Quality Pharmaceuticals for Health and Life

TORII PHARMACEUTICAL CO., LTD.

Annual Report 2015

For the year ended December 31, 2015

Values and Philosophy

The Corporate Mission of Torii

Torii Pharmaceutical Co., Ltd. aims to contribute to the improvement of human health and to fulfill its responsibilities to customers, shareholders, society and employees, by supplying world-class pharmaceutical products.

We are dedicated to enhancing the satisfaction of customers, shareholders, society and employees through the fulfillment of our responsibilities with regard to each.
We will achieve this through the reinvestment of revenue generated from our diligent corporate activities.

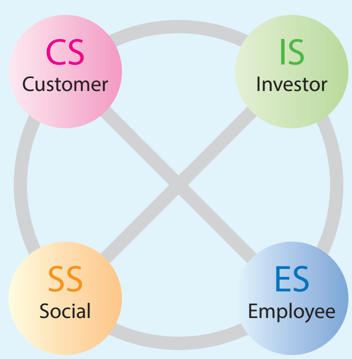
CS: Customer Satisfaction

Our Responsibility to Customers
We strive to improve the quality of life (QOL) of patients by supplying superior medicines and accurate information through medical professionals.

SS: Social Satisfaction

Our Responsibility to Society
We maintain a high ethical standard regarding our corporate social responsibility through business activities that reflect the needs of society.

4S MODEL



IS: Investor Satisfaction

Our Responsibility to Shareholders
We disclose timely, accurate corporate information and endeavor to generate appropriate shareholder returns and improve our corporate value.

ES: Employee Satisfaction

Our Responsibility to Employees
We aim to provide motivation and fulfillment to all our employees by respecting every individual, ensuring equal opportunities for carrier advancement, and by treating employees fairly on the basis of unbiased assessments.

The Torii Action Declaration

We gain the trust of our customers through thinking flexibly, working cooperatively and acting quickly.

Contents

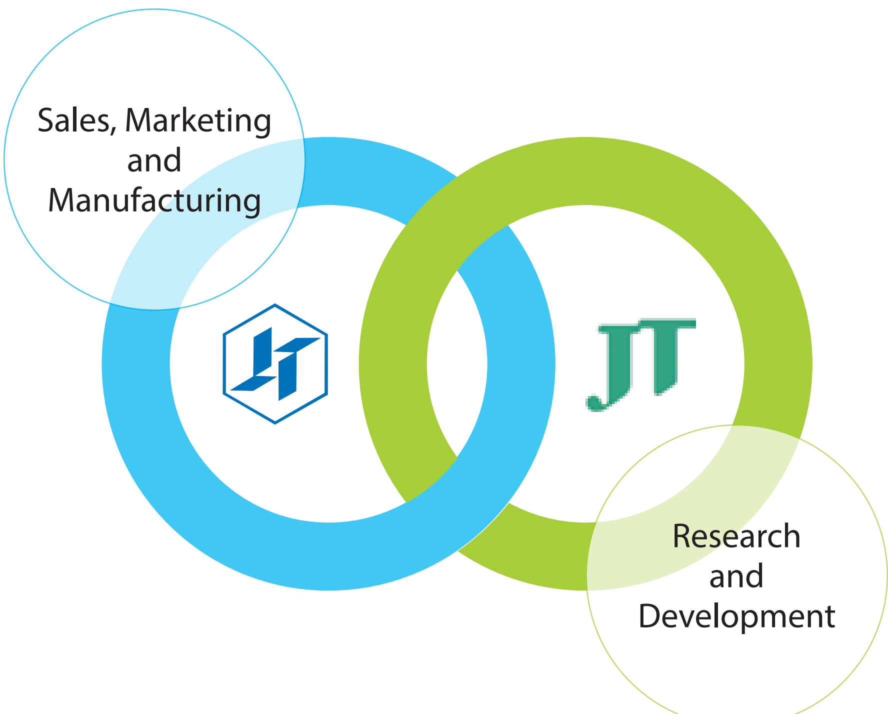
Forward-Looking Statements

Torii's policies, strategies, plans and forecasts presented in this annual report, other than statements of historical fact, are forward-looking statements. Reflecting assumptions and information available on the date of publication, these statements are subject to inherent risks and uncertainties. Accordingly, unforeseen factors may cause actual results to differ materially from the projections contained herein. Torii will not necessarily revise this report to reflect new information, transactions or events. Please see the risk analysis section of this report for a discussion of some of the risks and uncertainties that may impact Torii's business performance. The items discussed in the risk analysis section do not constitute a complete list of all the risks and uncertainties the Company faces.

