



TOWA PHARMACEUTICAL CO., LTD.

Supplementary material of financial results for the 1Q of the year ending March 2014

August, 2013

(stock ticker number : 4553)

Summary

- Sales increased by 6.2% year-on-year. Sales in April decreased compared with temporary increase in last April, but ca. 10% increase year-on-year after May. Sales in May exceeded the plan, but the sales in the other months are in line with the plan.
- COGS rate increased by 5.3 point year-on-year. Major reasons are as follows.
 - Influence by consolidation of Daichi Kasei : 0.9 pt
 - Increase of depreciation cost : 1.9 pt
 - Temporary increase of outsourced manufacturing cost : 2.2 pt
- SGA increased by 7.3% year-on-year. Increase in labor cost by increase of employees impacted a lot. R&D cost decreased year-on-year, but actually increased because of the elimination of contract research payment, outsourced API manufacturing cost and others from Towa to Daichi Kasei (143 million yen in 14/3 1Q) by the consolidation of Daichi Kasei. On the other hand, compared with the budget, ca 0.3 bn yen of R&D cost and ca 0.2 bn yen of advertisement cost are behind, both of which will be accounted after 2Q.
- OP income decreased by 27.5% year-on-year. Good progress compared with the plan by SGA behind the budget, but OP income in 2Q will be in line with the plan.
- Operation of Yamagata Plant becomes 50 million tablets per month improved from 30 million tablets per month at the end of 13/3. It will soon achieve 60 million tablets per month, which is the original plan in the first year.
- Daichi Kasei is included in the consolidated financial figures from 14/3 1Q.
- 2Q and the full year forecast for 14/3 was not revised
- The construction of API manufacturing facility in Daichi Kasei is delayed and expected operation start time will be delayed more than half a year.

Outline of the financial results for the 1Q of the year ending March 2014

Period	14/3 1Q			13/3 1Q	
	(million Yen)	Ratio to sales (%)	Change in %	(million Yen)	Ratio to sales (%)
Net sales	14,605	100.0	+ 6.2	13,755	100.0
COGS	7,741	53.0	+ 18.0	6,558	47.7
SGA	5,078	34.8	+ 7.3	4,732	34.4
Operating income	1,786	12.2	- 27.5	2,463	17.9
Ordinary income	1,817	12.4	- 18.6	2,233	16.2
Net income	1,199	8.2	- 12.2	1,367	9.9

Exchange rate
US\$1.00

2013/6 2013/3
97.59 yen 93.05 yen

2012/6 2012/3
78.31 yen 81.19 yen

Outline of the financial results for the 1Q of the year ending March 2014

Period	14/3 1Q (Consolidated without Daichi Kasei)			13/3 1Q	
	(million Yen)	Ratio to sales (%)	Change in %	(million Yen)	Ratio to sales (%)
Net sales	14,605	100.0	+ 6.2	13,755	100.0
COGS	7,608	52.1	+ 16.0	6,558	47.7
SGA	5,222	35.8	+ 10.3	4,732	34.4
Operating income	1,774	12.2	- 28.0	2,463	17.9
Ordinary income	1,807	12.4	- 19.1	2,233	16.2
Net income	1,189	8.1	- 13.0	1,367	9.9

Outline of the financial results for the 1Q of the year ending March 2014

(progress rate to 14/3 2Q plan)

Period	14/3 1Q			14/3 2Q plan (disclosed on May 14 th)	
	(million Yen)	Ratio to sales (%)	Progress rate in %	(million Yen)	Ratio to sales (%)
Net sales	14,605	100.0	51.4	28,400	100.0
COGS	7,741	53.0	55.3	14,000	49.3
SGA	5,078	34.8	43.0	11,800	41.5
Operating income	1,786	12.2	68.7	2,600	9.2
Ordinary income	1,817	12.4	69.9	2,600	9.2
Net income	1,199	8.2	68.6	1,750	6.2

