Achieve Annual Production Capacity of 17.5 Billion Tablets and Ensure Stable Supply in Japan and Abroad

Tetsuro Tabata, Ph.D.
Senior Operating Officer,
Division Manager,
Production Division

Yamagata Plant 3rd solid formulation building began full-fledged operation, completing a production system of 17.5 billion tablets annually

The initial validation for all equipment installed in the 3rd solid formulation building, completed in November 2023 at the Yamagata Plant, has been finalized. Full-scale operations started in October 2025. This brings the combined solid formulation production capacity of Towa Pharmaceutical's three plants to 17.5 billion tablets per year.

Through the 3rd solid formulation building, we have introduced automated, unmanned equipment to enhance efficiency as countermeasures to cope with an aging population and falling birthrate. In the packaging process, enabling the automatic supply of packaging materials makes 24-hour operation possible with a minimal number of personnel. Meanwhile, the 2nd sterile formulation building at the Yamagata Plant, which was completed at the same time, will also begin production on the newly introduced vial manufacturing line within FY2025. This will double the current annual vial formulation production capacity, bringing it to 10 million.

As a leading generic drug company, we will continue to actively pursue the stable supply of generic drugs.

Proceed with large-scale equipment introduction and manufacturing process automation to further improve productivity

Amidst issues in the stable pharmaceutical supply, we are working to introduce new equipment and increase personnel to boost production, thereby fulfilling our responsibility to ensure a stable supply. Construction of the 3rd solid formulation building and 2nd sterile formulation building at the Yamagata Plant was completed in November 2023. Shipments of products manufactured at the 3rd solid formulation building commenced in April 2024, with full-scale operations scheduled to begin in October 2025 once all equipment startup procedures have been completed. This will bring the Yamagata Plant's production capacity to 10 billion tablets. For FY2025, we are planning to produce 16.2 billion tablets, and by FY2026 we expect to reach a capacity of 17.5 billion tablets. We are launching new production lines while maintaining full production at existing facilities. To achieve this, we are soliciting operational support from other headquarters and plants, advancing the establishment of a stable supply structure through company-wide support at the earliest possible time.

At the 3rd solid formulation building, we are leveraging economies of scale to promote efficient production, along with automation and labor reduction, striving for further improvements in productivity. We have introduced numerous facilities boasting Japan's largest production capacity and batch sizes. Additionally, in the packaging process, we have achieved automated supply of packaging materials for over eight hours, and automated product conveyance has also become possible. The cartoning machine in particular fully automates the process from transporting individual cartons from the automated warehouse to supplying them to the equipment, resulting in significantly improved operational efficiency. We also offer a virtual tour of our Yamagata Plant on our website. Please feel free to have a look.

Strengthen the Group's production structure and promote domestic supply stabilization

To solve issues related to the stable pharmaceutical supply, we are working to boost production at all three Towa plants, while also building a supply structure that effectively utilizes Group company production capacity.

As part of efforts to create Group synergies with Towa INT, its subsidiary, Towa Pharmaceutical Europe, S.L., obtained approval in February 2024 for an application for change regarding the addition of a manufacturing site for Esomeprazole Capsules 10 mg/20 mg "Towa" at its Martorelles Plant in Spain.

The plant leverages its strength in large-scale, efficient production using large granulation machines to supply products to the European and U.S. markets. By manufacturing products for the Japanese market, we will strengthen the Group's production backup structure while contributing to resolving the present issue of stable domestic supply.

Towa INT's Martorelles Plant in Spain

The Towa Group is mobilizing all of its resources to augment production and reinforce the backup structure

The demand from society that the current unstable generic drug supply in Japan be resolved as soon as possible is strong, and it is imperative that a stable supply be ensured over the long term. Towa has been working to swiftly establish and achieve a supply capacity of 17.5 billion tablets. It has also has positioned the Martorelles Plant as a key production hub within the Group and is leveraging its technological capabilities in its pursuit of higher production. The Martorelles Plant acquired Pharmaceuticals and Medical Devices Agency (PMDA) certification in 2024 and has already increased the manufacturing of products for Japan. It is expected to contribute further by expanding to other products. We recognize this as a crucial activity that bolsters the Group's production backup structure in preparation for risks and emergencies, and we will diligently work to establish this structure. Moreover, through mutual exchange of technology, we will strive to advance the development, production, and improvement of Towa-Quality pharmaceuticals—always needed by patients and healthcare professionals—more efficiently, with the aim of creating further synergies.

Masaaki Takeyasu
Director

Towa INT plays a vital role in ensuring a stable pharmaceutical supply in Japan for Towa Pharmaceutical

As a Towa Group company, Towa INT strives to satisfy Japanese standards and Towa Quality to supply pharmaceuticals to the Japanese market. It has become capable of contributing to Towa Pharmaceutical's stable supply of drugs in Japan. Products manufactured by Towa INT for Towa Pharmaceutical leverage large granulation machines utilizing Towa INT's know-how and expertise to realize efficient production. We have begun considering new products for supply to Japan and aim to contribute to the people of Japan by providing even more products from our Martorelles Plant in Spain as Towa-Quality pharmaceuticals. Furthermore, in addition to the products, Towa INT will provide its knowledge and expertise in large granulation machines to Towa Pharmaceutical, thereby contributing to efficient production. In collaboration with Towa Pharmaceutical, we will continue to strive to generate synergies.

Shigehiro Kubo
Operating Officer in charge of International Business

Towa's New Challenges to Pioneer the Future of Dementia Treatment

Masaji Morikawa
Operating Officer,
Deputy Division Manager,
Sales and Marketing Division

Challenges toward realizing a regionally inclusive society supported by Rivaluen

Japan's society has entered a super-aging phase, known as the "2025 Problem," in which one in five citizens is now classified as elderly. Moreover, by 2040, the number of dementia patients is projected to reach approximately 5.84 million, up about 1.41 million from 2022.

Given these circumstances, the Basic Act on Dementia to Promote an Inclusive Society was enacted to realize a society in which individuals with dementia can live with dignity and hope.

Our Rivaluen LA Patch is a preparation that represents an attempt to create new value in the field of dementia. This preparation offers unprecedented new value. As such, we must actively promote it to physicians and spread it throughout society.

The Rivaluen LA Patch is a preparation expected to slow the progression of dementia while improving medication adherence and mitigating the burden on caregivers. We will continue to contribute to achieving a regionally inclusive society through the ongoing implementation of the Rivaluen LA Patch.

Japan's first twice-weekly adhesive Alzheimer's disease treatment launched

Towa Pharmaceutical, guided by its corporate philosophy "We contribute to people's health. We are dedicated to people's genuine smiles," strives to ensure a stable supply of generic drugs while also actively pursuing the development of new drugs.

As part of these efforts, the Rivaluen® LA Patch, Japan's first twice-weekly preparation for the treatment of Alzheimer's disease, was included in the national health insurance (NHI) price list and launched in May 2025.

