TOWA PHARMACEUTICAL

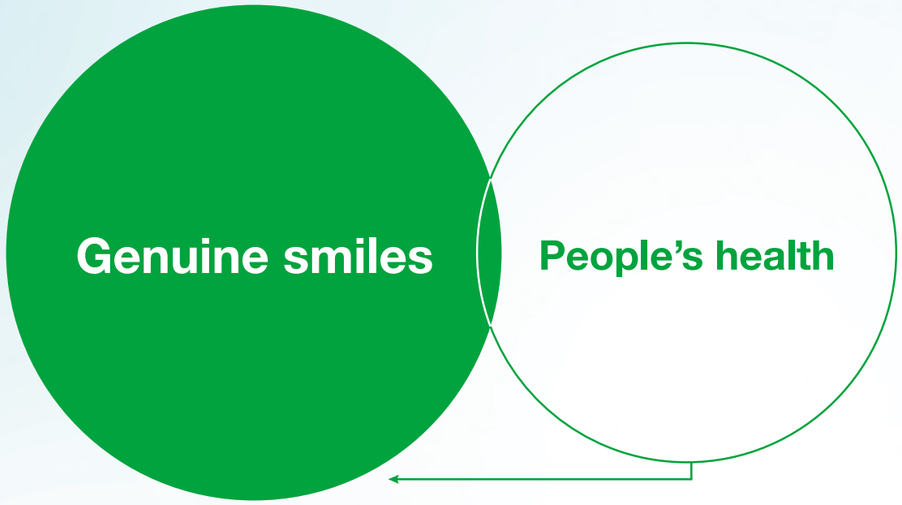
INTEGRATED REPORT 2022

TOWA PHARMACEUTICAL

Vision

We contribute to people's health

We are dedicated to people's genuine smiles



Supporting genuine smiles through
everything that is contributing to health

Towa Group contributes to people's health by creating superior products and services.
Through our corporate activities, we aim to be a company that is valued and needed by patients, medical professionals, local communities, and others.

TOWA PHARMACEUTICAL

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Our History and Today

Towa Group's Value Creation

Foundation Supporting Business

Financial and Corporate Data

[Editorial Policy] We issue Towa Pharmaceutical Integrated Report to communicate to shareholders, investors, and other stakeholders Towa Group's efforts to enhance our corporate value. This year's report presents our value creation story in the value creation process and the message from the President. It also describes our efforts to realize our vision through the 5th Mid-term Business Plan (2021–2023) PROACTIVE II. We strive to improve the content of the report to respond to various opinions and interests of our stakeholders. We look forward to your candid feedback.

[Scope Covered] Towa Group's consolidated accounts including some consolidated and non-consolidated figures in Japan.

[Period Covered] FY2021 (From April 1, 2021 to March 31, 2022)

* The financial information is as of March 31, 2022. The report also covers some initiatives that were taken before April 1, 2021 or after March 31, 2022.

[Guidelines for Reference] International Integrated Reporting Framework issued by the International Integrated Reporting Council (IIRC)
Guidance for Collaborative Value Creation issued by the Ministry of Economy Trade and Industry

[Forward-looking Statements] In this report, described statements other than historical facts are future forecasts based on forward-looking statements and plans. These future forecasts contain factors, such as risks and uncertainties, and actual results and performances may differ from the forward-looking statements.

Our History

Since our establishment in 1951, we have strived to research, develop, manufacture, and sell generics for more than 70 years. While promoting stable supply, quality assurance, and information provision, we will continue to focus on research and development of ingenious pharmaceutical products that are “easier to take” and “easier to handle.” At the same time, we work to construct a structure that can provide Towa Group’s value-added products to patients around the world and to create new health-related businesses in response to the new medical system.

History of Towa

* The years shown are fiscal years.

1951 Established

1957 Started selling OTC drugs

1965 Shifted to manufacturing and selling ethical drugs from OTC drugs

1996

Itsuro YOSHIDA was appointed President and Representative Director

1997

Constructed new corporate headquarters

1998

Constructed Osaka Research Center

2000 Launched value-added products

2003 Acquired J-Dolph Co., Ltd. as a subsidiary

2004 Established RACTAB Technology

2004 Listed on the first section of the Tokyo Stock Exchange

2010

Acquired Daichi Kasei Co., Ltd. as a subsidiary

2016

Established Greencaps Pharmaceutical Co., Ltd.

2018 Established T Square Solutions Co., Ltd. as a joint venture with TIS Co., Ltd. to create new businesses

2019 Acquired Pensa Investments, S.L. in Spain as a subsidiary to enter into new markets
Current trade name: Towa Pharma International Holdings, S.L.

2021

Acquired Sunsho Pharmaceutical Co., Ltd. as a subsidiary

2022 Transitioned to the Prime Market of the Tokyo Stock Exchange in April 2022

History of initiatives based on measures to promote the use of generics

Generics volume share targets set by the government

- **2007** 30% or more by FY2012
- **2013** 60% or more by the end of FY2018
- **2015** Boosting volume share target of generics up to 70% or more in mid-FY2017 and 80% or more in the earliest possible period before the end of FY2020
- **2017** 80% or more by September 2020
- Actual volume share in **FY2021** 79.5%

Production system

Osaka

1977

Constructed Osaka Plant

1981 Constructed Osaka 2nd Plant

2005

Constructed New Osaka Plant (current Osaka Plant)
(Production capacity: 2.5 billion tablets)

2013

Expanded the warehouse and testing area in the Osaka Plant

Okayama

1983

Completed rebuilding the solid formulation building in Okayama Plant

1995

Constructed the packaging building

1996

Expanded the formulation building

2012

Constructed the 2nd solid formulation building in West Japan Distribution Center

2016 Expanded the 2nd solid formulation building
(Production capacity: 2.5 billion tablets → 3.5 billion tablets)

2017

Rebuilt the solid formulation building
(Production capacity: 3.5 billion tablets → 5.0 billion tablets)

Yamagata

1998 Purchased Mect Co., Ltd.’s Tohoku Plant

2008 Started the plan to construct Yamagata Plant

2012

Constructed Yamagata Plant and East Japan Distribution Center
(Production capacity: 2.5 billion tablets)

2017

Constructed (relocated) East Japan Distribution Center

2017

Renovated the solid formulation building and constructed the 2nd solid formulation building
The 2nd solid formulation building was sequentially equipped with facilities.
(Production capacity: 2.5 billion tablets → 4.5 billion tablets)
*Production capacity will be further increased by 2.0 billion tablets by the end of FY2022.

Sales system

2011 Towa Direct Sales System

- Sales offices (as of October 2022): 71 offices
- Agents (as of October 2022): 31 agents at 62 sites
- Started collaboration with two wide-area wholesalers in 2017

Shifted to Towa Sales System

Social Issues Addressed by Towa Group

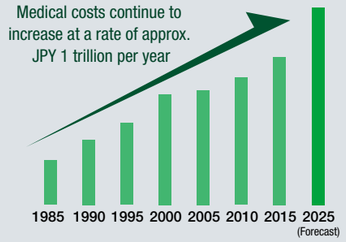
Japan's National Health Insurance System boasts the highest degree of fulfillment in the world. Every individual must save on medical costs to maintain this system. In this regard, choosing generics is an easy way for everyone to save the costs and one of the possible social contributions in our daily lives. We will address the social issues by creating related businesses that contribute to people's health with generics business set as our core business.

Challenges

Swelling medical costs in Japan

To maintain the National Health Insurance System in the future

In Japan, medical costs continue to increase at a rate of approximately JPY 1 trillion per year in the context of an aging population and sophisticated medical care. The Ministry of Health, Labour and Welfare estimates that the amount will exceed JPY 60 trillion in 2025. On the other hand, as the workforce supporting insurance premiums and taxes decreases, the prerequisites for system design are likely to collapse. If medical costs continue to swell as estimated, some undesirable events may happen: an increase in patients' burden of medical costs and the taxes, and a loss of access to medical care that we naturally have had up to now. Stemming the increase in medical costs is essential to keep the National Health Insurance System in the future.

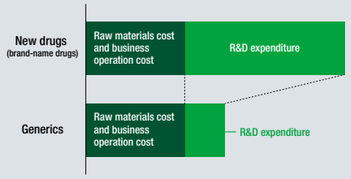


Ministry of Health, Labour and Welfare: "Outline of National Medical Care Expenditure in 2015" and "Materials for the Medical Insurance Subcommittee, 76th Social Security Council"

Choosing generics cuts medical costs

Choosing generics enables us to cut the burden of medical costs (drug costs). This will reduce both the burden of medical expenses on individuals and contributions by the Japanese government and health insurance associations. For instance, we can save approximately JPY 1.9 trillion in the annual cost of drugs just by replacing as many drugs as possible with generics.

* Page 8 in the "Outline of Revisions to the Drug Price Standard in FY2022" by the Ministry of Health, Labour and Welfare



Comparison of drug prices (conceptual chart)

Extension of healthy life expectancy and disease prevention

Extending the healthy life expectancy toward the era of the 100-year life is a major issue in Japan facing a super-aging society. The healthy life expectancy was proposed by World Health Organization (WHO) in 2000. In the past, we had emphasized the average life expectancy of a child aged 0, indicating how many years he or she can live. However, the healthy life expectancy, a period of healthy living, has attracted attention in recent years. Preventing disease and staying healthy and active are key to prolonging the healthy life expectancy. Moreover, extending the healthy life expectancy is essential from the viewpoint of curbing medical costs.

Towa Group's Initiatives

Generics contribute to cutting medical costs

Offering more than 770 products in our lineup

Desiring to be of service to as many patients as possible, we provide value-added generics through cumulative improvements by responding to and satisfying requests voiced by medical professionals. We offer more than 770 products in our lineup to cover various therapeutic areas. We manufacture our products with particular attention to active pharmaceutical ingredients (APIs) to deliver safe and secure generics, which is one of our unique features. Our mission is to deliver drugs that are not merely low-cost but "more easily taken and handled" to a large number of people.

Ingenuity for products that can be more easily and safely taken by patients

Orally disintegrating (OD) tablets that can be taken without water

Micro-granulation that reduces roughness perceived when taking medicines

Smaller tablets with the same amounts of active ingredients

Masking technology used to reduce bitterness by coating tablets

Product name printing to make medicine identity easily discernable even after scoring

Efficacy labels and letters to make drugs more easily discernable

Considering care of pre-symptomatic diseases and disease prevention as well as contribution in medical care

Towa Group aims to contribute to extension of the healthy life expectancy through the care of pre-symptomatic diseases and disease prevention. To this end, we seek to develop new health-related businesses in addition to the generics business.

Specifically, we are working to build an Individual Health Information Platform with a view to enabling proper medical examination and treatment and promoting health, to help solve issues faced by the elderly through a business using ICT promoted by the Osaka Prefecture, and to promote the early detection and prevention of cognitive decline. We are also seeking to develop health-related businesses by developing medication support tools, health foods, and supplements, and by entering the Disease risk testing service business.

Towa Group's Strength

Generics are marketed later than new drugs (brand-name drugs); therefore, we can produce better products with the same efficacy, quality, and safety as the new drugs by utilizing the latest formulation technologies. We are engaged in various initiatives to provide easy-to-take, easy-to-handle and safe drugs, let alone quality and safety.

Development of APIs | Product development | Quality control | Stable product supply | Information provision

Fostering of talented human resources

Development of APIs

Related information See page 41.

Developing and selecting the best API for manufacturing products

We use APIs meeting our original strict quality standard among country-authorized APIs. We also actively research APIs and select the best APIs for creating products based on our accumulated know-how. Additionally, we have established manufacturing methods for the APIs in-house and a system to outsource the production of the APIs to Daichi Kasei Co., Ltd., a group API manufacturer, and collaborative API manufacturers. We regularly inquire and confirm each manufacturer whether it manufactures APIs in accordance with standards, laws, and regulations to enable the stable procurement of the APIs.

Product development

Related information See page 27.

Based on our technologies and experiences, developing products that can be more easily taken and handled

We have the lineup consisting of more than 770 products to cover various therapeutic areas. With the desire to serve as many patients as possible, we offer value-added generics by responding to voices and requests from medical professionals and reflecting them in our manufacturing process. Among them, we have developed better dosage forms and tastes so that drugs can be easily taken by pediatric and elderly patients, and enhanced visibility and stability against light, temperature, and humidity so that drugs can be easily handled at hospitals and pharmacies.

Quality control

Related information See page 42.

Working diligently to ensure reliable quality and safety

In order to be a trustworthy company, we comply with strict quality control standards stipulated by the government, from product R&D, manufacturing, and marketing to after-sales operations. We carry out company-wide quality control initiatives to establish the quality assurance system required for ethical medicines. Especially in manufacturing pharmaceutical products, we strive to ensure adequate quality and safety through our specific system, education and training, and other ways as well as to comply with the Good Manufacturing Practice (GMP) established by the government and other related laws and regulations.

Stable product supply

Related information See page 41.

Established production capacity with three plants to ensure stable supply at any time

By adopting a back-up system supported by three sites, we ensure that any production disruption at one plant can be compensated by efforts at the other plants. Furthermore, by dividing the physical distribution bases in East Japan and West Japan, we have established an efficient arrangement and a reliable back-up system even in a worst-case scenario. At present, all the three plants can produce a total of 12.0 billion tablets* annually. We are expanding our production volume to 14.0 billion tablets by the end of FY2022 to respond to a further increase in demand. Furthermore, we plan to build the 3rd solid formulation building in Yamagata Plant by the end of FY2023 and to achieve the production capacity of 17.5 billion tablets from FY2024 onward.

* Production capacity of tablets and capsules

Information provision

Related information See page 40.

Active provision of relevant information to enable patients and medical professionals to feel comfortable while using ethical medicines

We have established a system that enables the prompt and appropriate provision of information on the proper use of our products and academic information to medical professionals, mainly through specially trained medical representatives (MRs), to ensure that generics are used with reassurance. We also provide patients and their families with information to ensure their safe use of pharmaceuticals. In addition to providing information, we collect opinions from medical institutions and share feedback internally for creating better products.

Fostering of talented human resources

Related information See page 43.

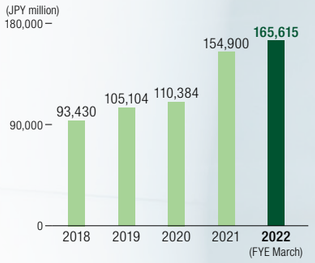
Focusing on making job satisfaction and fostering talented human resources, aiming for being a reliable company

We aim to be a more trusted and needed company as a comprehensive generics manufacturer. Under the belief that talented human resources are the foundation of a trusted company, we work to make job satisfaction, foster talented human resources, and strengthen our organization. The 5th Mid-term Business Plan 2021–2023 PROACTIVE II that will end in FY2023 sets out "Making Job Satisfaction and Fostering of Talented Human Resources" as one of the priority policies. While aiming for job satisfaction for each employee motivated by individual talent improvement and career enrichment, we seek to strengthen our system for encouraging employee growth.

Financial Highlights

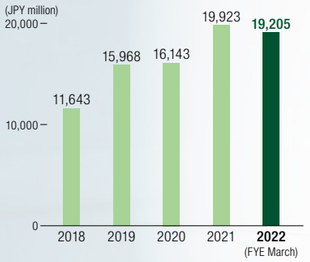
Net sales

JPY **165,615** million



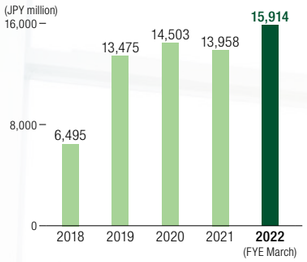
Operating profit

JPY **19,205** million



Profit attributable to owners of parent

JPY **15,914** million



Net assets

JPY **132,169** million

Total assets

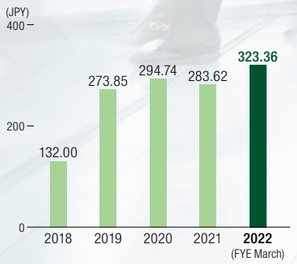
JPY **329,935** million

ROE

12.8 %

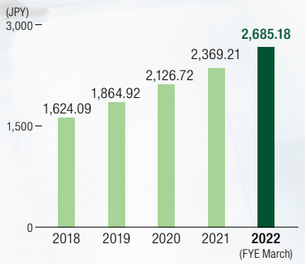
Earnings per share

JPY **323.36**



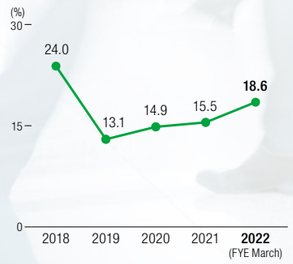
Net assets per share

JPY **2,685.18**



Dividend payout ratio

18.6 %

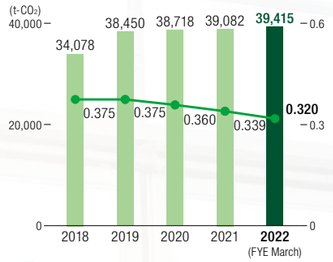


Note: The Company conducted a 3-for-1 stock split of common shares effective April 1, 2019.
We calculated earnings per share and net assets per share, assuming that the said stock split had been conducted at the beginning of the fiscal year ended March 31, 2018.

Non-Financial Highlights

CO_2 emissions

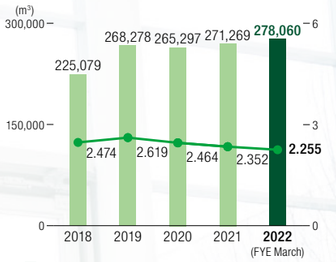
39,415 t-CO_2



■ CO_2 emissions ● CO_2 emissions intensity
- Three Towa plants
- Per sales of JPY 1 million (non-consolidated)

Water usage

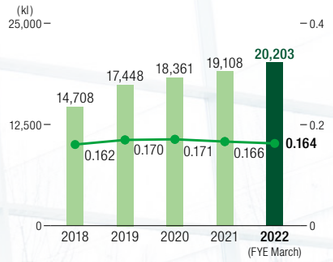
278,060 m^3



■ Water usage ● Water use intensity
- Three Towa plants
- Per sales of JPY 1 million (non-consolidated)

Energy usage

20,203 kl



■ Energy usage ● Energy use intensity
- Three Towa plants
- Per sales of JPY 1 million (non-consolidated)

Waste generated

2,221 t

■ Waste generated ● Waste generation intensity
- Three Towa plants
- Per sales of JPY 1 million (non-consolidated)

Ratio of women in management positions

13.5 %

- Towa (non-consolidated)

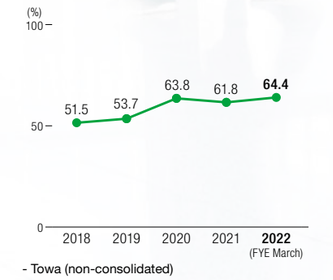
Ratio of women in new graduate hires

38.06 %

- Towa (non-consolidated)

Ratio of paid leave taken

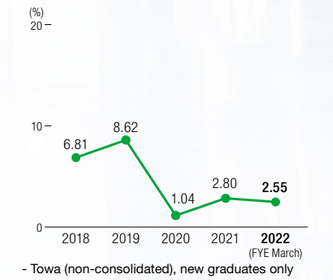
64.4 %



- Towa (non-consolidated)

Employee turnover rate within the first three years

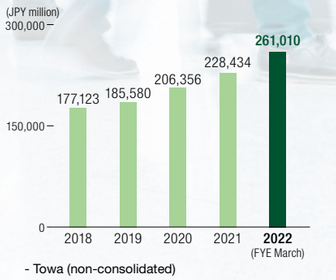
2.55 %



- Towa (non-consolidated), new graduates only

Medical expense reduced

JPY **261,010** million



- Towa (non-consolidated)

Itsuro Yoshida
President and
Representative Director

We are dedicated to people's genuine smiles and contribute to people's health.