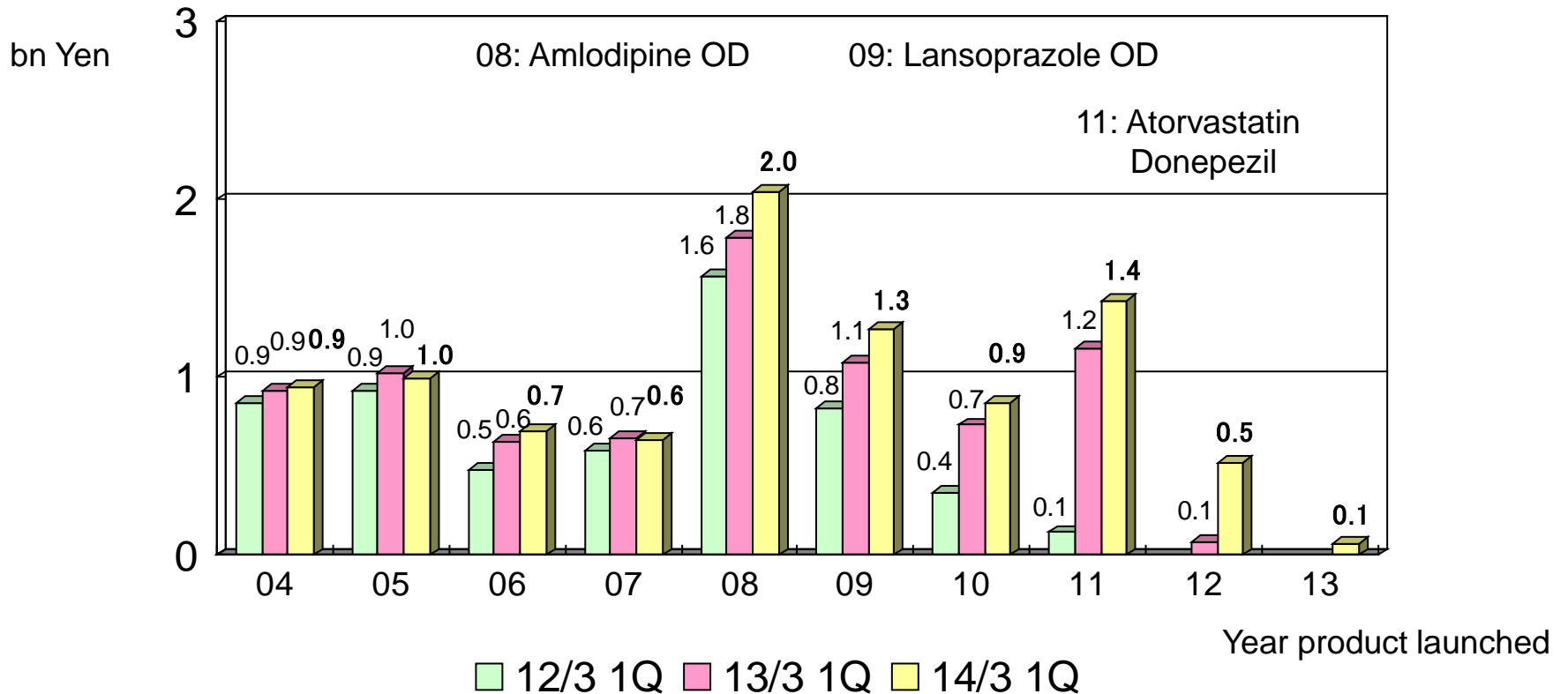
Outline of the financial results for the 1Q of the year ending March 2014

(non-consolidated)

Period	14/3 1Q			13/3 1Q	
	(million Yen)	Ratio to sales (%)	Change in %	(million Yen)	Ratio to sales (%)
Net sales	14,232	100.0	+ 6.4	13,381	100.0
COGS	7,396	52.0	+ 16.6	6,343	47.4
SGA	5,096	35.8	+ 10.6	4,609	34.5
Operating income	1,739	12.2	- 28.4	2,428	18.2
Ordinary income	1,774	12.5	- 19.2	2,195	16.4
Net income	1,170	8.2	- 13.1	1,347	10.1

