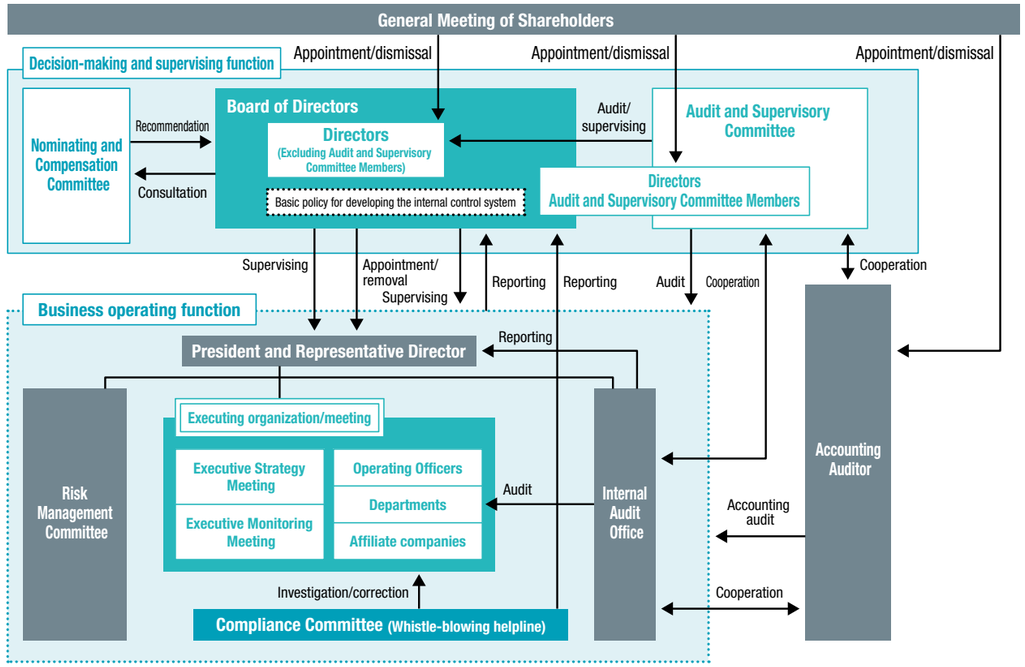
Basic approach

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

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

Overview of the corporate governance structure



Enhancement of the corporate governance structure

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

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

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

Board of Directors

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

Audit and Supervisory Committee

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

Nominating and Compensation Committee

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

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

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

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

Skill matrix

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

Roles and independence of Outside Directors

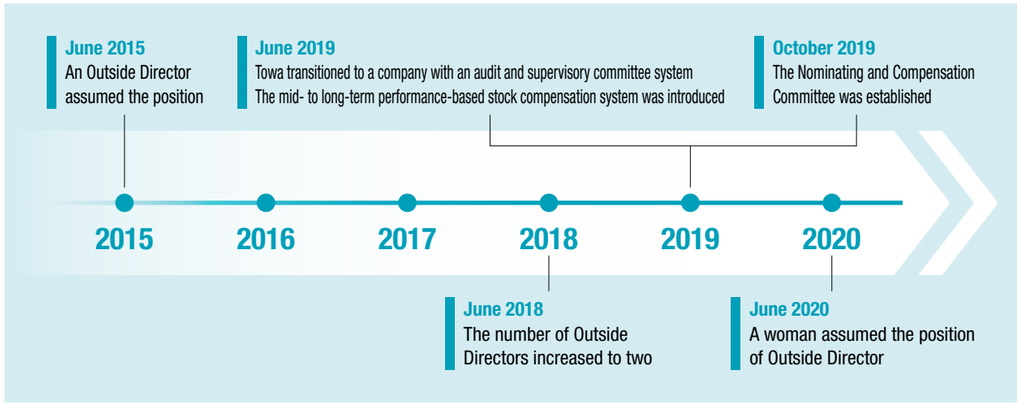
The Company believes that fair and efficient corporate management can be achieved through Outside Directors' advice and opinions on sound and efficient management. The Company has established the Nominating and Compensation Committee as an advisory body to the Board of Directors in order to further enhance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

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

Reasons for nomination of Outside Directors

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

History of Towa's corporate governance



Compensation for officers

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

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

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

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

Total amount of compensation for Directors

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

Cross-shareholdings

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

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

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

Dialogues with stakeholders

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

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

Risk Management

Basic approach to risk management

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

Risk Management Committee

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

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

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

Related information on page 46

Information security

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

Disaster countermeasures

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

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

Fire evacuation drill

Risks in the competitive environment, etc.