I would like to express my heartfelt sympathy to all those who have contracted COVID-19 and to their related people. I would also like to extend my deepest gratitude to the Medical professionals and others, who are working so hard to prevent the spread of the disease.

New lifestyles have spread and work style reforms, etc. have been widely implemented in the wake of the COVID-19 pandemic. Society is undergoing drastic changes. The resolution of global challenges, as represented by the SDGs, and digital transformation (DX) are driving changes on a global scale. In Japan, a super-graying society, establishing a social security structure that will address the demographic challenge and extending healthy life expectancy have become major issues today.

Japan's social security expenses, continuing to rise year by year, are expected to reach about JPY 140 trillion by 2025. As one of the measures to suppress medical costs without lowering the quality of healthcare, the Japanese government has promoted the use of generic drugs since the early 2000s. With the business model of manufacturing and selling generic drugs as its core business, Towa has been striving to contribute to the suppression of healthcare costs. Of the pharmaceutical products consumed in a year, simply switching medication to generic drugs, where it is possible to do so, would help reduce the costs by about JPY 1.9 trillion, thereby lightening the load on the country and health insurance societies.

Now that the share of generic drugs has reached approximately 80% of the volume of pharmaceutical products consumed, we believe that it is our corporate social responsibility to work even harder toward the stable supply of generic products and raise their quality even higher. We are thoroughly carrying out product and quality control and implementing proactive capital investment toward the stable supply of products.

What is more, we are making company-wide efforts to address the following issues both at home and abroad.

1. To contribute, even in some small way, to global issues, as represented by the SDGs.
2. To play a part as a corporate citizen in contributing to Japan's future challenge of becoming a world leader in science and technology with competitive edge in new industries.
3. To contribute to strengthening and maintaining Japan's future social security system for all generations.
4. To contribute to creating new mechanisms for future regional communities and their revitalization.
5. To complete Towa's health information platform as a social infrastructure for health, and contribute to extending the healthy life expectancy of all people.

We need to paint a long-term vision in anticipation of major changes going forward, and steadily execute the vision by bringing together all the capabilities of Towa Group. To this end, we must solidify the Group's governance toward achieving its Philosophy, "We contribute to people's health; We are dedicated to people's genuine smiles." Specifically, we must establish goals for each of the Group's businesses and companies, and transition to a structure in which we can exhibit synergy. Each of the Group companies, as autonomous organizations, will identify new social issues; and the Group will aim to resolve such issues by leveraging its combined strengths.

Manufacture of sophisticated products with No. 1 total product performance as a company contributing in part to the competitive edge of industries in Japan

As a comprehensive generics manufacturer, we have focused on "Manufacture of sophisticated products with No. 1 total product performance," one of our initiatives to contribute in part to the competitive edge of industries in Japan. To put it another way, this is an initiative aimed at providing society with Towa Quality products that people can feel comfortable using. For example, this means to manufacture products that are easy for patients to take and easy for Medical professionals to handle. Typical examples include orally disintegrating (OD) tablets, which disintegrate in the mouth without water, and thus, are easy to take; techniques for masking a bitter taste; drug imprint that makes it easy for doctors and pharmacists to distinguish tablets; and scored tablets that can be administered in half doses. A representative example of Towa's value-added formulation technology is RACTAB, our proprietary technology combining the disintegrating feature that makes a tablet easy to take, and the hardness that enables a tablet to be handled like an ordinary tablet. We sometimes hear words of appreciation from patients who say that they can now take medication, which used to be hard to take, with ease. We are confident that such added values tailored to the needs of customers, which are available only from the perspective of a generics manufacturer, will better address the concerns of people and healthcare-related issues around the world.

Presently, we are focusing particularly on efforts to further improve the taste of drugs, as well as on formulation research to make active ingredients less decomposable under any environment. In regard to the improvement of taste, we established Pharmaceutical Taste Laboratory, a dedicated division, in 2022, and are engaged in initiatives aimed at catering to the needs of patients who take drugs, including research for optimizing the threshold of bitterness to make medication easy even for children. Furthermore, the formulation research for making active ingredients less decomposable in any environment is conducted primarily with a view to enhancing the convenience of Medical professionals who handle pharmaceutical products and to addressing such issues as the reduction of waste drug, which has become a social issue today. The life period of ordinary drugs is about three years if they are intact in their original packaging. However, the active ingredients can decompose if stored being exposed to sunlight, even indoors, for example. If it is made possible to cover them by utilizing coating technology, we can help enhance the convenience of Medical professionals and reduce the disposal of drugs. What is more, with such technology, we believe we can contribute to the storage of drugs in countries and regions with high temperatures and humidity.

Manufacture of sophisticated products with No. 1 total product performance under thorough quality control ensures that the products we deliver have a reliable quality. We believe it is important that we keep upgrading and improving our products by utilizing the latest technology to offer up-to-date and best products as appropriate. To implement these initiatives, we are strengthening and streamlining our research and development functions through upgrading and expanding our R&D facilities and equipment.

Further expanding the production capacity at Yamagata Plant toward stable product supply

As mentioned earlier, along with further enhancement of the quality and performance of our products, a stable product supply is our most important mission. However, people's trust in generics, which has been nurtured for many years, has fallen apart in the wake of scandals that occurred within the industry. Consequently, even now, the industry as a whole is left in the situation in which generics manufacturers are unable to fulfill its responsibility for the stable supply of products.

Toward the goal of achieving an 80% volume share of generic drugs sold in Japan, Towa has made persistent efforts, such as making capital investments and building a framework for collaboration with other companies. In 2018, we put the 2nd solid formulation building into operation at Yamagata Plant. With three plants together with Osaka Plant and Okayama Plant, we secured an annual production capacity of 11.5 billion tablets in FY2020, and of 12.0 billion tablets in FY2021 in total. Judging that we need to further expand the production capacity, however, we are making capital investment in the 2nd solid formulation building at Yamagata Plant to raise its production capacity by 2.0 billion tablets, aiming to eventually establish a production structure capable of producing a total of 14.0 billion tablets at the three plants by the end of FY2022. Further, at Yamagata Plant, by October 2023, we also plan to construct the 3rd solid formulation building that can accommodate facilities capable of manufacturing 3.5 billion tablets. Through these efforts, we expect to achieve a production capacity of 17.5 billion tablets in FY2024 and beyond. Alongside these plans, we will also construct the 2nd sterile formulation building at the Yamagata Plant to expand the production capacity of liquid formulations and freeze-dried formulations. In addition to such production enhancement measures, if the entire industry succeeds in recovering its production capacity to a certain degree, we believe we can ease the shortage in production volume by around 2025.

In putting in place a structure for increased production, it is important that we earn people's trust in Towa's production and quality. Our products are manufactured at all of our plants through procedures that are in compliance with the three GMP principles. Ongoing education and training for employees have ensured that each employee works with a high awareness of quality. Furthermore, to deliver appropriate products to the world based on even stricter rules, we also proactively incorporate international standards such as PIC/S GMP and ICH Guidelines, and build a structure that thoroughly eliminates human error. What is more, to maintain and strengthen the system for stable product supply, we will push forward with efforts such as purchasing APIs from multiple suppliers and audits of manufacturing sites. We are also continually engaging in initiatives aimed at the strengthening of governance and thoroughgoing compliance across the Group, from the manufacturing of APIs to the manufacturing of formulations, logistics, and distribution. As part of such initiatives, on November 24, 2021, we announced *Towa Pharmaceutical Declaration of Legal Compliance.*

While an emergency situation continues, we also plan to install automation and unmanned facilities and systems for enhancing production efficiency. However, the burden on employees working at the plants is becoming greater. We will continually share the latest market trends and future outlooks across the Group. All Group companies will work as one to overcome this difficult situation and fulfill their important roles in society, including stable product supply and quality control.

Strengthening collaboration with Towa HD and enhancing the Group's comprehensive strengths

We are currently implementing the 5th Mid-term Business Plan 2021-2023 PROACTIVE II started in FY2021. Its basic policies are: (1) Enhancing generics business as a core, (2) Expanding and growing business in overseas market, (3) Entering new health-related businesses, (4) Creating technology innovations and product values, and (5) Making job satisfaction and fostering talented human resources.

I talked earlier about the evolution of generic drugs over time. The objective of expanding the business of Towa Pharmaceutical globally was to roll out Towa's high quality, value-added generic drugs and formulation technologies abroad. Towa Pharma International Holdings, S.L. (headquartered in Spain; "Towa HD"), which we made into a subsidiary in January 2020, has worked to deploy business utilizing sales networks in multiple countries in Europe as well as in the U.S. and production bases that conform to strict pharmaceutical standards of Europe and the U.S. They are also active in research and development. Furthermore, it discloses extensive information on ESG. For this reason, we would like to promote information exchange with a view to cocreation and the division of labor in various aspects, and lead the way to the creation of innovation.

As such, in June 2022, we added "Towa Pharmaceutical" to the names of the three consolidated subsidiaries in Spain, Italy, and Portugal, which are under the Towa HD umbrella. Under the unified brand, we will spread the Towa' vision, foster a sense of unity as the Towa Pharmaceutical Group, promote collaboration in operations, and deliver value-added products. By doing so, we will create a Towa brand image that is clear for stakeholders, and aim to further expand our business.

In the U.S. market, where price competition is severe, there is a need to continually launch new products. However, we are thinking of creating a new market by emphasizing the added value of our products. In the case of medicines that need to be taken every day, rather than bitter medication, there should be a latent need for high quality medication that does not taste as such. We will promote collaboration in operations, while leveraging the characteristics and needs of the U.S. and Europe as reference, and pave the way through to the creation of innovation in respective markets including Japan.

Tapping into new health-related fields to help extend healthy life expectancy

As one of our challenges, we aim for creating a future that provides full coverage, from medical care to the care and prevention of pre-symptomatic diseases, catering to a society with a long and healthy life expectancy. In line with our vision of contributing to people's health, we are working to create new health-related businesses that are suited to the medical system for the future, while acquiring new techniques and integrating them with completely new knowledge and technologies.

As a new initiative, in March 2022, we made Sunsho Pharmaceutical Co., Ltd. ("Sunsho Pharmaceutical") a wholly-owned subsidiary. Sunsho Pharmaceutical is a leading Japanese contract development and manufacturing organization (CDMO) engaged in the planning, development, and manufacture of such items as health foods, pharmaceuticals, general foods and capsule formulations. We believe the formulation technology for health foods and capsule formulations, including supplements, that Sunsho has fostered for many years, will help realize the Towa Group's aspiration to *contribute to people's health by creating superior products and services*, and will eventually contribute greatly to extending people's healthy life expectancy. What is more, Sunsho possesses cutting-edge formulation and capsule technologies, including UniORV® that can be used for a broad range of applications. UniORV® allows for producing coated particles without the conventional granulation or coating technology. By combining these technologies with Towa's formulation technologies, we believe we can *creating technology innovations and product values.*

Announcement of initiatives for compliance with laws and regulations on November 24, 2021

On November 12, 2021, President and Representative Director Itsuro Yoshida announced a declaration to comply with laws and regulations to all employees of the Company, with special emphasis on the following three:

- Ensuring thorough compliance
- Strengthening governance
- Giving utmost priority to quality

The Company is working diligently to ensure reliable quality and safety. While pharmaceutical products are related to people's lives, it is hard to tell their quality from appearance alone. That is why it is important that we earnestly pursue quality and safety.

What is more, as an initiative toward the recovery of trust, we are implementing and continuing with the following:

- Visits to manufacturing sites by officers in charge (continued since 1996)
- Implementation of compliance month and questionnaire survey (continued since 2013)
- Further enhancement of the whistleblowing system
- Other initiatives, including the timely dissemination of information through the corporate website

Inspection of manufacturing and packaging facilities (Yamagata Plant)

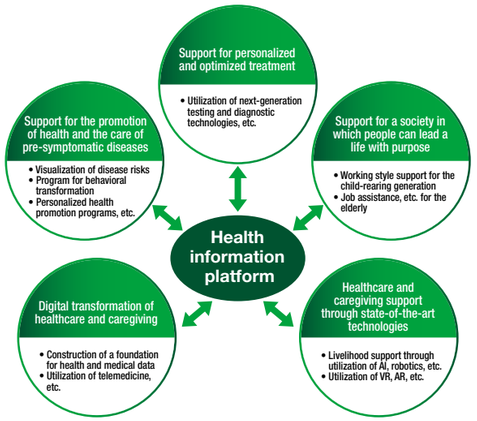
Messages related to compliance with laws and regulations, as well as quality control and manufacturing control (Yamagata Plant)

A major challenge in this super graying society is to detect abnormalities in the early “pre-symptomatic disease” rather than in the “disease”. For this reason, we converted Protosera, Inc., a company that possesses an original disease risk screening service (ProtoKey test), into a subsidiary. Presently, the service is used to identify the following three risks: colorectal cancer risk, dementia risk, and oxidant stress. We have continued to review the analysis results of samples and upgrade/improve our services through a wide range of case studies. Research and development activities are underway also for risk screenings of other diseases. We have been striving to understand the pre-symptomatic stages of disease, aiming to establish a system whereby we can provide appropriate advices on exercises and dietary aspects, and contribute to extending healthy life expectancy.

It is important that initiatives like these are promoted in tandem with the Comprehensive Community Care System, which are being developed as a national policy and scheduled for completion in around 2025, when Japanese baby boomers turn 75 years of age (the age eligible for the late-stage elderly medical care insurance system). For the regional community envisioned under the Comprehensive Community Care System, it is required to develop a platform which enables Medical professionals to easily share information with ordinary citizens by utilizing cutting-edge technologies, such as IoT, in which everything is connected via the Internet; artificial intelligence (AI); and big data. Such platform is also required to enable appropriate and efficient treatment and care-giving by Medical professionals and the promotion of the health of ordinary citizens (a platform for coordinating and sharing data from facilities such as hospitals, pharmacies, and those for nursing care).

To achieve this, it is essential to complete the establishment of a platform that utilizes personal health records (PHR) and electronic health records (EHR). This will lead to the suppression of medical costs and enable approaches in all stages, from the healthy to symptomatic stages. Furthermore, with the objective of maintaining the dignity of the elderly and assisting their independent life, we can realize a local comprehensive community support/service system that helps the elderly continue living in their own fashion, as much as possible, in communities that are familiar to them.

Building an Individual Health Information Platform



Towa sells TIS Co., Ltd.’s Healthcare Passport, a coordinated system infrastructure for regional healthcare and health information, jointly with TIS, and is building an EHR platform. By enabling Medical professionals and ordinary citizens to share medical records, the content of prescriptions, and health information on a bi-directional basis, the efficient and effective utilization of medical and healthcare information, which was previously scattered between ordinary citizens, hospitals, clinics, pharmacies, and so on, will be possible. The platform has already been adopted by multiple healthcare facilities, and the development of additional functions is also being promoted to meet user needs.

Health-related businesses also aim for the improvement of medication adherence by patients and the resolution of the issue of residual medication. We will start handling Hana Support, a smartphone app that supports the taking of drugs, which was developed using the advice of Bandai Namco Research Inc.’s Game Method. Other items include, Cognitive function Self checker, which tracks eye movement using virtual reality to assess cognitive function. Various cutting-edge technology envisioning Society5.0 will be incorporated so that we may approach the extension of healthy life expectancy from many different fields.

Two keys to sustainable management—talented human resources and innovations

We see talented human resources as the source of our sustainable management. By carrying out operations under the Towa’s vision while feeling satisfied with their jobs, each employee will be able to sense changes in society and create new values. Meanwhile, as the size of the Company became larger, the adverse impact of a vertical organization and other effects began to take shape. For this reason, we launched the Towa Work Style Reform Project in October 2020. From April 2021, the project shifted to an initiative involving all employees, with the talented human resources Division at the center. Through interviews and other means, the talented human resources Division is supporting each employee in their career formation.

The era in which digital transformation (DX) and artificial intelligence (AI) will get rid of many of our past operations is just around the corner. Having each employee mull over their career goals, take the initiative, and act systematically toward achieving the goals will lead to job satisfaction and the enrichment of their career, and will eventually help the development of the Company.

Meanwhile, to enhance the consideration for the global environment and society, we newly established Environment, Health and Safety Management Department in March 2022. The department controls and manages the environment and safety throughout the Towa Group in a unified manner and aims to further improve the environment and safety for Towa employees and regional communities. In regard to the impact of climate change on our business activities, profits, etc., we will strive to disclose information based on the TCFD recommendations while carrying out the scenario analyses of our own business activities and taking stock of greenhouse gas emission reduction measures.

We are also taking on the challenge of sustainable innovation in manufacturing technologies. We have always believed that APIs that are consumed in Japan should be manufactured in Japan. However, due to legal restrictions, etc., we are dependent on imports for some APIs and their intermediates. TOWA PHARMACEUTICAL is engaged in developing continuous flow precision synthesis, a manufacturing technique, which ensures that substances are managed within sealed facilities and no substances that could harm the environment will get out of the premises. With this technique, we have sought to achieve local production and local consumption by manufacturing APIs at plants in Japan from the stage of synthesizing them. Alongside the local production and local consumption, we are thinking of launching a green sustainable chemistry industry, hoping to further contribute to the creation of jobs through the launch.