Sales of products by launched year

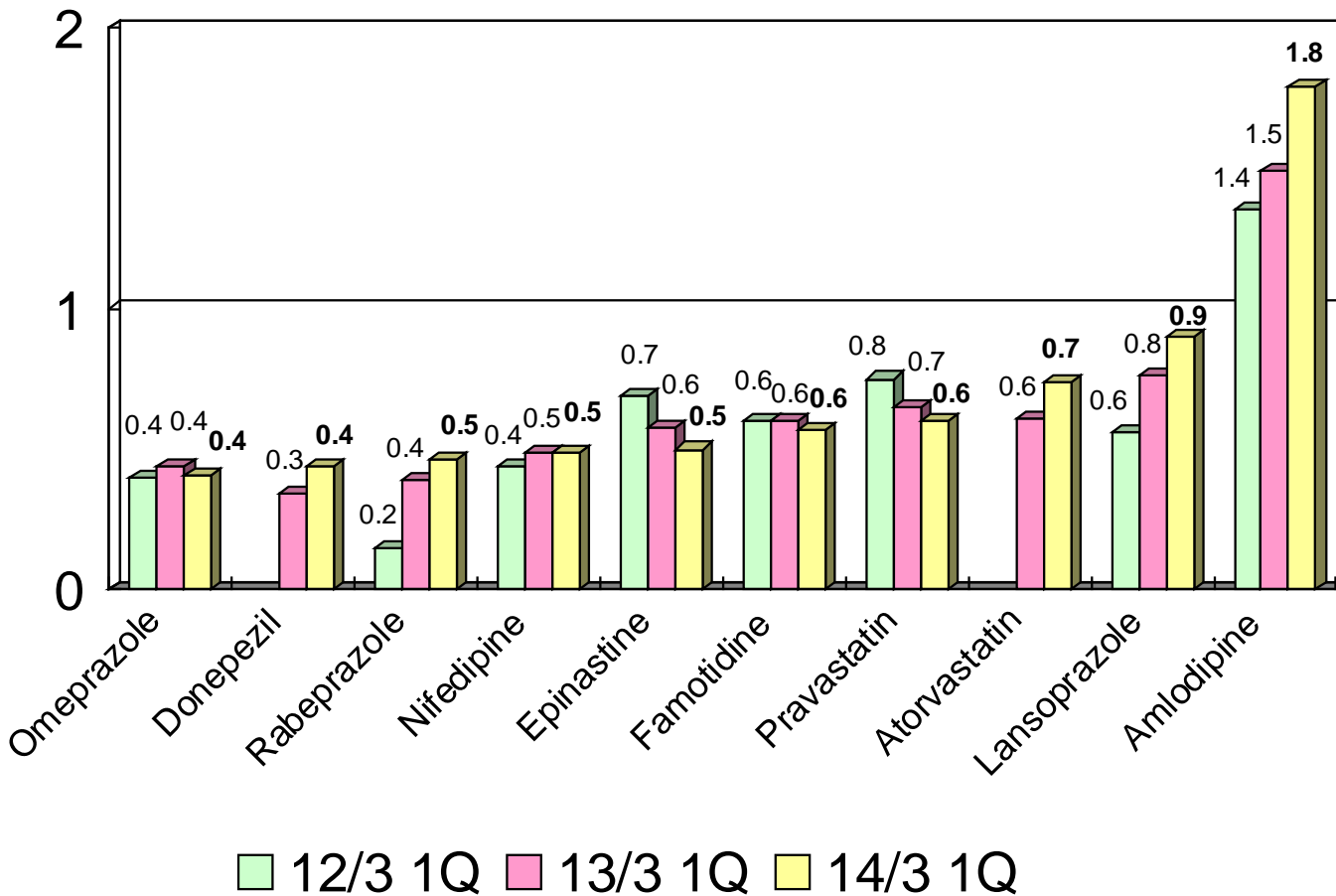
Product launched after 08 increased steadily.



Sales of leading products

Amlodipines and Lansoprazoles increased steadily.