The patch is a sustained-release adhesive patch preparation containing rivastigmine, developed by Luye Pharma Switzerland AG, as the active ingredient. We entered into an exclusive development and sales agreement and, in March 2025, secured approval for manufacturing and marketing of this new drug for the first time. Subsequently, the patch was added to the NHI price list as a generic drug. It was granted utility premium (II), however, as "its design has been objectively demonstrated to provide higher medical utility compared with similar drugs."

While treatments for Alzheimer's disease require doses once or twice a day, this medication can reduce the dosing frequency to biweekly, offering the potential to further alleviate the medication management burden. Our hope is that the patch contributes to achieving sustainable dementia care and serve as a new treatment option for patients, their families, and caregivers, offering a better quality of life.

Value Creation Process

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
- Manufactured capital
- Intellectual capital
- Human capital
- Social and relationship capital
- Natural capital

▶ See page 22.

Strength

R&D capabilities to continue pursuing Towa Quality through improvement and upgrading of quality with state-of-the-art technologies

Maintaining proper manufacturing control and quality control for multi-item production

Initiatives for in-house API production to achieve high quality and stable supply

Production capacity and stable supply setup enabling mass production of a wide range of products

Unique Towa-style Sales System meeting customer needs

Achievement of new technologies, products, and services through several group companies leading to new health-related businesses, including those overseas

Towa Corporate Vision

Genuine smiles

People's health

Generics business in Japan

Generics business overseas

New health-related businesses

6th Medium-term Business Plan 2024–2026 PROACTIVE III

Towa Group's Sustainability Policy

4.Continue promoting technology innovations

3.Respect each employee

2.Conduct eco-friendly operations

1.Enhance corporate fundamentals

Foundations supporting value creation

OUTCOME

Direct value

- Safety and security
- Stable supply
- Healthcare cost reduction and maintenance of national insurance system
- Mental and physical health
- Improvement in access to healthcare
- Improvement in adherence by providing high-value products

Indirect value

- Industrial competitiveness
- Contribution to local development
- Job creation
- Affluent society
- Proper tax payment

Create the future beyond people's health

External Environment Surrounding Towa Group

Progress in promoting the use of generics and reviewing the drug price system

In recent years, generics have come to play an increasingly vital role in the society.

At the Medical Insurance Subcommittee of the Social Security Council in March 2024, the basic policy was set to "raise the volume share of generics to 80% or more in all prefectures by the end of FY2029, while ensuring a stable supply of pharmaceutical products." In addition, a new secondary target was established to "raise the value share of generics to 65% or more by the end of FY2029."

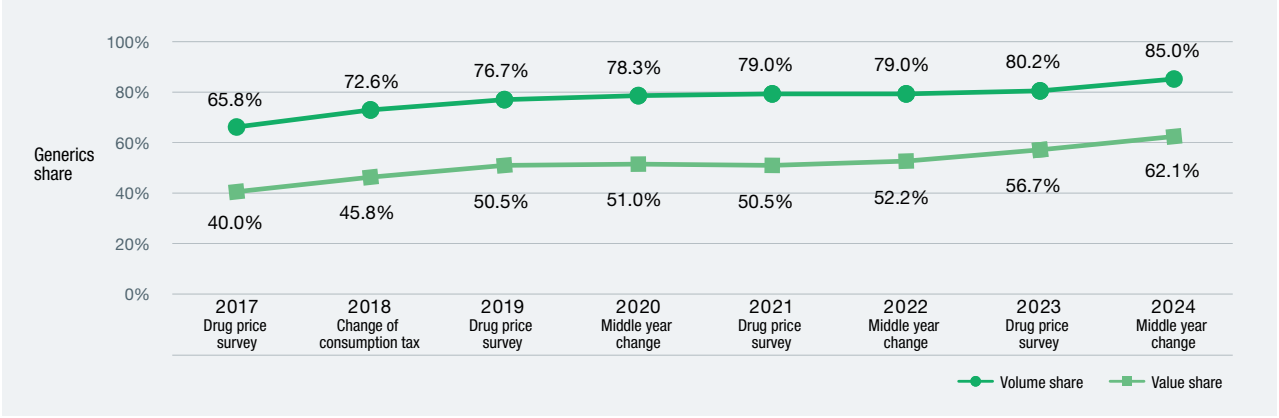
Furthermore, in October 2024, a system of selective treatment for long-listed products was introduced. It is a system that imposes additional out-of-pocket costs for certain brand-name drugs that have generic alternatives. As a result, the volume share reached 89.0% in January to March 2025, according to a survey by the Japan Generic Medicines Association.

On the other hand, the annual drug price revisions since FY2021 have made the business environment for the pharmaceutical industry extremely challenging. In contrast, under the FY2025 drug price revision, the scope of the revision was determined based on the characteristics of each product, considering not only the goal of reducing the burden on the public but also the need to address requests for promoting drug discovery innovation and ensuring a stable supply of pharmaceutical products. For generics, the scope applied to products with a deviation rate exceeding 1.0 times the average (5.2%).

For the first time since 2000, the minimum drug price was increased, and unprofitable products with particularly high medical needs were temporarily repriced.

Regarding the corporate indicators used to evaluate companies' stable supply systems, assessments were conducted for all previously considered indicators, and the results of company evaluations are scheduled to be announced following the FY2026 drug price revision.

Changes in volume and value shares of generics in NHI drug price survey



Based on "Preliminary Results of the Drug Price Survey" by the Ministry of Health, Labour and Welfare

Structural reforms in response to quality issues and efforts to restore trust

Due to a series of supply concerns resulting from quality issues at multiple generic drug manufacturers identified in 2020, confidence in generics has declined, and the environment surrounding the generic drug industry has become increasingly challenging.

Under these circumstances, the Study Group Report on the Industrial Structure to Achieve Stable Supply of Generic Pharmaceuticals, released by the Ministry of Health, Labour and Welfare in May 2024, stated that "an intensive reform period of approximately five years will be implemented to establish manufacturing and quality control systems, secure stable supply capacity, and realize a sustainable industrial structure."

In addition, the Basic Policy for Economic and Fiscal Management and Reform 2024, which was approved by the Cabinet in June 2024, states that "The government will work to resolve the current concerns about the supply of pharmaceuticals. Envisioning an ideal form of the generic drug industry while maintaining a stable supply of pharmaceuticals as a basis, we will promote structural reforms with a view to industry restructuring and will put into a place the relevant legal framework for a stable supply of pharmaceuticals."

The industry is moving forward with making corporate information regarding stable supply more visible and is beginning to develop indicators for evaluating companies that can ensure a stable supply of generics and to begin trial implementation of these indicators. In pursuit of Towa Quality, we are making efforts to strengthen our pharmaceutical lineup, maintain stable supply and quality assurance systems, and strengthen our information provision systems, thus doing our utmost to restore trust in the industry.