With the aim of achieving genuine smiles, rolling out the health-related businesses from Japan to the world

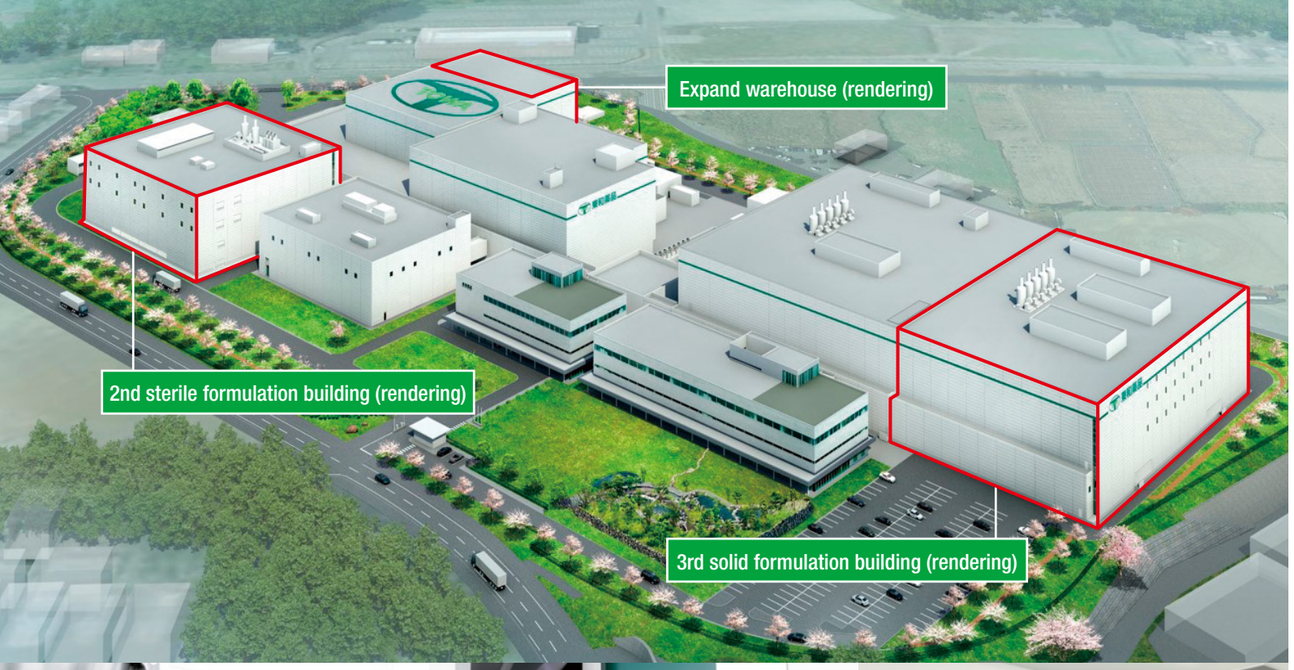
On the occasion of last year’s 70th anniversary of Towa’s founding, we announced internally Towa’s fundamental way of thinking and what it should be like in the future so that each of our employees can confront various social issues. The fundamental way of thinking is based on the Towa Group’s vision, “We are dedicated to people’s genuine smiles.” The “genuine smile” refers to a state in which happiness wells up from within when the body is healthy and the spirit is fulfilled, and brings a smile to a person’s face. People living in countries and regions suffering from poverty, hunger, war, violence, suppression of human rights, control of the freedom of speech, and so on, are not in an environment in which they can hope to experience “genuine smiles.” Meanwhile, Japan has maintained a society of peace, freedom, and equality, and thus, is fully eligible for enjoying “genuine smiles.”

For Japan to remain like it is today, one of the contributions that the Towa Group can make through its business activities is to contribute in part to building the competitive edge of industries in Japan and demonstrate its strong presence in the healthcare industry. We believe this is achievable by rolling out all related businesses that contribute to health from Japan to the world.

What we should be like in the future represents a company that continues to be needed by people living in the region and to deliver products and services that they need, at any age and in any region. If we will keep upgrading and improving our products and services, using the latest technology, into those that are the most up-to-date and the best, and promote our business by placing utmost emphasis on gaining high recognition and satisfaction, and having them purchased at appropriate prices, operating performance as a company (net sales and profits) will come as a result of such activities. Of course, we believe that it is also important to raise our performance and achieve appropriate earnings for our sustainable growth, thereby leading to a virtuous economic cycle and giving back to society.

We will continue to repeatedly communicate to employees the Group’s fundamental way of thinking and what we should be like in the future so that each employee can embody these ideas and we can become a company that continues to be needed by society.

With a view to realizing people’s genuine smiles through its health-related business, Towa will strive to roll out all kinds of health-related businesses that contribute to health both in Japan and around the world. We would like to ask for your continued support in these endeavors.



Feature Topic
01
Production capacity expansion

Towa works steadfastly to expand its production capacity toward a stable supply of generics.

Amid rising concerns over stable supply in the generics sector, we strive to produce products systematically and efficiently to establish a stable product supply, and also to expand our production capacity.

Fulfilling our mission to ensure a stable supply of pharmaceuticals

In recent years, the environment surrounding the generics market has remained harsh, as multiple generics manufacturers were ordered to suspend their operations due to their violation of Good Manufacturing Practice (GMP; the standard for manufacturing control and quality control of pharmaceutical products). This has been affecting their supply of products and making it difficult for medical institutions and pharmacies to secure the necessary quantities of pharmaceuticals.

In response to this issue, with a sense of mission, we have been making company-wide efforts to increase our production for a stable supply of generics. For systematic and efficient production, we consider various factors, including market demand, the procurement of raw and other materials, the utilization rate of our manufacturing facilities. In addition, alongside the introduction of new machines and facilities and the expansion of our plant buildings, we have been increasing the number of employees and improving our training system in preparation for the expansion of the production capacity.

We also plan to expand our annual production capacity to 14.0 billion tablets by the end of FY2022, and then further expand the annual capacity to 17.5 billion tablets over the medium term through such measures as building additional plant buildings, to continue stepping up our production capacity. We will pursue our social mission to ensure a stable supply of generics through various measures as mentioned above.

Expansion of production capacity at Yamagata Plant

Since 2020, a spate of quality problems by multiple generics manufacturers have cast a shadow over the entire industry. It remains uncertain when the industry will restore a stable supply. Generics manufacturers are working hard to increase production, but their production capacity is limited.

Under these circumstances, Towa completed the final installation of facilities in the 2nd solid formulation building at Yamagata Plant in FY2021. This is aimed at expediting the expansion of our production capacity to a maximum of 14.0 billion tablets per year (total production capacity of the three domestic plants). Through qualification of the installed facilities and validation of each formulation, we will expand our production capacity to 14.0 billion tablets per year in the second half of FY2022, up 2.0 billion tablets from 12.0 billion tablets per year in FY2021. From FY2023 onwards, we can secure this production capacity on a full-year basis.

Nonetheless, we determined that this capacity expansion plan alone was insufficient to fulfill our responsibility to secure a stable supply. Thus, we have decided to newly construct 3rd solid formulation building, 2nd sterile formulation building, and a raw materials/products warehouse building to further expand the production capacity at Yamagata Plant. The construction started in June this year and is scheduled to complete in October 2023.

The 3rd solid formation building is expected to have a production capacity of 3.5 billion tablets, which boosts the production capacity at Yamagata Plant to 10.0 billion tablets and the total production capacity of Towa's three domestic plants to 17.5 billion tablets.

We plan to gradually commence the shipment of products from the 3rd solid formulation building in FY2024.

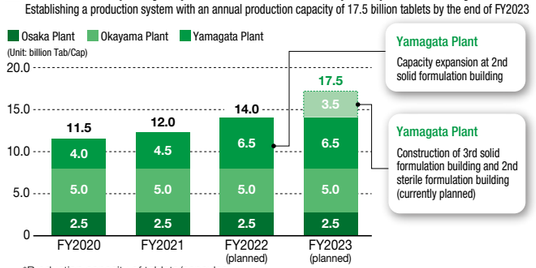
In constructing the 3rd solid formulation building, we will implement measures for preventing human errors and labor shortages in this aging society with low birth rates. Such measures include installing automated and unmanned facilities and systems to the extent possible, aiming at the improvement of production efficiency. Furthermore, we aim not only to increase production volume but also to make our plants environmentally friendly and safe to work.

In the 2nd sterile formulation building being constructed alongside the 3rd solid formulation building, we will install a production line for vials to expand the production capacity of vial formulations (liquid/freeze-dried formulations). We will also secure a space for future business development.

We are determined to make company-wide efforts to ensure the stable delivery of safe and secure generics to patients and medical professionals.

Kazuhiko Konno
Senior Managing Director

Production capacity expansion with the three-plant production system
Establishing a production system with an annual production capacity of 17.5 billion tablets by the end of FY2023



*Production capacity of tablets/capsules
Production capacity: Actual number of tablets that can be produced
Production system: Number of tablets that can be produced after installing the facilities

Making steady strides toward increasing the production

At Yamagata Plant, we will realize a production capacity of 14.0 billion tablets per year in FY2022 through capital investments, and construct additional buildings, including the 3rd solid formulation building, by the end of FY2023 to realize a production capacity of 17.5 billion tablets gradually starting in FY2024.

Feature Topic 02

Overseas markets development

Towa will propel efforts toward its business expansion and growth in overseas markets.

Aiming to deliver value-added products to overseas markets, we are pushing forward with business development abroad by leveraging our sales network in the U.S. and multiple countries in Europe as well as our production base in Spain that is compliant with relevant standards of the markets.

Strengthening our business bases in overseas markets to contribute to people's health around the world

Delivering high-quality, value-added generics to contribute to the health of people around the world, one of our challenges set out in the 5th Mid-term Business Plan, Towa Pharma International Holdings, S.L. ("Towa HD") has worked to foster its corporate culture and strengthen its organization as a member of the Group for the past two and a half years after its acquisition. In fostering the corporate culture, we have worked to raise employee awareness of being a company that develops, manufactures, and distributes high-quality value-added generics catering to patients' needs based on our existing quality control and manufacturing control foundations, which are essential for manufacturers. To this end, Towa HD is strengthening its organization and driving collaboration with Towa Pharmaceutical. In addition, we changed the trade names of three sales subsidiaries in Spain, Portugal, and Italy to Towa Pharmaceutical in June 2022 to forge a sense of unity among the Group companies and raise Towa's brand awareness overseas. While Towa Pharmaceutical is recognized in the U.S. and Europe, we have yet to release our products under the Towa brand. We believe we can enhance the Group's presence overseas by integrating the sales subsidiaries into the Towa brand. With regard to the U.S., at the moment, we are deliberating on the timing of the trade name change considering the procedures related to pharmaceutical regulations.

We are also discussing the feasibility of transferring the manufacture of some products that we have manufactured in Japan to Towa Pharmaceutical Europe, S.L. ("Towa EU") by utilizing its superior production facilities and technologies. While having difficulty traveling to and from Europe due to the COVID-19 crisis, we manage to visit the production sites of Towa EU and actively collaborate with the company. As a result, we are inspired mutually today. To sell in overseas markets our value-added generics that are well recognized in Japan, we have commenced the selection of products and a market survey. Although we are not yet ready to provide detailed information as we need some more time to customize our products to suit each country and region, we are making steady strides, including compliance with local pharmaceutical regulations.

During the 3rd growth period for the Group, we aim to generate synergies between Japan, the U.S., and Europe in R&D and production, as we plan to continue promoting business development in overseas markets that are new to the Group.

Shigehiro Kubo
Senior Operating Officer in charge of International Business Division

Feature Topic 03

Sunsho Pharmaceutical

We will pave the way for new growth through health-related businesses.

We have worked to create new health-related businesses catering to the new medical system while combining new technologies and knowledge with our expertise as a generics manufacturer.

Diversifying business portfolio by utilizing cutting-edge formulation and capsule technologies

Under one of the basic policies of the 5th Mid-term Business Plan, "entering new health-related businesses," we have aimed to contribute to extending healthy life expectancy through the care of pre-symptomatic diseases and disease prevention. As part of this effort, the Group acquired Sunsho Pharmaceutical Co., Ltd. ("Sunsho Pharmaceutical") and made it one of its consolidated subsidiaries in March 2022. Sunsho Pharmaceutical is one of the leading CDMOs (Contract Development and Manufacturing Organizations) in Japan, which mainly plans, develops, and manufactures health foods, including dietary supplements, general foods, and capsule formulations of pharmaceuticals and others. The company owns cutting-edge formulation and capsule technologies, such as the proprietary UniORV® technology.

With the addition of Sunsho Pharmaceutical, the Group has established an unwavering position in the domestic soft capsules manufacturing market and has commenced a full-fledged development of health foods of Towa Quality.

Further, the Group has forged ahead with a post-merger integration (PMI) process to maximize the effect of integration after M&A, considering the group governance, centered on the integration of management, operations, and awareness. Going forward, we expect to innovate technologies and create new product value by combining Sunsho Pharmaceutical's knowledge and superb formulation technologies in health foods with the Group's knowledge and formulation technologies. Moreover, the integration will help realize our vision to *contribute to people's health by creating superior products and services.* In the future, we will diversify our health-related business portfolio with a view to delivering health food products including soft capsules overseas.

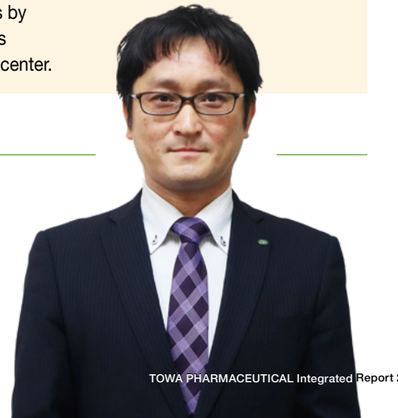

Soft capsules


Seamless capsules


Innovation Center

Business expansion through collaboration with Sunsho Pharmaceutical

Sunsho Pharmaceutical manufactures products in small to large lots at four manufacturing sites and five packaging sites, with the Innovation Center, an R&D base, which the company started construction in July 2021 and was completed in November this year, at the core. As two of these manufacturing sites have obtained approval to manufacture pharmaceutical products, we expect the company to contribute to a stable supply of pharmaceuticals, let alone health foods. The innovation center is designed to serve as a hub to deliver to the world a great many innovations through the development of formulation and processing technologies including UniORV®, the research of functionality, and the creation of new applications of formulation technologies. We strive to expand health-related businesses by integrating Towa Pharmaceutical's formulation technologies into the center.



Hideshi Nakamura
Deputy Division Manager, Corporate Strategy Division / General Manager, Corporate Planning Department

Our Value Creation Process

To address social issues, Towa Group has created value by allocating its business capitals to every business that contributes to people's health. We will contribute to the health of all people and help them achieve a genuine smile based on the "5th Mid-term Business Plan 2021–2023 PROACTIVE II."

Social Issues

- Extension of healthy life expectancy and disease prevention
- Production of high-quality pharmaceutical products
- Quality assurance and stable supply of pharmaceutical products
- Better accessibility to primary healthcare services
- Application of advanced technology to healthcare services
- Improvement of working environment

INPUT Business Capital

Financial capital

- Total assets: JPY 329.9 billion (consolidated)
- Net assets: JPY 132.1 billion (consolidated)

Manufactured capital

- Production sites: 12
  (11 in Japan [including Towa's 3 plants], 1 in Europe)
- Production capacity (Towa's 3 plants):
  12 billion tablets (tablets and capsules)
- Production facilities for various dosage forms

Intellectual capital

- R&D offices: 10 (9 in Japan, 1 in Europe)
- R&D expenditure: JPY 35 billion or more
  (accumulative) (FY2021–FY2023)
- API synthesis process knowhow

Human capital

- Employees: 4,078 (consolidated)
- Consolidated subsidiaries: 12
  (4 in Japan, 8 in overseas countries)
- Qualified pharmacists: 254 (consolidated in Japan)
- MRs: 799 (consolidated in Japan)

Social and relationship capital

- Collaborate with business partners including raw material manufacturers, medical products distributors, and agents
- Medical institutions coverage ratio (Towa):
  Hospitals 90.7%
  Dispensing pharmacies 95.9%

Natural capital

- Energy input: 20,203 kl
  (crude oil equivalent, Towa's 3 plants)
- Water usage: 278,060 m^3 (Towa's 3 plants)

Towa Quality

Manufacture of sophisticated products with No. 1 total product performance

5th Mid-term Business Plan 2021–2023 PROACTIVE II

- Corporate Governance
  (Compliance and Risk Management)
- Our Commitments (T-SMILE)
- Vision

Foundations supporting value creation

OUTCOME

Towa Group's value proposition

We will support everyone who cares about good health to live a healthy lifestyle by making it easier to be and stay healthy as part of everyday life.

- Enhancing generics business as a core
- Expanding and growing business in overseas markets
- Entering new health-related businesses
- Creating technology innovations and product value
- Making job satisfaction and fostering talented human resources

Social Impact

- Extending healthy life expectancy of more than 7 billion people around the world
- Controlling healthcare costs of the government, administrative agencies, and local communities
- Maintaining sustainable healthcare system

Genuine smiles

People's health

External Environment Surrounding Towa Group

Entering the era where measures for new challenges are required despite having achieved the government's generics volume share target

In recent years, generics have come to play an increasingly vital role in the society. Under the "Basic Policy on Economic and Fiscal Management and Reform 2017" approved by the Cabinet in 2017, the government has set a target to increase the generics volume share to 80% by September 2020. In response to this, the generics industry including Towa has focused on enhancing production capacity and ensuring stable supply. The results of analysis issued by the Japan Generic Medicines Association show the volume share reached 80.1% in the fourth quarter of fiscal 2020 (January to March 2021) and indicated the target of 80% was achieved.

Furthermore, in the "Basic Policy on Economic and Fiscal Management and Reform 2020," the government says it will "protect people's lives, livelihoods, jobs, and businesses" to achieve the "New Future in the post-pandemic." The government also envisions achieving a "New Normal Lifestyle" by a full speed revolution at a stroke that would take 10 years under normal circumstances. Achieving a high-quality economic society in the "New Normal Lifestyle" is set as a goal for the New Future in the post-pandemic.

Meanwhile, under the "Future Social Security Reform – Looking to 2040" issued by the Ministry of Health, Labour and Welfare, the government aims to realize a society where everyone can work longer and more energetically by solving issues such as "diverse employment and social participation," "extension of healthy life expectancy" and "medical and welfare service reforms." Generics are playing a greater role under these government policies and we are expected to contribute to extending healthy life expectancy by forming an infrastructure to create ideal local communities and providing necessary health promotion services to people in need of them.

There is a pressing need for industry-wide initiative to restore confidence in generics which has been eroded

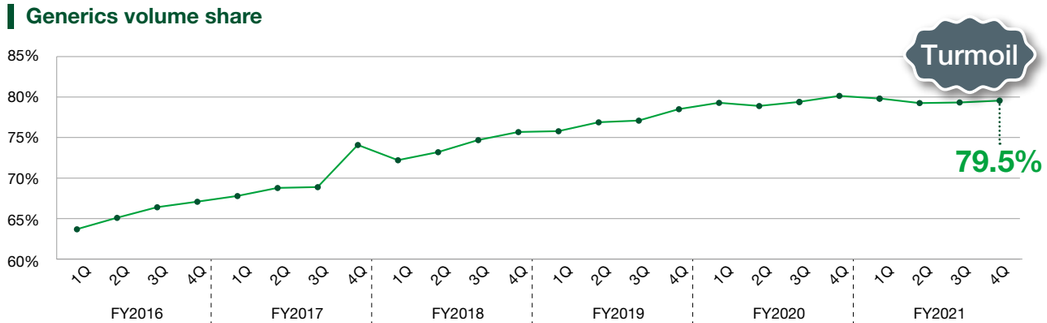
While the generics volume share has steadily risen, the recent quality problems in the generics industry have affected the entire industry. Public confidence in generics built by the industry so far is declining. As the drug companies involved in quality problems suspended their operations, the industry as a whole has failed to fulfill its responsibilities for stable supply. As a result, the generics market is in turmoil and the future of generics companies is worrisome.

Under such circumstances, the Ministry of Health, Labour and Welfare mentioned that the industry would never gain understanding from patients and Medical professionals only by setting new numerical targets for generics. In order to regain public confidence in generics, the entire industry shall implement measures for ensuring a stable supply based on thorough manufacturing and quality management.

