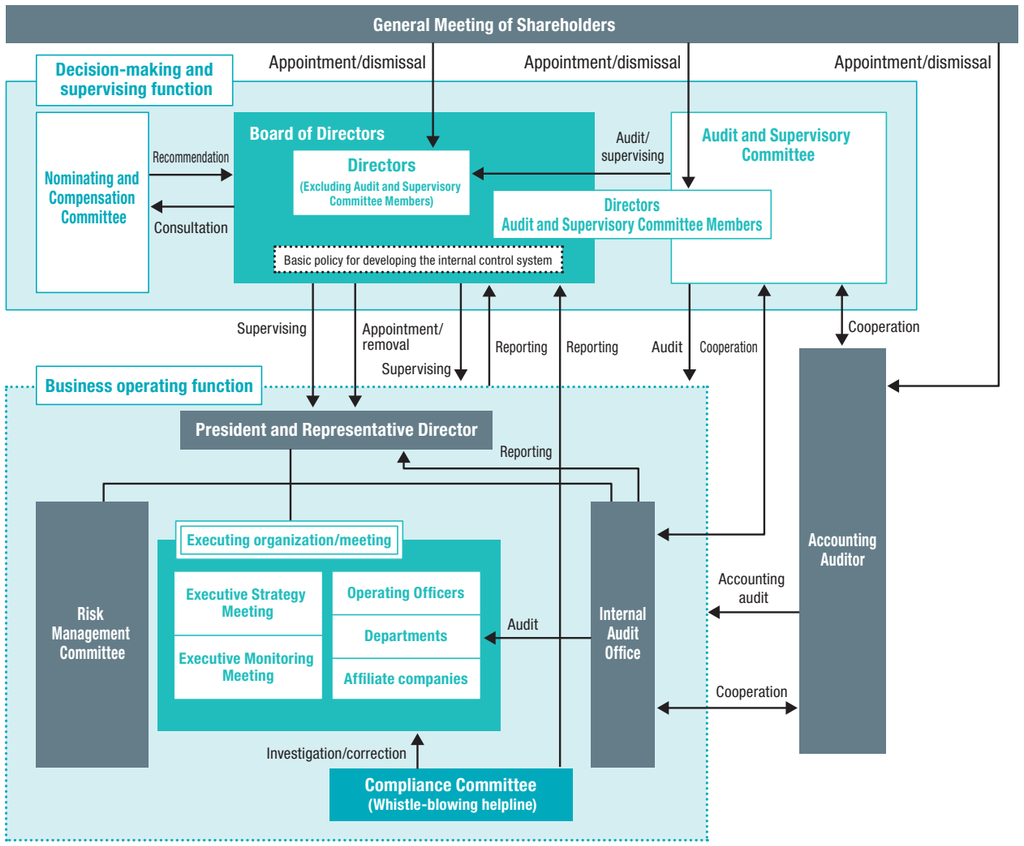
Basic approach

As an important issue, we focus on implementing a better corporate governance. By conducting business strictly in compliance with the ethical standard and improving 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.

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 2021 to analyze and evaluate the effectiveness of the Board of Directors. The survey used a questionnaire consisting of 19 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 19, 2021.

Although the survey showed no significant issues on the effectiveness as a whole, it reminded us that we need to discuss 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.

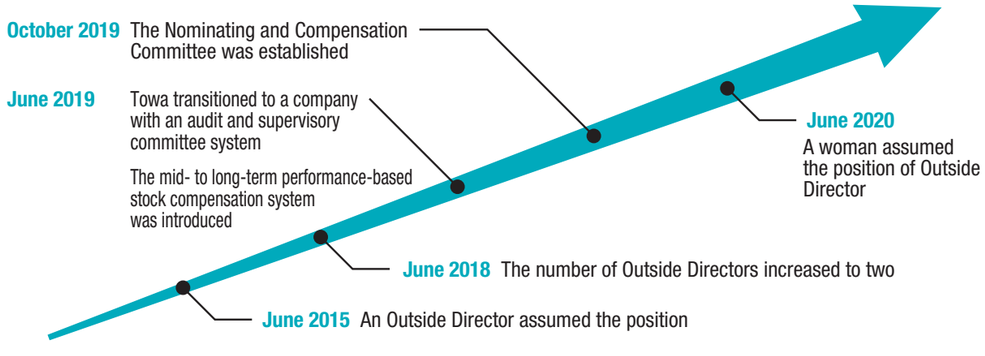
Roles and independence of Outside Directors

