



**Supplementary material of financial results  
for the 2Q of the year ending March 2011**

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**November, 2010**

**Towa Pharmaceutical Co., Ltd.**

**(stock ticker number : 4553)**



# Summary

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- Net sales increased 15%. The sales and profits exceeded the original plan
- Most of our products including existing lines and others contributed to increase of net sales due to the revision of GE incentive for dispensing pharmacies. Total quantity of tablets of our products sold in this period increased 19%.
- COGS exhibits a declining trend by high factory operating ratio.
- Ratio of direct sales in net sales increased due to changing sales agent to sales office and opening new offices (13 offices increased to 23), and increased headquarter transaction.
- Sales to dispensing pharmacies increased due to the revision of GE incentive for dispensing pharmacies. From April 2010, sales to dispensing pharmacies is more than that to general practitioners. Sales to dispensing pharmacies remains on the high level after June.
- The original full year plan is revised.

# Outline of the financial results for the 2Q of the year ending March 2011

Period	11/3 2Q			10/3 2Q	
	(million Yen)	Ratio to sales (%)	Change in %	(million Yen)	Ratio to sales (%)
<b>Net sales</b>	21,868	100.0	+14.7	19,068	100.0
<b>COGS</b>	10,312	47.2	+11.0	9,290	48.7
<b>SGA</b>	7,110	32.5	+17.9	6,030	31.6
<b>Operating income</b>	4,445	20.3	+18.6	3,748	19.7
<b>Ordinary income</b>	4,219	19.3	+32.7	3,180	16.7
<b>Net income</b>	2,642	12.1	+38.3	1,910	10.0

# Outline of the financial results for the 2Q of the year ending March 2011

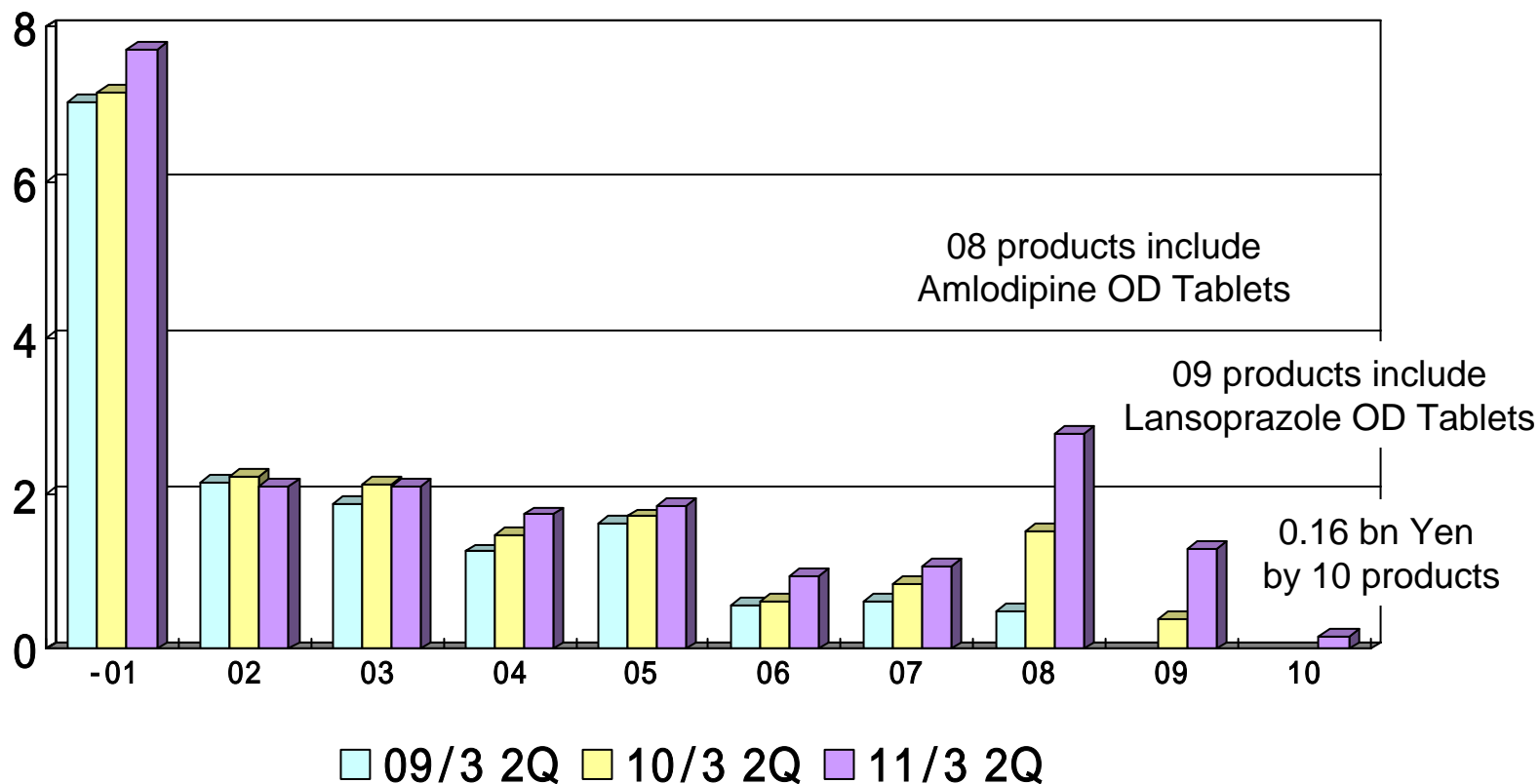
(non-consolidated)

