



TOWA PHARMACEUTICAL CO., LTD.

Supplementary material of financial results for the year ended March 2014

May, 2014

(stock ticker number : 4553)

Summary

- Sales increased by 11.1% year-on-year in line with the plan. The temporary demand before sales tax increase (April 2014) is ca. 1.2 bn yen (the plan: 1.5 bn yen).
- COGS rate increased 0.9 point year-on-year.
- SGA increased by 12.5% year-on-year. It exceeded by ca. 0.4 bn yen compared with the plan by SGA over the budget. Increase of R&D expenses and packing and freight impacts a lot.
- OP income decreased by 0.2% year-on-year. Compared with the plan, increase of COGS rate and SGA came up, and OP income decreased by ca. 1.3 bn.
- In the full year forecast for the year ending March 2015, sales is expected to increase significantly absorbing impact of the NHI price revision on April 2014. Depreciation cost of Yamagata Plant has passed its peak. On the other hand, SGA is expected to increase due to more R&D expense and more employee for the future growth. As a result, OP income is expected to remain almost the same level at the previous fiscal year.

Outline of the financial results for the year ended March 2014

Period	14/3			13/3	
	(million Yen)	Ratio to sales (%)	Change in %	(million Yen)	Ratio to sales (%)
Net sales	61,351	100.0	+ 11.1	55,241	100.0
COGS	31,121	50.7	+ 13.2	27,500	49.8
SGA	22,523	36.7	+ 12.5	20,018	36.2
Operating income	7,706	12.6	- 0.2	7,723	14.0
Ordinary income	8,834	14.4	-7.4	9,544	17.3
Net income	5,992	9.8	-3.4	6,201	11.2

Exchange rate 2014/3 2013/12 2013/9 2013/3 2012/12 2012/9 2012/3
 US\$1.00 101.92 yen 104.39 yen 96.75 yen 93.05 yen 85.58 yen 76.60 yen 81.19 yen

Outline of the financial results for the year ended March 2014

(Consolidated without Daichi Kasei)

Period	14/3			13/3	
	(million Yen)	Ratio to sales (%)	Change in %	(million Yen)	Ratio to sales (%)
Net sales	61,351	100.0	+ 11.1	55,241	100.0
COGS	30,737	50.1	+ 11.8	27,500	49.8
SGA	22,810	37.2	+ 14.0	20,018	36.2
Operating income	7,803	12.7	+ 1.0	7,723	14.0
Ordinary income	8,946	14.6	- 6.3	9,544	17.3
Net income	5,820	9.5	- 6.1	6,201	11.2

Outline of the financial results for the year ended March 2014

(progress rate to 14/3 plan)

Period	14/3			14/3 plan (disclosed on Feb. 10)	
	(million Yen)	Ratio to sales (%)	Change in %	(million Yen)	Ratio to sales (%)
Net sales	61,351	100.0	+ 0.1	61,300	100.0
COGS	31,121	50.7	+ 3.1	30,200	49.3
SGA	22,523	36.7	+1.9	22,100	36.1
Operating income	7,706	12.6	- 14.4	9,000	14.7
Ordinary income	8,834	14.4	-8.9	9,700	15.8
Net income	5,992	9.8	-9.2	6,600	10.8