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 **470.8** billion (consolidated)
- Net assets: JPY **171.6** billion (consolidated)

Total assets at the end of FY2024 increased JPY 40,170 million YoY to JPY 470,823 million. Net assets at the end of FY2024 increased JPY 15,731 million YoY to JPY 171,625 million. Consequently, the capital-to-asset ratio came to 36.5% at the end of FY2024.

Manufactured capital

- Production sites: **14**
  (13 in Japan [including Towa's 3 plants], 1 in Europe)
- Production volume (Towa): **14.3** billion tablets
  (including capsules)
- Production facilities for various dosage forms

Towa Group has 14 production sites in total, comprising of 13 in Japan and 1 in Catalonia, Spain. Production volume of Towa, the largest producer, stands at 14.3 billion tablets and capsules, which is near its maximum production capacity. 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: **8**
  (7 in Japan, 1 in Europe)
- R&D expenditure: JPY **55.0** billion or more
  (accumulative) (FY2024–FY2026)
- API synthesis process knowhow

R&D is conducted in 8 offices in total, comprising 7 in Japan and 1 in Europe. Target R&D expenditure from FY2024 to FY2026 is JPY 55.0 billion or more (accumulative). This covers the leading-edge research on API synthesis including molecular control technology.

Human capital

- Employees: **4,788** (consolidated)
- Consolidated subsidiaries: **15**
  (7 in Japan, 8 in overseas countries)
- Qualified pharmacists: **281** (consolidated in Japan)
- MRs: **731** (consolidated in Japan)

Towa Group hires 731 MRs and 281 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 **94.6** % Dispensing pharmacies **97.0** %

We engage in nationwide marketing activities through 69 sales offices, 26 agents at 55 sites, and medical products distributors, among others, in Japan. Towa has a high coverage ratio of medical institutions: 94.6% for hospitals and 97.0% for dispensing pharmacies.

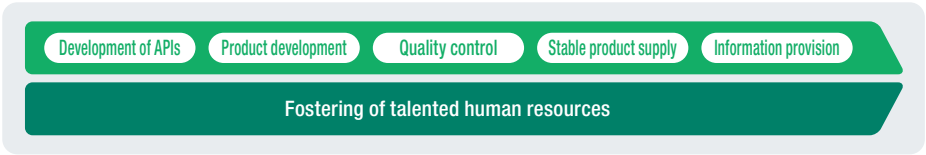
Natural capital

- Energy input: **36,051** kl (crude oil equivalent, consolidated)
- Water usage: **792,675** m^3 (consolidated)

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.

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

Related information See page 41.

Developing and selecting the best APIs for manufacturing products

We use APIs meeting our original strict quality standards 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 32.

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

We have the lineup consisting of more than 700 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.

We strive to transform our aspirations into value, pursuing high quality and high added value

In the upstream stage of product development, we thoroughly analyze the properties of APIs and brand-name drugs, and examine the feasibility of creating value-added products tailored to quality improvement and specific needs. We are committed to developing the best possible products by pursuing not only quality, but also ease of handling and identifiability, so that patients and healthcare professionals can use them with peace of mind. Amid a rapidly changing business environment, we believe that the capabilities and aspirations of "people" are essential for flexibly creating these values. We will continue to take on the challenge of realizing even higher quality and higher added value by making the most of these capabilities and turning our aspirations into value.

Nobuko Hirai

General Manager, Pharmaceutical Research and Technology Unit, Preformulation Department, R&D Division

Towa Group's Strength

Stable product supply

Related information See page 31.

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. The 3rd solid formulation building at Yamagata Plant was completed in November 2023, and began full-scale operation in October 2025. We are aiming to produce 17.5 billion tablets in FY2026.

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 creating work environment with job satisfactions 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. Under the 6th Medium-term Business Plan starting from FY2024, we aim to realize the "genuine smiles" of the Group employees by supporting their individual growth and career development, and by striving to remain a company that makes every employee happy to work for us. We also promote the acquisition and development of human resources as well as diversity.

We will use the latest technology and facilities to provide a stable supply of Towa Quality pharmaceutical products

In the manufacturing of pharmaceutical products, we give top priority to the safety of patients. For this reason, the Company is proactively introducing automation and systemization of facilities to minimize human errors and establish a system that enables more efficient production of high-quality pharmaceutical products. The Company has also introduced an in-house Expert Scheme in which experts are assigned to each process and utilize the latest technology to improve product safety. We will continue to take pride in and responsibility for our pharmaceutical manufacturing, striving to create even better products that bring genuine smiles to patients.

Masahiro Nanba

General Manager, Manufacturing Department, Osaka Plant, Production Division

Enhancing Corporate Value

Initiatives Focused on Balancing Growth Investment and Financial Soundness

Toshikazu Kokubun
Director

Shiro Hatagami
Operating Officer, Division Manager, Finance & Accounting Division

Confirm soundness through introduction of ROIC and Investment Review Committee

■ Please explain the themes of the financial strategy for the 6th Medium-term Business Plan 2024–2026 PROACTIVE III.

Kokubun: Our current Medium-term Business Plan centers on the theme, "Balanced growth investment and financial soundness." To address the shortage of generic drugs ongoing since 2021, we have accelerated our previously planned additional investment in the 2nd solid formulation building at the Yamagata Plant. Furthermore, we built the 3rd solid formulation building at the same plant in November 2023 and are presently introducing new equipment. While this is a demand from society, the current situation mandates capital investment take precedence. We believe we must maintain a balance between this investment and financial soundness. Given this, to analyze current initiatives to enhance corporate value and outline future strategies, we have newly introduced return on invested capital (ROIC) as a numerical target in our Medium-term Business Plan and established a target of 6%, in excess of the weighted average cost of capital (WACC), which is approximately 4%. Moreover, regarding investments previously deliberated case by case, we have augmented our comprehensive management structure through measures such as the establishment of an Investment Committee comprising executives and setting hurdle rates and other criteria. We aim to achieve an ROIC of 6% by the final fiscal year of the Plan by expanding operating profit and managing investment projects while monitoring the cost of capital.

Hatagami: Our investment in the Yamagata Plant to address the societal issue of a shortage of generic drugs has surpassed JPY 50 billion, and the Group's interest-bearing debt stands at over JPY 200 billion as of the end of FY2024, which is rather high. We must efficiently generate cash and optimize interest-bearing debt, and our current Medium-term Business Plan is precisely focused on implementing a financial strategy with an awareness of maintaining an appropriate balance.

■ How would you evaluate and analyze the Towa Group's performance for FY2024?

Kokubun: Regarding Towa Pharmaceutical, praise for our production management and quality control structure led to robust demand for our products. This resulted in increased sales volume and higher earnings and profits. Both Sunsho Pharmaceutical and Towa INT also achieved increased earnings and profits on the back of strong business performance and a lower cost of sales ratio resulting from an improved sales mix.

