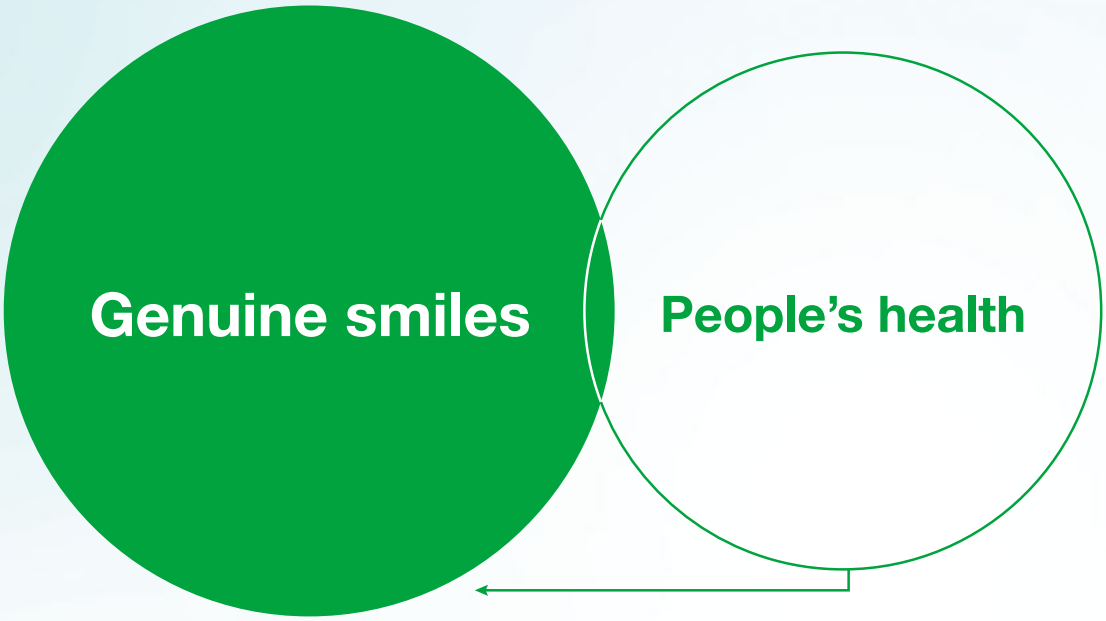
TOWA PHARMACEUTICAL

INTEGRATED REPORT 2023

TOWA PHARMACEUTICAL

Philosophy

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



Supporting genuine smiles through everything that is contributing to health

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

TOWA PHARMACEUTICAL

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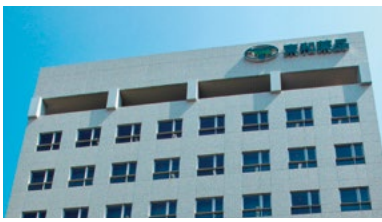


[Editorial Policy] We issue Towa Pharmaceutical Integrated Report to communicate to shareholders, investors, and other stakeholders Towa Group's efforts to enhance our corporate value. In this issue, feature topics cover the Group's initiatives to stably supply generics, strengthen human capital management, and work on the global environment and occupational health and safety. In addition, the sections titled "Our Value Creation Process" and "Message from the President" outline our value creation story and 5th Mid-term Business Plan 2021–2023 PROACTIVE II. We strive to improve the content of our report to respond to various opinions and interests of our stakeholders. We look forward to your candid feedback.

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

[Period Covered] FY2022 (From April 1, 2022 to March 31, 2023)
Note: The financial information is as of March 31, 2023. The report also covers some initiatives that were taken before April 1, 2022 or after March 31, 2023.

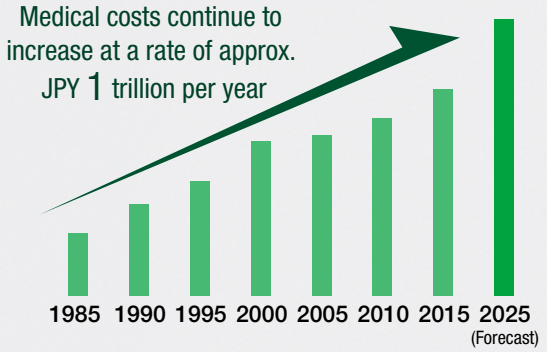
[Guidelines for Reference] IFRS Foundation's International Integrated Reporting Framework; and the Japanese Ministry of Economy, Trade and Industry's Guidance for Collaborative Value Creation 2.0.

[Forward-looking Statements] In this report, statements other than historical facts are forward-looking statements that reflect our plans and expectations. Because these statements contain risks and uncertainties, actual results and performance may differ from the expectations expressed herein.

Helping Cut Medical Costs through Generics

To maintain the National Health Insurance System in the future

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

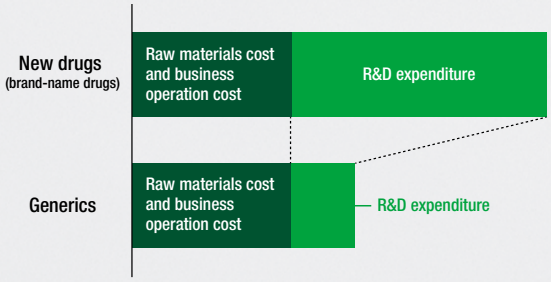


Ministry of Health, Labour and Welfare: "Outline of National Medical Care Expenditure in 2015" and "Materials for the Medical Insurance Subcommittee, 76th Social Security Council"

Choosing generics cuts medical costs

Choosing generics enables us to cut the burden of medical costs (drug costs). This will reduce both the burden of medical expenses on individuals and contributions by the Japanese government and health insurance associations. For instance, we can save approximately JPY 1.7 trillion in the annual cost of drugs just by replacing as many drugs as possible with generics.

*Page 7 in the "Outline of Revisions to the Drug Price Standard in FY2023" by the Ministry of Health, Labour and Welfare



Comparison of drug prices (conceptual chart)

To restore confidence in generics

We consider it highly deplorable that some pharmaceutical companies significantly undermined confidence in pharmaceutical products, especially generics, by engaging in misconduct. Being a company that prioritizes confidence above all, we are taking the series of events seriously.

As a member of the generics industry, we are firmly determined to ensure thorough manufacturing control, quality control, compliance, and governance, in order to restore confidence in generics. We will make sure to successfully restore confidence, and achieve market distribution of generics that all patients can feel comfortable using.

I. Strengthen compliance, governance, and risk management
II. Strengthen the system that gives utmost priority to quality
III. Take action to ensure stable supplies
IV. Provide and disclose information actively
V. Enhance association activities, cooperate with the government, etc., and take other measures

Manufacturing pharmaceutical products that satisfy patients' needs

We have the lineup consisting of more than 750 products to cover various therapeutic areas. Desiring to be of service to as many patients as possible, we strive to provide value-added generics through cumulative improvements by responding to and satisfying requests voiced by medical professionals. As part of such efforts, we have developed better dosage forms and tastes so that drugs can be easily taken by pediatric and elderly patients, and enhanced visibility and stability against light, temperature, and humidity so that drugs can be easily handled at hospitals and pharmacies. We thus exercise our ingenuity in various ways and work constantly toward the manufacturing of better products.

Products
More than **770**

Production volume
129 billion tablets
(up 14.2% year on year)
FY2022

R&D expenditure
JPY **14.1** billion
FY2022

Capital investment
JPY **14.8** billion
FY2022

Towa Group's technology innovations

RACTAB® Technology

RACTAB is our proprietary technology for manufacturing orally disintegrating (OD) tablets that can be taken without water. The technology pursues the coexistence of two contradictory properties: easy disintegration and sufficient hardness. We developed this technology in the hope of delivering easy-to-take tablets to patients who have difficulty swallowing due to old age, etc. or limit water intake, as well as producing drugs that can be taken without water whenever necessary, including when patients are not at home.

FINEST-Pow® FINEST-Gran® FINEST-Core®

These coating technologies add various functions, such as bitterness suppression and controlled release, to functional particles. They effectively cover the bitterness, making drugs less bitter and easier to take. We have developed three types of coating technologies according to the functions we intend to add, such as API bitterness suppression, controlled release, enteric coating, and improved dispersibility.

ARTICRE® Technology

ARTICRE is a technology that improves drugs' solubility by dispersing systematically arranged API atoms or disrupting their order. When an API with low stability or solubility is dispersed in a water-soluble polymer that serves as a carrier, the carrier captures the API, improving the stability. In addition, the state of crystallization of the API changes or the crystals become dispersed, which facilitates disintegration.

Helping Extend Healthy Life Expectancy and Prevent Diseases

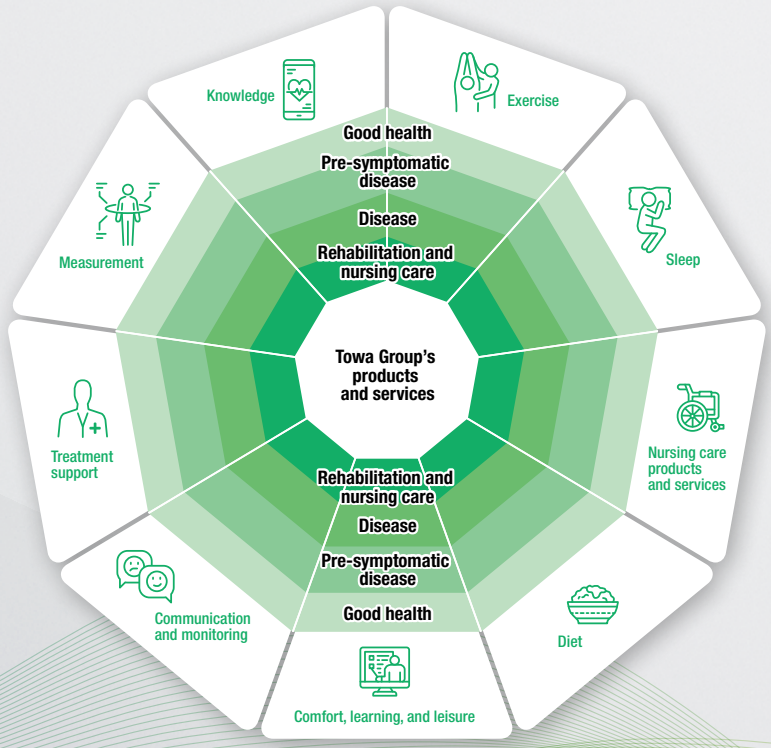
Extension of healthy life expectancy and disease prevention

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

Providing optimal solutions to extend healthy life expectancy

We aim to contribute to the extension of healthy life expectancy as a comprehensive healthcare company for the era of the 100-year life. We will not only manufacture and sell generics but provide optimal solutions through all types of products and services related to healthcare.

Furthermore, we have classified the state of health into four categories: “good health,” “pre-symptomatic disease,” “disease,” and “rehabilitation and nursing care.” We seek to resolve challenges for each category, and provide a wide range of products and services by combining the four categories with the nine focus areas we are committed to.



Products and services of health-related businesses

Healthcare Passport

Information sharing for coordinated regional medical care aims to provide appropriate medical care and promote health through information sharing on medical care and health between medical professionals and ordinary citizens and their families. Our Healthcare Passport supports the information sharing in a safe manner.

Hana Support

Hana Support is a service that assists users with taking their medicines. It records and manages medication data based on the information of medicines registered with the app. It also has a function that allows patients to communicate with their usual pharmacies.

Cognitive Function Self Checker

The service checks users' cognitive functions by analyzing eye movements and answers to questions while they are looking at images in virtual reality.

comuoon

Interactive support device comuoon is a system born from 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.

Muscle Suit

Muscle Suit eases the burden on the lower back for frontline workers, as well as assists people with small physical work in daily life. It is an assisting suit developed to realize a healthy lifestyle.

Sabrosa Curry

Sabrosa Curry contains Maekawajiro persimmon, a specialty of Taki Town, Mie Prefecture, which adds a touch of mildness and sweetness to the spicy curry. The product is low in sodium and rich in DHA, EPA, and protein.

Our History

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

History of Towa *The years shown are fiscal years.

1951 Established

1957 Started selling OTC drugs

1965 Shifted to manufacturing and selling ethical drugs from OTC drugs

1996

Itsuro YOSHIDA was appointed President and Representative Director

1997

Constructed new corporate headquarters

1998

Constructed Osaka Research Center

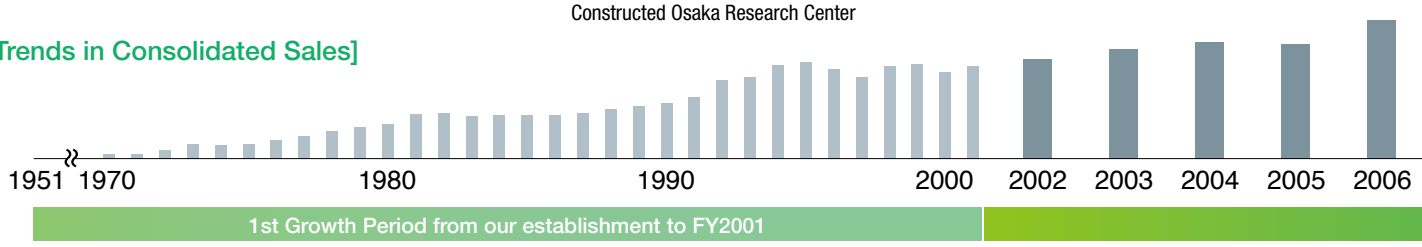
2000 Launched value-added products

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

2004 Established RACTAB Technology

2004 Listed on the first section of the Tokyo Stock Exchange

[Trends in Consolidated Sales]



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

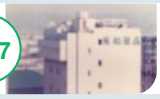
Generics volume share targets set by the government

2007 30% or more by FY2012

Production system

Osaka

1977



Constructed Osaka Plant

1981 Constructed Osaka 2nd Plant

2005

Okayama

1983

Constructed Okayama Plant

1995

Constructed the packaging building

1996

Expanded the formulation building

Yamagata

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

2008

Sales system

2010

Acquired Daichi Kasei Co., Ltd. as a subsidiary

2016

Established Greencaps Pharmaceutical Co., Ltd.