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

Name/position	Reasons for nomination	Attendance	
		Board of Directors meetings (held 13 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 10 times) 100%	Audit and Supervisory Committee (held 10 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.	—	—

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)	175	103	13	48	10	3
Directors (Audit and Supervisory Committee Members) (of which Outside Directors)	47 (24)	47 (24)	— (—)	— (—)	— (—)	4 (3)
Total (of which Outside Directors)	223 (24)	151 (24)	13 (—)	48 (—)	10 (—)	7 (3)

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, healthcare 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 managers 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 consists of 20 members including the President and Representative Director, the Senior Managing Director, Directors, Senior Operating Officers, Operating Officers, and Division Managers. In addition, the full-time Audit and Supervisory Committee Member attends meetings of the committee as an observer. The committee addresses the risks surrounding the Group promptly and appropriately to minimize the loss of stakeholders’ interests and impacts on corporate management when a risk occurs while preventing risks.

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, storage, 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

Response to the COVID-19 pandemic

The effects of the COVID-19 pandemic are minor within our group. However, should the effects prolong or worsen in the future, closure or shutdown of a particular business facility of our 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.

To address COVID-19, the group implements countermeasures for the following: workstyle (e.g., encouragement of working at home and staggered working hours and encouragement of holding online in-house and external meetings), preventing the spread of COVID-19 (e.g., review of meeting room capacity, installation of acrylic resin panels, and checking for individuals with fever using thermography cameras), and decreasing opportunities of exposure to COVID-19 (e.g., cancelation/postponement of business trips and events in principle). The Group will continue to implement appropriate countermeasures to ensure business continuity.

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. The Group has been striving to enhance and accumulate corporate strength to endure the impact of such risks.

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 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).

To address these risks, the Group collects information on patents and re-examination periods as well as facilitates collaboration among related departments. This helps us obtain approval for partial changes such as additional indications as soon as possible after the patent on a branded drug expires. At the same time, the information collected contributes to resolving discrepancies in indications by applying for partial change 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. To address the risk, 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 condition and business performance. To address the risk, 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

Owing to the drastic reform of the drug price system, drug prices will be revised every year, beginning in 2021. The Group’s financial condition and business performance 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. To address these risks, the Group aims to sell products at fair prices that match the value of the products while working to reduce cost by 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. To address these risks, the Group collects information on patents and facilitates collaboration among related departments, including the development department. 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 and raw materials from overseas manufacturers in foreign currencies. 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 derivatives transactions. Such transactions are subject to mark-to-market valuation at the time of financial closing, and valuation loss or gain may occur depending on the exchange rate and the interest rate trend in Japan and the US. 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.

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. To mitigate these risks, 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 Pensa Investments, S.L. (current trade name, Towa Pharma International Holdings, S.L.; hereinafter, “Towa HD”) in 2020. The Group’s financial status 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, likely delay in the progress of the integration process between Towa HD and us, or events unrevealed during due diligence. To address these risks, the Group strives to strengthen a global management structure through the integration process between Towa HD and us.

Compliance

Compliance policy

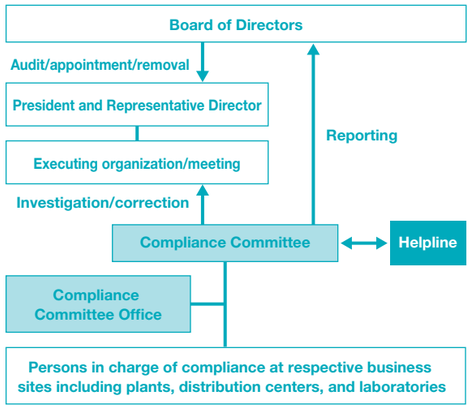
The Company is committed to ethical and law-abiding corporate behavior in accordance with the “Towa Group Code of Conduct.” We have established the Compliance Committee to conduct measures to raise compliance awareness of the officers and employees and provide them with training and education for the correct understanding of compliance. Furthermore, we develop and appropriately utilize a whistle-blowing system 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

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 system. It regularly reports the information from the officers and employees of the Group collected through the system 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 education

The Company conducts awareness-raising activities for the officers and employees on a daily basis under the leadership of the Compliance Committee. In addition, we set specific periods to promote compliance to take various measures across the Group. Specifically, the top management of the Company conveyed a message to the officers and employees on the importance of compliance. We also conducted a survey to ask the employees of the Group companies in Japan about issues to be addressed regarding their duties and compliance. This not only allowed each employee the opportunity to consider compliance but also allowed the Company to use their answers for measures to be taken in the future.

