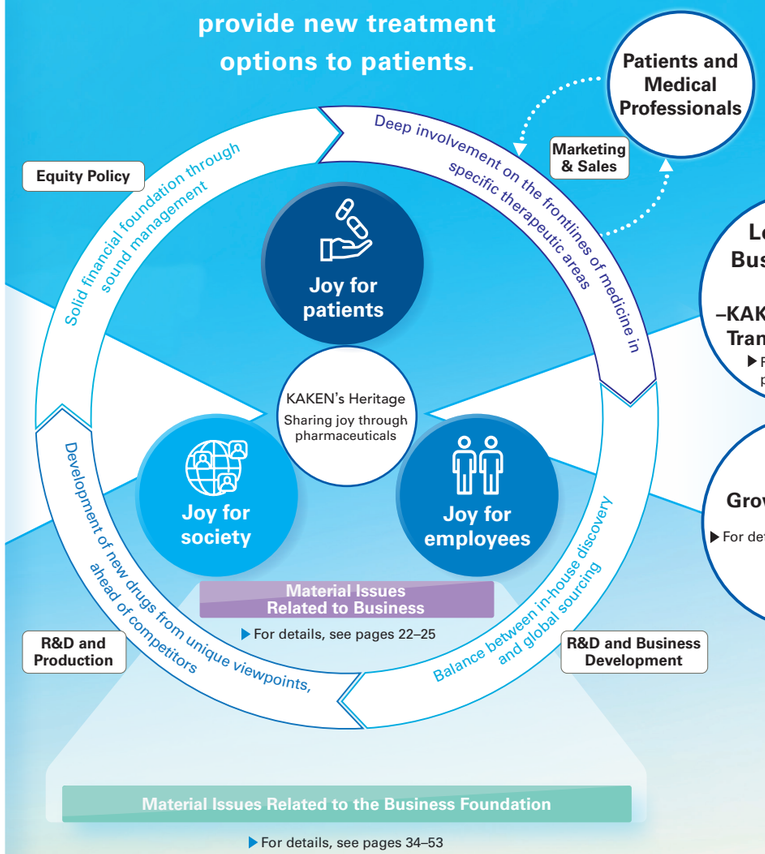
Social Capital
Building strong relationships with stakeholders

Natural Capital
Eco-conscious business activities

▶ For details, see pages 8–9

BUSINESS MODEL

We leverage our strengths to provide new treatment options to patients.



Long-Term Business Plan 2031 –KAKEN Vision for Transformation–
▶ For details, see pages 20–21

Growth Strategy
▶ For details, see pages 26–29

OUTPUT

Innovative drugs, including products that are the first of their kind in Japan or the world

Dermatology


Clenafin

Fiblast


Ecclock

Orthopedics


Artz


Hernicore

Other Areas


Seprafilm


Regroth

First in the world　First in Japan

OUTCOMES

Joy for patients

- Longer healthy life expectancy
- Treatments that improve quality of life of patients and their family members
- Meeting medical needs for adequate treatments
- Addressing global needs
- Provision of proper pharmaceutical and medical-related information

Joy for society

- Development of sustainable supply chains
- Consideration for local communities and the environment based on high ethical standards
- Stable and continuous returns to shareholders

Joy for employees

- Job satisfaction as professionals who meet patient needs

Contributing to people's well-being through better quality of life

KAKEN's Six Types of Capital

We have continued to provide new treatment options to patients using the capital we have accumulated since the Company was founded. To continue to understand and meet needs on the frontlines of medicine, we will further build up that capital in pursuit of greater value creation.

Financial Capital

Safe and sound financial position

Operating cash flow

¥2,577 million

Equity ratio

83.8%

The drug discovery journey, from the initial research stage through clinical trials and, finally, commercialization, takes at least 10 years and substantial financial capital. Therefore, it is vital that pharmaceutical companies maintain a sound financial foundation. The cash flows we have generated through steady introduction of new drugs has been prioritized for growth investments, such as research and development. By providing "joy" to patients and society through the creation of innovative drugs, we aim to achieve sustainable growth in our corporate value.

Manufacturing Capital

Operating base that ensures stable supply

Capital expenditures

¥2,304 million

Manufacturing base

Shizuoka Factory

Delivering stable, continuous supplies of high-quality pharmaceuticals to patients is our responsibility as a pharmaceutical company. The Shizuoka Factory is our manufacturing site for that purpose. In recent years, the pharmaceutical industry has faced issues with stable supplies, which is causing shortages at the frontlines of medicine. At the Shizuoka Factory, we are proactively investing to expand or upgrade pharmaceutical manufacturing facilities. We will improve production efficiency by making use of digital technology in production control and quality control as we work to establish and maintain a system for providing a stable supply of pharmaceuticals.

Human Capital

A team of professionals who help to achieve the "Three Joys"

Number of employees (Kaken Pharmaceutical)

1,124

Average tenure (Kaken Pharmaceutical)

Male employees: **18.1 years** Female employees: **16.9 years**

To secure and cultivate knowledgeable and highly skilled personnel, it is necessary to establish and maintain an environment in which all employees are strongly motivated to perform at their best. To achieve the "Joy for employees" in our business philosophy, we are working to create an environment that enhances employee engagement and enables them to find fulfillment in their work over the long term. To foster a corporate culture that encourages employees to take on challenges, we offer personal development and reskilling opportunities aimed at developing employees with distinctive capabilities who can adapt to changing times. In doing so, we are building a stronger organization in which diverse people collaborate as one team.

Intellectual Capital

The source of new treatment options for patients

R&D investment

¥12,543 million

Number of projects in the development pipeline

7

(As of August 2024)

We deliver new treatment options for patients primarily through products in the areas of dermatology and orthopedics. In line with Long-Term Business Plan 2031, we are expanding into new therapeutic areas to address the drug lag and drug loss, which are major issues in the pharmaceutical industry. Against this backdrop, in 2023 we in-licensed and began development of two projects for rare diseases. Going forward, we will continue to actively invest in research and development to steadily create innovative drugs in therapeutic areas where we are strong, as well as expanding into other areas in which we will develop new strengths by addressing still further unmet medical needs.

Social Capital

Building strong relationships with stakeholders

Sales offices

33

(As of April 2024)

Number of countries/regions where efinaconazole has been launched

6

In supplying drugs to patients in Japan and overseas, it is essential to build strong relationships of trust with a wide range of stakeholders, including medical professionals and licensees. To ensure that KAKEN's pharmaceutical products are used properly, we have sales offices nationwide and have established a system for providing appropriate product information. We are also out-licensing products overseas, primarily Clenafin (INN: efinaconazole), a drug from in-house drug discovery, and are conducting overseas development on our own for KP-001, one of our development projects.

Natural Capital

Eco-conscious business activities

CO_2 emissions

21,408 t-CO_2

Water consumption

2,959 thousand m³

Promotion of environmental management is one of our material issues. We are taking steps to reduce our environmental burden in all aspects of our business activities. In addition to our long-term target for reduction of CO_2 emissions, we have set a new target for reduction of water consumption, and are implementing ongoing activities to save energy and use water resources more efficiently to achieve these targets. Under the KAKEN Basic Environmental Philosophy, we recognize our social responsibility as a pharmaceutical company and shall take measures to address climate change and other environmental issues, and contribute to the realization of a sustainable, prosperous society.

Value Chain

FOCUS Research

Ability to Meet Needs (Ability to Find Solutions)

To meet the needs of as many patients as possible through the creation of innovative, high-value drugs, we continue to reinforce our priority areas. At the same time, we tackle the challenges of wide-ranging drug discovery by actively collaborating with external organizations that possess unique knowledge and technologies.

Kenji Sato
Pharmacology Department
Drug Research Center

In the Pharmacology Department, we formulate drug concepts to meet patient needs, then identify drug discovery targets, search for lead compounds, and evaluate the pharmacological efficacy of selected drug candidates to actualize those concepts. We also actively conduct translational research to efficiently move the results of basic research into clinical applications.

Basic research → **Pre-clinical research** → **Clinical trials** → **Filing** → **Manufacturing** → **Marketing** → **Post-marketing surveillance** → **To patients**

FOCUS Development

Ability to Meet Needs (Ability to Find Solutions)

To accurately assess the efficacy and safety of a drug, it is important to carefully design the clinical trial plan. We conduct clinical trials with an emphasis on scientific evidence and ethical consideration of patients, in accordance with relevant laws and regulations, and always strive to ensure that we collect highly reliable data.

Ippei Otani
Clinical Development Department

The mission of the Clinical Development Department is to deliver safe, effective medicines that patients can use with peace of mind as early as possible. To accomplish that, we design development strategies and clinical trial plans, and implement and manage clinical trials. Based on the data acquired, we implement the steps from filing applications to obtaining approval from regulatory authorities. We play an important role in directing the process from drug candidate to commercial product.

KAKEN focuses on specific therapeutic areas to deliver new treatment options to patients. This is made possible with a value chain driven by our ability to perceive needs (our ability to identify issues) based on our corporate culture of adapting to the frontlines of medicine, and our ability to meet those needs (our ability to find solutions) with a flexible approach.

Medical Representatives (MRs) visit hospitals, clinics and other medical institutions, and provide information on drug efficacy and safety to doctors, pharmacists and other medical professionals. In recent years, the internet has made it easier for medical professionals to gather information on their own. Therefore MRs need to provide precise and timely information that is more aligned with the needs of the frontlines of medicine.

FOCUS Sales & Marketing

Ability to Perceive Needs (Ability to Identify Issues)

When I meet with many medical professionals, I am particularly careful to listen to the backgrounds of patients who were prescribed our products, and their progress after administration. By aggregating the information obtained in the field, we are able to provide more appropriate information, reflecting the actual conditions on the frontlines of medicine. I believe that providing information focused on frontline needs is vital in building relationships of trust with medical professionals.

Ryohei Yoshikawa
Regional Marketing & Sales Department I

In the Pharmacovigilance Department, from development through post-marketing we collect and evaluate domestic and overseas safety information, report to the Pharmaceuticals and Medical Devices Agency and other regulatory authorities, and exchange information with collaborating companies worldwide. We examine the information collected, and if we judge that safety improvement measures are necessary, we update the electronic package inserts and provide information about proper use of the pharmaceutical product to minimize risk.

FOCUS Surveillance

Ability to Meet Needs (Ability to Find Solutions)

Together with MRs and the Pharmaceuticals Information Service Office (a consultation desk for pharmaceutical-related matters), we are committed to thorough information gathering and timely information provision tailored to needs on the frontlines of medicine, all to ensure patient safety. We adhere to the GVP (Good Vigilance Practice) ministerial ordinance* and other laws, and carry out our work with high ethical standards and a sense of mission.

Yuko Ueta
Pharmacovigilance Department

* Ministerial Ordinance on Standards for Post-Marketing Safety Control of Pharmaceuticals, Quasi-Drugs, Cosmetics and Regenerative Medicine Products

Striving to Create Greater Value

Good Design Award
Dialogue

Ecclock Project

KAKEN developed a new twist bottle for Ecclock, a primary axillary hyperhidrosis treatment and launched it in June 2023. Here, we describe the development process and project initiatives, in which we cooperated as a team to solve problems based on our corporate culture of adapting to the frontlines of medicine.

Hiroshi Miyama
General Manager, Medical Affairs Department
Collects and provides information on pharmaceuticals and medical needs internally and externally. Suggested applying for the Good Design Award.

Tatsuro Nagao
Formulation Department, CMC Center*
Responsible for the design and trial manufacturing of the new twist bottle, startup of the manufacturing process, filing for approval, and other matters

Shingo Todo
R&D Planning & Project Management Department
Project manager for development of a primary axillary hyperhidrosis treatment

* At the time of the twist bottle's development. Moved to Corporate Planning & Coordination Department in January 2024.

Nagao Ecclock was in-licensed from an overseas company in 2015, but we saw room to improve the container in terms of convenience for patients. To get the medicine to patients as quickly as possible, we undertook a first-in-class container improvement with the aim of an early launch. However, when we conducted a questionnaire to identify patient needs, many patients indicated that it would be better to have direct application to the armpit. So we started this project to develop a new container as part of lifecycle management.

Todo To ensure safety and obtain the intended effect, it is important to apply the prescribed amount of the drug. However, previous containers for direct application to the armpit were typically roll-on types. None allowed patients to measure a set amount while applying the drug directly.

Nagao So we initiated development of a twist bottle that could dispense a prescribed amount of the drug when applied directly. To make the container more compact while maintaining quality equivalent to conventional products, we looked at the container's materials, the filling precision, the balance of space inside the container, and the container's height. We also repeatedly adjusted the height of the rim on the application surface to ensure that the drug could be fully applied without spilling. Furthermore, to increase convenience for all patients, we had a wide range of age groups try the product, collected their feedback and data, and made a number of improvements.

Miyama I also participated in administering the questionnaire about the new container. Many people cooperated!

Nagao For those of us in R&D departments, the questionnaire gave us a fresh perspective, and the feedback we received was very useful as we moved the project forward. In terms of functions, we collaborated with partner companies to make small adjustments, and finally reached the thirteenth prototype. Even after this prototype was completed, problems kept arising. For example, in mass production there were dimensional variations caused by changes in the mold. We then had to work hard to find the defects and implement countermeasures.

Todo The mold required adjustments on the order of hundredths of a millimeter, and changing the color of the container also changed the shrinkage factor of the plastic, which led to defects.

Nagao To reduce the defect rate as much as possible, we conducted rigorous testing to verify robustness, including drop tests. Since the product is a hyperhidrosis treatment, our goal was to launch it in June, before summer. We couldn't delay the launch, so it was a race against time. Amid daily trial and error, I felt reassured by the many colleagues who shared my desire to deliver this great product to patients, as we worked to come up with solutions to make that happen.

Todo I also sensed that management was strongly determined to deliver this excellent product to patients as early as possible. The project really was a united Companywide effort.

Nagao That's right. During development, there were many times when I thought it might be impossible, but during those tough times, one thing I was grateful for was the email I received from Mr. Todo. As a Christmas present, he shared patient feedback from the questionnaire. I was very encouraged to read the words of one patient who said, "The efficacy of this drug has been demonstrated in clinical trials, and I am looking forward to it becoming available to the world." I still treasure that email, and I appreciate Mr. Todo for giving me strength.

Miyama Following completion of the new container, my department suggested to Mr. Todo that we apply for the widely known Good Design Award to introduce this product to a wide audience. We believed it would be well received. After we won the award, the Marketing & Sales Division checked the feedback, and we heard that the product had established a good reputation among doctors, who were prescribing it to more patients. We were thrilled that our efforts were being recognized. In a questionnaire conducted during joint research with doctors, patients also reported having a good user experience with the twist bottle. We presented that finding in a paper in March 2024.

Nagao The CMC Center, where I worked at the time, is in Shizuoka Prefecture, and it was sometimes difficult for comments from patients, as well as the Marketing & Sales Division, to reach us. But Mr. Miyama's feedback kept those of us on the manufacturing side apprised of the response on the frontlines. The opinions of doctors and patients will remain important to us in product development and improvement research.

Todo Looking back on the project, communication with the Marketing & Sales Division has become even better since the establishment of the Medical Affairs Department, which provides us with information for enhancing the added value of products, and we have been able to hear more opinions and gather more information. Let's continue to put patients first as the unified KAKEN team.

About the New Twist Bottle

This easy-to-use container allows a prescribed amount of the drug to be dispensed into the upper part of the container when the nozzle is twisted. The drug can then be applied directly without getting it on one's hands. To ensure patients can intuitively use the product and avoid misuse, the design incorporates features such as a reverse-thread cap to prevent incorrect operation, a divided discharge flow channel structure, and a click mechanism. Besides winning the FY2023 Good Design Award, a patent for this container was registered in July 2024.

Comments from a User — Enhancing Quality of Life through the Treatment of Hyperhidrosis, a Condition Not Easily Understood by Non-Sufferers

Hyperhidrosis has a significant impact on patients' daily lives. It is a challenging condition that often leads to feelings of isolation because it is difficult to understand for those who don't suffer from it. The concerns differ depending on the area affected by sweating, but people with axillary hyperhidrosis are often self-conscious about armpit sweat stains, leading them to choose black or white clothing to make the sweat less noticeable.

We believe the new twist bottle is a safe and innovative design that lets patients apply the drug directly with minimal risk of hand contact. I really hope that this safe, easy-to-use bottle will encourage more people suffering from axillary hyperhidrosis to actively seek treatment.

Ryu Fukushi
NPO Hyperhidrosis Support Group

President's Message

We are implementing the strategies of Long-Term Business Plan 2031 steadily and with a sense of urgency.

Hiroyuki Horiuchi
President and Representative Director

We have completed the second year of Long-Term Business Plan 2031, which started in FY2022. Going forward, we will steadily manage both short-term and long-term issues and work as a team to accelerate the "Three Transformations" to achieve our VISION.

Steadily advancing the long-term business plan with a focus on addressing short-term issues

Net sales in FY2023, the second year of Long-Term Business Plan 2031, remained at the level of the previous fiscal year. Sales increased for Artz, an anti-osteoarthritis agent, as a switchover to Artz proceeded when sales of a competing product ended, and for Ecclock, a primary axillary hyperhidrosis treatment, due to the June 2023 launch of a new twist bottle that makes direct application to the armpit easier, as well as growing disease awareness. On the other hand, sales of Clenafin, an onychomycosis treatment, and Seprafilm, a post-operative adhesion barrier, decreased due to the impact of competing products. Profit increased, in part because of the absence of the previous fiscal year's impairment loss recorded on termination of a development project for a planned indication

In August 2023, NexoBrid, a drug for burn eschar removal, was launched. This topical agent removes necrotic burn tissue, or eschar, through proteolysis, a process that uses proteolysis enzymes extracted from the stem of the pineapple plant as its active ingredient. We are providing information on this new, first-in-class treatment option mainly to burn specialists to contribute to improvement of patients' quality of life.

Regarding projects under development, I feel we have made progress, as some projects have entered the clinical stage and clinical trials overseas for others are moving forward, but it will take time for us to see the full results of our 10-year long-term plan. Meanwhile, Clenafin is approaching a patent cliff* in February 2025, so a short-term challenge will be how to make up for that revenue decline. As part of our efforts to address this issue, in March 2024 we signed an agreement to assume the rights in Japan to file for manufacturing and marketing approval for Merislon, a vertigo and equilibrium disturbance treatment, and Myonal, a muscle relaxant, both which are manufactured and marketed by Eisai Co., Ltd. In addition, we will further build on existing products and search for late-stage development projects that are closer to launch.

To accelerate measures in Long-Term Business Plan 2031, we restructured our marketing and sales organization in April 2023, with the Marketing & Sales Division assuming direct supervision of our 33 sales offices nationwide. Communication between Head Office and sales offices is now smoother, and sales offices say that the new structure is enabling faster, more accurate coordination, which gives me confidence in the changes. In addition, because of our corporate culture of adapting to the frontlines of medicine, our frontline staff are continuously collecting information on the needs of patients. In that regard, we have overhauled systems at our research center and factories so that information can be more quickly reflected in development and production. We hope that faster information-sharing and decision-making will lead to quicker and better results.

*A steep decline in sales following the expiration of a patent

Accelerating new drug creation through R&D Transformation

Long-Term Business Plan 2031 presents "Three Transformations" as a strategy for achieving our vision.

The first is "R&D Transformation." Our projects under development are progressing according to plan, but since not all of them will be successful, we need to expedite the development of more products.

To make our drug discovery research process more data-driven, we are currently taking an AI-based approach to drug discovery at In Silico Analysis Group and collaborating with outside companies. Also, outsourcing some work in discovery research and basic research that was previously done in-house will free up resources in our organization, which will enable us to tackle challenges in new fields and focus on more creative approaches to research and development.

I feel that our development efficiency has increased. I am carefully watching the progress of initiatives, and telling employees in the R&D Division about the importance of quickly turning their work into results. For example, I tell them, "The faster we can bring a medicine to market, the sooner it can be delivered to patients, and the longer it will contribute to the Company's profit, so I would like you to aim for results as early as possible, without worrying about development costs." The development of COVID-19 vaccines is a good example of what can be done. It typically would have taken 10 years, but was accomplished in just two. Likewise, I want KAKEN to accelerate development by adopting new methods, concentrating resources on promising products, and increasing the number of R&D personnel. We are still only about halfway there, and we are approaching a critical stage for achieving a true transformation.

Second is "Overseas Expansion Transformation." Here, we are increasing the number of regions where our existing overseas products have been launched. In September 2023, an application for manufacturing and marketing approval of Ecclock was filed in South Korea by our alliance partner, Dong-Wha Pharm Co., Ltd. Clenafin is currently undergoing a Phase III clinical trial in China, and a manufacturing and marketing application has been filed and is awaiting approval in Europe. In 2024, we also began Phase I clinical trials in the United States for KP-001 (transferred through succession from ARTham Therapeutics Inc.), a potential treatment under development for refractory vascular malformations. Going forward, we hope to sell this product in the United States and Canada.

Our overseas expansion efforts include not only pharmaceuticals but also crop protection products. In the crop protection business, we sell polyoxin fungicides derived from soil actinomycetes, mainly in Southeast Asia and North America. In recent years, these products have been certified in multiple countries as crop protection products that can be used on organic crops. With organic crop production expanding worldwide, the market for biopesticides that can be used on those crops is also expected to grow. Anticipating growth in demand for polyoxins, we plan to construct a manufacturing facility for fermented pesticide active ingredients on the site of the Shizuoka Factory. The facility is scheduled for completion in 2027. With initiatives for the Sustainable Development Goals (SDGs) spreading globally, we hope to contribute to the global production of safe food by expanding the supply of safe crop protection products for use on organic crops.

Fostering a culture where professionals take on challenges as a team

For "Management Base Transformation," the third of the "Three Transformations," we are focusing on nurturing professionals who continuously pursue change in order to strengthen our human capital, the core of our management base. I think of professionals as people who take full responsibility for their work, and who do not limit themselves to achieving one task, but always aim beyond for something more, and have the ability to achieve it.

When I give lectures to new employees, I tell them to view their job as if it were their own company rather than something they are simply being made to do. I urge them to consider what they should be doing and act on their own volition. I would like employees to read this corporate report and the online company newsletter, so that they understand the Company's situation and direction, and act accordingly in their daily work.

We have reinforced our training program in recent years, but only people develop people. It is important for supervisors to create an environment where their subordinates can grow independently, and to encourage them to put their ideas to the test. I also value communication with employees, and make a point to actively engage them in dialogue. Since 2023, I have held a number of meetings and informal gatherings with all departments. Through dialogue and exchange of views with employees, I want to firmly establish a culture in which we can all boldly take on challenges as a unified team.

One outcome of implementing our DX strategy is that we have acquired DX certification. This is proof that we have deepened our approach to digitalization and are reaping the benefits. The efficiency gains from DX are important, but generating creative ideas is something that only humans can do, and their unconventional thinking is what leads to innovation.

Steadily achieving KPI targets for material issues and advancing Long-Term Business Plan 2031

We broke our material issues down into "business" and "business foundation" categories, and narrowed the previous 19 issues to 12. We made the themes clear and easy to understand, and have laid out concrete initiatives. We have also added new KPIs that will enable frontline staff to take responsibility for executing the initiatives and make it easier to manage progress. All that remains is to execute, and we aim to realize the long-term vision by steadily achieving our KPI targets every year.

The first of the 12 material issues is "Creation of innovative new drugs that satisfy unmet medical needs." This is the mission of a pharmaceutical company, and is the central theme that ties together the other material issues. As an R&D-driven pharmaceutical company, we will continue to contribute to extending healthy life expectancy and to providing well-being through better quality of life by creating innovative drugs.

"Stable and sustainable supply of pharmaceuticals" is an important responsibility of pharmaceutical companies, and we are focusing on this material issue through our quality and safety initiatives. We will continue to improve quality by strengthening our production and quality assurance systems and properly implementing our pharmaceutical quality system (PQS).

"Pursue environmental management," is one of the material issues related to our business foundation. We are implementing measures to address environmental issues such as climate change, environmental pollution and resource depletion to realize a sustainable society. Our goal is to reduce our CO_2 emissions in FY2030 by 51% compared with FY2016 levels, and to achieve net-zero CO_2 emissions by 2050. In 2023, we began purchasing carbon-free electricity at the Shizuoka Site. By FY2030, we plan to increase the percentage of carbon-free electricity to at least 80% of the power we use Companywide. We will also work toward achieving the KPI targets for improvement of the recycling rate, reduction of the final landfill disposal rate, and reduction of water consumption.

To our stakeholders

There are still many challenges ahead as we work to achieve our vision, but based on the measures of Long-Term Business Plan 2031, we will steadily pursue the "Three Transformations" and accelerate the creation and launch of new drugs to enhance our corporate value.

For shareholder returns, our policy is to strive for a dividend payout ratio of 30% or higher and a shareholder return ratio of 50% or higher, paying stable, continuous dividends and making flexible share buybacks.

Based on the "Three Joys" in our business philosophy—"Joy for patients," "Joy for society," and "Joy for employees"—we will do our best to bring smiles to all of our stakeholders. We appreciate your continuing support.

Material Issues

The KAKEN Group delivers value to society and contributes to achieving a sustainable society by practicing its corporate philosophy: "KAKEN helps improve the quality of life of patients by serving as many people as possible to return smiles of happiness to their faces, through supplying superior pharmaceuticals." We believe that this will lead to the sustainable growth of the Group. In order to set out the challenges and initiatives for achieving this objective, we have identified material issues related to the KAKEN Group's future value creation.

Check our website for details

Material Issues

Business philosophy	Material issues	What we aim for	Check these pages for major initiatives	KPIs	Targets	Results FY2022	Results FY2023
Material issues related to business / Joy for patients	1 Creation of innovative new drugs that satisfy unmet medical needs	As an R&D-driven company, contribute to longer healthy life expectancy by creating innovative drugs that satisfy unmet medical needs.	▶ Page 22	Number of projects in Phase I or later	6 or more	8	8
	2 Expansion of access to healthcare and pharmaceuticals	In addition to overseas expansion of pharmaceuticals, focus on eliminating drug lag and loss by in-licensing pharmaceuticals marketed in Europe and the United States. To improve the quality of life of patients, expand access to medical care and pharmaceuticals through disease awareness activities.	▶ Page 23–24	Number of countries and regions where Clenafin, Ecclock and KP-001, etc., are marketed	Disclose results	Clenafin: 6 countries and regions (Japan, United States, Canada, South Korea, Hong Kong and Macao)	Clenafin: 6 countries and regions (Japan, United States, Canada, South Korea, Hong Kong and Macao)
				Number of drugs for overseas expansion	3 to 5 at any given time	2 (Fiblast, Clenafin)	2 (Fiblast, Clenafin)
				Projects under development in Japan to eliminate drug lag and drug loss	Disclose results	3 (KAR, Seladelpar and Tildacerfont)	3 (KAR, Seladelpar and Tildacerfont)
				Number of public lectures held for disease awareness	Disclose results	7	5
	3 Stable and sustainable supply of pharmaceuticals	In order to be trusted by patients and medical professionals, strengthen production and quality assurance systems to provide a stable and sustainable supply of high-quality pharmaceuticals.	▶ Page 25	Number of supply outages	Zero	3	3
				Number of product recalls	Zero	Zero	1
	4 Appropriate provision of pharmaceutical information	In order to maximize the value of pharmaceuticals, promote sales information provision activities based on high ethical standards and scientific evidence.	▶ Page 25	Number of Audit & Supervisory Committee meetings held	4 per year	4	4
				Evaluation of information provision activities by medical professionals (priority clinical departments)	Disclose results	Dermatology: Ranked 2nd Orthopedics: Ranked 5th[1]	Dermatology: Ranked 5th Orthopedics: Ranked 7th[2]
	5 Contribution to sustainable agriculture	Contribute to food safety and security and the development of sustainable agriculture in harmony with the environment by promoting the use of natural pesticides.	▶ Page 25	Authorized countries and regions for registration of polyoxins as pesticides	Disclose results	21 countries and regions	21 countries and regions
				Countries and regions where polyoxins have obtained certification as organic farming materials, and applicable crops	Disclose results	Countries and regions where certified: 3 (United States, Australia and New Zealand) Applicable crops: 24 in total	Countries and regions where certified: 3 (United States, Australia and New Zealand) Applicable crops: 25 in total
Material issues related to the business foundation / Joy for society	6 Promotion of environmental management	Promote measures for environmental issues such as climate change, environmental pollution and resource depletion to realize a sustainable society.	▶ Page 34–37	CO_2 emissions (Scope 1 and 2)	51% reduction by FY2030 compared with FY2016 (Net zero by 2050)	21,667 t–CO_2	21,408 t–CO_2
				Percentage of carbon-free electricity	80% or more by FY2030	5%	18%
				Amount of waste generated	Disclose results	661.6 t	977.4 t
				Recycling rate	90% or more	95.6%	97.3%
				Final landfill disposal rate	Less than 5%	2.8%	1.9%
				Amount of Class I designated chemical substances (PRTR) handled	Disclose results	23.3 t	23.4 t
				Amount of volatile organic compound (VOC) substances handled	Disclose results	139.6 t	151.4 t
				Total biological oxygen demand (BOD) of wastewater	Disclose results	3.55 t	3.33 t
				Water consumption	10% reduction by FY2030 compared with FY2016	2,808 thousand m^3	2,959 thousand m^3
	7 Strengthening corporate governance	Strengthen governance by listening to the expectations of stakeholders for conducting fair and transparent management.	▶ Page 42–46	Number of effectiveness evaluations of the Board of Directors	Once per year	Once	Once
				Corporate Governance Code compliance rate	100%	97.6%	98.8%
	8 Promotion of compliance	Establish and improve position as a company that is trusted by society by promoting business activities with high ethical standards.	▶ Page 38	Participation rate for compliance training (including harassment training)	100%	–	–
				Awareness of compliance hotline (whistleblowing system)	100%	–	–
				Number of serious compliance violations	Zero	Zero	Zero
	9 Strengthening relationships with stakeholders to achieve sustainability	Establish trust with stakeholders through direct communications to increase corporate value and realize a sustainable society.	▶ Page 48	Questionnaire surveys of suppliers	–	–	–
				Number of meetings with investors	Disclose results	IR meetings: 14 SR meetings: 5	IR meetings: 34 SR meetings: 9
	10 Respect for human rights	Contribute to the sustainable development of society through pursuit of KAKEN's "Three Joys" business philosophy and respect for human rights.	▶ Page 48	Training on human rights	–	–	Training focused on business and human rights: 1 session Other: Notification through compliance report
				• Conduct questionnaire surveys of suppliers • Communication with suppliers based on the human rights policy and questionnaires	–	–	–
				Make the corporate website multilingual	–	–	–
Joy for employees	11 Creation of fulfilling workplaces	Increase employee engagement by promoting a personnel system that provides job satisfaction and improving the working environment.	▶ Page 49–51	Percentage of annual paid holidays taken	70% (FY2025)	55.1%	58.6%
				Number of days and percentage of childcare leave taken	Women: 100% Men: 80% 9 or more (FY2025)	Women: 100% Men: 67.3% 7.5	Women: 100% Men: 83.3% 11.5
				Percentage of women in management positions	7% or higher (FY2025)	3.8%	4.1%
				Average raw score and positive response rate in engagement survey	Disclose results	–	Job satisfaction of individual employees Average raw score: 2.7 Positive response rate: 64.5% Sense of belonging to the company Average raw score: 2.7 Positive response rate: 66.7%[3]
	12 Strengthening development of human resources	Develop professionals who can pursue changes and tackle challenges through personal development and reskilling.	▶ Page 52–53	Total hours of training led by the Human Resources Department	Disclose results	2,978	4,167

1. From "Survey on what doctors seek in MRs: 2023 edition," *Monthly Mix*: Feb. 2023 issue, p. 33–34
2. From "Survey on what doctors seek in MRs: 2024 edition," *Monthly Mix*: Feb. 2024 issue, p. 37
3. Of the four response options, scores are calculated as follows: Strongly agree = 4 pts., Agree = 3 pts., Disagree = 2 pts., Strongly disagree = 1 pt.
   Average raw score = Average score of responses
   Positive response rate = Percentage of people whose responses were 3 or 4 points

Long-Term Business Plan 2031—KAKEN Vision for Transformation— Progress and Achievements

Due to the aging of Japanese society and tighter public finances for medical care, the prescription pharmaceutical industry's business environment is expected to change dramatically. To respond to these anticipated changes, in 2022 KAKEN created a vision for the 10 years to 2031 based on its long-term issues and set out the "3Xs" ("Three Transformations") as a strategy for achieving the vision.