While still pursuing Towa Quality, we will make the utmost efforts to restore public confidence in the industry by enhancing the product lineup needed and maintaining and strengthening the system for stable supply/quality assurance as well as for information provision.

Our activities on health-related businesses conform to this direction and we will strive to become a valued company that contributes to the society.

Generics volume share



Towa Group's Capital

Towa focuses on creating value across its Group by working sincerely to solve social issues while leveraging various capitals gained in the past business operations. By solving issues including the extension of healthy life expectancy, we will contribute to the health of people around the world.

Financial capital

- Total assets: JPY **329.9** billion (consolidated)
- Net assets: JPY **132.1** billion (consolidated)

Total assets at the end of FY2021 increased JPY 84,266 million YoY to JPY 329,935 million. Net assets at the end of FY2021 increased JPY 15,596 million YoY to JPY 132,169 million. Consequently, capital-to-asset ratio was 40.1% at the end of the consolidated fiscal year under review.

Manufactured capital

- Production sites: **12**
  (11 in Japan [including Towa's 3 plants], 1 in Europe)
- Production capacity (Towa's 3 plants):
  12 billion tablets (tablets and capsules)
- Production facilities for various dosage forms

Towa Group has 12 production sites in total, comprising of 11 in Japan and 1 in Catalonia, Spain. Production capacity stands at 12.0 billion tablets for tablets and capsules produced at Towa's 3 main plants. Our subsidiaries produce ointment, soft capsules, etc. and the Group is distinguished by its capacity to produce diverse dosage forms.

Intellectual capital

- R&D offices: **10** (9 in Japan, 1 in Europe)
- R&D expenditure: JPY **35** billion or more
  (accumulative) (FY2021–FY2023)
- API synthesis process knowhow

R&D is conducted in 10 offices in total, comprising 9 in Japan and 1 in Europe. Target R&D expenditure from FY2021 to FY2023 is JPY 35.0 billion or more (accumulative). This covers the leading-edge research on API synthesis including molecular control technology.

Human capital

- Employees: **4,078** (consolidated)
- Consolidated subsidiaries: **12** (4 in Japan, 8 in overseas countries)
- Qualified pharmacists: **254** (consolidated in Japan)
- MRs: **799** (consolidated in Japan)

Towa Group hires 799 MRs and 254 qualified pharmacists (both consolidated in Japan). In addition, we have introduced an internal qualification system for business operations (experts, etc.) to nurture professionals.

Social and relationship capital

- Collaborate with business partners including raw material manufacturers, medical products distributors, and agents
- Medical institutions coverage ratio (Towa):
  Hospitals **90.7**%
  Dispensing pharmacies **95.9**%

We engage in nationwide marketing activities through 71 sales offices, 31 agents at 62 sites, and medical products distributors, among others, in Japan. Towa has a high coverage ratio of medical institutions: 90.7% for hospitals and 95.9% for dispensing pharmacies.

Natural capital

- Energy input: **20,203** kl
  (crude oil equivalent, Towa's 3 plants)
- Water usage: **278,060** m^3 (Towa's 3 plants)

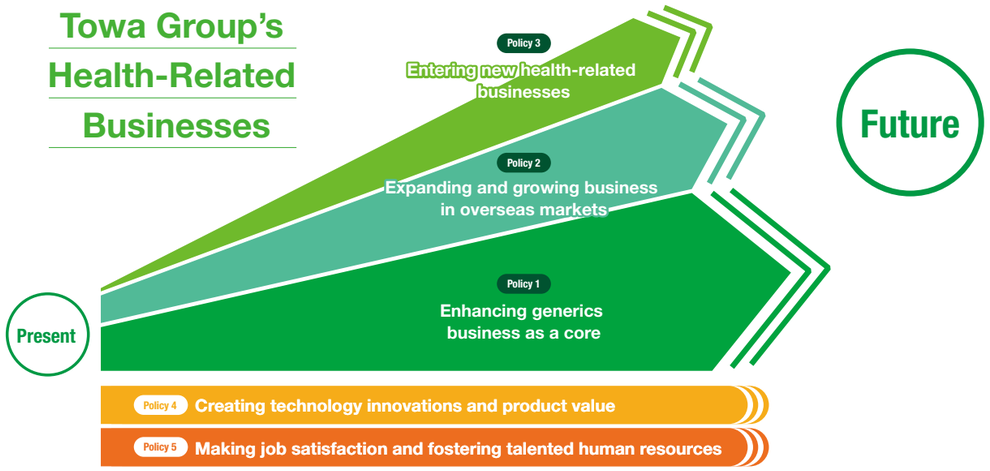
We use good quality water and energy resources to produce high-quality pharmaceutical products. In this regard, from an environmental perspective, we manage chemical substances properly, enhance the plants' water discharge and air emission systems, take energy-saving measures, and make other efforts.

Mid-term Business Plan 2021–2023

PROACTIVE Ⅱ

Under our 5th Mid-term Business Plan 2021–2023 PROACTIVE II (the “Mid-term Plan”), the Group will be developing health-related businesses in line with five policies as shown in the diagram below. With our domestic generics business, which is our core business, we will be aiming to make an even greater contribution as we move forward into the future. And as for overseas markets, we will be expanding the number of countries and territories in which we offer the Group’s products. Furthermore, in the realm of new health-related businesses, we are embarking on a new era, so will be steadily doing what’s necessary as we look ahead to the future.

To implement these policies, it will be important to continuously deliver technological innovation and product value, and we will therefore be continuously working to enhance job satisfaction and foster talented human resources.



Challenges	Policy	Key Theme
Securing stable supply and providing appropriate information based on thorough manufacturing control and quality control to restore trust in generics Being a more trusted and needed company as a comprehensive generics manufacturer	[Policy 1] Enhancing generics business as a core	• Stable product supply - Stable API procurement - Enhanced production capacity - Optimized Towa Sales System • Quality assurance • Broad product lineup • Manufacture of sophisticated products with No. 1 total product performance
Delivering high-quality, value-added generics to contribute to the health of people around the world	[Policy 2] Expanding and growing business in overseas markets	
Contributing to the realization of healthcare and nursing care for society with long and healthy life expectancy and also to society that shifts from medical care to care of pre-symptomatic disease care and prevention	[Policy 3] Entering new health-related businesses	• Entry to Disease risk testing service business
Contributing to society by constantly supplying the Towa Quality products and achieving sustainable growth	[Policy 4] Creating technology innovations and product value	
Continuing to be an ever-growing company that provides job satisfaction to each and every employee through growth of both the company and its employees	[Policy 5] Making job satisfaction and fostering talented human resources	

Progress with implementation of Mid-term Business Plan

Regarding our performance in the fiscal year ended March 31, 2022, while operating profit decreased from the previous fiscal year, net sales and profit attributable to owners of parent both climbed.

As for the basic policies in the Mid-term Business Plan, with respect to Policy 1 (Enhancing generics business as a core), we are moving forward with preparations to expand our production capacity to 17.5 billion tablets from FY2024. In addition, we worked on boosting our logistics capacity to cope with the volume we will need to handle once output is increased.

Regarding Policy 2 (Expanding and growing business in overseas markets), Towa Pharma International Holdings, S.L. (“Towa HD”), which is based in Spain, has business offices in the United States and five European countries, and supplies generic drugs with over 210 ingredients in more than 20 countries across the globe.

And as of the other three basic policies, we are making steady progress toward achieving of our goals.

Net sales	Operating profit
Targets JPY 200.0 billion (consolidated) JPY 150.0 billion (non-consolidated)	Target (cumulative) JPY 57.0 billion or more
Results for FY2021 JPY 165.6 billion (consolidated) JPY 123.3 billion (non-consolidated)	Results for FY2021 JPY 19.2 billion

R&D expenditure	Capital investment	Dividend policy
Target (accumulative) JPY 35.0 billion or more	Target (accumulative) JPY 75.0 billion or more	Target Stable dividends
Results for FY2021 JPY 11.5 billion	Results for FY2021 JPY 14.8 billion	Results for FY2021 Annual dividend of JPY 60

Policy 1 Enhancing generics business as a core

Stable product supply

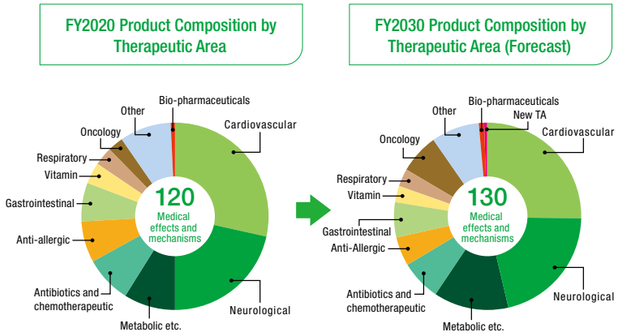
To maintain and strengthen a Stable product supply, we will emphasize the perspective of supply chain management, and will share information and encourage cooperation across departments to optimize the entire system. In this way, we will move ahead with risk-adapted initiatives. Specifically, we will provide Towa products to medical institutions, pharmacies, and patients, who need the products, by increasing production capacity through our three-plant production structure and by optimizing the Towa Sales System. In particular, we will be pursuing initiatives that take into account the risks in API procurement.

Quality assurance system

Throughout manufacturing and quality control processes, we will comply with GMP, GQP, and GVP ministerial ordinances and the GDP guidelines to maintain and strengthen our quality assurance system. In every process from the acceptance of APIs to the testing of intermediate products, the testing of finished products, product shipment decision-making by plants, and product shipment decision-making by the HQ QA Dept, we will strengthen our management systems and schemes, and continue to work to ensure reliable quality and safety.

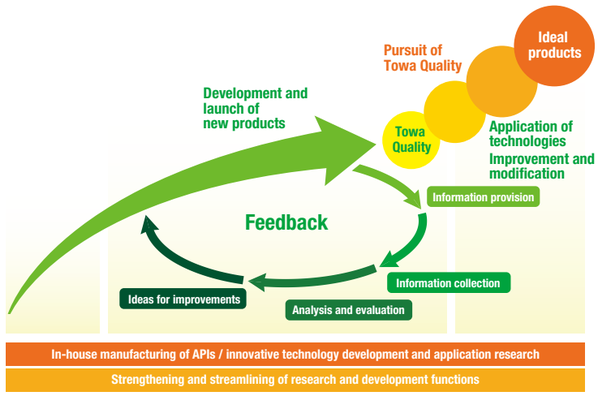
Broad product lineup

We will put together a generic-drug product lineup with a focus on medicines deemed necessary for future medicinal treatment. With joint sales of Infliximab BS as a stepping stone, we have entered the biosimilar market, and in December 2021, we started manufacturing and sales of our first authorized generic, Eldecalcitol Capsules 0.5 μg/0.75 μg Towa, so we now offer a product lineup that spans a wide range of fields. In addition, we will be taking on challenges in diversified areas such as drug re-positioning with iPS drug discovery, development of Rivastigmine transdermal system twice-a-week medicine, etc.



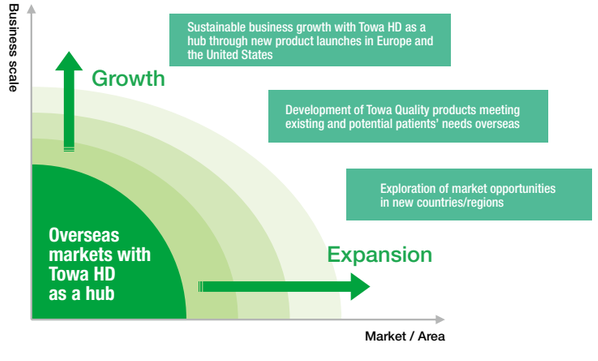
Manufacture of sophisticated products with No. 1 total product performance

Manufacture of sophisticated products with No. 1 total product performance refers to our initiatives in providing the market with products characterized by “Towa Quality” that are desired and needed by customers. This guarantees the quality of the products that we supply under thorough quality control. We are constantly using the latest technologies to improve and modify the quality of the products, and we are constantly upgrading the products to the latest and best. We are strengthening and streamlining research and development functions through investment in facilities and equipment.



Policy 2 Expanding and growing business in overseas markets

We will strive for the sustainable growth of our business by introducing new products in Europe and the United States, mainly through Towa HD, which we acquired in 2020. At the same time, we will develop Towa Quality products that meet patients’ needs overseas. Furthermore, we will explore market opportunities in new countries/regions.



Policy 3 Entering new health-related businesses

As part of our challenges, the Group aims to contribute to the realization of healthcare and nursing care for society with a long and healthy life expectancy and also to society that shifts from medical care to care of pre-symptomatic disease and prevention. Recognizing this as a task to accomplish, and in line with our vision of contributing to people’s health, we are working to create new health-related businesses that are suited to the new medical system, while acquiring new techniques and integrating them with completely new knowledge and technologies.

An example is our wearable work support robot, Muscle Suit, which assists with movement through the flexing of artificial muscles powered by air pressure. This product helps to improve working conditions and tackle labor shortages by easing the burden on the lower back when lifting a person, holding up a heavy object, or maintaining a half-sitting posture.

Another product is comuoon, an interactive support device. This is a revolutionary system based on a concept that is the reverse of the notion that people who are hard of hearing should find ways to hear better. Instead, it is about making the person speaking more easily heard. It is now being used in an increasing number of settings, including medical institutions, pharmacies, and nursing homes.

Besides these products, a smartphone app called Hana Support assists users with taking their medicines. By continuously recording the medication they have taken in this app, users can confirm for themselves what they have taken and provide accurate information to pharmacists. It therefore helps them to avoid forgetting to take their medicine or taking their medicine twice.

Furthermore, in March 2022 we completed our acquisition of the shares of Sunsho Pharmaceutical Co., Ltd. (“Sunsho Pharmaceutical”) and made it a wholly-owned subsidiary. The health food product and capsule manufacturing technology that Sunsho Pharmaceutical has developed over many years will support the Towa Group in realizing its vision to contribute to people’s health by creating superior products and services, and we expect it to help extend people’s healthy life expectancy.

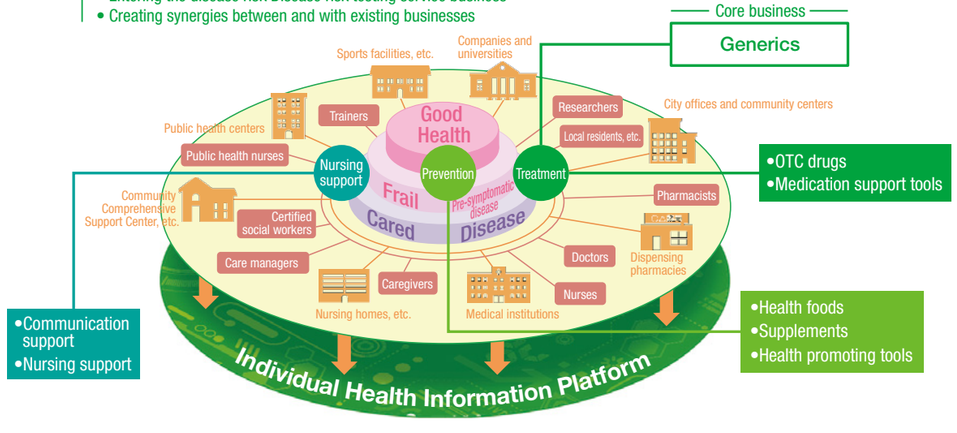
Muscle Suit Every

comuoon

Hana Support

Key measures

- Building a foundation for extending healthy life expectancy by utilizing data
- Contributing to Community-based Integrated Care System
- Further enhancing lineup of products and services to maintain and improve health
- Entering the disease risk Disease risk testing service business
- Creating synergies between and with existing businesses



Contributing to forming of infrastructure for the creation of ideal local communities
Providing necessary health promotion services to people who need them and contributing to the extension of healthy life expectancy

Policy 4 Creating technology innovations and product value

To contribute to society by constantly supplying Towa Quality products and achieving sustainable growth as a company, we will continue to work on creating technology innovation and product value.

In particular, we will pursue technological innovation in API technologies such as molecular control technology, chiral synthesis technology, and continuous-flow precision synthesis, in formulation technologies such as ones that allow the production of OD tablets that are easy to take, and in manufacturing technologies for continuous production.

Sunsho Pharmaceutical, which is now a Group company, constructed an Innovation Center to serve as a R&D base for enabling the development of state-of-the-art pharmaceutical formulation technologies. The company also possesses advanced drug formulation and capsule technologies such as UniORV® technology, and we are aiming for innovation by integrating them with our own RACTAB® technology.

We are also stepping up efforts to create new product value. Regarding joint research aimed at obtaining a new indication for Bromocriptine the results of physician-led trials suggest potential for formulation development based on iPS drug discovery. Going forward, Towa Pharmaceutical and Time Therapeutics, Inc., in cooperation with Kyoto University, plans to consult with the regulatory authorities and determine a development policy with a view to obtaining approval.

As for our formulation of Rivastigmine a drug used by Alzheimer's disease patients, we are conducting clinical trials (Phase III trial) with a view to obtaining approval for manufacturing and sale of the formulation.

API Technology

Establishment of molecular control technology
- Freely controlling crystal form and particle size of APIs
  ➡ Contribution to the development of value-added products

Establishment of chiral synthesis technology
- Enabling efficient API synthesis

Development of continuous flow precision synthesis
- Pursuing green sustainable chemistry with wastes reductions and low CO_2 emissions as key initiatives

Formulation Technology

Pursuing OD tablets that are easy to take
- Further improvement of RACTAB
  ➡ Masking technology to reduce bitterness, miniaturization of tablets, and better oral disintegration

Realization of stable formulations
- Development of formulations stable in term of heat, light, moisture, and oxygen
- Assurance of expiration period of formulation for three years or more

Manufacturing Technology

Establishment of technology to monitor products in real time (PAT: Process Analytical Technology)
▼
Application to integrated continuous manufacturing system
- Production carried out under an integrated flow leading to labor saving
- Smaller manufacturing facilities and occupation area

Creation of New Product Value

Joint research aimed at obtaining a new indication for Bromocriptine
- Clinical trials for familial Alzheimer's disease started

Development of new Rivastigmine formulation
- Development of transdermal system twice-a-week medicine
- Hope for reducing the burdens on patients, their families, and caregivers
- Phase III clinical trials started in the summer 2021

Policy 5 Making job satisfaction and fostering talented human resources

As the growth of employees leads to the strengthening of corporate fundamentals and facilitates growth corresponding to change, we are working to establish an environment for the enhancement of corporate fundamentals. In connection with this, we are aiming to create workplaces where there is respect for diversity in work styles and motivation for each and every employee. We also view our employees as vital investment resources and assets for the Company, and are stepping up fostering talented human resources who can make an impact as we pursue growth.