Period	11/3 2Q			10/3 2Q	
	(million Yen)	Ratio to sales (%)	Change in %	(million Yen)	Ratio to sales (%)
<b>Net sales</b>	21,181	100.0	+14.6	18,487	100.0
<b>COGS</b>	10,012	47.3	+11.4	8,987	48.6
<b>SGA</b>	6,856	32.4	+18.0	5,810	31.4
<b>Operating income</b>	4,312	20.4	+16.9	3,689	20.0
<b>Ordinary income</b>	4,090	19.3	+31.0	3,122	16.9
<b>Net income</b>	2,553	12.1	+35.9	1,878	10.2

# Sales of products by launched year

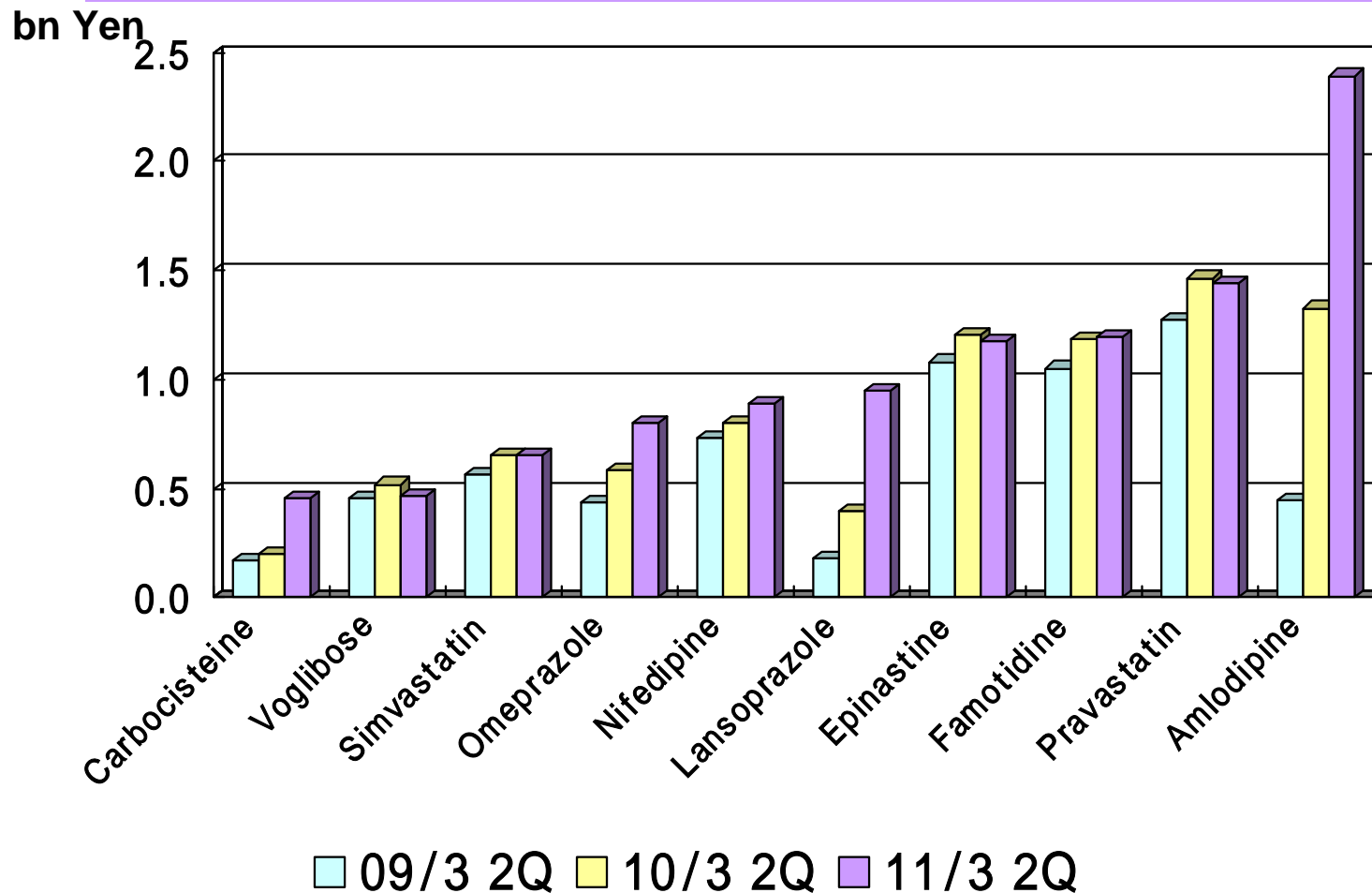
Most of our products including existing lines and others contributed to increase of net sales due to the revision of GE incentive for dispensing pharmacies.