Industry Environment

External Environment	✓ Aging of society makes longer healthy life expectancy even more important ✓ Increased importance of ESG/SDGs
Market Forecast	✓ **[Japan]** Shrinking market due to drug price revisions, decreasing population and penetration of generics ✓ **[Global]** Growth in specialty areas and emerging economies
Shifts in Healthcare	✓ The focus of medical care is broadening from diagnosis and treatment to include prophylaxis and prognosis ✓ More customized medical care for each patient or subpopulation through the active use of genetic information and other healthcare data
Trends in In-House Drug Discovery	✓ From lifestyle diseases to unmet medical needs ✓ From small molecules to biopharmaceuticals and regenerative medicine ✓ Increased difficulty and cost in development

3Xs Strategy for Achieving the Vision

2031 VISION

- **A company that contributes to longer healthy life expectancy by developing and supplying innovative new drugs in a speedy manner**
- **A research-based pharmaceutical company with a global presence, primarily in the areas of dermatology and orthopedics**

1st X R&D Transformation For details, see page 22

2nd X Overseas Expansion Transformation For details, see page 23

3rd X Management Base Transformation For details, see page 24

Strategy for Achieving the Vision

Vision
Continuously launch innovative, world-class drugs in our three priority fields of drug discovery

Vision
Increase the overseas sales ratio and consolidate our position as an R&D-driven company with mainstay products in the areas of dermatology and orthopedics

Vision
Increase corporate value by establishing a strong organizational base that can flexibly respond to changes and by improving operational efficiency

KPIs and Targets

	FY2023	FY2026	FY2031
Net Sales	¥72.0 billion	¥80.0 billion	¥100.0 billion
Operating Profit	¥9.5 billion	¥18.0 billion	¥28.5 billion
ROE	5.7%	8% or higher	10% or higher
Overseas Sales Ratio*	9.0%	10% or higher	30% or higher

* Total for pharmaceuticals and crop protection products

1st X R&D Transformation

2031 Targets	Progress	Issues	Future Initiatives
1 Improve Launch Probability			
• Shorten the period from drug discovery to NDA by two-thirds • Triple the frequency of product launches from in-house drug discovery	• Implemented AI drug discovery • Started collaboration with drug discovery partner • Established and implemented minimal non-clinical package plan • Number of research projects as of May 2024: 10	• Further shortening of the R&D period • Improvement of the success rate at each stage • Early achievement and improvement of efficiency of proof of concept (PoC)* (including for early-stage clinical trials overseas)	• Innovate and streamline the R&D process • Appropriately manage projects (visualization of resources, etc.) • Achieve PoC more efficiently (using simplified formulations and translational research) • Improve the success rate through collaboration with outside partners • Create clinical trial plans using real-world data (RWD)
2 Expand Pipeline			
• Six or more projects under development in-house in Phase I or later stage at all times (including in-licensed pre-PoC projects) • In-license (or enter sales alliances for) at least one late-stage development project every year	• Stepped up search for in-licensing candidates (including use of a fund) • Promoted in-licensing evaluation based on refined procedures and systems • Advanced development of in-licensed drugs • Number of projects in clinical development stage as of August 2024: 7	• Creation of a pipeline for continuous launches • Further enhancement of R&D projects (continuous acquisition of development projects)	• Identify and evaluate in-licensing candidates, including pre-PoC products • Conduct in-licensing and acquisition of rights taking overseas needs into account • Utilize external resources effectively • Conduct evaluations using clinical trial database • Expand range of indications for existing projects
3 Address New Needs and Overseas Expansion			
• Promote drug discovery on our original targets • Promote in-house global development	• Using bioinformatics to identify original targets in drug discovery • Considering using omics analysis information from public databases • Began clinical trials of KP-001 in the United States	• Identification of potential unmet medical needs and creation of solutions • Promotion of overseas development led by KAKEN	• Utilize medical big data in drug discovery • Accumulate knowledge from overseas projects • Use global contract research organizations (CROs), vendors and consultants to handle diverse clinical trials • Establish a supply structure for investigational drugs for overseas clinical trials
4 Take on Challenges in New Fields			
• Develop and launch regenerative medicine products • Develop and launch digital health products	• Started collaboration in exosome drug discovery • Discussing potential collaboration with several companies that have R&D projects in new modalities such as cell therapy, nucleic acid, peptides, and digital therapeutics.	• Identifying patient needs and providing solutions (expanding range of treatment options for patients) • Early clinical development of projects in which we have started collaboration	• Support preparation to start clinical development of exosomes • Begin collaboration and co-development with companies that are conducting research and development of other new modalities (including digital therapeutics) • Build our own development system for regenerative medicine products and medical devices

* An early-stage clinical trial in drug development aimed at demonstrating the safety and efficacy potential of a new drug candidate in humans

2nd X Overseas Expansion Transformation

2031 Targets	Progress	Issues	Future Initiatives
1 Expand Global Products			
• Expand the regions where existing products are launched overseas • For new global products, formulate overseas expansion strategies by product and region, and begin implementation • Improve brand power by launching new products (obtain global rights when in-licensing products) • Have three to five global products at all times	• Clenafin: Manufacturing and marketing approval application filed in Germany and Italy • Ecclock: Manufacturing and marketing approval application filed in South Korea • NM26-2198: Changed the monetization scheme through transfer to another company • Began identifying issues for overseas expansion for each product • Continued to explore opportunities • Began overseas development of KP-001, following Clenafin and Ecclock	• Understand healthcare needs for existing global products out-licensed in each region, including cases where sales occur in the free pricing market not covered by insurance • Formulate a global marketing strategy for maximizing the value of products, assuming differences in healthcare systems, healthcare needs and launch timing in different countries and regions • Obtain rights in Asia with an eye to out-licensing in several countries • Further increase resources for exploring in-licensing opportunities for global products	• Clenafin: Consider out-licensing in the Middle East • Ecclock: Consider out-licensing in China • Begin preliminary study to prepare for market access and business expansion in the United States • Increase lineup of products out-licensed in multiple countries to enhance presence • Step up in-licensing activities by broadening the scope of rights to include Asia • Increase exploration of opportunities for potential global products
2 Establish Our Own Overseas Development Capabilities			
• Establish our own organization/system for conducting clinical development from Japan using global CROs (including co-development) • Establish an organization/systems that can accommodate the regulatory requirements of each country's pharmaceutical authorities	• Filed an IND application in the United States and conducting Phase I clinical trial (clinical DDI) using a global CRO, assuming the U.S. rollout of KP-001 • Utilizing advisors to consult with the U.S. Food and Drug Administration (FDA) regarding KP-001 • Installed new equipment and completed repair work in the Shizuoka Factory for manufacturing investigational drugs for overseas markets	• Communication with U.S. CRO • Implementation of related overseas measures for each product, identification of issues through hands-on operations, and development of plans	• Continue to plan for U.S. rollout of KP-001 (Orphan Drug Designation Application, Phase I trials, meetings with the FDA, preparations for Phase III trials) • Use global CROs and system vendors to build a system capable of handling diverse clinical trials
3 Establish Global Manufacturing and Commercialization Structure			
• Establish a manufacturing system for global products • Consider establishing our own overseas sales and marketing operations	• Manufacturing of KP-001 investigational drug: Manufacturing commercial products for both the domestic and U.S. markets on the same production line • Exploring ways to acquire our own marketing and sales base for KP-001 in the United States	• Preparing for commercial production of KP-001 (Japan, Americas, Europe) • Choosing the best means of acquiring a U.S. marketing and sales base for KP-001, taking into account maximization of the value of the product, synergy with KAKEN, finances, governance and successful post-merger integration	• Consider the establishment of a commercial production system for each project • Establish our own U.S. marketing and sales base

3rd X Management Base Transformation

2031 Targets	Progress	Issues	Future Initiatives
Human Resource Strategy			
1) Develop talent who take on challenges as professionals and pursue transformation 2) Increase employee engagement by establishing an optimal human resource management system and working environment	• Enhanced training programs (launched upskilling training for managers and 6th year training) • Introduced online study service (encouraging self-directed learning and improving DX skills Companywide) • Proactively promoted talented individuals • Advanced diverse work styles (establishing and expanding the work-from-home system, encouraged eligible male employees to take childcare leave) • Promoted health and productivity management (recognized as a 2024 Certified Health and Productivity Management Outstanding Organization) • Announced implementation and results of the engagement survey	• Personal development and reskilling of employees (enhancing development of global-minded talent) • Support for self-development • Increasing motivation through accurate performance evaluations and appropriate talent placement based on aptitude • Diversity and inclusion (promotion of women's empowerment) • Promotion of work-life balance (increasing the percentage of annual paid leave taken) • Increasing engagement	• Reinforce the training framework • Establish mechanisms that encourage employees to take on challenges • Promote transformation in the personnel and work style systems • Promote diversity management • Monitor and increase engagement levels
DX Strategy			
1) Optimize research and development and the value chain 2) Foster a corporate culture of continual transformation using data and digital technologies	• Implemented digitalization measures following the DX roadmap for each department • Insourced system development as part of the digital transformation of various business processes • Developing a digital workplace as a common Companywide platform • Enhanced the DX implementation framework (acquisition of DX certification, etc.)	• Development of an information-sharing platform and mechanism for creating added value and synergy in inter-departmental collaboration • Accumulation of transformation experience and promotion of a transformation mindset Companywide	• Study and establish digital IT governance and a data integration platform (data lake) • Enhance training programs while developing DX talent through the accumulation of business process transformation projects and experience
Production Strategy			
1) Maximize product value from a patient-first perspective 2) Establish a manufacturing system for stable and continuous supply of high-quality pharmaceuticals	• Improved containers for Ecclock and Clenafin to increase convenience • Decided to establish a manufacturing facility for fermented pesticide active ingredients • Upgraded the cost management system	• Increase in manufacturing costs due to high prices for bulk drugs, raw materials, etc. • Modifying product strategies in response to external factors such as systemic changes, and ascertaining the best timing for renewal of aging facilities	• Make well-timed capital investments and formulation improvements in line with product strategies • Increase reliability of data through linkage of manufacturing-related management systems • Introduce a continuous production method for new products • Utilize new cost management system to visualize and lower costs

1st X R&D Transformationn

Message from the Director in Charge of the R&D Division

Mitsuru Watanuki
Director
Chief Officer of R&D Division

Our Goal is to Continuously Create Innovative Drugs That Fill Unmet Medical Needs.

We are aware that the time, cost and success rate for new drug development are major issues. To achieve the targets of Long-Term Business Plan 2031, we are innovating the R&D process, including the use of an AI drug discovery engine and collaboration with drug discovery partners, in an effort to maximize our in-house drug discovery capabilities while bringing in outside knowledge and technologies. We believe that the intellectual property rights transfer and commercial option agreement reached in May 2024 for NM26, which we had been jointly developing with Numab Therapeutics AG, is the result of working collaboratively, combining our in-house drug discovery capabilities with those of outside companies that have outstanding technologies. In addition, we are also focusing on in-licensing products for development to build up our portfolio, and currently have seven projects under development. We will continue to advance drug development so that we can steadily launch new drugs that help improve patients' quality of life and extend healthy life expectancy.

Progress of Priority Measures

We are focusing on searching for and evaluating in-licensing candidates to expand our development pipeline while streamlining the drug development process in ways such as using AI in drug discovery and collaborating with Axcelead Drug Discovery Partners. To advance our own global development, we began clinical trials for KP-001 in the United States. Additionally, we have started collaboration with CellSource Co., Ltd. in the new field of exosome drug discovery.

Projects under Development

To expand the development pipeline, along with our in-house drug discovery we are working to further joint research and co-development, in-licensing of development projects and products, and M&A. The most notable progress we made in products under development was the start of U.S. clinical trials for KP-001, a treatment for refractory vascular malformations. We transferred the intellectual property rights for NM26-2198, a treatment for atopic dermatitis, to The Janssen Pharmaceutical Companies of Johnson & Johnson (J&J), so it will be removed from projects under development, but we have retained the option to negotiate a commercial agreement for all indications approved in Japan. A phase I clinical trial of primary biliary cholangitis treatment seladelpar (KC-8025) has been completed in Japan and preparations for the next stage are under way. For BBI-4000, which we had been developing as an additional indication of Ecclock for primary palmoplantar hyperhidrosis, development was terminated.

Projects under Development (As of August 2024)

Development Code	Indication	Development Stage*	Remarks
		Phase I / Phase II / Phase III / Application	
KAR	Head lice	Phase III	In-licensed from Arbor Pharmaceuticals, LLC Product name in the United States: Sklice®
KP-001	Refractory vascular malformations	Phase III	Development project transferred through succession from ARTHAM Therapeutics, Inc.
KP-483	Solid tumors (immuno oncology)	Phase I	Product discovered in-house
KP-910	Peripheral neuropathic pain	Phase I	Product discovered in-house
Seladelpar (KC-8025)	Primary biliary cholangitis	Phase I	In-licensed from CymaBay Therapeutics, Inc.
Tildacerfont	Congenital adrenal hyperplasia	Phase I	In-licensed from Spruce Biosciences, Inc.
KP-001 (U.S.)	Refractory vascular malformations	Phase I	Development project transferred through succession from ARTHAM Therapeutics, Inc.

* The development stage includes the clinical trial preparation period.

Other Projects

Development Code	Development Stage	Company Conducting Development	Planned Indication
	Phase I / Phase II / Phase III / Application		
NM26	Phase I	J&J	Atopic dermatitis, etc.

FOCUS

Start of U.S. Development of KP-001

With KP-001 in Phase III clinical trials in Japan, we began Phase I clinical trials in the United States. Refractory vascular malformations, for which there are no effective drug treatments, are rare conditions with very high unmet medical need globally. Conducting our own overseas clinical trials is an important initiative for KAKEN's global expansion. Everyone at the Company will work together to develop innovative drugs for patients around the world.

Feasibility Study Agreement for Creation of Exosome Drugs

KAKEN has entered a feasibility study agreement with CellSource Co., Ltd. for the development of exosome drugs. Exosomes, which are vesicles released from cells, have various pharmacological actions including anti-inflammatory action and tissue regeneration capacity, making them promising for clinical use. We are cooperating with CellSource to quickly move exosomes into clinical development.

Comment from the Project Leader

Intellectual Property Rights Transfer and Commercial Option Agreement for NM26-2198

Noriko Shiraishi
R&D Planning & Project Management Department

Atopic dermatitis is an inflammatory skin disease marked by strong itching, and is known as a disease with significant social impact. Based on the idea of simultaneously suppressing inflammation and itching, we discovered NM26-2198, a first-in-class bispecific antibody, through joint research with Numab Therapeutics AG. In May 2024, we entered into an agreement with J&J affiliate Cilag GmbH International for this drug, which is currently in Phase I clinical trials overseas, and transferred the intellectual property rights for the drug to J&J. In this way, we believe global development will progress, and we are confident that with this product we can bring smiles to atopic dermatitis patients worldwide and those who support them as quickly as possible. KAKEN will continue to take on challenges to create world-class innovative drugs.

2nd X Overseas Expansion Transformation

Overseas Expansion of Clenafin and Ecclock

To further expand existing products overseas, our alliance partner in Europe filed an application for manufacturing and marketing approval of Clenafin. It is currently under review by regulatory authorities. In China, we are conducting a Phase III clinical trial for the drug in cooperation with our local partner. In addition, we signed an out-licensing agreement for Ecclock in South Korea, and submitted a regulatory filing for manufacturing and marketing approval in cooperation with the licensee. We also continue to explore out-licensing in other major countries in Asia.

Overseas Out-Licensing

Product	Development Stage	Licensee	Planned Indication
	Phase I / Phase II / Phase III / Application		
Clenafin (Europe)	Application for approval filed	Almirall S.A.	Onychomycosis
Clenafin (China)	Phase III	AIM	Onychomycosis
Ecclock (South Korea)	Application for approval filed	Dong-Wha Pharm Co., Ltd.	Primary axillary hyperhidrosis

Progress of Overseas Expansion by Product

3rd X Management Base Transformation

Human Resource Strategy

We aim to make KAKEN a great place to work for all employees by shaping a corporate culture that creates opportunities to take on new challenges and establishing an internal environment for professional development. In the working environment, we are establishing systems that support diverse work styles and promoting health and productivity management to maintain and improve the health of employees. In human resource development, we will actively promote individuals who demonstrate advanced professional skills and assign personnel to jobs according to aptitude. Moreover, by expanding training programs and introducing online learning tools, we are enhancing opportunities for personal development and reskilling.

DX Strategy

Our basic policy for digital transformation (DX) is to optimize research and development and the value chain, and foster a corporate culture of continual transformation. We have formulated a Companywide DX roadmap centering on research and development, sales and marketing, and production, and have executed measures using data and digital technologies while ascertaining transformative effects and overall consistency. At the same time, we are transforming business processes by insourcing system development using RPA and low-code development tools. We acquired DX certification from the Ministry of Economy, Trade and Industry in March 2024. Looking ahead, we will focus on initiatives in line with the certification criteria, such as human resource development and digital security measures.

Digital Transformation Certification

Production Strategy

The basic policy of our production strategy is to maximize product value from a patient-first perspective and build a production system that ensures a stable and continuous supply of high-quality pharmaceuticals. As one initiative for maximizing product value, we improved the bottle for onychomycosis treatment Clenafin by making it thicker than the previous container in order to inhibit overapplication due to heat conduction. To build a stronger production system, we have also decided to construct a manufacturing facility for fermented pesticide active ingredients to meet future expansion of demand in the crop protection business.

Crop Protection Business

Stepping up the overseas expansion of polyoxin fungicides derived from fermentation of natural raw materials, and promoting their use in Japan is the pillar of the long-term business plan of our crop protection business. In Europe, we filed an application in April 2024 for an import tolerance—the maximum level of residue permitted on imported crops—to be set for polyoxins. We are also performing various tests with the aim of obtaining Plant Protection Product authorization in Europe.

FOCUS

Construction of a New Manufacturing Facility for Fermented Pesticide Active Ingredients

Polyoxin fermented fungicides are non-chemically synthesized crop protection products, and as such, demand is expected to expand, backed by the recent global trend to reduce use of chemically synthesized crop protection products. At KAKEN, we intend to expand our markets, mainly outside Japan, by having import tolerance set for polyoxin residue levels on imported crops in Europe (expected in 2026), and acquiring Plant Protect Product authorization in countries where polyoxins are not yet authorized. To meet future growth in demand, we decided to build a manufacturing facility for fermented pesticide active ingredients at the Shizuoka Site, in addition to our current production facilities. We are also planning to build a new supply system by the end of 2028, and will contribute to global food production by handling exports to Europe, the United States and other regions where growth in demand is expected.

Stable and Continuous Supply of Pharmaceuticals

Stable Supply of Pharmaceuticals

We are taking various measures to ensure the stable supply of pharmaceuticals. In sourcing pharmaceutical raw materials, we are increasing supply stability by diversifying suppliers to spread risk. In manufacturing processes, we have introduced manufacturing management, quality management and document management systems, and strive to maintain and enhance product quality by strictly managing bulk drug manufacturing, drug manufacturing and quality testing. We also optimize production plans based on demand forecasts and market trends, and secure appropriate stockpiles of raw materials and products to ensure that a stable supply of medicines is maintained even during emergencies. In addition, we are strengthening partnerships with suppliers in and outside Japan, and establishing a framework for information sharing and cooperation.

Pharmaceutical Quality Assurance

KAKEN believes that product quality assurance is absolutely essential for the creation of a quality management system that enables its Head Office (a marketing authorization holder of pharmaceuticals) and its factory (a manufacturer of pharmaceuticals) to fulfill their respective responsibilities and cooperate closely.

At our factory, we implement suitable manufacturing and quality control, verifying conformance to required standards and adequacy of each manufacturing process and facility. We are also fostering a culture of quality by educating workers and instilling the corporate philosophy. Moreover, we are further reinforcing the quality assurance system through the use of computerized systems that strengthen checking of manufacturing and quality management systems, among others.

The Quality Assurance Department of the Head Office evaluates and confirms these activities, which we believe results in a more robust quality assurance system. In addition to the efforts of departments in charge of quality, the R&D Division, Production Division and Marketing & Sales Division cooperate to guarantee the highest quality at all stages of a product's lifecycle.

We have established a Quality Assurance Policy to achieve a stable supply of high-quality pharmaceuticals. Please refer to our website for details.

Quality Assurance Policy:
https://www.kaken.co.jp/english/sustainability/social/#anc2

Promoting Proper Usage of Pharmaceuticals

In order to ensure proper usage of prescription pharmaceuticals and medical devices, providing appropriate sales information based on high ethical standards and scientific evidence is essential. To that end, we have established internal regulations and standard operating procedures, and organize systems that enable such activities. In addition, we have established the Drug Information & Marketing Supervision Department to handle supervision and guidance, including monitoring of information provision activities and screening of materials used in them. This department educates and provides guidance to MRs and other employees about information provision activities.

In providing and collecting information pertaining to the proper usage of our pharmaceuticals and medical devices, we primarily focus on MR activities, while also providing and collecting such information through the Pharmaceuticals Information Service Office, a consultation desk for pharmaceutical-related matters, and via our website. The office promptly and accurately provides information on proper usage of pharmaceuticals in response to inquiries from medical professionals and patients, and reports their valuable opinions and suggestions on our products and other matters to relevant departments in the Company, thereby contributing to improving pharmaceutical formulations and enhancing product information.

For customers' convenience, we provide a contact form on our website for inquiries.

Growth Strategy

Pharmaceuticals and Medical Devices

Business Overview

KAKEN's pharmaceutical business centers on the development of innovative drugs that help to improve patients' quality of life, including drugs targeting diseases that still have no adequate treatments and drugs with novel dosage forms, primarily in the areas of dermatology and orthopedics. We have launched onychomycosis treatment Clenafin, primary axillary hyperhidrosis treatment Ecclock, and wound-healing agent Fiblast in the area of dermatology, and anti-osteoarthritis agent Artz and lumbar disc herniation treatment Hernicore in the area of orthopedics. These products are widely used to treat their target diseases. NexoBrid, a drug for burn eschar removal launched in 2023, provides a new therapeutic option for burn treatment. In the medical devices category, we supply Seprafilm, an adhesion barrier used primarily in surgery and in gynecology to reduce complications from post-operative adhesions.

Main Pharmaceuticals and Medical Devices

Product	Therapeutic Area	Efficacy/Indication	Year Launched	Net Sales (FY2023; Billions of yen)
Clenafin	Onychomycosis treatment	・Onychomycosis	2014	17.1
Artz	Anti-osteoarthritis agent	・Knee osteoarthritis ・Shoulder periarthritis, etc.	1987	18.0
Seprafilm	Post-operative adhesion barrier	・Reduction of post-operative adhesion	1998	7.0
Fiblast	Wound-healing agent	・Bedsores ・Skin ulcers (burns and leg ulcers)	2001	2.6
Ecclock	Primary axillary hyperhidrosis treatment	・Primary axillary hyperhidrosis	2020	1.8
Regroth	Periodontal regenerative agent	・Alveolar bone loss due to periodontitis	2016	0.9
Hernicore	Lumbar disc herniation treatment	・Lumbar disc hernia (subligamentous extrusion)	2018	0.4

FOCUS

Assumption of Rights to File for Manufacturing and Marketing Approval of Two Products from Eisai

In March 2024, KAKEN entered into an agreement to assume the rights to file for manufacturing and marketing approvals in Japan for two products manufactured and marketed by Eisai Co., Ltd.—Merislon, a vertigo and equilibrium disturbance treatment, and Myonal, a muscle relaxant. These two products are used by a wide range of patients to help improve their quality of life, and are aligned with our corporate philosophy. Through these products, we will contribute to the extension of healthy life expectancy for even more patients and to solutions for women's health issues.

Growth Strategy of Marketing & Sales Division

We Will Provide Value That Can Contribute to Community Healthcare While Staying Close to Patients.

Makoto Nakazawa
General Manager of Marketing & Sales Department

Our products have unique characteristics and have become leaders in the treatment of their respective disease areas, mainly dermatology and orthopedics. Because of their characteristics, our products offer value that can contribute to the extension of healthy life expectancy, a growing challenge as Japan's population ages. However, there is another challenge requiring attention. There are still many untreated patients with the diseases targeted by our products. To improve access to care, we listen to patients and raise awareness among medical professionals, shaping an environment in which patients can face their treatment with confidence. As one effort to improve access to care, we are working to raise disease awareness from different angles in cooperation with medical institutions as well as academic societies, local governments, patient organizations, companies and mass media. To increase the value of our products, we believe it is not only important to provide timely information on proper usage that aligns with the needs of medical professionals and to collect safety information, but also to gather information on needs at the frontlines of medicine to make our products even better. We strive to cultivate human resources who can communicate on the same wavelength as medical professionals, and are stepping up our information provision efforts using an omnichannel strategy that combines real-world and digital approaches. Through the value we provide via our products, proper usage information, disease awareness programs, and other activities, we will strengthen our presence in dermatology and orthopedics, as we strive to bring smiles to patients as an essential company in community healthcare.

Contributing to Community Healthcare

We are contributing to the extension of healthy life expectancy through the pharmaceuticals we provide, and to improving the quality of life of patients and their families.

In recent years, progress has been made in establishing an integrated community care system in Japan. KAKEN is participating in activities with local governments and medical professionals to contribute to community healthcare as a pharmaceutical company.

Comment from a Staff Member

Michiyo Okawa
Marketing & Sales Department

Conducting Community-oriented Initiatives in the Era of 100-Year Lifespans

With the approach of the super-aged society in Japan in 2025, we are conducting a wide range of educational activities tailored to the needs of local communities to bring about the "Joy for patients" and "Joy for society" in our business philosophy.