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

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

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

Risk Information

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

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

Compliance

Compliance policy

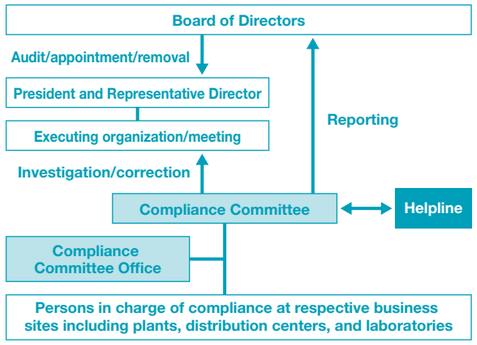
The Group is committed to ethical and law-abiding corporate behavior in accordance with the “Towa Group Code of Conduct.” We promote measures as well as training and education to raise compliance awareness of the officers and employees. Furthermore, we develop and appropriately utilize a whistle-blowing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

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

Compliance structure

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

Overview of the compliance structure



Compliance activities/education

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

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

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

Whistle-blowing helpline

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

Message from the Outside Directors

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

Norikazu Eiki
Outside Director (Audit and Supervisory Committee Member)

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

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

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

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

Kaori Oishi
Outside Director (Audit and Supervisory Committee Member)

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

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

Kenryo Goto
Outside Director (Audit and Supervisory Committee Member)

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

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

Board Members

Itsuro Yoshida

President and
Representative Director

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

Kazuhiko Konno

Senior Managing Director

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

Masao Tanaka

Director

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

Toshio Shirakawa

Director (Full-time Audit and
Supervisory Committee Member)

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

Norikazu Eiki

Outside Director (Audit and
Supervisory Committee Member)

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

Kaori Oishi

Outside Director (Audit and
Supervisory Committee Member)

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

Kenryo Goto

Outside Director (Audit and
Supervisory Committee Member)

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

Basic approach

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

Responsible Business Activities

Information Provision by Medical Representatives

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

Information Provision by DI Center

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

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

Information Provision via Websites

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

Information Provision to Promote the Correct Uses of Medicines

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

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

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

Booklet to provide information

Stable Supply System

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

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

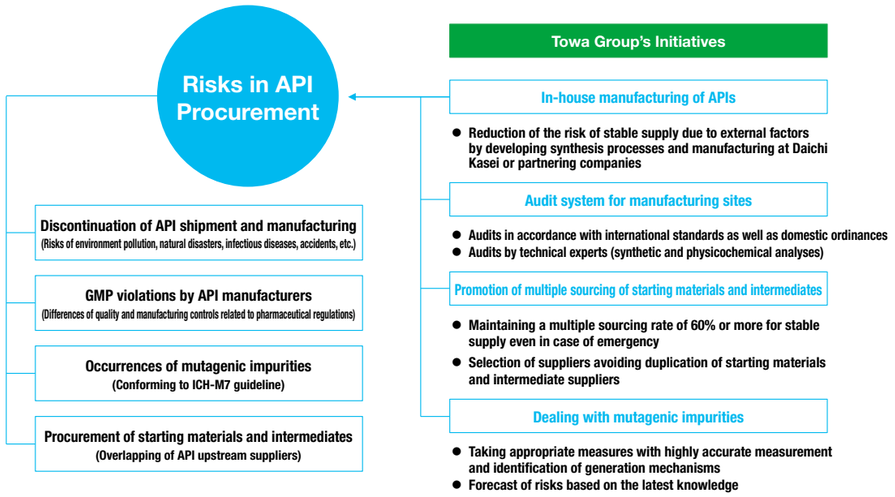

Osaka Plant


Okayama Plant


Yamagata Plant

Our Efforts for Stable API Procurement

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



Quality Assurance System

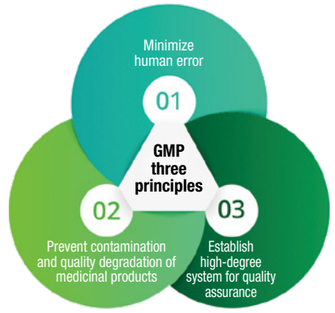
Strict quality control standards established by the national government apply to all processes of ethical drug manufacturing operations. In order to be a trustworthy company, we carry out company-wide quality control initiatives ranging from product R&D, manufacturing, and marketing to after-sales operations,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