Collaboration with Japan Tobacco Inc. ("JT")

In the pharmaceutical industry, the technology required to develop new drugs is becoming increasingly more sophisticated, and R&D costs are generally rising. At the same time, the requirements for the approval of new drugs are becoming ever more stringent. As a result, it often takes many years to release a new product into the market.

Torii joined the JT Group in 1998. In 1999, we established a business collaboration with JT, which envisioned R&D oriented pharmaceutical activities. In this new partnership, R&D for new drugs came under the control of JT, while Torii took over sales and marketing functions. Moreover Torii is responsible primarily for improvements to the formulations of existing products, and the development of additional indications. Torii also carries out its own R&D in its specific areas of expertise. In April 2006, Torii extended its manufacturing operations to include those of JT. This partnership has enabled us to continuously supply high-quality pharmaceutical products.



Sales and Marketing

Torii has about 500 medical representatives (MRs) working at 14 branch offices throughout Japan. In order to distribute information relating to pharmaceutical products, the MRs use Torii's marketing support system to access the information they need to provide prompt responses to specific needs. This marketing support system is crucial to effective information distribution, and also enhances clients' confidence in Torii through disseminating information widely shared by MRs and other business units to medical professionals.

The Pharmaceutical Marketing & Promotion Group formulates business strategies based on analyses of market needs and projections of future changes in the market environment. It also supports initiatives to enhance the quality of the pharmaceutical information that MRs provide to medical professionals.

In principle, new ethical pharmaceutical products developed by JT are marketed in Japan by Torii, which is strengthening its marketing and distribution system in preparation for the introduction of new drugs.

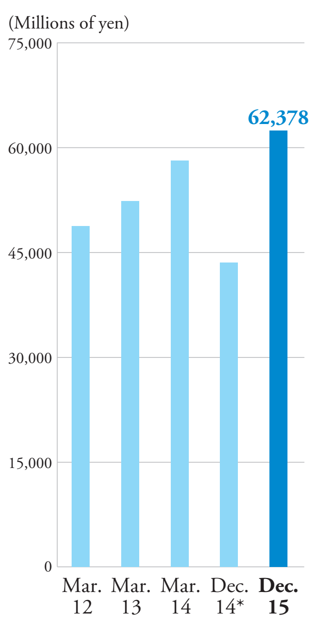
Torii also works actively with JT to in-license products that can be brought to the Japanese market.

Financial Highlights

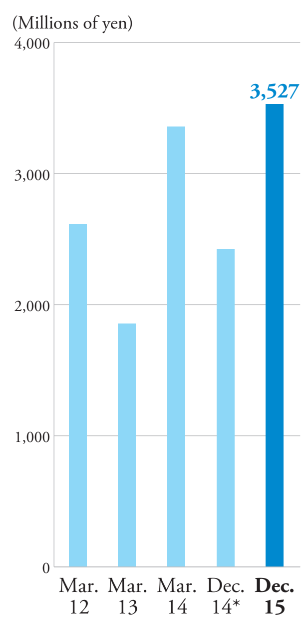
	Millions of yen		Thousands of U.S. dollars*1
	Dec. 2015	Dec. 2014*2	**Dec. 2015**
For the Year:			
Net sales	**¥62,378**	¥43,504	**$517,191**
Operating income	**4,919**	4,032	**40,785**
Income before income taxes	**5,258**	3,781	**43,599**
Net income	**3,527**	2,420	**29,247**
At Year-End:			
Total assets	**¥98,869**	¥92,550	**$819,739**
Total equity	**82,826**	80,225	**686,729**
	Yen		U.S. dollars*1
Per Share Data:			
Net income	**¥124.7**	¥85.5	**$1.03**
Cash dividends	**48.0**	40.0	**0.40**

*1 All dollar figures in this report refer to U.S. currency. Dollar figures in this report have been translated from yen, for convenience only, at the rate of ¥120.61=US$1.00, the approximate exchange rate prevailing on December 31, 2015.
*2 Fiscal year 2014 was a nine-month period from April 1, 2014 to December 31, 2014 due to a change in the Company's fiscal year-end.

