



Itsuro Yoshida
President and
Representative Director

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

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

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

Japan's social security expenses, continuing to rise year by year, are expected to reach about JPY 140 trillion by 2025. As one of the measures to suppress medical costs without lowering the quality of healthcare, the Japanese government has promoted the use of generic drugs since the early 2000s. With the business model of manufacturing and selling generic drugs as its core business, Towa has

been striving to contribute to the suppression of healthcare costs. Of the pharmaceutical products consumed in a year, simply switching medication to generic drugs, where it is possible to do so, would help reduce the costs by about JPY 1.9 trillion, thereby lightening the load on the country and health insurance societies.

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

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

- 1 To contribute, even in some small way, to global issues, as represented by the SDGs.
- 2 To play a part as a corporate citizen in contributing to Japan's future challenge of becoming a world leader in science and technology with competitive edge in new

industries.

- 3 To contribute to strengthening and maintaining Japan's future social security system for all generations.
- 4 To contribute to creating new mechanisms for future regional communities and their revitalization.
- 5 To complete Towa's health information platform as a social infrastructure for health, and contribute to extending the healthy life expectancy of all people.

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

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

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

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

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



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

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

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

In putting in place a structure for increased production, it is important that we earn people's trust in Towa's

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

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

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

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

I talked earlier about the evolution of generic drugs over

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

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

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

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

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

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

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

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

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

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

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

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



Inspection of manufacturing and packaging facilities (Yamagata Plant)



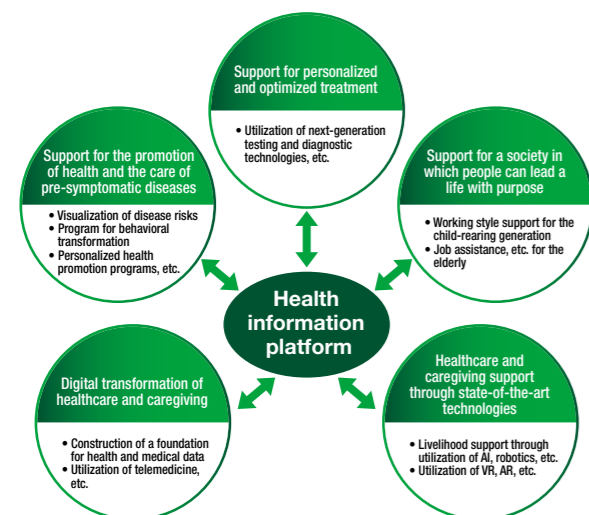
Messages related to compliance with laws and regulations, as well as quality control and manufacturing control (Yamagata Plant)

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

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

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

Building an Individual Health Information Platform



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

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

Two keys to sustainable management—talented human resources and innovations

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

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

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

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

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

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

in an environment in which they can hope to experience “genuine smiles.” Meanwhile, Japan has maintained a society of peace, freedom, and equality, and thus, is fully eligible for enjoying “genuine smiles.”