Hatagami: Towa Pharmaceutical's sales volume reached about 15.2 billion tablets, comfortably surpassing its production volume of approximately 14.3 billion. We are advancing production increases at the Yamagata Plant, but for FY2024, we reduced inventory in response to market demand. Sunsho Pharmaceutical saw its cost of sales ratio decrease due to the impact of KAMATA becoming a consolidated subsidiary and growth in its soft capsule business, which boasts a favorable gross profit margin. Towa INT also saw strong performance in both its B2B and B2C businesses, driven by robust demand in Europe for its core products. Sales of new products and high-gross-margin items were up, leading to a lower cost of sales ratio. Moreover, as part of the synergy between Towa Pharmaceutical and Towa INT, we are augmenting manufacturing of the Esomeprazole Capsules 10 mg/20 mg "Towa" at the Martorelles Plant in Spain for the Japanese market.

Enhancing Corporate Value

What issues, if any, have come to light after the first year of the Medium-term Business Plan?

Kokubun: Overall performance progressed steadily. We repeatedly revised operating profit upward, resulting in double-digit year-on-year growth in both sales and operating profit. Issues will, however, inevitably arise. While Towa's generic business is driving profits, for instance, a major challenge is that we have not been able to produce sufficient volume to fully satisfy societal demand. There were two key factors: first, the Yamagata Plant suffered a personnel shortage as staffing did not progress as initially planned; and second, we adjusted production plans for a significant number of items in response to market demand, leading to a drop in efficiency. We addressed the personnel shortage, by increasing hiring and receiving support from other headquarters and plants. We have met the required staffing levels at the Yamagata Plant's solid formulation building as of April 2025. Regarding production plan changes, we are working to prevent a drop in production efficiency by setting the scope of production plan changes within a fixed range beginning FY2025. And profits persistently exceeding expectations because of unutilized SG&A expenses such as R&D costs represents a gap between the Plan and actual results. We recognize that this issue requires improvement action.

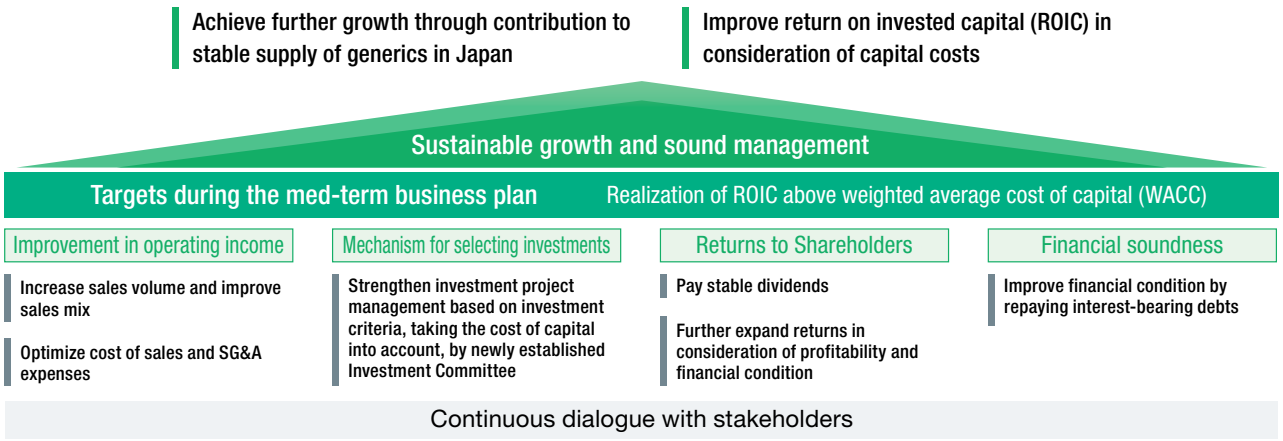
Hatagami: We are working to streamline production and reduce labor through measures including the introduction of automated robots into the packaging process, as well as the scaling up of equipment to accommodate larger lot sizes, which should lead to improved production efficiency. Moreover, we launched a digital transformation (DX) project FY2025 to integrate all company data and systems. We identified challenges in internal data integration, such as a deterioration in efficiency because of production plan changes and gaps between plans and actual results resulting from unutilized SG&A expenses. We are working to resolve these issues by visualizing different information and situations.

With plants and production facilities now in place, it is finally time to move into recovery

Please tell us about the plans for FY2025, the second year of the Medium-term Business Plan.

Kokubun: Towa Pharmaceutical continues to be the main driver of the Group's overall performance, with the key factor being the volume of generic drug supply. Personnel and equipment installation at the Yamagata Plant's 3rd solid formulation building are proceeding as planned. To realize an annual production capacity of 17.5 billion tablets across our three plants by FY2026, we have set an interim target for this fiscal year's production volume of approximately 16.2 billion tablets. Based on the steady progress in expanding production at the Yamagata Plant and the better-than-expected results for FY2024, we have revised the numerical targets of the 6th Medium-term Business Plan. We have raised the cumulative operating profit target from over JPY 68 billion to JPY 80 billion.

6th Medium-term Business Plan (2024–2026): "Balanced growth investment and financial soundness"



Enhancing Corporate Value

Hatagami: In line with the increase in production volume, Towa Pharmaceutical plans to boost its sales volume to approximately 16 billion tablets in FY2025. And we are focused on expanding sales of new generics, which are generic drugs approved for manufacture and sale after the initial release of a brand-name drug in recent years. New generics allow patients and healthcare professionals to benefit from the advantages of new drugs while also helping us maintain profit margins. We plan to improve performance through increases in both volume and unit price. Sunsho Pharmaceutical plans to reduce costs and secure profits by growing its soft capsule business, while Towa INT aims to secure a degree of profit by launching new products while augmenting R&D investment. Furthermore, we have commenced joint development as part of our efforts to create synergies between Towa Pharmaceutical and Towa INT.

Please also tell us about your plans for R&D expenses and capital investments that will sustain the business.

Kokubun: In addition to new generic drug development, Towa's R&D expenses cover clinical development costs for new products such as Rivaluen® LA Patch 25.92 mg/51.84 mg, launched in May 2025 as a new initiative, and bromocriptine drug repurposing. These expenses further include costs incurred in addressing the nitrosamine issue, a global-scale challenge. And, regarding Towa INT, the current Medium-term Business Plan period has been designated as a period for growth investment toward the 7th Medium-term Business Plan. We expect to take certain products to market during the next Medium-term Business Plan or the subsequent plan, but we are increasing R&D investment with the goal of expanding our product portfolio.

Hatagami: The nitrosamine issue has become a global-scale challenge, and I believe it is extremely significant that the two companies are able to collaborate to address the issue by sharing our respective expertise and insights in Japan and Spain. We are also seeing more collaboration, including the commencement of joint development projects, and feel that we are realizing synergies within the Group. The amount of Towa's capital investment decreased as its investment in the Yamagata Plant has largely been completed. Sunsho Pharmaceutical is planning to invest in boosting soft capsule production, while Towa INT is planning capital investments in the Martorelles Plant as well as investments in new product introductions.

Please share with us your policies for enhancing corporate value.