2018

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

2019

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

2021

Acquired Sunsho Pharmaceutical Co., Ltd. as a subsidiary

2022

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

2013
60% or more
by the end of FY2018

2015
Boosting volume share target of generics up to 70% or more in mid-FY2017 and 80% or more in the earliest possible period before the end of FY2020

2017
80% or more
by September 2020

Actual volume share in FY2022
80.7%

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

2013

Expanded the warehouse and testing area in the Osaka Plant

2012

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

2016

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

2017

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

Started the plan to construct Yamagata Plant

2012

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

2017

Constructed (relocated) East Japan Distribution Center
Renovated the solid formulation building and constructed the 2nd solid formulation building
Rebuilt the solid formulation building (Production capacity: 2.5 billion tablets » 3.0 billion tablets)

2018~2022

The 2nd solid formulation building was sequentially equipped with facilities.
(Production capacity: 3.0 billion tablets » 6.5 billion tablets)

2011
Towa Direct Sales System

Sales offices (as of October 2023): 71 offices

Agents (as of October 2023): 31 agents at 62 sites

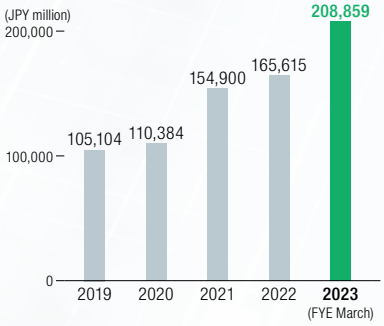
Started collaboration with two wide-area wholesalers in 2017

Shifted to Towa Sales System

Financial Highlights

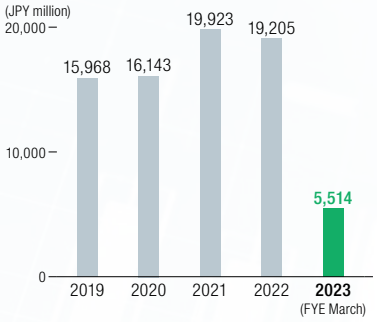
Net sales

JPY 208,859 million



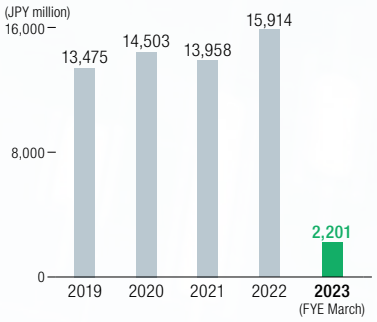
Operating profit

JPY 5,514 million



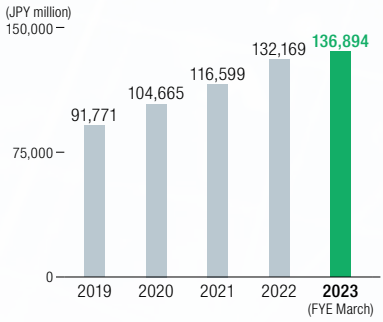
Profit attributable to owners of parent

JPY 2,201 million



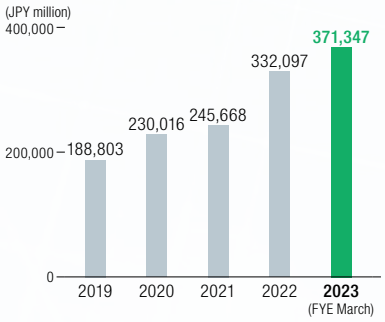
Net assets

JPY 136,894 million



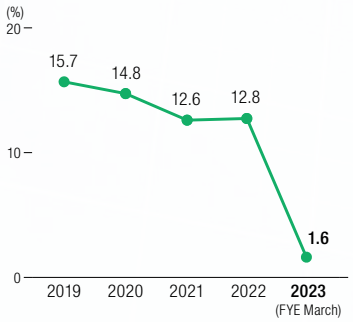
Total assets

JPY 371,347 million



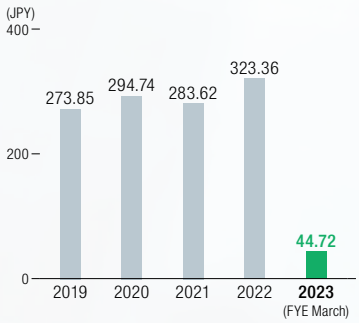
ROE

1.6 %



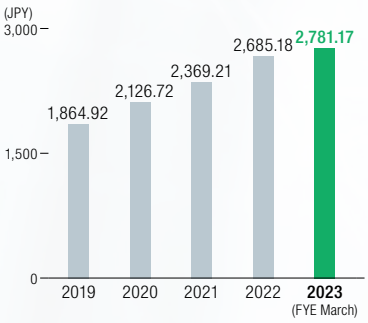
Earnings per share

JPY 44.72



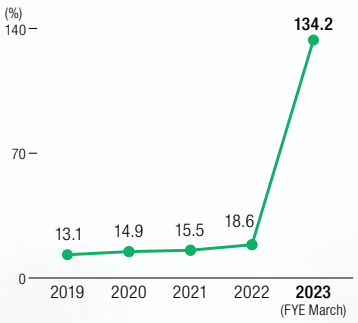
Net assets per share

JPY 2,781.17



Dividend payout ratio

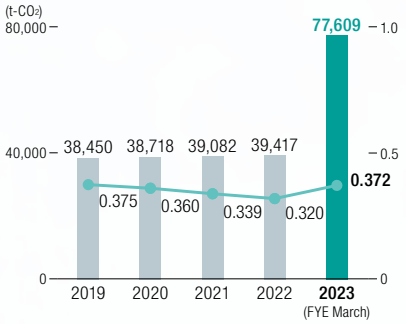
134.2 %



Note: The Company conducted a 3-for-1 stock split of common shares effective April 1, 2019.
We calculated earnings per share and net assets per share, assuming that the said stock split had been conducted at the beginning of the fiscal year ended March 31, 2019.
The fiscal year ended March 31, 2023 represents a transitional period for the change in the fiscal period for nine consolidated subsidiaries, scoped 15-month period from January 1, 2022–March 31, 2023.
During the fiscal year ended March 31, 2023, the Company finalized provisional accounting treatments for the business combination. Accordingly, the figures for the fiscal year ended March 31, 2022 reflect contents of the finalization of provisional accounting treatments.

CO_2 emissions

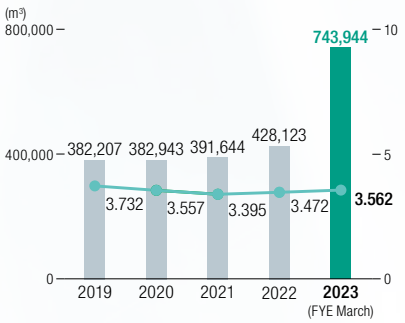
77,609 t-CO_2



CO_2 emissions — CO_2 emissions intensity
- Three Towa plants for 2019 to 2022
- Per sales of JPY 1 million (non-consolidated)

Water usage

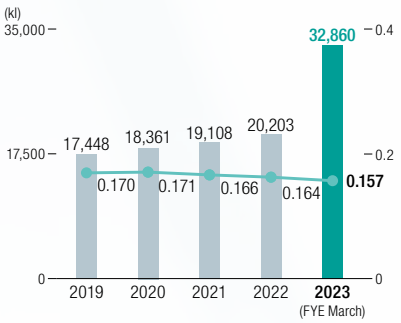
743,944 m^3



Water usage — Water use intensity
- Three Towa plants for 2019 to 2022
- Per sales of JPY 1 million (non-consolidated)

Energy usage

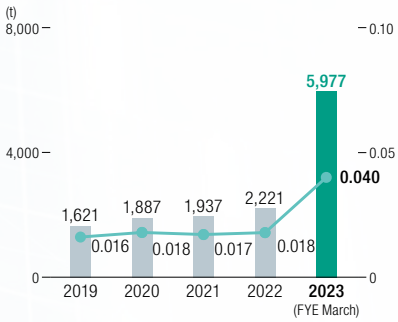
32,860 kl



Energy usage — Energy use intensity
- Three Towa plants for 2019 to 2022
- Per sales of JPY 1 million (non-consolidated)

Waste generated

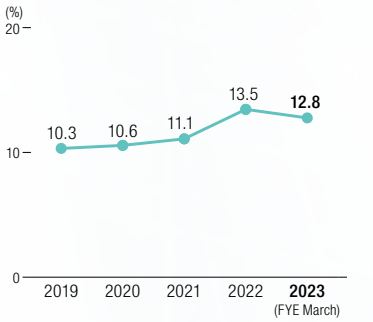
5,977 t



Waste generated — Waste generation intensity
- Three Towa plants for 2019 to 2022; Group companies in Japan for 2023
- Per sales of JPY 1 million (non-consolidated)

Ratio of women in management positions

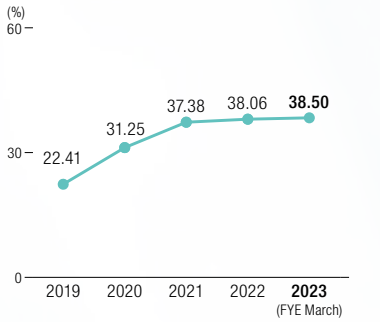
12.8 %



- Towa (non-consolidated)
- As of April 1 for 2019 to 2021

Ratio of women in new graduate hires

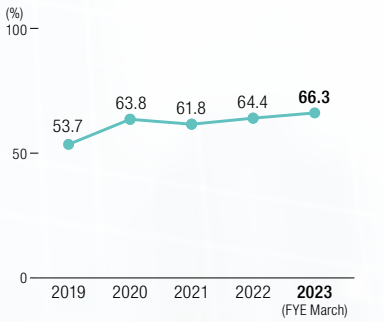
38.50 %



- Towa (non-consolidated)

Ratio of paid leave taken

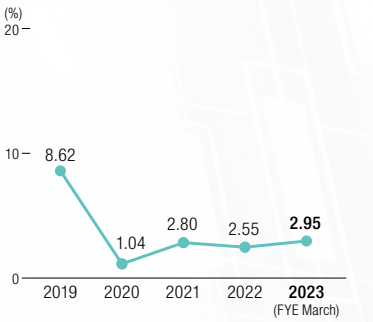
66.3 %



- Towa (non-consolidated)

Employee turnover rate within the first three years

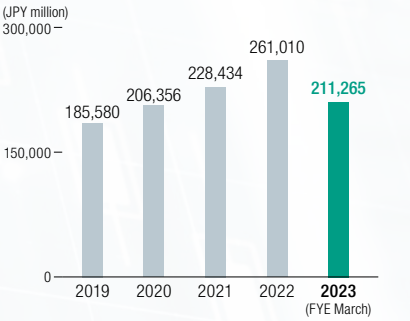
2.95 %



- Towa (non-consolidated), new graduates only

Medical expense reduced

JPY 211,265 million



- Towa (non-consolidated)

To keep on realizing genuine smiles

Toward a production system of 17.5 billion tablets a year, to uphold our mission of stable supply

When the government decided on its policy of transitioning COVID-19 to a Class 5 infectious disease, the way out from the pandemic finally came into sight. The COVID-19 pandemic brought about major changes in society. The penetration of digitalization in society, growth in health consciousness, and efforts to resolve global challenges, as represented by the SDGs, have all accelerated as a result of the pandemic. In Japan, a super graying society, establishing a social security structure that will address the demographic challenge and extending healthy life expectancy are urgent issues.

Japan's social security benefits expenses, which continue to rise year by year, are expected to reach about JPY 140 trillion by 2025. As one measure to address this, the Japanese government has promoted the use of generic drugs since the early 2000s. The switch to generic drugs is now helping to reduce healthcare costs by about JPY 1.7 trillion annually, thereby lightening the load on the national government, health insurance societies, and patients.

With the business model of manufacturing and selling generic drugs as its core business, the Towa Group has been striving to contribute to the suppression of healthcare costs. Along with enhancement of the quality and performance of our products, a stable product supply is an important mission. However, stable product supply has become a major challenge, sparked by quality-related scandals in the industry, and people's trust in generics, which has been nurtured for many years, has fallen apart as a result. Consequently, the industry as a whole remains unable to fulfill its responsibility.

We have steadily proceeded with capital investments toward the national government's target of generics accounting for an 80% volume share of drugs sold in Japan. In 2018, we put the 2nd solid formulation building into operation at our Yamagata Plant. Together with our Osaka and Okayama Plants, we secured a total annual production capacity of 12.0 billion tablets in FY2021 as initially planned. However, we are now in the extraordinary situation in which, because those manufacturers that caused the quality problems cannot make their products, the industry as a whole is unable to deliver stable product supply. For this reason, we brought forward our plans for additional investments in the 2nd solid formulation building at Yamagata Plant, adding 2.0 billion tablets to achieve a production system of 14.0 billion tables. Further, construction is underway of a 3rd solid formulation building that will be capable of producing 3.5 billion tablets (due for completion in October 2023), and we expect to achieve a production system of 17.5 billion tablets in FY2024 and beyond. We will also proceed with the construction of a 2nd sterile formulation building and a warehouse building at the Yamagata Plant to expand the production capacity of liquid formulations and freeze-dried formulations, in our efforts to expand our tangible facilities.

On the intangible front, this abnormal situation has already been ongoing for about three years, and to ensure that the burden on the employees working in our plants does not increase even further, we are strengthening our structure of increased headcount. We are also working to install automation and unmanned facilities and systems for enhancing production efficiency. We will continually share the latest market trends and future outlooks across the Group. We have a great sense of mission that we must be at the center of fulfilling the industry's important roles in society, including stable product supply and quality control. In addition to such production enhancement measures, if the entire industry proceeds with increases in production to a certain degree, we believe we can ease the shortage in production volume within the next several years.

In the quality assurance system, 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. To build a stricter quality assurance system, we also proactively incorporate international standards such as PIC/S GMP and ICH Guidelines, and we are building a structure that will thoroughly eliminate human error. What is more, to maintain and strengthen the system for stable product supply, we will

Itsuro Yoshida
President and
Representative Director

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 penetration of compliance across the Group, from the manufacturing of APIs to the manufacturing of formulations, logistics, and distribution. On November 24, 2021, we announced the *Towa Pharmaceutical Declaration of Legal Compliance*.

Meanwhile, in the face of profit-squeezing factors such as the annual revision of drug prices and soaring raw material and utilities costs, as an industry, we hope to propose a sustainable drug price system in which capital investments and other efforts toward the maintenance of appropriate quality and a stable supply system are properly recognized and drugs can be sold at appropriate prices, as well as a review of the industry's structure to position it as an important form of social infrastructure.

Leveraging synergies in Japan and abroad to guide the creation of innovation

The changes in society that began with the pandemic are about to pick up pace. We need to paint a long-term vision by optimizing the entire Group and leverage our organizational strengths to execute that vision. 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," 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.

One area in which we can expect synergy effects is the leading-edge formulation and capsule technologies held by Group companies, Sunsho Pharmaceutical Co., Ltd. and Greencaps Pharmaceutical Co. Ltd. By combining these technologies with Towa's formulation technologies, we aim to develop new technologies.

In overseas markets, through Towa Pharma International Holdings, S.L. ("Towa HD"), which is based in Spain, we supply generic drugs with over 210 ingredients in more than 20 countries and regions across the globe, with a focus on Europe and the United States. As a foothold for synergy creation, we are actively promoting tours of Towa Pharmaceutical's and Towa HD's local plants, exchanges of opinions among executive managers, personnel exchanges among researchers, and joint development of new products, in our efforts to cultivate a corporate culture and enhance our organizational strengths as a Group. Even in this extraordinary situation of supply instability that we currently face, we are discussing the use of the Towa HD Spanish plant's production capacity and the introduction of manufacturing technologies in Japan and considering the further strengthening of our stable supply system.

In June 2022, we standardized the trading names of the three sales subsidiaries in Spain, Italy, and Portugal under the Towa HD umbrella as "Towa Pharmaceutical." We will 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 promote the further expansion of our business.

The objective of globalization is to deliver Towa Pharmaceutical's highly value-added products widely throughout the world. Individual countries and regions have different laws concerning factors such as the quality, efficacy, and safety of pharmaceuticals, and their standards and approaches are constantly being updated. The ability to share these global circumstances is one of the effects of synergy, and there are expansive opportunities to contribute to new markets, such as those in Southeast Asia, where increased demand is expected, with the creation of innovation.

Contributing in part to the competitive edge of industries in Japan, with pride in Towa Quality

The Towa Group is working to provide Towa Quality products and services and create technology innovation and product value through the manufacture of sophisticated products with No. 1 total product performance. The ideal of the Group's manufacture is local production and local consumption. We source APIs and intermediates both domestically and from all over the world. With the addition to the Group of Daichi Kasei Co., Ltd., which researches, develops, and manufactures APIs and intermediates, in 2010, alongside our research and development of continuous flow precision synthesis technology, which offers a high level of safety, we are drawing closer, step by step, to our ideal of local production and local consumption of our products. By cultivating a high standard of technological capabilities in Japan and developing the human resources to support those capabilities, we believe that we will be able to contribute to the Japanese government's policy of making the supply chain more resilient and increasing national capacity.

Towa Quality means product quality that society wants and needs and that has been upgraded to the latest and the best of the times through continuous modifications and improvements using all the latest technologies in the Towa Group's possession. Examples include orally disintegrating (OD) tablets, which disintegrate in the mouth without water and are thus easy to take, techniques for masking a bitter taste, and drug imprinting that makes it easy for doctors and pharmacists to distinguish tablets. A representative example of the Towa Group'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 are confident that the fine-tuned added value thus generated will better address the concerns of people and healthcare-related issues around the world.

Manufacture of sophisticated products with No. 1 total product performance refers to our initiatives for the

improvement of product quality and the creation of added value. To implement these initiatives, we are strengthening and streamlining our research and development functions by upgrading and expanding our R&D facilities and equipment.