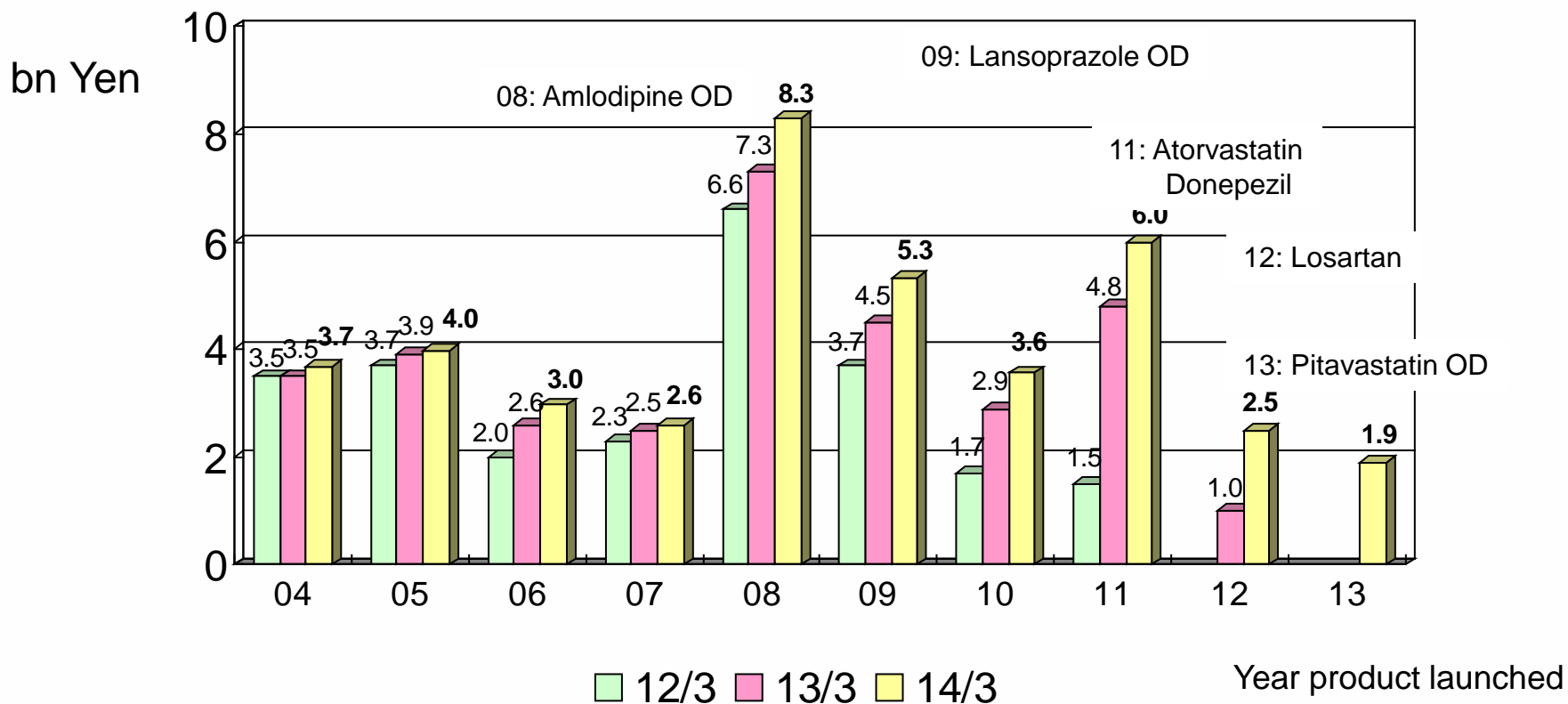
Outline of the financial results for the year ended March 2014

(non-consolidated)

Period	14/3			13/3	
	(million Yen)	Ratio to sales (%)	Change in %	(million Yen)	Ratio to sales (%)
Net sales	59,696	100.0	+ 11.3	53,624	100.0
COGS	29,621	49.6	+ 11.5	26,573	49.6
SGA	22,287	37.3	+ 14.2	19,509	36.4
Operating income	7,786	13.0	+ 3.3	7,541	14.1
Ordinary income	8,935	15.0	- 4.5	9,358	17.5
Net income	5,807	9.7	- 4.7	6,091	11.4