bn Yen



# Sales of leading products

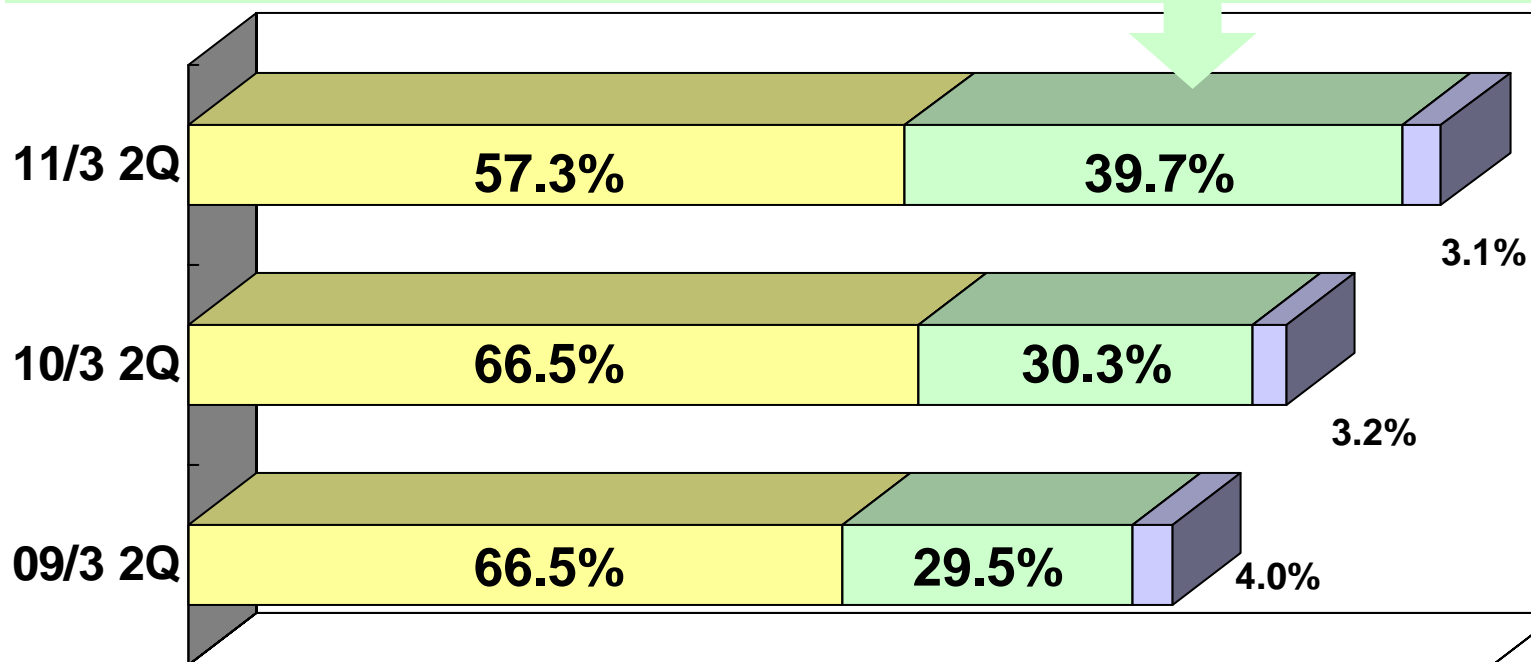
Amlodipine is top sales in the category of active ingredient.  
OD tablets account for its 71%.