To enhance the consideration for the global environment and society, we newly established Environment, Health and Safety Management Department in April 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 will connect these initiatives to the launch of a green sustainable chemistry industry, hoping to further contribute to raising the competitiveness of the Japanese industry.

Establishing an unwavering position in the healthcare industry

The Towa Group has entered the final year of the 5th Mid-term Business Plan 2021–2023 PROACTIVE II, which started in FY2021. Under the plan, we have been pursuing our businesses with the basic policies of (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.

With “Dawn of the 3rd growth period” as the sub-title of the 5th Mid-term Business Plan, all companies in the Group have rolled out businesses extensively, from “establishing an unwavering position in the generic drugs industry” to becoming “a comprehensive healthcare company for the era of the 100-year life.” As one of our challenges, the Group aims to create 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. Based on our vision of contributing to people’s health, we are proactively working to create health-related businesses that are adapted to the medical system for the future, while acquiring new techniques and integrating them with completely new knowledge and technologies.

The Japanese government is proceeding with the development of the Comprehensive Community Care System, with completion scheduled for around 2025, when Japanese baby boomers turn 75 years of age (the age of eligibility for the late-stage elderly medical care insurance system). Local communities in which Society 5.0 has been implemented is based on the development of a platform that will enable 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, to enable appropriate, 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).

The key to achieving this is a platform that utilizes personal health records (PHR) and electronic health records (EHR). As well as curbing medical costs, such a platform will also enable approaches at all stages, from the healthy to symptomatic stages. Furthermore, we also hope to make a major contribution to the realization of the Comprehensive Community Care System, which will help the elderly to continue living in their own fashion, as much as possible, in communities that are familiar to them.

In partnership with TIS Co., Ltd., Towa sells Healthcare Passport, a cloud-based regional healthcare information coordination service offered by TIS. It is predicted that medical institutions in the future will have clearly defined roles according to their location and functions, and that the healthcare system will transform into one that is centered on primary care physicians. Healthcare support will enable Medical professionals and ordinary citizens to share medical records, the content of prescriptions, and health information on a bi-directional basis, making possible the efficient and effective utilization of medical and healthcare information, which was previously scattered between ordinary citizens, hospitals, clinics, pharmacies, and so on. Multiple healthcare facilities and prefectural governments are already considering the introduction of this platform, and the development of additional functions to meet user needs is also underway. The expansion of these products, services, and partnerships will lead to the development of the kind of health information platform that the Towa Group envisages as the foundation of the Comprehensive Community Care System.

Further, in September 2022, we launched Hana Support, a smartphone-based service that provides support for taking medications. The service features an app for patients with functions for alerting the user when it is time to take medication and recording when medications are taken, as well as a function that allows for communication with pharmacies and pharmacists. There is also a web-based service for pharmacies to record such interactions. Development of coordination between this service and the Healthcare Passport is ongoing. By giving both patients and pharmacies an accurate picture of the status of the patient’s medication regimes, our aim is to support effective medication by preventing patients from forgetting to taking their medicine or taking the same dose twice.

A major challenge for the super graying society is the early detection of abnormalities in the pre-symptomatic disease stage. We have converted Protosera, Inc., a company that possesses an original disease risk screening service (ProtoKey test), into a subsidiary, and rolled out two types of tests for the detection of colorectal cancer risk and pancreatic cancer markers. We are also proceeding with research into taxifolin, a plant-derived substance that is expected to help prevent the progression of dementia, jointly with the National Cerebral and Cardiovascular Center. We will also start handling Cognitive function Self checker, which tracks eye movement using virtual reality to assess cognitive function. Various cutting-edge technologies envisioning Society 5.0 will be incorporated so that we may approach the extension of healthy life expectancy from many different fields.

Creating an environment in which employees can design their own career paths and experience a variety of roles

Regarding “Making job satisfaction and fostering talented human resources,” which is one of the basic policies of the 5th Mid-term Business Plan, we are aiming to create workplaces where there is respect for diversity in work styles and motivation for each and every employee. We see talented human resources as the source of the Group’s 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.

As DX and AI further penetrate society and work, many tasks will be replaced by digital technologies. In the belief that having each employee mull over their career goals, take the initiative, and act systematically toward achieving the goals will lead to job satisfaction, we have established a new Personnel Development Department. The new department conducts interviews with individual employees to focus on their career plans from when they first join the Company until they retire and to support their career development. It is also clarifying the requirements for appointment to certain posts within the Company and developing systems to help employees to obtain the experience, knowledge, and abilities demanded by the positions they aspire to.

Discussions are currently underway for the development of the 6th Mid-term Business Plan, which will start in FY2024. In that process, envisaging what society should look like in 2040, we are attempting to paint a picture of the future of the healthcare industry and social security system, with a focus on our core business of the development, manufacture, and sales of generics, and to design a business plan by backcasting from that vision. We will become increasingly active in entering new markets and new businesses, which will give our employees more opportunities to demonstrate a wide variety of skills.

The 100-Year Plan, our regional revitalization challenge to deliver genuine smiles to people all over the world

On the occasion of 2021’s 70th anniversary of Towa’s founding, we announced internally the Towa Group’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 basis of this thinking is the 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. 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.

To share this vision as a Group and turn it into something unfaltering will require symbolic initiatives that will be promoted based on the long-term vision. As

Cultivation of licorice in Mongolia (August 2023)

The root and stolon of the licorice plant contain glycyrrhizic acid, an invaluable raw material of pharmaceuticals.

part of the Towa Pharmaceutical Group 100-Year Plan, we have embarked on the challenge of growing licorice in Mongolia. Our association with Mongolia began in 2009 when I was part of a delegation from a Rotary Club in the city of Kadoma, of which I was a member in my capacity of President and Representative Director of Towa, that visited a Mongolian orphanage to which the club had donated funds. This vast land, which had a population of less than 2.6 million people who looked so similar to us, was facing significant challenges as the mining of finite underground resources caused desertification and, consequently, climate change. However, mining was a key industry that underpinned the nation's economy.

Towa considered what kind of sustainable support it could provide, instead of one-off donations, and focused on the fact that licorice, which is used in APIs, grew wild in Mongolia. Licorice is also used in traditional Chinese medicine, and, besides its medicinal uses, licorice extract has a wide range of applications, including as a sweetener and in food products and cosmetics. We felt that, if we could make a success of this cultivation, it could grow into an industry for sustainable development, which would help raise the standard of living of the Mongolian people and bring more genuine smiles to their faces. We also believe that the cultivation of licorice will prevent the desertification of the land and suppress the dispersion of yellow sand into the atmosphere.

We began in 2014 by ascertaining the situation in Mongolia, including visiting areas where the plant grew wild. In 2017, we secured about 1,000 hectares of land in Kherlen, a district in the Khentii province of Eastern Mongolia. Although the project stagnated due to the COVID-19 pandemic, in September 2021, we were able to plant 600 licorice seedlings on a trial basis. With the approval of the chief of Kherlen, in 2023, we obtained the community's cooperation, and local residents participated enthusiastically in raising seedlings and growing the licorice plants. Full-scale cultivation is scheduled to start in 2026. Because licorice has a growing cycle of about seven years from fertilization of the soil to harvest, we will divide the land into seven zones so that we can obtain a harvest every year. The plan is to harvest volumes of up to 500 tons a year (assuming that the whole 100 hectares is planted at the same time).

It is a grand plan, but the first thing we will do is provide support so that the business can be managed autonomously in Mongolia. If, in future, it leads to the expansion of the business into domains such as processing into APIs and exports, we believe that it will have tremendous significance for the revitalization of the regional community and economy. While it may take 100 years to become firmly established as an industry, for the sake of people's genuine smiles, we want to keep up this activity, to symbolize the fact that, as 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, the entire Group will advance business without hesitation.

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

Towa Group's Strength

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

Development of APIs

Developing and selecting the best APIs for manufacturing products

Shigenobu Nishiguchi
Manager,
API Process Research I Department,
API Business Unit,
R&D Division

Related information See page 37.

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

Without being bound by conventional manufacturing methods, we aim to establish revolutionary and efficient API manufacturing methods to overcome various challenges, including those in quality, environmental load, and productivity. We thus work on the R&D of APIs to let patients take their medicines with peace of mind.

Product development

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

Yasunobu Okamoto
Deputy Unit Manager,
Pharmaceutical Research and Technology Unit,
R&D Division

Related information See page 29.

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

We work day and night to develop high quality and high added value pharmaceuticals that patients and medical professionals are comfortable using. To establish a stable supply system, we strive to design reproducible manufacturing methods, with an eye to manufacturing at multiple sites.

Quality control

Working diligently to ensure reliable quality and safety

Tomoko Katsuragi
General Manager,
Quality Assurance Department,
Pharmacovigilance and Quality Assurance Division

Related information See page 38.

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

Delivering trusted Towa Quality to the world
We take on challenges every day to deliver trusted pharmaceuticals not only in Japan but overseas. We will improve pharmaceutical quality systems, ensure thorough manufacturing control and quality control, and move forward with close attention paid to what patients are thinking.

Stable product supply

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

Tetsuya Yamamoto
Manager,
Production Planning Department,
Production Division

Related information See page 37.

By adopting a back-up system supported by three sites, we ensure that any production disruption at one plant can be compensated by efforts at the other plants. Furthermore, by dividing the physical distribution bases in East Japan and West Japan, we have established an efficient arrangement and a reliable back-up system even in a worst-case scenario. At present, the three plants can produce a total of 14.0 billion tablets* annually. In response to a further increase in demand, the construction of the 3rd solid formulation building in Yamagata Plant will be complete in fall 2023. Shipment will commence sequentially from FY2024, and we will proceed toward an annual production of 17.5 billion tablets.

*Production capacity of tablets/capsules

To fulfill the responsibility for stable product supply, the Production Division actively prepares efficient production plans and improves productivity. We also attach importance to cooperation between plants and information sharing with other divisions.

Information provision

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

Keisuke Watanabe
Manager,
Medical Communication Department,
Sales and Marketing Division

Related information See page 36.

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

We plan and create sales and marketing tools to advertise our company and increase sales, with the Company's aspiration in mind and in cooperation with other divisions and departments. The task is rewarding as it aims to strengthen sales and marketing capabilities of the entire Sales and Marketing Division.

Fostering of talented human resources

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

Masakazu Kawashima
Manager,
Personnel Development Department,
Human Resources Division

Related information See page 39.

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

Human Resources Division staff have career development meetings with more than 2,000 employees a year to understand what each and every employee is thinking and help them develop the careers they want.

We will continue to plan and implement policies that enrich employees' careers.

Feature Topic

01

Stable Product Supply

Fulfilling Our Social Mission of Stably Supplying Generics through Continuous Production Capacity Expansion

We will further strengthen production capacity and improve production efficiency under the circumstances in which concerns over stable product supply remain.

We will continue to take on challenges to enable stable product supply.

The volume share of generics in Japan has exceeded 80%, and generics have become an important part of the social infrastructure. The responsibility of generics manufacturers like us for stable product supply is even heavier. Regrettably, however, unstable product supply has been continuing due to recent quality issues of generics companies.

As a leading company among generics manufacturers, Towa has worked to install new equipment and increase workforce with the aim of increasing production, so that we can fulfill our responsibility for stable product supply. Our annual production capacity reached 14.0 billion tablets in the second half of FY2022. Furthermore, in order to establish a structure for more stable product supply, we plan to build the 3rd solid formulation building in Yamagata Plant by October 2023 and to achieve the annual production capacity of 17.5 billion tablets from FY2024 onward.

At the same time, we plan to construct the 2nd sterile formulation building in Yamagata Plant and thereby double the annual production capacity of vials from 5 million vials to 10 million vials.

For the new building under construction, we intend to introduce automated and unmanned equipment proactively and reduce the number of personnel significantly, as part of measures to improve efficiency and cope with the progress of aging population coupled with declining birthrates.

We are also proactively promoting establishment of a backup system and production efficiency improvement (scaling-up, series production, etc.).

Towa is committed to continuing to take on challenges proactively to fulfill its social mission of stable supply of generics.

Takayuki Kanno

Senior Operating Officer in charge of Production Division and Senior Plant Manager, Yamagata Plant

Promoting production efficiency by, for example, scaling up the manufacturing equipment

The Company has been striving to ensure quality and stable supply of generics for many years, and therefore earned the unwavering trust of the market. On the other hand, some of our competitors have received orders such as an order to suspend their operations due to violation of Good Manufacturing Practice (GMP; the standard for manufacturing control and quality control of pharmaceutical products), which resulted in continued disruption of product supply. Given this situation, the demanded volume of products of the Company has continuously been exceeding the production capacity, and we have no choice but to adjust the shipment volume of some of our products in FY2023 as well.

In response to the circumstances, the Company has been continuously working to strengthen its production system and striving to meet the volume of demand for generics. At the same time, our production sites dedicate themselves to improve production efficiency and thereby increase the production volume per hour. Such efforts to improve efficiency include the scaling-up of manufacturing equipment for tablets. In addition, while we previously used a batch manufacturing method in which a wide range of products are produced in a small quantity, we now use a continuous manufacturing method in which the number of production lots per run is increased and which enables mass production with less hours. We will continue to fully fulfill our social mission regarding stable supply of generics.

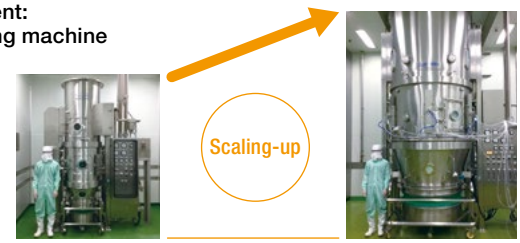
Efficiency improvement through scaling-up (Conceptual images)

Example of manufacturing equipment:
Fluidized-bed granulation and drying machine

Equipment for small-scale production

Equivalent to 0.5 million tablets/lot

Production volume per minute*:
Approx. 460 tablets



Equipment for large-scale production

Equivalent to 2 million tablets/lot

Production volume per minute*:
Approx. 1,580 tablets

Key points

- By scaling up, man-hour can be reduced.
- The production volume per hour can be increased, which results in efficiency improvement.

*Calculated using the average process hours for multiple items produced in the same scale and processes (including preparation and assembly as well as switching and cleaning)

Efficiency improvement through a continuous manufacturing method (Conceptual images)

Example of Product T:
Production lot scale of 2 million tablets [in Process B]

Process A ▶ Process B ▶ Process C ▶ Process D ▶ Process E ▶ Final Process

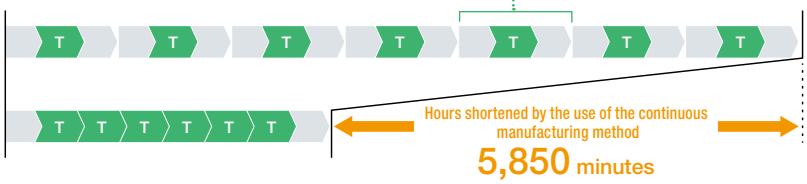
Basic manufacturing steps for one-lot production

Preparation and assembly	Manufacturing of T	Switching and cleaning
Process hours 450 minutes	1,020 minutes	720 minutes

2,190 minutes in total

Batch manufacturing method [in case of six-lot production]
Cumulative manufacturing hours **13,140** minutes (2,190 minutes/lot)

Continuous manufacturing method [in case of six-lot production]
Cumulative manufacturing hours **7,290** minutes (1,215 minutes/lot)

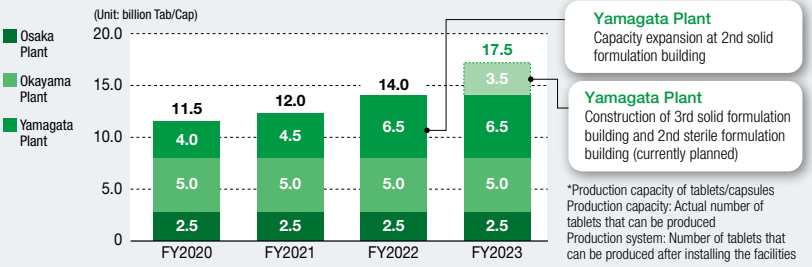


Key points

- The fixed man-hour can be reduced by increasing the number of lots (number of batches) per run.
- The six-lot batch manufacturing method was changed to the continuous manufacturing method. » Man-hour: Reduced by approx. 45%

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

Construction of a new building at Yamagata Plant was completed in October 2023, and operations will commence sequentially starting from April 2024. We will proceed toward shipment. Through these and other efforts, as set forth in the Mid-term Business Plan, in FY2025, we will realize the production system capable of producing 17.5 billion tablets.