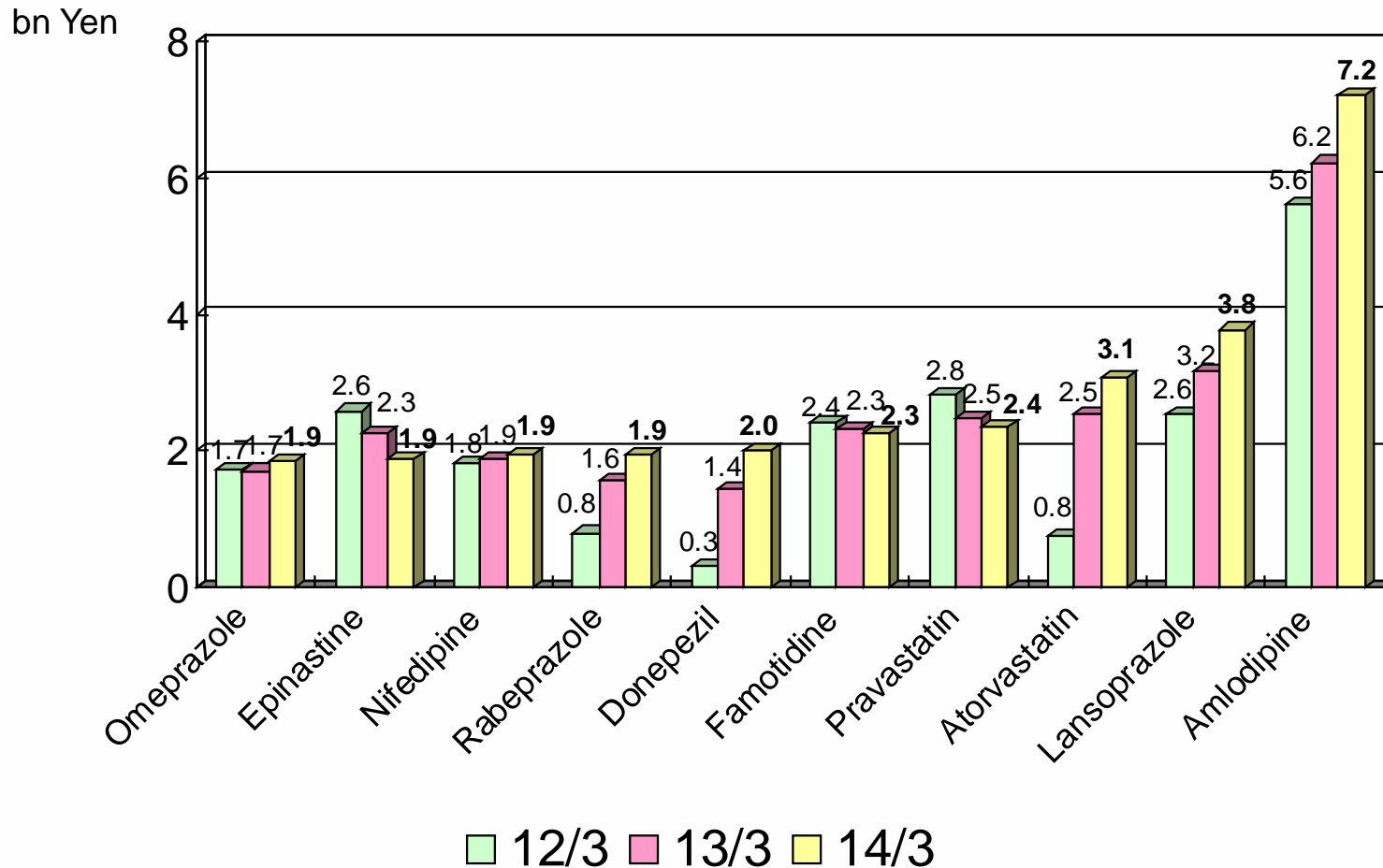
Sales of products by launched year

Products launched in 12 increased steadily.
Products launched in 13 started right.



Sales of leading products

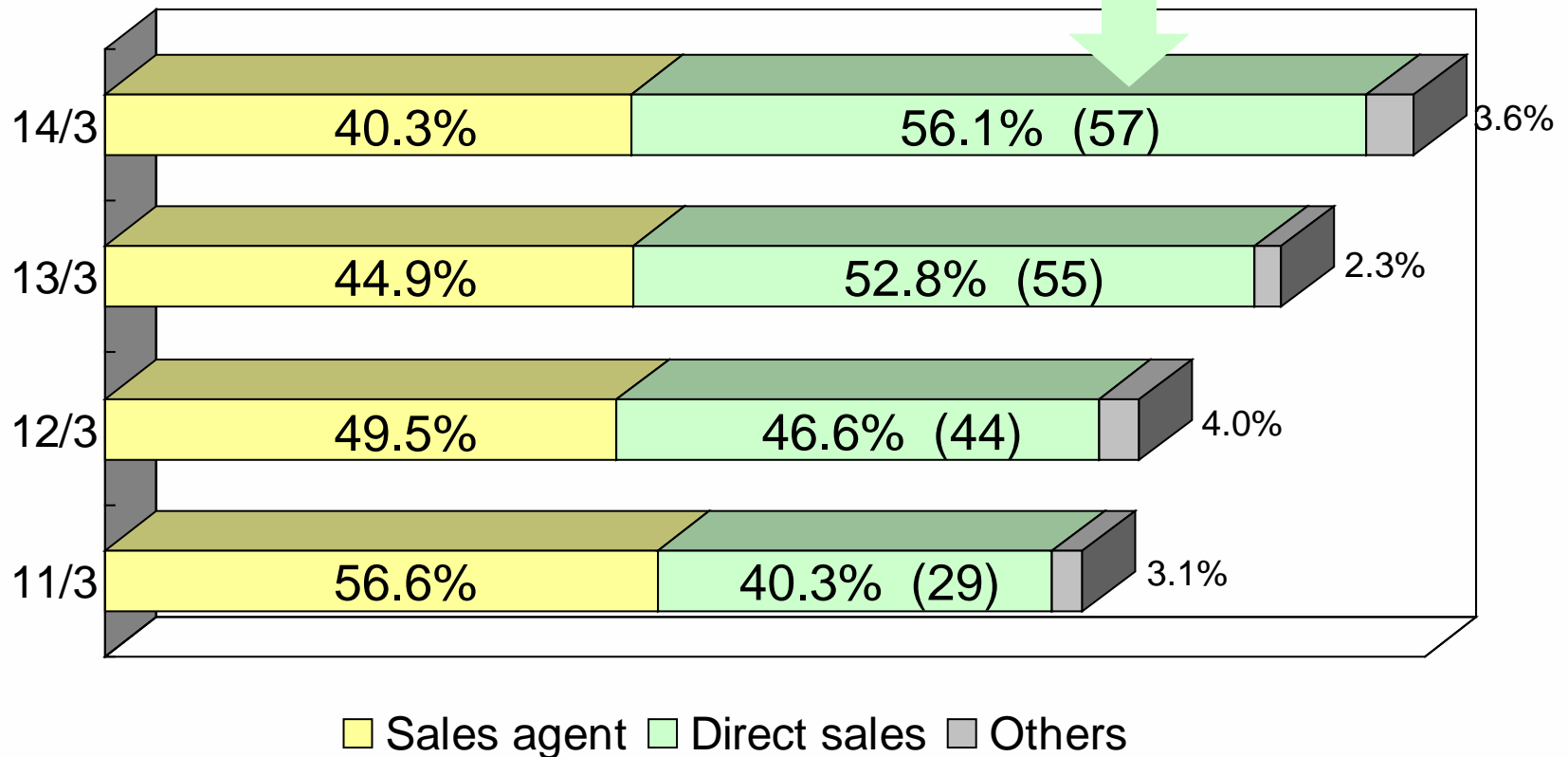
Amlodipines and Lansoprazoles increased steadily.