A disease awareness program for onychomycosis targeting care managers, who play a part in coordinating medical care and nursing care, not only spread information through the media, but also led to dissemination through multiple channels, including submission of papers by medical professionals. In addition, we provide information unique to pharmaceutical companies to various professions working at visiting nursing stations, pharmacies and in other occupations related to community healthcare, while listening closely to the needs on the frontlines.

In May 2024, we signed a partnership agreement for health maintenance and improvement with the city of Yamagata in Yamagata Prefecture, our first such cooperative effort with a local government. Under this partnership, we will continue to pursue initiatives aimed at extending the healthy life expectancy of people in the area, including jointly conducting foot health seminars for local residents.

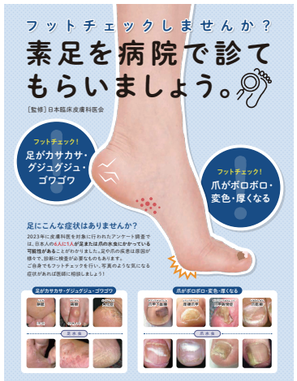
We remain committed to contributing to community healthcare through the provision of pharmaceuticals and related information so that local residents can enjoy lives full of smiles, with healthy feet.

Disease Awareness Initiatives

Most of our core products hold the top share in their respective disease areas. However, there are still many undiagnosed patients. Therefore, we are focusing efforts on disease awareness activities aimed at prevention and early detection, and shaping an environment in which patients can receive appropriate treatment. Specific initiatives include collaborating with local governments, medical institutions, academic societies, and patient organizations to provide information through various channels, such as public seminars, smartphone advertising, newspapers and other print and broadcast media, and social media.

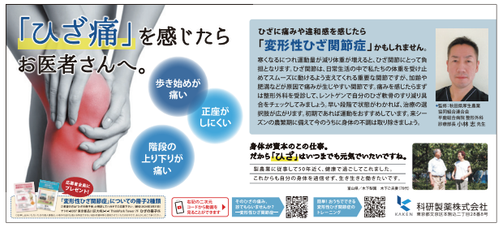
Sponsorship of online events

Use of smartphone apps



Production of disease awareness posters

Publication of disease informational pamphlets



Use of newspaper advertisements

Comment from a Staff Member

Senichiro Watanabe
Marketing & Sales Department

Raising Disease Awareness to Create a Healthy Society Full of Smiles

KAKEN is working to raise awareness of diseases that its products target, with the aim of bringing about a healthy society full of smiles for as many people as possible. In our disease awareness activities, we will combine real-world and digital strategies to provide information through a variety of channels, to contribute to society at large. In the area of dermatology in particular, we cooperated with the Japan Organization of Clinical Dermatologists in Foot Check 2023, the first survey in 16 years on the prevalence and latent morbidity of tinea pedis and onychomycosis. Together with this organization, we created posters to raise awareness about maintaining foot health.

KAKEN will continue striving to raise awareness more effectively in response to technological progress and societal changes in an effort to create a healthy society full of smiles for people of all ages.

Crop Protection and Animal Health Products Business

Business Overview

KAKEN's crop protection and animal health business contributes to sustainable food production by supplying eco-friendly crop protection products, feed additives and veterinary drugs to farmers and other food producers. Polyoxin fungicides for agricultural use are obtained by microbial fermentation of naturally derived raw materials, and are now sold in 21 countries and regions as an eco-friendly crop protection product that is safe for humans and animals. Polyoxins have been certified as organic materials that can be used in organic crop cultivation in the United States, New Zealand and Australia, and we expect their use to spread further. Pentoxazone paddy rice herbicide has been used by farmers for more than 20 years as an important weed-control agent for use in early-season paddy rice cultivation. The herbicide Metamifop has been increasingly used since 2018 to control weeds of the Gramineae family, including barnyard grass of high leaf age, and as a mid- to late-season weed control agent. In feed additives and veterinary drugs, we support livestock farmers through sales of Salinomycin, an anticoccidial feed additive for chickens, and Uroston, a drug for cattle.

Growth Strategy of Crop Protection & Animal Health Products Division

Contributing to Sustainable Food Production by Providing Crop Protection Products That Are in Harmony with the Environment

Demand for food continues to rise with the growing global population, making safe, sustainable food production a challenge for all of humanity. In this context, it is anticipated that the role of crop protection products will go beyond protection and focus more on how they can contribute to sustainable agriculture. The Crop Protection & Animal Health Products Division bases its growth strategy on contributing to sustainable food production through the development, manufacture and sale of crop protection products that are in harmony with nature, with fermentation technology at the core. Our key products, fungicide polyoxins, which are fermented pesticides, have been used by farmers in 21 countries and regions around the world for more than 50 years, and have received certification as organic materials that can be used in organic farming in the United States, New Zealand and Australia. We are pushing for their further expansion as a crop protection product that can cater to the growing trend toward increased cultivation of organic crops. In April 2024, we filed an application to have an import tolerance level set for polyoxin residue levels on imported crops in Europe. We will actively work to acquire Plant Protection Product authorization in as yet unauthorized countries in Europe and elsewhere, expanding into overseas markets to secure sustainable growth.

Takuya Ueda
General Manager of Crop Protection & Animal Health Products Division

Real Estate

Business Overview

When the Company was established in 1948, it assumed ownership of land in Bunkyo ward, Tokyo from RIKEN, the Institute of Physical and Chemical Research, and set up its Head Office, factory and research laboratory. In 1989, the Honkomagome Improvement Plan was initiated to redevelop this property as a multi-purpose complex consisting of offices and residential and commercial facilities. Bunkyo Green Court was completed in 1998, and KAKEN conducts business activities from its Head Office located in the office building. The Real Estate segment's main revenue is rental income from Bunkyo Green Court. This segment complements KAKEN's core pharmaceuticals segment as a stable source of revenue.

Message from the Director in Charge of the Corporate Planning & Coordination Department

We will conduct strategic investments for sustainable growth.

Masashi Suzudo Managing Director

Analysis and Evaluation of KAKEN's Current Situation

In May 2024, KAKEN announced its "Actions to Implement Management That is Conscious of Cost of Capital and Stock Price" in response to a request from the Tokyo Stock Exchange. Our price book-value ratio (PBR) at the end of March 2024 was below 1.0 times, so we set about analyzing the causes based on changes in return on equity (ROE) and the price earnings ratio (PER) over the past ten years. ROE peaked in 2015 immediately after the launch of Clenafin, but has been on a downward trend since then. We believe that the causes lie in a decline in the net profit margin due to an absence of new drugs launches following the launch of Clenafin, and a decline in total asset turnover resulting from failure to spend cash effectively. PER has generally fluctuated between 10 and 15 times, which we believe is because our efforts to expand the number of projects under development and our information disclosure have not fostered sufficient anticipation for upcoming new drug launches.

Policy on Measures for Improvement

We have set an ROE target based on this analysis, and are working to resolve issues. To increase ROE, we need to improve profit margins and use cash more effectively. The key is execution of Long-Term Business Plan 2031. In formulating this plan, which we announced in May 2022, we recognized that our efforts to increase the number of projects under development had been limited because we failed to allocate cash to reinvestment during the payback period for in-house products. To resolve that issue, we established targets for research and development and for cash allocation during the period of the plan. We will forge ahead with aggressive investment in research and development, and launch high-margin products to achieve ROE of 10% or higher in FY2031. We will also further improve PER by lowering the cost of capital through enhanced disclosure, in addition to increasing the number of projects under development through execution of Long-Term Business Plan 2031.

- **Work to achieve ROE of 10%, our performance target, by prioritizing allocation of cash to strategic investments and continuously launching innovative, world-class drugs.**
- **Aim to increase the number of projects under development and further reduce the cost of capital to increase PER**

Pursue medium- to long-term growth in corporate value

Cash Flow Allocation for Strategic Investment

As one of the management targets of Long-Term Business Plan 2031, we will deploy at least ¥200 billion for strategic investment over 10 years, and will prioritize allocation of cash to research and development to continuously launch innovative, world-class drugs. Our vision of cash flow allocation for strategic investment is to fund strategic investments primarily with cash on hand while maintaining financial discipline. We plan to invest ¥70 billion in research and development and ¥30 billion in M&A, in-licensing and other items by FY2026.

Understanding the importance of delivering profits to shareholders, we will strive to maintain dividends per share at the current level of ¥150 annually, barring any major changes in conditions, with a focus on providing continuous and stable dividends. Regarding cross-shareholdings, in May 2024 we established a policy of reducing these shareholdings by 30% compared with the end of March 2024 over the next five years.

Investment Targets		Investment Policy	Investment Amount
			By FY2031
R&D Expenses*	Pharmaceuticals	• Increase the number of projects under developments to increase net sales levels • Match the timing of the payback period for in-house products and reinvestment	¥120 billion
	Crop Protection Products	• Establish a system for achieving ¥10 billion in net sales by FY2031, led by polyoxins	
In-licensing, M&A, etc.	In-licensing and M&A	• Increase in-licensed projects by expanding target assets ⇒ Establish rare diseases as a new therapeutic area • Increase in-licensing opportunities through investment in funds	¥80 billion
	Overseas Expansion	• Establish our own marketing capabilities in the United States for KP-001 • Secure development projects that can be successfully expanded globally	

* Includes capital expenditures and DX investments

Major Initiatives and Results

KAKEN is taking steps for strategic investment mainly in research and development and in-licensing to achieve the targets of Long-Term Business Plan 2031. In research and development, we launched NexoBrid, a drug for burn eschar removal, toward meeting our target of launching eight products in 10 years. Our target for the number of projects under development is to have at least six in Phase I or later at any given time. We are currently exceeding that target with eight projects under development.

For in-licensing, compared with our target of in-licensing at least one product every year, we have in-licensed two projects in two years, and signed an agreement with Eisai Co., Ltd. to take over the manufacturing and marketing approval process for two of its products. Including these two products, our overall strategic investment during the past two years comprised a total of approximately ¥21.8 billion for research and development, and approximately ¥10.3 billion for in-licensing, as well as capital expenditures, DX investments, and others. In addition, we have decided to build a manufacturing facility for fermented pesticide active ingredients as a strategic investment in the crop protection business.

Investment Targets		Targets for FY2031	Milestones for FY2026	Results
R&D Expenses*	Pharmaceuticals	• Launch 8 new products over 10 years (maintain at least 6 projects under development in Phase I or later at any given time) • Shorten the period from drug discovery to filing of a new drug application (NDA) by two-thirds • Increase launch frequency of new products by 3 times	• 6 projects in Phase I or later • Try new processes in each project to advance timing of NDA • Start projects planned with new drug discovery methods and modalities	• Launched one new product (NexoBrid) • Increased the number of projects under development FY2022: 8 FY2023: 8
	Crop Protection Products	• Achieve ¥10 billion in net sales	• Net sales over ¥7 billion (incl. ¥3.5 billion from polyoxins) • Establish production platform for fermented pesticide active ingredients	• Overseas business: Progressing as planned • Strengthen production capacity: Decided on investment in new facility
In-licensing, M&A, etc.	In-licensing	• In-license 10 products over the 10 years of the plan (including 5 for overseas expansion)	• Secure at least 1 in-licensed product every year • Secure products that can be launched or contribute to sales by FY2026 ⇒ Preparation to cover the patent cliff of Clenafin	• In-licensed 2 projects in 2 years (Seladelpar, Tildacerfont) • Assumed the rights in 2 products for the manufacturing and marketing approval process • Progressing with in-licensing of products expected to launch by FY2026
	Overseas Expansion	• Consider establishing our own overseas marketing and sales operations	• Establish our own system for conducting clinical studies in the United States from Japan using global contract research organizations (CROs) • Prepare for in-house manufacturing of investigational drug and commercial product for KP-001 • Determine the possibility of opening of an office in the United States	• Development and regulatory affairs: Progressing as planned • Production: Progressing as planned • Own marketing and sales operations: Considering form for advancement, etc.

* Includes capital expenditures and DX investments

Sustainability Strategy

In a rapidly changing business environment, KAKEN has formulated a sustainability policy to speed up initiatives for realizing a sustainable society together with its stakeholders.

Based on this policy, we aim to enhance KAKEN's corporate value and to create a sustainable society.

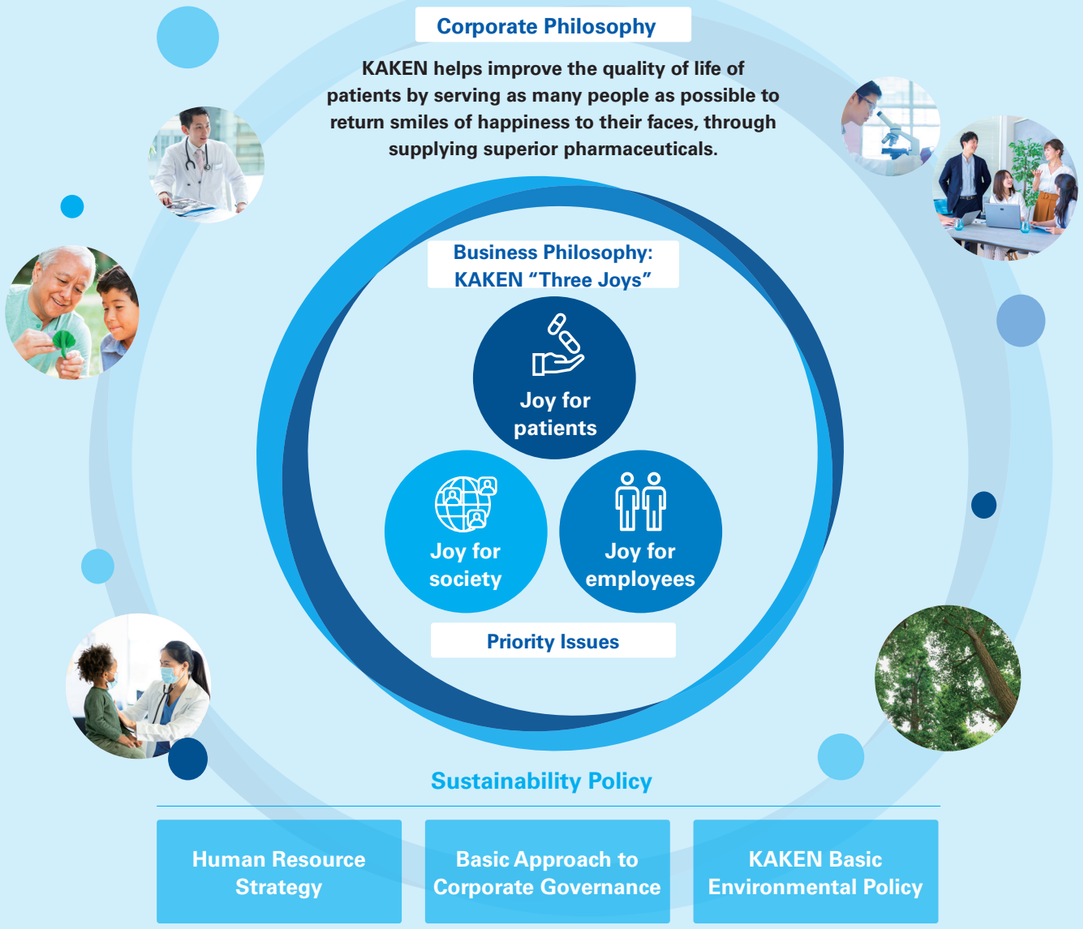
Sustainability Policy

KAKEN will work to achieve sustainable growth and contribute to the sustainable development of society by providing pharmaceutical products that address unmet medical needs and eco-friendly agrochemicals.

To accomplish these goals, KAKEN will pursue the "Three Joys" in its business philosophy to create many smiles together with its stakeholders.

Pursuit of the "Three Joys"

- **We will pursue "Joy for patients" by identifying needs on the frontlines of medicine and working to provide new treatment options from unique viewpoints.**
- **We will pursue "Joy for society" by practicing flexible and sustainable management that is also responsive to the needs of society through the supply of pharmaceutical products.**
- **We will pursue "Joy for employees" by ensuring our employees take pride in their work of bringing smiles to many people and creating new value.**



Sustainability Promotion Structure

The KAKEN Group is promoting sustainability management with the mission of delivering value to society and contributing to the achievement of a sustainable society by putting its corporate philosophy into practice. The Sustainability Committee, chaired by the Director in charge of the Corporate Planning & Coordination Department, has been established to advance that effort. The committee is made up of members from the Corporate Planning & Coordination Department, Legal Affairs & Intellectual Property Department, General Affairs Department, Human Resources Department, and Corporate Communications Department.

They identify and narrow down the list of material issues, deliberate and review concrete measures for addressing these issues, and report the results to the Board of Directors. The Board of Directors deliberates on and formalizes the list of material issues based on those identified by the Sustainability Committee, and supervises the progress of matters reported by the Sustainability Committee. In addition, Environmental, Human Rights, Governance and Human Capital subcommittees have been set up as subordinate organizations of the Sustainability Committee to conduct specialized reviews of material issues.

Sustainability Promotion Structure

		Roles
Supervise	Board of Directors	• Discuss and designate material issues • Supervise progress of matters reported by the Sustainability Committee • Approve policy revisions
Execute	Sustainability Committee Chair: Director in charge of Corporate Planning & Coordination Department Secretariat: Corporate Planning & Coordination Department Members: General Manager of Corporate Planning & Coordination Department, General Manager of Legal Affairs & Intellectual Property Department, General Manager of General Affairs Department, General Manager of Human Resources Department, General Manager of Corporate Communications Department, Manager of Corporate Planning Group 1 of Corporate Planning & Coordination Department, Manager of the Compliance Group of Legal Affairs & Intellectual Property Department, Manager of the Facility Management Group of General Affairs Department, Manager of the Human Resources Group of Human Resources Department	• Identify and narrow down material issues • Monitor progress of matters reported by subcommittees • Formulate policy revision proposals
	Environmental Subcommittee: Chair: General Manager of General Affairs Department Human Rights Subcommittee: Chair: General Manager of Legal Affairs & Intellectual Property Department Governance Subcommittee: Chair: General Manager of Corporate Planning & Coordination Department Human Capital Subcommittee: Chair: General Manager of Human Resources Department	• Plan concrete measures for addressing material issues and check their progress • Identify material issues that may require new initiatives in the future
	Companywide organizations, Group companies	• Execute and report on concrete measures

Activities

The KAKEN Group revised its material issues in April 2024. The Sustainability Committee identified social issues, taking into account the Company's business, business plans, and various frameworks (including GRI standards, SASB standards, S&P Global and ISO 26000), and ESG evaluation items (from FTSE, MSCI and others). These issues were then narrowed down on two axes—"Relevance to KAKEN's business" and "Impact on stakeholders." Based on this, it designated material issues in the Company's sustainability management. In addressing these material issues, the progress of the concrete measures reported by the subcommittees is being monitored and activity policies are being formulated. Our aim continues to be the sustainable growth of the Company based on the Sustainability Policy. At the same time, we will contribute to the sustainable development of society by carrying out specific initiatives for addressing material issues related to the environment (including climate change), human rights, governance, human capital and other subjects.

In FY2023, the Sustainability Committee meetings were held three times, and the results of the committee's discussions were put on the agenda of and reported to the Board of Directors. The main topics of discussion were as follows.

1 First Meeting (August 2023)

- Report on activities of the Sustainability Committee
- Deliberate on setting targets for purchasing carbon-free electricity

2 Second Meeting (December 2023)

- Deliberate on establishment of the Human Rights Policy and Sustainable Procurement Policy
- Deliberate on implementing internal carbon pricing and setting targets on water consumption reduction

3 Third Meeting (February 2024)

- Report on activities of the Sustainability Committee
- Deliberate on revision of of material issues

Environmental Management

Joy for society

KAKEN is taking measures to address climate change, environmental pollution, resource depletion, and other environmental issues to realize a sustainable society.

Measures/KPIs/FY2023 Results

Measures	KPIs	Targets	FY2023 Results
• Reduce Scope 1 and 2 emissions (introduction of energy conservation, renewable energy, generation of energy from new or renewable sources, etc.) • Promote energy-saving activities • Install energy-saving equipment and high-efficiency equipment • Introduce renewable energy (Menu options, PPA) • Introduce generation of energy from new or renewable sources (Solar, in-house power generation) • Offset using carbon credits and non-fossil certificates	CO_2 emissions (Scope 1 and 2)	51% reduction by FY2030 compared with FY2016 (Net zero by 2050)	21,408t-CO_2
• Gradual introduction of carbon-free electricity	Percentage of carbon-free electricity	At least 80% by FY2030	18%
• Reduce total amount of waste generated • Improve recycling rate and reduce final landfill disposal rate	Amount of waste generated	(Disclose results)	977.4 t
	Recycling rate	At least 90%	97.3%
	Final landfill disposal rate	5% or less	1.9%
• Reduce environmental burden • Change raw materials • Upgrade facilities • Improve manufacturing processes • Product design, etc.	Amount of Class I designated chemical substances (PRTR) handled	(Disclose results)	23.4 t
	Amount of volatile organic compound (VOC) substances handled	(Disclose results)	151.4 t
	Total BOD of wastewater	(Disclose results)	3.33 t
• Reduce water consumption through efficient use • Utilize recycled water • Optimize the amount of pumped groundwater	Water consumption	10% reduction by FY2030 compared with FY2016	2,959 thousand m^3

KAKEN Basic Environmental Philosophy

As a pharmaceutical company that endeavors to improve the quality of life of patients through the supply of superior pharmaceuticals, and based on the idea of "Joy for society," KAKEN shall recognize its social responsibility and work to protect, maintain and enhance the global environment in all aspects of its business activities.

KAKEN Basic Environmental Policy

Check our website for details

In line with its basic environmental philosophy, KAKEN shall take measures to address climate change and other environmental issues, and contribute to the realization of a sustainable, prosperous society.

1. Establish and maintain an environmental management system
2. Comply with environmental laws and regulations
3. Reduce environmental burden
4. Develop eco-friendly products and technologies
5. Cooperate with local communities
6. Raise environmental awareness

Materials Balance of Business Activities

Each and every employee at the Shizuoka Site and the Drug Research Center in Kyoto recognizes input and output that place burden on the environment during the course of business, ranging from research and development to production and office activities, and is working to reduce environmental pollution.

Chemical Substances (Substances subject to the PRTR system)

Acetonitrile	2.1 tons
Normal hexane	1.7 tons
Chloroform	1.7 tons
Zinc compounds	0.0 tons
Toluene	2.9 tons
Dichloromethane	13.3 tons

Energy

Electric power	25,463,564 kWh
LPG	3.7 tons
City gas	4,395,985 Nm^3

Water 2,959 thousand m^3

Office Paper 1,315 million sheets

Other Packaging Materials: Plastics, Paper

Raw Materials: Glucose, Yeast, etc.

INPUT → **Business Activities**: R&D activities / Production activities / Office activities → OUTPUT

Discharge into the Water System
Amount of wastewater 1,952 thousand m^3

Emissions into the Atmosphere
CO_2 18,780 t-CO_2
(Excludes 2,097 t-CO_2 from carbon-free electricity)

Waste
Amount of waste generated 977 tons
Amount of final disposal 18 tons

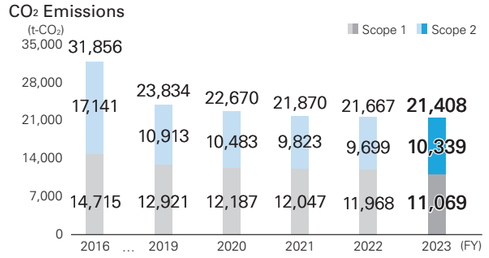
Reduction of CO_2 Emissions and Energy Saving

We participate in the Carbon Neutrality Action Plan that the Federation of Pharmaceutical Manufacturers' Associations of Japan (FPMAJ) helped to create, and agree with the FPMAJ's long-term vision of net zero CO_2 emissions in 2050 and a 46% reduction of CO_2 emissions by FY2030 compared with FY2013. In addition, the KAKEN Group is curbing CO_2 emissions to achieve a more ambitious in-house goal of a 51% reduction by FY2030 compared with FY2016 levels.

To achieve this goal, at the Shizuoka Site and the Drug Research Center in Kyoto, which account for more than 90% of our energy consumption, we are proactively installing high-efficiency equipment and conducting ongoing energy-saving activities. At the Head Office, we are replacing fluorescent lights with LED lights and optimizing air conditioner temperature settings to reduce electricity consumption. At the Drug Research Center in Kyoto, in addition to the aforementioned initiatives, we participate in the "Lights Down" campaign, turning off outdoor and other lighting on the 16th of each month.

To reduce emissions further, in 2023 we began purchasing carbon-free electricity at the Head Office and Shizuoka Site. We plan to gradually raise the proportion of carbon-free electricity toward a target of at least 80% of the electricity consumed by the Company by FY2030. We are also considering the introduction of solar power generation equipment.

CO_2 Emissions



Proper Management of Waste and Wastewater

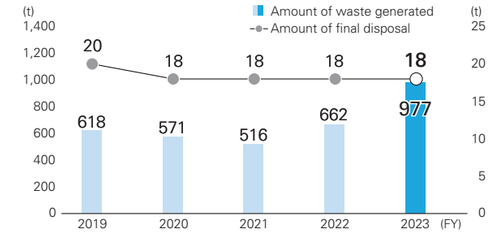
Resource depletion, waste disposal and other issues that impact the environment are closely related to corporate activities, and addressing them has become a challenge for society. To help realize a sustainable society, we have set KPIs for reducing the total amount of waste we generate, increasing our recycling rate (to 90% or higher), and reducing the final landfill disposal rate (to 5% or less).

In FY2023, the total amount of waste generated by the Shizuoka Site and the Drug Research Center in Kyoto was 977.4 tons. At the Shizuoka Site, 69.2% was sludge produced during the treatment of wastewater and residues from fermentation processes (animal and plant residues). The entire amount of sludge and residues generated was used as composting and related materials. We also worked to recycle other wastes and recovered 79 tons of valuable materials (accounting for 8.3% of total waste). At the Drug Research Center in Kyoto, we worked to reuse refurbished research equipment, and recovered 1.0 tons as valuable materials, or 3.7% of the total amount of waste generated.

As a result of these activities, the recycling rate reached 97.3% and the final amount of disposal in landfills was 18.3 tons (a final disposal rate of 1.9%). The total amount of waste generated increased compared with the previous fiscal year, but we met our KPI targets for the recycling rate and for the rate of final disposal in landfills. We will continue to expand activities with a focus on waste reduction and recycling.

For wastewater, the Shizuoka Site separates wastewater from production activities into organic and other wastewater. Organic wastewater undergoes treatment using activated sludge, after which it is mixed with other wastewater until the mixture is diluted to within domestic wastewater standards. It is subsequently discharged into rivers. When these wastewater standards were established in 1976, the site entered into an agreement with Fujieda City, Shizuoka Prefecture, regarding pollution prevention. At the Drug Research Center in Kyoto, organic wastewater and wastewater from other systems undergo activated sludge treatment after being collected in combined treatment tanks. When discharging such wastewater, the Drug Research Center adheres to its own internal standards, which are stricter than those of the city of Kyoto, and periodically reports the results of its measurements.

Amount of Waste Generated/Amount of Final Disposal



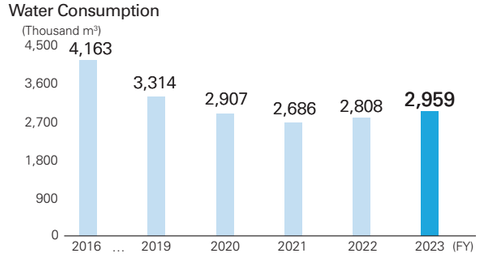
Efficient Use of Water Resources

As the worldwide problem of water resources becomes increasingly serious, we understand that water is a limited and valuable resource, and have set the medium- to long-term goal of reducing water consumption by 10% by FY2030 compared with FY2016 levels. To realize a sustainable society, we will manage the amount of water intake and amount of wastewater, and use limited water resources effectively by conserving water to support the creation of a sustainable society.

The Shizuoka Site benefits from a plentiful supply of water from the Oi River. However, due to concerns that climate change, environmental changes around the site and other factors could lead to a shortage of water resources in the future, we are striving to reduce our water usage. The site is implementing various measures such as switching its water pump to an inverter type to enable fine adjustments in the amount of groundwater drawn, and circulating and reusing the cooling water in the factory.

We will continue to promote efficient use of water resources from the standpoint of business sustainability.

Water Consumption



Climate-Related Disclosure Based on TCFD Recommendations

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

KAKEN adopted the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) in February 2023. We analyzed the risks and opportunities that climate change will bring to our business, and, in accordance with the TCFD recommendations, organized them into four categories—governance, strategy, risk management, and metrics and targets.

Governance

To promote sustainability management, KAKEN has formed the Sustainability Committee chaired by the director in charge of the Corporate Planning & Coordination Department. The Sustainability Committee meets twice a year in principle to identify and organize the Company's material issues, including climate-related issues, and to discuss and examine concrete measures for solving them. The Board of Directors deliberates on and formalizes the list of material issues based on those identified by the Sustainability Committee, and supervises the progress of relevant matters. In addition, the Environmental Subcommittee has been established as a subordinate body of the Sustainability Committee. It conducts expert reviews of important issues related to the environment, including climate change, and reports the progress and results of those reviews to the Sustainability Committee.