Kokubun: Stock price increases lagging behind net asset growth has resulted in our PBR trending downward, recently falling below 1.0x. During IR meetings, analysts and investors frequently provide us with feedback regarding our disclosure materials. Consequently, in the supplementary materials for financial results for the fiscal year ended March 2025, we have newly disclosed financial metrics about the cost of capital and dividend policy. Going forward, to promote constructive dialogue with all stakeholders, we are proactive in considering disclosure of information. Maintaining sound financial health is paramount for sustained growth. We intend to continue developing our business while maintaining a balance between investment in growth and being sound financially.

Hatagami: The recovery in operating profit has resulted in ROIC improving since the fiscal year ended March 2024. We acknowledge an WACC of approximately 4% and the cost of capital of about 7%. To achieve our ROIC target of 6%, we believe it is crucial to efficiently generate cash by improving operating profit and managing investment projects while monitoring capital costs, thereby optimizing interest-bearing debt. With regard to shareholder returns and dividend policy, we plan to decide on dividends while striving for stable payouts, with the targets being a payout ratio of 20–30% and a dividend yield of around 2%, fully considering profitability and financial condition. Moving forward, guided by our corporate philosophy—"We contribute to people's health. We are dedicated to people's genuine smiles"—we will strive to boost our corporate value, aiming to be a company that remains vital to society and local communities in any era.

6th Medium-term Business Plan 2024–2026

PROACTIVE Ⅲ —Challenges toward a New Phase—

The 6th Medium-term Business Plan is themed PROACTIVE III, a continuation of the previous Medium-term Business Plan, PROACTIVE II. The subtitle "Challenges toward a new phase" reflects our determination to move forward united as a Group toward this new phase. This stems from the necessity for the domestic generic pharmaceutical industry to work together to resolve the issue of unstable supply.

Furthermore, while continuing the policies of the previous Medium-term Business Plan, we have added "Job reform through DX promotion" and established three basic policies. We are advancing the development of our three core businesses—the generics business in Japan, the overseas generics business, and new health-related businesses—while augmenting the foundational infrastructure supporting each, with the intent of this leading to sustainable growth.

5th Medium-term Business Plan (FY2021–FY2023)

- Investment in production facilities and strengthening pharmacovigilance & quality assurance setup for addressing abnormal situation of unstable drug supply situation in Japan
- Expansion of overseas business regions, and collaboration between Towa Japan and Towa INT with COVID-19 under control
- Setup of management structure of Towa Group, including Sunsho Pharmaceutical
- Setup of future-oriented organizational structure and succession planning of key posts

6th Medium-term Business Plan (FY2024–FY2026)

Generics business in Japan

- Growth as a company that is trusted and needed by society when domestic generics market is facing major changes

Overseas generics business

- Diversification of our products with competitive superiority while further expanding our overseas business regions
  Necessary investment for growth (R&D and manufacturing facilities) by striking a balance with financial situation of Towa Group

New health-related business

- Continuous business exploration and investment in a certain cap
  Promotion of the concept of health information platform

Building management foundation for sustainable growth

- Ensuring financial soundness in order to make continuous growth investments
- Realization of the "linkage of management strategy and personnel strategy" required for human capital management

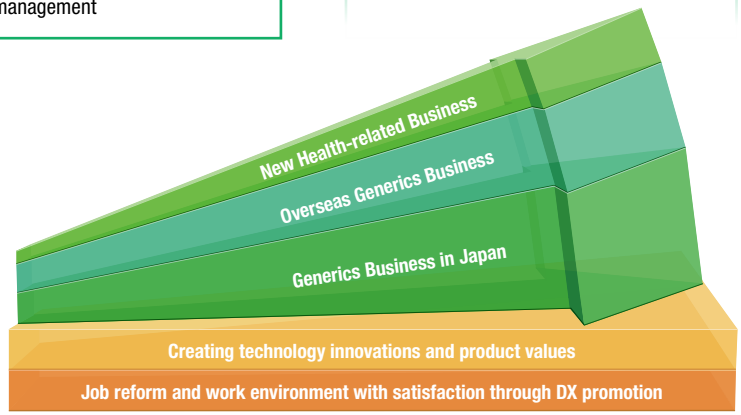
Vision of Towa Group for 2040

- Japan-based global generics group company that will conduct manufacturing and marketing both in Japan and overseas
- Towa Group's new health-related businesses that will be recognized by society and will be independent as a pillar of Group management
- A culture of innovation creation that includes not only innovative but also evolutionary technologies will be nurtured, take root, and bear fruit as products and services
- "People's Heath" and "Genuine Smiles" will be shared by our Group employees, their family members, former employees, and people in local communities

Policy 1 Evolution of generics business in Japan toward a new phase

Policy 2 Establishing foundation for new markets / new businesses and realizing group synergies

Policy 3 Strengthening sustainability management and building fundamentals for sustainable growth



Financial targets and progress

For FY2024, strong product demand drove increased sales volume for Towa Pharmaceutical. At Sunsho Pharmaceutical, the impact of KAMATA becoming a consolidated subsidiary and an improved sales mix resulted in a lower cost of sales ratio. The ratio fell at Towa INT as well due to strong performance in Europe and a better sales mix. Consequently, both net sales and operating profit rose.

For FY2025, we plan to achieve increased sales and profit. We will realize this through Towa Pharmaceutical increasing supply volumes to the market by expanding production at its Yamagata Plant. This, combined with the continued recent strategy of expanding sales of new generics and the increase in the minimum drug price, will contribute to unit price improvement. Sunsho Pharmaceutical's contribution will be to increase soft capsule production, grow profitable businesses, and reduce its cost of sales ratio. And Towa INT will launch new products and increase contract manufacturing.

Regarding the numerical targets of the Medium-term Business Plan, upon reviewing the plans for FY2025 and FY2026, we determined that cumulative operating profit will likely exceed the initially set target of JPY 68 billion. As a result, we have adjusted the target upward to JPY 80 billion or more. This revision reflects an upward revision to the actual results for FY2024 compared with the initial forecast, steady progress in establishing higher production capacity at the Yamagata Plant, and the further amelioration of SG&A expenses—including R&D costs—from the perspective of cost optimization.

We have not made changes to other financial targets, issues, policies, or key themes. Based on feedback received from stakeholders during individual IR meetings, however, we have disclosed several new metrics related to financial targets. Regarding the ROIC target, we recognize that the WACC as of FY2024 is approximately 4%, and the cost of equity is about 7%. Concerning R&D expenditures, we aim for an R&D expenditure ratio of around 7% of sales. Regarding dividend policy objectives, we will strive to maintain stable dividends while pursuing further expansion taking profitability and financial condition into consideration. We will determine the dividend amount comprehensively, with our targets being a payout ratio of 20% to 30% and a dividend on equity (DOE) of approximately 2%. In accordance with our plan, we will continue working to further elevate corporate value.