Sales of channels

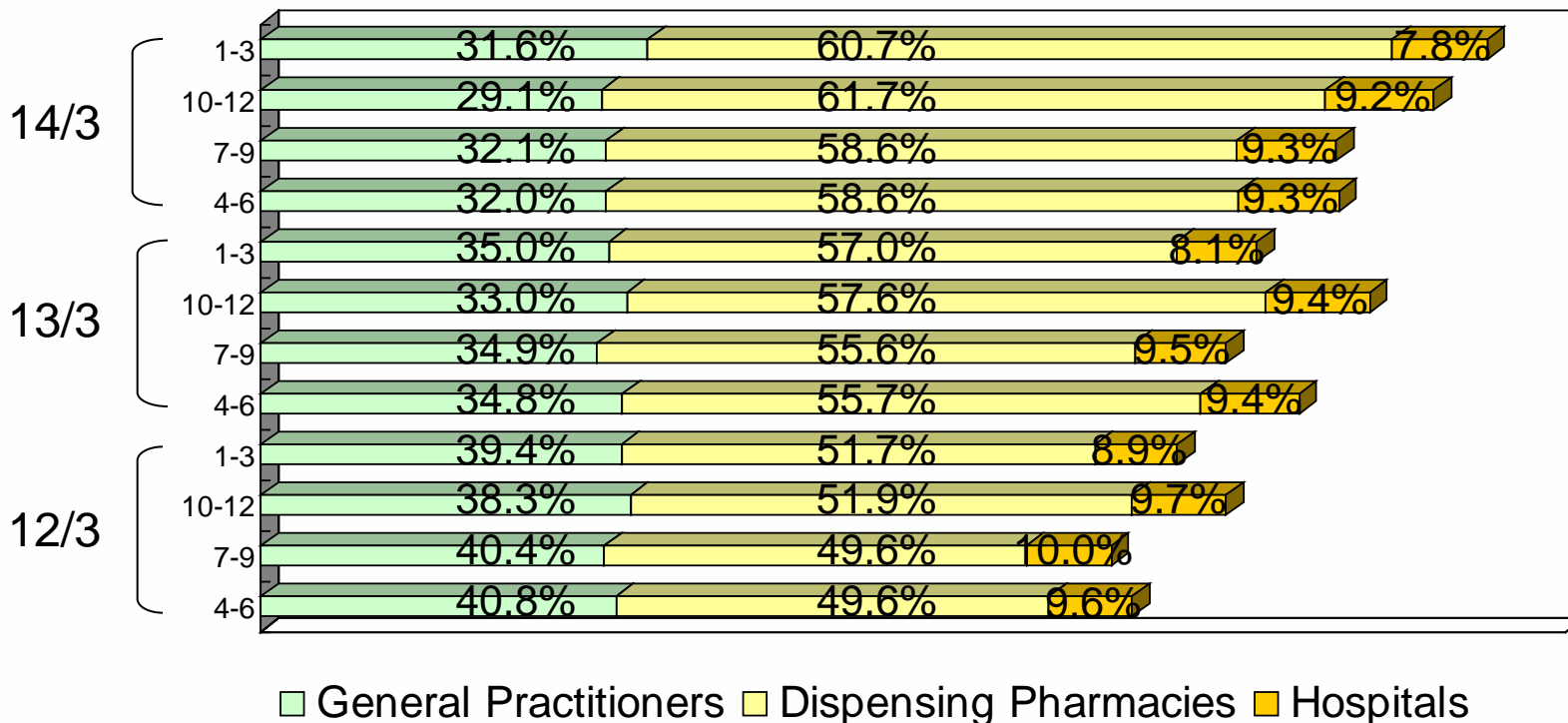
Ratio of direct sales increased due to changing sales agent to sales office and opening new offices, and increased headquarter transaction.

() is the number of sales offices.



Sales of medical institutions

Sales for dispensing pharmacies exceeded 60%



Excluding sales by other companies.

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

SGA

Period	14/3			13/3	
	(million Yen)	Ratio to sales (%)	Change in %	(million Yen)	Ratio to sales (%)
Labor	9,706	15.8	+ 10.4	8,790	15.9
R&D	5,296	8.6	+ 18.3	4,478	8.1
Ad.	1,086	1.8	+ 24.8	870	1.6
Packing and freight	969	1.6	+ 18.8	816	1.5
Others	5,464	8.9	+ 7.9	5,062	9.2
SGA	22,523	36.7	+ 12.5	20,018	36.2

Balance Sheets

(million Yen)