In addition, we conducted e-learning programs on harassment and whistle-blowing for the officers and employees. Furthermore, we developed a harassment prevention handbook and provided its copies to the Group companies as a measure for the prevention of harassment to respond to the amendment of the Labor Measures Comprehensive Promotion Act. For our subsidiaries overseas, we formulated the code of conduct to comply with laws and regulations, and shared it with those subsidiaries’ officers and employees.

Other than the above, we have been delivering easy-to-understand example cases through our group newsletters.

Group newsletters: What and Why for Compliance

Whistle-blowing helpline

The Company’s whistle-blowing system is used as a helpline shared within the Group companies in Japan. The Compliance Committee appropriately deals with the problems notified through the helpline while protecting whistle-blowers. Together with the monitoring by the Internal Audit Office, the system has contributed to prompt detection and correction of problems. We have also established and started operating whistle-blowing helplines in our subsidiaries overseas.

Message from the Outside Directors

Norikazu Eiki

Outside Director (Audit and Supervisory Committee Member)

An attitude of “people are all that matters, let’s be the nail that sticks up” as the starting point for corporate growth

For a company to grow stably over the long term, it is necessary for its organizations to contain a diverse group of people, rather than employees who are just cookie-cutter copies of one another. It has been six years since I took up my post as Outside Director, and during that time I have put my management experience at a pharmaceutical company to provide training for around 140 middle-managers, and during the training sessions, I have exchanged various opinions with them.

One of the Company’s standout strengths is the high level of trust and solidarity that its employees feel toward the Company and its management team. But on the flipside of that, I also feel that there aren’t many people willing to be the “nail that sticks up” [from the Japanese proverb: “The nail that sticks up will be hammered down.”]. In the face of upcoming major changes in the medical and pharmaceutical industries, it will be important for the Company to take on various challenges without fear of failure while respecting the strengths it already possesses.

Through human resource development, I hope that I can continue to play a part in enabling the Company to live up to its vision: We contribute to people’s health; We are dedicated to people’s genuine smiles.

Kaori Oishi

Outside Director (Audit and Supervisory Committee Member)

Leveraging my viewpoint as a lawyer to offer opinions concerning management issues

I have been worked a lawyer for 20 years, dealing with corporate disputes, M&A, and business restructuring. This is my second year as Outside Director of the Company, and the recent scandals in the generics industry have come unexpectedly, shaking confidence with respect to quality and stable product supply. The Company is thus facing a serious management challenge, namely to maintain the trust of the market.

The Company shares information with Outside Directors in a timely and precise manner, with the information covering the management issues it faces and its efforts to enhance corporate value, such as its entry into new health-related businesses. I recognize that it is my role to provide frank opinions from a legal and objective perspective based on the information shared with me.

Kenryo Goto

Outside Director (Audit and Supervisory Committee Member)

Genuine smiles and people’s health through honest and sound management

The concept of Towa Quality, namely to provide the world with products that rather than just meeting the quality standards required by law, actually offer the levels of quality and added value that are truly needed, and to keep updating the products so that they are the state of the art for the era, is similar to the maxim that informed me during my days at an audit firm to which I belonged: maintaining a sense of ethics that is a step higher than the rest of the world. I am therefore familiar with this sort of serious culture.

Abiding by this concept is not an easy task in the generics industry, which is still waiting to recover its credibility after the 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 not only in Japan but all over the world.

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, 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, Osaka Plant, Production Division
June 2013 Director / Deputy Division Manager, Production Division
April 2014 Director / Division Manager, 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

Directors

April 2009 Joined the Company / Deputy-General Manager, Internal Audit Office
April 2011 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, 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)

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 Portfolio 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, Bayer Yakuhin, Ltd.
January 2007 Chairman and Representative Director, Bayer Yakuhin, Ltd.
April 2010 Chairman and Director, Bayer Yakuhin, Ltd.
May 2014 Outside Director of AnGes MG, Inc. (currently AnGes, Inc.) (to present)
April 2015 Director of the Board, 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 the Board, Gene Techno Science Co., Ltd. (to present)
June 2019 Outside Director (Audit and Supervisory Committee Member) of the Company (to present)

