

Review of Operations

Financial Results for the Year Ended March 31, 2011

Operating Results for the Year Ended March 31, 2011

Business conditions for the pharmaceutical industry remained difficult in the year under review. In addition to the impact of the April 2010 round of reductions in official drug prices payable under the National Health Insurance, which averaged 6.5% across the industry, pharmaceutical companies also had to adjust to government efforts to normalize healthcare expenditure, including measures to encourage the use of generic drugs.

Torii continued to develop growth drivers in the HIV and renal dialysis field such as the anti-HIV drug Truvada Tablets, and REMITCH CAPSULES, an oral antipruritus drug for hemodialysis patients. In addition, we undertook extensive promotional activities for individual categories and products, strengthened our product life cycle management, and enhanced and reinforced our marketing resources with the aim of maintaining and expanding market shares for our existing flagship products, including the topical corticosteroid ANTEBATE, the protease inhibitor FUTHAN for injection, and URINORM TABLETS, a uricosuric agent used in the treatment of hyperuricemia.

In February 2011 we commenced sales of KAYEXALATE DRYSYRUP, which was developed as a new formulation of hyperkalemia product KAYEXALATE.

There was no major material damage to business sites and facilities as a result of the Great East Japan Earthquake of March 2011.

Operating Results

Net Sales

At ¥45,336 million, net sales exceeded the previous year's result by ¥2,920 million, or 6.9%. Sales of FUTHAN for injection were ¥2,034 million, or 25.9%, lower year on year at ¥5,829 million, in part because of the effects of measures to promote the use of generic products. However, sales of Truvada TABLETS rose by ¥2,114 million, or 34.4%, to ¥8,253 million, while an increase of ¥3,810 million, or 107.1%, lifted sales of REMITCH CAPSULES to ¥7,367 million.

Cost of Sales

The cost of sales rose by ¥2,619 million, or 16.4%, year on year to ¥18,603 million. This resulted both from sales growth and changes in the sales contributions of the individual products.

Selling, General and Administrative Expenses

Selling, general and administrative expenses amounted to ¥24,888 million, an increase of ¥4,582 million, or 22.6%, over the previous year's figure. The higher figure was mainly due to an increase in R&D expenditure including initial payment following the conclusion of a licensing agreement with ALK.

Operating Income

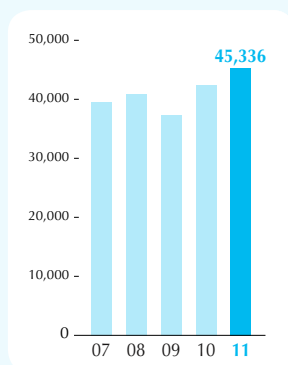
The above factors were reflected in operating income of ¥1,845 million, a year-on-year decline of ¥4,281 million, or 69.9%.

Net Income

Net income fell by ¥2,705 million, or 74.3%, year on year to ¥937 million.

Net Sales

(Millions of Yen)



Note: The years are fiscal years ended March 31.

Sales of Mainstay Products

(Millions of Yen)

	2010	2011	Change
Truvada	6,139	8,253	2,114 34.4%
REMITCH	3,557	7,367	3,810 107.1%
ANTEBATE	5,978	6,248	270 4.5%
FUTHAN	7,863	5,829	(2,034) (25.9%)
URINORM	3,627	3,425	(201) (5.6%)

Financial Position

(1) Assets, Liabilities and Equity

Total assets declined by ¥752 million, or 0.9%, and amounted to ¥84,886 million as of March 31, 2011. Despite a ¥14,882 million increase in marketable securities and a ¥1,999 million increase in trade accounts receivable, current assets were ¥1,962 million, or 2.8%, lower year on year at ¥68,563 million. Reasons for this change include a ¥23,062 million reduction in cash and cash equivalents. Investments and other assets increased by ¥1,840 million, or 20.9%, from the figure at the end of the previous fiscal year to ¥10,652 million, mainly because of a ¥1,353 million increase in investment securities.

Current liabilities decreased by ¥158 million, or 1.6% from the position at the end of the previous fiscal year to ¥9,612 million. Changes included increases of ¥390 million in parent and subsidiaries payable and ¥195 million in trade accounts payable, and a ¥924 million reduction in income taxes payable. Long-term liabilities were ¥198 million, or 16.2%, lower at ¥1,028 million.

Total equity declined by ¥396 million, or 0.5%, from the position at the end of the previous fiscal year to ¥74,246 million. Contributing factors included cash dividends of ¥1,189 million and net income of ¥937 million.

(2) Cash Flows

Cash and cash equivalents as of March 31, 2011 amounted to ¥12,345 million, a reduction of ¥23,062 million, or 65.1%, from the position at the end of the previous fiscal year.

Net cash used in operating activities amounted to ¥516 million, compared with net cash provided of ¥4,999 million in the previous year. Items reflected in this result include income before income taxes of ¥1,839 million, depreciation and

amortization other than goodwill of ¥1,395 million, a ¥2,013 million increase in trade notes and accounts receivable and ¥3,011 million in income taxes paid.

Net cash used in investing activities amounted to ¥21,303 million, compared with ¥10,397 million in the previous year. There were inflows of ¥21,000 million consisting of proceeds from withdrawals of time deposits and ¥15,871 million consisting of proceeds from sales of marketable securities. However, expenditure items included ¥30,077 million for purchases of marketable securities and ¥25,000 million for payments into time deposits.

Net cash used in financing activities amounted to ¥1,243 million. This consisted mainly of dividends paid of ¥1,189 million.