# Sales of channels

(non-consolidated)

Ratio of direct sales increased due to changing sales agent to sales office and opening new offices (13 offices increased to 23), and increased headquarter transaction.

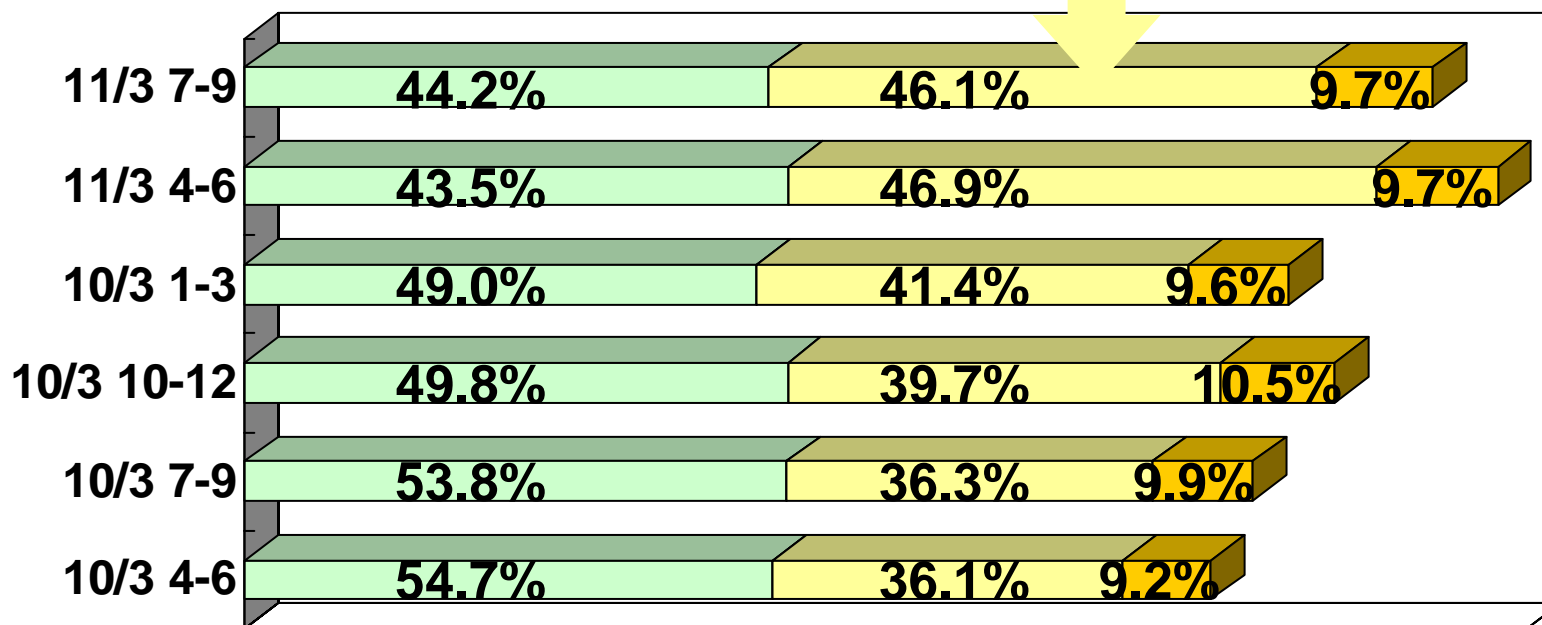


■ Sales agents ■ Direct sales ■ Others

# Sales of medical institutions

(non-consolidated)

After steep rise due to the revision of GE incentive for dispensing pharmacies from April 2010, sales to dispensing pharmacies remains on the high level after June.



■ General Practitioners ■ Dispensing Pharmacies ■ Hospitals

Excluding sales by other companies.