Net sales (final year)	Operating income (cumulative)	ROIC* (final year)	R&D expenditure (cumulative)	Capital investment (cumulative)	Dividend policy
[Consolidated] Achievement of **JPY 300.0 billion** [Non-consolidated] Achievement of **JPY 200.0 billion** Annual sales target achieved	[Consolidated] **JPY 80.0 billion** or more Achievement of cumulative operating income to invest in sustainable growth and return profits to shareholders	[Consolidated] **6%** or more (with influence of goodwill) **7%** or more (without influence of goodwill) Achievement of ROIC* exceeding WACC	[Consolidated] **JPY 55.0 billion** or more Lineup of needed products and improvement/upgrading of products based on the requests from medical institutions and patients	[Consolidated] **JPY 60.0 billion** or more Investment to strengthen and improve efficiency of production facilities and logistic functions for maintaining and strengthening quality assurance and stable supply	**Implementation of stable dividends** Ensuring stable dividends and returning profits to shareholders through improved corporate value
FY2024 results [Consolidated] **JPY 259.5 billion** FY2025 plan [Consolidated] **JPY 280.0 billion**	FY2024 results **JPY 23.2 billion** FY2025 plan **JPY 27.0 billion**	FY2024 results **4.2%** FY2025 plan **4.7%**	FY2024 results **JPY 16.2 billion** FY2025 plan **JPY 19.0 billion**	FY2024 results **JPY 33.3 billion** FY2025 plan **JPY 25.3 billion**	FY2024 results **JPY 70** FY2025 plan **JPY 80** (forecast)

*WACC recognized at approximately 4%, cost of equity at approximately 7% (FY2024)
*ROIC: Operating income after tax / invested capital (total equity and interest-bearing debt) External disclosure with influence of goodwill Internal control without influence of goodwill

Policy 1 Evolution of generics business in Japan toward a new phase

Moving toward a new phase of the generics business in Japan, we continue the strengthening of API procurement, improvement of production capacity, and optimization of our sales system, initiatives on which we have been focusing its efforts on to date for the improvement of our stable supply chain. We are also working to strengthen our manufacturing control and quality control systems and to contribute to the building of social infrastructure in the pharmaceutical industry.

Set up stable supply
- Set up a system for stable supply of generics
- Ensure preparedness in case of emergency
- Strengthen supply chain management
- Improve production and supply capacities
- Improve production efficiency and productivity

Strengthen manufacturing control / quality control
- Ensure manufacturing control / quality control systems
- Supply safe and secure pharmaceuticals
- Disclose and provide appropriate information

Contribute to building social infrastructure by pharmaceutical industry
- Enrich product lineup, including biosimilars
- Promote collaborations with external partners for realizing a stable supply of generics

Specific initiatives for the 6th Medium-term Business Plan period	FY2024 progress
Enhance supply chain management ・Strengthen API procurement ・Improve production and supply capacities ・Optimize Towa-style Sales System ・Response in case of emergency (reserve capability)	Enhance supply chain management ・Establishment of Supply Chain Management Department ・Launch of initiatives to further streamline the pharmaceutical supply process ・Construction of manufacturing facility for highly potent APIs at Daichi Kasei ・Multiple procurement rate for APIs as of April 2025: 63% (Target: Maintain at 60% or above) ・Actual production volume for FY2024: Approx. 14.3 billion tablets ・Equipment installation at the Yamagata Plant's 3rd solid formulation building progressing as planned toward achieving annual production capacity of 17.5 billion tablets for FY2026
Strengthen pharmacovigilance and quality assurance	Strengthen pharmacovigilance and quality assurance ・Introduction of Quality Management System (QMS)
Enrich product portfolio	Enrich product portfolio ・New products in FY2024: Nine ingredients, 17 products ・Launch of Rivaluen® LA Patch 25.92 mg/51.84 mg, Japan's first twice-weekly sustained-release rivastigmine adhesive patch preparation, in May 2025
Disclose information in a proper / timely manner	

Stable supply structure

Details See pages 13 and 41

To establish a stable supply structure, we will set up systems to visualize and properly control the entire supply chain, from procurement of APIs to manufacturing, distribution, and sales. In this way, we will promote the enhancement of the supply chain with the aim of improving the stable supply structure for generics.

Effective April 2025, we have established the Supply Chain Management Department within the Corporate Strategy Division. This department will build a framework to manage processes within the supply chain, continue promoting sophisticated demand forecasting and risk management in response to changes in the environment, and oversee cross-departmental coordination.

Moreover, as an initiative to further streamline the pharmaceutical supply process, we are working with T Square Solutions Co., Ltd. to build a system to consolidate and visualize manufacturing and supply information, with the goal of reducing labor and accelerating decision-making.

Procurement of APIs

Details See page 41

To date, we have engaged in the in-house manufacture of APIs. Going forward, we will work to reduce the risks to stable supply by developing synthesis processes and manufacturing at our Group company, Daichi Kasei, or partnering companies. And, in August 2024, we constructed a manufacturing facility for highly potent APIs at Daichi Kasei equipped with advanced technology capable of handling the manufacture of highly potent APIs such as anticancer drugs. In addition, to combat the quality-related risk of mutagenic impurities, we will apply the latest knowledge in our efforts to reduce the risks in API procurement.

Production capacity enhancement

Amid growing concerns over the pharmaceutical shortage becoming a societal issue, we are constantly working to boost production capacity to fulfill our responsibility to ensure a stable supply. We completed construction of the Yamagata Plant's 3rd solid formulation building and 2nd sterile formulation building in November 2023, and began shipping products manufactured in the 3rd solid formulation building in April 2024. We are working to raise the annual production capacity of our three plants—Yamagata, Okayama, and Osaka—from 14 billion tablets as of the end of March 2024 to 17.5 billion by FY2026. We will achieve this by introducing new equipment and increasing staffing at the 3rd solid formulation building. Moreover, we will continue to strive for further supply capacity improvements by enhancing the efficiency of production at our three plants, scaling up equipment, effectively utilizing Group companies' equipment capacity, and increasing contract manufacturing with companies that possess rigorous production and quality management systems.

Production volume for FY2024 (Towa Pharmaceutical non-consolidated, tablets and capsules only) totaled about 14.3 billion tablets (a 5.6% year-on-year increase). Planned production volume for FY2025 is approximately 16.2 billion tablets (a 13.2% year-on-year increase). Furthermore, equipment installation at the Yamagata Plant's 3rd solid formulation building is progressing as planned toward achieving an annual production capacity of 17.5 billion tablets for FY2026.