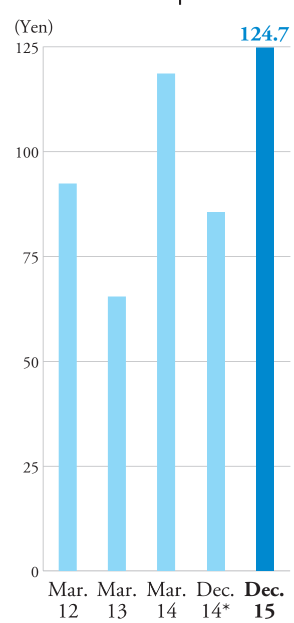
Net Sales



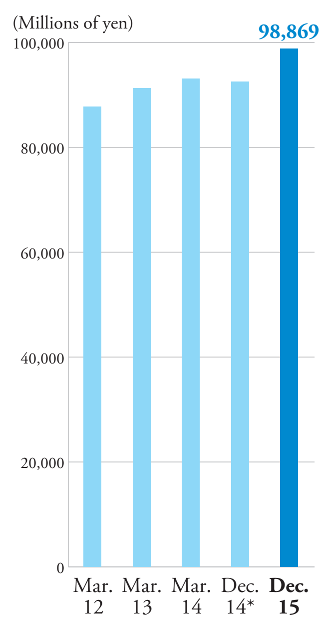
Net Income



Net Income per Share



Total Assets



* Fiscal year 2014 was a nine-month period from April 1, 2014 to December 31, 2014 due to a change in the Company's fiscal year-end.

Mainstay Products

Brand name	Area	Therapeutic indication	Net sales in fiscal 2014*2 (Billions of yen)	Net sales in fiscal 2015 (Billions of yen)
REMITCH	Renal diseases and Hemodialysis	Agent used for the treatment of pruritus in hemodialysis patients (oral antipruritus drug)	¥10.6	**¥15.6**
Truvada	HIV infection	Antiretroviral agent used for the treatment of HIV-1 infection in adults	9.2	**12.9**
ANTEBATE*1	Skin diseases and Allergens	Agent used for the treatment of the inflammatory manifestations of dermatosis (topical corticosteroid)	5.1	**6.9**
Riona	Renal diseases and Hemodialysis	Agent used for the improvement of hyperphosphatemia in patients* with chronic kidney disease *Both dialysis and non-dialysis dependent CKD patients are included.	1.8	**5.0**
Stribild	HIV infection	Antiretroviral agent used for the treatment of HIV-1 infection in adults	2.0	**3.1**
FUTHAN*1	Renal diseases and Hemodialysis	Agent used for the prevention of blood coagulation during extracorporeal circulation and for the treatment of acute pancreatitis and disseminated intravascular coagulation (protease inhibitor)	2.8	**3.1**
KAYEXALATE*1	Renal diseases and Hemodialysis	Agent used for the improvement of hyperkalemia caused by acute and chronic renal failure	1.7	**2.3**
URINORM*1	Renal diseases and Hemodialysis	Agent used for the treatment of hyperuricemia and gout (uricosuric agent)	1.4	**1.6**
LOCOID*1	Skin diseases and Allergens	Agent used for the treatment of the inflammatory manifestations of dermatosis (topical corticosteroid)	1.0	**1.4**
ZEFNART	Skin diseases and Allergens	Topical antifungal agent used for the treatment of tinea, including tinea pedis (athlete's foot).	1.1	**1.4**
Dovonex	Skin diseases and Allergens	Agent used for the treatment of psoriasis vulgaris	1.2	**1.3**

*1 In-house products
*2 Fiscal year 2014 was a nine-month period from April 1, 2014 to December 31, 2014 due to a change in the Company's fiscal year-end.


REMITCH


Truvada


ANTEBATE


Riona


Stribild


CEDARTOLEN

Torii Pharmaceutical Co., Ltd. has formulated its "medium-term management plan 2015" for the three-year period from fiscal 2013 (the year ended March 31, 2014) to fiscal 2015, and for this final year of the plan, has engaged in efforts to achieve its management targets, namely, net sales of ¥63.0 billion, operating income of ¥5.5 billion, and net income of ¥3.5 billion.