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



Period	11/3 2Q			10/3 2Q	
	(million Yen)	Ratio to sales (%)	Change in %	(million Yen)	Ratio to sales (%)
<b>Labor</b>	3,279	15.0	+13.7	2,885	15.1
<b>R&amp;D</b>	1,602	7.3	+46.0	1,097	5.8
<b>Ad.</b>	357	1.6	-13.5	413	2.2
<b>Others</b>	1,870	8.6	+14.6	1,633	8.6
<b>SGA</b>	7,110	32.5	+17.9	6,030	31.6

# Balance Sheets

(Million Yen)

	10/9	10/3	Change
Cash and deposits	12,348	10,941	+1,407
Trade notes and account receivables	14,887	14,726	+161
Inventories	12,282	10,841	+1,441
Other current assets	1,355	1,174	+181
<b>Current assets</b>	<b>40,874</b>	<b>37,684</b>	<b>+3,190</b>
<b>Fixed assets</b>	<b>24,442</b>	<b>22,820</b>	<b>+1,622</b>
<b>Total assets</b>	<b>65,316</b>	<b>60,504</b>	<b>+4,812</b>

Increase of inventories

= increase of finished products and raw materials

Increase of fixed assets

= increase of construction in progress (Yamagata plant)

Decrease of other current liabilities

= decrease of accrued liabilities of Yamagata plant

Increase of long-term debt

=Bank loan for Yamagata plant

	10/9	10/3	Change
Trade notes and account payables	5,803	5,557	+246
Accrued liabilities	2,253	2,135	+118
Other current liabilities	3,396	5,867	-2,471
<b>Current liabilities</b>	<b>11,452</b>	<b>13,560</b>	<b>-2,108</b>
Long-term debt	9,000	4,000	+5,000
Other fixed liabilities	906	998	-92
<b>Fixed liabilities</b>	<b>9,906</b>	<b>4,998</b>	<b>+4,908</b>
<b>Total liabilities</b>	<b>21,359</b>	<b>18,559</b>	<b>+2,800</b>
Shareholders' equity	43,957	41,945	+2,012
<b>Total liabilities and shareholders' equity</b>	<b>65,316</b>	<b>60,504</b>	<b>+4,812</b>

# Statement of Cash Flows

(Million Yen)

	11/3 2Q	10/3 2Q
Net profit before tax	4,208	3,158
Depreciation cost	866	832
Increase of inventories	-1,441	-147
Tax paid	-1,774	-1,577
Net cash provided by operating activities	2,081	3,068

	11/3 2Q	10/3 2Q
Cash deposit paid	-5,000	-4,000
Cash deposit repaid	6,000	0
Payments for tangible assets	-5,008	-1,655
Net cash used in investing activities	-4,133	-5,603

	11/3 2Q	10/3 2Q
Cash provided by long-term debt	5,000	4,000
Dividends paid	-556	-388
Net cash provided by financing activities	4,539	3,610

	11/3 2Q	10/3 2Q
Effect of exchange rate changes on cash and cash equivalents	-6	7
Net increase in cash and cash equivalents	2,480	1,082
Cash and cash equivalents at beginning of the period	5,941	3,425
Cash and cash equivalents at end of the period	8,422	4,508

# Financial forecast for the year ending March 2011

The original plan disclosed on May 14<sup>th</sup> is revised

Period	11/3 plan (disclosed on Nov. 8 <sup>th</sup> )			10/3	
	(million Yen)	Ratio to sales (%)	Change in %	(million Yen)	Ratio to sales (%)
<b>Net sales</b>	45,300	100.0	+16.0	39,043	100.0
<b>COGS</b>	21,300	47.0	+13.3	18,793	48.1
<b>SGA</b>	14,900	32.9	+19.2	12,504	32.0
<b>Operating income</b>	9,100	20.1	+17.5	7,744	19.8
<b>Ordinary income</b>	8,800	19.4	+18.4	7,430	19.0
<b>Net income</b>	5,500	12.1	+19.5	4,601	11.8

# Financial forecast for the year ending March 2011

The original plan disclosed on May 14<sup>th</sup> is revised

Period	11/3 plan (disclosed on Nov. 8 <sup>th</sup> )			11/3 plan (disclosed on May 14 <sup>th</sup> )	
	(million Yen)	Ratio to sales (%)	Change in %	(million Yen)	Ratio to sales (%)
<b>Net sales</b>	45,300	100.0	+ 4.9	43,200	100.0
<b>Operating income</b>	9,100	20.1	+ 2.2	8,900	20.6
<b>Ordinary income</b>	8,800	19.4	0.0	8,800	20.4
<b>Net income</b>	5,500	12.1	+3.8	5,300	12.3