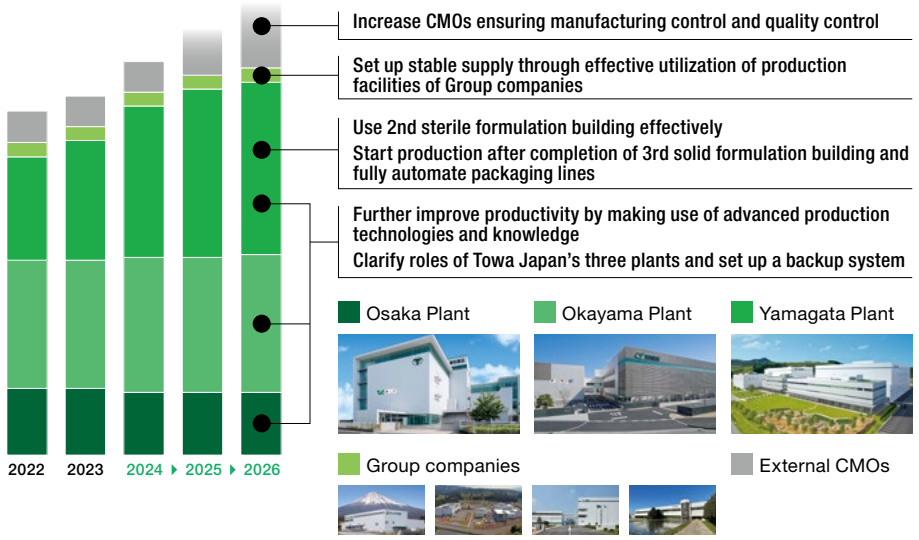
We believe it is important to establish a flexible system that allows for production increases during emergencies even in normal conditions. To ensure contingency preparedness, we are working to establish backup production systems that facilitates manufacturing across multiple sites. And we intend to level line utilization rates, ensuring all production lines maintain equal spare capacity.

Production capacity of 17.5 billion tablets/ capsules per year at Towa Japan's three plants

Production capacity of sterile products of 33 million V/A per year

*Calculation on production capacity for Japan

* Production setup referring to theoretical maximum production capacity based on plant buildings areas while production capacity referring to realistic production volume based on the numbers of production lines, products, and staff



Sales structure optimization

We have established a proprietary sales structure combining direct sales through its own sales offices with sales via agents and wide-area wholesalers. Moving forward, as the development of Comprehensive Community Care Systems progresses, we will optimize distribution and sales systems best suited to each region.

Pharmacovigilance & quality assurance

Details See page 42

As we strive to become a trusted company, we are committed to maintaining and enhancing our quality assurance structure. To further strengthen quality control, we have introduced a new QMS in addition to our existing MES and LIMS.

Enrichment of product portfolio

We are advancing the development of small-molecule pharmaceuticals considered necessary for future drug therapies, targeting a broad range of diseases including the gastrointestinal, metabolic, and cancer/immunology fields, where we anticipate significant growth. We will also work to optimize the drug lineup in light of future changes in drug therapies.

Policy 2 Establishing foundation for new markets / new businesses and realizing group synergies

Overseas generics business

Our overseas generics business is primarily conducted through Towa Pharmaceutical consolidated subsidiary Towa INT which is based in Spain. We provide generic drug products with over 300 ingredients in more than 30 countries worldwide, including Europe and the U.S. We will augment investments in R&D and facilities needed for future growth, while aiming to secure sales and segment profit by maintaining and strengthening our existing businesses and expanding markets and regions further.

Furthermore, Towa INT's Martorelles Plant manufactures Esomeprazole Capsules for Towa Pharmaceutical, evidence of production synergy. And, as part of creating R&D synergy, we have launched joint development. We will continue to foster inter-departmental communication and information sharing to build Group synergies in development and manufacturing technology.

5th Medium-term (2021–2023): Infrastructure development

- Expanded B2B business (39 countries)
- Started development of global products
- Promoted collaboration by utilizing Towa INT's manufacturing technologies

6th Medium-term (2024–2026): Ensuring business scale

- Secure sales and profits by maintaining and strengthening existing businesses and further expanding markets and business regions (55 countries or more)
- Create synergies by sharing development and manufacturing technologies among Group companies
- Make necessary investment in R&D and manufacturing facilities for the future

7th Medium-term and beyond (2027–): Expansion and diversification

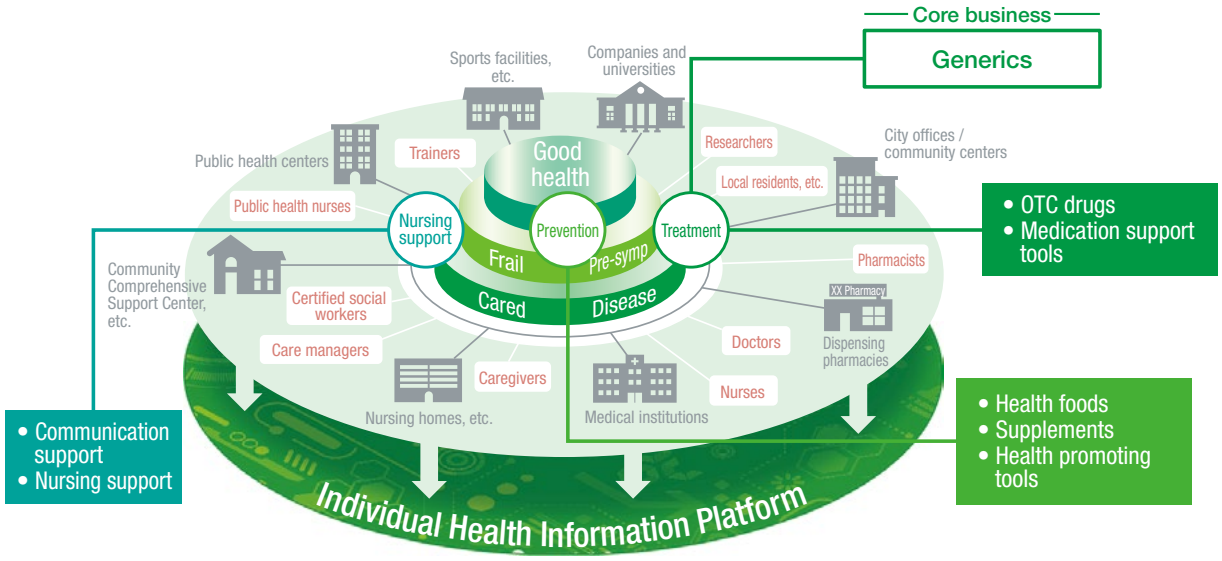
- Grow through enrichment of product portfolio
- Develop products by utilizing Towa's unique technologies
- Establish a global production system

Entry into new health-related businesses

In the roll-out of new health-related businesses, we are working on the creation of synergies with Group companies and existing businesses while continuing to explore new businesses and making investments within a certain cap, in our efforts to further enrich our lineup of products and services.

Through our partnership with TIS Inc. Ltd., we are working to promote Healthcare Passport, the cloud-based regional healthcare information coordination service which aims to connect individual medical and health information scattered across medical institutions and pharmacies, thereby contributing to regional healthcare. We aim to eventually utilize this as a lifelong platform for patients' medical and health information.