As a result of these efforts, in fiscal 2015 Torii posted net sales of ¥62.3 billion, operating income of ¥4.9 billion, and net income of ¥3.5 billion. Although we did not meet our targets for net sales and operating income, we were generally able to maintain our schedule of introducing to the market new products as planned for during the three-year period, and net sales renewed its best-ever record. In addition, with regard to our licensing-in activities, we acquired from Japan Tobacco Inc. the sales rights for two new tenofovir alafenamide (hereinafter "TAF")-based anti-HIV drugs (containing elvitegravir, cobicistat, emtricitabine and TAF, and containing emtricitabine and TAF). In January 2016, Torii also signed a strategic sales collaboration contract for Ixekizumab [*2] with Eli Lilly Japan K.K. (hereinafter "Eli Lilly Japan"). We can also recognize that Torii achieved a certain amount of results with regard to development. In the allergen area, Torii filed a New Drug Application in Japan for the sublingual tablet TO-206, an allergen immunotherapy drug for Japanese cedar pollinosis, and commenced clinical trials for pediatric indication for MITICURE® House Dust Mite Sublingual Tablets, an allergen immunotherapy drug, among other activities.

One remaining issue, however, is that we revised downward our projection for sales of CEDARTOLEN SUBLINGUAL DROP - Japanese Cedar Pollen, an allergen immunotherapy drug.

Torii is now moving forward on efforts for the next three years, having formulated its "medium-term management plan 2018" that covers the three-year period from fiscal 2016 to fiscal 2018 [*3].

The business environment surrounding the pharmaceutical industry is expected to grow even further in severity. Mounting risks include a greater degree of difficulty for new drug development, soaring R&D costs, and increasingly intense international competition. Amidst this, as a way to curb healthcare expenditures against the backdrop of difficult social security financing, there is now a target to increase the share of generic drugs to over 80%, among other initiatives.

Under these circumstances, in order to overcome changes in the increasingly challenging business environment and achieve sustainable business growth and the medium- to long-term improvement in corporate value, we will concentrate our management resources in the four priority areas: the renal and hemodialysis area, the skin disease area, the allergen area, and the HIV area, and engage in initiatives for the key issues including 1) carrying out active business investments aiming for medium- to long-term growth; 2) focusing on prompt market penetration and expansion of new products as well as maximizing values of mainstay products in each priority area; 3) improving and reinforcing business structure for sustainable growth; and 4) earning and maintaining the trust of stakeholders.

March 2016

S. Takagi

Shoichiro Takagi
Representative Director,
President and Chief Executive Officer

*1 A nucleoside analogue reverse transcriptase inhibitor for which JT holds the exclusive rights to develop and commercialize in Japan
*2 A humanized anti-interleukin-17 monoclonal antibody Ixekizumab (recombinant) that Eli Lilly Japan is developing and has filed a New Drug Application for the treatment of moderate-to-severe plaque psoriasis, psoriatic arthritis, pustular psoriasis, erythrodermic psoriasis last year in Japan
*3 Please see "Outlines of the medium-term management plan 2018 (fiscal 2016-fiscal 2018)" on pages 6-7 for details.

Launch of “MITICURE® House Dust Mite Sublingual Tablets” an Allergen Immunotherapy Tablet for House Dust Mite Allergy

Torii launched “MITICURE® House Dust Mite Sublingual Tablets” (“MITICURE” hereinafter), an allergen immunotherapy tablet for house dust mite allergy in Japan on December 3, 2015.

MITICURE, which is sublingual immunotherapy tablet, can be administered at home and can relieve patients from the pain associated with subcutaneous injection, compared to subcutaneous immunotherapy that has been performed in the past.

Torii expects that MITICURE will make a contribution as a new option for treating House dust mite-induced allergic rhinitis.

House dust mite-induced allergic rhinitis is a disease accompanied by nasal symptoms such as sneezing, rhinorrhea, nasal congestion, and nasal itching due to an allergy to house dust mites.

Allergen immunotherapy is a therapeutic method of administering the causative allergen of an allergic disease at a low dose at first and then an increased dose in order to reduce hypersensitivity to the allergen and has following characteristics.

- Alleviation of allergy symptoms and long-term remission are expected.
- Prior to commencement of treatment, a definitive diagnosis of causative allergen is necessary.
- Long-term treatment (3- 5 years) is required.
- Efficacy is expected on not all of the patients.

Launch of “Allergen Scratch Extract Positive control (Torii) Histamine Dihydrochloride”

Torii launched “Allergen Scratch Extract Positive control (Torii) Histamine Dihydrochloride” in Japan on January 18. JT received manufacturing and marketing approval of this medical product from the Japanese Ministry of Health, Labour and Welfare on September 28, 2015.

The product is used as a positive control in skin tests to identify allergens that cause allergic reactions.