	14/3	13/3	Change
Cash and deposits	6,038	3,485	+ 2,552
Trade notes and accounts receivable	19,505	17,217	+ 2,288
Marketable securities	4,637	3,000	+ 1,637
Finished products	12,412	10,450	+ 1,961
Other current assets	14,200	12,895	+ 1,304
Total current assets	56,794	47,049	+ 9,744
Buildings and structures	21,663	21,271	+392
Machineries, equipments and carriers	9,019	8,388	+630
Other fixed assets	15,840	12,996	+ 2,844
Total fixed assets	46,523	42,656	+ 3,867
Total assets	103,318	89,705	+13,612

	14/3	13/3	Change
Trade notes and accounts payable	9,775	7,482	+ 2,292
Current portion of long-term debt	2,925	2,825	+ 100
income taxes payable	1,915	1,667	+247
Other current liabilities	10,140	7,543	+2,596
Total current liabilities	24,757	19,519	+5,237
Long-term debt	16,620	12,908	+3,712
Other long-term liabilities	1,792	1,667	+125
Total long-term liabilities	18,413	14,575	+ 3,837
Total liabilities	43,170	34,095	+ 9,075
Total net assets	60,147	55,610	+ 4,536
Total liabilities and net assets	103,318	89,705	+13,612

Statement of Cash Flows

(Million Yen)

	14/3	13/3
Net profit before tax	8,702	9,310
Depreciation cost	5,407	4,909
Increase of inventories	- 2,963	- 2,371
Tax paid	- 2,152	- 3,351
Others	-850	147
Net cash provided by operating activities	8,144	8,645

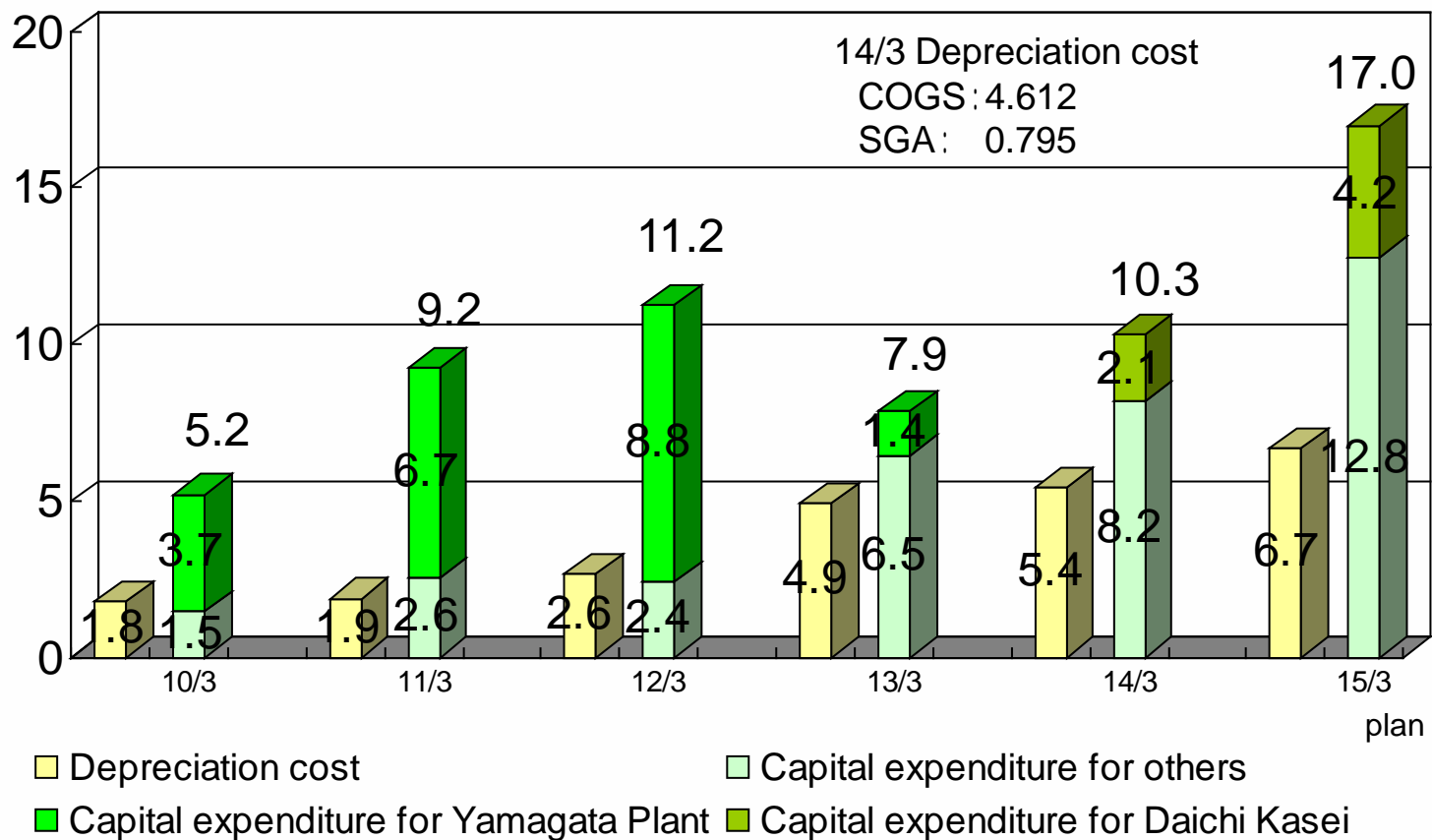
	14/3	13/3
Payments for tangible fixed assets	- 7,954	- 10,524
Others	- 3,346	- 774
Net cash used in investing activities	-11,300	- 11,298