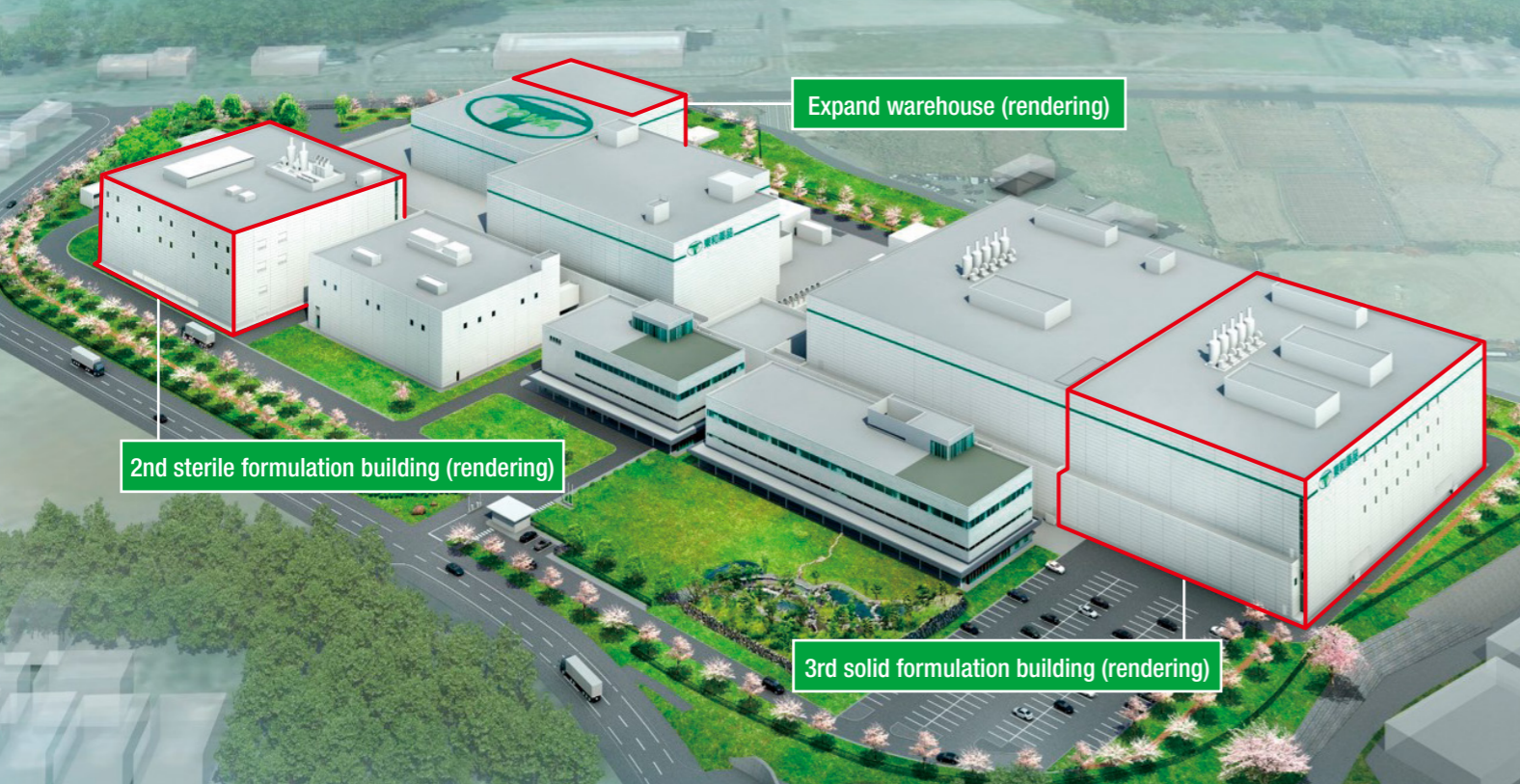
For Japan to remain like it is today, one of the contributions that the Towa Group can make through its business activities is to contribute in part to building the competitive edge of industries in Japan and demonstrate its strong presence in the healthcare industry. We believe this is achievable by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

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

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

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





Expansion of production capacity at Yamagata Plant

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

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

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

The 3rd solid formation building is expected to have a production capacity of 3.5 billion tablets, which boosts the production capacity at Yamagata

Plant to 10.0 billion tablets and the total production capacity of Towa's three domestic plants to 17.5 billion tablets.

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

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

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

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



Kazuhiko Konno
Senior Managing Director

Feature Topic

01

Production capacity expansion

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

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

Fulfilling our mission to ensure a stable supply of pharmaceuticals

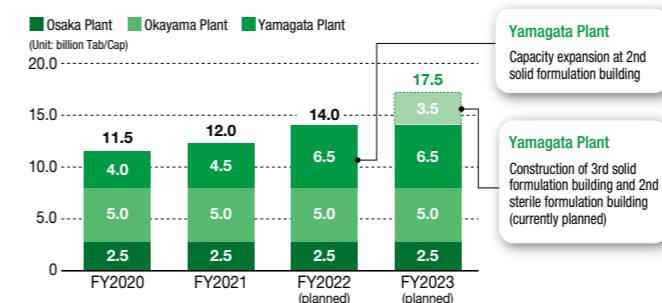
In recent years, the environment surrounding the generics market has remained harsh, as multiple generics manufacturers were ordered to suspend their operations due to their violation of Good Manufacturing Practice (GMP; the standard for manufacturing control and quality control of pharmaceutical products).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

In response to this issue, with a sense of mission, we have been making company-wide efforts to increase our production for a stable supply of generics. For systematic and efficient production, we consider various factors, including market demand, the procurement of raw and

other materials, the utilization rate of our manufacturing facilities. In addition, alongside the introduction of new machines and facilities and the expansion of our plant buildings, we have been increasing the number of employees and improving our training system in preparation for the expansion of the production capacity.