Histamine dihydrochloride solution used to be prepared from reagent by healthcare practitioners in Japan, as no positive control for allergy skin tests existed as a medical product. Solving the complicated preparation method and the instability of the solution have been concerns in daily medical practice. In this circumstance, a histamine dihydrochloride was publicly offered for a development company by the Evaluation Committee on Unapproved or Off-labeled Drugs with High Medical Needs*1. JT and Torii acquired exclusive rights to develop and commercialize the histamine dihydrochloride preparation in Japan from ALK-Abelló A/S in 2013, and jointly developed this medical product with a grant funding from the Pharmaceutical Development Support Center.

*1 A committee set up by the Ministry of Health, Labour and Welfare, to facilitate development of unapproved and off-label drugs which have been available outside Japan.

Outlines of the "medium-term management plan 2018 (fiscal 2016-fiscal 2018)"

In order to overcome changes in the increasingly challenging business environment and achieve sustainable business growth and the medium- to long-term improvement in corporate value for the three-year period from fiscal 2016 to fiscal 2018, we will concentrate our management resources in the four priority areas: the renal and hemodialysis area, the skin disease area, the allergen area, and the HIV area, and engage in initiatives for the following key issues.

1	**Carrying out active business investments aiming for medium- to long-term growth**
2	**Focusing on prompt market penetration and expansion of new products as well as maximizing values of mainstay products in each priority area**
3	**Improving and reinforcing business structure for sustainable growth**
4	**Earning and maintaining the trust of stakeholders**

Management Target

	Results for the twelve months ended December 31, 2015 (Millions of yen)	Forecast for the twelve months ending December 31, 2016 (Millions of yen)	Target for the twelve months ending December 31, 2018*2 (Millions of yen)
Net sales	**¥62,300**	**¥61,000**	**¥62,000**
Operating income (before deduction of research and development costs)*1	**10,100**	**8,000**	**8,000**

*1 Research and development costs are difficult to forecast at present as they are expected to change significantly with active business investments aiming for medium- to long-term growth. Therefore, operating income before deduction of research and development costs is used as numerical target for profits.
*2 Target figures are formulated by applying certain assumptions concerning the effects of drug price revisions (including repricing for market expansion) and measures to increase the use of generic drugs, etc. In the event that said assumptions change significantly, revisions will be made on the target figures in a prompt manner.

Dividend Policy

Torii's basic policy is to distribute its surplus dividends in a stable and continuous manner based on the understanding that generating appropriate shareholder returns is one of the key issues for the management.

According to the aforementioned basic policy, Torii will continue to generate stable shareholder returns while preparing for investments from a medium- to long-term perspective, in view of enhancements to its business constitution, future business expansion and other considerations.

Torii will endeavor to maintain an annual dividend of ¥48 per share for the three years of the "medium-term management plan 2018."

Basic Policies & Strategies

1. Carrying out active business investments aiming for medium- to long-term growth

Torii will strive to acquire and develop in-licensed drugs (including alliances, etc.) that could be future mainstay products by further strengthening and promoting search and licensing-in activities.

2. Focusing on prompt market penetration and expansion of new products as well as maximizing values of mainstay products in each priority area

Under the drug price revisions scheduled for April 2016, in addition to the usual reduction of drug prices, REMITCH CAPSULES and Riona Tablets, our mainstay products, are affected by drug price reduction due to repricing for market expansion. However, Torii will focus on prompt market penetration and expansion of new products as well as strive to maximize values of mainstay products in each priority area by promoting initiatives for product life-cycle management (development of additional indications and new formulation, etc.).

RENAL DISEASES AND HEMODIALYSIS AREA

- Torii will aim to attain net sales of ¥10,000 million in fiscal 2018 for Riona Tablets by focusing on their prompt market penetration and expansion to develop them as a mainstay product coupled with REMITCH CAPSULES.
- Torii will endeavor to maximize net sales of existing products including REMITCH CAPSULES.

ALLERGENS AREA

- In order to establish business foundation in the allergen area, Torii will aim to attain net sales of ¥5,000 million in fiscal 2018 by continuing to work toward the propagation of allergen immunotherapy and focusing on prompt market penetration and expansion of CEDARTOLEN SUBLINGUAL DROP –Japanese Cedar Pollen and MITICURE® House Dust Mite Sublingual Tablets.
- In order to develop the allergen area as one of key businesses, Torii will promote smooth launching of TO-206, for which an application has been filed for manufacturing and marketing approval in Japan, clinical trials for pediatric indication for MITICURE® House Dust Mite Sublingual Tablets, and others.