Feature Topic
02
Human Capital

Making Job Satisfaction by Strengthening Human Capital Management

We will develop talents who will contribute to business diversification by, for example, supporting career development.

Developing human resources who are capable of responding to changes in the business environment

Strengthening the linkage between management strategy and personnel strategy has become an important issue to achieve sustainable growth of corporate value while responding to changes in the business environment.

Since the establishment of a new Personnel Development Department under the Human Resources Division, the Company has been working on initiatives to support career development of every employee so that they can create their own career plan. We have been pushing forward with formulation of requirements for managerial positions to encourage ability development, visualization of requirements for necessary skills, presentation of requirements for career paths and promotion, among other efforts.

We are also focusing on creating an environment that supports the autonomous career development of individuals by enhancing ability development programs and training for those who are in managerial positions.

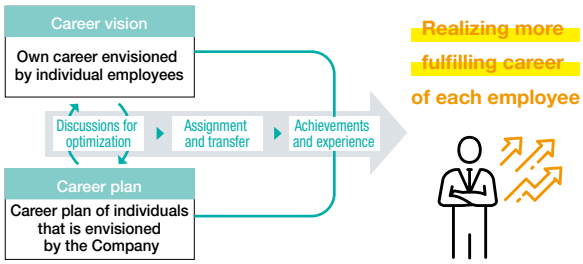
By promoting such diverse personnel measures, we aim to create a working environment with a sense of job satisfaction and develop human resources who are capable of proactively taking on challenges to address a variety of business issues.

Toshikazu Kokubun
Division Manager,
Corporate Strategy Division
Operating Officer in charge of
Human Resources Division

A scene from a career interview

Importance of creating a career vision

Development of Towa career



Promoting creation of a working environment that enables employees to feel a sense of job satisfaction

Strengthening human capital-oriented management is an important issue to achieve future sustainable growth. In FY2021, the Company reorganized the Human Resources Department into the Human Resources Division, and newly established the Personnel Development Department. By so doing, the Company is working to create an environment in which employees can envision their own career and the Company can create a career plan for each employee, with the aim of “creating an environment with a sense of job satisfaction and developing talents who can respond to changes.”

As part of specific initiatives, we have formulated requirements for managerial positions, visualized requirements for skills that are necessary for operations of each department, created a rotation model, and presented requirements for career paths and promotion. In addition, we have established a rotation scheme so that each of our employees can demonstrate their abilities, and are working to improve our on-boarding and training systems so that employees can demonstrate their abilities at an earlier stage.

By promoting development of abilities of our employees and continuously supporting their growth through such initiatives, we aim to develop talents who are capable of proactively taking on challenges to address various issues, such as clinical development efforts that we will be newly working on, advances in formulation technology, entry into new healthcare industries, and globalization.

Feature Topic
03
Environmental Initiatives

Working on Various Issues Related to the Global Environment and Occupational Health and Safety

From a mid- to long-term perspective, we will make steady strides toward group-wide efforts such as to reduce CO_2 emissions.

Contributing to sustainable growth of the Group as a whole

The mission of the Environment, Health and Safety Management Department is to promote group-wide activities by establishing targets of the Group related to preservation of the global environment and safety of employees. In FY2022, we conducted energy-saving diagnosis and formulated mid- to long-term targets as well as a medium-term road map for reducing greenhouse gas emissions. Since FY2023, we have been promoting reduction measures to realize the road map.

As for safety of employees, we undertake activities related mainly to follow-ups on individual occupational accidents, internal audit, and risk assessment. In addition, we also focus on prevention of exposure of chemical substances to workers, and have created a visual version of SDSs for active pharmaceutical ingredients (APIs), which is used on site.

In the future, we will also work on measures for the global environment in our entire supply chain. We aim that these group-wide activities contribute to sustainable society and growth of the Group.

Kaoru Makino
General Manager of the Environment, Health and Safety Management Department Administration Division

Towa Group Environmental,Health and Safety Policy

Formulation of a road map that contributes to decarbonized society

Efforts to counter problems related to the global environment and safety and health of our employees are part of our important management issues. Therefore, the Company has been undertaking group-wide activities taking issues into consideration. In April 2022, an Environment, Health and Safety Management Department was newly established to reinforce our activities to preserve the environment and realize occupational health and safety. This department is an organization dedicated to supervision of the entire Group in three areas, namely, environmental management and the global environment; chemical substance management; and occupational health and safety.

In the area of environmental management and the global environment, the department plays a central role in TCFD-related projects, and discloses information related to climate change-related risks and profit-making opportunities associated with global warming. In addition, it creates a road map toward decarbonization of the Group and will commence efforts to realize the road map.

In the area of chemical substance management, it has formulated company-wide rules related to issues such as appropriate management and legal compliance of chemical substances used in plants and laboratories, and prevention of exposure to highly potent compounds.

Furthermore, in the area of occupational health and safety, it promotes establishment of a framework and education to prevent recurrence of occupational accidents.

Starting from FY2023, in accordance with the newly formulated “Towa Group Environmental Safety Policy,” it also pushes forward with activities even further that take into consideration the global environment and the safety of workplaces.

Our Value Creation Process

To address social issues, Towa Group has created value by allocating its business capital 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 371.3 billion (consolidated)
- Net assets: JPY 136.8 billion (consolidated)

Manufactured capital

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

Intellectual capital

- R&D offices: 9 (8 in Japan, 1 in Europe)
- R&D expenditure: JPY 35 billion or more
  (accumulative) (FY2021–FY2023)
- API synthesis process knowhow

Human capital

- Employees: 4,298 (consolidated)
- Consolidated subsidiaries: 12
  (4 in Japan, 8 in overseas countries)
- Qualified pharmacists: 254 (consolidated in Japan)
- MRs: 773 (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 91.9%
  Dispensing pharmacies 96.3%

Natural capital

- Energy input: 32,860 kl
  (crude oil equivalent, Towa's 3 plants)
- Water usage: 743,944 m^3 (Towa's 3 plants)

Towa Quality

Manufacture of sophisticated products with No. 1 total product performance

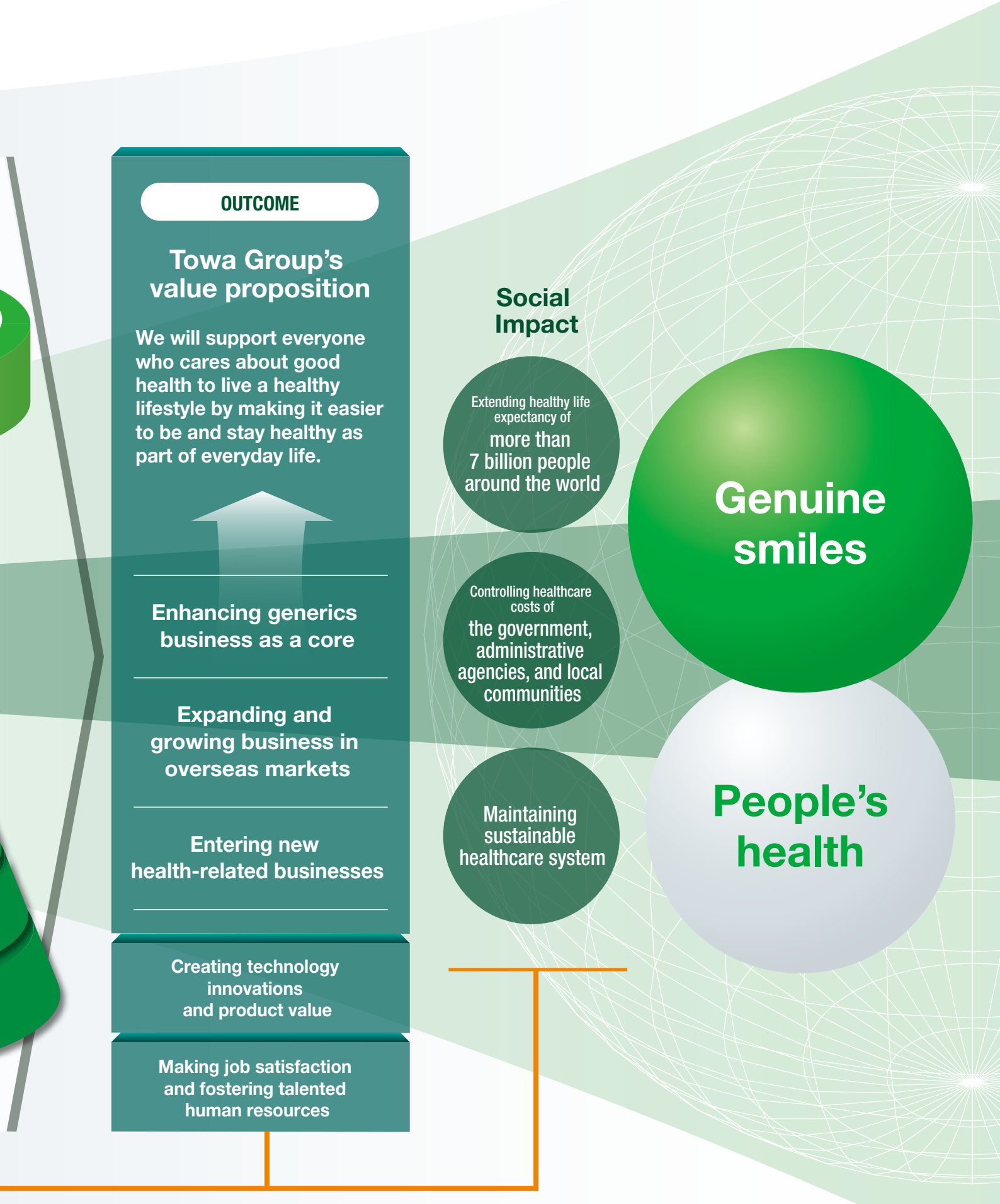
5th Mid-term Business Plan 2021–2023 PROACTIVE II

Corporate Governance
(Compliance and Risk Management)

Our Commitments (T-SMILE)

Vision

Foundations supporting value creation


OUTCOME
Towa Group's value proposition
We will support everyone who cares about good health to live a healthy lifestyle by making it easier to be and stay healthy as part of everyday life.
Enhancing generics business as a core
Expanding and growing business in overseas markets
Entering new health-related businesses
Creating technology innovations and product value
Making job satisfaction and fostering talented human resources
Social Impact
Extending healthy life expectancy of more than 7 billion people around the world
Controlling healthcare costs of the government, administrative agencies, and local communities
Maintaining sustainable healthcare system
Genuine smiles
People's health

External Environment Surrounding Towa Group

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

In recent years, generics have come to play an increasingly vital role in the society. Under the Basic Policy on Economic and Fiscal Management and Reform 2017 approved by the Cabinet in 2017, the government has set a target to increase the generics volume share to 80% by September 2020.

In response to this, the generics industry including Towa has focused on enhancing production capacity and ensuring stable supply. The results of analysis issued by the Japan Generic Medicines Association show the volume share reached 81.2% in the third quarter of fiscal 2022 (October to December 2022), achieving the target of 80%.

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

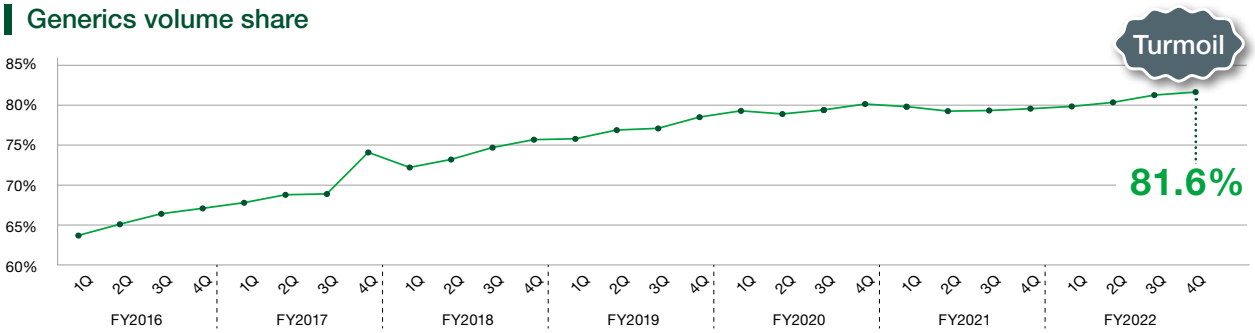
While the generics volume share has steadily risen, the recent quality problems in the generics industry have affected the entire industry. Public confidence in generics built by the industry so far is declining. As the drug companies involved in quality problems suspended their operations, the industry as a whole has failed to fulfill its responsibilities for stable supply. As a result, the generics market is still 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 **371.3** billion (consolidated)
- Net assets: JPY **136.8** billion (consolidated)

Total assets at the end of FY2022 increased JPY 39,250 million YoY to JPY 371,347 million. Net assets at the end of FY2022 increased JPY 4,725 million YoY to JPY 136,894 million. Consequently, capital-to-asset ratio was 36.9% 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):
  14 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 14.0 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: **9** (8 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 9 offices in total, comprising 8 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: **4,298** (consolidated)
- Consolidated subsidiaries: **12**
  (4 in Japan, 8 in overseas countries)
- Qualified pharmacists: **254** (consolidated in Japan)
- MRs: **773** (consolidated in Japan)

Towa Group hires 773 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 **91.9**%
  Dispensing pharmacies **96.3**%

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: 91.9% for hospitals and 96.3% for dispensing pharmacies.

Natural capital

- Energy input: **32,860** kl
  (crude oil equivalent, Towa's 3 plants)
- Water usage: **743,944** m^3
  (Towa's 3 plants)

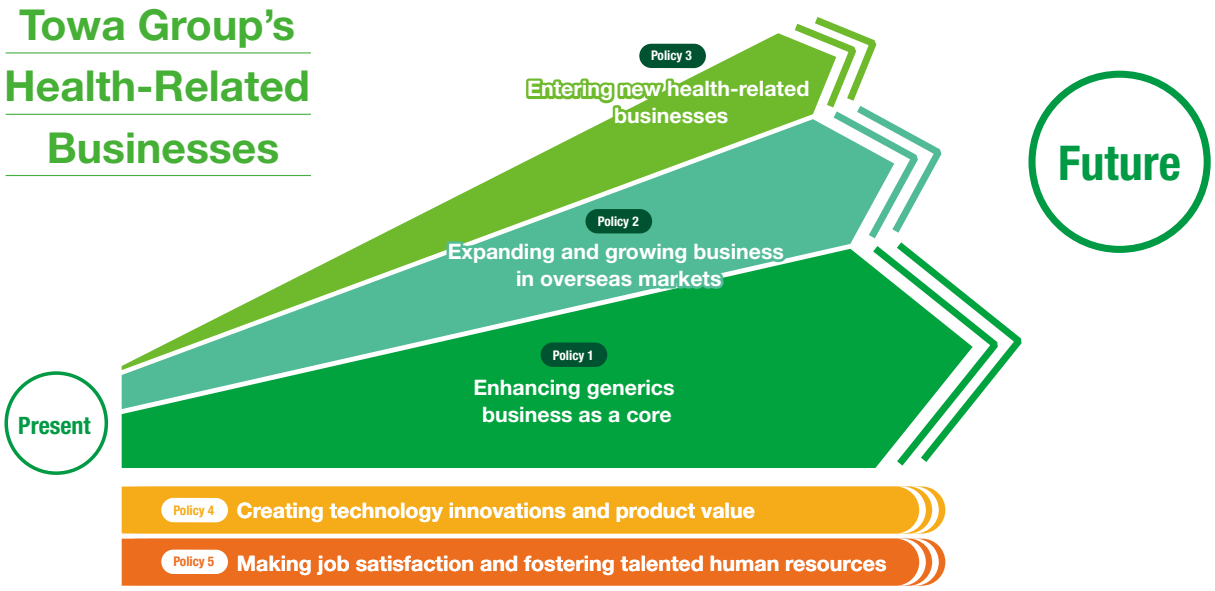
We use good quality water and energy resources to produce high-quality pharmaceutical products. In this regard, from an environmental perspective, we manage chemical substances properly, enhance the plants' water discharge and air emission systems, take energy-saving measures, and make other efforts.