Main Risks and Opportunities, and KAKEN's Strategies

Maximum Rise in Average Annual Temperature by Scenario	Issue	Risks/ Opportunities	Description	Expected Time Frame*	Expected Financial Impact (Millions of yen)*	KAKEN's Strategy
4°C	Intensification of climate change	Risks	• Damage to the Company's operating sites due to intensification of climate change • Raw material delivery delays and price increases due to logistical disruptions	Short to long term	Between –570 and –280[1]	• Formulate a business continuity plan that includes determining flooding of sites/facilities based on hazard maps. • Consider decentralized procurement.
		Opportunities	• Growing requests for stable pharmaceutical supply capability in the event of a disaster, and an increase in customers and sales if KAKEN is able to respond adequately		Small	
	Changes in climate patterns	Risks	• Increase in pharmaceutical quality control costs during manufacturing, storage and distribution as a result of rising temperatures	Medium to long term	Between –30 and –20[2]	• Install high-efficiency equipment in factories and research centers. • Adopt third-party logistics to improve logistical efficiency, and conduct joint transportation. • Conduct related research and product development.
		Opportunities	• Increase in demand for pharmaceuticals due to increased specific disease risks or infectious diseases resulting from rising temperatures • Increase in demand for crop protection products due to switching crops and increasing damage from plant disease caused by climate change		Small	
	Decrease in biodiversity	Opportunities	• Expectations for eco-friendly materials will increase, and demand for fermentation-derived crop protection products will increase.	Medium to long term	Small	• Maximizing value based on growth strategy of polyoxin fungicides derived through microbial fermentation.
	Change in energy costs	Risks/ Opportunities	• Change in operating costs due to fluctuating prices for electricity used at each site	Medium to long term	Between –30 and –20[3]	• Set greenhouse gas reduction targets, with carbon neutrality in 2050 as a long-term vision. • Switched to carbon-free electricity for 20% of the electricity used at the Shizuoka Site in January 2023. Planning a gradual increase. • Switching from fluorescent lights to LED lighting and optimizing temperature settings of air conditioning to reduce energy consumption at the Head Office.
1.5°C	Introduction of carbon tax	Risks	• Increase in cost of each activity at business sites and transportation due to introduction of carbon tax	Medium to long term	Between –600 and 0[4]	

* "Short term" is defined as 0-1 year, "medium term" as 1-5 years, and "long term" as 5-30 years. Under expected financial impact, "Large" means that the financial impact on the Group's businesses is expected to increase significantly, and "Small" means that the financial impact on the Group's businesses is expected to increase slightly.

1. The cost of damage from disasters at each location is estimated based on *Manual for Economic Evaluation of Flood Control Investment* (Ministry of Land, Infrastructure, Transport and Tourism). Damage information (damage rate, number of days business disrupted/suspended) is specified for each location on the flood hazard map.
2. Estimated from the Company's electricity consumption, future electricity prices and the rate of increase in air conditioning usage (referring to figures in *World Energy Outlook 2019* and *The Future of Cooling*, both publications of the International Energy Agency)
3. Estimated from the Company's electricity consumption and future electricity prices (referring to figures in *World Energy Outlook 2019* of the International Energy Agency)
4. Estimated from the Company's greenhouse gas emissions and future carbon tax prices (referring to figures in *World Energy Outlook 2021* of the International Energy Agency)

Strategy

We participate in the Carbon Neutrality Action Plan, which the FPMAJ helped to create, and are working toward the FPMAJ's long-term vision of net zero CO_2 emissions in 2050 as well as our own goal of reducing CO_2 emissions by 51% compared with FY2016 levels by FY2030.

We examined the qualitative and quantitative risks and opportunities for FY2030, our target year for CO_2 reduction, and 2050, the FPMAJ's target year for achieving net zero CO_2 emissions. In that process, we referred to the 1.5°C scenario (and partially to the 2°C scenario), which assumes more ambitious climate change measures are taken for decarbonization, and the 4°C scenario, which assumes climate change intensifies as no climate change measures beyond current measures are taken.

Scenario analyses revealed that no climate-related risks with a significant financial impact on our business activities are expected in either scenario, and that as an opportunity, demand for our pharmaceutical products and crop protection products may increase. As a pharmaceutical company that endeavors to improve the quality of life of patients through the supply of superior pharmaceuticals, KAKEN recognizes its social responsibility, and will work to protect, maintain and enhance the global environment in all aspects of its business activities.

Risk Management

KAKEN engages in risk management initiatives with the aim of appropriately managing risks that could hinder the realization of the corporate philosophy and the achievement of the business plan, fulfilling its social responsibility, and contributing to sustainable corporate value improvement. We recognize that climate change is a risk category related to the priority issues we need to address for sustainable growth, and as such we will work to protect, maintain and enhance the global environment in all aspects of our business activities.

Enterprise risk management is carried out by the Risk Management Committee, while climate-related risk management is primarily handled by the Sustainability Committee. This committee identifies social issues, taking into account the status of the Company's business, business plans, GRI standards, ISO 26000 and other factors, narrowing them down from two perspectives —relevance to KAKEN's business and impact on stakeholders— and evaluating them both qualitatively and quantitatively. The Sustainability Committee regularly monitors the risk categories that the Company should give priority to addressing, considering the impact of its business activities on society, the financial impact on the Company, and the likelihood of occurrence. In addition, the Sustainability Committee reports to the Board of Directors regarding the status of response to risk categories that are important in sustainability management, and the Board of Directors provides oversight for this process.

Metrics and Targets

We participate in the Carbon Neutrality Action Plan, which the FPMAJ helped to create, and are working toward the FPMAJ's long-term vision of net zero CO_2 emissions in 2050 as well as our own goal of reducing CO_2 emissions by 51% compared with FY2016 levels by FY2030.

To reach these targets, we are proactively installing high-efficiency equipment and conducting ongoing energy-saving activities at the Shizuoka Site and the Drug Research Center in Kyoto, which account for more than 90% of our energy consumption.

To further reduce emissions, in January 2023 we switched to carbon-free electricity for 20% of the electricity used at the Shizuoka Site. We plan to gradually raise this percentage.

At the Head Office, we are replacing fluorescent lights with LED lights and optimizing air conditioner temperature settings to reduce electricity consumption.

Compliance and Risk Management

Joy for society

Basic Approach to and System for Promoting Compliance

By conducting business based on high ethical standards, KAKEN is striving to establish and further enhance its position as a company that is trusted by society. The Board of Directors has built a compliance promotion system for executing compliance-oriented business activities, and is supervising and evaluating its implementation. The Company has appointed a compliance officer responsible for implementing the compliance promotion system, and the Compliance Group of the Legal Affairs & Intellectual Property Department conducts concrete compliance promotion activities.

Measures/KPI/FY2023 Results

Measures	KPIs	Targets	FY2023 Results
Implement compliance training • Level-based training • Department-based training, etc.	Participation rate for compliance training (including harassment training)	100%	—
Awareness of compliance hotline • Conduct survey on awareness of compliance hotline • Share compliance hotline usage data in-house.	Increase awareness of compliance hotline (whistleblowing system)	100%	—
Activities for understanding the status of violations	Number of serious compliance violations	0 per year	0

Activities to Promote Compliance

By conducting corporate activities with integrity based on high ethical standards, KAKEN can maintain the trust of society. In our efforts to do so, we are focusing on three key points.

The first is increasing compliance awareness. We regularly conduct compliance training and work to increase awareness of compliance throughout the Company. Training themes such as corporate ethics, prevention of corrupt practices, personal information protection, and prevention of harassment are chosen based on the needs of the participants, so that they can be put to use in the workplace.

The second is operation of the internal whistleblowing system. Even if employees become aware of internal compliance-related issues, they still need to know who to consult with or report to, and they must feel comfortable using the system. Therefore, we are publicizing and disclosing information on operation of the whistleblowing system (the Compliance Hotline) to raise awareness and promote usage.

The third is early detection and resolution of internal compliance issues. Responding to consultations and reports made via the Compliance Hotline, and investigations and other actions by the Compliance Group of the Legal Affairs & Intellectual Property Department, will help to resolve and prevent recurrence of compliance violations.

Ethical Considerations in Animal Testing

In developing pharmaceuticals and crop protection products, animal testing is indispensable for verifying the safety and effectiveness of drugs.

The Company has formulated internal regulations that fully reflect the intent of the Act on the Welfare and Management of Animals, the Standards relating to the Care and Keeping and Reducing Pain of Laboratory Animals, and the Basic Policies for the Conduct of Animal Experiments in Research Institutions under the Jurisdiction of the Ministry of Health, Labour, and Welfare, and gives full consideration to the 3Rs: the utilization of alternatives to animal testing (replacement), the reduction of the number of animals used (reduction), and the mitigation of pain (refinement).

In conducting animal tests, the Company complies with relevant laws and regulations and internal regulations, giving due consideration to animal welfare, while the Animal Testing Committee conducts examinations to ensure that the tests are appropriately carried out from a scientific point of view.

Self-inspections and self-assessments on the status of animal testing are carried out every year to verify the appropriateness of the tests.

In addition, the Company's animal testing initiatives have been assessed by an external party as being appropriately carried out in accordance with the policies of the Ministry of Health, Labour and Welfare. In January 2022, KAKEN received the Accreditation of Animal Experimentation Facilities from the Japan Pharmaceutical Information Center for the fourth time.

Basic Approach to and System for Promoting Risk Management

KAKEN engages in enterprise risk management initiatives with the aim of appropriately managing risks that could hinder the realization of the corporate philosophy and the achievement of the business plan, fulfilling its social responsibility, and contributing to sustainable corporate value improvement.

Overview of the Risk Management System

The Company has formulated Regulations for Risk Management and carries out risk management activities such as identifying risks, taking countermeasures and providing education for each division and department. We have also established the Risk Management Committee, chaired by the director in charge of risk management designated by the Board of Directors. In such ways, the Company has established a system capable of managing risks on a Companywide basis. Important matters deliberated at Risk Management Committee meetings are submitted for approval or reported to the Board of Directors. In addition, the Internal Audit Department audits the status of risk management at the KAKEN Group and reports its findings to the president, the Board of Directors and the Audit & Supervisory Board.

Principal Risks

Major risks recognized as having the potential to materially affect KAKEN's financial position, business performance and cash flows, and their countermeasures, are as shown below. The forward-looking statements contained herein reflect the judgment of the KAKEN Group as of March 31, 2024.

Category	Details	Countermeasures
(1) Legal regulations and administrative developments	・Impact of various medical system reforms to curtail public healthcare expenditures, such as revisions of NHI drug price standards, revisions of related laws and regulations, and developments in administrative policies related to the medical system and health insurance	・Implementation of sales strategies taking administrative policies into account ・Timely and appropriate understanding of and response to related laws and regulations, the medical system, and administrative policies
(2) New drug development	・Substantial R&D expenses and long development periods for new drugs ・Discontinuation of development due to failure to achieve expected efficacy or safety	・Strengthening of the earnings structure by developing new drugs with high added value ・Innovation and streamlining of processes to shorten the R&D period ・Diversification of approaches to improve the probability of success ・Strengthening of cooperation with external parties in early-stage development, and proactive and effective utilization of external resources
(3) Adverse drug reactions	・Occurrence of unexpected adverse drug reactions after product launch, and associated product recalls and discontinuation of sales	・Strengthening and thorough implementation of safety monitoring activities ・Strengthening provision of safety information to promote proper use
(4) Competition	・Competition with rival products of similar efficacy and effects, and with generic products	・Gathering of scientific data to increase product value ・Improvement of containers to increase convenience, such as ease of use
(5) Intellectual property rights	・Impact of legal proceedings in the event of infringement of intellectual property rights by a third party ・Disputes, payment of damages or discontinuation of business in the event of infringement of a third party's intellectual property rights	・Appropriately managing and monitoring intellectual property rights ・Taking preemptive measures to investigate, identify and avoid the risk of infringing the intellectual property rights of third parties ・Establishment of a system for dealing with intellectual property disputes when they arise
(6) Litigation	・Impact of legal proceedings instituted in connection with adverse drug reactions, product liability, labor, environment or fair trade, or other matters	・Strengthening of collaboration with lawyers and other experts ・Improvement of compliance awareness among executives and employees ・Executing contracts minimizing various risks
(7) Delay or interruption of product supply	・Delay or interruption of product supply due to problems with production equipment or delays in raw material procurement ・Product recalls due to quality problems	・Securing of appropriate inventory and diversification of raw material suppliers ・Thorough quality control system in compliance with good quality practice (GQP) and good manufacturing practice (GMP)
(8) IT security and information management	・Business interruptions due to system failures, cyberattacks or other factors ・Payment of damages, administrative action, or loss of public trust due to leaks of confidential information	・Implementation of robust multi-stage security measures for internal systems ・Regular security education for executives and employees ・Development of a security system with detection and response capabilities against cyber-attack, virus infection, etc.
(9) Large-scale disasters	・Suspension of business activities due to natural disasters, fires and other accidents, pandemics or other events ・Substantial expenses for repair of facilities or other property damaged by disasters or other causes	・Formulation of a business continuity plan (BCP) and implementation of emergency drills ・Development and operation of measures to prevent the spread of infection in the event of a pandemic ・Purchase of insurance to mitigate financial impact

Management Team

Directors

Hiroyuki Horiuchi
President and Representative Director

Masashi Suzudo
Managing Director

Masahiro Matsuura
Director

Mitsuru Watanuki
Director

Yasuhiro Umeda
Director

Shoichiro Takagi
Outside Director

Yasutomo Inoue
Outside Director

Satoko Ishikawa
Outside Director

Audit & Supervisory Board Members

Kazumori Ishiguro
Audit & Supervisory Board Member (Standing)

Naoyuki Ishida
Audit & Supervisory Board Member (Standing)

Hiroaki Matsumoto
Outside Audit & Supervisory Board Member

Masahiro Koyama
Outside Audit & Supervisory Board Member

Check our website for details

Corporate Officers

Tatsuhiro Harada
Deputy Chief Officer of R&D Division, Chief of Drug Research Center

Masaru Ogawa
Chief Officer of Regulatory Affairs Division

Tomoyuki Koseki
Chief Officer of Marketing & Sales Division

Keizo Kimura
Chief Officer of Production Division, Chief of Shizuoka Factory

Expertise of Directors and Audit & Supervisory Board Members (Skill Matrix)

We provide value to society by fulfilling our corporate philosophy, and have formulated Long-Term Business Plan 2031 and set out the "Three Transformations" (R&D Transformation, Overseas Expansion Transformation and Management Base Transformation) in order to grow sustainably. We have identified the knowledge, experience and abilities necessary for achieving the plan, and for the proper functioning of the Board of Directors.

Skills	Definition
Corporate management	The skills and experience required in corporate management, including strategic thinking, leadership, financial management, and the ability to innovate
R&D and life science	The skills and experience required to conduct research and development under the long-term business plan, including medical and pharmacological knowledge, and the ability to create plans and develop business strategies for research and development
Accounting and finance	The skills and experience required to execute the long-term business plan, including financial analysis, cash flow management and investment analysis
Legal affairs, compliance and risk management	The skills and experience required to ensure management stability, including internal controls, and the identification, assessment and monitoring of risks, as well as the development of risk countermeasures
Sales and marketing	The skills and experience required to execute the long-term business plan, including pharmaceutical knowledge, sales experience, and the ability to formulate marketing strategies
International experience	The skills and experience required for conducting overseas business under the long-term business plan, including knowledge of global operations, business experience, and understanding of international business
ESG and sustainability	The skills and experience required for sustainable enhancement of corporate value, including management capabilities for executing environmental management, human capital management and corporate governance

Skill Matrix

Position	Name	Gender	Corporate management	R&D and life science	Accounting and finance	Legal affairs, compliance and risk management	Sales and marketing	International experience	ESG and sustainability
President and Representative Director	Hiroyuki Horiuchi	Male	●				●		●
Managing Director	Masashi Suzudo	Male			●			●	●
Director	Masahiro Matsuura	Male				●	●		
Director	Mitsuru Watanuki	Male		●					
Director	Yasuhiro Umeda	Male			●				●
Outside Director	Shoichiro Takagi	Male	●		●				
Outside Director	Yasutomo Inoue	Male				● (Attorney at law)			
Outside Director	Satoko Ishikawa	Female		● (Pharmaceutical sciences)					
Audit & Supervisory Board Member (Standing)	Kazumori Ishiguro	Male					●		●
Audit & Supervisory Board Member (Standing)	Naoyuki Ishida	Male					●		●
Outside Audit & Supervisory Board Member	Hiroaki Matsumoto	Male			● (Certified tax accountant)				
Outside Audit & Supervisory Board Member	Masahiro Koyama	Male	●						

Note: The above table shows the areas in which directors and Audit & Supervisory Board members demonstrate their primary expertise or other skills based on their experience and other factors. It does not show all the knowledge they possess.

Strengthening Corporate Governance

Joy for society

Basic Approach to Corporate Governance

KAKEN's business philosophy is centered on what we call the "Three Joys"—"Joy for patients," "Joy for society" and "Joy for employees." "Joy for society" is based on the principle that KAKEN recognizes its social responsibility as a pharmaceutical company, engages in all activities with high ethical standards, and aspires to earn society's trust. Accordingly, the tasks of enhancing corporate governance, ensuring the transparency of management, and providing our stakeholders with proper explanations of the Company's activities are among our top management priorities.

Measures/KPI/FY2023 Results

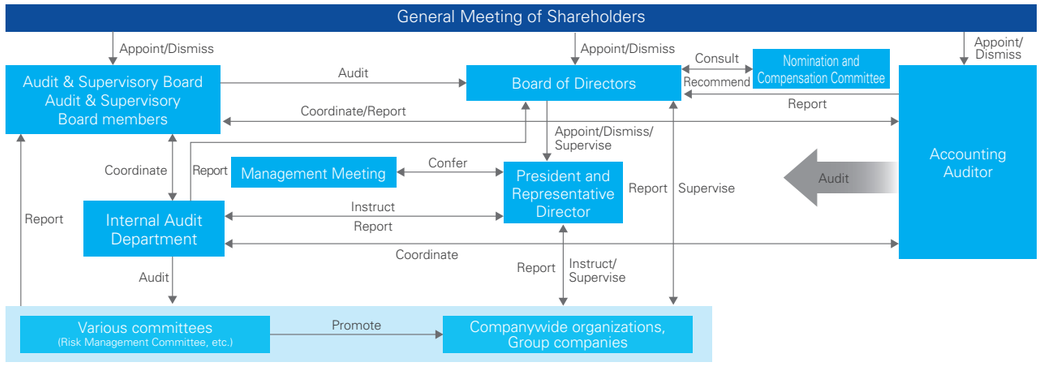
Measures	KPIs	Targets	FY2023 Results
Implement evaluations to ensure the effectiveness of the Board of Directors	Number of effectiveness evaluations of the Board of Directors	Once a year	1
Strengthen corporate governance through compliance with the Corporate Governance Code	Corporate Governance Code compliance rate	100%	98.8%

Corporate Governance Structure

KAKEN has adopted an Audit & Supervisory Board system, taking into consideration the scale of its business, management monitoring functions and other circumstances.

In addition, KAKEN has adopted the corporate officer system to speed up decision-making and to clarify responsibility for the functions of supervision and execution of business.

Corporate Governance Structure



	Board of Directors	Audit & Supervisory Board Members and the Audit & Supervisory Board	Nomination and Compensation Committee
Overview	Board of Directors meetings are regularly held once a month, and extraordinary meetings are held when necessary. As the management decision-making body, the Board of Directors adopts resolutions on matters deliberated at Board of Directors meetings as stipulated by laws and regulations and the Articles of Incorporation. It also discusses management strategies, business plans and other important management issues, and receives reports on the status of business execution, as necessary. Audit & Supervisory Board members attend meetings of the Board of Directors and express their opinions. Corporate officers also participate to ensure that management policies are implemented thoroughly.	Audit & Supervisory Board members attend important meetings, including Board of Directors meetings, to ensure the fairness and transparency of management decision-making and execution by auditing the execution of duties. Audit & Supervisory Board meetings are regularly held once a month. The Audit & Supervisory Board also holds scheduled meetings with the Accounting Auditor for proactive discussions and information exchange, as part of a system where fair audits are implemented.	Comprised of a majority of outside directors, the Nomination and Compensation Committee serves as an advisory body to the Board of Directors, deliberating on the nomination of directors, Audit & Supervisory Board members and other members, and on the compensation of directors and other members, as well as providing advice and recommendations to the Board of Directors. Nomination and Compensation Committee meetings are held two to four times a year, and further meetings are held when necessary.
Composition	5 internal directors 3 outside directors (Chairperson: President)	2 standing Audit & Supervisory Board members 2 outside Audit & Supervisory Board members	1 internal director 2 outside directors (Chairperson: Internal director)
Number of Meetings in FY2023	19	13	8

Outside Directors and Outside Audit & Supervisory Board Members

The Company has appointed three outside directors and two outside Audit & Supervisory Board members.

The role of outside directors is to provide advice and supervision, based on their expertise. They contribute to the Company's sustainable growth by directly engaging in decision-making at meetings of the Board of Directors, and appropriately reflecting the opinions of stakeholders, including minority shareholders, at Board of Directors meetings from a neutral and independent standpoint.

The role of outside Audit & Supervisory Board members is to strengthen the auditing function and ensure the transparency and objectivity of management by auditing the execution of duties by directors, based on their expertise and from a neutral and independent standpoint.

The Company has not set criteria, etc., for appointing outside directors and outside Audit & Supervisory Board members. However, in making appointments, the Company pays due consideration to their independence from the Company so that the neutrality of their role will not be impaired. There is no special interest between the Company and any outside director or outside Audit & Supervisory Board member.

Reasons for Selection of Outside Directors and Outside Audit & Supervisory Board Members

Name	Attendance		Reason for Selection
	Board of Directors Meetings	Audit & Supervisory Board Meetings	
Shoichiro Takagi	100% (19/19)	—	Mr. Takagi has experience, insight and a record of achievements from corporate management at several companies including one in the pharmaceutical industry. The Company believes that based on his knowledge cultivated as a corporate manager, Mr. Takagi will provide advice that contributes to the medium- to long-term growth of the Company and will supervise business execution from an independent standpoint.
Yasutomo Inoue	100% (19/19)	—	As an attorney at law, Mr. Inoue has acquired experience and professional expertise in corporate legal work. The Company believes that based on his knowledge as an attorney, Mr. Inoue will provide advice that contributes to the medium- to long-term growth of the Company and will supervise business execution from an independent standpoint.
Satoko Ishikawa	(New appointment)	—	Ms. Ishikawa has extensive expertise based on her experience as a Doctor of Pharmacy and a university professor. The Company believes that based on her knowledge cultivated in her work at a university and other organizations, Ms. Ishikawa will provide advice that contributes to the medium- to long-term growth of the Company and will supervise business execution from an independent standpoint.
Hiroaki Matsumoto	100% (19/19)	100% (13/13)	In addition to being a certified tax accountant, Mr. Matsumoto has extensive experience and a record of achievements at the National Tax Agency, as well as abundant knowledge and insight in the field of finance and accounting. The Company believes that Mr. Matsumoto will apply this expertise to the Company's audit system.
Masahiro Koyama	100% (14/14)*	100% (10/10)*	Mr. Koyama has extensive experience in the financial industry, achievements as an executive, and the insight he has cultivated through his experience. The Company believes that Mr. Koyama will apply this expertise to the Company's audit system.

* Appointed on June 29, 2023

Effectiveness Evaluation of the Board of Directors

In FY2023, Board of Directors meetings were held 19 times (12 regular meetings and seven extraordinary meetings). Directors and Audit & Supervisory Board members attended the extraordinary Board of Directors meetings. Corporate officers also attended the regular Board of Directors meetings. All participants contributed to multifaceted deliberations based on their expertise and experience, and made management decisions in a timely and appropriate manner. Specifically, outside directors and outside Audit & Supervisory Board members provided a wide range of opinions and questions without being constrained by Company norms. The Board of Directors has judged that its effectiveness is secured, taking into account this situation and referring to the self-evaluation based on questionnaire surveys conducted for each director as well as interviews with the Chairperson of the Board of Directors.

Overview of the Questionnaire for the Effectiveness Evaluation of the Board of Directors

1 Method of Evaluation

Internal directors: Questionnaire survey

Outside directors: Interview with the president

2 Main Evaluation Items

1) Whether the Board of Directors is functioning properly

(Board composition, content of proposals, status of discussions and deliberations, provision of information to outside directors, etc.)

2) Other comments and suggestions

3 Feedback and Discussions

Improvements Being Made

- Agenda explanations and supporting materials are improving every year
- Clarification of matters whether for resolution or reporting in the agenda
- Deepening of understanding of agenda through advance briefings, etc.

Issues

- Advance briefings on agenda items have improved understanding, but explanations, including the progress of internal discussions and points at issue, should be further enhanced
- Discussion on future measures, including long-term strategy and global expansion should be further enhanced
- Measures for optimization of Board of Directors composition, including appointment of female directors, should be further considered

Strengthening Governance

To achieve sustainable growth and increase corporate value over the medium to long term, KAKEN aims to realize efficient, fair and highly transparent management by being accountable and building good relationships with all stakeholders. The Company will continue working to evolve and strengthen corporate governance.

	FY2019	FY2020	FY2021	FY2022	FY2023
Total number of members of the Board of Directors	8	9	9	8	8
Outside directors incl. in above	3 (incl. 1 female member)	3 (incl. 1 female member)	3 (incl. 1 female member)	3 (incl. 1 female member)	3 (incl. 1 female member)
Total number of Audit & Supervisory Board members	4	4	4	4	4
Outside members incl. in above	2	2	2	2	2
Committee (Advisory body to the Board of Directors)	• Establishment of Nomination and Compensation Committee				
Officer compensation	• Introduction of performance-linked stock compensation plan			• Increase in nonmonetary compensation ratio	
Chairperson of the Board of Directors	Tetsuo Onuma			Hiroyuki Horiuchi	
Diversity of the Board of Directors	• Appointment of female director			• Disclosure of skill matrix	• Revision of skills
Corporate Governance Code	Fully complied	Fully complied	Fully complied (Code prior to revision)	Explanation: 2 items (Revised code)	Explanation: 1 item

Officer Compensation

KAKEN partially revised the system of bonuses and stock compensation for directors (excluding outside directors) in FY2024. The aim of the revisions was to pursue strategic investment and enhance incentives for medium- to long-term improvement of corporate value in order to achieve the vision set out in Long-Term Business Plan 2031. The revisions were made by the Company using the consulting services of experts with specialized and objective knowledge, and after conducting multiple discussions at the Nomination and Compensation Committee, of which independent outside directors constitute a majority.

1. Basic policy

In an effort to provide an incentive to contribute to the sustainable growth of KAKEN, the compensation for the Company's directors comprises basic compensation, bonuses and stock compensation, which are determined by comprehensively taking into consideration the Company's medium- to long-term performance as well as past payment amounts, in addition to the responsibilities of the directors. Basic compensation is a fixed amount, while bonuses and stock compensation are linked to the Company's business performance. However, bonuses and stock compensation are not paid to outside directors, as they are responsible for supervision and monitoring of management from an independent standpoint.

2. Policy regarding determination of the amount of individual basic compensation (monetary compensation), including the policy regarding determination of the timing and requirements for granting compensation, etc.

Basic compensation is fixed monthly compensation, and is determined by taking into consideration the director's position and responsibilities, compensation levels at other companies, the Company's performance, and employee salary levels. The total amount of basic compensation is set within the amount approved at the General Meeting of Shareholders.

3. Policy regarding the content of and the calculation method for the monetary amount paid or number of shares granted as performance-linked compensation and nonmonetary compensation, including the policy regarding determination of the timing and requirements for granting compensation, etc.

Performance-linked compensation is cash compensation that reflects key performance indicators (KPIs). It is intended to increase the commitment of directors to improving performance for each fiscal year. The bonus amount is calculated based on a coefficient obtained by prorating the degree of achievement of KPI targets (for consolidated net sales, consolidated adjusted operating profit, the number of in-licensed projects and M&As, and the number of projects under development for each fiscal year), and is paid following approval at the General Meeting of Shareholders.

Nonmonetary compensation is paid in the form of stock compensation through a Board Benefit Trust, which is a stock compensation plan linked to business performance that provides stock and other benefits upon retirement. Stock compensation is calculated based on coefficients obtained by prorating the degree of achievement of business plan KPI targets for relative total shareholder return (TSR; the total investment return for shareholders, including capital gains and dividends), adjusted ROE, number of projects under development that obtained PoC, and employee engagement, in accordance with the Officer Stock Benefit Regulations. Linked to medium- and long-term performance and paid out as stock and other benefits upon retirement, stock compensation is intended to contribute to increased corporate value and sustainable growth. The total amount of stock compensation is set within the limits approved at the General Meeting of Shareholders.