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

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



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

Making steady strides toward increasing the production

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

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

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

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

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

We are also discussing the feasibility of transferring the manufacture of some products that we have

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

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



Shigehiro Kubo
Senior Operating Officer in charge of
International Business Division

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

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

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

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

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

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



Business expansion through collaboration with Sunsho Pharmaceutical

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



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

Our Value Creation Process

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

Social Issues

Extension of healthy life expectancy and disease prevention

Production of high-quality pharmaceutical products

Quality assurance and stable supply of pharmaceutical products

Better accessibility to primary healthcare services

Application of advanced technology to healthcare services

Improvement of working environment

INPUT Business Capital

Financial capital

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

Manufactured capital

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

Intellectual capital

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

Human capital

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

Social and relationship capital

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

Natural capital

- Energy input: 20,203 kl (crude oil equivalent, Towa's 3 plants)
- Water usage: 278,060m³ (Towa's 3 plants)

Towa Quality

Manufacture of sophisticated products with No. 1 total product performance

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

Corporate Governance (Compliance and Risk Management)

Our Commitments (T-SMILE)

Vision

Foundations supporting value creation

OUTCOME

Towa Group's value proposition

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

Enhancing generics business as a core

Expanding and growing business in overseas markets

Entering new health-related businesses

Creating technology innovations and product value

Making job satisfaction and fostering talented human resources

Social Impact

Extending healthy life expectancy of more than 7 billion people around the world

Controlling healthcare costs of the government, administrative agencies, and local communities

Maintaining sustainable healthcare system

Genuine smiles

People's health

External Environment Surrounding Towa Group

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

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

Furthermore, in the "Basic Policy on Economic and Fiscal Management and Reform 2020," the government says it will "protect people's lives, livelihoods, jobs, and businesses" to achieve the "New Future in the post-pandemic." The government also envisions achieving a "New Normal Lifestyle" by

a full speed revolution at a stroke that would take 10 years under normal circumstances. Achieving a high-quality economic society in the "New Normal Lifestyle" is set as a goal for the New Future in the post-pandemic.

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

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

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

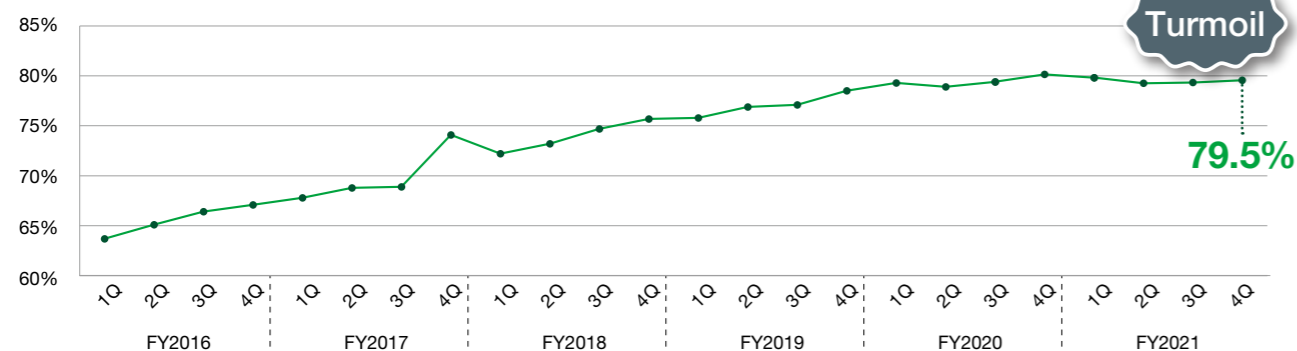
Under such circumstances, the Ministry of Health, Labour and Welfare mentioned that the industry would never gain understanding from patients and Medical professionals only by setting new numerical targets for generics. In order to regain public

confidence in generics, the entire industry shall implement measures for ensuring a stable supply based on thorough manufacturing and quality management.