Mid-term Business Plan

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 and overseas generics business, which is our core business, we will be aiming to make an even greater contribution as we move forward into the future. And as for overseas markets, we will be expanding the number of countries and territories in which we offer the Group’s products. Furthermore, in the realm of new health-related businesses, we are embarking on a new era, so will be steadily doing what’s necessary as we look ahead to the future.

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



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

Progress with implementation of Mid-term Business Plan

In our performance in the fiscal year ended March 31, 2023 while net sales increased with the consolidation of Sunsho Pharmaceutical, profit attributable to owners of parent fell significantly, primarily due to a decrease in gross profit caused by the impact of the rising cost of living, and a decrease in operating profit caused by an increase in SGA expenses.

Regarding the progress of the Mid-term Business Plan, with no changes to the challenges, policies, and key theme, we will continue to work toward the further enhancement of corporate value in line with the Plan. In terms of the numerical targets for major items, while there is no change to our net sales target, in May 2023, we announced a revision of our accumulative target for operating profit. The reasons for this revision include a decline in sales volumes caused by limited shipments resulting from problems with supply stability, soaring raw material and utilities costs, and depreciation of goodwill. Accordingly, the target has been revised from the initial target of JPY 57.0 billion to JPY 36.5 billion.

Net sales

Targets

JPY 200.0 billion (consolidated)
JPY 150.0 billion (non-consolidated)

Results for FY2021

JPY 165.6 billion (consolidated)
JPY 123.3 billion (non-consolidated)

Results for FY2022

JPY 208.8 billion (consolidated)
JPY 124.0 billion (non-consolidated)

Operating profit

Target (cumulative)

JPY 36.5 billion or more (revised)

Results for FY2021

JPY 19.2 billion

Results for FY2022

JPY 5.5 billion

R&D expenditure

Target (accumulative)

JPY 35.0 billion or more

Results for FY2021

JPY 11.5 billion

Results for FY2022

JPY 15.3 billion

Capital investment

Target (accumulative)

JPY 75.0 billion or more

Results for FY2021

JPY 14.8 billion

Results for FY2022

JPY 39.6 billion

Dividend policy

Target

Stable dividends

Results for FY2021

Annual dividend of JPY 60

Results for FY2022

Annual dividend of JPY 60

Policy 1

Enhancing generics business as a core

Stable product supply

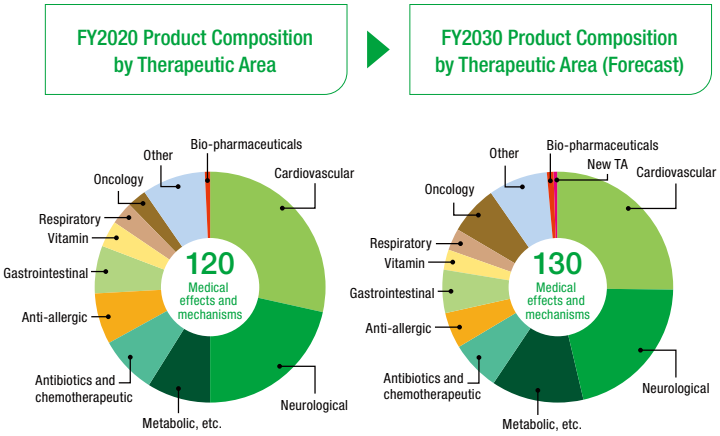
To improve our stable supply system, we will further strengthen our efforts made to date in the areas of “API procurement,” “enhanced production capacity,” and “optimization of the Towa Sales System.” We are making capital investments in our Yamagata Plant to fulfill our responsibility for stable product supply as a generics manufacturer and also to accommodate future expansion of our market share. Going forward, we will emphasize the perspective of supply chain management and strive to maintain and strengthen the stable supply system through risk-adapted initiatives.

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.

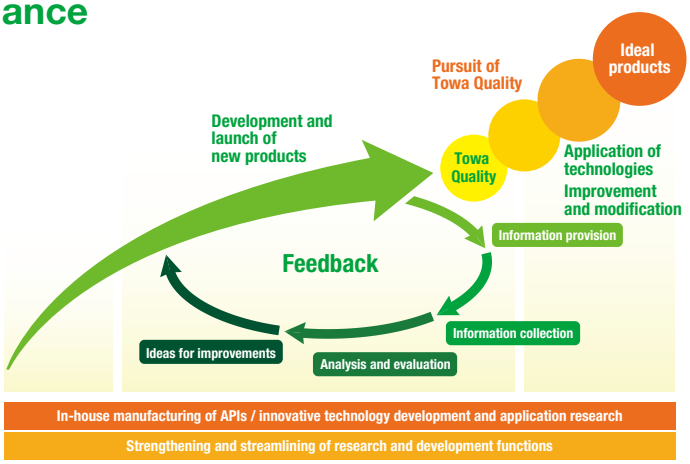
Broad product lineup

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. Subsequently, we launched sales of the brand-name drug, Edirol 0.5μg/0.75μg, in December 2022. 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

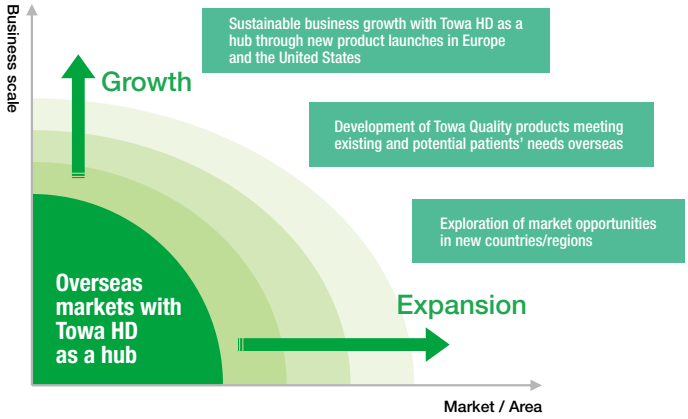
Manufacture of sophisticated products with No. 1 total product performance refers to our initiatives in providing the market with products characterized by “Towa Quality” that are desired and needed by customers. This guarantees the quality of the products that we supply under thorough quality control. 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

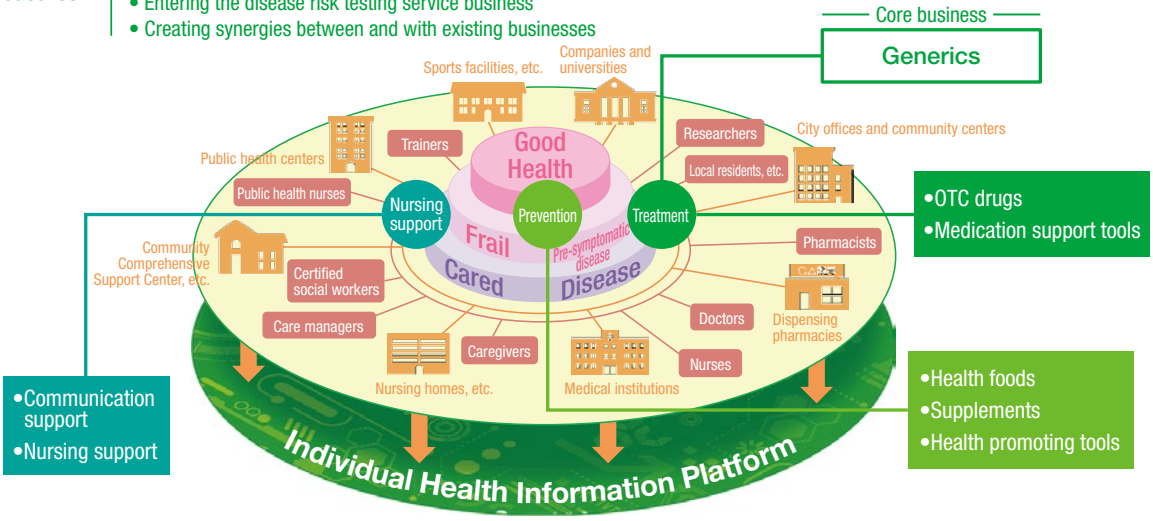
Entering new health-related businesses

As part of our challenges, the Company 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 pre-symptomatic disease care 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.

In addition, regarding Sunsho Pharmaceutical Co., Ltd., which became a wholly owned subsidiary in March 2022, we concentrated on the promotion of PMI and the creation of Group synergy. Going forward, by leveraging Sunsho Pharmaceutical's strong technological capabilities, extensive customer base, and knowhow on health foods that it has cultivated to date, we will aim to develop a diversified portfolio of health-related businesses.

Key measures

- Building a foundation for extending healthy life expectancy by utilizing data
- Contributing to Contributing to the Comprehensive Community Care System
- Further enhancing lineup of products and services to maintain and improve health
- Entering the 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 Uni ORV® 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, plan to consult with the regulatory authorities and determine a development policy with a view to obtaining approval.

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

API Technology

Establishment of molecular control technology

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

Establishment of chiral synthesis technology

- Enabling efficient API synthesis

Development of continuous flow precision synthesis

- Pursuing green sustainable chemistry with wastes reductions and low CO_2 emissions as key initiatives

Formulation Technology

Pursuing OD tablets that are easy to take

- Further improvement of RACTAB
  ➡ Masking technology to reduce bitterness, miniaturization of tablets, and better oral disintegration

Realization of stable formulations

- Development of formulations applying technologies to suppress the decomposition of active ingredients
- Assurance of expiration period of formulation for three years or more

Manufacturing Technology

Establishment of technology to monitor products in real time (PAT: Process Analytical Technology)

▼

Application to integrated continuous manufacturing system

- Production carried out under an integrated flow leading to labor saving
- Smaller manufacturing facilities and occupation area

Creation of New Product Value

Joint research aimed at obtaining a new indication for Bromocriptine

- Clinical trials for familial Alzheimer's disease started

Development of new Rivastigmine formulation

- Development of transdermal system twice-a-week medicine
- Hope for reducing the burdens on patients, their families, and caregivers

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

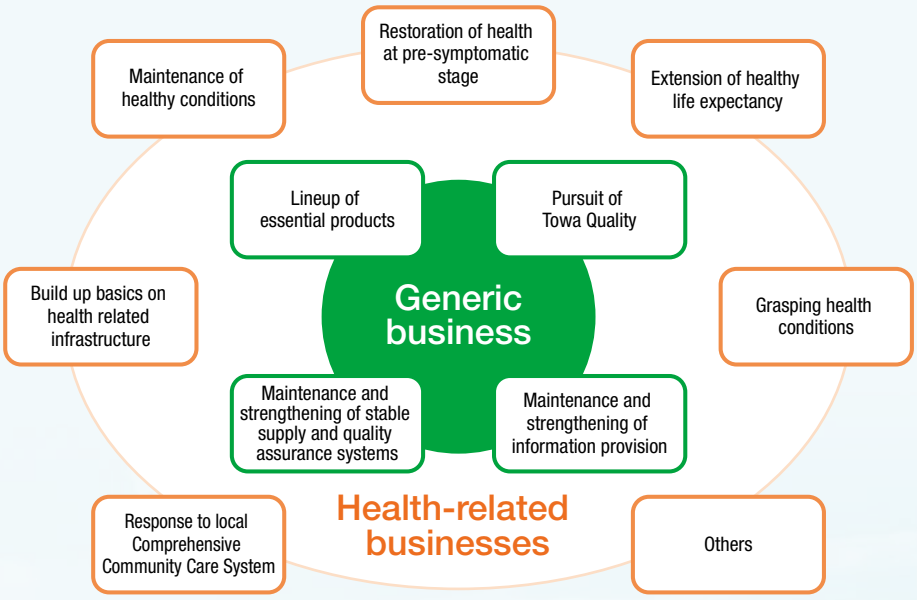
Based on our vision "We contribute to people's health; we are dedicated to people's genuine smiles," Towa Group contributes to people's health by creating superior products and services. Through our corporate activities, we aim to be a company that is valued and needed by patients, Medical professionals,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

Towa Group's Sustainability

Approach toward sustainability

Now that the volume share of generics has reached about 80%, we believe that it is our social responsibility to strive for a more stable product supply and to further improve the quality of our products. Accordingly, we will thoroughly implement product management and quality control. At the same time, we are committed to contributing to building a foundation for the creation of an ideal local society through new businesses and regions, providing necessary services to promote health to those who need such services, and thereby contributing to extension of healthy life expectancy.

Under such policies, in order to develop a long-term vision for major changes in the future while integrating all of the strengths of the Group, it is necessary for each business or company to define the goals that they should aim for, for each company to become an autonomous organization to discover new social issues, and for us to use the collective strengths of the Group to solve such issues, so that we can realize the Company's vision, "We contribute to people's health. We are dedicated to people's genuine smiles."

As a group governance system to realize the foregoing, the Risk Management Committee (chief risk officer: Itsuro Yoshida, President and Representative Director), which is consulted by the Board of Directors regarding risks including climate change, collects and analyzes information in collaboration with departments and affiliate companies and examines expected risks (including opportunities related to climate change) and initiatives related thereto. The Board of Directors receives reports from the Risk Management Committee on the status of examination twice a year, determines the policies, and supervises the Committee.

In addition, the Executive Strategy Meeting chaired by President and Representative Director, Itsuro Yoshida, meets once a week in principle and deliberates on important items related to management issues. The Meeting deliberates on our management policies and the Mid-term Business Plan including personnel measures and clearly defines the basic strategies and management targets.

Sustainability 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.

Information disclosure based on the TCFD recommendations

The Group recognizes that global warming is a worldwide issue, and thus has long been working on initiatives such as installation of solar power generation systems and energy saving at its plants, laboratories, offices, etc. In addition, in the recognition that climate change is a management risk of the Group, we launched a TCFD (Task Force on Climate-related Financial Disclosures) project and commenced company-wide initiatives in FY2022.

The Towa Group announced in December 2022 its support for the TCFD recommendations established by the Financial Stability Board (FSB). In FY2022, examination was conducted with a single entity of Towa as the scope of the examination. We assessed and identified risks and opportunities posed by climate change issues on society and corporations, and estimated the level of impact on Towa's businesses. In the future, we will contribute to

creation of a sustainable society by reflecting specific countermeasures against risks and opportunities that have been materialized to our strategies, and aim to achieve continuous growth of the Company's businesses.

The scope of examination will be expanded to the entire Towa Group from FY2023, and we will promote further information disclosure.

Governance

Organizational structure and processes

The TCFD Subcommittee was established as a subcommittee under the Risk Management Committee and responds to climate change-related issues. The Board of Directors consults the Risk Management Committee, determines their policies, and supervises the Committee.

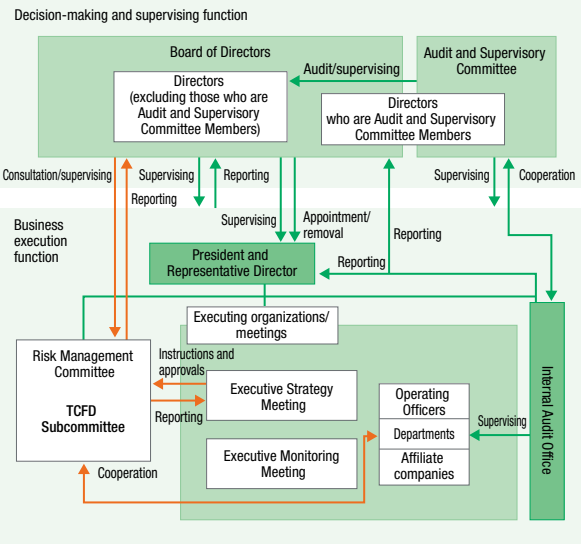
The Risk Management Committee deliberates on the status of initiatives undertaken by the TCFD Subcommittee, and reports to the Board of Directors on the status twice a year.