Towa Group's Target Business

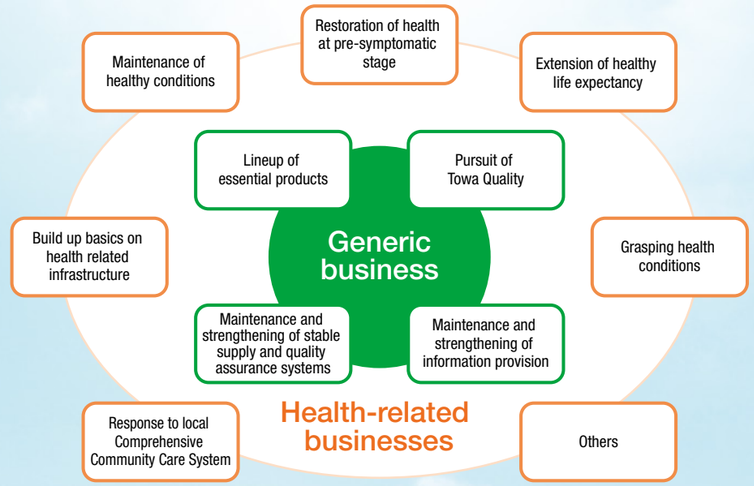
Based on our vision "We contribute to people's health; we are dedicated to people's genuine smiles," Towa Group contributes to people's health by creating superior products and services. Through our corporate activities, we aim to be a company that is valued and needed by patients, Medical professionals, local communities, and others.

Under the 5th Mid-Term Business Plan, we will maintain our vision while expanding the scope of our business to include health-related businesses. Nevertheless, our core generic business in Japan and overseas will maintain its central role in our operations.

In this core business, we will further strengthen and utilize the results of all the efforts we have made so far. Based on the premise of "pursuit of Towa Quality," we will strengthen our "Assortment of needed products" to meet the demands of society as a comprehensive generics manufacturer. In addition, we will maintain and strengthen our system to provide a stable supply of products that meet quality standards and to deliver information on safety and quality in a timely and accurate manner.

Furthermore, the Group will pursue corporate activities to contribute to the creation of new health-related businesses. Through these businesses, we will help form an infrastructure to create ideal local communities, and contribute to extending healthy life expectancy by providing necessary health promotion services to people in need of them.

And with regard to the Sustainable Development Goals (SDGs), international objectives to be achieved by 2030, we aim to contribute mainly to the attainment of Goal 3 (Good Health and Wellbeing), while also working to achieve the other goals.



With generics business set as our core, expansion of all health-related businesses contributing to people's health

SUSTAINABLE DEVELOPMENT GOALS

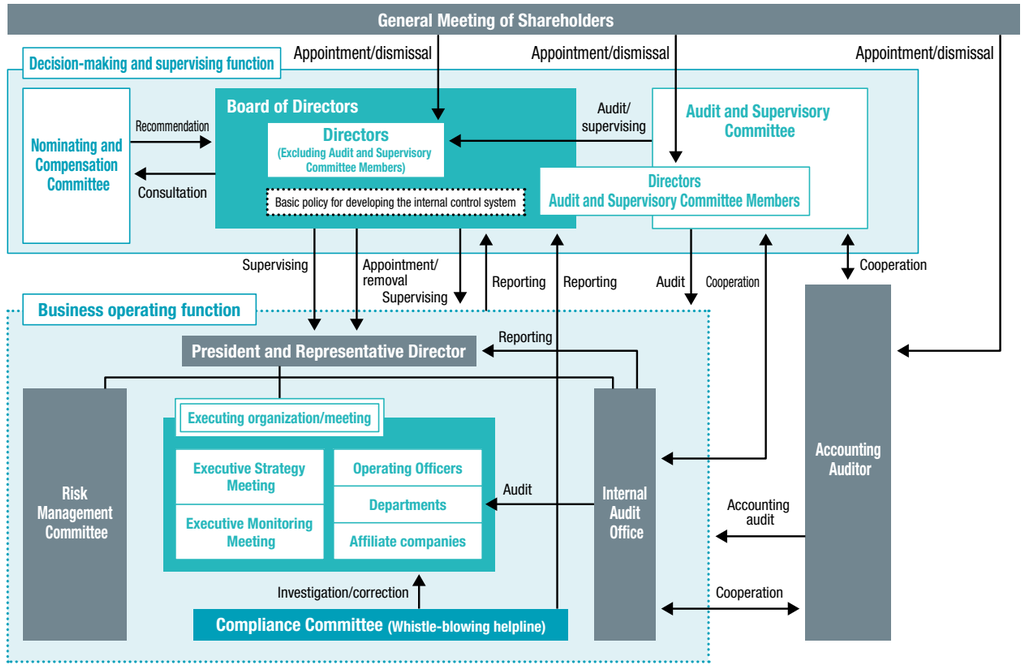
In response to the international initiatives of SDGs to be achieved by 2030, we will focus on Goal 3 (Good Health and Well-being), while also working to achieve the other goals.

Basic approach

As an important issue, we focus on implementing a better corporate governance. By conducting business strictly in compliance with the ethical standard and improving the efficiency and transparency of the management, we continuously raise the corporate value for the shareholders. To achieve this, we endeavor to respect and protect shareholders' rights as well as establish and maintain good relationships with all of our stakeholders including shareholders. At the same time, we continuously make efforts to achieve our social missions as a healthcare company by focusing on maintaining and improving corporate ethics and ethical standards of officers and employees.

This policy also applies to the Towa Group companies. Each of the Group companies fulfills required roles and obligations to increase the corporate value of the Towa Group as a whole.

Overview of the corporate governance structure



Enhancement of the corporate governance structure

Towa continuously makes efforts to enhance its corporate governance structure. Towa is a company with an audit and supervisory committee system. The Company is governed mainly by the Board of Directors consisting of seven Directors and the Audit and Supervisory Committee consisting of four Directors who are Audit and Supervisory Committee Members (including three Outside Directors).

One of the main roles of the Board of Directors is to make decisions on mid- to long-term management policies and important operations. Their important roles also include resolving the basic policy of the internal control system and supervising Directors' business execution. To ensure the effectiveness of such decision making and supervision, we need to reduce the number of Directors, separate Directors and Operating Officers and clarify their roles, and build an environment that encourages Outside Directors to express their opinions.

Under these policies, Towa has made several efforts. This includes the transition to audit and supervisory committee system, introduction of mid- to long-term performance-based stock compensation system, establishment of the Nominating and Compensation Committee, enhancement of functions of Outside Directors, and stimulation of the Board of Directors. Going forward, Towa will continue to focus on enhancing the corporate governance structure.

Board of Directors

The Board of Directors of the Company is chaired by the Representative Director. Meetings of the Board of Directors are held monthly in principle. The Board discusses important management matters at the meetings and makes decisions promptly. With regard to business execution, the Company has introduced an operating officer system and built a governance structure to clarify the Directors' responsibilities. With the structure, Operating Officers bear the responsibility for business execution while the Board of Directors focuses on decision making and supervision of management issues.

Audit and Supervisory Committee

The Audit and Supervisory Committee of the Company consists of four members including three Outside Audit and Supervisory Committee Members. Audit and Supervisory Committee Members conduct effective audits according to audit plans formulated by the Audit and Supervisory Committee. Specifically, they attend important meetings such as the Board of Directors meetings; receive reports from Directors, Operating Officers, employees, and the Accounting Auditor; and conduct on-site audits of major offices. In addition, the Audit and Supervisory Committee has established its own whistle-blowing helpline, which accepts whistle-blowing on matters involving officers as a highly independent contact.

Nominating and Compensation Committee

The Nominating and Compensation Committee of the Company is chaired by the Representative Director and more than half of whose members are Independent Outside Directors. The purpose of the Nominating and Compensation Committee is to deliberate matters on the appointment and dismissal of Directors and Operating Officers, nomination of candidates, succession planning, and compensation in consultation with the Board of Directors, and to make recommendations to the Board of Directors.

Analysis and evaluation of the effectiveness of the Board of Directors as a whole

The Company conducted a self-evaluate survey for Directors from February to March 2022 to analyze and evaluate the effectiveness of the Board of Directors. The survey used a questionnaire consisting of 21 questions including those on the structure, operations, and discussions of the Board of Directors. Results of the survey were reported at the meeting of the Board of Directors held on April 18, 2022.

Although the survey showed no significant issues on the effectiveness as a whole, it reminded us that we need to further discuss the discovery and development of human resources from a mid- to long-term perspective as well as mid- to long-term management challenges. Based on those results of the evaluation, the Company will further endeavor to enhance the effectiveness of the Board of Directors.

Skill matrix

		Corporate management	Management strategy Business strategy	Finance/ Accounting	Legal affairs/ Risk management	Personnel	Purchasing	R&D	Production	Quality control/ Reliability governance	Sales/ Marketing	Global
Inside Directors	Itsuro Yoshida	●	●	●	●	●	●		●			
	Kazuhiko Konno	●	●					●	●	●		
	Masao Tanaka	●	●	●	●	●						
	Toshio Shirakawa	●			●			●			●	●
Outside Directors	Norikazu Eiki	●	●		●			●	●	●		●
	Kaori Oishi				●							
	Kenryo Goto	●	●	●	●							

Roles and independence of Outside Directors

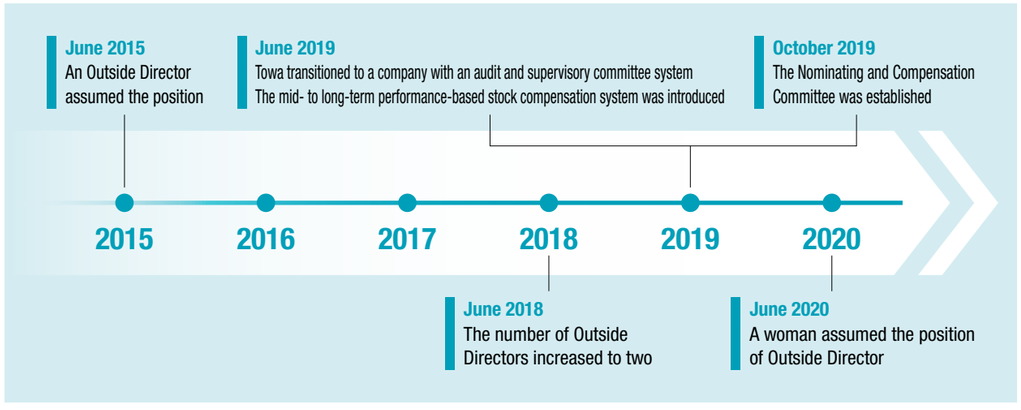
The Company believes that fair and efficient corporate management can be achieved through Outside Directors' advice and opinions on sound and efficient management. The Company has established the Nominating and Compensation Committee as an advisory body to the Board of Directors in order to further enhance and strengthen the corporate governance structure. In particular, the committee contributes to appropriately providing the Outside Directors with opportunities for involvement and advice so as to increase the objectivity and transparency of the decision-making process on the matters such as appointment/ dismissal and compensation for Directors and other officers.

Currently, all of the Outside Directors are Audit and Supervisory Committee Members. The Company has built a system to help them fulfill their duties as Audit and Supervisory Committee Members. Specifically, agenda items of the Board of Directors are sent to them in advance by the General Affairs Department, the administrative office of the Board of Directors, so that the Members can consider matters to be discussed thoughtfully. In addition, they are provided necessary support by the assistant staff of the Audit and Supervisory Committee as well as reports and explanations on important matters by the full-time Audit and Supervisory Committee Member.

Reasons for nomination of Outside Directors

Position Name	Reasons for nomination	Attendance	
		Board of Directors meetings (held 15 times) 100%	Audit and Supervisory Committee (held 13 times) 100%
Norikazu Eiki **Outside Director (Audit and Supervisory Committee Member)** **Assumed the office in June 2019**	Norikazu Eiki has wide-ranging insights and extensive experience at a global company, and the Company expects that his advice and opinions will promote sound, efficient and objective management, for which reason it has appointed him as an Outside Director.		
Kaori Oishi **Outside Director (Audit and Supervisory Committee Member)** **Assumed the office in June 2020**	Kaori Oishi has expertise and extensive experience as an attorney-at-law. The Company expects that her advice and opinions based on such a background will ensure sound corporate management and promote compliance management, for which reason it has appointed her as an Outside Director.	Board of Directors meetings (held 15 times) 100%	Audit and Supervisory Committee (held 13 times) 100%
Kenryo Goto **Outside Director (Audit and Supervisory Committee Member)** **Assumed the office in June 2021**	Kenryo Goto has expertise in fields including finance and accounting as a certified public accountant and extensive experience as a corporate manager of an audit firm. The Company expects that his advice and opinions based on such a background will improve the transparency and objectivity of management, for which reason it has appointed him as an Outside Director.	Board of Directors meetings (held 12 times) 100%	Audit and Supervisory Committee (held 10 times) 100%

History of Towa's corporate governance



Compensation for officers

The Company formulated the basic policy for the determination of Directors' compensation. Under the policy, compensation shall:

- Contribute to secure talented people to ensure "Towa Group Philosophy," "Our Commitments," "Corporate Policy," and "The Charter of Corporate Behaviors in Towa Group,"
- Be linked with clear targets for corporate and individual performance to increase Directors' motivation and morale as they perform their duties,
- Help to raise awareness of the contribution to improving mid- to long-term performance and corporate value, and
- Be determined with a focus on raising awareness of sharing interests with shareholders and shareholder-centered management.

With the basic policy above, the Company introduced the mid- to long-term performance-based stock compensation system for Directors (excluding Outside Directors and Directors who are Audit and Supervisory Committee Members). This introduction was made to further clarify the link between compensation and the Company's mid- to long-term performance and shareholder value, as well as to improve corporate value over the medium to long term by granting incentives while raising Directors' awareness of contribution to the improvement of corporate value and shareholder-centered management.

In addition, the Company has established the Nominating and Compensation Committee as an advisory body to the Board of Directors with the aim of increasing the objectivity and transparency of the decision-making process of compensation for Directors or other matters as well as further enhancing and strengthening the corporate governance structure.

Total amount of compensation for Directors

Position	Total amount of compensation (in millions of yen)	Amount of compensation by type (in millions of yen)				Number of eligible officers
		Basic compensation	Annual bonuses (based on individual performance)	Performance-based compensation		
				Monetary compensation	Non-monetary compensation	
Directors (Excluding Audit and Supervisory Committee Members)	173	105	16	43	7	3
Directors (Audit and Supervisory Committee Members) (of which Outside Directors)	49 (26)	49 (26)	— (—)	— (—)	— (—)	5 (4)
Total (of which Outside Directors)	223 (26)	155 (26)	16 (—)	43 (—)	7 (—)	8 (4)

Cross-shareholdings

The Company may hold cross-shareholdings upon request from a business partner as a means to build, maintain, and strengthen long-term and stable transactional relationships with the business partner. In that case, however, the Company holds cross-shareholdings only when it is deemed that holding of such shares will contribute to the enhancement of its corporate value over the medium to long term.

Whether to hold cross-shareholdings is determined yearly by the Board of Directors with consideration of mid- to long-term economic rationality and future outlook. The Company exercises its voting rights of cross-shareholdings appropriately after closely examining the proposals and determining whether the holding of such shares will contribute to the enhancement of shareholder value. The Company does not make an affirmative determination on proposals that may damage shareholder value. In addition, the Company will be against proposals of appointment of Directors and other officers who committed any antisocial act or violation of legal obligations.

If a cross-shareholder expresses an intention to sell the shares, the Company does not hinder the sale or other acts. When conducting transactions with cross-shareholders, the Company will thoughtfully examine the economic rationality of those transactions, just as with those with other business partners.

Dialogues with stakeholders

The Company discloses the information on its management strategies and finance/performance status, among other matters, to shareholders, investors, and other stakeholders through investor relations activities in an appropriate and timely manner. In addition, the Company emphasizes constructive dialogues with stakeholders including shareholders and investors so as to deliver opinions, requests, and other similar things obtained from such dialogues to the Board of Directors for the improvement of corporate value.

The Company recognizes the importance of appropriate collaboration with not only shareholders and investors but also other stakeholders including patients, Medical professionals, business partners, local communities, and employees. For creating corporate value, we are committed to disclosing information in an appropriate and timely manner to all of our stakeholders in order to maintain good and smooth relationships with them.

Risk Management

Basic approach to risk management

To ensure company-wide risk management, the Company has formulated the “Basic Regulations for Risk Management,” which shall be complied with by all the departments, officers, and employees of the Towa Group. It is critical for the Group’s continuation and growth to respond to the risks surrounding the Group promptly and appropriately. We aim to prevent risks as well as to minimize the loss of stakeholders’ profits and impacts on corporate management when a risk occurs. The Group’s risk management is administered by the Risk Management Committee, established under President and Representative Director, who is the chief risk officer.

Risk Management Committee

The Risk Management Committee addresses the risks surrounding the Group promptly and appropriately with the aim to minimize the loss of stakeholders’ interests and impacts on corporate management when a risk occurs while preventing risks.

The Committee consists of 21 members including Representative Director Itsuro Yoshida, who serves as the chief risk officer. In addition, Director (Audit and Supervisory Committee Member) Toshio Shirakawa attends meetings of the committee as an observer.

In terms of the impact of climate change on the Company’s business activities and earnings, etc., a subordinate organization of the committee, beginning in FY2022, works to implement scenario analysis and consider GHG emissions reduction measures, based on the recommendations of Task Force on Climate-related Financial Disclosures (TCFD). We strive to disclose the information, upon report to the Board of Directors, as appropriate.

Related information on page 46

Information security

To increase the Company’s trustworthiness and competitiveness, the Company has formulated its information security regulations. The regulations consist of basic rules for appropriate use, maintenance, and operation of information assets that all the officers and employees must comply with in the course of their duties. Based on the regulations, the Company works to secure information security as part of daily management activities, business promotion, and organizational operation.

Disaster countermeasures

Towa Group takes various measures to prepare for a large-scale disaster.

Specifically, those measures include: (1) provision of emergency supplies, (2) clarification of initial responses and preparation of manuals, and (3) introduction of a safety verification system. In addition, we hold twice-a-year meetings of the Risk Management Committee to share information.

Fire evacuation drill

Risks in the competitive environment, etc.

The competitive market for generic drugs is composed mainly of a switch from brand-name drugs and is greatly affected by the number of sales promotion companies. In recent years, companies have been planning strategies, such as introducing authorized generic products. Our actual sales revenue may differ from planned revenues, depending on their trends. In addition, competitors’ supply status impacts demand for our products, which could risk a stable supply.

The Group responds to such risks by increasing production capacity through capital investment, improving the backup system for manufacturing sites, and ensuring a stable supply of products from the production and sales aspects by monitoring the volume of demand and inventory daily. We are also making efforts to ensure reliability through transparent disclosure of information.

At present (as of the date of submission of the Integrated Report), the effects of the COVID-19 pandemic are minor within our group. However, should the effects prolong or worsen in the future, effects of patients’ reluctance to visit hospitals and clinics on sales, and effects of the spread of COVID-19 outside Japan on supply chains for raw materials and APIs might spill over into production. In addition, the dire Russia-Ukraine situation is affecting the global economy, causing soaring prices of energy and raw materials, thus affecting the management of the Group.

Risk Information

Towa Group mainly handles prescription products, and among them, generics are our leading products. A generic drug has the same active ingredients, indications, dosage, and administration as a branded drug that has been on the market after its efficacy and safety have been confirmed for a certain period of time. Thus, the Group faces specific risks as a generic business in addition to risks as a holder of marketing authorization for drugs. After recognizing these risks, the Group makes every effort to avoid their occurrence and set up a system for unexpected events.