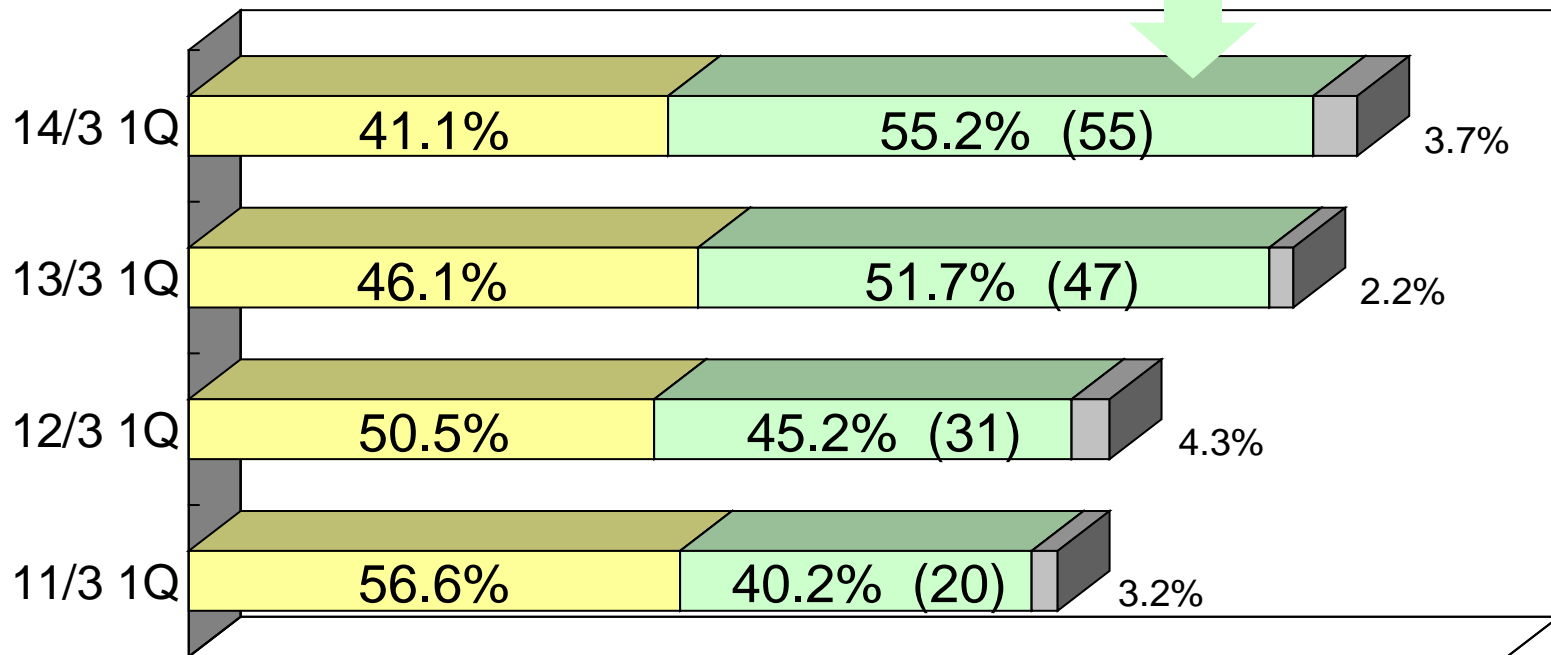
bn Yen



Sales of channels

Ratio of direct sales increased due to changing sales agent to sales office and opening new offices, and increased headquarter transaction.