The TCFD Subcommittee collects and analyzes information in collaboration with departments and affiliate companies, identifies and assesses expected risks and opportunities related to climate change, and reviews the assessment. In addition, the Subcommittee formulates the action plans, countermeasures, etc., checks and follow ups the status of implementation on a periodic basis, and reports the status of implementation to the Executive Strategy Meeting as appropriate. Furthermore, it reports each important matter to Risk Management Committee members.

Departments and affiliate companies implement various measures that are formulated in collaboration with the TCFD Subcommittee, and provide data related to climate change.

The Executive Strategy Meeting receives reports from the TCFD Subcommittee as appropriate and issues instructions and approvals when necessary.

The Audit and Supervisory Committee and the Internal Audit Office conduct audits on these initiatives.



Strategies

Assumptions for scenario analysis

The Company conducted scenario analysis for manufacturing, selling, businesses, etc. of its ethical drugs, assuming the world as of 2030. In the scenario analysis, we have formulated three scenarios, namely 1.5°C, 2°C, and 4°C scenarios, in reference to various reports issued by IPCC, IEA, etc. In the 1.5°C scenario, it is assumed that various regulations, including a carbon tax, will be introduced to realize a decarbonized society and there will be increasing demands from various stakeholders to respond to climate change, while new needs may arise due to changes in society and lifestyles. In the 4°C scenario, it is assumed that the progress of global warming will increase the risk of disasters such as extreme heavy rainfall and health risks such as heat stroke, while new needs may also arise for adaptation to climate change.

Results of scenario analysis

We identified risks and opportunities based on each scenario, assessed the criticality on the businesses depending on the likelihood of occurrence and the level of impact of each risk and opportunity, and considered countermeasures. As a result, there were no serious business risks associated with climate change on the subject businesses that have been identified. Risks and opportunities expected in the 1.5°C scenario and the 4°C scenario are as listed in the following page.

IPCC: Intergovernmental Panel on Climate Change
IEA: International Energy Agency

Scenario analysis

Scope of analysis: TOWA PHARMACEUTICAL CO., LTD. (single entity) Period subject to analysis: FY2021-FY2030

	Item	Event	Business impact	Countermeasure	Level of impact
Transition Risk and opportunity 1.5°C scenario	Policy	Introduction of a carbon tax	[Risk] An increase in business operating costs due to higher carbon tax burden	• Implementation of evaluation, factor analysis, measures to control frequency of CO_2 emissions • Introduction of low-carbon facilities and energy-saving equipment • Establishment of manufacturing methods with low environmental load	Medium
		Tightening of regulations for CO_2 emissions/energy saving	[Risk] An increase in energy procurement costs associated with a shift to energy with less environmental load		Low
			[Opportunity] Promotion of energy saving, reduction of business costs by reviewing supply chains, and promotion of decarbonization		Medium
	Technology	Promotion of decarbonization of entire society	[Risk] An increase in capital investment costs to promote decarbonization	• Collection of information and introduction of various decarbonization technologies (while investment costs are incurred, subsequent business operating costs are reduced)	Low
	Market		[Risk] An increase in costs for procuring raw material due to promotion of decarbonization at suppliers	• Risk hedge by securing multiple suppliers • Conducting risk assessment related to raw material procurement	Low
Physical Risk and opportunity 4°C scenario	Acute	Increases in frequency and magnitude of meteorological disasters	[Risk] Suspension of operations due to damage to company-owned locations and/or supply chains	• Establishment of a backup system among business sites • Operation of a crisis management system in preparation for meteorological disasters	Low
	Chronic	An increase in extreme weather (extremely hot days, etc.)	[Risk] An increase in air conditioning costs, etc. for quality control	• Introduction of energy-saving facilities	Low
			[Opportunity] An increase in demand for drugs for diseases increasing with climate change	• Development and launch of products with an eye on trends in demand for pharmaceutical products	Low
			[Opportunity] Establishment of competitive advantage by leveraging proprietary technologies and an increase in demand for value-added products	• Strengthening of information disclosure • Diversification of sales channels and user contact points	Low

Risk management

The TCFD Subcommittee conducts an annual review of the risk and opportunity assessment to manage climate change-related risks and opportunities.

Risks and opportunities are assessed from such perspectives as the likelihood of occurrence, level of impact, presence or absence of countermeasures, respectively, to determine the criticality.

In addition, we also subdivide them into value chains* to assess them and consider countermeasures.

When assessing risks and opportunities, we conduct interviews with relevant business departments as necessary.

Those with high criticality are reviewed by the Risk Management Committee and reported to the Board of Directors through the Risk Management Committee as necessary.

In addition, the TCFD Subcommittee formulates countermeasures against climate change-related risks and opportunities and manages the progress of such countermeasures based on preset indicators.

*Value chains:
Value chains are a classification of businesses by function, and the Company categorizes businesses into “R&D; Purchase/Procurement; Manufacturing; Distribution; Sales/Marketing; and Administration Management.”

Indicators and targets

The Group has calculated greenhouse gases emissions as an indicator to manage climate change-related risks and opportunities and set mid- to long-term reduction targets. For Scopes 1 and 2, we will aim for emissions reduction by 30% in FY2030 as compared with FY2021, and for the carbon neutrality by FY2050.

Emissions in Scopes 1, 2 and 3 (CO_2 emissions (t-CO_2))

	FY2021	FY2022
Scope 1	30,098	29,948
Scope 2	43,180	47,661
Scope 3	947,466	1,045,925

Scope of calculation: TOWA PHARMACEUTICAL CO., LTD., J-Dolph Co., Ltd., Daichi Kasei Co., Ltd., Greencaps Pharmaceutical Co., Ltd., Towa Pharma International Holdings, S.L., Sunsho Pharmaceutical Co., Ltd., etc.

Period of calculation: From April 2021 to March 2022 and from April 2022 to March 2023, including Sunsho Pharmaceutical Co., Ltd. and Towa Pharma International Holdings, S.L. which changed the fiscal year end to March 31 starting from the fiscal year ended March 31, 2023

Society

[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.

Booklet to provide information

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

Responsible Business Activities

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.

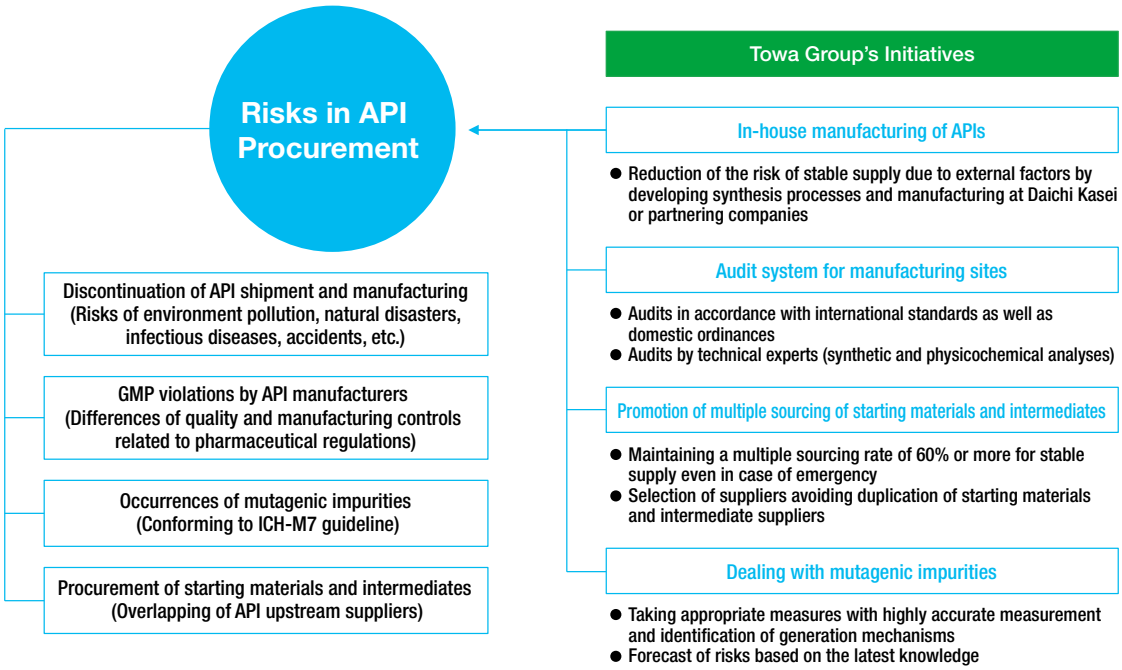

Osaka Plant


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

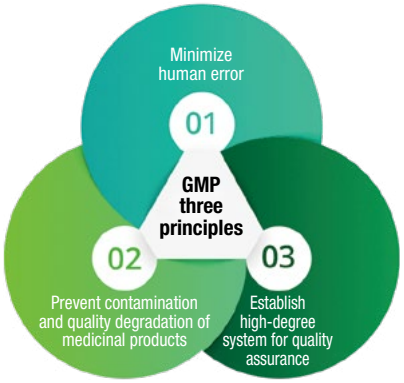
Strict quality control standards established by the national government apply to all processes of ethical drug manufacturing operations. In order to be a trustworthy company, we carry out company-wide quality control initiatives ranging from product R&D, manufacturing, and marketing to after-sales operations,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

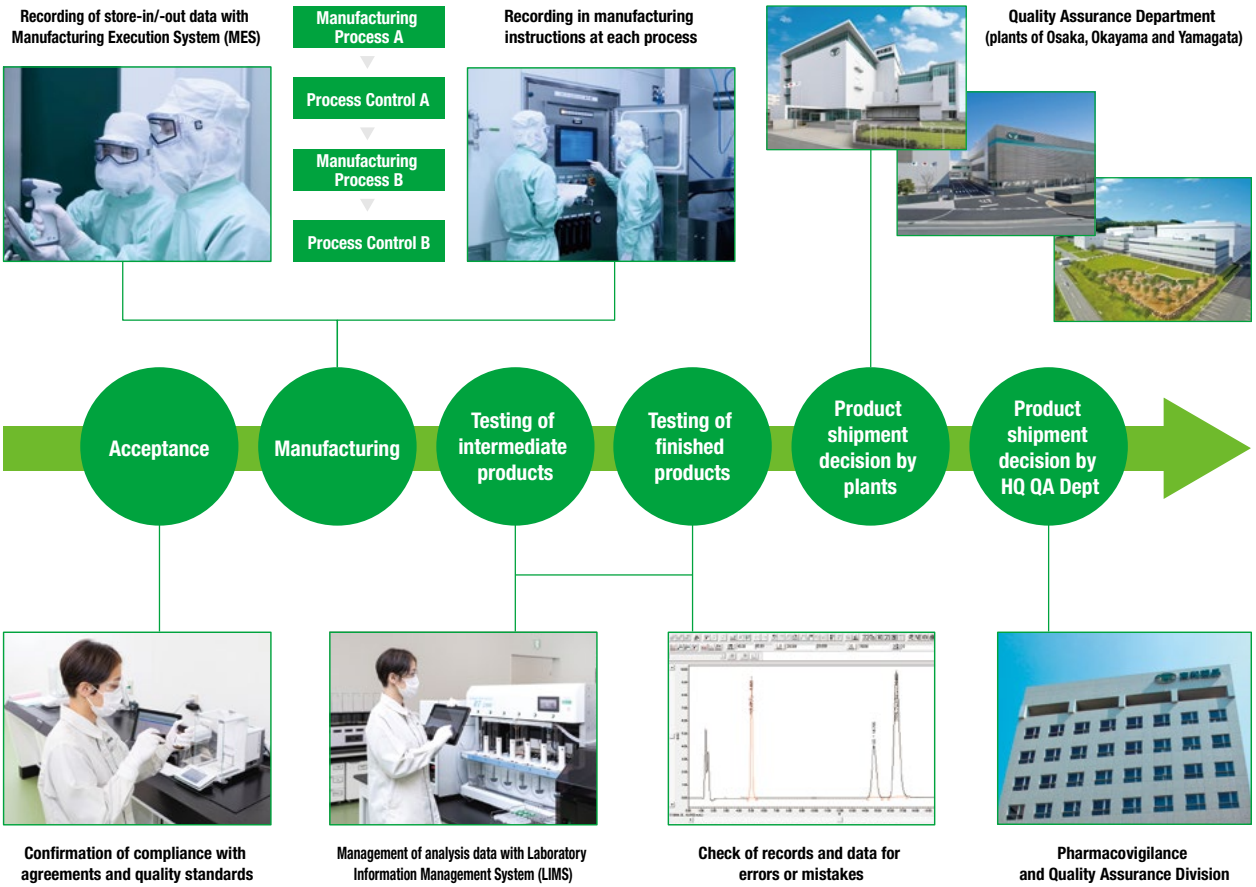
In the 5th Mid-term Business Plan, Policy 1 is “Enhancing generics business as a core.” Under the policy, one of the key themes is further strengthening the quality assurance system in order to be a more trusted and needed company as a comprehensive generics manufacturer. Under the quality assurance 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

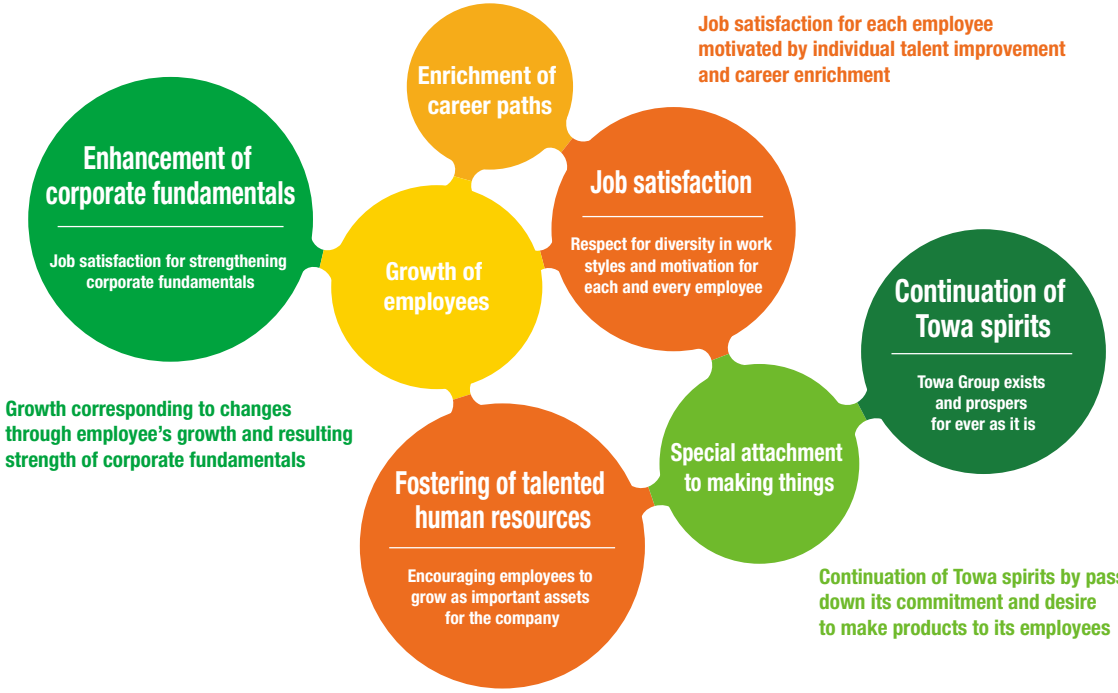
Pharmaceuticals production is based on Good Manufacturing Practice (GMP), the standards for manufacturing control and quality control for drugs laid down by the nation.

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.