Control in accordance with the Pharmaceutical and Medical Device Act, etc.	The Group has been manufacturing and marketing prescription products in accordance with the Pharmaceutical and Medical Device Act and related laws and regulations. Any violation of those laws and regulations may cause administrative sanctions by the authorities concerned, which may affect the Group’s business activities. To address risks related to various regulations, the Group collects information on the laws and regulations to conduct business in accordance with them. In addition, we have developed a company-wide plan and system for compliance promotion.
Patent and re-examination periods	The active ingredients of branded drugs are usually protected by patent rights, and the period is 20 years from the date of application (the period may be extended for up to 5 years). Since generics are approved for marketing after the expiration of the patent period, the extension of the patent period is expected to affect the Group’s launch of new products (new generics). The Group collects information on patents and re-examination periods as well as facilitates collaboration among related departments. We strive to resolve discrepancies in indications by obtaining approval for partial changes, such as additional indications as soon as possible, after the patent period on a branded drug expires, or by applying for partial changes after the re-examination period.
Re-evaluation based on the Pharmaceutical and Medical Device Act	Re-evaluation of drugs is a system in which the quality, efficacy, and safety of approved drugs are reviewed from the current academic standards. If the drug efficacy re-evaluation shows no usefulness, the product is recalled and disposed of. If the quality re-valuation shows that the drug is not equivalent to that of a branded drug, subsequent marketing may be discontinued. These situations may affect our group’s financial position and operating results. The Group collects information on scientific and technological progress to appropriately evaluate drugs.
Adverse drug reactions	Generics are released after branded drugs have been used for many years. Their safety information has been confirmed, and they have been re-examined. Therefore, the risk of serious adverse reactions is minimal. However, if they occur, it may affect the Group’s financial position and operating results. The Group collects information on drugs including that on the occurrence of adverse drug reactions in compliance with each country’s regulations. This allows us to determine and conduct necessary measures based on the results obtained through assessment and consideration.
Drug price system and medical cost containment policy	To sell ethical drugs, which are our mainstay products, the products have to be listed in the NHI price list specified by the Minister of Health, Labour and Welfare. The Group’s financial position and operating results could be affected if the medical insurance system is reviewed, the drug price system is significantly changed, or the medical cost containment policy is reinforced. The Group aims to sell products at fair prices that match the value of the products while engaging in cost reduction activities by reducing procurement costs of raw materials and increasing production efficiency.
Patent litigation	Since our generic drugs sometimes use API that still has patent rights for their crystal form, formulations, use of the drug, etc., a patent suit may be filed by a manufacturer of new drugs. Such cases may affect the Group’s financial position and operating results. The Group responds to such risks by collecting patent information and strengthening collaboration among related departments, such as engineering and development departments. This enables us to develop drug formulations that have not been covered by patents held by other companies.
Mark-to-market valuation of derivatives	The Group imports certain semi-finished products and raw materials from overseas manufacturers in foreign currencies. If the costs increase due to a weak yen, it is extremely difficult to shift the increase onto the sales price under the drug price system in Japan. To avoid the risk of cost increase due to depreciation of yen and to provide a stable supply of our products, we conduct long-term derivative transactions. Such transactions are subject to mark-to-market valuation at the time of financial closing, and valuation losses may occur if the yen is stronger, or the long-term interest rate spread between Japan and the US is larger, than at the end of the previous fiscal year. Therefore, valuation loss may occur depending on the exchange rate and the interest rate trend in Japan and the US. In the opposite case, valuation gains may occur. The Company estimates the future amount of import transactions made in foreign currencies to conduct long-term derivatives transactions within the estimated range. This helps us prevent derivatives transactions from being speculative.
Risks in the competitive environment	The competitive market for generic drugs is composed mainly of a switch from brand-name drugs and is greatly affected by the number of sales promotion companies. In recent years, companies have been planning strategies, such as introducing authorized generic products. Our actual sales revenue may differ from planned revenues, depending on their trends. In addition, competitors’ supply status impacts demand for our products, which could risk a stable supply. The Group responds to such risks by increasing production capacity through capital investment, improving the backup system for manufacturing sites, and ensuring a stable supply of products from the production and sales aspects by monitoring the volume of demand and inventory daily. We are also making efforts to ensure reliability through transparent disclosure of information.
Stagnation and delay of production owing to disasters and other causes	The Group has production sites in Japan (Osaka, Okayama, Yamagata, Shiga, Hyogo, and Shizuoka Prefectures) and Spain (Province of Catalonia), and any of these production sites could be forced to cease business operations owing to the occurrence of natural disasters or technical/regulatory issues to affect the stable supply of products. Besides, if natural disasters and other causes force us to halt purchasing raw materials from some specific supplier(s) and these halted raw materials are challenging to substitute, our business performance could be affected. The Group strives to organize a mutual backup system among our domestic plants and promote multiple sourcing of APIs. Moreover, the Group possesses its own API manufacturing plant to secure a stable supply of APIs.
Global risks	We completed the acquisition of Towa Pharma International Holdings, S.L. (“Towa HD”) in January 2020. We expect that the acquisition of Towa HD will contribute to building a global structure and providing our value-added products to the market in Europe and the United States. However, the Group’s financial condition and business performance could be affected if the acquisition of Towa HD fails to produce the expected effects owing to changes in business environments and business operations of Towa HD, effects of local systems and regulations, possible delay in the progress of the integration process between Towa HD and us, or events unrevealed during due diligence. The Group strives to strengthen a global management structure through the integration process between Towa HD and us.
Risks of corporate acquisition	Protosera Inc. became our subsidiary in March 2021. We also completed the acquisition of Sunsho Pharmaceutical Co., Ltd. by acquiring all of its shares in March 2022. If we fail to achieve the expected effects of the acquisition of these companies due to changes in the management environment and business operations, possible delay in progress of the integration process, and events unrevealed during due diligence, the financial position and operating results of the Group may be affected. The Group is in the process of developing a business plan and creating synergies through the integration process between the Company and its subsidiaries, as well as strengthening a management structure by, for example, dispatching directors.
Others	At present (as of the date of submission of the Integrated Report), the effects of the COVID-19 pandemic are minor within the Group. However, should the effects prolong or worsen in the future, closure or shutdown of a particular business facility of the Group owing to a cluster of COVID-19 cases identified therein, effects of patients’ reluctance to visit hospitals and clinics on sales, and effects of the spread of COVID-19 outside Japan on supply chains for raw materials and APIs might spill over into production. In addition, the dire Russia-Ukraine situation is affecting the global economy, causing soaring prices of energy and raw materials, thus affecting the management of the Group. To address the ramifications of COVID-19, the Group has implemented various countermeasures. The Group will continue to implement appropriate countermeasures to ensure business continuity.

Compliance

Compliance policy

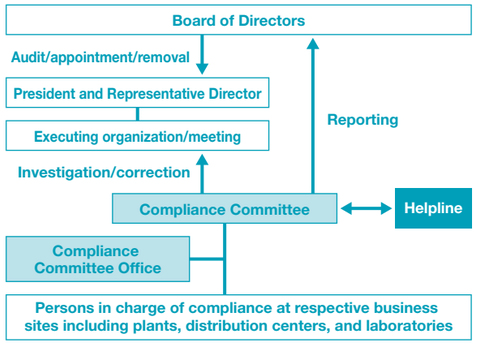
The Group is committed to ethical and law-abiding corporate behavior in accordance with the “Towa Group Code of Conduct.” We promote measures as well as training and education to raise compliance awareness of the officers and employees. Furthermore, we develop and appropriately utilize a whistle-blowing helpline so as to promptly detect and correct fraudulent acts of the Group’s officers and employees.

The Internal Audit Office, which is under the direct supervision of the President and Representative Director, conducts internal audits for all the departments and reports the results directly to the top management. In the case where the Internal Audit Office finds anything that needs improvements, it conducts a follow-up audit to check how the improvements.

Compliance structure

We have established the Compliance Committee consisting of inside and outside committee members under the officer in charge of compliance to promote compliance activities. Under the Group’s compliance policy, the officers and employees shall promptly report to the Compliance Committee when they find a problem that may cause damage to the Group’s business and financial condition. The Compliance Committee is in charge of the whistle-blowing helpline (group helpline). It regularly reports the information from the officers and employees of the Group collected through the helpline to the Board of Directors. The Audit and Supervisory Committee shares information with the Internal Audit Office and the Compliance Committee on a regular basis. It has a right to request report submission.

Overview of the compliance structure



Compliance activities/education

The Company conducts awareness-raising activities for the officers and employees on a daily basis under the leadership of the officer in charge of compliance and the Compliance Committee. In addition, we set specific periods to promote compliance to take various measures across the Group. Specifically, we conveyed a President’s message and conducted an awareness survey for all officers and employees of Towa Group, officer training, education and training on the revised Towa Group Code of Conduct, and workplace meetings on the theme of harassment at each department.

In addition, we conducted e-learning programs on the revised Pharmaceutical and Medical Device Act and information security. We have continuously developed compliance policy and rules. For our subsidiaries overseas, we conducted compliance promotion campaigns and measures including the training on the Code of Ethics at regional headquarters.

Delivered easy-to-understand compliance example cases through group newsletters

Whistle-blowing helpline

The Company’s whistle-blowing system appropriately deals with problems while protecting whistle-blowers. Together with the monitoring by the Internal Audit Office, the system has contributed to prompt detection and correction of problems. The Group has two contacts to deal with issues under the Whistleblower Protection Act: a group helpline and a whistle-blowing helpline of the Audit and Supervisory Committee. The group helpline is used as a helpline shared within the Group companies in Japan. The whistle-blowing helpline of the Audit and Supervisory Committee addresses only cases involved with the officers of the Group companies in Japan as a contact point independent from execution. As for overseas, we have established whistle-blowing helplines in Towa HD, the EU/US Regional Headquarters, for the officers and employees of our subsidiaries overseas. We regularly receive their reports on the status of whistle-blowing received and investigation.

Message from the Outside Directors

Implementing the Towa Philosophy and Mid-term Business Plan precisely because we are in an age of confusion

Norikazu Eiki
Outside Director (Audit and Supervisory Committee Member)

The end of the COVID-19 pandemic, which began more than two years ago, still remains unclear. Harsh conditions continue for the healthcare and pharmaceutical industries amid such circumstances. They include the issue of procuring APIs from overseas that began in the wake of the pandemic, the need to return to the domestic manufacturing of essential drugs, the shortage in drug supply resulting from the spate of scandals by generic drug manufacturers, and the annual revision of NHI listed drug prices.

Under such circumstances, Towa Pharmaceutical formulated its 5th Mid-term Business Plan 2021–2023 PROACTIVE II in May 2021 on the basis of its vision, “We contribute to people’s health; we are dedicated to people’s genuine smiles.” Among the five basic policies under the plan, we saw significant progress in enhancing generics business as a core, expanding and growing business in overseas markets, and entering new health-related businesses. In particular, the Company acquired Sunsho Pharmaceutical as a subsidiary in March this year, setting the groundwork for Towa’s future diversification.

Towa Pharmaceutical’s strength is in its Board of Directors which engages in sincere and serious discussions. It is because we are in an age of confusion that I would like to participate actively in such discussions and contribute to the development of a bright future for the healthcare and pharmaceutical industries.

Unwavering conviction and the desire to take on new challenges make a company grow

Kaori Oishi
Outside Director (Audit and Supervisory Committee Member)

I believe that a company needs to fearlessly take on challenges to transform while staying steadfast to its convictions, if it is to remain a company that is needed by society even as the environment surrounding that society and the industry changes at a dizzying pace. The Company’s vision is to “contribute to people’s health.” While thoroughly ensuring the quality and stable supply of its products, the Company is also actively advancing into overseas markets and new health-related businesses as well as engaging in ESG and human resources development measures. Based on a full understanding of such vision and management policies of the Company, I believe my role is to leverage my professional knowledge as a lawyer from an independent standpoint to offer my candid opinions from diversified perspectives.

Supporting genuine smiles and people’s health through honest and sound management

Kenryo Goto
Outside Director (Audit and Supervisory Committee Member)

I understand the concept of Towa Quality is to provide the world with products that actually offer the levels of quality and added value that are truly needed rather than just meeting the quality standards required by law, and to keep updating the products so that they are the best and state-of-the-art at any given time. This is similar to the lesson ingrained in my mind during my days at an audit firm to which I belonged: You must have a sense of ethics that is a step higher than the rest of the world. I therefore have a sense of affinity with this sort of honest culture.

Abiding by this concept is not an easy task in the generics industry, which has long been waiting to recover from supply shortage in the wake of its quality problems, but one of the things that support this is corporate governance. In accordance with our vision of supporting “genuine smiles” by contributing to people’s health, I hope that with my perspective as an outsider, I can help the Company ensure a stable supply of products that can be used with peace of mind in Japan and the rest of the world as well.

Board Members

Itsuro Yoshida

President and
Representative Director

May 1979 Joined the Company
October 1983 General Manager of Finance & Accounting Department
December 1983 Director / General Manager of Finance & Accounting Department
August 1986 Director / General Manager of General Affairs Department
April 1990 Director / General Manager of President Office
June 1990 Senior Managing Director / General Manager of President Office
June 1991 Senior Managing Director / Division Manager of Production Division / General Manager of President Office
November 1991 Senior Managing Director / General Manager of President Office
June 1996 President and Representative Director (to present)
October 2003 Chairman and Representative Director of J-DOLPH Co., Ltd. (currently J-DOLPH Pharmaceutical Co., Ltd.) (to present)
October 2010 Chairman and Representative Director of Daichi Kasei Co., Ltd.

Kazuhiko Konno

Senior Managing Director

November 1998 Joined the Company / Deputy General Manager of Quality Assurance Department, Yamagata Plant, Production Division
April 2005 General Manager of Quality Assurance Department, Yamagata Plant, Production Division
April 2007 General Manager of Quality Assurance Department, Pharmacovigilance & Quality Assurance Division
October 2009 Plant Manager of Osaka Plant, Production Division
June 2013 Director / Deputy Division Manager of Production Division
April 2014 Director / Division Manager of Production Division
June 2017 Managing Director / Director in charge of Production Division, Research & Development Division, Pharmaceutical Research & Technology Division, and API Business Division
April 2019 Managing Director / Director in charge of Pharmacovigilance & Quality Assurance Division, Production Division, and Pharmaceutical Research & Technology Division
May 2019 Chairman and Representative Director of Greencaps Pharmaceutical Co., Ltd. (to present)
June 2020 Senior Managing Director of the Company (to present)

Masao Tanaka

Director

April 2009 Joined the Company / Deputy-General Manager of Internal Audit Office
April 2011 General Manager of Internal Audit Office
October 2016 General Manager of Public Relations and Investor Relations Office / General Manager of Human Resources Department
June 2017 Director / Division Manager of Administration Division
April 2019 Director / Director in charge of Administration Division
June 2020 Director (to present)
April 2021 Chairman and Representative Director of Protosera Inc. (to present)
July 2021 President and Representative Director of Protosera Inc. (to present)

Toshio Shirakawa

Director (Full-time Audit and
Supervisory Committee Member)

October 2006 Joined the Company / General Manager of Development Strategy Department, Research & Development Division
April 2008 General Manager of Product Strategy Management Department, Corporate Planning Division
June 2015 Managing Director / Director in charge of Business Development Office and International Business Development Department / General Manager of Product Strategy Management Department
January 2017 Chairman and Representative Director of Greencaps Pharmaceutical Co., Ltd.
April 2017 Managing Director / Director in charge of Product Strategy Division, International Business Division, and Development Planning Office of the Company
April 2019 Managing Director
June 2019 Director (Audit and Supervisory Committee Member) (to present)

Norikazu Eiki

Outside Director (Audit and
Supervisory Committee Member)

August 1979 Joined Ciba-Geigy Japan Limited
January 1994 Joined Bayer Yakuhin, Ltd.
March 1997 Director / Plant Manager of Shiga Plant, Bayer Yakuhin, Ltd.
July 2002 President and Representative Director of Bayer Yakuhin, Ltd.
January 2007 Chairman and Representative Director of Bayer Yakuhin, Ltd.
April 2010 Chairman and Director of Bayer Yakuhin, Ltd.
May 2014 Outside Director of AnGes MG, Inc. (currently AnGes, Inc.) (to present)
April 2015 Director of the Board of FunPep Co., Ltd. (to present)
June 2015 Outside Director of the Company
April 2016 Outside Director of Solasia Pharma K.K. (to present)
June 2018 Outside Director of Kidswell Bio Corporation (to present)
June 2019 Outside Director (Audit and Supervisory Committee Member) of the Company (to present)

Kaori Oishi

Outside Director (Audit and
Supervisory Committee Member)

October 2001 Registered as an attorney at law
October 2001 Joined Kitahama Law Office (currently Kitahama Partners)
January 2013 Partner of Kitahama Partners (to present)
June 2017 Outside Director of PALTAC CORPORATION (to present)
June 2020 Outside Director (Audit and Supervisory Committee Member) of the Company (to present)
June 2022 Outside Director of FUJITEC CO., LTD. (to present)

Kenryo Goto

Outside Director (Audit and
Supervisory Committee Member)

September 1981 Joined Asahi & Co. (currently KPMG AZSA LLC)
March 1984 Registered as a certified public accountant
May 2005 Partner of KPMG AZSA & Co. (currently KPMG AZSA LLC)
July 2010 Board member, Head of Division 3, Osaka Office, KPMG AZSA LLC
July 2013 Senior Executive Board member of KPMG AZSA LLC
July 2015 Osaka Office Managing Partner of KPMG AZSA LLC
July 2020 Representative of Kenryo Goto Certified Public Accountant Office (to present)
April 2021 Auditor of Hyogo Medical University (to present)
June 2021 Outside Director (Audit and Supervisory Committee Member) of the Company (to present)
June 2022 External Director of West Japan Railway Company (to present)

Basic approach

To fulfill our responsibilities as a company providing ethical drugs, the Company strives to provide information to patients and Medical professionals in many different ways, which include providing and collecting pharmaceutical information through our medical representatives. We also focus on our responsible business activities ranging from stable supply to quality assurance.

Responsible Business Activities

Information Provision by Medical Representatives

Our medical representatives, whose number is proudly reported to be the largest among the domestic manufacturers of generics, work on the provision, collection, and transmission of pharmaceutical information. We are also enhancing the network of medical representatives to be able to respond to various needs of diverse medical service providers, including clinics, local flagship hospitals, and health insurance pharmacies. Further, we provide a qualification system for medical representatives to recognize and enhance their specialized capabilities in cancer, immunology, CNS areas, etc., so that we can provide information requiring more specialized expertise.

Information Provision by DI Center

To ensure expeditious and accurate information provision, the Company integrated multiple contacts into Drug Information (DI) Center of Drug Information Department, and uses the call-center system connected to customer information. This allows us to promote optimal information provision activities for proper uses of generics. We also offer contact offices to receive inquiries even at night or on holidays on a 24/7 basis.

Customer Service is offered for patients and the general public. Toll-free services are available for various pharmaceutical inquiries about combinations of multiple medications, side-effects, etc.