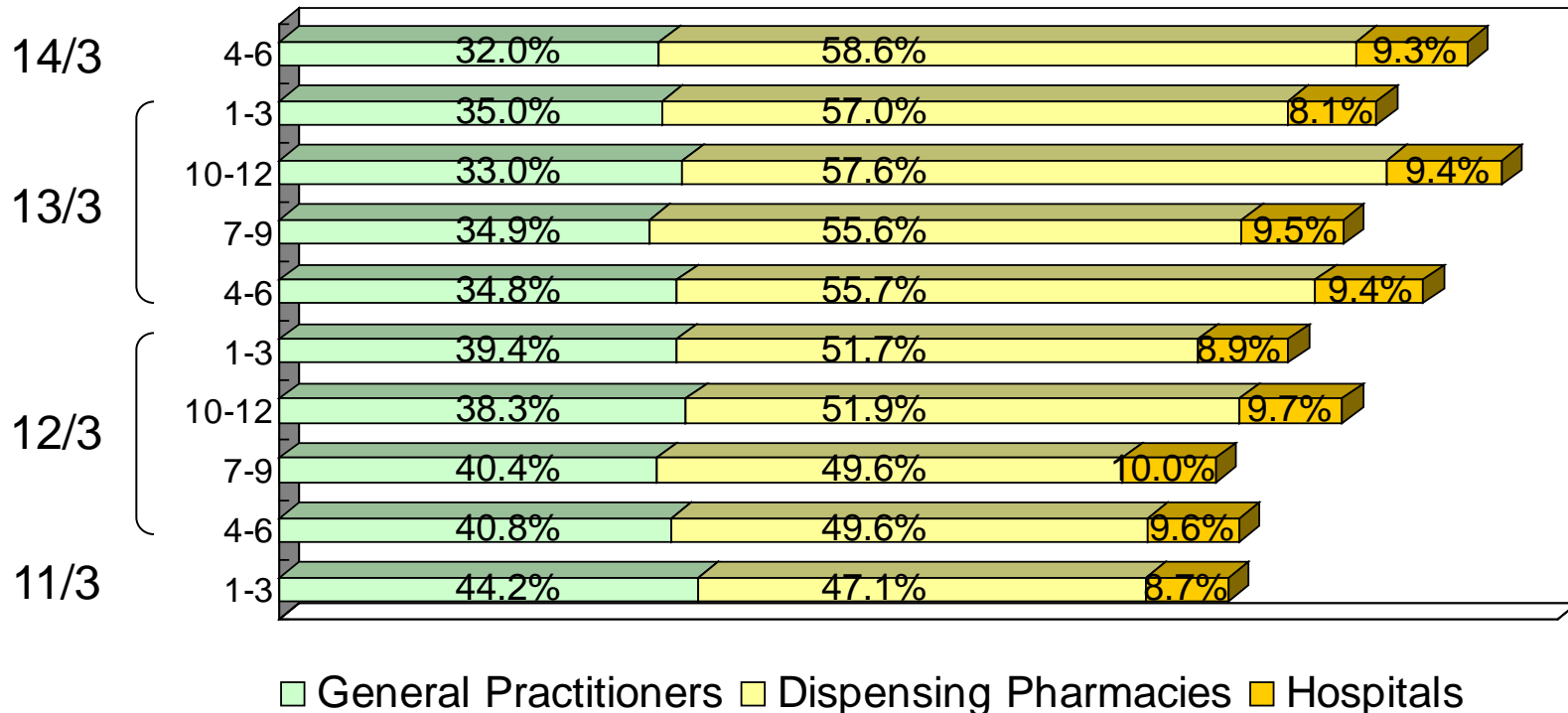
() is the number of sales offices.



■ Sales agents ■ Direct sales ■ Others

Sales of medical institutions

No major change in the proportion of the sales of medical institutions



Excluding sales by other companies.

Assuming sales of general practitioners, dispensing pharmacies and hospitals is 100%.

SGA

Period	14/3 1Q			13/3 1Q	
	(million Yen)	Ratio to sales (%)	Change in %	(million Yen)	Ratio to sales (%)
Labor	2,398	16.4	+ 12.2	2,137	15.5
R&D	980	6.7	- 3.3	1,013	7.4
Ad.	246	1.7	+ 35.8	181	1.3
Others	1,452	9.9	+ 3.8	1,399	10.2
SGA	5,078	34.8	+ 7.3	4,732	34.4

SGA increased by 7.3% year-on-year. Increase in labor cost by increase of employees impacted a lot. R&D cost decreased year-on-year, but actually increased because of the elimination of contract research payment, outsourced API manufacturing cost and others from Towa to Daichi Kasei (143 million yen in 14/3 1Q) by the consolidation of Daichi Kasei. On the other hand, compared with the budget, ca 0.3 bn yen of R&D cost and ca 0.2 bn yen of advertisement cost are behind, both of which will be accounted after 2Q.