Making Job Satisfaction and Fostering Talented Human Resources



Career Development Support

The Company is committed to "career development support" for employees as part of our human resources strategy, and strives to realize the continuous personal growth of employees and create opportunities for employees to demonstrate their abilities to the maximum extent. By so doing, we aim to create an organization where employees can work vibrantly, and thereby become an organization and a company where all employees feel a sense of job satisfaction.

More specifically, the Company holds interviews between individuals and the Human Resources Division staff and conducts career development training for those in managerial positions based on internal questionnaire surveys, so that the Company can support their independent career development. In addition, we conduct career development training every year for those who are newly appointed to managerial positions and those who are in the fourth year since their hiring upon graduation. Meanwhile, the Career Development Department proactively discusses initiatives toward career development support and reports the results of their discussions to the Executive Monitoring Meeting.

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. We are dedicated to people's genuine smiles" through corporate activities.

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 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. In addition, we have introduced a "specialist MR system" as an internal qualification. We aim to develop MRs who can contribute to team medical services as specialists with knowledge in specific fields such as cancer, psychiatric disorder, and primary care, providing more appropriate information to healthcare professionals. In addition to the foregoing, in FY2021, we established a new "inventory observer qualification" as an internal qualification.

Going forward, by promoting various certification systems, the Company will 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.

2023 Certified Health & Productivity Management Outstanding Organizations Recognition Program (White 500)

We were recognized as one of White 500 enterprises (large enterprise category) under the 2023 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 six 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.

2023 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.

Indicator	Target	Result
Rate of holding interviews with the Human Resources Division staff	100% (October 2022 to the end of September 2023)	97.4% (Result for June 2021 to March 2022)
Ratio of women in management positions	Achieve 13%	12.8% (As of March 2023)
Ratio of paid leave taken	Achieve 65%	66.3% (Result for FY2022)

Towa Health Challenge 2023

In June 2023, we had a health measurement event called "Towa Health Challenge 2023." This event was aimed to encourage our employees to think about their own health. This event is a substantial one, in which seven items, namely, vascular age and stress, body composition, cognitive ability, muscle strength and balance, joint range of motion, walking posture, and general endurance, are measured and "training movies" are delivered on a continuous basis based on the measurement results. Awards were also presented to employees who had achieved particularly outstanding results in "Towa Health Challenge 2022" conducted in the previous fiscal year. To help our employees improve their lifestyle habits, we will continue to hold the event as an annual company-wide event.

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 fourth time in FY2022. 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.

高校生 未来健康ビジコン2023

Cultivation of Pharmaceutical Product Raw Materials in Mongolia

As an example of social contribution activities in overseas countries, the Company has been implementing a project in Mongolia for more than 10 years to cultivate licorice and other plants used as herbal medicine. Mongolia's industries to support its economy that are unique to itself are limited, and in addition, the country is facing a serious issue of desertification of land. Accordingly, as the Company had a relationship with the country through trading of pharmaceutical products, we have pushed forward with support to Mongolia.

We have been working to encourage the cultivation of licorice in this country in the recognition of the large number of licorice plants growing wild in the vast grasslands. Licorice is heavily used as a natural food additive, and also used for herbal medicine. It is a valuable plant that can be used as a pharmaceutical ingredient because glycyrrhizic acid can be extracted.

However, licorice requires at least five years from planting to harvest to be used as raw materials for herbal medicine. Therefore, the Company has initiated a "100-Year Plan" in which we support activities ranging from securing cultivation land to planting, managing, and harvesting licorice, which are followed by drying, chipping and sales. Going forward, we are committed to contributing to development of industries in Mongolia through cooperation with local people by making the local licorice extraction and sales possible to make the plant into pharmaceutical products.

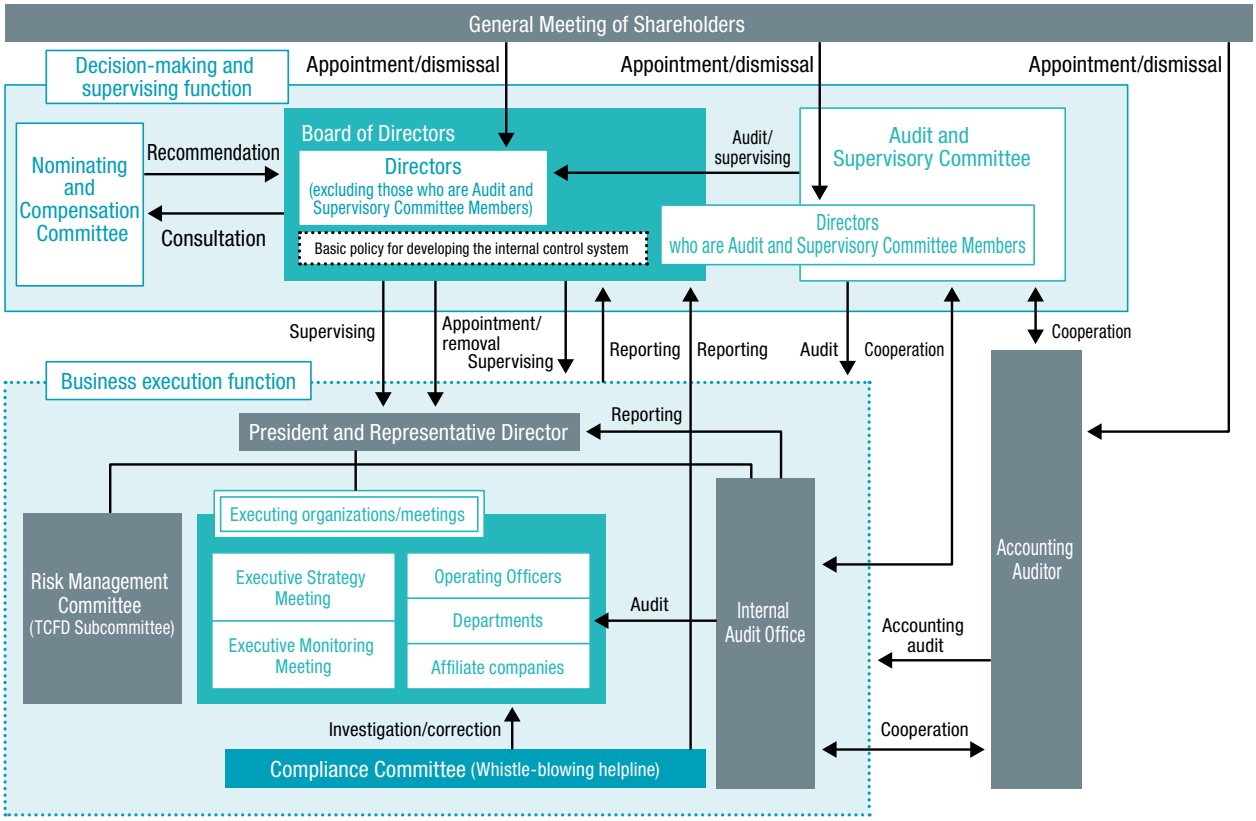
Governance

[Basic approach]

We consider enhancing corporate governance to be an important managerial task. By ensuring compliance-oriented management and raising management efficiency and transparency, we will continue to increase our corporate value. 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. 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. Its 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. These include the transition to a company with an audit and supervisory committee, introduction of a 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

In February to March 2023, the Company conducted a self-evaluation survey for Directors 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 17, 2023.

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 assurance	Global
Inside Directors	Itsuro Yoshida	●	●	●	●	●	●		●		
	Masao Tanaka	●	●	●	●	●					
	Osamu Uchikawa	●	●					●			●
	Norikazu Inoue				●	●					
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 the promotion of sound and efficient management at Board of Directors meetings. 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 the appointment or dismissal of and compensation for Directors and other officers.

The Company formulated the basic policy for the determination of Directors' compensation as detailed on the next page. 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 with necessary support by the assistant staff of the Audit and Supervisory Committee as well as reports and explanations on important matters by the full-time Audit and Supervisory Committee Member.

Reasons for nomination of Outside Directors

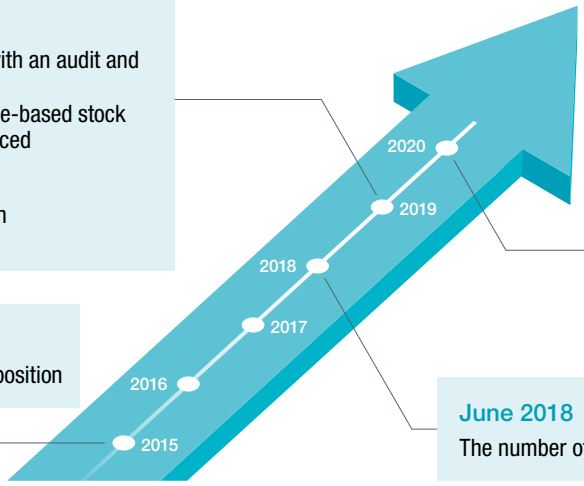
Name and position	Reasons for nomination	Attendance	
Outside Director (Audit and Supervisory Committee Member) **Norikazu Eiki** Assumed the office in June 2019	Norikazu Eiki has wide-ranging insights and extensive experience at a global company, and the Company expects that his advice and opinions will promote sound, efficient, and objective management, for which reason it has appointed him as an Outside Director.	Board of Directors meetings (held 14 times) 100%	Audit and Supervisory Committee meetings (held 13 times) 100%
Outside Director (Audit and Supervisory Committee Member) **Kaori Oishi** Assumed the office in June 2020	Kaori Oishi is well versed in corporate legal affairs as an attorney-at-law. The Company expects that she will provide advice and opinions based on her wealth of experience and expertise as well as from a female perspective, for which reason it has nominated her as an Outside Director.	Board of Directors meetings (held 14 times) 100%	Audit and Supervisory Committee meetings (held 13 times) 100%
Outside Director (Audit and Supervisory Committee Member) **Kenryo Goto** 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 nominated him as an Outside Director.	Board of Directors meetings (held 14 times) 100%	Audit and Supervisory Committee meetings (held 13 times) 100%

History of Towa's corporate governance

June 2019
Towa transitioned to a company with an audit and supervisory committee
The mid- to long-term performance-based stock compensation system was introduced

October 2019
The Nominating and Compensation Committee was established

June 2015
An Outside Director assumed the position



June 2020
A woman assumed the position of Outside Director

June 2018
The number of Outside Directors increased to two

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, in 2019 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 (JPY million)	Amount of compensation by type (JPY million)				Number of eligible officers
		Basic compensation	Annual bonuses (based on individual performance)	Performance-based compensation		
				Monetary compensation	Non-monetary compensation	
Directors (excluding those who are Audit and Supervisory Committee Members)	156	107	16	25	7	3
Directors who are Audit and Supervisory Committee Members (of which Outside Directors)	49 (26)	49 (26)	— (—)	— (—)	— (—)	4 (3)
Total (of which Outside Directors)	206 (26)	157 (26)	16 (—)	25 (—)	7 (—)	7 (3)

Cross-shareholdings

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

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

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

Dialogues with stakeholders

The Company discloses the information on its management strategies, 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 17 members including Representative Director Itsuro Yoshida, who serves as the chief risk officer. In addition, Director (Audit and Supervisory Committee Member) Norikazu Inoue 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.

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

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 position 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

The legal status of COVID-19 under the Act on the Prevention of Infectious Diseases and Medical Care for Patients with Infectious Diseases has changed from Class II Infectious Disease to Class V Infectious Disease on May 8, 2023. As of the date of issuance of this Integrated Report (on November 30th, 2023), the Group expects that the impact of the infection becomes even less severe. However, if the infection situation were to worsen in the future, it may cause an impact on the Group's sales and production.

Meanwhile, 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.

Compliance

Compliance policy

In order to be committed to ethical and law-abiding corporate behavior in accordance with the “Towa Group Code of Conduct,” the Group promotes 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 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 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 Directors and 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 entire 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.

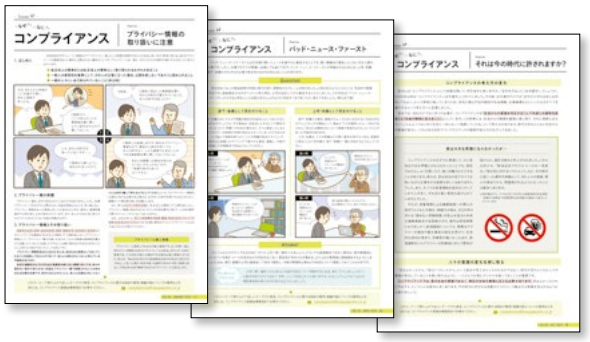
In addition, because each organization needs to carry out activities such as promotion of and corrective actions for compliance autonomously, we have designated Division Managers and Plant Managers as Departmental Compliance Promotion Supervisors, and Department Managers as Departmental Compliance Promoters. The Compliance Committee works together with Departmental Compliance Promotion Supervisors to plan and implement measures such as identification, analysis, and correction of compliance risks for the Group as a whole.

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 displayed a poster to raise awareness of compliance. We also conducted an awareness survey for all officers and employees of the Group, officer training, and workplace meetings related to compliance at each department.

In addition, we provided e-learning on such themes as how to use the whistle-blowing system and handle privacy information. For overseas subsidiaries as well, legal affairs and compliance departments at the regional headquarters undertook measures such as provision of training.



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 Pharma International Holdings, S.L., 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

Providing genuine smiles through Towa Quality

Norikazu Eiki
Outside Director (Audit and Supervisory Committee Member)

The pharmaceutical industry currently faces three major, unprecedented issues. They are (1) the stable supply of generics, (2) a drug discovery capability decline, drug lag and drug loss, and (3) distribution and pharmaceutical pricing systems. In response to these issues, at Towa Pharmaceutical, we conduct free and serious debate in the monthly meetings of the Audit and Supervisory Committee Members and Board of Directors. Further, to deepen our understanding of specific themes, we hold separate meetings between the senior managers and the Outside Directors. Towa will launch its 6th Mid-term Business Plan next fiscal year (from April 2024). I hope to contribute to the Company's efforts to demonstrate its strength, namely Towa Quality, to the full in all situations so that it may offer many smiles to people in Japan and throughout the world.

Efforts to fulfill a social mission and deepen discussions in the Board of Directors

Although the role expected of generics manufacturers is growing in importance, quality problems by certain manufacturers in the generics industry have caused concerns about stability of supply and product quality, and the situation has yet to be resolved. Even under such severe circumstances, viewing its vision of contributing to people's health as its social mission, Towa is working steadfastly to expand its production capacity, as well as to unite across the Company as a whole to realize the manufacture of sophisticated products with No. 1 total product performance under thorough quality control. The enthusiasm with which the Company is working toward these goals is conveyed deeply even to me as Outside Director. In the Board of Directors, lively discussion takes place about issues such as the fostering of talented human resources and the environment, with the social mission that Towa should fulfill in mind. I hope to see even more in-depth debate aimed at the further promotion of sustainability management.

Kaori Oishi
Outside Director (Audit and Supervisory Committee Member)

We want to help the industry to return to normal

Kenryo Goto
Outside Director (Audit and Supervisory Committee Member)

The problem of insufficient supply of generics has, unfortunately, not been eliminated since it first emerged in 2020. In light of structural challenges, a panel of experts convened to consider this problem has recommended the development of a scheme for the market to commend companies that are able to provide stable supply of generics of assured quality. Deliberations are still ongoing.

In its desire to play a part in returning the industry to normal, Towa is working to expand its production capacity and is in the process of formulating its new Mid-term Business Plan to start in FY2024. I hope to support those efforts from the perspective of corporate governance.

In accordance with our vision of supporting "genuine smiles" by contributing to people's health, I hope that, with my outsider's perspective, 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.

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.