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

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

Generics volume share



Towa Group's Capital

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



Financial capital

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

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



Manufactured capital

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

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



Intellectual capital

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

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



Human capital

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

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



Social and relationship capital

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

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



Natural capital

- Energy input: **20,203** kl
(crude oil equivalent, Towa's 3 plants)
- Water usage: **278,060** m³ (Towa's 3 plants)

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

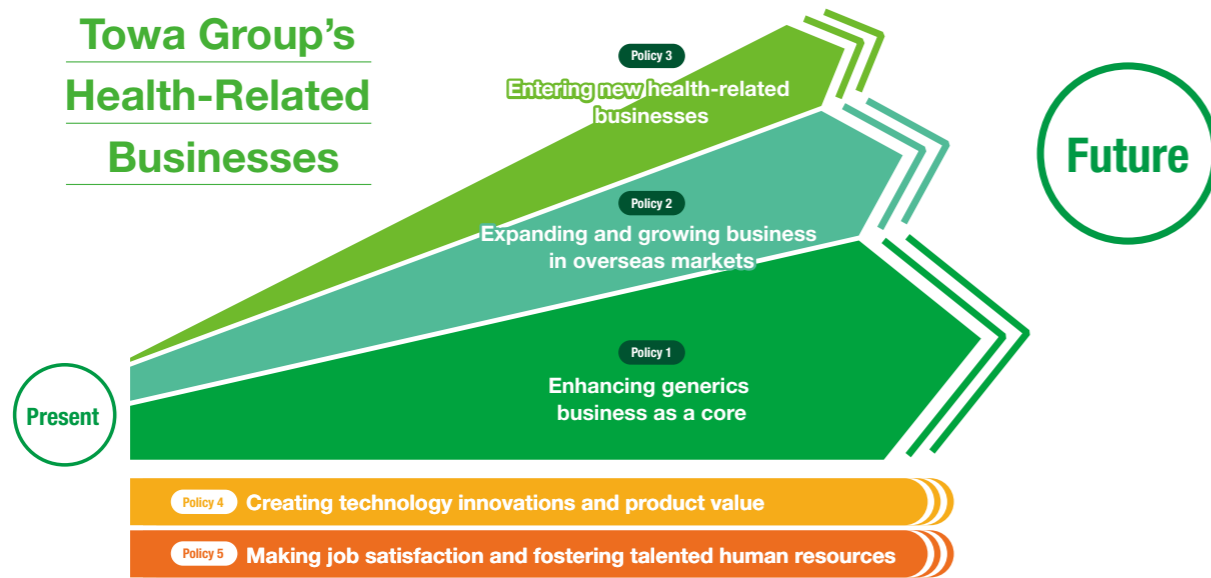
Mid-term Business Plan
2021–2023

PROACTIVE II

Under our 5th Mid-term Business Plan 2021–2023 PROACTIVE II (the “Mid-term Plan”), the Group will be developing health-related businesses in line with five policies as shown in the diagram below. With our domestic generics business, which is our core business, we will be aiming to make an even greater contribution as we move forward into the future. And as for overseas markets, we will be expanding the number of countries and territories in which we offer

the Group’s products. Furthermore, in the realm of new health-related businesses, we are embarking on a new era, so will be steadily doing what’s necessary as we look ahead to the future.

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



Challenges	Policy	Key Theme
Securing stable supply and providing appropriate information based on thorough manufacturing control and quality control to restore trust in generics Being a more trusted and needed company as a comprehensive generics manufacturer	[Policy 1] Enhancing generics business as a core	<ul style="list-style-type: none"> Stable product supply Stable API procurement Enhanced production capacity Optimized Towa Sales System Quality assurance Broad product lineup Manufacture of sophisticated products with No. 1 total product performance
Delivering high-quality, value-added generics to contribute to the health of people around the world	[Policy 2] Expanding and growing business in overseas markets	
Contributing to the realization of healthcare and nursing care for society with long and healthy life expectancy and also to society that shifts from medical care to care of pre-symptomatic disease care and prevention	[Policy 3] Entering new health-related businesses	<ul style="list-style-type: none"> Entry to Disease risk testing service business
Contributing to society by constantly supplying the Towa Quality products and achieving sustainable growth	[Policy 4] Creating technology innovations and product value	
Continuing to be an ever-growing company that provides job satisfaction to each and every employee through growth of both the company and its employees	[Policy 5] Making job satisfaction and fostering talented human resources	

Progress with implementation of Mid-term Business Plan

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

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

we will need to handle once output is increased.