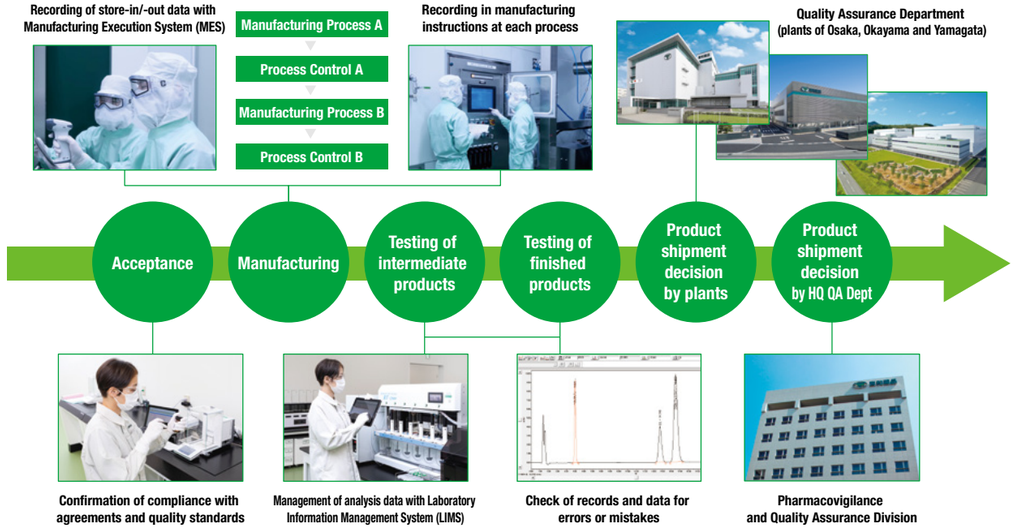
In the 5th Mid-term Business Plan, Policy 1 is "Enhancing generics business as a core." Under the policy, one of the key themes is further strengthening the quality assurance system in order to be a more trusted and needed company as a comprehensive generics manufacturer. Under the quality assurance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

GMP Three Principles

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

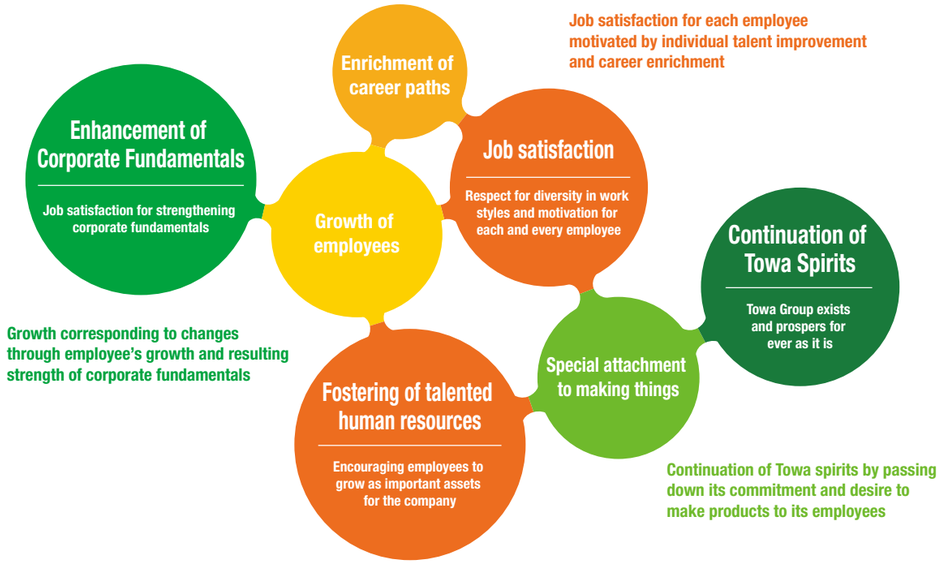
The Company has put in place procedures compliant with the GMP three principles in all of our plants in Yamagata, Osaka, and Okayama, and strives to manufacture reliable-quality pharmaceuticals.





Product Taste Research Office

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



Career Development Support

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

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

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

Our Commitments (T-SMILE)

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

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

Medical Representatives

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

Original Qualification Systems

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

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

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

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

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

Our Efforts for Diverse Work Styles

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

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

Towa Health Challenge 2021

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

TOPICS

My vision became clear after having a career development meeting

Yuki Takaira

Sales and Marketing Planning Department, Sales and Marketing Division

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

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

Social Contribution Activities

Company-sponsored Daycare Centers

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

On-demand Lectures

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

High School Student Business Contest

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

Positive Fitness

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

Towa Mini Clinic Series

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

Foundation Supporting Business: Environment

Basic approach

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

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

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

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

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

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

Changing boiler fuel at Okayama Plant to LNG

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

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

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

Realizing an eco-friendly manufacturing method of APIs

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