SKIN DISEASES AREA

- Torii will focus on sales collaboration activities of Ixekizumab, which was agreed with Eli Lilly Japan K.K. in January 2016, while maintaining and strengthening its presence in the skin disease area.
- Torii will maintain and increase product values of its existing products such as ANTEBATE (topical corticosteroid) by focusing on product life-cycle management.

HIV AREA

- Torii will strive to maintain and expand its market share in the HIV area by focusing on smooth launching, prompt market penetration, and expansion of two new TAF-based anti-HIV drugs (containing elvitegravir, cobicistat, emtricitabine and TAF, and containing emtricitabine and TAF), which are the successors of Stribild Combination Tablets and Truvada Combination Tablets.

3. Improving and reinforcing business structure for sustainable growth

In order to continuously carry out business investments for growth while maintaining a certain level of profits, Torii will work to raise awareness toward improvement in profitability as well as pursue higher productivity (better quality and higher efficiency) in every process of business operations.

Torii will improve and reinforce organizational structure and abilities to support active and ongoing business investments for sustainable growth toward the future such as acquisition of in-licensed drugs (including alliances, etc.). In addition, Torii will further strengthen collaboration within organizations and also promote collaboration and cooperation with external parties including JT.

4. Earning and maintaining the trust of stakeholders

Torii will strive for continuous reinforcement of stable supply system and quality assurance system, provision of appropriate and useful information and resolution of issues based on needs of medical professionals and patients, and further strengthening of compliance. Moreover, Torii will endeavor to enhance and reinforce its corporate governance.

Torii launched MITICURE® House Dust Mite Sublingual Tablets (TO-203) (a drug which Torii licensed from ALK Abelló A/S (hereinafter "ALK")) in December 2015, and Allergen Scratch Extract Positive control (Torii) Histamine Dihydrochloride (JTE-350), jointly developed with JT, in January 2016. Furthermore, MITICURE® House Dust Mite Sublingual Tablets (TO-203) has entered Phase III of the domestic clinical trials in relation to pediatric indication.

Torii has filed a New Drug Application in Japan for the sublingual tablet TO-206, an allergen immunotherapy drug for Japanese cedar pollinosis in December 2015.

(As of April 27, 2016)

Area	Development code (Product Name)	Indication	Formulation/ Route of administration	Development stage (domestic)	Remarks
Skin disease and Allergens	**TO-203** (MITICURE® House Dust Mite Sublingual Tablets)	House dust mite induced allergic asthma (Allergen Immunotherapy)	sublingual tablet	Phase II/III Study completed*	•Licensing agreement signed with ALK for providing exclusive development and sales rights in Japan •In-house
		House dust mite induced allergic rhinitis in children (Allergen Immunotherapy)	sublingual tablet	Phase III	•Licensing agreement signed with ALK for providing exclusive development and sales rights in Japan •In-house
	TO-206	Japanese cedar pollinosis (Allergen Immunotherapy)	Sublingual tablet	Application	•In-house •NDA filing by Torii on December 25, 2015

*Examining the future development policy

Phase I

Administration of test drugs to small groups of healthy subjects to assess safety

Phase II

Administration of test drugs to small groups of patients to assess effectiveness and determine appropriate dosage levels and administration methods,etc.

Phase III

Comparative tests invoiving the administration of test drugs and existing products or placebos to large groups of patients to assess effectiveness and safety

Torii considers it a management priority to take appropriate actions to reduce environmental burdens arising from our business activities and carry out social contribution activities, as well as contribute to human health and well-being through the provision of pharmaceutical products. Based on this idea, we are actively engaging in social activities and initiatives to protect the global environment, in the hope of handing down a sound and abundant environment and society to the next generation.

Environmental Protection Efforts

To reduce environmental loads systematically, we have established the Torii Environmental Action Plan, which describes our single year and medium-term environmental targets. Guided by this plan, we are taking various measures against global warming, including COOL BIZ and WARM BIZ* activities, promotion of green purchasing, and the use of low-emission, more fuel-efficient company vehicles.

*These are Japanese government initiatives aimed at cutting national CO_2 emissions by reducing energy consumption. Businesses practicing COOL BIZ encourage lighter dress codes during summer to enable a higher average air conditioning temperature. WARM BIZ businesses set thermostats lower during winter, encouraging employees to dress warmly.