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

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

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

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

Policy 1 Enhancing generics business as a core

Stable product supply

To maintain and strengthen a Stable product supply, we will emphasize the perspective of supply chain management, and will share information and encourage cooperation across departments to optimize the entire system. In this way, we will move ahead with risk-adapted initiatives. Specifically, we will

provide Towa products to medical institutions, pharmacies, and patients, who need the products, by increasing production capacity through our three-plant production structure and by optimizing the Towa Sales System. In particular, we will be pursuing initiatives that take into account the risks in API procurement.

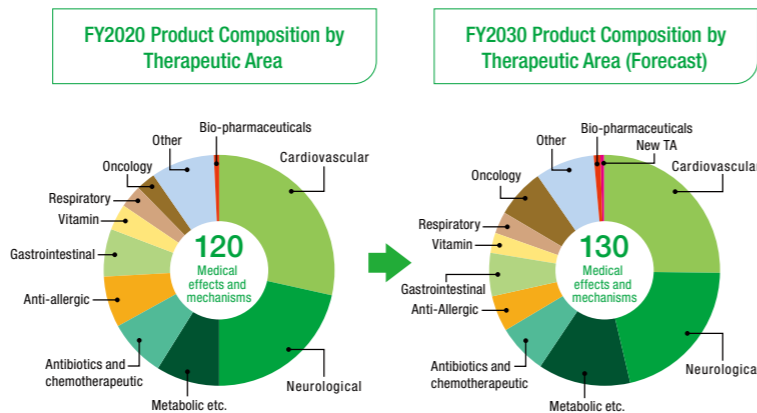
Quality assurance system

Throughout manufacturing and quality control processes, we will comply with GMP, GQP, and GVP ministerial ordinances and the GDP guidelines to maintain and strengthen our quality assurance system. In every process from the acceptance of APIs to the testing of intermediate

products, the testing of finished products, product shipment decision-making by plants, and product shipment decision-making by the HQ QA Dept, we will strengthen our management systems and schemes, and continue to work to ensure reliable quality and safety.