Balance Sheets

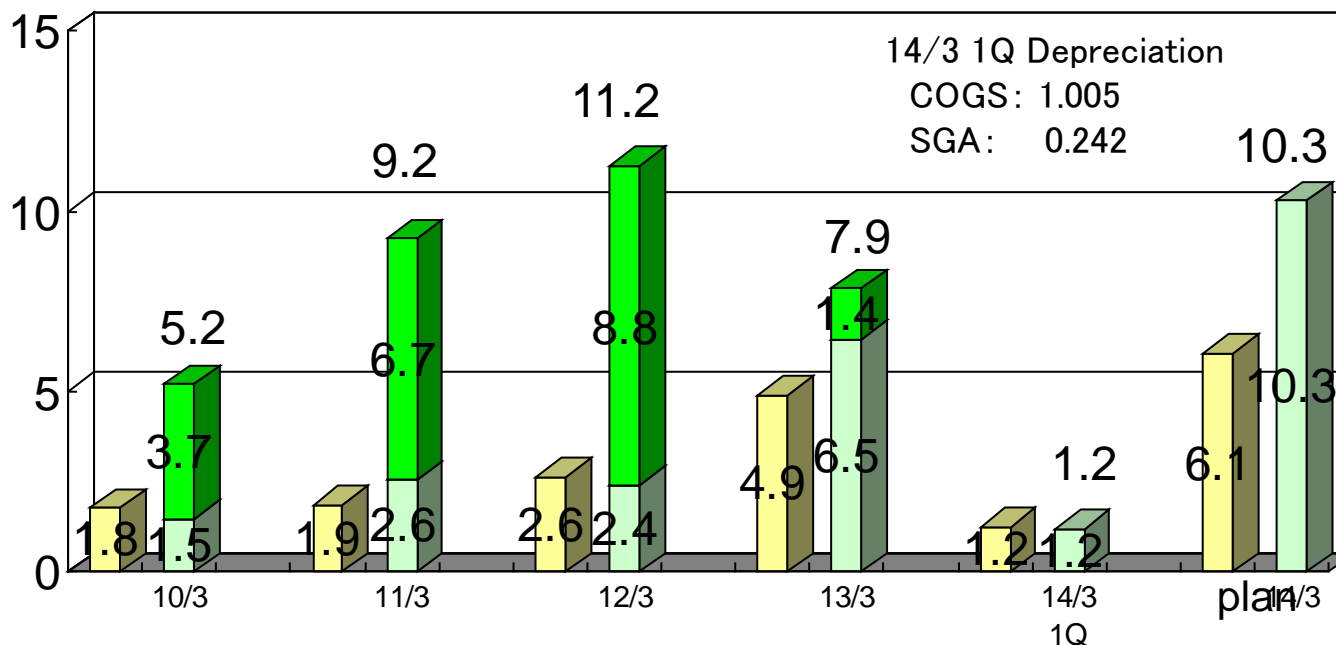
(million Yen)

	13/6	13/3	Change
Cash and deposits	4,050	3,485	+ 564
Trade notes and accounts receivable	17,251	17,217	+ 34
Marketable securities	1,000	3,000	- 2,000
Finished products	10,252	10,450	- 198
Other current assets	13,392	12,895	+ 496
Total current assets	45,946	47,049	- 1,103
Buildings and structures	20,971	21,271	- 300
Machineries, equipments and carriers	8,758	8,388	+ 370
Other fixed assets	12,742	12,996	- 253
Total fixed assets	42,473	42,656	- 183
Total assets	88,419	89,705	- 1,286

	13/6	13/3	Change
Trade notes and accounts payable	7,677	7,482	+ 194
Current portion of long-term debt	2,925	2,825	+ 100
Accrued income taxes	402	1,667	- 1,264
Other current liabilities	6,560	7,543	- 983
Total current liabilities	17,566	19,519	- 1,953
Long-term debt	13,158	12,908	+ 250
Other long-term liabilities	1,703	1,667	+ 36
Total long-term liabilities	14,862	14,575	+ 286
Total liabilities	32,428	34,095	- 1,666
Total net assets	55,991	55,610	+ 380
Total liabilities and net assets	88,419	89,705	- 1,286