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)

Osamu Uchikawa

Director

August 2017	Joined the Company / Senior Advisor, API Business Division
April 2018	Operating Officer / Division Manager of API Business Division
April 2019	Senior Operating Officer / Division Manager of API Business Division / In charge of Product Strategy Division and Innovative Technology Research Division
April 2021	Senior Operating Officer / Division Manager of API Business Division / In charge of Product Planning Division, Innovative Technology Research Division, Pharmaceutical Research and Technology Division, Pharmaceutical CDMO Management Division, and Pharmaceutical Development Division
June 2021	Chairman and Representative Director of Daichi Kasei Co., Ltd. (to present)
April 2022	Senior Operating Officer / Division Manager of API Business Division / In charge of Pharmacovigilance and Quality Assurance Division, Product Planning Division, Innovative Technology Research Division, Pharmaceutical Research and Technology Division, Analytical Technology Center, Pharmaceutical CDMO Management Division, and Pharmaceutical Development Division
April 2023	Senior Operating Officer / In charge of R&D Division, Pharmacovigilance and Quality Assurance Division, and Pharmaceutical CDMO Management Division
June 2023	Director (to present)

Norikazu Inoue

Director (Full-time Audit and Supervisory Committee Member)

October 2011	Joined the Company / Deputy-General Manager of General Affairs Department, Administration Division
April 2014	General Manager of General Affairs Department, Administration Division
April 2015	General Manager of General Affairs Department, General Affairs Division
October 2016	General Manager of General Affairs Department, Administration Division
April 2017	Operating Officer / General Manager of General Affairs Department, Administration Division
April 2019	Senior Operating Officer / Division Manager of Administration Division / General Manager of General Affairs Department
April 2020	Senior Operating Officer / Division Manager of Administration Division
April 2023	Senior Operating Officer / In charge of Administration Division
June 2023	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.

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)

11-Year Financial Summary

	2013	2014	2015	2016
Net sales (JPY million)	55,241	61,351	71,470	82,115
Operating profit (JPY million)	7,723	7,706	11,105	11,134
Ordinary profit (JPY million)	9,544	8,834	15,437	10,157
Profit attributable to owners of parent (JPY million)	6,201	5,992	11,118	7,684
Comprehensive income (JPY million)	6,348	5,999	11,175	7,313
Net assets (JPY million)	55,610	60,147	70,048	70,605
Total assets (JPY million)	89,705	103,318	121,187	156,851
Net assets per share (JPY)	1,090.70	1,179.69	1,373.89	1,434.79
Earnings per share (JPY)	121.62	117.54	218.07	154.19
Diluted earnings per share (JPY)	—	—	—	436.29
Capital-to-asset ratio (%)	62.0	58.2	57.8	45.0
ROE (Return on equity) (%)	11.7	10.4	17.1	10.9
Price-earnings ratio (%)	13.68	12.63	10.50	9.98
Cash flows from operating activities (JPY million)	8,645	8,144	8,037	3,732
Cash flows from investing activities (JPY million)	(11,298)	(11,300)	(8,230)	(19,032)
Cash flows from financing activities (JPY million)	2,793	3,529	238	27,970
Cash and cash equivalents at end of year (JPY million)	3,985	4,675	5,208	18,526
Number of employees	1,696	1,879	2,060	2,203
R&D expenditure (JPY million)	4,478	5,296	6,144	8,924
Capital investment (JPY million)	7,855	9,727	13,816	15,792
Depreciation (JPY million)	4,909	5,407	5,724	7,329
Dividend per share (JPY)	75.0	75.0	95.0	95.0
Dividend payout ratio (%)	20.6	21.3	14.5	20.5

Note: The Company conducted a 3-for-1 stock split of common shares effective April 1, 2019. We calculated net assets per share and earnings per share assuming that the said stock split was conducted at the beginning of the fiscal year ended March 31, 2013.
During the fiscal years ended March 31, 2021 and 2023, the Company finalized provisional accounting treatments for the business combination. Accordingly, major management indices and other relevant data for the fiscal years ended March 31, 2020 and 2022 reflect contents of the finalization of provisional accounting treatments.

2017	2018	2019	2020	2021	2022	2023 (FYE March)
84,949	93,430	105,104	110,384	154,900	165,615	208,859
6,869	11,643	15,968	16,143	19,923	19,205	5,514
7,417	11,717	18,865	20,990	18,677	22,739	5,141
5,576	6,495	13,475	14,503	13,958	15,914	2,201
5,858	6,533	13,409	14,948	14,469	17,960	7,825
74,945	79,920	91,771	104,665	116,599	132,169	136,894
165,247	177,181	188,803	230,016	245,668	332,097	371,347
1,522.99	1,624.09	1,864.92	2,126.72	2,369.21	2,685.18	2,781.17
113.32	132.00	273.85	294.74	283.62	323.36	44.72
314.23	122.03	253.32	272.62	271.93	316.19	—
45.4	45.1	48.6	45.5	47.5	39.8	36.9
7.7	8.4	15.7	14.8	12.6	12.8	1.6
16.56	16.79	10.64	7.69	8.61	8.50	42.37
10,195	19,230	19,002	19,164	12,008	22,129	2,544
(22,206)	(20,093)	(3,994)	(39,541)	(9,100)	(59,729)	(30,284)
(92)	4,670	(809)	11,748	184	46,540	17,481
7,112	11,511	26,652	18,713	22,915	32,830	24,257
2,408	2,449	2,472	3,325	3,456	4,078	4,298
9,352	7,725	7,916	8,566	10,642	11,488	15,265
25,026	12,166	6,011	6,236	10,353	14,848	39,645
7,980	8,173	8,340	8,285	9,674	10,153	14,261
95.0	95.0	107.5	44.0	44.0	60.0	60.0
27.9	24.0	13.1	14.9	15.5	18.6	134.2

The Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and other standards from the beginning of the fiscal year ended March 31, 2022. Major management indices and other data for the fiscal year ended March 31, 2022 and the following years reflects these accounting standards.
Diluted earnings per share for the fiscal year ended March 31, 2023 are not stated since there were no dilutive shares.
The fiscal year ended March 31, 2023 represents a transitional period for the change in the fiscal period for nine consolidated subsidiaries, scoped 15-month period from January 1, 2022–March 31, 2023.

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

The details of the financial reports are excerpts from the Annual Securities Report (from April 1, 2022 to March 31, 2023).

Overview of Performance

[1] Business environment

Under the "Basic Policy on Economic and Fiscal Management and Reform 2017" approved by the Cabinet in 2017, the Japanese government set the target of increasing the volume share of generics to 80% by September 2020. To meet the target, the generics industry including Towa strived to enhance production systems and ensure a stable supply of products. The resultant wider use of generics led to an 81.2% volume share in December 2022 (according to the survey by the Japan Generic Medicines Association in October–December 2022).

On the other hand, pursuant to the "Basic Policy on Economic and Fiscal Management and Reform 2020" approved by the Cabinet in July 2020, the government has since FY2021 revised the drug prices every year—namely, adding revisions in intermediate years to regular biennial revisions. This has made the business environment for the pharmaceutical industry extremely difficult.

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

[2] Initiatives for sales growth

In 2022, we launched 13 new items of seven APIs in June and 14 new items of seven APIs in December. As a result, the number of our generics reached 768 items of 345 APIs.

[3] Initiatives for entering overseas markets

To expand and grow our business in overseas markets, we develop our generics business in the European and U.S. markets through Towa Pharma International Holdings, S.L. In the fiscal year under review, we worked at harnessing this change to foster a sense of unity and encourage collaboration in the Group, and deliver value-added products under the unified brand, with a view to communicating a clearer image of the Towa brand to stakeholders and further expanding our business.

[4] Creation of new businesses

As one of our challenges, we aim for contributing 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. With such recognition, we are working to develop new businesses. As part of that effort, in the fiscal year under review we focused on integrating Sunsho Pharmaceutical, a company added to the scope of consolidation in March 2022, into the Group. Sunsho possesses the strong technological capabilities, extensive customer base, and health-food expertise that have been developed over the years. Utilizing these assets is expected to help us achieve the diversification of the health-related business portfolio as we have aimed for, and increase corporate value further. Meanwhile, to provide healthcare services utilizing medical and health data, we launched a Hana Support smartphone app in September 2022. Incorporating a particular game method, the app is designed to help users take their medicines correctly. Furthermore, we opened a KENTO Life Innovation Center, our new life sciences R&D base, in October 2022 in the Northern Osaka Health and Biomedical Innovation Town. Moving forward, we will continue striving to create new businesses in keeping with the Group's vision of contributing to people's health.

[5] Operating results

For the fiscal year under review, the Group recorded net sales of JPY 208,859 million, gross profit of JPY 72,713 million, selling, general and administrative expenses of JPY 67,199 million, operating profit of JPY 5,514 million, ordinary profit of JPY 5,141 million, and profit attributable to owners of parent of JPY 2,201 million.

Operating results by segment are as stated below. Note that profit from each reporting segment is before goodwill amortization. Net sales from the domestic segment amounted to JPY 155,538 million with segment profit of JPY 10,931 million. Net sales from the overseas segment amounted to JPY 53,487 million with a segment loss of JPY 277 million.

Financial position

The Group's financial position for the fiscal year under review is as follows:

[1] Assets

Total assets at the end of the fiscal year under review amounted to JPY 371,347 million, up JPY 39,250 million YoY. This was mainly due to increases in inventories of JPY 20,225 million and in construction in progress of JPY 19,445 million.

[2] Liabilities

Liabilities amounted to JPY 234,453 million, up JPY 34,525 million YoY. This was mainly due to increases in long-term borrowings of JPY 71,119 million and in notes payable–facilities of JPY 8,119 million, which offset a decrease in short-term borrowings of JPY 45,658 million.

[3] Net assets

Net assets amounted to JPY 136,894 million, up JPY 4,725 million YoY. This was mainly due to an increase in foreign currency translation adjustment of JPY 5,630 million. Consequently, the capital-to-asset ratio came to 36.9% at the end of the fiscal year under review.

Cash flows

The Group's cash and cash equivalents at the end of the fiscal year under review amounted to JPY 24,257 million, down JPY 8,573 million YoY. Each cash flow for the fiscal year under review and factors behind it are as follows:

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

Net cash provided by operating activities amounted to JPY 2,544 million (down JPY 19,585 million in the inflow YoY). This was mainly due to depreciation of JPY 14,261 million (up JPY 4,107 million YoY), which partially offset an increase in inventories of JPY 18,496 million (up JPY 10,545 million YoY).

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

Net cash used in investing activities was JPY 30,284 million (down JPY 29,445 million in the outflow YoY). This was mainly attributable to purchase of property, plant and equipment of JPY 28,731 million (up JPY 17,590 million YoY).

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

Net cash provided by financing activities amounted to JPY 17,481 million (down JPY 29,058 million in the inflow YoY). This was mainly due to proceeds from long-term borrowings of JPY 78,831 million (up JPY 69,670 million YoY), which cancelled out a net decrease in short-term borrowings of JPY 45,680 million (compared to the net increase of JPY 47,135 million for the previous fiscal year), repayments of long-term borrowings of JPY 8,118 million (up JPY 936 million YoY), and redemption of bonds with stock acquisition rights of JPY 4,150 million.

Dividend policy

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

Based on this policy, for the fiscal year under review we paid a dividend of JPY 60 (an interim dividend of JPY 30 and a year-end dividend of JPY 30) per share. Our basic policy is to pay dividends of surplus twice a year for the interim dividend and the year-end dividend. The decision-making bodies for these dividends of surplus are the General Meeting of Shareholders for the year-end dividend and the Board of Directors for the interim dividend.

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

Business Locations

Major Group Companies

J-DOLPH Pharmaceutical Co., Ltd.

Manufacturing and selling of ethical drugs

Headquarters: Koka, Shiga

Daichi Kasei Co., Ltd.

R&D and manufacturing of APIs and intermediates

Headquarters: Fukusaki, Kanzaki, Hyogo

Greencaps Pharmaceutical Co. Ltd.

Producing soft capsules for pharmaceutical products

Headquarters: Fujinomiya, Shizuoka

Sunsho Pharmaceutical Co., Ltd.

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

Headquarters: Fuji, Shizuoka

Towa Pharma International Holdings, S.L.

Manufacturing and selling of ethical and OTC drugs

Headquarters: Barcelona, Spain

Non-consolidated subsidiaries

T Square Solutions Co., Ltd.

Provision of healthcare related IT services

Headquarters: Moriguchi, Osaka

Protosera Inc.

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

Headquarters: Settsu, Osaka

Company Outline As of March 31, 2023

Overview of Company

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

Business locations and sales outlets

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

Consolidated subsidiaries

J-DOLPH Pharmaceutical Co., Ltd.
Daichi Kasei Co., Ltd.
Greencaps Pharmaceutical Co. Ltd.
Sunsho Pharmaceutical Co., Ltd.
Towa Pharma International Holdings, S.L. and seven companies

Stock Data As of March 31, 2023

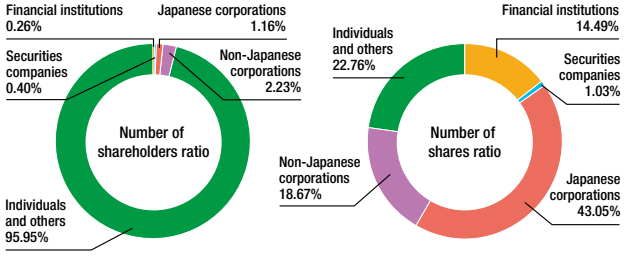
Shares authorized ..... 147,000,000 shares
Shares issued ..... 51,516,000 shares
Number of shares constituting one unit ..... 100 shares
Number of shareholders ..... 8,267 shareholders

Major shareholders (Top 10)

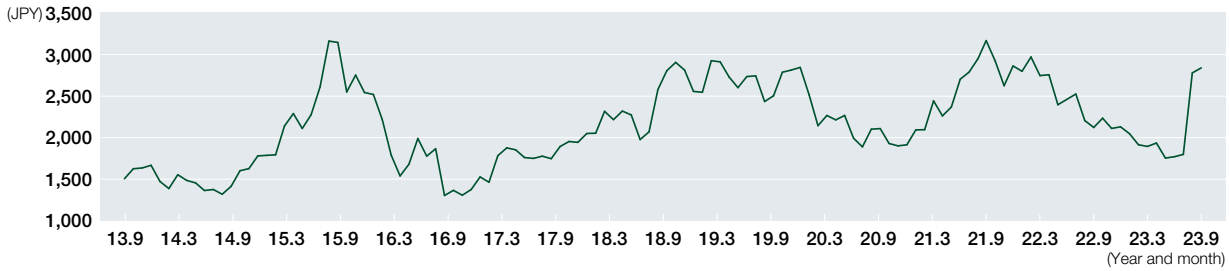
Shareholder name	Number of shares (Thousand)	Ownership (%)
Yoshida Office Co., Ltd.	20,100	40.84
The Master Trust Bank of Japan, Ltd. (Trust Account)	3,895	7.91
BNYM AS AGT/CLTS NON TREATY JASDEC	2,448	4.98
TOWA PHARMACEUTICAL Kyoeikai	1,494	3.04
Itsuro Yoshida	1,455	2.96
Custody Bank of Japan, Ltd. (Trust Account)	1,407	2.86
TOWA PHARMACEUTICAL Employee Stock Ownership Group	966	1.96
State Street Bank and Trust Company	751	1.53
Yoshida Estate Ltd.	648	1.32
Nippon Life Insurance Company	438	0.89

Note: The Company holds 2,294,167 shares of treasury stock but is excluded from the above major shareholders. The Company calculated the ownership by deducting the number of treasury shares.

Share breakdown by shareholder type



Stock Price



Supporting Expo 2025 Osaka, Kansai, Japan

Among the Signature Pavilions, thematic projects of Expo 2025 Osaka, Kansai, Japan, the Company is supporting the Co-being Pavilion (thematic project “Resonance of Lives”) produced by Hiroaki Miyata, a professor of the Keio University School of Medicine, as a bronze partner. The idea promoted by Miyata, “Better Co-Being,” represents conditions where people are connected to one another while their well-being is maintained. This theme is highly compatible with the Company’s vision, “We are dedicated to people’s genuine smiles.” We will work for the success of the Signature Pavilions through co-creation with Miyata and other supporting companies.

Provided by the Japan Association for the 2025 World Exposition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