Changes in System for Directors' Compensation from FY2024 (for Reference)

Comparison of Former and New Bonus Systems

System until FY2023	System from FY2024	
KPIs	KPIs	Weight
1) Consolidated operating profit 2) Consolidated net profit	1) Consolidated net sales	30%
	2) Consolidated adjusted operating profit*	30%
	3) Number of in-licensed projects and M&A	20%
	4) Number of projects under development	20%
Year-on-year comparison	Comparison with targets	

* Excluding the impact of one-time in-licensing fees for strategic investment on operating profit.

Comparison of Former and New Stock Compensation Systems

System until FY2023	System from FY2024	
KPIs	KPIs	Weight
Performance KPIs in Long-Term Business Plan 2031 (net sales, operating profit, ROE) and KPIs for projects under development, in-licensed projects, etc.	Relative TSR (3 years) Compared with TOPIX-17 Pharmaceutical Index	25%
	Adjusted ROE Calculated by adding back 70% of one-time in-licensing fees (after tax considerations) to consolidated net profit	25%
	Number of projects under development that obtained PoC PoC obtained: Validity of a new drug has been demonstrated under clinical trials	25%
	Percentage of responses from employees regarding engagement The percentage of positive responses to items measured is used as an indicator for understanding the job satisfaction of employees	25%

4. Policy regarding determination of the proportions of monetary compensation, performance-linked compensation and nonmonetary compensation within the total compensation for each director

The Nomination and Compensation Committee examines the ratio of directors' compensation by type, using similarly sized companies in related industries and lines of business as benchmarks and considering factors such as past compensation levels. The Board of Directors (the President and Representative Director, delegated by the Board as specified in 5., below) takes into account the Nomination and Committee's recommendations and uses them as a reference point when determining the ratios of compensation by type for individual directors.

Benchmark Ratios of Compensation by Type (Assuming 100% Achievement of KPI Targets)

Position	Basic compensation	Performance-linked compensation	Nonmonetary compensation
Representative director	60%	25%	15%
Managing director	60%	25%	15%
Director	60%	25%	15%

5. Determination of specific details of compensation for individual directors

Based on a resolution of the Board of Directors, authority to determine the specific details of compensation for individual directors has been delegated to President and Representative Director Hiroyuki Horiuchi. The scope of his authority includes determining the amount of basic compensation for each director, as well as the evaluation and allocation of bonuses and stock compensation based on the performance of each director's respective business area. To ensure that this authority is exercised properly, the Board of Directors will consult with and receive recommendations on the draft proposal for compensation from the Nomination and Compensation Committee, of which outside directors comprise a majority. The President and Representative Director will then take these recommendations into account when exercising his delegated authority in making decisions.

Total Amount of Compensation, Total Amount of Compensation by Type, and Number of Eligible Officers by Category in FY2023

Position	Total amount of compensation (Millions of yen)	Total amount of compensation by type (Millions of yen)			Number of eligible officers
		Basic compensation	Bonuses	Stock compensation	
Directors (Excluding outside directors)	247	180	31	35	6
Audit & Supervisory Board members (Excluding outside Audit & Supervisory Board members)	48	48	–	–	3
Outside officers	37	37	–	–	6

Note: Stock compensation represents a provision for share awards in FY2023.

Policy on Cross-Shareholdings

KAKEN owns stocks as cross-shareholdings only when it has determined that they will contribute to the improvement of the corporate value of the KAKEN Group from a medium- to long-term perspective, taking into consideration factors such as their necessity for business strategy and maintaining and strengthening business relationships. As appropriate, the Company reduces holdings of stocks for which it judges ownership to have low significance. Based on this approach, the Company has set a policy of reducing its cross-shareholdings by 30% within the next five years compared with the amount held on March 31, 2024.

Each year, the Board of Directors comprehensively examines the significance, purpose, circumstances of acquisition, and the benefits and risks associated with each of its cross-held stocks in both qualitative and quantitative terms, including capital costs, trading conditions, and cost performance in terms of changes in share value, dividends and other factors, to determine the benefits and risks of continuing to hold them. This examination was conducted at the Board of Directors meeting held in February 2024. In FY2023, the Company sold its holdings in two issues of such stock.

Number of Issues and Amount on Balance Sheet

Position	Number of issues		Total amount reported on balance sheet (Millions of yen)	
	FY2022	FY2023	FY2022	FY2023
Unlisted stocks	3	3	30	30
Other stocks	24	22	17,261	20,304

Messages from Outside Directors

KAKEN is conducting aggressive strategic investment to enhance corporate value over the medium and long term, with the ultimate aim of achieving sustainable growth.

Shoichiro Takagi
Outside Director
1

Currently, KAKEN is making aggressive strategic investments with the aim of enhancing corporate value over the medium to long term. After in-licensing two projects in FY2022, the Company assumed the rights for two products from Eisai Co., Ltd. in March 2024, and announced an intellectual property rights transfer agreement for NM26 in May. These moves in recent years are a laudable measure to prepare for the Clenafin patent cliff and contribute to enhancing corporate value. I believe medium- to long-term enhancement of corporate value is a by-product of sustainable business growth, and that KAKEN's strategic execution capabilities, backed by a solid track record, are a key strength of the Company. I have high expectations that these capabilities will drive sustainable growth through strategic investment.

The aggressive investment phase will continue for a while, reflecting the policy of continuing substantial investment presented in Long-Term Business Plan 2031. I want to provide useful advice whenever my judgment as an outside director is needed, while confirming objective evaluation of business feasibility, monitoring progress, and conducting assessments to ensure the effectiveness of governance. In addition, "management that is conscious of cost of capital and stock price," and "dialogue with shareholders and investors," are becoming increasingly important in Japan, and I intend to further discussions in that regard. Taking into account feedback from dialogue with investors and changes in the market environment, I will work to present the significance of strategic investments and growth scenarios more clearly, proactively disclosing information to the stock market and investors, and fostering greater understanding and support for the Company's initiatives.

We will engage in multifaceted discussions on management issues and reinforce sustainability and compliance to achieve the goals of Long-Term Business Plan 2031.

Yasutomo Inoue
Outside Director
2

KAKEN has positioned continuous enhancement of corporate value as its top priority. Over the past year, the Board of Directors has been discussing management issues from various perspectives as it works toward achieving the goals of Long-Term Business Plan 2031, which was formulated in May 2022. Even now, we are continuing to identify challenges and problems that the Company needs to address, and holding broad-ranging, multifaceted discussions on countermeasures, including revisions.

The Company also formulated a sustainability policy that takes into account unfolding environmental and economic developments, and has devised measures for enhancing its compliance system and for improving engagement, including promotion of diversity, development and strengthening of human resources, and work-style reform. These measures have been discussed and are being put into action. Although the challenges are never-ending, I strongly feel that the Company is steadily making progress, step by step.

To address the problem that outside directors were not being adequately informed regarding the process of discussions in Board of Directors meetings, the Company has implemented measures such as advance briefings and sharing of documents regarding agenda items prior to board meetings, and ample time is now allotted for question and answer sessions. In addition, opportunities are provided for outside directors to actively exchange opinions with inside directors, including the chairman. I feel that this measure has further heightened the effectiveness of the Board of Directors.

KAKEN has reaffirmed the meaning of being a valuable and needed presence as a pharmaceutical company, not only for shareholders and other stakeholders, but also for patients' quality of life, and ultimately for society. I will continue to provide constructive legal opinions and a global perspective, and will offer advice and conduct oversight with a critical mindset.

I am proud that I am able to draw on my academic experience to contribute to management, helping the Company to provide new treatment options that lead to better quality of life for patients.

Satoko Ishikawa
Outside Director
3

KAKEN pursues "Joy for patients," one of the "Three Joys" in its business philosophy, by providing new treatment options for diseases that significantly impact quality of life in the fields of dermatology and orthopedics. I am deeply honored to be involved in KAKEN's management, which is centered on a commitment to patients that is essential for a pharmaceutical company, as well as "Joy for society" and "Joy for employees."

I have long been involved in education and research as a member of the Faculty of Pharmacology and as a researcher in bioorganic chemistry. Drawing on my academic experience and scientific knowledge, I will provide oversight for the R&D measures outlined in the first of the "Three Transformations" under Long-Term Business Plan 2031, and offer objective and constructive comments as an outside director. In recent years, I have broadened my expertise in the field of education and have deepened my insight in human resource development. Through my activities with the Japan Pharmaceutical Association, I have also cultivated a perspective that accurately captures the needs of patients, consumers and society. I will do my best to use this diverse experience to create an environment in which all employees can maximize their contribution to society as professionals.

KAKEN is facing various management issues, including the challenge of new drug development and changes in the medical field. Fully aware of these conditions, I will work responsibly to help KAKEN achieve its 10-year vision by contributing to the enhancement of corporate value over the medium to long term and the realization of the "Three Joys."

Strengthening Relationships with Stakeholders to Achieve Sustainability

Joy for society

We are building trust with stakeholders and working with them to create a sustainable future while enhancing our corporate value.

Local Communities — Environmental Beautification Activities

The Shizuoka Site benefits from the waters of the Oi River, a Class A river in Japan. The site works to protect the environment of the Oi River through river beautification activities conducted every April. While these activities are carried out as part of the site's efforts to contribute to society, they are also an opportunity to foster friendly relationships with newly hired employees.

As a member of the Yamashina Beautification Promotion Corporate Council, the Drug Research Center in Kyoto participates in the beautification campaign for the Lake Biwa-Yodo River water system. A cleanup drive of Shinomiya River, which runs near the site, is held every spring and fall, and is one of the leading beautification activities for the Lake Biwa-Yodo River water system.

Shareholders and Investors — Enhancing Dialogue with Investors and Disclosure

To maintain and strengthen relationships of trust with shareholders and investors, we are enhancing dialogue and disclosure. We engage in dialogue mainly with institutional investors, exchanging opinions with them on a wide range of topics. The details of each dialogue are shared with management and the Board of Directors.

Regarding disclosure, we hold earnings briefings twice a year to explain the progress of projects under development in addition to our financial position, business strategy, and initiatives to respond to changes in market conditions. Through these initiatives, we are increasing both the quality and quantity of information we disclose to investors, thereby enhancing dialogue and building relationships of trust.

Employees — Launch of Internal Online Newsletter

In 2024, we launched an internal online newsletter to share information about each department and site, including local news and initiatives, with the aim of fostering a sense of unity within the organization and among employees. We plan to enhance the content of the newsletter to stimulate communication among employees by helping them get to know employees in other departments and better understand the work they do.

Respecting Human Rights

Joy for patients | Joy for society | Joy for employees

In December 2023, we established our Human Rights Policy, which conforms to the UN's *Guiding Principles on Business and Human Rights* and Japan's *Guidelines on Respecting Human Rights in Responsible Supply Chains*. In the Human Rights Policy, we identify the human rights issues related to people at high risk of being negatively impacted by the KAKEN Group's business activities, such as clinical trial subjects and patients, suppliers, neighboring residents of business sites, and employees. We will work to address these issues and mitigate risks. In addition, through training focused on business and human rights and other informational initiatives, we provide opportunities for employees to learn about the importance of respecting human rights in corporate activities.

Going forward, we plan to conduct human rights due diligence targeting both internal and external stakeholders. Through this initiative, we will ensure respect for the human rights of all stakeholders and identify emerging human rights issues, with the aim of preventing and rectifying any negative impacts on human rights that may result from our business activities.

Creation of a Workplace Free from Discrimination and Harassment

We strive to enhance awareness of the need to prevent discrimination and harassment among all employees through the Rules of Employment, Regulations for Rewards and Punishments, the Compliance Guidebook, and regular postings and education via the Company intranet. We also keep employees informed of internal consultation channels. Furthermore, we make efforts to prevent workplace bullying and harassment by conducting annual training for managers that includes training on prevention of bullying and harassment.

Human Resource Strategy

"Joy for employees" is a key component of our business philosophy. We place great importance on employees' human rights, health, safety and hygiene, and strive to create a working environment in which every employee can work with peace of mind and a sense of fulfillment. We believe that this will lead to the development of professionals who find their jobs meaningful and satisfying. By implementing the human resource strategy in Long-Term Business Plan 2031, we will foster a corporate culture that increases employee engagement.

Check our website for details

Creating Fulfilling Workplaces

Joy for employees

We believe that increasing the engagement of all employees and creating a fulfilling workplace environment will lead to sustainable growth. To foster a corporate culture that encourages employees to take on innovative challenges, we aim to create an internal environment in which diversity is embraced and employees are highly motivated.

Initiatives/KPIs/FY2023 Results

Initiatives	KPIs	Targets	FY2023 Results
• Promote work-life balance • Diversity and inclusion • Enhance measures to support balancing work with childcare, nursing care, injury/illness, etc. • Boost motivation by assigning employees according to aptitude and appropriate personnel evaluation • Promote health and productivity management	• Percentage of annual paid holidays taken	70% (FY2025)	58.6%
	• Number of days and percentage of paid childcare leave taken	Female: 100% Male: 80%, at least 9 days (FY2025)	Female: 100% Male: 83.3%, 11.5 days
	• Percentage of women in management positions	7% or higher (FY2025)	4.1%
	• Average raw score and positive response rate in engagement survey	(Disclose results)	Proactive behavior and job satisfaction of individual employees Average raw score: 2.7 Positive response rate: 64.5% Sense of belonging to the Company Average raw score: 2.7 Positive response rate: 66.7%

Diversity and Inclusion

We believe that fostering a corporate culture that generates innovative challenges means respecting diverse values and having a working environment in which every employee can excel, regardless of their race, nationality, creed, gender, age, sexual orientation, or disability. Furthermore, to create an environment in which employees can do their jobs with a high level of motivation, in addition to empowering women we are striving to make KAKEN a fulfilling place to work for employees at different life stages, such as those dealing with childcare or nursing care, and older employees.

Employment of Seniors

We have introduced the Senior Staff Program for the reemployment of employees who retired upon reaching the mandatory retirement age of 60, allowing them to work up until the month of their 65th birthday. This system enables them to continue playing an active role in their respective workplaces after reaching retirement age, effectively utilizing the experience, expertise and skills they have accumulated over many years.

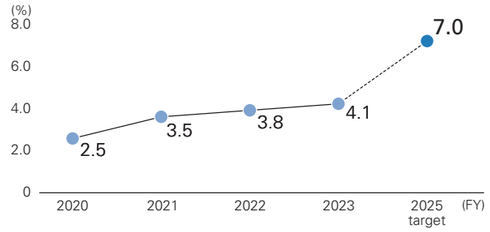
Employment of Persons with Disabilities

As one of our corporate responsibilities, we take a proactive approach to hiring persons with disabilities. At the Shizuoka Site, we have a support team that provides employment support for people with disabilities, and have established an environment to ensure that such workers can work with peace of mind while receiving appropriate assistance in the workplace. For the Company as a whole, we maintain employment levels that exceed the statutory rate.

Promotion of Women's Empowerment

We actively promote capable women and are establishing workplace environments in which employees can do their jobs with peace of mind, regardless of gender. Such conditions pave the way for the sustained success of female employees. We have set the goal of raising the percentage of women in management positions to 7% or higher in our action plan for FY2022–FY2025 based on the Act on the Promotion of Women's Active Engagement in Professional Life. In maintaining supportive workplace environments for female employees, we have established reduced working hour and flextime systems and a system that allows employees to use special paid time off in order to flexibly accommodate needs such as childcare and nursing care.

Percentage of Women in Management Positions

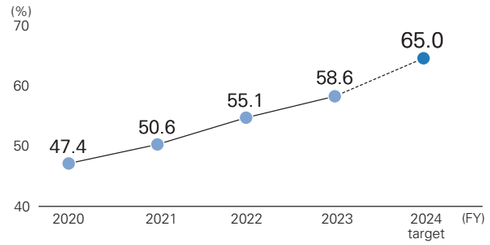


Diverse Work Styles

Work-Life Balance

1) To support flexible work styles for employees, we have introduced a flextime system (except for the Production Division and MRs) and a work-from-home system.
2) To promote healthy, well-balanced work styles, both physically and mentally, for all employees, we are creating a corporate culture that makes it easier to take annual paid holidays and anniversary time off (paid time off for special occasions). We actively encourage employees to take their annual paid holidays through measures such as setting annual Companywide targets and proposing recommended days to use such leave.
3) We provide Company housing and operate a solo transfer system to ensure that employees who are transferred to a different location can work in conditions that accommodate their family circumstances as much as possible.

Percentage of Annual Paid Holidays Taken

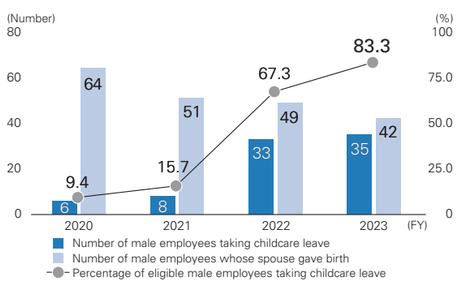


Support for Childcare and Nursing Care

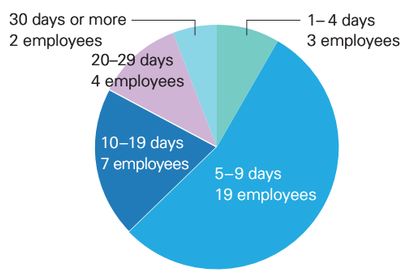
We have established various systems such as leave and shorter working hours for childcare leave and nursing care, so that employees with childcare or nursing care commitments can balance those obligations with their jobs and continue to work with peace of mind.

- A system that allows employees to take special paid time off for the purpose of caring for a family member, for a child's gradual entry into a nursery school, or to undergo fertility treatment
- A system that allows employees with shorter working hours to also use the flextime system
- To make it easier for male employees to also take childcare leave, we have modified the system to make childcare leave partially paid (up to five days), and are conducting in-house training and education for managers.

Eligible Male Employees Taking Childcare Leave



Childcare Leave Taken by Male Employees (FY2023)



Health and Productivity Management and Occupational Safety and Health

Promotion of Health and Productivity Management

The KAKEN Group believes that human resources are fundamental to company management. Accordingly, we consider the physical and mental health of employees to be essential to achieving the "Three Joys" of our business philosophy.

We formulated the KAKEN Health and Productivity Management Declaration in August 2023 to proactively create environments that help employees maintain and improve their health. Under a health management promotion structure led by the president and representative director as the chief health officer, we are promoting health management in collaboration with the employee health insurance association, the Safety and Health Committee, and industrial health staff. As a result, we were recognized as a 2024 Certified Health and Productivity Management Outstanding Organization.

2024 健康経営優良法人 Health and productivity

Employee Health Management

To manage employee health, we provide access to health checkups every spring and lifestyle disease-related examinations every fall. In cooperation with industrial physicians and medical examination centers, we conduct follow-ups for employees whose checkups reveal health problems.

In addition to conducting annual stress checks required by law, we support measures for employees' mental health by offering simple stress checks that employees can perform voluntarily and by providing a wide range of learning materials including a variety of e-learning programs.

The Company remains committed to the promotion of employees' physical and mental health, one aspect of which is the provision of the external consultation desk at the health insurance association and counseling services.

Safety and Health Measures at Facilities and Workplaces

Based on the Regulations for Safety and Health Management, which are aimed at preventing occupational accidents and illnesses and creating a comfortable working environment, we hold Safety and Health Committee meetings on a monthly basis at all offices and other workplaces. This committee is made up of the General Safety and Health Manager (Shizuoka Site), safety officers, health officers, and an industrial physician, as well as members selected from the Company and the labor union. Safety inspections and remedial measures are implemented at each facility and workplace in an effort to eliminate occupational accidents. We also actively work to improve the working environment by conducting regular questionnaire surveys of employees.

Employee Engagement Level

Monitoring and Increasing Employee Engagement Levels

In the intensely competitive environment of the pharmaceutical industry, increasing employee motivation is crucial for boosting retention. Therefore, in FY2023 we introduced a system to measure employee engagement levels as a metric to gauge job satisfaction. We will regularly monitor employee engagement as we work to implement the human resource strategy in Long-Term Business Plan 2031 with an awareness of current challenges.

FY2023

Item	Question Contents	Average Raw Score (Minimum 1, maximum 4)	Positive Response Rate (Response 3 or 4)
Proactive behavior and job satisfaction of individual employees	I proactively study and gather information related to my job.	2.79	70.3%
	I feel energized and motivated while doing my current job.	2.53	53.4%
	I am able to fully utilize my strengths (abilities, knowledge, skills, etc.) in my work.	2.73	66.1%
	I find my work fulfilling.	2.77	67.9%
	Sub-total (Average)	2.70	64.5%
Sense of belonging to the Company	I feel at ease with and have a close attachment to the Company.	2.68	64.7%
	I have benefited from working at the Company.	2.81	72.7%
	I think that the Company's medium- and long-term policies and intended direction are clear.	2.50	53.9%
	I can relate to the Company's corporate philosophy.	2.81	75.6%
	Sub-total (Average)	2.70	66.7%
Employee engagement	Total (Average)	2.70	65.6%

Note: Engagement level is measured on a 4-point scale.
Strongly agree: 4 pts. Agree somewhat: 3 pts. Disagree somewhat: 2 pts. Strongly disagree: 1 pt.

Strengthening Human Resource Development

Joy for employees

Believing that people are fundamental to corporate management, we are committed to developing employees' skills and to reskilling them to cultivate professionals who pursue challenges and transformation with creativity.

Initiative/KPI/FY2023 Result

Initiatives	KPI	Target	FY2023 Results
• Enhance training by position and selective training • Actively recruit and promoted talent who get results • Promote self-directed learning	•Total hours of training run by the Human Resources Department	(Disclose result)	4,167

Engaging and Empowering Talent

Recruitment of New Graduates and Mid-Career Professionals

When recruiting new graduates, we actively conduct Company tours and presentations to give students a better understanding of KAKEN's corporate stance and the rewards of working in various roles. In determining who to select from the tour and presentation participants, we focus on hiring fresh talent who are full of potential and interested in working at KAKEN.

In hiring people with experience, we look for candidates who have advanced and specialized skills or career backgrounds that we lack within the Company, with the aim of supporting the organizational development of the relevant departments.

Providing Motivation and Proactive Promotion

From the perspective of fostering a corporate culture that encourages taking on challenges, we assign individuals with advanced skills and expertise—or those capable of actively developing such skills and delivering strong results—to roles suited to their abilities. At the same time, we proactively promote and advance individuals based on appropriate performance evaluations.

Training and Professional Skill Development

We believe that human resource development is fundamental to corporate management, and strive to enhance the abilities of all employees. Based on the policy of the human resource strategy in Long-Term Business Plan 2031, we are developing employees with distinctive capabilities as professionals. In professional skill development, we are using internal and external training programs to enhance the content of management training and training by position, and provide personal development and reskilling opportunities for every employee. We need employees who can think and act on their own, talent who are global-minded and can serve as the core of our operations going forward. Given the changes in our business environment, we seek to develop people who can creatively tackle new challenges.

Education and Training

In order for an organization to develop sustainably, all employees must develop an awareness of issues, think and act on their own initiative, and continue to grow. Accordingly, we have a full range of training programs to equip employees with the skills they need at each level. We provide general training on basic business skills for newly hired young employees, management candidate training to develop employees who will lead the next generation, and training for new team leaders and new managers to learn about management and the mindset required of leaders and managers. We are planning to introduce manager upskilling training as part of management training, and sixth-year training as part of training by employment year. In addition to these new initiatives, we are making improvements to the content of ongoing programs to further enhance both quality and quantity.

General training for newly hired employees conducted in April 2024

Company Training		Department Training
Management training	Manager upskilling training	• Introductory training for MRs and medical affairs staff • Open stage training (Training for 2nd and 3rd year MRs and medical affairs staff) • Intermediate stage training (Training for 5th, 6th and 7th year MRs and medical affairs staff) • Advanced stage training (Training for 8th, 9th and 10th year MRs • Language training
	Training for new managers	
	Training for new team leaders	
Training for the next generation of leaders	Training for management candidates	
Training by employment year	6th year training	
	3rd year training	
Basic training for working adults	General training for newly hired employees	

Feedback from Training Program Participants

Newly hired employee general training participant, 20s

My first week after joining the Company was very productive. I learned the business etiquette that someone entering the workforce should know, created a personal mission statement, and was introduced to the departments that make up the Company. In this way, I gained a better sense of what it means to be a member of KAKEN.

Having joined the company during the COVID-19 pandemic, I had never directly met my peers in other roles, other than those who became MRs. This made it hard for me to picture the kind of work they were doing. However, hearing about the problems and hardships my colleagues faced in different environments helped me reevaluate my own role from a new perspective, and realize how various departments are interconnected and work together as part of the larger organization.

3rd year training participant, 20s

Management candidate training participant, 40s

Attending training with various people in similar positions in other companies and industries, and exchanging views with various people, helped me clarify my vision of the leader I want to become. It was also a valuable opportunity to think seriously about the direction of my career. I intend to put what I learned into action on the frontlines.

I was reminded of the mindset and role of a manager, and the importance of approaching tasks from a manager's point of view. Since the training was in person, rather than online, I was able to communicate with people from other departments during breaks and outside of the formal training sessions, which helped broaden my outlook.

New managers training participant, 40s

Upskilling/Reskilling

In order for all employees to grow into professionals, it is important to focus on developing their individual strengths. We have introduced an online study service that enables employees to learn on their own, providing upskilling and reskilling that cannot be accomplished through tiered training programs alone. In training for all employees, the service is being used to improve in-house literacy in areas such as DX and compliance. In addition, it fosters self-directed learning by supporting the development of proactive learners. Besides reskilling, we will continue to provide opportunities for employees to develop diverse skills and encourage them to apply those skills in various situations.

FY2023 Operating Results and Financial Condition

Analysis of Operating Results

With increasing strain on national healthcare finances due to the advance of the aging society, various measures are being taken to curb healthcare costs, including drastic reform of the drug pricing system. As a result of factors such as the implementation of off-year drug price revisions, the business environment of the Japanese pharmaceutical industry remains difficult.

In this environment, the KAKEN Group ("the Group") formulated its Long-Term Business Plan 2031, a 10-year business plan launched in 2022, analyzed the difficult conditions faced by the pharmaceutical industry and the Group's associated long-term challenges, and set out its long-term vision for 2031 of being 1) a company that contributes to longer healthy life expectancy by developing and supplying innovative new drugs in a speedy manner, and 2) a research-based pharmaceutical company with a global presence, primarily in the areas of dermatology and orthopedics. The Group has also established the "Three Transformations" of R&D, overseas expansion, and management base as a strategy for realizing the vision, and is working toward achieving the business plan by investing aggressively in research and development, building an organizational structure that enables it to efficiently create and bring to market world-class pharmaceutical products that have high efficacy and safety, and develop people who continuously pursue challenges and change.

In FY2023, the year ended March 31, 2024, net sales decreased 1.3% year on year to ¥72,044 million. Operating profit increased 18.9% to ¥9,513 million, mainly due to a decrease in selling, general and administrative (SG&A) expenses, and profit attributable to owners of the Company increased 47.5% to ¥8,025 million. The principal factor in the decrease in SG&A expenses was a decrease in research and development costs compared with the previous fiscal year, when the Group incurred expenses related to in-licensing of two development projects. Research and development costs decreased 20.6% to ¥12,543 million.

In June 2023, KAKEN introduced a new bottle with a twist-type nozzle for Ecclock, a primary axillary hyperhidrosis treatment, that makes it possible to apply the medicine directly to the armpit, and in August 2023, it launched NexoBrid, a drug for burn eschar removal. NexoBrid provides a new treatment option as a topical agent for the removal of necrotic tissue in deep second-degree or third-degree burns, and KAKEN is providing information primarily to burn specialists to help improve patients' quality of life. In September 2023 in South Korea, KAKEN's partner Dong Wha Pharma Co., Ltd. submitted an application for marketing approval of primary axillary hyperhidrosis treatment Ecclock. KAKEN has granted Dong Wha the exclusive development and marketing rights to this drug in South Korea. In March 2024, KAKEN signed an agreement to assume the manufacturing and marketing approval rights in Japan for Merislon, a vertigo and equilibrium disturbance treatment, and Myonal, a muscle relaxant, which are manufactured and marketed by Eisai Co., Ltd.

KAKEN has applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, revised on March 31, 2020) from the beginning of FY2021. FY2020 and prior fiscal years use figures calculated using a different accounting standard.

FY	2019	2020	2021	2022	2023
Net sales (Millions of yen)	89,232	74,979	76,034	72,984	72,044
Operating profit (Millions of yen)	26,512	17,788	17,064	7,998	9,513
Profit attributable to owners of the Company (Millions of yen)	19,370	13,405	9,549	5,440	8,025
Net assets (Millions of yen)	128,468	136,257	138,325	136,836	143,755
Total assets (Millions of yen)	157,875	163,332	165,181	166,328	171,623
Cash flows from operating activities (Millions of yen)	27,468	14,380	13,336	9,253	2,577
Cash flows from investing activities (Millions of yen)	(2,528)	(1,644)	(7,888)	(2,627)	(5,854)
Cash flows from financing activities (Millions of yen)	(10,173)	(8,752)	(8,129)	(6,990)	(5,658)
Cash and cash equivalents at end of year (Millions of yen)	73,322	77,305	74,625	74,260	65,325
Profit per share (Yen)	494.89	347.37	251.43	144.80	212.67
Dividends per share (Yen)	150.00	150.00	150.00	150.00	150.00
Equity-to-asset ratio (%)	81.4	83.4	83.4	81.9	83.8
Return on equity (%)	15.5	10.1	7.0	4.0	5.7

Segment Sales and Profit

Pharmaceuticals, Medical Devices & Agrochemicals

Sales of pharmaceuticals and medical devices decreased. While sales of products such as anti-osteoarthritis agent Artz and primary axillary hyperhidrosis treatment Ecclock increased, sales of onychomycosis treatment Clenafin, post-operative adhesion barrier Seprafilm and other products decreased due to factors including the impact of competing products and drug price revisions.