# Products to be launched in November 2010

Therapeutic Category	Product Name	Branded Products (Company)	Sales (bn Yen / year)
Proton pump inhibitor	Sodium Rabeprazole Tablets 10mg "Towa"	Pariet Tablets 10mg (Eisai)	66
Proton pump inhibitor	Sodium Rabeprazole Tablets 20mg "Towa"	Pariet Tablets 20mg (Eisai)	3
Oral sulfonylurea hypoglycemic agent	Glimepiride Tablets 1mg "Towa"	Amaryl 1mg Tablet (Sanofi-Aventis)	20
Oral sulfonylurea hypoglycemic agent	Glimepiride Tablets 3mg "Towa"	Amaryl 3mg Tablet (Sanofi-Aventis)	9

22 products in total



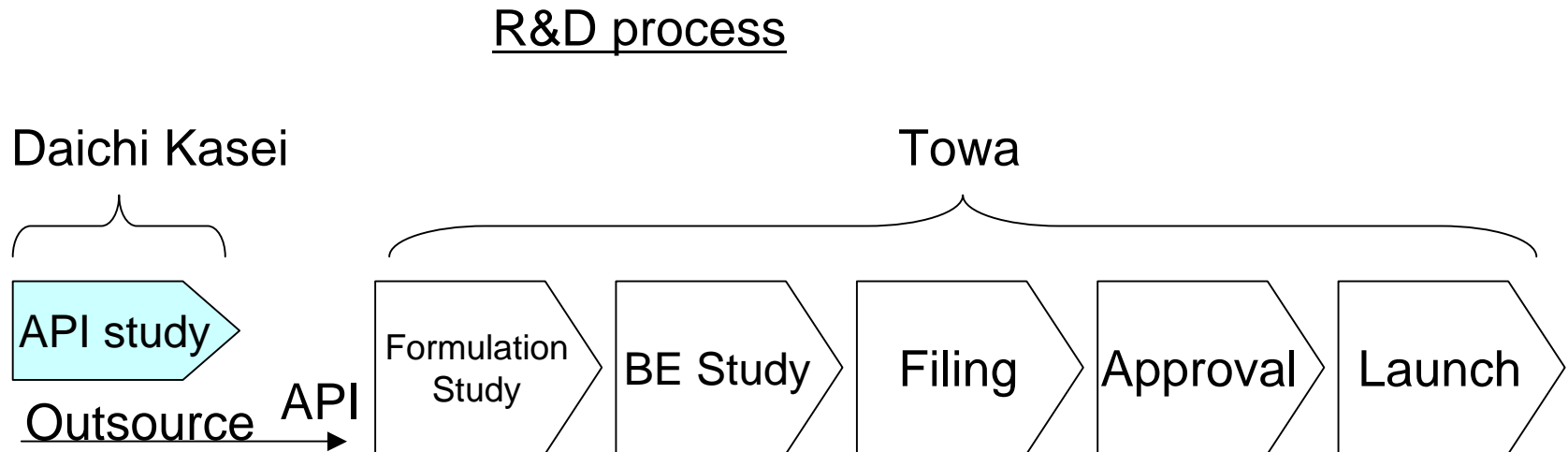
# Acquisition of Daichi Kasei

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- Daichi Kasei Co., Ltd.
- Business: Test and commercial production of API intermediates
- Backgrounds
  - Complicated patent on API
  - Delayed approval of developed products
- Purposes
  - To acquire know-how for R&D of API
  - To start early R&D of API for formulation study
- Expected outcomes
  - Secure approval at the time of first GE launch
  - Secure development of value-added products
  - Cost reduction of outsourced API

# Acquisition of Daichi Kasei

- Acquisition date: Oct. 18th, 2010
- Minor influence on the financial result of Towa
  - Towa doesn't account the goodwill and its amortization
  - Towa doesn't consolidate Daichi Kasei
  - Towa accounts R&D expenditure for Daichi Kasei







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## **Contact information**

**Management Planning Development  
Corporate Planning Division  
Towa Pharmaceutical Co., Ltd.**

**ir@towayakuhin.co.jp**

**TEL : +81-6-6900-9101**

**FAX : +81-6-6900-0634**

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