	14/3	13/3
Cash provided by long-term debt	6,750	6,500
Repayment of long-term debt	-2,937	- 2,565
Others	-283	- 1,140
Net cash provided by financing activities	3,529	2,793

	14/3	13/3
Effect of exchange rate changes on cash and cash equivalents	251	46
Net increase in cash and cash equivalents	624	187
Net increase in cash and cash equivalents from newly consolidated subsidiaries	65	-
Cash and cash equivalents at beginning of the period	3,985	3,798
Cash and cash equivalents at end of the period	4,675	3,985

Capital expenditure and depreciation cost

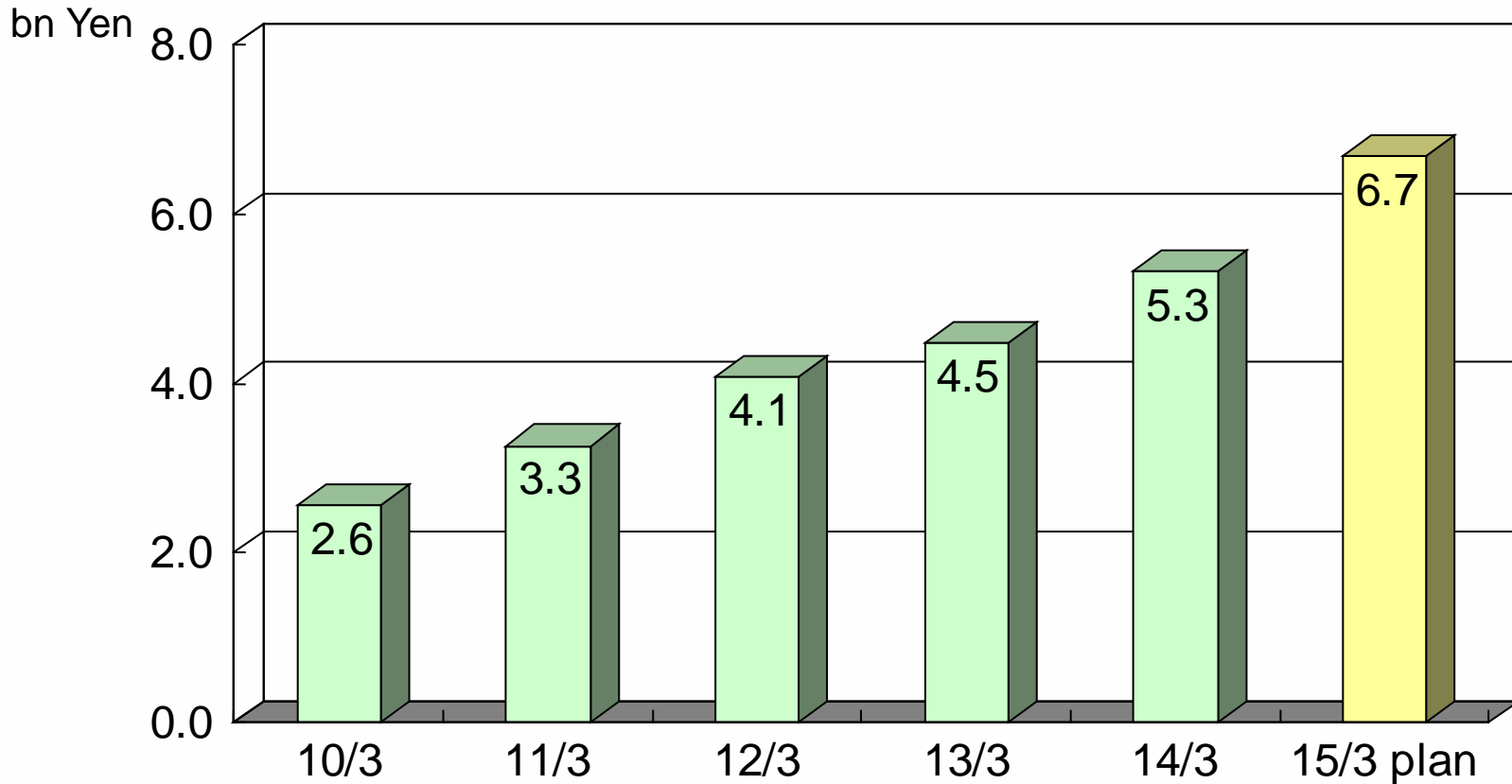
bn Yen



Capital expenditure plan of the year ending March 2015

Items	Capital expenditure (bn Yen)	Main contents
Osaka Plant	1.3	Manufacturing facilities
Okayama Plant	4.1	Expansion and alteration, manufacturing facilities
Yamagata Plant	3.0	Manufacturing facilities
R&D	0.9	Analytical instruments, manufacturing facilities
Sales	0.7	Sales office, IT system
API/Daichi Kasei	4.6	Construction of active pharmaceutical ingredient manufacturing plant, analytical instruments
Others	2.4	IT system
Total	17.0	

R&D expenditure



- 14/3 R&D expenditure was in line with the plan.
- 15/3 R&D expenditure is expected to increase significantly due to development of a lot of products to be launched in 2017.