Sales of agrochemicals were essentially unchanged. Sales of polyoxin fungicides, core products derived from microbial fermentation, increased due to strong performance in North America and other factors, but sales of other products decreased.

As a result, segment sales totaled ¥69,613 million, a year-on-year decrease of 1.3%. Segment profit (operating profit) increased 21.4% to ¥8,140 million.

Overseas sales were ¥6,474 million, a decrease of 10.5%.

Real Estate

The main source of revenue in the Real Estate segment is rental income from Bunkyo Green Court. Segment revenue increased 0.4% year on year to ¥2,430 million and segment profit (operating profit) increased 6.4% to ¥1,373 million.

Cash Flows

Net cash provided by operating activities was ¥2,577 million, a decrease in cash inflow of ¥6,675 million compared with the previous fiscal year. The main factor was an increase in notes and accounts receivable—trade. Net cash used in investing activities was ¥5,854 million, an increase in cash outflow of ¥3,227 million compared with the previous fiscal year. The main factor was the purchase of long-term prepaid expenses. Net cash used in financing activities was ¥5,658 million, a decrease in cash outflow of ¥1,331 million compared with the previous fiscal year. The main factor was a decrease in purchase of treasury stock. As a result, cash and cash equivalents as of March 31, 2024 totaled ¥65,325 million, a decrease of ¥8,935 million from a year earlier.

Consolidated Balance Sheets

Kaken Pharmaceutical Co., Ltd. and its Consolidated Subsidiaries
As of March 31, 2024 and 2023

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
	2024	2023	2024
ASSETS			
CURRENT ASSETS:			
Cash and deposits (Notes 3 and 10)	¥ 50,625	¥ 59,561	$ 335,265
Marketable securities (Notes 3, 4 and 10)	14,699	14,699	97,344
Receivables:			
Notes and accounts receivable–trade, and contract assets (Notes 8 and 10)	23,744	19,268	157,245
Accounts receivable–other	131	230	868
	23,875	19,498	158,113
Inventories (Note 5)	17,168	15,564	113,695
Other	605	579	4,007
Allowance for doubtful accounts	(0)	(0)	(0)
Total current assets	106,974	109,903	708,437
PROPERTY, PLANT AND EQUIPMENT (Notes 6, 7 and 9):			
Buildings and structures	43,180	43,066	285,960
Machinery, equipment and vehicles	17,075	16,612	113,079
Tools, furniture and fixtures	8,483	8,463	56,179
	68,739	68,143	455,225
Accumulated depreciation	(48,584)	(47,190)	(321,748)
	20,155	20,952	133,477
Land	3,867	3,867	25,609
Construction in progress	1,332	677	8,821
Total property, plant and equipment	25,355	25,498	167,914
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 4 and 10)	20,532	17,511	135,974
Intangible assets			
In-process research and development (Note 2)	5,800	5,800	38,411
Other intangible assets	1,662	941	11,007
	7,462	6,741	49,417
Deferred tax assets (Note 19)	2,590	3,873	17,152
Long-term prepaid expenses	4,991	1,012	33,053
Retirement benefit assets	3,102	1,190	20,543
Other assets	614	598	4,066
Total investments and other assets	39,293	30,927	260,219
TOTAL ASSETS	¥171,623	¥166,328	$1,136,576

See accompanying Notes to the Consolidated Financial Statements.

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
	2024	2023	2024
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES:			
Short-term bank loans (Notes 6 and 10)	¥ 3,850	¥ 3,850	$ 25,497
Payables:			
Notes and accounts payable–trade (Note 10)	6,976	6,130	46,199
Accounts payable–other	4,146	5,824	27,457
Electronically recorded obligations–operating (Note 10)	123	89	815
	11,246	12,044	74,477
Accrued expenses	662	596	4,384
Provision for bonuses	978	966	6,477
Income taxes payable (Note 19)	76	2,004	503
Other (Note 8)	2,209	1,377	14,629
Total current liabilities	19,024	20,838	125,987
NON-CURRENT LIABILITIES:			
Provision for share awards	137	117	907
Net defined benefit liability (Note 11)	6,393	6,349	42,338
Deferred tax liabilities	1,947	1,771	12,894
Other	365	414	2,417
Total non-current liabilities	8,843	8,653	58,563
NET ASSETS:			
Shareholders' equity (Note 12):			
Common stock			
Authorized: 193,000,000 shares as of March 31, 2024 and 2023			
Issued: 45,939,730 shares as of March 31, 2024 and 45,939,730 shares as of March 31 2023	23,853	23,853	157,967
Capital surplus	11,462	11,406	75,907
Retained earnings	128,506	126,135	851,033
Treasury stock, at cost: 8,070,003 shares as of March 31, 2024 and 8,466,780 shares as of March 31, 2023	(28,613)	(30,026)	(189,490)
Total shareholders' equity	135,207	131,368	895,411
Accumulated other comprehensive income:			
Net unrealized holding gain on securities	7,184	4,724	47,576
Remeasurements of defined benefit plans	1,363	165	9,026
Total accumulated other comprehensive income	8,547	4,889	56,603
Non-controlling interests	—	578	—
Total net assets	143,755	136,836	952,020
TOTAL LIABILITIES AND NET ASSETS	¥171,623	¥166,328	$1,136,576

See accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Income

Kaken Pharmaceutical Co., Ltd. and its Consolidated Subsidiaries
For the years ended March 31, 2024 and 2023

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
	2024	2023	2024
NET SALES	¥72,044	¥72,984	$477,113
COST OF SALES (Note 14)	33,505	33,428	221,887
Gross profit	38,539	39,555	255,225
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 13)	29,025	31,556	192,219
OPERATING PROFIT	9,513	7,998	63,000
OTHER INCOME (EXPENSES):			
Interest and dividends income	479	439	3,172
Subsidy income	—	149	—
Interest expenses	(17)	(17)	(113)
Foreign exchange losses	(59)	—	(391)
Loss on investment in investment partnership	(21)	(27)	(139)
Gain on sales of non-current assets (Note 15)	0	2	0
Loss on sales of non-current assets (Note 16)	(0)	(1)	(0)
Loss on retirement of non-current assets (Note 17)	(148)	(48)	(980)
Gain on sales of investment securities	13	1	86
Impairment losses (Note 18)	(19)	(1,863)	(126)
Other, net	56	184	371
	283	(1,181)	1,874
PROFIT BEFORE INCOME TAXES	9,796	6,817	64,874
INCOME TAXES (Note 19):			
Current	1,926	3,998	12,755
Deferred	(155)	(2,621)	(1,026)
	1,770	1,377	11,722
PROFIT	8,025	5,440	53,146
PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY	¥ 8,025	¥ 5,440	$ 53,146

	YEN		U.S. DOLLARS (NOTE 1)
	2024	2023	2024
PER SHARE DATA:			
Profit (Note 22):			
Basic	¥ 212.67	¥ 144.80	$ 1.41
Diluted	—	—	—
Cash dividends applicable to the year (Note 12)	¥ 150.00	¥ 150.00	$ 0.99

See accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

Kaken Pharmaceutical Co., Ltd. and its Consolidated Subsidiaries
For the years ended March 31, 2024 and 2023

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
	2024	2023	2024
PROFIT	¥ 8,025	¥ 5,440	$ 53,146
OTHER COMPREHENSIVE INCOME (LOSS) (Note 24):			
Net unrealized holding gain (loss) on securities	2,460	172	16,291
Remeasurements of defined benefit plans	1,198	(136)	7,934
Total other comprehensive income (loss)	3,658	35	24,225
COMPREHENSIVE INCOME	¥11,684	¥ 5,475	$ 77,377
Total comprehensive income attributable to:			
Owners of the Company	¥11,684	¥ 5,475	$ 77,377

See accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Changes in Net Assets

Kaken Pharmaceutical Co., Ltd. and its Consolidated Subsidiaries
For the years ended March 31, 2024 and 2023

MILLIONS OF YEN

	SHAREHOLDERS' EQUITY					ACCUMULATED OTHER COMPREHENSIVE INCOME				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total	Net unrealized holding gain on securities	Remeasurements of defined benefit plans	Total	Non-controlling Interests	TOTAL NET ASSETS
BALANCE—March 31, 2022	¥23,853	¥11,406	¥126,347	¥(28,714)	¥132,893	¥4,551	¥301	¥4,853	¥578	¥138,325
Changes during the year:										
Cash dividends			(5,652)		(5,652)					(5,652)
Profit attributable to owners of the Company			5,440		5,440					5,440
Purchase of treasury stock				(1,340)	(1,340)					(1,340)
Disposal of treasury stock				27	27					27
Other, net						172	(136)	35	—	35
Total changes during the year	—	—	(211)	(1,312)	(1,524)	172	(136)	35	—	(1,489)
BALANCE—March 31, 2023	¥23,853	¥11,406	¥126,135	¥(30,026)	¥131,368	¥4,724	¥165	¥4,889	¥578	¥136,836
Changes during the year:										
Cash dividends			(5,655)		(5,655)					(5,655)
Profit attributable to owners of the Company			8,025		8,025					8,025
Purchase of treasury stock				(2)	(2)					(2)
Disposal of treasury stock		55		1,415	1,470					1,470
Other, net						2,460	1,198	3,658	(578)	3,080
Total changes during the year	—	55	2,370	1,413	3,838	2,460	1,198	3,658	(578)	6,918
BALANCE—March 31, 2024	¥23,853	¥11,462	¥128,506	¥(28,613)	¥135,207	¥7,184	¥1,363	¥8,547	—	¥143,755

THOUSANDS OF U.S. DOLLARS (NOTE 1)

	SHAREHOLDERS' EQUITY					ACCUMULATED OTHER COMPREHENSIVE INCOME				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total	Net unrealized holding gain on securities	Remeasurements of defined benefit plans	Total	Non-controlling Interests	TOTAL NET ASSETS
BALANCE—March 31, 2023	$157,967	$75,536	$835,331	$(198,848)	$869,987	$31,285	$1,093	$32,377	$3,828	$906,199
Changes during the year:										
Cash dividends			(37,450)		(37,450)					(37,450)
Profit attributable to owners of the Company			53,146		53,146					53,146
Purchase of treasury stock				(13)	(13)					(13)
Disposal of treasury stock		364		9,371	9,735					9,735
Other, net						16,291	7,934	24,225	(3,828)	20,397
Total changes during the year	—	364	15,695	9,358	25,417	16,291	7,934	24,225	(3,828)	45,815
BALANCE—March 31, 2024	$157,967	$75,907	$851,033	$(189,490)	$895,411	$47,576	$9,026	$56,603	—	$952,020

See accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Kaken Pharmaceutical Co., Ltd. and its Consolidated Subsidiaries
For the years ended March 31, 2024 and 2023

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
	2024	2023	2024
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income taxes	¥ 9,796	¥ 6,817	$ 64,874
Adjustments for:			
Depreciation	2,596	2,546	17,192
Impairment losses	19	1,863	126
Amortization of goodwill	157	22	1,040
Increase (decrease) in retirement benefit assets and liabilities	(141)	(77)	(934)
Interest and dividends income	(479)	(439)	(3,172)
Interest expenses	17	17	113
Loss on investment in investment partnership	21	27	139
Loss (gain) on sale of investment securities	(13)	(1)	(86)
Loss on retirement of non-current assets	148	48	980
Loss (gain) on sale of property, plant and equipment	0	0	0
Decrease (increase) in notes and accounts receivable–trade	(4,559)	972	(30,192)
Decrease (increase) in inventories	(1,603)	(583)	(10,616)
Increase (decrease) in trade payables	880	280	5,828
Other, net	(936)	1,746	(6,199)
Subtotal	5,903	13,240	39,093
Interest and dividends income received	479	439	3,172
Interest expenses paid	(17)	(17)	(113)
Income taxes (paid) refund, net	(3,788)	(4,409)	(25,086)
Net cash provided by (used in) operating activities	2,577	9,253	17,066
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment	(1,861)	(1,987)	(12,325)
Proceeds from sale of property, plant and equipment	1	12	7
Purchase of intangible assets	(306)	(219)	(2,026)
Purchase of investment securities	—	(200)	—
Proceeds from sale of investment securities	516	5	3,417
Purchase of long-term prepaid expenses	(4,182)	(218)	(27,695)
Other, net	(22)	(18)	(146)
Net cash provided by (used in) investing activities	(5,854)	(2,627)	(38,768)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net decrease (increase) in treasury stock	(0)	(1,340)	(0)
Cash dividends paid	(5,657)	(5,649)	(37,464)
Net cash provided by (used in) financing activities	(5,658)	(6,990)	(37,470)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(8,935)	(364)	(59,172)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	74,260	74,625	491,788
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 3)	¥ 65,325	¥ 74,260	$ 432,616

See accompanying Notes to the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of KAKEN PHARMACEUTICAL CO., LTD. (the "Company") and its consolidated subsidiaries (collectively the "Group") are prepared on the basis of the accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

As permitted by the Financial Instruments and Exchange Act of Japan, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sum of the individual amounts.

The U.S. dollar amounts in the accompanying consolidated financial statements have been translated from Japanese yen amounts solely for convenience of readers outside of Japan at ¥151= U.S.$1.00, the approximate rate of exchange prevailing on March 31, 2024. This translation should not be construed as a representation that Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

2. Summary of Significant Accounting Policies

(a) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries. For the year ended March 31, 2024, the Company had two consolidated subsidiaries as follows:

KAKEN PHARMA CO., LTD.
ARTham Therapeutics Inc.

For the years ended March 31, 2024 and 2023, there were no affiliates accounted for using the equity method.

All significant intercompany transactions, account balances and unrealized profits or losses among the Group have been eliminated in consolidation.

(b) Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statements of cash flows are comprised of cash on hand, bank deposits which are able to be withdrawn within three months, and short- term investments with original maturity of three months or less and are considered to have minimal risk from market fluctuations.

(c) Marketable and Investment Securities

Securities are classified into one of the following three categories: (1) Trading, (2) Held-to-maturity debt securities, and (3) Available-for-sale securities. Trading securities are recorded at market value with unrealized gains or losses recognized in the current year's earnings. Held-to-maturity debt securities are carried at amortized cost. Available-for-sale securities are expected to be sold in future and those whose fair values are readily determinable are carried at fair value and the related unrealized gains or losses, net of taxes, are included as a component of "Accumulated other comprehensive income" under net assets. Available- for-sale securities without market quotations are generally stated at cost determined by the moving average method.

Investments in investment limited partnerships and other similar partnerships (deemed to be marketable securities under Article 2 (2) of the Financial Instruments and Exchange Act), are recorded at the net amount equivalent to the Company's equity interest based on the most recent financial statements available as of the financial reporting date stipulated in the partnership agreement.

(d) Inventories

Inventories are stated at the lower of cost determined by the gross average method, or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses.

(e) Property, Plant and Equipment

Depreciation is computed mainly using the straight-line method.

The range of useful lives is 3 to 60 years for buildings and structures, and 2 to 8 years for machinery, equipment and vehicles.

(f) Intangible Assets

Software for internal use is amortized over the estimated useful life for internal use (5 years) using the straight-line method.

In-process research and development is amortized using the straight-line method over the estimated useful life of the product being developed, once the product can be used.

(g) Long-Term Prepaid Expenses

Depreciation is computed using the straight-line method.

(h) Allowance for Doubtful Accounts

To cover losses due to bad debt in accounts receivable, etc., allowance for doubtful accounts is provided according to individual analysis of recoverability for specific doubtful receivables such as debt with a possibility of default, based on the historical write-off rate for ordinary receivables

(i) Provision for Bonuses

Provision for bonuses to directors and employees is provided at the amount estimated as of the balance sheet date.

(j) Provision for Share Awards

In order to prepare for the granting of the Company's stock to directors and corporate officers pursuant to the rules on share distribution to officers, provision for share awards is recorded at an estimated amount of share award obligations as of the balance sheet date.

(k) Retirement and Pension Plan

The Company applies the benefit formula basis in attributing estimated retirement benefits to periods up to the end of the fiscal year under review.

Unrecognized actuarial gain or loss is amortized from the year following the year in which it arises on a straight-line basis over a period within the average remaining years of service of the employees (10 years) as of the year in which it arises.

(l) Income Taxes

Income taxes–deferred are determined using the asset and liability approach, where deferred tax assets and liabilities are recognized for temporary differences between the tax basis of assets and liabilities and their reported amount in the consolidated financial statements.

(m) Accounting Standards for Significant Revenue and Expenses

The main performance obligations in significant businesses related to revenue from contracts with customers of the Group, and the point in time when said performance obligations are normally satisfied (the point when revenue is normally recognized), are as follows.

(1) Sale of merchandise and finished products
For Pharmaceuticals, the Group conducts sales primarily by manufacturing or wholesale distribution. When selling such merchandise and finished products, the Group has an obligation to deliver based on the sales contract with the customer. This performance obligation is deemed to be satisfied when the merchandise or finished product is delivered to the customer and the customer acquires control of the merchandise or finished product, and revenue is recognized at the time of delivery. For domestic sales of merchandise and finished products, revenue is recognized at the time of shipment if the period from shipment until transfer of control of the merchandise or finished product to the customer is a normal period of time.

For transactions in which the Group is involved in the sale of merchandise as an agent, the net amount is recognized as revenue.

(2) License agreements for sale, etc. of finished products
For Pharmaceuticals, the Group enters into contracts for the transfer of intellectual property rights or for technology out-licensing, etc., and for royalties. For contracts for the transfer of intellectual property rights or technology out-licensing, etc., the Group has a performance obligation based on the contract with the customer, and revenue is recognized when the performance obligation is satisfied by granting the rights to the customer. For royalty contracts, a calculation is performed based on customer sales, etc., and revenue is recognized after taking into consideration the timing of the sales.

(n) Derivative Financial Instruments and Hedge Accounting

Derivative instruments, which include forward foreign exchange contracts, are used as a part of the Company's management of the foreign currency risk exposure of its financial assets and liabilities.

Forward foreign exchange contracts:
The Company enters into forward foreign exchange contracts to limit risk exposure, affected by changes in foreign currency exchange rates, on trade receivables and trade payables and cash flows generated from forecasted transactions denominated in foreign currencies. For forward foreign exchange contracts which are designated and are effective as hedges of such foreign currency risk on existing assets and liabilities, the Company adopted the accounting method whereby foreign currency denominated assets and liabilities are measured at the contract rate of the respective forward foreign exchange contract. With respect to such contracts for forecasted transactions, the contracts are marked-to-market and the unrealized gains/losses are deferred in the balance sheet to be released to income when the exchange gains/losses on the hedged items or transactions are recognized.

Hedge accounting:
Hedging instruments and hedged items, hedging policy, method for assessment of hedge effectiveness, and other matters related to hedge accounting are as follows:

(1) Hedging instruments and hedged items
Hedging instrument: Forward foreign exchange contracts
Hedged items: Foreign currency denominated receivables and payables, and forecasted foreign currency denominated transactions

(2) Hedging policy
Hedging instruments are used within the amounts of foreign currency denominated transactions, and the Company makes it a policy not to use derivatives for speculative purposes.

(3) Methods of assessing hedge effectiveness
Since material terms related to hedged items and hedging instruments are substantially identical, and market fluctuations are expected to be completely offset continuously at the time of and after the inception of the related hedge, assessment of hedge effectiveness is omitted.

Assessment of effectiveness is omitted also for forward foreign exchange contracts, under which the hedged items are translated using the forward contract rates.

(o) Amortization Method and Amortization Period of Goodwill

Goodwill is amortized by the straight-line method over 14 years.

(p) Significant Accounting Estimates

In-Process Research and Development and Valuation of Goodwill

(1) Amounts recorded in the consolidated financial statements for the years ended March 31, 2024 and 2023 are as follows:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
	2024	2023	2024
In-process research and development	¥5,800	¥5,800	$38,411
Goodwill	937	230	6,205

(2) Details of significant accounting estimates related to identified items
a. Method of calculating amounts recorded in the consolidated financial statements for the year ended March 31, 2024
Measurement of in-process research and development and goodwill is done mainly using the excess earnings method. Decisions on recognition of impairment losses on in-process research and development and goodwill are based on whether the total amount of undiscounted future cash flows of each development program has fallen below the carrying amount. In the year ended March 31, 2024, no impairment loss was recorded on in-process research and development and goodwill because the total amount of undiscounted future cash flows did not fall below the carrying amount.
b. Key assumptions used in calculating amounts recorded in the consolidated financial statements for the year ended March 31, 2024
Key assumptions used in estimating future cash flows and the discount rate are based on business plans, etc. that the Group has formulated.
c. Impact on consolidated financial statements for the following fiscal year
Any changes in these estimates and assumptions necessitated by changes in the business environment could have a significant impact on the valuation of in-process research and development and goodwill.

(q) Appropriations of Retained Earnings
Appropriations of retained earnings at each year-end are reflected in the consolidated financial statements for the following year upon shareholders' approval.

(r) Shareholders' Equity
Japanese companies are subject to the Companies Act of Japan (the "Act"). The Act provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and legal reserve equals 25% of the stated capital. Such distributions can be made at any time by resolution of the shareholders or by the Board of Directors if certain conditions are met. The above-mentioned legal reserve is included in retained earnings in the accompanying consolidated balance sheets.

(s) Dividends per Share
Cash dividends per share shown for each year in the accompanying consolidated statements of income represent dividends approved or declared as applicable to the respective years.

(t) New Accounting Standards Not Yet Adopted
Accounting Standards for Income Taxes, etc.

- Accounting Standard for Current Income Taxes (ASBJ Statement No. 27, revised October 28, 2022)
- Accounting Standard for Presentation of Comprehensive Income (ASBJ Statement No. 25, revised October 28, 2022)
- Implementation Guidance on Accounting Standard for Tax Effect Accounting (ASBJ Guidance No. 28, October 28, 2022)

(1) Overview
The above standards define the accounting classification of income taxes and other taxes when other comprehensive income is taxable, and the handling of tax effects related to the sale of shares of subsidiaries or affiliates when the group taxation regime is applied.

(2) Scheduled date of application
The above standards and guidance are scheduled to be applied from the beginning of the year ending March 31, 2025.

(3) Effects of application of the standards
The effects of the application were under assessment when these consolidated financial statements were being prepared.

(u) Changes in Presentation
Consolidated Balance Sheets
"Retirement benefit assets," which were included in "Other assets" in "Investments and other assets" for the year ended March 31, 2023, are presented as a discrete line item for the year ended March 31, 2024 because of an increase in their monetary significance. The consolidated financial statements for the year ended March 31, 2023 have been restated to reflect this change in presentation.
As a result, ¥1,788 million that was presented in "Other assets" in "Investments and other assets" in the consolidated balance sheets for the year ended March 31, 2023 are restated as "Retirement benefit assets" of ¥1,190 million and "Other, assets" of ¥598 million.

Consolidated Statements of Cash Flows
"Purchase of long-term prepaid expenses," which was included in "Other, net" in "Cash Flows from Investing Activities" in the year ended March 31, 2023, is presented as a discrete line item for the year ended March 31, 2024 because increase in their monetary significance. The consolidated financial statements for the year ended March 31, 2023 have been restated to reflect this change in presentation.
As a result, (¥237) million that was presented in "Other, net" in the year ended March 31, 2023, is restated as "Purchase of long-term prepaid expenses" of (¥218) million and "Other, net" of (¥18) million.

(v) Additional Information
Introduction of the Board Benefit Trust ("BBT")
Based on the resolution of the 99th ordinary general meeting of shareholders held on June 27, 2019, the Company has newly introduced a Performance-Linked Share Awards Plan (Board Benefit Trust (BBT)) (hereinafter "the Plan") for the directors (excluding outside directors) and corporate officers (hereinafter collectively "directors, etc.") with the aim of enhancing their awareness of improving medium- to long-term performance and contributing to an increase in corporate value.
The Company adopted the gross method to account for the Plan, in accordance with "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts" (ASBJ Practical Issue Task Force (PITF) No. 30, issued on March 26, 2015).

(1) Overview of the transaction
The Plan is a share awards plan whereby shares in the Company are acquired through a trust using funds contributed by the Company (the trust established pursuant to the Plan hereinafter referred to as the "Trust"), and the Company's shares and cash equivalents of such shares at their market value (hereinafter "the Company's shares, etc.") are granted through the Trust to the directors, etc. pursuant to the rules on share distribution to officers established by the Company.
The directors, etc. will receive the Company's shares, etc., in principle, upon their retirement.

(2) Company shares remaining in the Trust
The Company's shares remaining in the Trust are recorded as "Treasury stock" under net assets at the carrying amount in the Trust (except for incidental costs). As of March 31, 2024, the carrying amount and the number of shares of treasury stock were ¥154 million ($1,020 thousand) and 28,200 shares, respectively. As of March 31, 2023, the carrying amount and the number of shares of treasury stock were ¥182 million and 33,400 shares, respectively.

3. Cash and Cash Equivalents

Cash and deposits and marketable securities are reconciled to cash and cash equivalents on the consolidated statements of cash flows as follows:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
	2024	2023	2024
Cash and deposits	¥50,625	¥59,561	$335,265
Marketable securities	14,699	14,699	97,344
Subtotal	¥65,325	¥74,260	$432,616
Time deposits due after three months	—	—	—
Marketable securities due after three months	—	—	—
Cash and cash equivalents	¥65,325	¥74,260	$432,616

Details of significant non-cash transactions

Details of significant non-cash transaction are as follows:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
	2024	2023	2024
Disposal of treasury stock as contingent consideration			
Increase in capital surplus	¥56	—	$371
Decrease in treasury stock	1,387	—	9,185

4. Marketable and Investment Securities

The carrying amounts and fair values of held-to-maturity debt securities are as follows:

	MILLIONS OF YEN					
	Carrying amount	Fair value	Unrealized gain (loss)	Carrying amount	Fair value	Unrealized gain (loss)
	2024			2023		
Fair values exceeding carrying amounts	¥ —	¥ —	¥—	¥ —	¥ —	¥—
Fair values not exceeding carrying amounts	11,999	11,999	—	11,999	11,999	—
Total	¥11,999	¥11,999	¥—	¥11,999	¥11,999	¥—

	THOUSANDS OF U.S. DOLLARS (NOTE 1)		
	Carrying amount	Fair value	Unrealized gain (loss)
	2024		
Fair values exceeding carrying amounts	$ —	$ —	$—
Fair values not exceeding carrying amounts	79,464	79,464	—
Total	$79,464	$79,464	$—

The aggregate fair values (carrying amounts) and acquisition costs of available-for-sale securities are as follows:

	MILLIONS OF YEN					
	Fair value	Acquisition cost	Unrealized gain (loss)	Fair value	Acquisition cost	Unrealized gain (loss)
	2024			2023		
Carrying amounts exceeding acquisition costs						
Equity securities	¥16,838	¥ 5,951	¥10,887	¥13,713	¥ 6,367	¥7,345
Other	—	—	—	—	—	—
Subtotal	16,838	5,951	10,887	13,713	6,367	7,345
Carrying amounts not exceeding acquisition costs						
Equity securities	3,465	3,997	(532)	3,547	4,084	(536)
Other	2,700	2,700	—	2,700	2,700	—
Subtotal	6,165	6,697	(532)	6,247	6,784	(536)
Total	¥23,004	¥12,649	¥10,355	¥19,961	¥13,151	¥6,809

	THOUSANDS OF U.S. DOLLARS (NOTE 1)		
	Fair value	Acquisition cost	Unrealized gain (loss)
	2024		
Carrying amounts exceeding acquisition costs			
Equity securities	$111,510	$39,411	$72,099
Other	—	—	—
Subtotal	111,510	39,411	72,099
Carrying amounts not exceeding acquisition costs			
Equity securities	22,947	26,470	(3,523)
Other	17,881	17,881	—
Subtotal	40,828	44,351	(3,523)
Total	$152,344	$83,768	$68,576

Available-for-sale securities sold for the years ended March 31, 2024 and 2023 are summarized as follows:

	MILLIONS OF YEN					
	Proceeds	Gain	Loss	Proceeds	Gain	Loss
	2024			2023		
Equity securities	¥516	¥13	¥—	¥5	¥1	¥—
Total	¥516	¥13	¥—	¥5	¥1	¥—

	THOUSANDS OF U.S. DOLLARS (NOTE 1)		
	Proceeds	Gain	Loss
	2024		
Equity securities	$3,417	$86	$—
Total	$3,417	$86	$—

5. Inventories

Inventories as of March 31, 2024 and 2023 comprised the following:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
	2024	2023	2024
Merchandise and finished products	¥ 8,062	¥ 6,734	$ 53,391
Work in process	2,786	2,481	18,450
Raw materials and supplies	6,319	6,348	41,848
Total	¥17,168	¥15,564	$113,695

6. Short-term Bank Loans and Pledged Assets

(a) Short-term bank loans

Short-term bank loans outstanding as of March 31, 2024 and 2023, amounting to ¥3,850 million ($25,497 thousand) and ¥3,850 million, respectively, consisted mainly of bank overdrafts. The weighted-average interest rate applicable to short-term bank loans as of March 31, 2024 and 2023 was 0.60%.