Kaori Oishi

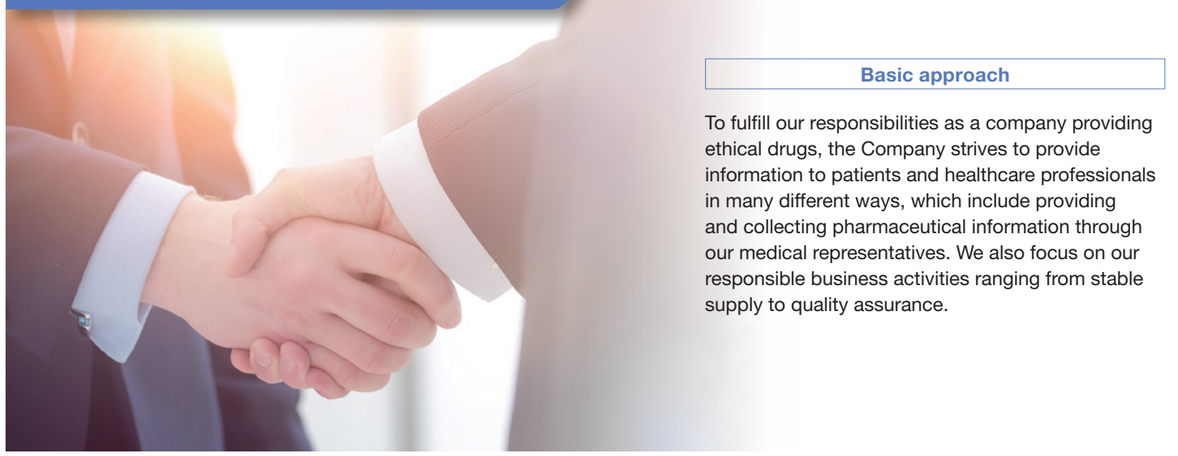
Outside Director (Audit and Supervisory Committee Member)

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)

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)
June 2021 Outside Director (Audit and Supervisory Committee Member) of the Company (to present)



Basic approach

To fulfill our responsibilities as a company providing ethical drugs, the Company strives to provide information to patients and healthcare 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 use 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.

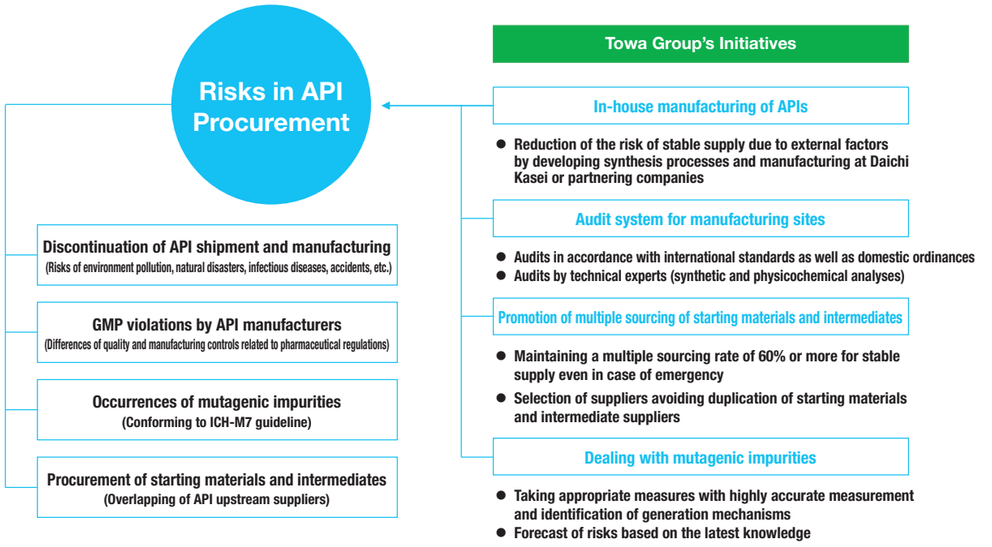
* QR code is a registered trademark of DENSO WAVE INCORPORATED.

Booklet to provide information

Stable Supply System

Stable supply is one of our important missions to be accomplished as an ethical drug manufacturer. We produce products in our three plants in Osaka, Okayama, and Yamagata under a two-shift operation system in case any plant shuts down due to a natural disaster, etc. A backup system of the three plants is being constructed in preparation for an emergency in any one plant, so that the other two plants can adopt a three-shift system.