Major products to be launched in June 2014

Therapeutic Category	Product Name	Branded Products (Company)	Sales (bn Yen / year)
Angiotensin II receptor blocker	VALSARTAN TABLETS 20mg/40mg/80mg/160mg "TOWA"	DIOVAN Tablets 20mg/40mg/80mg/160mg (Novartis)	86.9
	VALSARTAN OD TABLETS 20mg/40mg/80mg/160mg "TOWA"	DIOVAN OD Tablets 20mg/40mg/80mg/160mg (Novartis)	1.2
Long-acting ARB/diuretic agent combination	LOSARHYD COMBINATION TABLETS LD "TOWA"	PREMINENT Tablets LD (MSD)	24.6

19 products in total

Annual sales budget: ca. 1.5 bn yen for products to be launched in June 2014

Valsartan 0.8 bn yen

Losartan and hydrochrolothiazide 0.2 bn yen

Financial forecast for the year ending March 2015

Period	15/3 plan (disclosed on May. 14 th)			14/3	
	(million Yen)	Ratio to sales (%)	Change in %	(million Yen)	Ratio to sales (%)
Net sales	72,000	100.0	+ 17.4	61,351	100.0
COGS	37,500	52.0	+ 20.5	31,121	50.7
SGA	26,700	37.0	+ 18.5	22,523	36.7
Operating income	7,800	10.8	+ 1.2	7,706	12.6
Ordinary income	7,800	10.8	- 11.7	8,834	14.4
Net income	5,300	7.4	- 11.6	5,992	9.8

- Sales is expected to increase significantly absorbing impact of the NHI price revision on April 2014.
- Depreciation cost of Yamagata Plant has passed its peak. On the other hand, depreciation cost of Okayama Plant and Osaka Plant will increase, and SGA is expected to increase due to more R&D expense and more employee for the future growth.

Revision of the NHI pricing system for GE

[GE NHI pricing]

(1) GE NHI price to be listed

- 60% of the corresponding branded NHI price (50% for oral GE more than 10 products of one branded)

(2) GE NHI price already listed (price grouping)

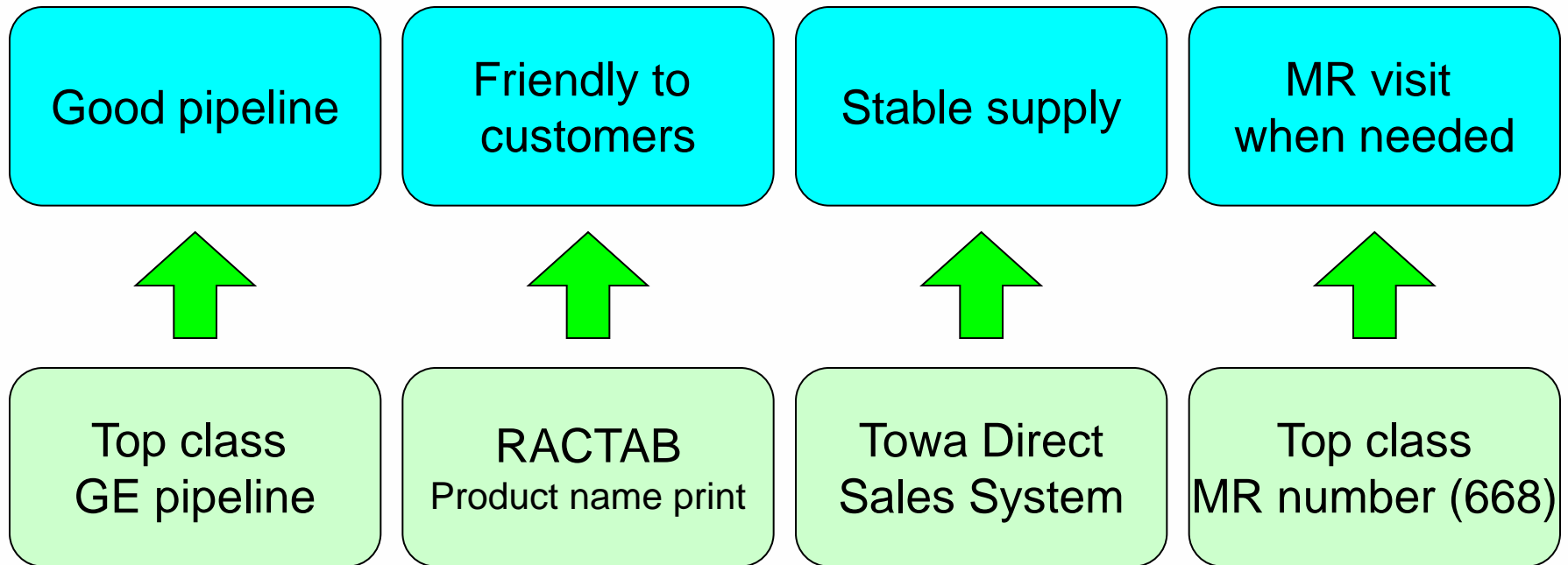
- GE NHI prices are categorized into three groups, which are one group of the GE NHI prices between 0-30% of the highest price (the corresponding branded price), one between 30-50% and one between 50-100%, and weighted average price in each group is adopted as revised NHI price respectively.