(b) Pledged assets

As of March 31, 2024 and 2023, assets pledged as collateral for certain short-term bank loans are as follows:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
	2024	2023	2024
Assets pledged:			
Buildings and structures	¥5,843	¥6,134	$38,695
Machinery, equipment and vehicles	2,740	2,690	18,146
Tools, furniture and fixtures	954	1,041	6,318
Land	117	117	775
Total	¥9,655	¥9,984	$63,940
Liabilities secured:			
Short-term bank loans	¥1,400	¥1,400	$ 9,272
Total	¥1,400	¥1,400	$ 9,272

7. Accounting for Leases

Operating leases

(As a lessor)

Future minimum lease payments receivable under non-cancellable operating leases subsequent to March 31, 2024 and 2023 are as follows:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
	2024	2023	2024
Due within 1 year	¥ 953	¥ 949	$ 6,311
Due after 1 year	2,459	3,276	16,285
Total	¥3,413	¥4,226	$22,603

8. Contract Assets and Liabilities

(a) Among "Notes receivable-trade," "Accounts receivable-trade," and "Contract assets," the amounts of credits and contract assets arising from contracts with customers are as follows:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
	2024	2023	2024
Notes receivable–trade	¥ 297	¥ 282	$ 1,967
Accounts receivable–trade	23,029	18,607	152,510
Contract assets	417	379	2,762

(b) Among "Other," the amounts of contract liabilities are as follows:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
	2024	2023	2024
Contract liabilities	¥43	¥100	$285

9. Investment Properties

The Company owns rental office buildings (including land) mainly in Tokyo. Operating profit from these rental properties for the years ended March 31, 2024 and 2023 was ¥1,373 million ($9,093 thousand) and ¥1,290 million, respectively. Revenue from rental properties and related expenses are reported as net sales and cost of sales, respectively.

Carrying amount changes during the years ended March 31, 2024 and 2023, and fair value of these properties as of those dates are stated as follows:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
	2024	2023	2024
Carrying amount:			
Balance at the beginning of the year	¥10,047	¥10,347	$ 66,536
Changes during the year	(304)	(299)	(2,013)
Balance at the end of the year	9,742	10,047	64,517
Fair value at the end of the year	¥52,903	¥51,010	$350,351

Notes: 1. The carrying amount represents the acquisition costs less accumulated depreciation.
2. Fair value at the end of the year is calculated based on real estate appraisal reports issued by external real estate appraisers. If there have been no material changes in an appraisal value and applicable indices that are considered to appropriately reflect market values since the time of acquisition or the most recent valuation, the fair value at the end of the year is adjusted using such an appraisal value and applicable indices.

10. Financial Instruments

(a) Outline of Financial Instruments

(1) Policy for using financial instruments

The Group is managing its cash surplus in the form of low-risk financial instruments with high liquidity, while raising short-term working capital through loans from financial institutions including banks. Derivatives are used, not for speculative purposes, but to manage exposure to financial risks as described below.

(2) Nature and extent of risks arising from financial instruments

Trade receivables such as "Notes and accounts receivable–trade" are exposed to customer credit risk. Trade receivables denominated in foreign currencies are exposed to foreign exchange fluctuation risk. Marketable and investment securities are mainly held-to- maturity debt securities and equity securities, which are exposed to the risk of market price fluctuations.

Payment terms of trade payables, such as "Notes and accounts payable–trade" and "Electronically recorded obligations–operating," are mostly one year or less. Trade payables in foreign currencies in connection with the import transactions of raw materials are exposed to foreign exchange fluctuation risk. Bank loans are used for short-term working capital.

The only derivative transactions used by the Company are forward foreign exchange contracts for the purpose of hedging the foreign exchange fluctuation risk of trade receivables and trade payables denominated in foreign currencies. Please see Note 2. "Summary of Significant Accounting Policies" for details regarding hedging instruments, hedged items, hedging policy and methods of assessing hedge effectiveness.

(3) Risk management for financial instruments

a. Credit risk management (customers' default risk)

For the purpose of managing credit risk of trade receivables within the Group, each relevant department, according to the credit management rules, manages payment terms and balances of each major customer by regularly monitoring their status, in an effort to achieve early identification and mitigation of customer default risk arising from the deterioration of their financial condition and other factors.

Held-to-maturity debt securities held by the Company are, under the short-term investment rules, restricted to those with superior ratings only, involving minimal credit risk.

The Company enters into derivative transactions only with high credit rating banks and other financial institutions to mitigate the counterparty risk.

The maximum credit risk exposure of financial assets as of March 31, 2024 is limited to the carrying amounts of the financial assets on the consolidated balance sheets.

b. Market risk management (foreign exchange and interest rate fluctuation risks)

The Company uses forward foreign exchange contracts as appropriate to hedge foreign exchange fluctuation risk associated with trade receivables and trade payables denominated in foreign currencies.

With respect to marketable and investment securities, the Company periodically monitors fair values and financial positions of the related issuers (business counterparties), etc. For securities other than held-to-maturity debt securities, the Company continuously reviews its holdings status by taking into account the relationships with the business counterparties.

Derivative transactions are conducted under the authority of the general manager at each relevant department, in accordance with the forward foreign exchange contracts management rules, and the execution result of derivative transactions is reported to the Accounting Department and other relevant departments, as each transaction takes place. At the end of each month, the outstanding balance of forward foreign exchange contracts is reported to the directors in charge, as well as to other relevant departments. The consolidated subsidiaries are not engaged in derivative transactions.

c. Liquidity risk management on fund-raising (risk of delinquency)

The Company manages its liquidity risk by the Accounting Department preparing and updating the cash management plan as appropriate based on the report from each relevant department.

(4) Supplementary explanation concerning fair values of financial instruments

Since variable factors are incorporated in computing the fair values of financial instruments, such fair values may vary depending on the initial premises.

(5) Concentration of credit risks

As of March 31, 2024, 59% of all trade receivables were with specific major accounts.

(b) Fair Values of Financial Instruments

The carrying amount, fair value and net unrealized gains/losses of financial instruments are as follows:

MILLIONS OF YEN

March 31, 2024	Carrying amount	Fair value	Unrealized gain (loss)
	2024		
Marketable and investment securities and other available-for-sale securities	¥23,004	¥23,004	¥—
Asset total	¥23,004	¥23,004	¥—

Notes: 1. Cash and deposits, marketable securities (held-to-maturity debt securities), notes and accounts receivable—trade, notes and accounts payable–trade, electronically recorded obligations–operating, and short-term bank loans are excluded from the table above as their carrying amounts approximate fair value because they are cash or have short maturities.

2. Investments in investment limited partnerships and other similar entities, where securities have no quoted market price and are recorded in the consolidated balance sheets at the net amount corresponding to the equity interest, are not included in "Marketable and investment securities and other available-for-sale securities." The carrying amounts of such financial instruments are as follows.

MILLIONS OF YEN

	2024
Unlisted equity securities	¥ 77
Investment in investment limited partnership	150

THOUSANDS OF U.S. DOLLARS (NOTE 1)

March 31, 2024	Carrying amount	Fair value	Unrealized gain (loss)
	2024		
Marketable and investment securities and other available-for-sale securities	$152,344	$152,344	$—
Asset total	$152,344	$152,344	$—

THOUSANDS OF U.S. DOLLARS (NOTE 1)

	2024
Unlisted equity securities	$510
Investment in investment limited partnership	993

MILLIONS OF YEN

March 31, 2023	Carrying amount	Fair value	Unrealized gain (loss)
		2023	
Marketable and investment securities and other available-for-sale securities	¥19,961	¥19,961	¥—
Asset total	¥19,961	¥19,961	¥—

Notes: 1. Cash and deposits, marketable securities (held-to-maturity debt securities), notes and accounts receivable—trade, notes and accounts payable–trade, electronically recorded obligations–operating, and short-term bank loans are excluded from the table above as their carrying amounts approximate fair value because they are cash or have short maturities.

2. Investments in investment limited partnerships and other similar entities, where securities have no quoted market price and are recorded in the consolidated balance sheets at the net amount corresponding to the equity interest, are not included in "Marketable and investment securities and other available-for-sale securities." The carrying amounts of such financial instruments are as follows.

	MILLIONS OF YEN
	2023
Unlisted equity securities	¥77
Investment in investment limited partnerships	172

Redemption schedules of monetary assets and securities with contractual maturities subsequent to March 31, 2024 and 2023 are as follows:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
	Due within one year		
	2024	2023	2024
Cash and deposits	¥50,625	¥59,561	$335,265
Notes receivable–trade	297	282	1,967
Accounts receivable–trade	23,029	18,607	152,510
Marketable and investment securities			
Held-to-maturity debt securities	11,999	11,999	79,464
Available-for-sale securities with contractual maturities	2,700	2,700	17,881
Total	¥88,652	¥93,150	$587,099

Redemption schedules for bonds, long-term borrowings, lease obligations and other interest-bearing debt are as follows:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
	Due within one year		
	2024	2023	2024
Short-term bank loans	¥3,850	¥3,850	$25,497
Total	¥3,850	¥3,850	$25,497

(c) Fair Values of Financial Instruments by Level

The fair values of financial instruments are categorized into the following three levels according to the observability and significance of the inputs used in the fair value measurement.

Level 1: Fair value measured using observable inputs that reflect quoted market prices (unadjusted) for identical assets or liabilities in active markets
Level 2: Fair value measured using observable inputs other than Level 1 inputs
Level 3: Fair value measured using unobservable inputs

If multiple inputs are used that are significant to the fair value measurement, the fair value measurement is categorized in its entirety in the level of the lowest level input that is significant to the entire measurement.

(1) Financial Instruments Reported on the Consolidated Balance Sheet at Fair Value

	MILLIONS OF YEN			
	2024			
	Fair value			
	Level 1	Level 2	Level 3	Total
Marketable and investment securities and other available-for-sale securities				
Equity securities	¥20,304	¥ —	¥—	¥20,304
Other securities	—	2,700	—	2,700
Asset total	¥20,304	¥2,700	¥—	¥23,004

	MILLIONS OF YEN			
	2023			
	Fair value			
	Level 1	Level 2	Level 3	Total
Marketable and investment securities and other available-for-sale securities				
Equity securities	¥17,261	¥ —	¥—	¥17,261
Other securities	—	2,700	—	2,700
Asset total	¥17,261	¥2,700	¥—	¥19,961

	THOUSANDS OF U.S. DOLLARS (NOTE 1)			
	2024			
	Fair value			
	Level 1	Level 2	Level 3	Total
Marketable and investment securities and other available-for-sale securities				
Equity securities	$134,464	$ —	$—	$134,464
Other securities	—	17,881	—	17,881
Asset total	$134,464	$17,881	$—	$152,344

Note: Description of valuation methods and inputs used in the fair value measurement

Marketable and investment securities

Listed equity securities are valued using quoted market prices. As listed equity securities are traded in active markets, their fair value is categorized in Level 1. However, the fair values of other available-for-sale securities held by the Company (negotiable certificates of deposit) are categorized in Level 2 as they are not considered to be quoted market prices in active markets due to the low frequency of trading.

11. Retirement Benefits

The Company has defined benefit plans, namely, a lump-sum retirement plan and a defined benefit corporate pension plan. A retirement benefit trust has been established for the lump-sum retirement plan. The Company may make additional payments at the time of employees' retirement in addition to the lump-sum retirement benefits. The simplified method is used to calculate KAKEN PHARMA CO., LTD.'s retirement benefit obligation. ARTham Therapeutics Inc. does not have a retirement benefit plan.

Defined benefit plans

(a) Changes in the retirement benefit obligation for the years ended March 31, 2024 and 2023 are as follows (excluding plans in which the simplified method is applied):

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
	2024	2023	2024
Retirement benefit obligation–Beginning balance	¥18,045	¥18,451	$119,503
Service cost	655	671	4,338
Interest cost	54	55	358
Actuarial gain or loss	69	9	457
Retirement benefit paid	(1,129)	(1,141)	(7,477)
Retirement benefit obligation–Ending balance	¥17,696	¥18,045	$117,192

(b) Changes in the plan assets for the years ended March 31, 2024 and 2023 are as follows (excluding plans in which the simplified method is applied):

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
	2024	2023	2024
Plan assets–Beginning balance	¥12,886	¥13,411	$ 85,338
Expected return on plan assets	303	319	2,007
Actuarial gain or loss	1,802	(278)	11,934
Employer's contributions	157	157	1,040
Retirement benefit paid	(744)	(723)	(4,927)
Plan assets–Ending balance	¥14,406	¥12,886	$ 95,404

(c) Changes in the net defined benefit liability for the years ended March 31, 2024 and 2023 in which the simplified method is applied as follows:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
	2024	2023	2024
Net defined benefit liability–Beginning balance	¥ 0	¥—	$ 0
Retirement benefit cost	0	0	0
Net defined benefit liability–Ending balance	¥ 0	¥ 0	$ 0

(d) Reconciliation between the net liability recorded in the consolidated balance sheets and the balances of defined benefit obligation and plan assets are as follows:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
	2024	2023	2024
Retirement benefit obligation under funded plan	¥17,696	¥18,045	$117,192
Plan assets	(14,406)	(12,886)	(95,404)
	3,290	5,159	21,788
Retirement benefit obligation under unfunded plan	0	0	0
Net liability recorded on the consolidated balance sheets	3,290	5,159	21,788
Retirement benefit liabilities	6,393	6,349	42,338
Retirement benefit assets	3,102	1,190	20,543
Net liability recorded on the consolidated balance sheets	¥ 3,290	¥ 5,159	$ 21,788

Notes: 1. Retirement benefit obligation and plan assets under the Company's funded plan include those for the lump-sum retirement plan.
2. A plan in which simplified method is applied is included.

(e) Net periodic pension cost and its components are as follows:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
	2024	2023	2024
Service cost	¥ 655	¥ 671	$ 4,338
Interest cost	54	55	358
Expected return on plan assets	(303)	(319)	(2,007)
Amortization of actuarial gain or loss	(5)	90	(33)
Net periodic pension cost under simplified method	0	0	0
Net periodic pension cost for defined benefit plans	¥ 400	¥ 497	$ 2,649

(f) The components of remeasurements of defined benefit plans in other comprehensive income (before tax effect) for the years ended March 31, 2024 and 2023 are as follows:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
	2024	2023	2024
Actuarial gain or loss	¥1,727	¥(197)	$11,437

(g) The components of remeasurements of defined benefit plans in accumulated other comprehensive income (before tax effect) as of March 31, 2024 and 2023 are as follows:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
	2024	2023	2024
Unrecognized actuarial gain or loss	¥(1,964)	¥(237)	$(13,007)

(h) Plan assets

(1) Plan assets consist of the following:

	2024	2023
Debt securities	33%	43%
Equity securities	52	40
General account	10	12
Other	5	5
Total	100%	100%

Note: The plan assets include retirement benefit trust which accounted for 5% and 6% of the total plan assets as of March 31, 2024 and 2023, respectively.

(2) Long-term expected rate of return on plan assets is determined based on current and expected allocation of plan assets and long-term rate of returns expected currently and in the future from the various components of the plan assets.

(i) Major assumptions used for actuarial calculation are as follows (weighted average):

	2024	2023
Discount rate	0.3%	0.3%
Long-term expected rate of return	2.5%	2.5%

12. Shareholders' Equity

(a) Class and number of shares outstanding and treasury stock

	Class of shares outstanding	Class of treasury stock
	Common stock	Common stock
Number of shares as of April 1, 2023	45,939,730	8,466,780
Increase	—	712
Decrease	—	(397,489)
Number of shares as of March 31, 2024	45,939,730	8,070,003

Notes:
1. Increase in treasury stock (712 shares) is due to purchase of shares of less than one unit.
2. Decrease in treasury stock (397,489 shares) is due to the payment as contingent consideration (392,289 shares) for the acquisition following the achievement of milestones relating to the refractory intravascular malformation treatment KP-001 under the Share Purchase Agreement signed upon the acquisition of ARTham Therapeutics Inc., which was announced on November 30, 2021. In addition, decrease due to placement of Company stock (4,700 shares) in the Board Benefit Trust (BBT) and sale of Company stock (500 shares) in the BBT.
3. The number of shares of treasury stock includes Company shares held by Custody Bank of Japan, Ltd. (Trust Account E) as trust assets of the BBT (28,200 shares as of March 31, 2024 and 33,400 shares as of April 1, 2023).

(b) Matters related to dividends

(1) Dividend payment

The following payment was approved at the general meeting of shareholders held on June 29, 2023:

Dividends on common stock	
Total amount of dividends	¥2,812 million ($18,623 thousand)
Dividends per share	¥75.00 ($0.50)
Record date	March 31, 2023
Effective date	June 30, 2023

The following payment was approved at the Board of Directors' meeting held on November 8, 2023:

Total amount of dividends	¥2,842 million ($18,821 thousand)
Dividends per share	¥75.00 ($0.50)
Record date	September 30, 2023
Effective date	November 30, 2023

Notes:
1. Total amount of dividends approved at the ordinary general meeting of shareholders on June 29, 2023 includes ¥2 million ($13 thousand) of dividends payable for the Company's shares held by Custody Bank of Japan, Ltd. (Trust Account E) as trust assets of the BBT.
2. Total amount of dividends approved at the Board of Directors' meeting on November 8, 2023 includes ¥2 million ($13 thousand) of dividends payable for the Company's shares held by Custody Bank of Japan, Ltd. (Trust Account E) as trust assets of the BBT.

(2) Dividends whose record date is attributed to the year ended March 31, 2024 but which become effective after March 31, 2024

Approval at the ordinary general meeting of shareholders held on June 27, 2024 was as follows:

Dividends on common stock	
Total amount of dividends	¥2,842 million ($18,821 thousand)
Source of dividends	Retained earnings
Dividends per share	¥75.00 ($0.50)
Record date	March 31, 2024
Effective date	June 28, 2024

Note: Total amount of dividends includes ¥2 million ($13 thousand) of dividends payable for the Company's shares held by Custody Bank of Japan, Ltd. (Trust Account E) as trust assets of the BBT.

13. Research and Development Costs

Research and development costs included in manufacturing costs and selling, general and administrative expenses for the years ended March 31, 2024 and 2023 amounted to ¥12,543 million ($83,066 thousand) and ¥15,789 million, respectively.

14. Loss on Revaluation of Inventories

The ending balance of inventories is the amount after writing down book values based on decreased profitability, and the following loss on revaluation of inventories is included in cost of sales. The amounts on March 31, 2024 and 2023 are as follows:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
	2024	2023	2024
	¥28	¥ 42	$185

15. Gain on Sale of Non-Current Assets

Gain on sale of non-current assets for the years ended March 31, 2024 and 2023 consists of the following:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
	2024	2023	2024
Machinery, equipment and vehicles	¥ 0	¥ —	$ 0
Tools, furniture and fixtures	0	2	0
Total	¥ 0	¥ 2	$ 0

16. Loss on Sale of Non-Current Assets

Loss on sale of non-current assets for the years ended March 31, 2024 and 2023 consists of the following:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
	2024	2023	2024
Machinery, equipment and vehicles	¥0	¥ 1	$0

17. Loss on Retirement of Non-Current Assets

Loss on retirement of non-current assets for the years ended March 31, 2024 and 2023 consists of the following:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
	2024	2023	2024
Buildings and structures	¥34	¥ 5	$225
Other	114	43	755
Total	¥148	¥48	$980

18. Impairment Losses

The Group recognized impairment loss for the following asset groups for the year ended March 31, 2024:

			MILLIONS OF YEN
Location	Use	Type	Impairment loss
Fujieda, Shizuoka Pref.	Production facilities	Buildings and structures	¥ 19

			THOUSANDS OF U.S. DOLLARS
Location	Use	Type	Impairment loss
Fujieda, Shizuoka Pref.	Production facilities	Buildings and structures	$ 126

The Group categorizes its business assets based principally on the segment by types of business, and rental properties, idle assets, etc. are grouped on an individual basis.

For buildings and structures, the carrying amount is reduced to the recoverable amount based on the resolution on reconstruction approved by the Board of Directors on March 28, 2024, and the ¥12 million ($79 thousand) decrease in buildings and structures and ¥6 million ($40 thousand) in dismantlement costs are accounted for as impairment losses in "Other income (expenses)."

The recoverable amount is measured using the utility value and calculated as the depreciation expense equivalent for the period of expected use.

The Group recognized impairment loss for the following asset groups for the year ended March 31, 2023:

			MILLIONS OF YEN
Location	Use	Type	Impairment loss
Fujieda, Shizuoka Pref.	Production facilities	Buildings and structures	¥ 304
Bunkyo-ku, Tokyo	Business assets	In-process research and development	¥ 1,559

The Group categorizes its business assets based principally on the segment by types of business, and rental properties, idle assets, etc. are grouped on an individual basis.

For buildings and structures, the carrying amount is reduced to the recoverable amount based on the resolution on reconstruction approved by the Board of Directors on April 27, 2022, and the ¥48 million decrease in buildings and structures and ¥255 million in dismantlement costs are accounted for as impairment losses in "Other income (expenses)."

The recoverable amount is measured using the utility value and calculated as the depreciation expense equivalent for the period of expected production.

For in-process research and development, the carrying amount is reduced to the recoverable amount based on the resolution for termination of development of a bullous pemphigoid treatment approved by the Board of Directors on April 12, 2023. The resulting decrease of ¥1,500 million in in-process research and development and decrease of ¥59 million in goodwill are accounted for as impairment losses in "Other income (expenses)."

The recoverable amount is measured using the utility value. However, the utility value of asset groups that are not expected to be valued based on future cash flows is estimated to be zero.

19. Income Taxes

The significant components of deferred tax assets and liabilities as of March 31, 2024 and 2023 are as follows.

:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
	2024	2023	2024
Deferred tax assets:			
Tax loss carryforwards	¥ 337	¥ 296	$ 2,232
Loss on valuation of inventories	31	56	205
Disallowed expensed supplies	422	401	2,795
Contract loss	158	167	1,046
Adjustment of gain on sales of land	2,638	2,638	17,470
Amortization of research & development expenses	3,167	2,577	20,974
Amortization of long-term prepaid expenses	465	594	3,079
Provision for bonuses	291	290	1,927
Net defined benefit liability	1,957	1,944	12,960
Impairment losses	99	1,010	656
Other	452	545	2,993
Total	10,023	10,522	66,377
Valuation allowance for tax loss carryforwards	(337)	(296)	(2,232)
Valuation allowance	(2,800)	(3,720)	(18,543)
Total	(3,138)	(4,017)	(20,781)
Deferred tax assets	6,885	6,505	45,596
Deferred tax liabilities:			
Retirement benefit assets	(950)	(364)	(6,291)
Reserve for advanced depreciation of non-current assets	(173)	(182)	(1,146)
Net unrealized holding gain on securities	(3,170)	(2,084)	(20,993)
In-process research and development	(1,947)	(1,771)	(12,894)
Deferred tax liabilities	(6,241)	(4,403)	(41,331)
Deferred tax assets, net	¥ 643	¥ 2,102	$ 4,258

Notes:

1. The valuation allowance decreased by ¥878 million. The main factor in this decrease was a ¥916 million decrease in the valuation allowance for impairment losses.
2. Tax loss carryforwards, valuation allowance and deferred tax assets by expiration of carryforwards as of March 31, 2024 and 2023 are as follows:

	MILLIONS OF YEN						
	Within 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	Beyond 5 years	Total
	2024						
Tax loss carryforwards	¥—	¥—	¥—	¥—	¥—	¥ 337	¥ 337
Valuation allowance	—	—	—	—	—	(337)	(337)
Deferred tax assets	—	—	—	—	—	—	—

Note: Tax loss carryforwards are measured using the effective statutory tax rates.

MILLIONS OF YEN

	Within 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	Beyond 5 years	Total
				2023			
Tax loss carryforwards	¥—	¥—	¥—	¥—	¥—	¥ 296	¥ 296
Valuation allowance	—	—	—	—	—	(296)	(296)
Deferred tax assets	—	—	—	—	—	—	—

Note: Tax loss carryforwards are measured using the effective statutory tax rates.

THOUSANDS OF U.S. DOLLARS (NOTE 1)

	Within 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	Beyond 5 years	Total
				2024			
Tax loss carryforwards	$—	$—	$—	$—	$—	$ 2,232	$ 2,232
Valuation allowance	—	—	—	—	—	(2,232)	(2,232)
Deferred tax assets	—	—	—	—	—	—	—

The Group is subject to several taxes based on income, which in the aggregate resulted in a statutory tax rate of approximately 30.62% for the years ended March 31, 2024 and 2023. Reconciliation of the differences between the statutory tax rate and the effective tax rate for the years ended March 31, 2024 and 2023 is as follows:

	2024	2023
Statutory tax rate	30.62%	30.62%
Increase (decrease) in taxes resulting from:		
Expenses not deductible for income tax purpose (e.g. entertainment expenses)	0.35	0.24
Income not included for income tax purpose (e.g. dividend income)	(0.31)	(0.40)
Inhabitant per capita taxes	0.68	0.97
Tax credit for research expenses	(5.72)	(9.98)
Change in valuation allowance	(8.96)	(0.27)
Impact from change in tax rate	1.80	—
Other	(0.38)	(0.98)
Effective tax rate	18.08%	20.20%

20. Business Combination

In FY2023, based on the Share Purchase Agreement signed upon the acquisition of ARTham Therapeutics Inc., which was announced on November 30, 2021, a contingent consideration related to the achievement of milestones for the refractory intravascular malformation treatment KP-001 was paid on July 7, 2023. As a result, the contingent consideration has been additionally recognized as part of the acquisition cost, and additional goodwill has also been recognized.

The contingent consideration shall be deemed to have been paid at the time of acquisition, and revisions made accordingly to the acquisition cost and the amounts of goodwill and amortization of goodwill.

1. Additionally recognized acquisition cost ¥1,443 million
2. Additionally recognized amounts of goodwill and goodwill amortization, amortization method and amortization period
   Additionally recognized amount of goodwill ¥864 million
   Amortization method and amortization period Amortized by the straight-line method over 14 years

21. Revenue Recognition

1. Revenue from Contracts with Customers
   The breakdown of revenue from contracts with customers is presented in "25. Segment Information."

2. Basis for Understanding Revenue from Contracts with Customers
   The Group recognizes revenue based on the following five-step approach.
   Step 1: Identify the contract with a customer.
   Step 2: Identify the separate performance obligations in the contract.
   Step 3: Determine the transaction price.
   Step 4: Allocate portions of the transaction price to the separate performance obligations in the contract.
   Step 5: Recognize revenue when (or as) each performance obligation is satisfied.

   (a) Sale of merchandise and finished goods
   Revenue from sale of merchandise and finished goods is primarily a result of sales from manufacturing or wholesaling, and where performance obligations to deliver such goods are based on the sales contract with the customer. These performance obligations are deemed to be satisfied when control of the goods is transferred to the customer, whereupon the revenue is recognized. When goods are sold in Japan, revenue is recognized upon shipment if the time from shipment to the transfer of control of the goods to the customer is a normal period of time.
   For transactions in which the Group is involved in the sale of goods as an agent, revenue is recognized on a net basis.
   The transaction price is calculated by subtracting any discounts or rebates from the consideration promised in the contract with the customer.
   Consideration for the sale of goods is generally received within one year after the performance obligation is satisfied, in accordance with payment terms that have been separately determined, and does not include a significant financing component.

   (b) Revenue from license agreements related to the sale of goods
   Revenue from license agreements related to the sale of goods consists of intellectual property transfers or technology licensing agreements and royalties. Intellectual property transfers or technology licensing agreements have performance obligations based on contracts with customers, and these performance obligations are recognized as revenue when the rights are granted to the customer. Royalties are calculated based on customer sales and other factors, and are recognized as revenue with reference to when the sales occur.
   Consideration for licenses related to the sale of goods is generally received within one year after the performance obligation is satisfied, in accordance with the payment terms that have been separately determined, and does not include a significant financing component.

3. Relationship between Satisfaction of Performance Obligations Based on the Contract with the Customer and Cash Flows Arising from That Contract, and the Amount and Timing of Revenue Expected to be Recognized in the Following Fiscal Year or Later from Contracts Existing at the End of the Fiscal Year under Review

   (a) Balance of contract assets and contract liabilities
   The Group's contract assets and contract liabilities are not disclosed as their balances are immaterial and there are no significant changes. In addition, the amount of revenue (mainly changes in transaction price) recognized in the fiscal year under review from performance obligations that were satisfied (or partially satisfied) in previous fiscal years is immaterial.