Social Contribution Activities

As a part of society, Torii engages in various social contribution activities in an effort to become a “good corporate citizen” that lives in harmony with society.

Our activities include participating in annual blood donations, cleaning up the local area around our offices and participating in the “Green Fund” program. These funds are used to support the preservation of forests in Japan and overseas and also to foster volunteers for forest-related projects. As a member of the JT Group, we also help to restore forest life cycles through our participation in “JT Forest” activities, including tree-planting, undergrowth clearing and thinning.

In addition, as a pharmaceutical company involved in anti-HIV drugs, Torii supports the “red ribbon” campaign, which provides help and understanding to people living with HIV/AIDS. We engage in awareness building activities targeting all employees in order to educate them and deepen their understanding, through distributing pamphlets on HIV/AIDS and promoting wearing red ribbon brooches in conjunction with “World AIDS Day” on December 1 of each year. The red ribbon articulates the message to not have prejudice against AIDS and people living with AIDS. Through the red ribbon campaign, we hope to provide patients and their families with support that goes beyond the mere provision of pharmaceuticals. Additionally, in fiscal 2015 we held an in-house seminar given by HIV positive individuals, in an effort to further deepen our employees’ understanding of HIV/AIDS.

Furthermore, we have built systems to support not only Torii’s social contribution but also the employees’ voluntary engagement in social contribution activities. We have been promoting a volunteer leave system, which allows employees to take up to five paid holidays a year for volunteer activities at nursing care facilities and disaster sites, and a leave system that supports bone marrow donation, under which the prospective donor is allowed paid leave for the number of days necessary for the procedures, including examination and hospitalization for donor registration and actual donation.

In order to foster better public understanding about our environmental efforts, we have issued an environmental report since 2005, since 2012, as an environmental and social report.

Torii is committed to the improvement of corporate value through timely adaptation to changes in the business environment, and through the maintenance of fair and transparent management processes. We are aware that these goals cannot be achieved without ongoing efforts to enhance the speed and quality of executive decision-making, develop effective internal control systems and ensure timely and accurate disclosure. We will continue to focus on improvements in all of these areas.

Corporate Governance Structure

In addition to the General Meeting of Shareholders and the Directors, the corporate governance organs adopted by Torii under the Companies Act of Japan include the Board of Directors, the Audit & Supervisory Board Members, the Audit & Supervisory Board and the accounting auditors, as well as the Executive Committee, the Compliance Committee, the Compliance Advancement Department and the Internal Audit Department.

The current corporate governance structure is based on reciprocal supervision by the nine directors, the audit system maintained by four Audit & Supervisory Board Members, of whom two are outside members, and cooperation among the Audit & Supervisory Board Members, the accounting auditors and units responsible for internal audits and internal control systems for financial reporting. We believe that we have established effective executive and supervisory structures.

In addition, two outside directors have been elected for the purpose of reinforcing the supervisory function of the Board of Directors.

Audit & Supervisory Board Members and the Audit & Supervisory Board

Torii has appointed Audit & Supervisory Board Members and established an Audit & Supervisory Board. Their task is to ensure the effectiveness of audit processes by attending board meetings and other important meetings, holding regular meetings with representative directors, and cooperating with the accounting auditors and internal audit departments. The Audit & Supervisory Board consists of four members, including two outside members with expert knowledge. By sharing knowledge and information and exchanging views, the Audit & Supervisory Board Members strive to carry out their audit activities from a neutral perspective and with a high standard of objectivity.

Torii and Audit & Supervisory Board Members Messrs. Yukitomo Furuya, Yasuyuki Yatsumoto, Toshio Fukuoka and Eiichi Izumo have entered into an agreement that limits liability under Article 423, Paragraph 1 of the Companies Act pursuant to the provisions of the company's Articles of Incorporation. The limit of liability for damages pursuant to this agreement is the amount provided by law.

Board of Directors

The Board of Directors currently consists of nine directors including two outside directors. In principle, the board meets monthly, but additional meetings are scheduled flexibly as required. The Board of Directors makes decisions on matters stipulated in laws and regulations and in the Articles of Incorporation. It also supervises directors in the performance of their duties and receives reports on administrative operations from Representative Directors and Executive Directors.

Torii and Directors (excluding Directors who are Executive Directors) Messrs. Norihiko Matsuo, Masao Torikai and Wataru Aizawa have entered into an agreement that limits liability under Article 423, Paragraph 1 of the Companies Act pursuant to the provisions of the company's Articles of Incorporation. The limit of liability for damages pursuant to this agreement is the amount provided by law.