[Promotion of GE usage]

- New target of 60% GE penetration (GE roadmap)
- Generic incentive for dispensing pharmacies
(more than 65%: 22 point, more than 55%: 18 point)
- Addition of GE index in DPC functional evaluation coefficient II (maximum 60% in volume).

Company to be selected under new NHI system

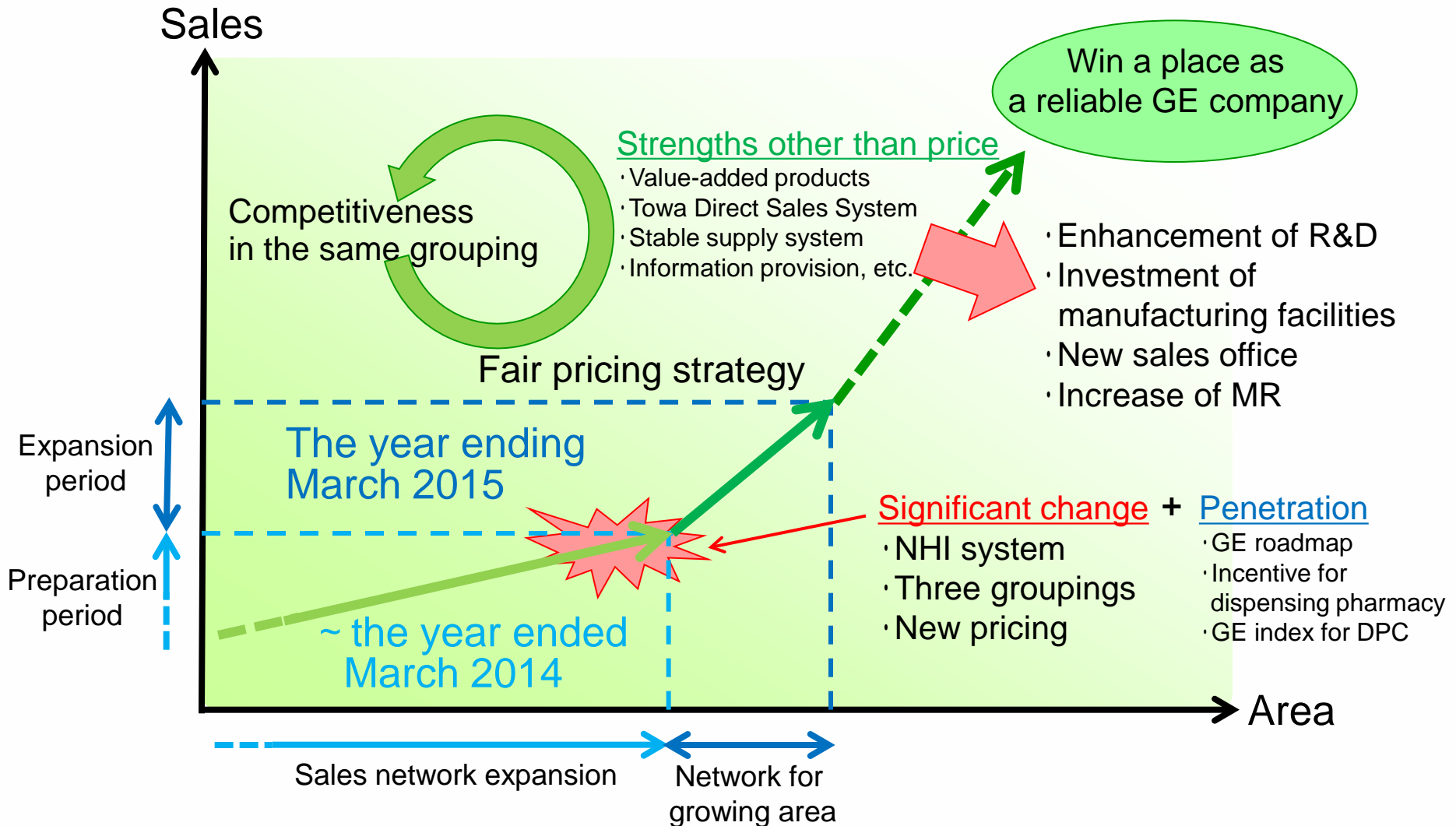
Customers' (practitioners, pharmacists and patients) demand



TOWA PHARMACEUTICAL CO., LTD.

Towa has a lot of factors to be selected.
Towa establishes superior position under the new system.

Towa's strategy



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