(b) Transaction price allocated to remaining performance obligations
In the Group, the transaction price allocated to remaining performance obligations is not disclosed as there are no significant contracts that were initially expected to last more than one year. In addition, there are no significant variable considerations in the amount of consideration received from contracts with customers that are not included in the transaction price.

22. Related Party Transactions

There are no related party transactions to be disclosed for the years ended March 31, 2024 and 2023.

23. Per Share Information

Per share information as of March 31, 2024 and 2023 and for the years then ended is as follows:

	YEN		U.S. DOLLARS (NOTE 1)
	2024	2023	2024
Net assets per share	¥3,796.05	¥3,636.17	$25.14
Profit per share	212.67	144.80	1.41

Notes:
1. Diluted profit per share is not presented due to the absence of dilutive shares.
2. The Company has introduced the Board Benefit Trust (BBT). The Company's shares held by the BBT, which are recorded as treasury stock in shareholders' equity, are included in the treasury stock to be deducted from the total number of shares outstanding at the end of the year for computation of net assets per share, and are also included in the treasury stock to be deducted when calculating the weighted average number of shares of common stock for computation of profit per share.
The number of shares of treasury stock deducted for computation of net assets per share is 28,200 as of March 31, 2024 and 33,400 as of March 31, 2023. The weighted average number of shares of treasury stock deducted for computation of profit per share is 29,898 for the year ended March 31, 2024 and 35,021 for the year ended March 31, 2023.
3. The basis of calculation for profit per share for the years ended March 31, 2024 and 2023 is as follows:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
	2024	2023	2024
Profit	¥ 8,025	¥ 5,440	$ 53,146
Profit attributable to common stock owners of the Company	8,025	5,440	53,146
Profit not attributable to common stock owners (Number of shares)	—	—	—
Weighted average number of shares of common stock (thousands of shares)	37,737	37,571	249,914

4. The basis of calculation for net assets per share for the years ended March 31, 2024 and 2023 is as follows:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
	2024	2023	2024
Total net assets	¥143,755	¥136,836	$952,020
Amount subtracted from total net assets	—	578	—
(Non-controlling interests included in above)	(—)	(578)	(—)
Net assets attributable to common stock at end of period	143,755	136,258	952,020
Number of shares of common stock used in calculation of net assets per share at end of period (thousands of shares)	37,869	37,472	250,788

24. Comprehensive Income

Reclassification adjustments and income tax effects for each component of other comprehensive income for the years ended March 31, 2024 and 2023 are as follows:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
	2024	2023	2024
Net unrealized holding gain (loss) on securities:			
Increase (decrease) during the year	¥3,559	¥ 249	$23,570
Reclassification adjustments	(13)	(1)	(86)
Before income tax effect	3,546	248	23,483
Income tax effect	(1,085)	(76)	(7,185)
Net unrealized holding gain (loss) on securities	¥2,460	¥ 172	$16,291
Remeasurements of defined benefit plans:			
Increase (decrease) during the year	¥1,732	¥(287)	$11,470
Reclassification adjustments	(5)	90	(33)
Before income tax effect	1,727	(197)	11,437
Income tax effect	(528)	60	(3,497)
Remeasurements of defined benefit plans	¥1,198	¥(136)	$ 7,934
Total other comprehensive income	¥3,658	¥ 35	$24,225

25. Segment Information

(a) Overview of reportable segments
The Group's reportable segments are constituent units of the Group for which separate financial information is available, and which the Board of Directors regularly evaluates in order to decide how to allocate resources within the Group and evaluate business performance.

The Group produces and sells medical products, medical devices and agrochemicals and rents real estate, operating each business with a different management style appropriate for the industry category. Each business operates on its own initiative and creates comprehensive business strategies in conducting its business activities. The Group consists of segments by category of industry based on the operation of business; therefore, it consists of two reportable segments: "Pharmaceuticals" and "Real estate."

"Pharmaceuticals" mainly encompasses the production and sale of medical products, medical devices, and agrochemicals.

"Real estate" mainly encompasses the renting out of Bunkyo Green Court.

(b) Method of calculating net sales, profit, assets, and other items by reportable segment
Accounting policies for the reportable segments are consistent with those described in Note 2. "Summary of Significant Accounting Policies." Profit by reportable segment is based on operating profit.

Corporate assets are not allocated to each reportable segment. However, related expenses are allocated to each reportable segment using reasonable criteria.

(c) Information about reportable segments

MILLIONS OF YEN

	Reportable Segment				
	Pharmaceuticals	Real estate	Total	Adjustments	Consolidated
	2024				
Net sales:					
Sales of merchandise and finished goods	¥67,958	¥ —	¥67,958	¥ —	¥ 67,958
License agreements for sale, etc. of finished products	1,654	—	1,654	—	1,654
Revenue from contracts with customers	69,613	—	69,613	—	69,613
Other revenue	—	2,430	2,430	—	2,430
Net sales to external customers	69,613	2,430	72,044	—	72,044
Intersegment sales or transfers	—	—	—	—	—
Total	¥69,613	¥ 2,430	¥72,044	¥ —	¥ 72,044
Segment profit	¥ 8,140	¥ 1,373	¥ 9,513	¥ —	¥ 9,513
Segment assets	¥86,015	¥ 9,777	¥95,792	¥75,830	¥171,623
Other items:					
Depreciation and amortization	¥ 2,853	¥321	¥ 3,174	¥ —	¥ 3,174
Amortization of goodwill	157	—	157	—	157
Increase in property, plant and equipment and intangible assets	7,937	8	7,946	—	7,946

MILLIONS OF YEN

	Reportable Segment				
	Pharmaceuticals	Real estate	Total	Adjustments	Consolidated
	2023				
Net sales:					
Sales of merchandise and finished goods	¥68,785	¥ —	¥68,785	¥ —	¥ 68,785
License agreements for sale, etc. of finished products	1,776	—	1,776	—	1,776
Revenue from contracts with customers	70,562	—	70,562	—	70,562
Other revenue	—	2,422	2,422	—	2,422
Net sales to external customers	70,562	2,422	72,984	—	72,984
Intersegment sales or transfers	—	—	—	—	—
Total	¥70,562	¥ 2,422	¥72,984	¥ —	¥ 72,984
Segment profit	¥6,707	¥ 1,290	¥7,998	¥ —	¥ 7,998
Segment assets	¥74,223	¥10,090	¥84,314	¥82,013	¥166,328
Other items:					
Depreciation and amortization	¥ 2,747	¥ 322	¥ 3,070	¥ —	¥ 3,070
Amortization of goodwill	22	—	22	—	22
Increase in property, plant and equipment and intangible assets	2,770	19	2,789	—	2,789

THOUSANDS OF U.S. DOLLARS (NOTE 1)

	Reportable Segment				
	Pharmaceuticals	Real estate	Total	Adjustments	Consolidated
	2024				
Net sales:					
Sales of merchandise and finished goods	$450,053	$ —	$450,053	$ —	$ 450,053
License agreements for sale, etc. of finished products	10,954	—	10,954	—	10,954
Revenue from contracts with customers	461,013	—	461,013	—	461,013
Other revenue	—	16,093	16,093	—	16,093
Net sales to external customers	461,013	16,093	477,113	—	477,113
Intersegment sales or transfers	—	—	—	—	—
Total	$461,013	$16,093	$477,113	$ —	$ 477,113
Segment profit	$ 53,907	$ 9,093	$ 63,000	$ —	$ 63,000
Segment assets	$569,636	$64,748	$634,384	$502,185	$1,136,576
Other items:					
Depreciation and amortization	$ 18,894	$ 2,126	$ 21,020	$ —	$ 21,020
Amortization of goodwill	1,040	—	1,040	—	1,040
Increase in property, plant and equipment and intangible assets	52,563	53	52,623	—	52,623

Notes:
1. The adjustments to segment assets of ¥75,830 million ($502,185 thousand) and ¥82,013 million as of March 31, 2024 and 2023, respectively, represent corporate assets which are not allocated to each reportable segment. The amounts mainly consist of surplus funds which do not belong to reportable segments.
2. Depreciation and increase in property, plant and equipment and intangible assets include long-term prepaid expenses.

(d) Information by product and service

Information by product and service has not been disclosed since the classification by product and service is the same as the reportable segments.

(e) Information by geographical area

(1) Sales

Information on sales by geographical area has not been disclosed since sales in Japan accounted for more than 90% of sales on the consolidated statements of income.

(2) Property, plant and equipment

Information on property, plant and equipment by geographical area has not been disclosed since all property, plant and equipment are located in Japan.

(f) Information about major customers

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)	
	Net sales			Name of the related segment
	2024	2023	2024	
Alfresa Corporation	¥13,313	¥13,132	$88,166	Pharmaceuticals
SUZUKEN CO., LTD.	10,234	10,349	67,775	Pharmaceuticals
MEDICEO CORPORATION	9,952	10,420	65,907	Pharmaceuticals

(g) Information about impairment loss on non-current assets by reportable segment
The Group recognized impairment loss for the following asset group for the years ended March 31, 2024 and 2023:

MILLIONS OF YEN

	Reportable Segment					
	Pharmaceuticals	Real estate	Total	Other	Adjustments	Consolidated
	2024					
Impairment loss	¥ 19	¥—	¥ 19	¥—	¥—	¥ 19

MILLIONS OF YEN

	Reportable Segment					
	Pharmaceuticals	Real estate	Total	Other	Adjustments	Consolidated
	2023					
Impairment loss	¥ 1,863	¥—	¥ 1,863	¥—	¥—	¥ 1,863

THOUSANDS OF U.S. DOLLARS

	Reportable Segment					
	Pharmaceuticals	Real estate	Total	Other	Adjustments	Consolidated
	2024					
Impairment loss	$ 126	$—	$ 126	$—	$—	$ 126

(h) Amortization of goodwill and unamortized balance by reportable segment for the years ended March 31, 2024 and 2023 are as follows:

Year ended March 31, 2024

MILLIONS OF YEN

	Reportable Segment					
	Pharmaceuticals	Real estate	Total	Other	Corporate and eliminations	Total
	2024					
Amount amortized during the year	¥157	¥—	¥157	¥—	¥—	¥157
Unamortized balance at end of the year	¥937	¥—	¥937	¥—	¥—	¥937

Note: In the Pharmaceuticals segment, based on the Share Purchase Agreement signed upon the acquisition of ARTham Therapeutics Inc., which was announced on November 30, 2021, additional goodwill is recorded as of July 7, 2023 following payment of contingent consideration, due to confirmation of the achievement of milestones relating to the refractory intravascular malformation treatment KP-001. The increase in goodwill for the year ended March 31, 2024 is ¥864 million ($5,722 thousand).

Year ended March 31, 2023

MILLIONS OF YEN

	Reportable Segment					
	Pharmaceuticals	Real estate	Total	Other	Corporate and eliminations	Total
	2023					
Amount amortized during the year	¥ 22	¥—	¥ 22	¥—	¥—	¥ 22
Unamortized balance at end of the year	¥230	¥—	¥230	¥—	¥—	¥230

Note: Goodwill impairment of ¥59 million is recorded in the Pharmaceuticals segment.

THOUSANDS OF U.S. DOLLARS (NOTE 1)

	Reportable Segment					
	Pharmaceuticals	Real estate	Total	Other	Corporate and eliminations	Total
	2024					
Amount amortized during the year	$1,040	$—	$1,040	$—	$—	$1,040
Unamortized balance at end of the year	$6,205	$—	$6,205	$—	$—	$6,205

26. Subsequent Event

The Company has entered into an IP Transfer and Commercial Option Agreement with Cilag GmbH International, an affiliate of the Janssen Pharmaceutical Companies of Johnson & Johnson ("J&J"), for Investigational Drug NM26 (development code: NM26-2198), a bispecific antibody that the Company is co-developing with Numab Therapeutics AG ("Numab") for the treatment of atopic dermatitis.

(a) Name of the other party in the agreement: Cilag GmbH International

(b) Date of the agreement: May 28, 2024

(c) Details of the agreement and significant effects of the agreement on business activities, etc.:
Under this agreement, the Company will transfer all of the intellectual property obtained in the License and Co-Development Agreement with Numab to J&J. The Company will terminate the License and Co-Development Agreement that it entered into on January 12, 2021 with Numab, and plans to receive an upfront payment from J&J upon such termination. The Company will also have the right to receive milestone income from J&J based on the progress of development and achievement of sales targets, and royalty income based on sales. In addition, the Company has the option to negotiate a Commercial Option Agreement for all the indications for which J&J obtains approval in Japan.

The rights specified in the License and Co-Development Agreement with Numab will continue even after the agreement is terminated, and the Company plans to receive an upfront payment from Numab. The Company will also have the right to receive milestone income from Numab based on the progress of development by J&J.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of KAKEN PHARMACEUTICAL CO., LTD:

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of KAKEN PHARMACEUTICAL CO., LTD ("the Company") and its consolidated subsidiaries (collectively, "the Group"), which comprise the consolidated balance sheet as at March 31, 2024 and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2024, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Evaluation of in-process research and development and goodwill related to ARTham Therapeutics Inc.	
A key audit matter and the basis of our determination	How the matter was addressed in the audit
As described in Note 2 (Summary of Significant Accounting Policies (p) Significant Accounting Estimates), the Group booked 5,800 million yen of in-process research and development and 937 million yen of goodwill as intangible assets on the consolidated balance sheet as of March 31, 2024. These items are recognized due to the acquisition of ARTham Therapeutics Inc., including conditional consideration for acquisition, which is consolidated subsidiary. The Company evaluates the in-process research and development and goodwill mainly based on the excess earnings method. Decisions on recognition of impairment losses on in-process research and development and goodwill are based on whether the total amount of undiscounted future cash flows of each development program has fallen below the carrying amount. Undiscounted future cash flows are calculated based on the business plan for each development program formulated by the company, which includes important assumptions such as future sales forecasts (number of patients and drug prices) and the probability of success of R&D. These important assumptions are subject to uncertainty as they can fluctuate primarily depending on the pharmaceutical market and the R&D landscape. In addition, the company makes investment decisions based on an evaluation of the business value at the time of the acquisition of in-process research and development and goodwill, but if a competing new drug is subsequently launched on the market, or if the expected efficacy is not recognized as expected in the research and development process, the economic rationale for continuing research and development is not expected and the company will decide to discontinue the program. For this reason, management's subjective judgment regarding the continuation of the development program has an important impact on the valuation of the intangible assets. Based on the above, we judged that the evaluation of intangible assets is a key audit matter because the evaluation of the intangible assets is particularly important in the audit of the consolidated financial statements for the fiscal year under review, as there is uncertainty in the business plan and the subjective judgment of management.	In considering the evaluation of in-process research and development and goodwill related to ARTham Therapeutics Inc., the audit firm mainly performed the following audit procedures. □ The effectiveness of the development and operation of the company's internal controls related to the valuation of the intangible assets was evaluated. □ Verified that the accounting treatment for additional acquisitions based on conditional acquisition consideration carried out as a result of the achievement of milestones in the consolidated fiscal year under review was appropriately carried out in accordance with accounting standards. □ Confirmed whether the progress in the R&D business plan related to the intangible assets is consistent with the contents confirmed in the minutes of the Board of Directors, etc., and in interviews with management and R&D managers. □ We examined the rationality of the business plan and the reasonableness of the management's judgment on whether or not to continue the research and development by viewing basic materials, comparing it with available external information, and questioning the management and the R&D manager regarding important assumptions such as the number of patients and drug prices, as well as the probability of success of R&D, which are the basis for future sales forecasts in the business plan for each development program. □ We examined the process of calculating pre-discount future cash flows and confirmed that the evaluation of in-process research and development was appropriate.

Other Information

The other information comprises the information contained in the disclosure documents including the audited consolidated financial statements, but does not include the consolidated financial statements and our auditor's report thereon.

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We have not performed any work on the other information as we have determined that there is no other information.

Responsibilities of Management, Audit & Supervisory Board Members and the Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial

statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the appropriateness of using the going concern basis of accounting and disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan as applicable.

Audit & Supervisory Board Members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, select and perform the audit procedures based on the auditor's judgment and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control..

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation as well as whether overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit.

We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board Members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit & Supervisory Board Members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matter communicated with Audit & Supervisory Board Members and the Audit & Supervisory Board, we determine the matter that was of most significance in the audit of the consolidated financial statements of the current period and is therefore the key audit matter. We describe this matter in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Fee-related Information

Fee paid or payable to our firm and to other firms within the same network as our firm for audit and non-audit services provided to the Company and its subsidiaries for the current year are 40 Millions of yen and there is no remuneration based on non-audit services.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Norihito Uryu
Designated Engagement Partner
Certified Public Accountant

Daiki Matsuura
Designated Engagement Partner
Certified Public Accountant

ARK LLC
Tokyo office, Japan
November 15, 2024

11-Year Financial and Non-Financial Highlights

		FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Operating Results												
Consolidated net sales	(Millions of yen)	88,946	93,889	109,730	101,479	98,430	94,165	89,232	74,979	76,034	72,984	**72,044**
Consolidated operating profit	(Millions of yen)	15,872	20,631	35,146	30,707	27,496	24,592	26,512	17,788	17,064	7,998	**9,513**
Operating profit margin	(%)	17.8	22.0	32.0	30.3	27.9	26.1	29.7	23.7	22.4	11.0	**13.2**
Profit attributable to owners of the Company	(Millions of yen)	9,735	12,122	21,143	22,017	19,043	17,775	19,370	13,405	9,549	5,440	**8,025**
Net profit margin	(%)	10.9	12.9	19.3	21.7	19.3	18.9	21.7	17.9	12.6	7.5	**11.1**
Financial Condition												
Total assets	(Millions of yen)	106,465	115,135	132,991	135,060	152,417	155,985	157,875	163,332	165,181	166,328	**171,623**
Net assets	(Millions of yen)	68,096	77,100	89,875	102,655	113,874	121,131	128,468	136,257	138,325	136,836	**143,755**
Equity ratio	(%)	64.0	67.0	67.6	76.0	74.7	77.7	81.4	83.4	83.4	81.9	**83.8**
Return on assets (ROA)	(%)	9.0	10.9	17.0	16.4	13.2	11.5	12.3	8.3	5.8	3.3	**4.7**
Return on equity (ROE)	(%)	14.5	16.7	25.3	22.9	17.6	15.1	15.5	10.1	7.0	4.0	**5.7**
Total asset turnover	(%)	82.6	84.8	88.4	75.7	68.5	61.1	56.9	46.7	46.3	44.0	**42.6**
Financial leverage	(Times)	1.6	1.5	1.5	1.4	1.3	1.3	1.3	1.2	1.2	1.2	**1.2**
Price earnings ratio (PER)	(Times)	14.3	23.9	13.3	11.7	13.3	11.3	10.2	12.5	15.5	25.5	**16.3**
Price book-value ratio (PBR)	(Times)	2.0	3.7	3.1	2.5	2.2	1.6	1.5	1.2	1.1	1.0	**0.9**
Cash Flows												
Cash flows from operating activities	(Millions of yen)	13,663	14,737	27,067	15,327	21,703	21,129	27,468	14,380	13,336	9,253	**2,577**
Cash flows from investing activities	(Millions of yen)	(2,135)	473	(4,105)	(3,503)	(3,245)	(5,744)	(2,528)	(1,644)	(7,888)	(2,627)	**(5,854)**
Cash flows from financing activities	(Millions of yen)	(10,992)	(7,900)	(5,984)	(9,800)	(9,530)	(9,524)	(10,173)	(8,752)	(8,129)	(6,990)	**(5,658)**
Per-share Information												
Earnings per share	(Yen)	228.27	290.90	510.54	536.70	470.54	445.78	494.89	347.37	251.43	144.80	**212.67**
Book value per share	(Yen)	1,611.78	1,861.12	2,170.60	2,511.68	2,824.32	3,049.78	3,301.09	3,555.93	3,642.34	3,636.17	**3,796.05**
Dividends per share	(Yen)	48.0	59.0	112.0	150.0	150.0	150.0	150.0	150.0	150.0	150.0	**150.0**
Dividend payout ratio	(%)	42.1	40.6	28.6	27.9	31.9	33.6	30.3	43.2	59.7	103.6	**70.5**
Other												
Capital expenditures	(Millions of yen)	1,733	2,806	2,923	1,415	1,907	2,305	1,377	2,136	3,510	1,968	**2,304**
Depreciation and amortization	(Millions of yen)	2,538	2,400	2,242	1,937	2,124	2,153	2,312	2,318	2,481	2,546	**2,596**
R&D expenses	(Millions of yen)	7,045	7,615	5,883	6,450	8,152	10,261	6,418	6,736	8,420	15,789	**12,543**
R&D expenses to sales ratio	(%)	7.9	8.1	5.4	6.4	8.3	10.9	7.2	9.0	11.1	21.6	**17.4**
Non-Financial Indicators												
Scope 1 and 2 CO_2 emissions	(t-CO_2)	28,954	31,601	31,439	31,856	29,927	25,594	23,834	22,670	21,870	21,667	**21,408**
Water consumption	(Thousand m^3)	–	–	–	4,163	4,202	3,553	3,314	2,907	2,686	2,808	**2,959**
Percentage of annual paid holidays taken	(%)	34.0	32.8	32.3	37.4	32.9	41.3	51.2	47.4	50.6	55.1	**58.6**
Percentage of women in management positions	(%)	1.0	1.0	1.1	1.5	1.6	2.1	2.1	2.5	3.5	3.8	**4.1**
Percentage of eligible male employees taking childcare leave	(%)	–	–	–	–	–	–	–	9.4	15.7	67.3	**83.3**

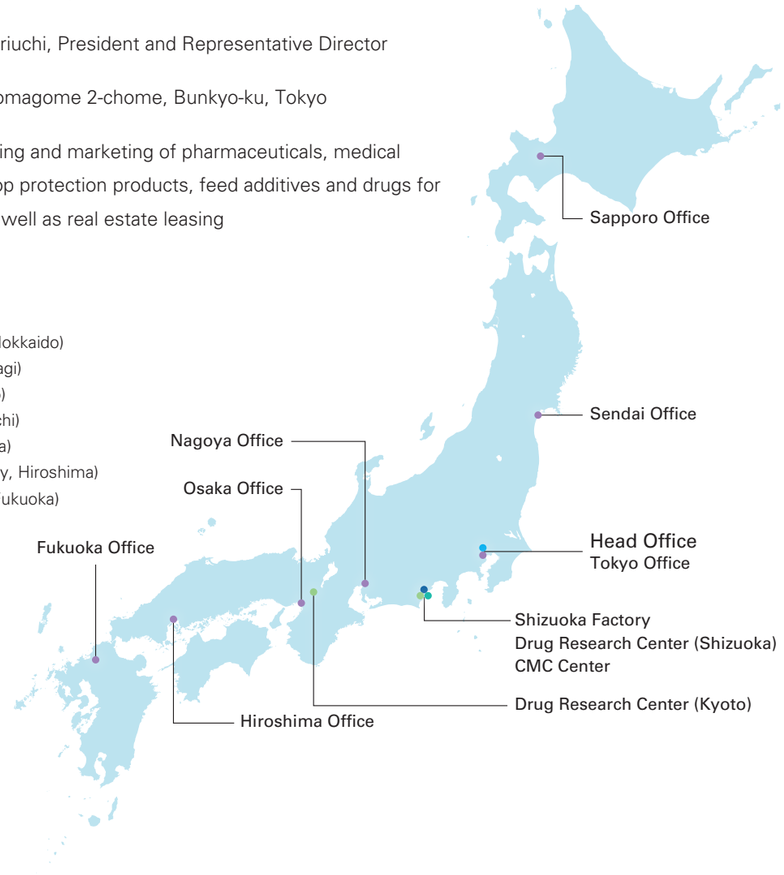
Corporate and Share Information (As of March 31, 2024)

Company Overview

Company Name	KAKEN PHARMACEUTICAL CO., LTD.
Incorporated	March 1, 1948
Paid-in Capital	¥23,853 million
Number of Employees	1,135 (consolidated)
Representative	Hiroyuki Horiuchi, President and Representative Director
Head Office Location	28-8, Honkomagome 2-chome, Bunkyo-ku, Tokyo
Business	Manufacturing and marketing of pharmaceuticals, medical devices, crop protection products, feed additives and drugs for animals, as well as real estate leasing

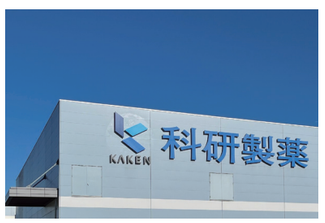
Main Offices (As of August 1, 2024)

- Head Office: Bunkyo-ku, Tokyo
- Branch Offices: Sapporo (Sapporo City, Hokkaido)
  Sendai (Sendai City, Miyagi)
  Tokyo (Bunkyo-ku, Tokyo)
  Nagoya (Nagoya City, Aichi)
  Osaka (Osaka City, Osaka)
  Hiroshima (Hiroshima City, Hiroshima)
  Fukuoka (Fukuoka City, Fukuoka)
- Sales Offices: 33 across Japan
- Drug Research Center: Kyoto City, Kyoto
  Fujieda City, Shizuoka
- CMC Center: Fujieda City, Shizuoka
- Factory: Fujieda City, Shizuoka




Head Office (Tokyo)

Drug Research Center (Kyoto)

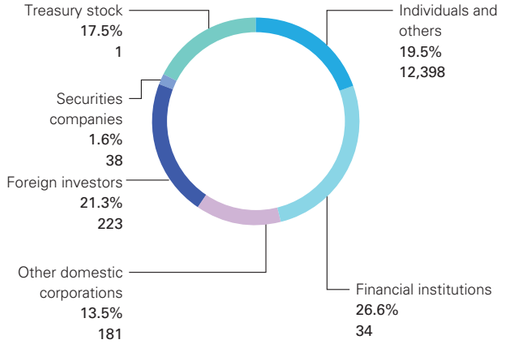


Shizuoka Factory (Shizuoka)

Share Information

Authorized	193,000,000 shares
Issued	45,939,730 shares
Number of Shareholders	12,875
Listing	Tokyo Stock Exchange, Prime Market
Securities Code	4521
Shareholder Register Administrator	Sumitomo Mitsui Trust Bank, Limited

Shareholdings by Shareholder Type



Major Shareholders (Top 10)

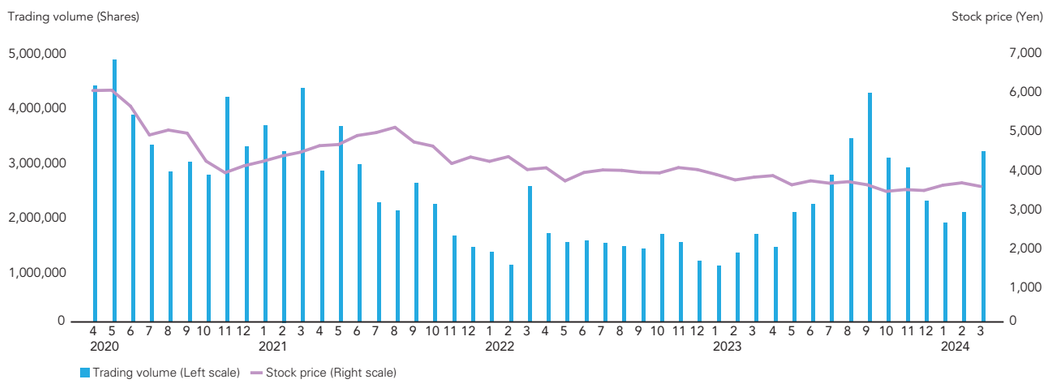
Shareholder	Number of shares held (Thousands)	Shareholding ratio (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	4,512	11.91
Toray Industries, Inc.	2,294	6.06
The Norinchukin Bank	1,843	4.86
Mizuho Bank, Ltd.	1,474	3.89
Custody Bank of Japan, Ltd. (Trust Account)	1,233	3.25
NORTHERN TRUST CO. (AVFC) RE SILCHESTER INTERNATIONAL INVESTORS INTERNATIONAL VALUE EQUITY TRUST	999	2.64
Aya Nomura	878	2.32
KYORIN Pharmaceutical Co., Ltd.	852	2.25
NORTHERN TRUST CO. (AVFC) RE USL NON-TREATY CLIENTS ACCOUNT	697	1.84
STATE STREET BANK AND TRUST COMPANY 505103	696	1.84

1. The number of shares held is rounded down to the nearest thousand.
2. The shareholding ratios are calculated after subtracting the number of shares of treasury stock (8,041,803) from the total number of shares issued.
3. The shareholding ratios are rounded to the nearest second decimal place.

Total Shareholder Return

FY	2019	2020	2021	2022	2023
(%)	103.0	92.1	86.3	85.4	83.7
(Comparison index: TOPIX Total Return Index)	90.5	128.6	131.2	138.8	196.2

Stock Price and Trading Volume



KAKEN PHARMACEUTICAL CO., LTD.

28-8, Honkomagome 2-chome, Bunkyo-ku,
Tokyo 113-8650, Japan
Tel: 81-3-5977-5001
https://www.kaken.co.jp/english