Information Provision via Websites

We provide necessary information about our ethical drugs through the corporate site and the site for medical professionals. The corporate site offers information about generics and materials that can be used by parents trying to help children take medication, as well as other useful tips. The site for medical professionals provides product information, governmental actions on medical practices, and materials that can be used for medical instructions for patients.

Information Provision to Promote the Correct Uses of Medicines

To promote the correct uses of medicines, we provide various explanatory materials for patients, e.g., about how to take medicines, and conduct studies, e.g., on combinations of medicines and other food/beverages other than water to alleviate the bitterness for family caregivers trying to help their children or those they are caring for to take medication. The materials and results of these studies are provided to patients and their family members through medical institutions.

People can access information about medicines by scanning a QR code* printed on a product package with their smartphone or cell phone. For formulations for children, QR codes provide information to parents about the taste of medication and how to help patients (their children) take medication smoothly.

*QR code is a registered trademark of DENSO WAVE INCORPORATED.

Booklet to provide information

Stable Supply System

Stable supply is one of our important missions to be accomplished as an ethical drug manufacturer. We have production sites in Osaka, Okayama, and Yamagata. To ensure stable product supply, production of oral dosage forms is dispersed to the three plants; and the production of injections is integrated into Yamagata Plant built with the seismically isolated structures to minimize natural disaster risks.

Products dispatched from the plants are stored in the East Japan Distribution Center (in Yamagata) and West Japan Distribution Center (in Okayama). This enables us to deliver our products nationwide from either of the distribution centers in case one of which is shut down due to a natural disaster, etc. We realize stable supply through the two distribution centers in East and West Japan.

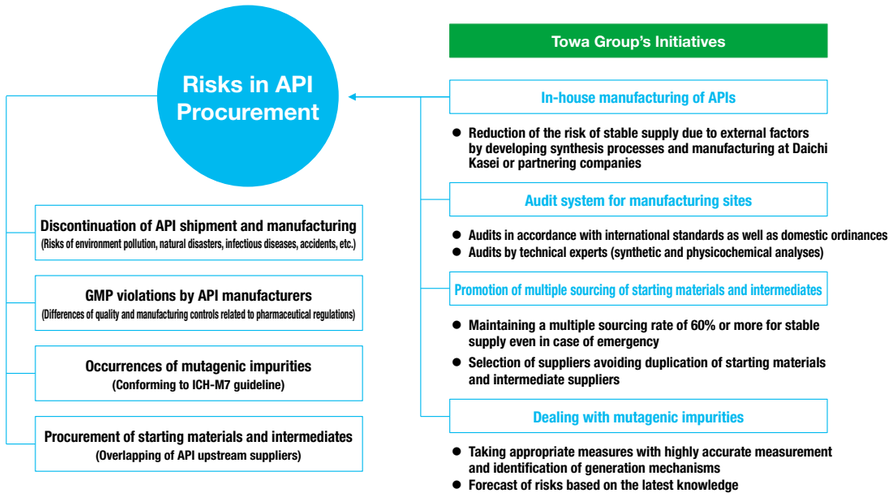

Osaka Plant


Okayama Plant


Yamagata Plant

Our Efforts for Stable API Procurement

We regularly inquire and confirm API manufacturers whether they manufacture APIs in accordance with various standards, laws, and regulations to enable the stable procurement of the APIs. In addition, to enable stable API procurement even if some supplies of APIs are suspended, we promote a procurement system in which a single API can be procured from multiple manufacturers (multiple-sourcing system). Another attempt to enhance stable supplies is made by establishing methods of manufacturing APIs at internal sites and actually manufacturing them at our group company.



Quality Assurance System

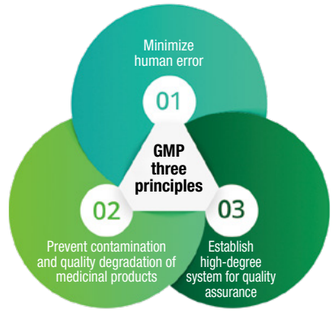
Strict quality control standards established by the national government apply to all processes of ethical drug manufacturing operations. In order to be a trustworthy company, we carry out company-wide quality control initiatives ranging from product R&D, manufacturing, and marketing to after-sales operations, and establish the quality assurance system required for ethical drugs.

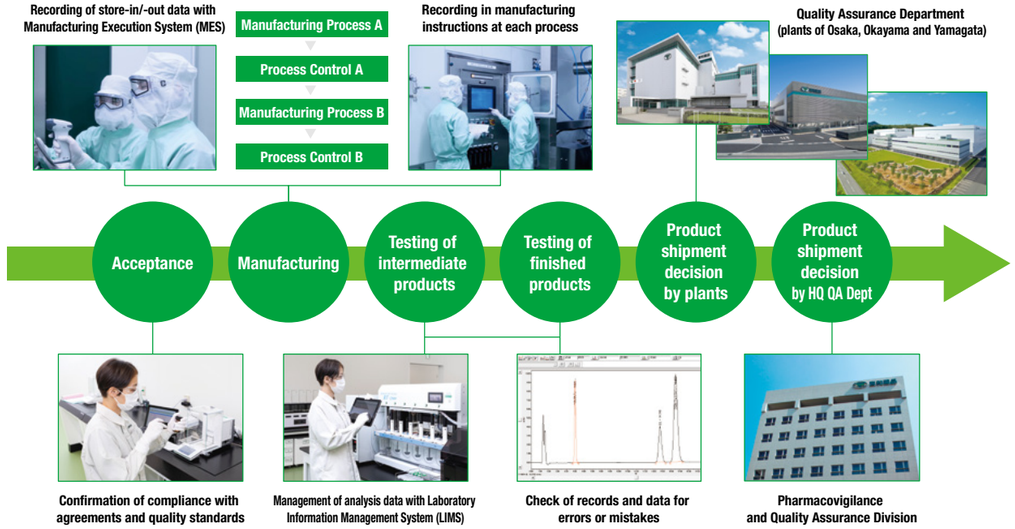
In the 5th Mid-term Business Plan, Policy 1 is "Enhancing generics business as a core." Under the policy, one of the key themes is further strengthening the quality assurance system in order to be a more trusted and needed company as a comprehensive generics manufacturer. Under the quality assurance system, we not only comply with relevant regulations including the Good Manufacturing Practice (GMP) Ministerial Ordinance, but also strive to assure the quality and safety of pharmaceutical products through introducing international standards and establishing our original systems and training programs from the perspective of "minimizing human error," one of the GMP three principles.

GMP Three Principles

Pharmaceuticals production is based on Good Manufacturing Practice (GMP), the standards for manufacturing control and quality control for drugs laid down by the nation.

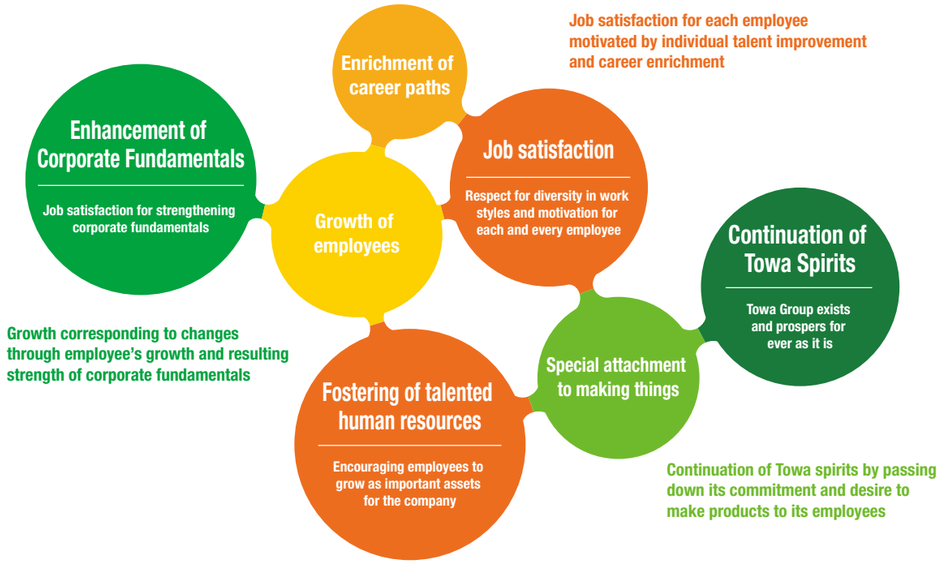
The Company has put in place procedures compliant with the GMP three principles in all of our plants in Yamagata, Osaka, and Okayama, and strives to manufacture reliable-quality pharmaceuticals.





Product Taste Research Office

In the April 2022 organizational restructuring, we established Pharmaceutical Taste Laboratory under the Product Planning Division to specialize in product taste research. The office develops bitterness evaluation methods using bitter taste receptors, evaluates bitterness using taste sensors and sensory testing, and plans easy-to-take products from the perspective of taste. Through these efforts, we leverage our taste research for Towa Quality and Manufacture of sophisticated products with No. 1 total product performance, aiming to develop easy-to-take products for patients.



Career Development Support

Under the belief that talented human resources are the foundation of a trusted company, we work to make job satisfaction, foster talented human resources, and strengthen our organization. Accordingly, one of the policies in the 5th Mid-term Business Plan is “Making Job Satisfaction and Fostering Talented Human Resources.” To this end, we started “Towa work style reforms” in October 2020.

As one of the work style reforms, we put more effort into helping each employee develop their career path.

Starting from April 2021, the Human Resources Division staff have career development meetings with employees to enhance more personalized support. Going forward, we will encourage employees to understand the importance and necessity of developing their career paths and support them in developing their medium- to long-term career vision. To help employees achieve their career visions, we will aim to become a company that encourages employees to grow in a proactive and planned manner.

Our Commitments (T-SMILE)

We have established a new course of action named T-SMILE. This is our philosophy created when we marked the 70th anniversary of our foundation to accommodate our growth and increasing employees and further disseminate our vision to employees.

T-SMILE is an acronym of six words: Truthful that means sincerity, honesty and fairness; Speed that represents swift decision-making, action and information sharing; Mission that expresses missions and passion to be of service to help people maintain their good health in communities around the world; Idea that represents creativity and imagination to challenge for unprecedented transformation; Linkage that gives the impressions of connections between people and information, coexistence, and co-prosperity; and Excellence that represents the mind to choose the most appropriate technologies that fit with the times and highest quality. These words serve as a course of action and criteria based on which employees help realize the Group’s vision “We contribute to people’s health” and “We are dedicated to people’s genuine smiles” through corporate activities.

Medical Representatives

The Company places priority on developing medical representatives (MRs) and strengthening their organization, and strives to foster talented human resources. In accordance with the MR Education Training Guidelines, we develop our original education programs and provide ongoing training, which covers expert knowledge about products, high ethical standards required for MRs handling life-related products, and skills in explaining products and communication. In this way, we aim to develop highly qualified medical representatives who can gain the trust of Medical professionals.

Original Qualification Systems

From the perspective of ensuring reliable quality and safety, we develop employees with high awareness through our educational training programs and original qualification systems. Specific examples include an MR qualification specialized in cancer, a GMP auditor certification, and an expert certification system. The expert certification system is a system whereby we certify our employees who have a higher degree of technical skills and greater knowledge in manufacturing, packaging, testing, and quality assurance units. By promoting these certification systems, we help employees in each area develop into specialists in manufacturing control and quality control. Meanwhile, we aim to develop employees who are highly aware of ensuring quality and safety.

2022 Certified Health & Productivity Management Outstanding Organizations Recognition Program (White 500)

We were recognized as one of White 500 enterprises (large enterprise category) under the 2022 Certified Health & Productivity Management Outstanding Organizations Recognition Program selected jointly by the Ministry of Economy, Trade and Industry and the Nippon Kenko Kaigi (organization that takes practical community- and workplace-based actions, through collaboration among private organizations and with full administrative support, in order to extend the healthy lifespan of and provide appropriate medical care for each individual in Japan.).

The program started in FY2017 to recognize companies that care about employees’ health management from a business-management perspective and strategically implement relevant initiatives. We have been recognized as one of the enterprises for five consecutive years. This year, we were recognized as one of White 500 enterprises, the top 500 implementing a higher level of health and productivity management.

2022 健康経営優良法人 Health and productivity ホワイト500

Our Efforts for Diverse Work Styles

We perform various activities to help employees who raise their children or take care of their family members in need of nursing care. In 2010, we were awarded the next-generation certification mark called Kurumin. The logo features a swaddled baby. The Ministry of Health, Labour and Welfare grants the certification logo if it certifies companies as childrearing-friendly businesses.

We have various parental and nursing care systems for our employees. For example, they can take parental leave until their children turn three years old for the maximum length, they can extend using the shorter working hour system for parenting until their children finish the sixth grade at elementary school, and we provide family support leave to which employees are entitled when they need to take care of their sick family members requiring nursing care.

Towa Health Challenge 2021

In June 2021, we had a health measurement event called “Towa Health Challenge 2021” at the headquarters, Moriguchi Annex, Osaka Plant, Okayama Plant, Yamagata Plant, and Osaka Research Center. This event was aimed to encourage our employees to think about their own health. Approximately 80% of the targets, including management members, joined the event and underwent six types of tests: body constituent, bone density, walking posture, blood vessel, brain age, and physical fitness. The event venues had exhibits that were designed to help participants improve their health and lifestyle habits, offering the employees an opportunity to rethink about their health. In a post-event survey, approximately 90% of the respondents said they became more conscious about their health and wanted to improve their lifestyle. To help our employees improve their lifestyle habits, we will continue to hold the event as an annual company-wide event.

TOPICS

My vision became clear after having a career development meeting

Yuki Takaira

Sales and Marketing Planning Department, Sales and Marketing Division

After having a career development meeting, I felt confident in myself and excited to imagine my future. My career vision was vague when I was new to here. From my fourth year, I became aware of an importance of experience and started to proactively try various things with the aspiration to seize every opportunity for my personal and professional development. Based on these experiences I can now envision my fitting career path specifically.

Since this career development meeting was held right after the Company had accepted my department transfer request, I approached the meeting, hoping to dispel my concerns about the next step. The Company offered me many options besides the steps I had in mind and how each was worth doing. The meeting gave me much insight and relieved my worries. The career development meeting was fruitful since I approached the meeting after thinking about what kind of mindset I wanted to work with and what I wanted to address.

Social Contribution Activities

Company-sponsored Daycare Centers

Company-sponsored daycare centers are childcare facilities established by companies to provide their employees with flexible childcare services according to the employees' different ways of working. We established our company-sponsored daycare centers near Okayama and Yamagata Plants in 2018 to realize a work environment where childrearing employees can work for the Company without any concerns and to contribute to local communities by reducing the number of children on waiting lists at daycare centers. We also conclude joint use contracts for company-sponsored daycare centers of other companies to provide additional options. In this way, we are committed to creating an environment where employees find it easier to be reinstated after parental leave.

On-demand Lectures

We deliver on-demand lectures using our technical skills and content for children through an event called "After-school Educational Program for Kids" held in elementary school districts of Osaka Prefecture so that children can have an enriching learning experience. We so far delivered lectures including the one themed "Let's do an experiment and explore the secrets of medicine! —Generics are full of ingenious ideas—"

High School Student Business Contest

We held a "High School Student Business Contest for the Future and People's Health" for the third time in FY2021. As a part of our efforts to widely disseminate the Group's vision "We contribute to people's health" and contribute to a wide variety of health-related industries, the contest is aimed at seeking fresh ideas from high school students who will lead the future of Japan and creating a social contribution opportunity for them.

Positive Fitness

In January 2022, we launched a website, "Positive Fitness," to introduce exercise programs for postoperative breast cancer patients. This website introduces exercise programs in three levels of intensity (introductory, intermediate, and advanced) according to the patient's physical strength and fitness habits. In addition to the exercise programs, the website provides information about the relationship between breast cancer and exercise and other useful information, aiming to help each patient develop positive and continuous fitness habits with an adequate amount for each of them.

Towa Mini Clinic Series

In December 2021, we launched "Towa Mini Clinic Series" on our corporate website. This web page aims to further disseminate the information contained in Towa Mini Clinic Series, booklets that we have distributed at medical institutions and healthcare-related events. It compiles information in an easy-to-understand way about diseases and self-care for patients, their family members, and people who support them.

Foundation Supporting Business: Environment

Basic approach

We act based on the principles in "The Charter of Corporate Behaviors in Towa Group" with high ethical standards and social good sense to promote proper corporate activities enabling us to gain trust and support from society. In our action, we strive to reduce global environmental load as part of our social responsibility as a good corporate citizen.

Concretely, we are dedicated not only to proper management of chemical substances and prevention of pollution, but also to actions for alleviating environmental concerns through plant drainage and emission systems and taking energy-saving and decarbonization measures through effective uses of mega solar systems. Furthermore, we are aggressively working to achieve an eco-friendly manufacturing method of APIs. In April 2022, we established Environment, Health and Safety Management Department to manage and control environment and safety across the Towa Group in an integrated way, aiming to improve the environment and safety of our employees and local communities.

Climate Change-related Information Disclosure
(based on the TCFD Recommendations)

As climate change significantly affects social systems and economies, the Towa Group is aware of the importance of addressing climate change by taking energy-saving and decarbonization measures and making other efforts. Against this backdrop, we set up the TCFD Subcommittee under the Risk Management Committee chaired by the Division Manager of the Administration Division in FY2022 to help address climate change-related issues. The TCFD Subcommittee is comprised of members from related departments.

The TCFD Subcommittee conducts a scenario analysis of our business activities to identify climate change-related risks and opportunities and considers measures to reduce greenhouse gas emissions.

The Company plans to declare its support for the Task Force on Climate-related Financial Disclosures (TCFD) recommendations by the end of FY2022. We will expand and improve climate change-related information disclosure based on the framework of TCFD recommendations. We plan to disclose such information covering only Towa Pharmaceutical Co., Ltd. for the first fiscal year of disclosure (FY2022) and plan to include its Group companies from the following year (FY2023) onward.

Changing boiler fuel at Okayama Plant to LNG

In January 2022, we changed boiler fuel at Okayama Plant from Bunker A to liquefied natural gas (LNG), which is considered as eco-friendly energy.

The amount of CO_2 reduction calculated from the total LNG use of the five participating companies in the Sho-o Hub Industrial Park was approximately 5,500 t-CO_2, a 27% reduction compared to Bunker A.

LNG fueling station set up in the Sho-o Hub Industrial Park

Realizing an eco-friendly manufacturing method of APIs

New Energy and Industrial Technology Development Organization (NEDO) selected our initiative to manufacture APIs eco-friendly as a publicly solicited subcontractor for the Development of Continuous Production and Process Technologies of Fine Chemicals. As an eco-friendly manufacturing method, this is aiming to develop the flow precision synthesis for producing fine chemicals as part of NEDO's Feasibility Study Program on Energy and New Environmental Technology. We are pursuing an eco-friendly, green and sustainable chemistry by replacing the batch method generating large quantities of waste and CO_2 emissions with the manufacturing process with the continuous flow method using energy-saving catalytic reactions with low waste emissions as the key.