(3) Research and Development Activities

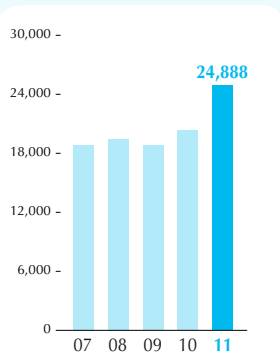
Research and development functions are divided between Torii and its parent company, JT. Research and development activities pertaining to new compounds have been centralized within JT, while Torii is responsible primarily for improvements to the formulations of existing products and the development of additional indications. Torii also carries out its own research and development in its special areas of expertise.

We are currently conducting Phase III clinical trials in Japan for a sublingually applied hyposensitization therapy (immunotherapy) for cedar pollen allergies based on a Japanese cedar pollen extract. In addition, we are involved in joint research with Riken, a government research organization, concerning a next-generation hyposensitization therapy (immunotherapy) in the form of a vaccine against cedar pollen allergies.

In collaboration with Toray Industries, Inc. and JT, we are conducting Phase III trials in Japan concerning a new indication for REMITCH CAPSULES as a therapy for the relief

Selling, General and Administrative Expenses

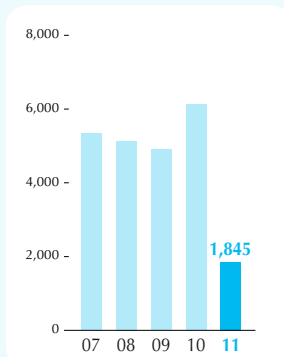
(Millions of Yen)



Note: The years are fiscal years ended March 31.

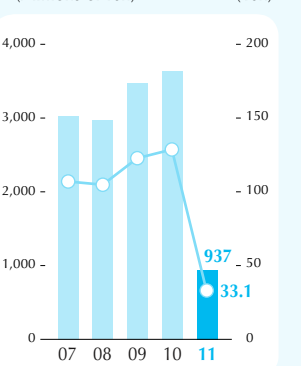
Operating Income

(Millions of Yen)



Net Income

(Millions of Yen)



of intractable pruritis associated with chronic hepatic disease. Torii and JT are also conducting Phase III clinical trials in Japan for the hyperphosphatemia drug JTT-751 (JT development code), which was licensed-in from the U.S. company Keryx Biopharmaceuticals, Inc.

In January 2011, we signed a licensing agreement with ALK giving us exclusive Japanese development and commercialization rights for ALK's hyposensitization (immunotherapy) products, which

are used to treat allergic diseases, such as asthma and allergic rhinitis, triggered by house dust mites. Under the agreement, which covers a diagnostic product for house dust mite allergies, Torii and ALK will jointly carry out research and development relating to hyposensitization (immunotherapy) drugs for use in the treatment of allergic conditions triggered by cedar pollen.

Total expenditure on research and development in the year ended March 31, 2011 amounted to ¥5,994 million.

Risk Analysis

A variety of factors could influence the business performance of Torii. The main risk factors are outlined below. All forward-looking statements in this annual report are based on our estimates at the time of submission of the financial statements.

- **Changes to the Pharmaceutical Affairs Law, Other Acts or Regulations**

Because of the importance of pharmaceutical products to human life and health, various aspects of their development, manufacture and sale are regulated under the Pharmaceutical Affairs Law and other legislation. Changes to these regulations could affect the business performance of Torii.

- **Drug Price Adjustments**

In Japan, the prices of ethical drugs are determined according to the National Health Insurance Drug Price standards, which are set by the government. These standards are revised at approximately two-year intervals, resulting in downward price adjustments that could affect the business performance of Torii.

- **Adverse Drug Reactions**

Side effects may occur when pharmaceutical products are used. A serious adverse reaction could impact on the business performance of Torii.

- **Delay or Discontinuance of Research and Development**

Under the division of roles between Torii and its parent company, JT, Torii is primarily responsible for the research and development of new formulations and additional indications for existing products. Torii also implements or participates in development projects in its areas of specialization.

New drugs research and development requires long periods of time and substantial investment. Depending on the progress made, some projects may have to be delayed, changed or abandoned. If such a situation should arise, there is a risk that the business performance of Torii would be affected.

- **Stoppage of Product Supply**

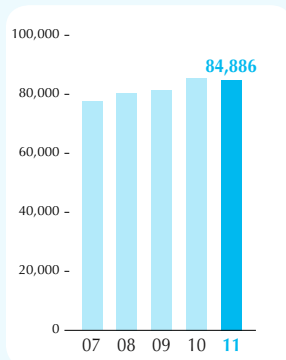
Our products are manufactured at the Sakura Plant, which is our only production facility, and at other specified outside manufacturers. If this plant or outside manufacturing plants are closed or those operations suspended due to technical or regulatory problems; fire, earthquake or other disaster; or, if operations become difficult due to unavailability of raw materials, fuel, electricity or timely logistics, the supply of our products may stop and the business performance of Torii could be affected.

- **Litigation Risk**

We are exposed to the risk of litigation, including product liability litigation, in the course of our business activities. Such litigation could affect the business performance of Torii.

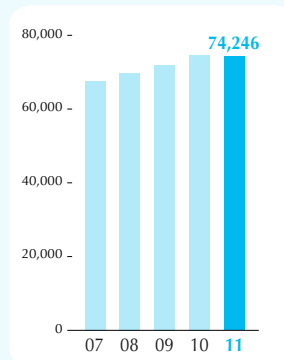
Total Assets

(Millions of Yen)



Total Equity

(Millions of Yen)



Return on Equity (ROE)

Return on Assets (ROA)

(%)