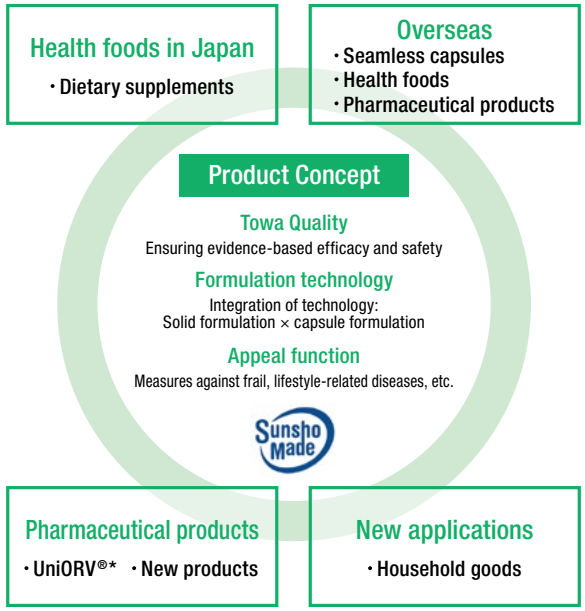
Based on Healthcare Passport (interactive health and medical information services) as a hub of this system, aim to realize "Exa Port" concept as a service solution



- Disseminate Healthcare Passport as a platform for linking regional medical and health information systems
- Contribute to Comprehensive Community Care System
- Further enrich lineup of products and services to maintain and improve health
- Create synergies among group companies and with existing businesses

Synergy with Sunsho Pharmaceutical

Sunsho Pharmaceutical specializes in utilizing soft capsule technology in developing health-related products, such as supplements, health foods, and other goods. For the creation of synergy with Sunsho Pharmaceutical, Towa Pharmaceutical will leverage the two companies' respective strengths. We will promote the joint development of Towa's original health foods and healthcare goods manufactured by Sunsho, focusing primarily on the Japanese market. In concrete terms, we are currently developing health-related products, including supplements and health foods utilizing soft capsule technology, among other goods.



*Feature of UniORV®: Coated particles consisting of gel containing active ingredient (API/compound) and outer layer of insoluble fine particles

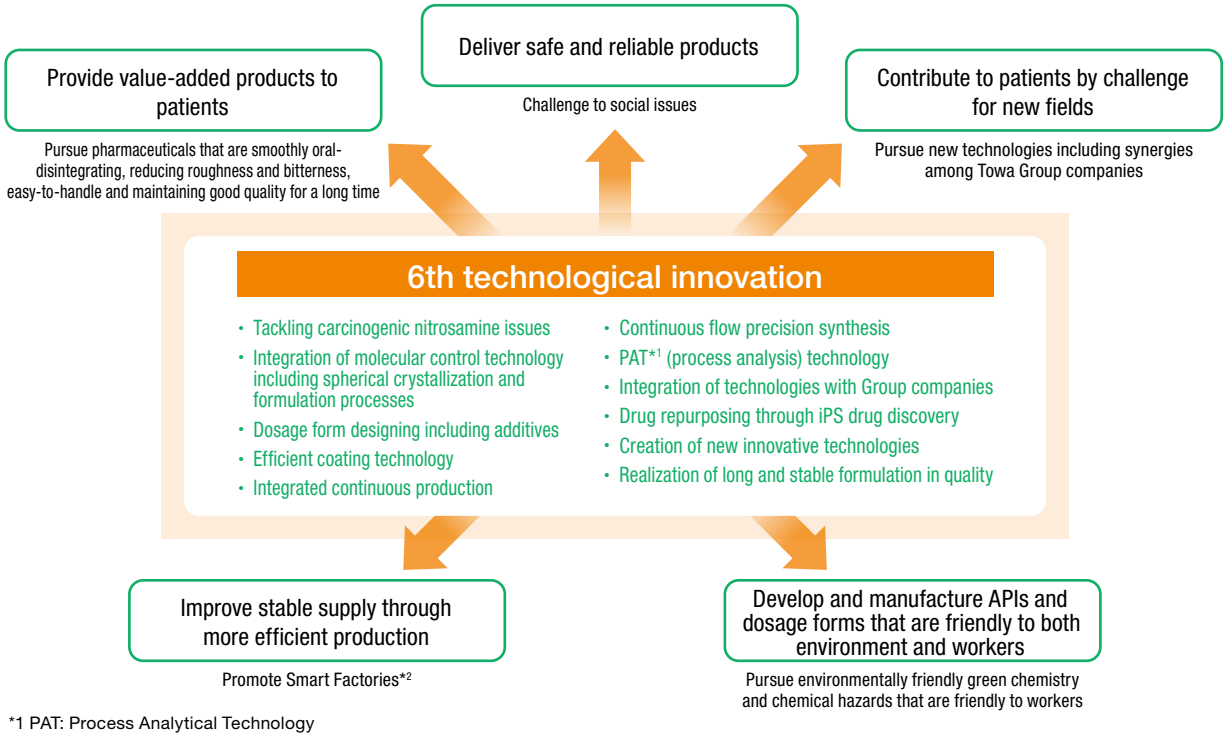
Policy 3 Strengthening sustainability management and building fundamentals for sustainable growth

Creating technology innovations and product values

We will continue our pursuit of technological innovation in API, formulation, and manufacturing technologies. Specifically, during the 6th Medium-term Business Plan, we intend to advance the commercialization of products incorporating new technologies. We continue pursuing the creation of products with No. 1 total product performance and Towa Quality, striving to provide patients with high-value-added products.

The Company has launched the Nox Think Tank Project to tackle nitrosamine issues and is proactively working to solve the social problem of nitrosamine contamination in pharmaceutical products. As an analytical method that enables more accurate assessment of contamination risk, the Company developed the Towa Amine Approach, which adds the "assessment of causative amines in APIs" to the "assessment of nitrosamines in pharmaceutical products." In December 2024, the Company published research results on a universal analytical method for controlling nitrosamine contamination in pharmaceutical products in the *ACS Omega*, a journal of the American Chemical Society. A series of studies led to the successful manufacture of atomoxetine tablets under conditions where NOx was reduced to 1 part per billion (ppb)—the first achievement of its kind worldwide —and of a formulation in which the nitroso-atomoxetine content was below the allowable limit. The results of this research were published in the *Organic Process Research & Development*, a journal of the American Chemical Society, in August 2025.

Additionally, in June 2025, as an initiative in drug repurposing using iPS-based drug discovery, we launched a corporate clinical trial targeting patients with familial Alzheimer's disease. Drug repurposing refers to the repurposing of existing drugs to develop them as treatments for new diseases. The Company has previously supported investigator-initiated trials by providing bromocriptine (investigational drug), an existing drug selected through iPS-based drug discovery. This time, we have decided to conduct a corporate clinical trial with the aim of evaluating bromocriptine efficacy and safety. Going forward, based on the results of the corporate clinical trial and while consulting with regulatory authorities, we will attempt to acquire regulatory approval for this investigational drug as a new pharmaceutical product.



*1 PAT: Process Analytical Technology
*2 Smart Factory: A plant that continuously uses digital technology to reform business processes and improve productivity and quality