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.

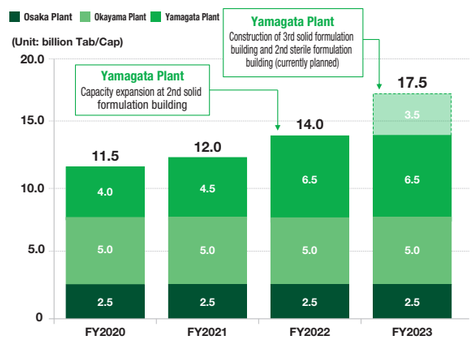


Production System

We currently have a production system capable of annual generics production of 11.5 billion tablets* at the three plants. To respond to a further increase in demand, we plan to increase production volume to 14.0 billion tablets by the end of FY2022, build the 3rd solid formulation building in Yamagata Plant by the end of FY2023, and achieve the production capacity of 17.5 billion tablets from FY2024 onward.

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. The three plants take pride in the advanced facilities to ensure high quality and stable supplies, supporting our confidence in the future.

*Production capacity of tablets and capsules

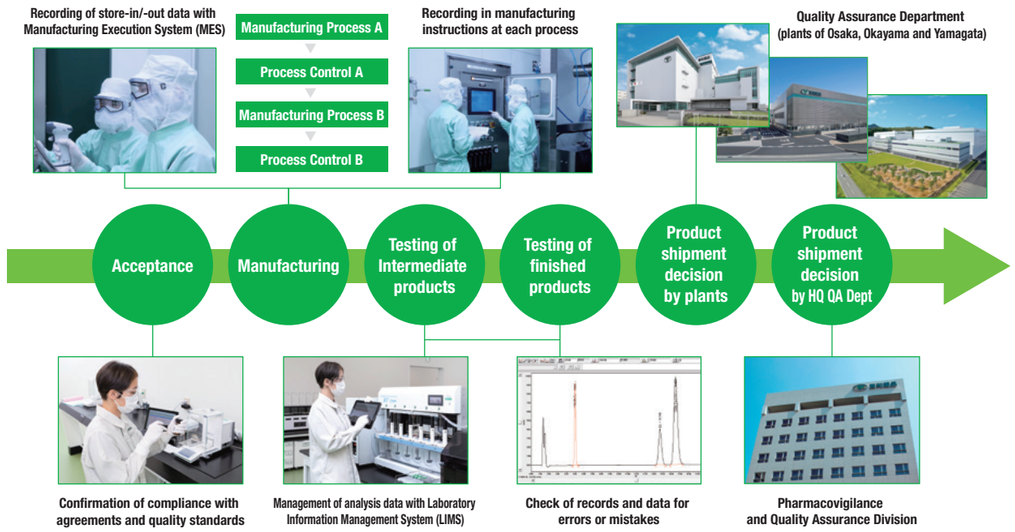


Targeting production capacity of 17.5 billion tablets/capsules per year by the end of FY2023

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, marketing, and after-sale 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 system and training programs from the perspective of "minimizing human error," one of the GMP three principles.