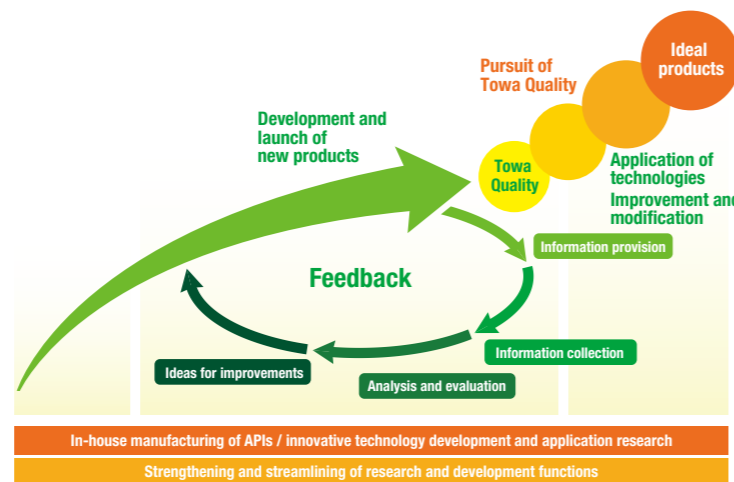
Broad product lineup

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



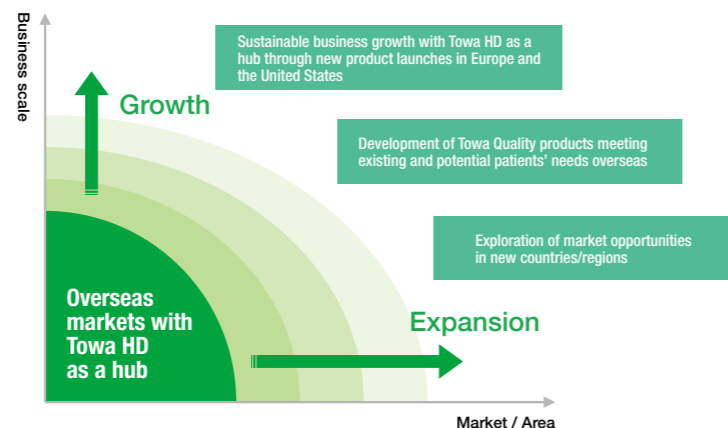
Manufacture of sophisticated products with No. 1 total product performance

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



Policy 2 Expanding and growing business in overseas markets

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



Policy 3 Entering new health-related businesses

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

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

Another product is comuoon, an interactive support device. This is a revolutionary system based on a concept that is the reverse of the notion that people

who are hard of hearing should find ways to hear better. Instead, it is about making the person speaking more easily heard. It is now being used in an increasing number of settings, including medical institutions, pharmacies, and nursing homes.

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

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



Muscle Suit Every



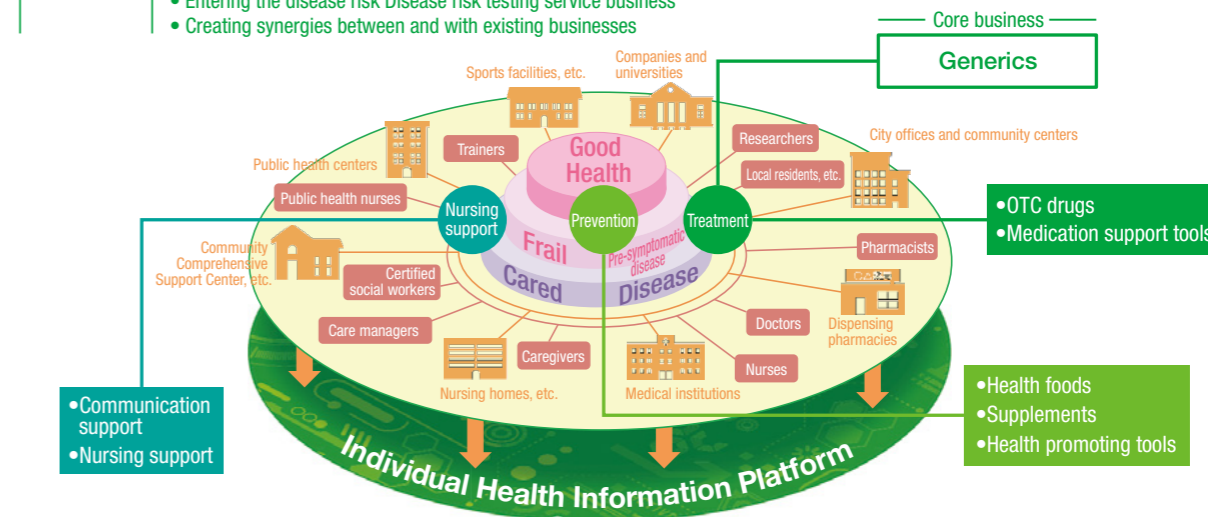
comuoon



Hana Support

Key measures

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



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

Policy 4 Creating technology innovations and product value



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

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

Sunsho Pharmaceutical, which is now a Group company, constructed an Innovation Center to serve as a R&D base for enabling the development of state-of-the-art pharmaceutical formulation technologies. The company also possesses advanced drug formulation and capsule technologies such as

UniORV® technology, and we are aiming for innovation by integrating them with our own RACTAB® technology.

