TOWA Announces Causes of Decreased Gross Profit Margin and of Recording of Operating Losses

TOWA CORPORATION has announced the following in regards to the causes of decreased gross profit margin and the recording of operating losses in the consolidated financial results for the period ending in March 2013 (April 1, 2012 to March 31, 2013).

TOWA purchases semi-processed goods and other products/parts from our overseas subsidiaries (sales of subsidiaries) for the various products of the TOWA group, while the majority of (external) sales of final products are recorded for our company. In terms of consolidated settlement of accounts, the sales of these subsidiaries are offset by the purchases made by TOWA, with net sales, cost of sales and profit calculated accordingly (refer to Attached Fig. 1 "Offsetting of Sales of Subsidiaries in Consolidated Settlement of Accounts").

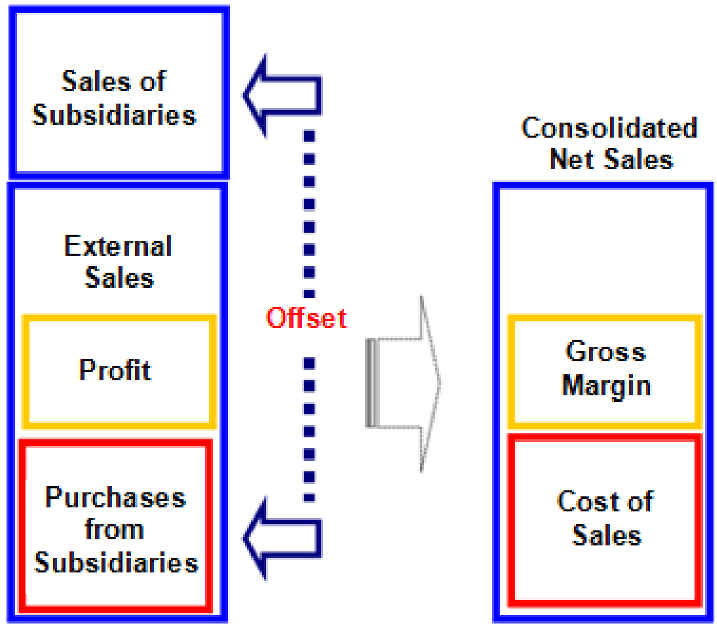
A change in foreign exchange (depreciation of the yen) such as the one that occurred during the consolidated fiscal year ending in March 2013 results in an increase of the sales of subsidiaries (increased sales due to foreign exchange gain) and in an increase of the cost of materials purchased from subsidiaries (increased cost of sales due to foreign exchange loss). In terms of consolidated settlement of accounts, the increase in the cost of materials purchased from subsidiaries (increased cost of sales due to foreign exchange loss) is recorded without change as an increased cost of sales. However, due to the fact that the portion of the increase in the sales of subsidiaries (increased sales due to foreign exchange gain) consists of unrealized transactions caused by foreign exchange, this increased amount is not recorded as consolidated net sales but rather is posted as non-operating income (foreign exchange gain) (refer to Attached Fig. 2 "Offset Transactions Required Due to Changes in Foreign Exchange and Recording of Non-Operating Income (Foreign Exchange Gain)"). This is to say that in the consolidated financial results for the fiscal year ending in March 2013, the increase in cost of sales due to changes in foreign exchange (depreciation of the yen) has reduced the gross margin, resulting in operating losses. However, since this increase in cost of sales has been reincorporated as non-operating income (foreign exchange gain), the original amount of earnings is recorded as ordinary income.

As described above, the decreased gross profit margin and recording of operating losses of the consolidated financial results for the fiscal year ending in March 2013 have been caused by this consolidated settlement of accounts, and by no means are they due to any changes in the earnings structure, product prices, market competitive power or similar characteristics of the TOWA Group. Additionally, the current profit/loss of the TOWA Group has not been directly affected by the changes in foreign exchange.

Please note that ratio of overseas sales of TOWA is high, and the depreciation of the yen improves our customers’ profit on investment on the foreign currency basis (nearly all sales of our products are yen-denominated). As a result, this represents a dominant change for TOWA in terms of price competition with overseas-based competitors, thereby serving as one factor in the improvement of the TOWA Group business and revenue environment.

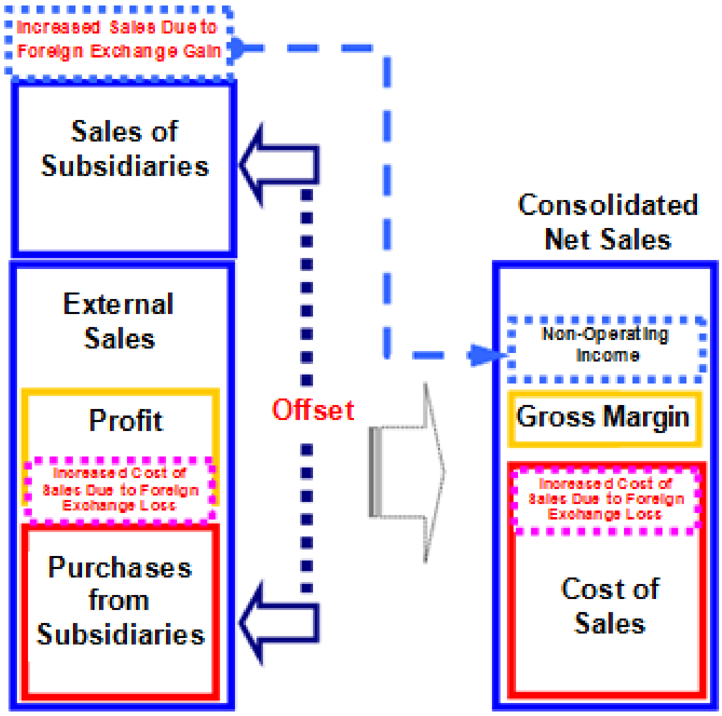
Attachments

Fig. 1 "Offsetting of Sales of Subsidiaries in Consolidated Settlement of Accounts"



In terms of consolidated settlement of accounts, the sales of these subsidiaries and the purchases made by TOWA are offset, with net sales, cost of sales and profit calculated accordingly.

Fig. 2 "Offset Transactions Required Due to Changes in Foreign Exchange and Recording of Non-Operating Income (Foreign Exchange Gain)"



The original amount of earnings is recorded as ordinary income because the increase in the sales of subsidiaries with unrealized transactions due to foreign exchange (increased sales due to foreign exchange gain) has been reincorporated into non-operating income.
The decreased gross profit margin and recording of operating losses have been caused by this consolidated settlement of accounts, and are not due to changes in the earnings structure, product prices or market competitive power of the TOWA Group.