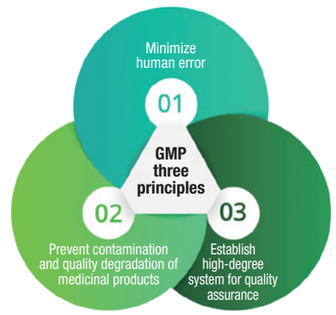


GMP Three Principles

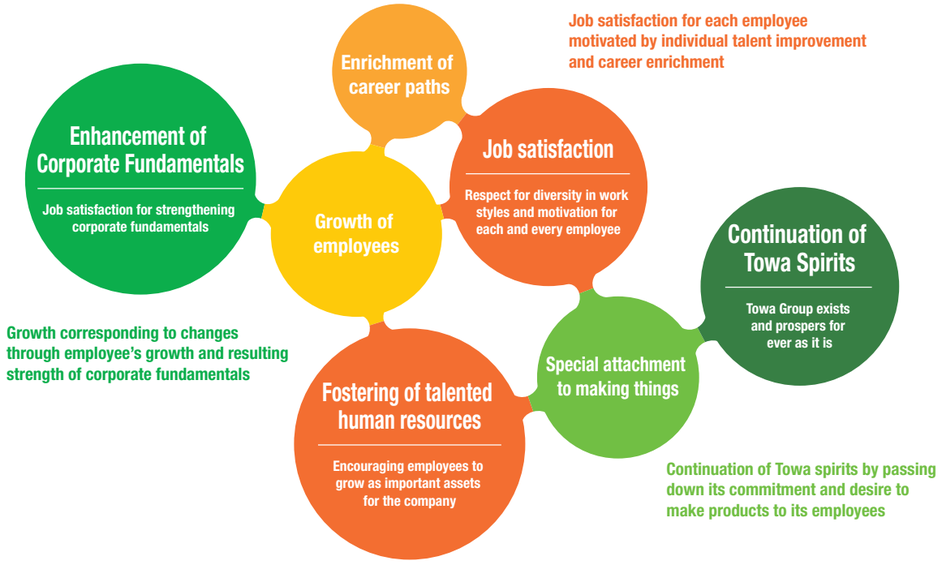
Pharmaceuticals production is based on Good Manufacturing Practice (GMP), the standards for manufacturing control and quality control for drugs laid down by the nation.

The following three principles are stipulated in the GMP:
(1) minimizing human error,
(2) preventing contamination and quality degradation of medicinal products, and
(3) establishing high-degree system for quality assurance.

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 always required at a higher level.



Making job satisfaction and fostering talented human resources



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 mid- 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 healthcare 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 system. 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.

Health and Productivity Management

We promote health and productivity management and have an organization responsible for company-wide safety and health management. We perform various activities for creating a worker-friendly environment, promoting employees' mental health, and enhancing employees' health.

In March 2021, we were recognized as one of the Certified Health and Productivity Management Outstanding Organizations for four consecutive years. We will continue to perform various activities for promoting employees' and their family members' health.

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.

TOPICS

I was able to take satisfying parental leave thanks to cooperation by people around me

Shuhei Yamamoto

Deputy General Manager, Purchasing Planning Department, Purchasing Division

When my wife gave birth to our third child, I took parental leave of four weeks to help reduce my wife's burden because our first and second children are twins still at age of four. I started consulting with my boss and co-workers and made preparations four months before taking parental leave. My boss, team members and other employees around me were cooperative, so I smoothly handed over my work. During parental leave, I struggled with raising our children at first, but when I got used to it, I was able to do it naturally. I feel that it was worth taking parental leave because during the four-week period, I was given an irreplaceable opportunity of spending time with our newborn and I was able to support my wife having a hard time after childbirth. I hope that more employees are aware of parental leave and that childrearing employees can have more options.

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 second time in FY2020. 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.

Introduction of Music Therapy Videos

In January 2021, we released music therapy videos titled "Music and Mind—For Everyone's Smiles—" on our homepage. Music therapy is psychotherapy using the nature of music and one of the non-pharmacological therapies for diseases including developmental disabilities, dementia, and mental illness. We released the videos as part of our efforts to provide useful information to help people prevent disease and maintain their good health.

Well-care Exercise Programs

We released a website called "Well-care Exercise Programs" on our homepage to introduce exercise programs, which are designed to support people's mental health. The website introduces several exercise programs with different intensity levels developed under the supervision of the Japanese Association of Sports Psychiatry with the slogan "Anybody can easily enjoy at anytime and anywhere," allowing people to do exercise according to their physical strength.

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.

Reducing CO_2 through warm water generation by using waste heat from large refrigerators

Dehumidification with cold water is essential for controlling air conditions in clean rooms. Yamagata Plant has introduced a double-bundled centrifugal refrigerator, a type of large chiller to produce cold water. This equipment can generate warm water by collecting and using heat that is normally discarded. This enables us to reduce CO_2 emissions by about 24% compared to the conventional method of generating warm water using steam from boilers.

Double-bundled centrifugal refrigerator

Installing photovoltaic power generation facilities covering about 1,000 households

West Japan Distribution Center in Okayama Prefecture has installed photovoltaic power generation facilities on the roofs of the facilities and produced electricity since 2012. In 2014, the Center added another photovoltaic installation with generating capacity of up to 1.5 MW using idle land on its premises. Together, the Center is now able to generate about 3.16 million kilowatts of electricity annually. This is about 1,000 households worth of electricity demand.

Photovoltaic power generation facilities in the West Japan Distribution Center

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.