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

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

API Technology	Formulation Technology
<p>Establishment of molecular control technology</p> <ul style="list-style-type: none"> Freely controlling crystal form and particle size of APIs Contribution to the development of value-added products <p>Establishment of chiral synthesis technology</p> <ul style="list-style-type: none"> Enabling efficient API synthesis <p>Development of continuous flow precision synthesis</p> <ul style="list-style-type: none"> Pursuing green sustainable chemistry with wastes reductions and low CO₂ emissions as key initiatives 	<p>Pursuing OD tablets that are easy to take</p> <ul style="list-style-type: none"> Further improvement of RACTAB Masking technology to reduce bitterness, miniaturization of tablets, and better oral disintegration <p>Realization of stable formulations</p> <ul style="list-style-type: none"> Development of formulations stable in term of heat, light, moisture, and oxygen Assurance of expiration period of formulation for three years or more
Manufacturing Technology	Creation of New Product Value
<p>Establishment of technology to monitor products in real time (PAT: Process Analytical Technology)</p> <p>Application to integrated continuous manufacturing system</p> <ul style="list-style-type: none"> Production carried out under an integrated flow leading to labor saving Smaller manufacturing facilities and occupation area 	<p>Joint research aimed at obtaining a new indication for Bromocriptine</p> <ul style="list-style-type: none"> Clinical trials for familial Alzheimer's disease started <p>Development of new Rivastigmine formulation</p> <ul style="list-style-type: none"> Development of transdermal system twice-a-week medicine Hope for reducing the burdens on patients, their families, and caregivers Phase III clinical trials started in the summer 2021

Policy 5 Making job satisfaction and fostering talented human resources



As the growth of employees leads to the strengthening of corporate fundamentals and facilitates growth corresponding to change, we are working to establish an environment for the enhancement of corporate fundamentals. In connection with this, we are aiming to create workplaces where there is respect for

diversity in work styles and motivation for each and every employee. We also view our employees as vital investment resources and assets for the Company, and are stepping up fostering talented human resources who can make an impact as we pursue growth.

Towa Group's Target Business

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

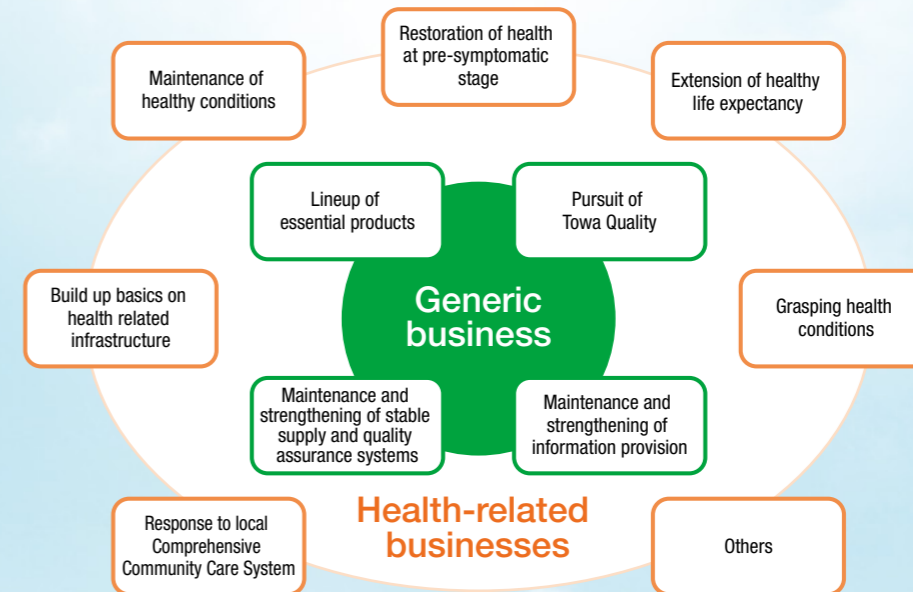
Under the 5th Mid-Term Business Plan, we will maintain our vision while expanding the scope of our business to include health-related businesses. Nevertheless, our core generic business in Japan and overseas will maintain its central role in our operations.

In this core business, we will further strengthen and utilize the results of all the efforts we have made so far. Based on the premise of "pursuit of Towa Quality," we will strengthen our "Assortment of needed products" to meet the demands of society as

a comprehensive generics manufacturer. In addition, we will maintain and strengthen our system to provide a stable supply of products that meet quality standards and to deliver information on safety and quality in a timely and accurate manner.

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

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



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

SUSTAINABLE DEVELOPMENT GOALS

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