11-Year Financial Summary

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022 (FYE March)
Net sales (JPY million)	48,719	55,241	61,351	71,470	82,115	84,949	93,430	105,104	110,384	154,900	165,615
Operating profit (JPY million)	9,107	7,723	7,706	11,105	11,134	6,869	11,643	15,968	16,143	19,923	19,205
Ordinary profit (JPY million)	9,841	9,544	8,834	15,437	10,157	7,417	11,717	18,865	20,990	18,677	22,739
Profit attributable to owners of parent (JPY million)	5,737	6,201	5,992	11,118	7,684	5,576	6,495	13,475	14,503	13,958	15,914
Comprehensive income (JPY million)	5,745	6,348	5,999	11,175	7,313	5,858	6,533	13,409	14,948	14,469	17,960
Net assets (JPY million)	50,494	55,610	60,147	70,048	70,605	74,945	79,920	91,771	104,665	116,599	132,169
Total assets (JPY million)	81,244	89,705	103,318	121,187	156,851	165,247	177,181	188,803	230,016	245,668	329,935
Net assets per share (JPY)	990.36	1,090.70	1,179.69	1,373.89	1,434.79	1,522.99	1,624.09	1,864.92	2,126.72	2,369.21	2,685.18
Earnings per share (JPY)	111.49	121.62	117.54	218.07	154.19	113.32	132.00	273.85	294.74	283.62	323.36
Diluted earnings per share (JPY)	—	—	—	—	436.29	314.23	122.03	253.32	272.62	271.93	316.19
Capital-to-asset ratio (%)	62.2	62.0	58.2	57.8	45.0	45.4	45.1	48.6	45.5	47.5	40.1
ROE (Return on equity) (%)	11.8	11.7	10.4	17.1	10.9	7.7	8.4	15.7	14.8	12.6	12.8
Price-earnings ratio (%)	12.26	13.68	12.63	10.50	9.98	16.56	16.79	10.64	7.69	8.61	8.50
Cash flows from operating activities (JPY million)	3,379	8,645	8,144	8,037	3,732	10,195	19,230	19,002	19,164	12,008	22,129
Cash flows from investing activities (JPY million)	(8,482)	(11,298)	(11,300)	(8,230)	(19,032)	(22,206)	(20,093)	(3,994)	(39,541)	(9,100)	(59,729)
Cash flows from financing activities (JPY million)	879	2,793	3,529	238	27,970	(92)	4,670	(809)	11,748	184	46,540
Cash and cash equivalents at end of year (JPY million)	3,798	3,985	4,675	5,208	18,526	7,112	11,511	26,652	18,713	22,915	32,830
Number of employees	1,567	1,696	1,879	2,060	2,203	2,408	2,449	2,472	3,325	3,456	4,078
R&D expenditure (JPY million)	4,076	4,478	5,296	6,144	8,924	9,352	7,725	7,916	8,566	10,642	11,488
Capital investment (JPY million)	11,251	7,855	9,727	13,816	15,792	25,026	12,166	6,011	6,236	10,353	14,848
Depreciation (JPY million)	2,637	4,909	5,407	5,724	7,329	7,980	8,173	8,340	8,285	9,674	10,153
Dividend per share (JPY)	75.0	75.0	75.0	95.0	95.0	95.0	95.0	107.5	44.0	44.0	60.0
Dividend payout ratio (%)	22.4	20.6	21.3	14.5	20.5	27.9	24.0	13.1	14.9	15.5	18.6

Note: The Company conducted a 3-for-1 stock split of common shares effective April 1, 2019.
We calculated net assets per share and earnings per share assuming that the said stock split was conducted at the beginning of the fiscal year ended March 31, 2012.

Management Discussion and Analysis of Financial Position, Operating Results, and Cash Flows

The details of the financial reports are excerpts from Annual Securities Report (from April 1, 2021 to March 31, 2022).

Overview of Performance

[1] Business environment

During the consolidated fiscal year ended March 31, 2022, the Japanese economy showed some signs of returning to normal, backed by the rollout of COVID-19 vaccination. However, the emergence of more infectious variants made it difficult to predict when the pandemic will end. In Europe and the U.S., while restrictions on economic activities are gradually lifted and the economies continued a recovery trend, the economic outlook remain uncertain as cases of the new variants are on the rise. There is also global concern over the impact on economic activities due to rising energy and raw material prices as the tension in Ukraine continues to intensify.

In the domestic generics industry, the Japanese Cabinet decided the "Basic Policy on Economic and Fiscal Management and Reform 2017" in June 2017. It stated that the government would consider further measures for promoting the use of generic drugs, aiming at an 80% usage rate of generic drugs by September 2020 or its earlier achievement. As a result of this decision, the Japanese government has implemented various measures since the revision of medical fees in April 2018. Furthermore, in revising medical fees in April 2020, the government decided "Further Promotion of Generic Medicine and Biosimilars Use" policy, and generics have become more popular. Consequently, the volume share in December 2021 reached 79.3% (according to the survey by Japan Generic Medicines Association in October–December 2021). In addition, the "Basic Policy on Economic and Fiscal Management and Reform 2021," which was approved by the Cabinet in June 2021, stated, "With regard to generic drugs, the Government will promptly secure the quality and the stable supply thereof, conduct verification of new targets, and visualize the implementation status, including the use ratio at medical institutions, thereby contributing to the efforts of insurers to optimize medical service costs, and will promote setting of targets based on the effect of medical cost optimization of biosimilars, consider reviewing the addition of a generic drug prescription system based on the relationship with the new targets, and utilization of a formulary in order to promote further use of these kinds of drugs."

On the other hand, the government revised drug prices in October 2019 and April 2020. Also, it revised them in April 2021 based on the "Basic Policy on Economic and Fiscal Management and Reform 2020" approved by the Cabinet in July 2020. As described above, the government will revise the drug prices every year, beginning in FY2021. The government decided a policy to revise the drug prices in intermediate years in addition to the regular revisions once every two years. Therefore, we expect that extremely tough conditions for the pharmaceutical industry will continue.

The recent problems with the quality and stable supply of generic drugs have undermined public confidence in generics. As a result, the environment surrounding the generics industry is becoming increasingly severe.

Amid such drastic changes in the industry, we announced the 5th Mid-term Business Plan 2021–2023 PROACTIVE II with the vision of "We contribute to people's health, and we are dedicated to people's genuine smiles" in May 2021. Based on the Mid-term Business Plan, we implemented various initiatives with the aim of developing health-related businesses that contribute to the realization of healthcare and nursing care for society with a long and healthy life expectancy and also to society that shifts from medical care to care of pre-symptomatic disease and prevention, while positioning the generics business at home and abroad as our core.

[2] Initiatives for sales growth

In 2021, we launched new products, including 18 items of six APIs in June and 11 items of six APIs in December. As a result, the number of our generics has reached 778 items of 339 APIs. In December 2021, we launched our first authorized generic, Eldecalcitol Capsules 0.5 μg/0.75 μg Towa.

[3] Initiatives for entering overseas markets

To expand and grow our business in overseas markets, we develop our generics business in the European and U.S. markets through Towa Pharma International Holdings, S.L. ("Towa HD"). During the consolidated fiscal year under review, we launched Everolimus tablets, Asenapine sublingual tablets, and other new products in the U.S. However, sales in the U.S. market were slightly below the plan due to negative impacts by channel inventory adjustments caused by the change of third-party logistic companies and by API shortages of several products, etc. Meanwhile, sales in the European market exceeded the sales plan mainly due to better performance of contract manufacturing outsourcing (CMO) business and strong sales of new products in B2C business. Going forward, we aim to further expand our business by utilizing Towa HD's sales network in several European countries and the United States as well as the production bases in Europe compliant to European and the United States standards.

[4] Creation of new businesses

As one of our challenges, we aim for contributing to the realization of healthcare and nursing care for a society with a long and healthy life expectancy and also to society that shifts from conventional medical care to care of pre-symptomatic disease and prevention. With such recognition, we are working to develop new health-related businesses adapted to the latest medical system while acquiring new techniques and promoting integration with completely new knowledge and technologies. As part of these efforts, during the consolidated fiscal year under review, we worked on various projects to provide healthcare services utilizing medical and health data. To proceed with these projects, we concluded an alliance agreement with TIS Co., Ltd. for the joint sale of a cloud-based information-sharing service for coordinated regional medical care, "Healthcare Passport." We also conducted joint research on lifestyle-related diseases with TIS Co., Ltd. and Healthtech Laboratory, Inc. as part of the integrated medical/nursing care data analysis project launched by Kyoto City. Furthermore, together with Kyoto University and Healthtech Laboratory, Inc., we started a demonstration experiment of a medication support tool, which is currently being jointly developed with Bandai Namco Research Inc. In our Disease risk testing service business, we are engaged in the selling of three types of ProtoKey® test kits, including colorectal cancer risk test kit, and the research and development of new risk tests at Protosera Inc. Additionally, we made Sunsho Pharmaceutical Co., Ltd. ("Sunsho Pharmaceutical") a subsidiary in March 2022. It is a company engaged in the planning, development, and contract manufacturing of health foods, pharmaceutical products, etc. We believe that the acquisition of Sunsho will enable the Group to leverage the company's strong technological capabilities, extensive customer base and knowhow on health foods that it has cultivated to date. And it will help us achieve our aim of developing diversified health-related businesses, thereby further increasing our corporate value.

[5] Operating results

As for operating results for the consolidated fiscal year under review, the Group recorded net sales of JPY 165,615 million (up 6.9% YoY), gross profit of JPY 70,185 million (up 7.2% YoY), SGA expenses of JPY 50,980 million (up 12.0% YoY), operating profit of JPY 19,205 million (down 3.6% YoY), ordinary profit of JPY 22,739 million (up 21.7% YoY), and profit attributable to owners of parent of JPY 15,914 million (up 14.0% YoY).

Operating results by segment are as follows. Net sales from the domestic segment amounted to JPY 126,676 million (up 6.7% YoY) with segment profit of JPY 18,878 million (down 6.8% YoY). Net sales from the overseas segment amounted to JPY 38,938 million (up 7.5% YoY) with segment profit of JPY 1,127 million (up 164.9% YoY). The figures for each reporting segment profit are based on profit before amortization of goodwill.

Financial position

The financial condition for the consolidated fiscal year under review is as follows.

[1] Assets

Total assets at the end of the consolidated fiscal year under review amounted to JPY 329,935 million, up JPY 84,266 million YoY. This was mainly due to an increase in goodwill of JPY 37,597 million, an increase in inventories of JPY 11,749 million, an increase in cash and deposits of JPY 9,915 million, and an increase in trade notes and accounts receivable of JPY 4,774 million.

[2] Liabilities

Liabilities amounted to JPY 197,766 million, up JPY 68,697 million YoY. This was mainly due to an increase in short-term borrowings of JPY 48,224 million and an increase in long-term borrowings of JPY 9,248 million.

[3] Net assets

Net assets amounted to JPY 132,169 million, up JPY 15,569 million YoY. This was mainly due to an increase in retained earnings of JPY 13,502 million. Consequently, capital-to-asset ratio was 40.1% at the end of the consolidated fiscal year under review.

Cash flows

Cash and cash equivalents at the end of the consolidated fiscal year under review amounted to JPY 32,830 million, up JPY 9,915 million YoY. Each cash flow for the consolidated fiscal year under review and factors behind it are as follows.

[1] Net cash provided by (used in) operating activities

Net cash provided by operating activities amounted to JPY 22,129 million (up JPY 10,120 million in the inflow YoY). This was mainly due to profit before income taxes of JPY 22,246 million (up JPY 3,517 million YoY) and depreciation of JPY 10,153 million (up JPY 479 million YoY), partially offset by an increase in inventories of JPY 7,950 million (down JPY 1,756 million YoY).

[2] Net cash provided by (used in) investing activities

Net cash used in investing activities was JPY 59,729 million (up JPY 50,629 million in the outflow YoY). This was mainly attributable to purchase of shares of subsidiaries resulting in change in scope of consolidation of JPY 45,405 million and purchase of property, plant and equipment of JPY 11,140 million (up JPY 2,003 million YoY).

[3] Net cash provided by (used in) financing activities

Net cash provided by financing activities amounted to JPY 46,540 million (up JPY 46,355 million in the inflow YoY). This was mainly due to a net increase in short-term borrowings of JPY 47,135 million (net decrease of JPY 20,251 million in the previous consolidated fiscal year) and proceeds from long-term borrowings of JPY 9,160 million (down JPY 31,339 million YoY), partially offset by repayments of long-term borrowings of JPY 7,181 million (up JPY 286 million YoY).

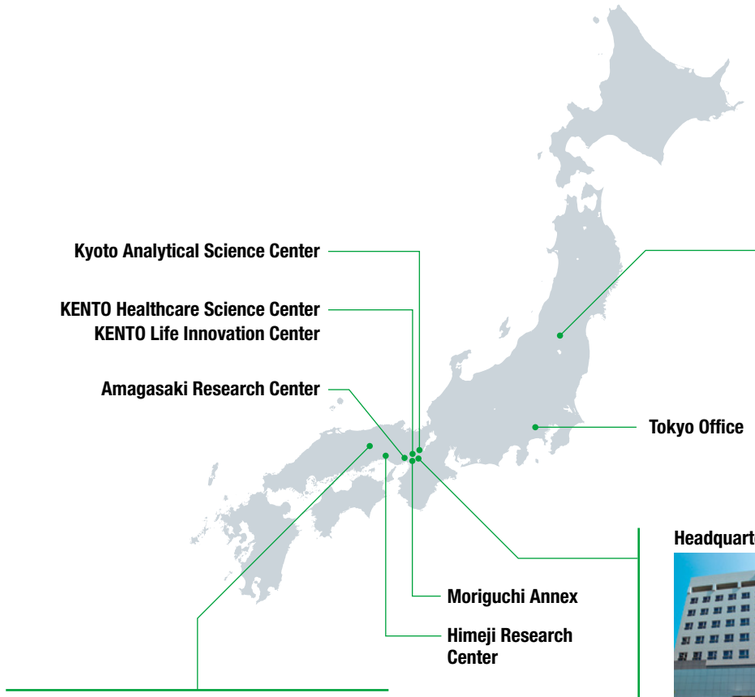
Dividend policy

We have a basic policy of paying dividends continuously and steadily in accordance with our performance, while enhancing internal reserves to prepare for future business development, such as strengthening research and development capabilities and securing capital expenditure funds.

Based on this policy, we paid a dividend of JPY 60 per share for the current fiscal year (including an interim dividend of JPY 27 per share, of which JPY 3 per share was paid as a commemorative dividend, and a year-end dividend of JPY 33 per share). Our basic policy is to pay dividends of surplus twice a year for the interim dividend and the year-end dividend. The decision-making bodies for these dividends of surplus are the General Meeting of Shareholders for the year-end dividend and the Board of Directors for the interim dividend.

We have stipulated in the Articles of Incorporation that the Company, by resolution of the Board of Directors, may pay an interim dividend as of September 30 of each year, which is set to be the record date for the interim dividend.

Business Locations



Yamagata Plant

East Japan Distribution Center

Headquarters

Osaka Research Center

Osaka Plant

Kadoma Laboratory

Okayama Plant

West Japan Distribution Center

Major Group Companies

J-DOLPH Pharmaceutical Co., Ltd.

Manufacturing and selling of ethical drugs

Headquarters: Koka, Shiga

Daichi Kasei Co., Ltd.

R&D and manufacturing of APIs and intermediates

Headquarters: Fukusaki, Kanzaki, Hyogo

Greencaps Pharmaceutical Co. Ltd.

Producing soft capsules for pharmaceutical products

Headquarters: Fujinomiya, Shizuoka

Sunsho Pharmaceutical Co., Ltd.

Planning, development, and contract manufacturing of health foods, pharmaceutical products, etc.

Headquarters: Fuji, Shizuoka

Towa Pharma International Holdings, S.L.

Manufacturing and selling of ethical and OTC drugs

Headquarters: Barcelona, Spain

Non-consolidated subsidiaries

T Square Solutions Co., Ltd.

Provision of healthcare related IT services

Headquarters: Moriguchi, Osaka

Protosera Inc.

Disease risk testing service business and research and development of diagnostic drugs

Headquarters: Settsu, Osaka

Company Outline

As of March 31, 2022

Overview of Company

Company name	TOWA PHARMACEUTICAL CO., LTD.
Headquarters	2-11, Shinbashi-cho, Kadoma-shi, Osaka 571-8580 Main phone: +81(0)6-6900-9100
Representative	President and Representative Director Itsuro Yoshida
Established	June 1951
Incorporated	April 1957
Listing	The Prime Market of the Tokyo Stock Exchange (TSE) (Securities code: 4553)
Capital stock	JPY 4,717.70 million
Business operations	Manufacturing and selling of ethical drugs

Business locations and sales outlets

Headquarters	Headquarters Moriguchi Annex Tokyo Office
Research & Development Laboratories	Osaka Research Center Kadoma Laboratory Kyoto Analytical Science Center KENTO Healthcare Science Center KENTO Life Innovation Center Amagasaki Research Center Himeji Research Center
Plants	Osaka Plant Okayama Plant Yamagata Plant
Distribution centers	West Japan Distribution Center Kansai Distribution Center East Japan Distribution Center
Sales offices and sales sites	71 sales offices 62 sites of agents

Consolidated subsidiaries

J-DOLPH Pharmaceutical Co., Ltd.

Daichi Kasei Co., Ltd.

Greencaps Pharmaceutical Co. Ltd.

Sunsho Pharmaceutical Co., Ltd.

Towa Pharma International Holdings, S. L. and seven companies

Stock Data

As of March 31, 2022

Shares authorized ..... 147,000,000 shares

Shares issued ..... 51,516,000 shares

Number of shares constituting one unit ..... 100 shares

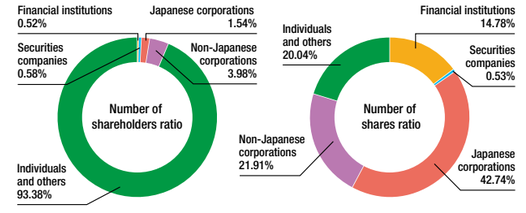
Number of shareholders ..... 5,198 shareholders

Major shareholders (Top 10)

Shareholder name	Number of shares (Thousand)	Ownership (%)
Yoshida Office Co., Ltd.	20,100	40.83
The Master Trust Bank of Japan, Ltd. (Trust Account)	4,116	8.36
BNYM AS AGT/CLTS NON TREATY JASDEC	2,304	4.68
TOWA PHARMACEUTICAL Kyoeikai	1,472	2.99
Itsuro Yoshida	1,455	2.95
Custody Bank of Japan, Ltd. (Trust Account)	1,196	2.43
TOWA PHARMACEUTICAL Employee Stock Ownership Group	907	1.84
State Street Bank and Trust Company	726	1.47
Yoshida Estate Ltd.	648	1.31
BBH FOR FIDELITY PURITAN TR: FIDELITY SR INTRINSIC OPPORTUNITIES FUND	584	1.18

Note: The Company holds 2,294,101 shares of treasury stock but is excluded from the above major shareholders. The Company calculated the ownership by deducting the number of treasury shares.

Share breakdown by shareholder type



Stock Price


TOWA
TOWA
PHARMACEUTICAL