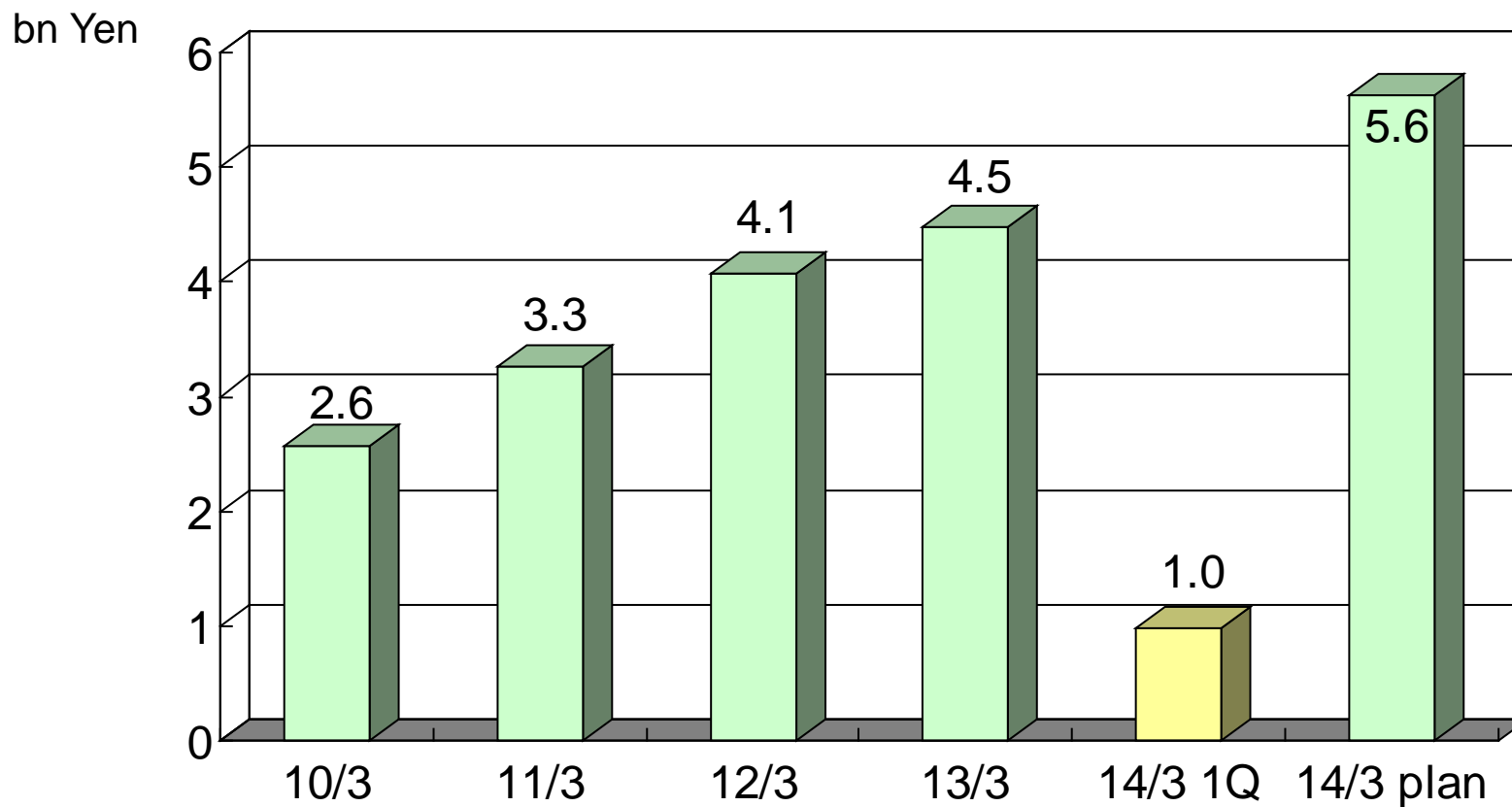
Capital expenditure and depreciation cost

bn Yen



- Capital expenditure for Yamagata Plant construction
- Capital expenditure excluding for Yamagata Plant construction
- Depreciation cost

R&D expenditure



The construction of API manufacturing facility in Daichi Kasei

The construction of API manufacturing facility (disclosed on February 2013)

- Construction period: March 2013 – March 2014
(Operation: April 2014-)
- Total investment: ca. 5.5 billion yen
- Purpose
 - A part of the reinforcement measure for securing APIs stably for Towa's products
- 20-30 APIs will be produced annually (The number of the used API for Towa's products: ca. 300)

Progress

- The construction was started in March 2013. But it becomes clear that there is a buried object under the construction site, and the construction has been suspended afterwards.
- A corrective measure has been considered for the facility construction.
- Expected operation start time will be delayed more than half a year, which was April 2014 originally.
- Little influence on 14/3 result and no change on 14/3 capital expenditure plan so far
- Details of the corrective construction plan will be disclosed as soon as the details are decided.

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