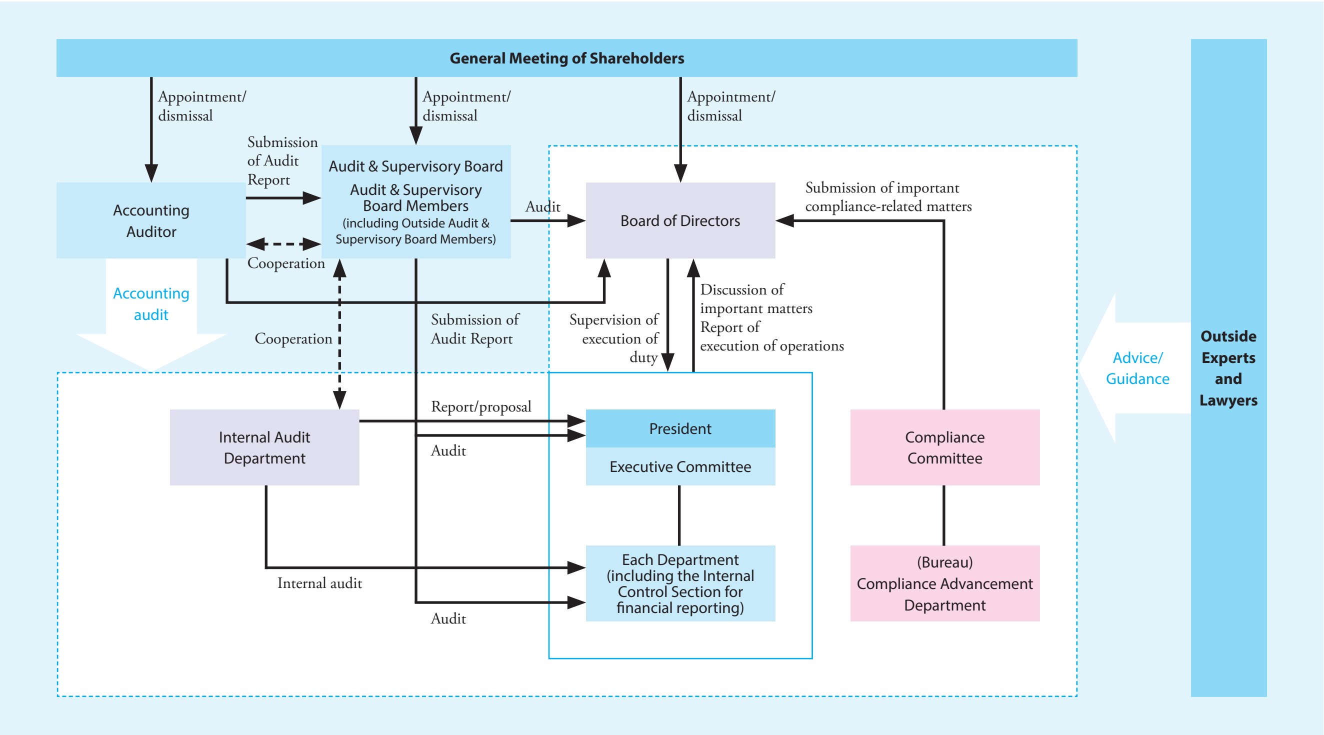
Executive Committee

The Executive Committee currently has eleven members. It normally meets once a week to discuss and reach decisions on important management matters, especially management policies affecting overall operations and matters relating to basic planning.

Compliance Committee

The nine-member Compliance Committee monitors compliance promotion activities and deliberates and makes decisions on important matters pertaining to compliance promotion. However, any matters requiring action in relation to serious compliance violations or situations that could lead to such violations are referred to the Board of Directors.

Overview of Corporate Governance Structure



Compliance Advancement Department

The Compliance Advancement Department has four dedicated members as well as 17 concurrent members in charge of compliance promotion at their respective units. Its task is to implement thorough compliance of laws, regulations and other requirements and conduct educational activities proactively and on a continuing basis by compiling and distributing guidelines that stipulate the values and ethics to be shared by the directors and employees and the standards to be observed by all the members of our organization.

Internal Audit Department

The Internal Audit Department currently has ten staff members and reports directly to the President. Its task is to study and assess management and operational systems and executive processes in all areas of corporate activities, taking into account the level of importance and the risk factors involved, and to provide information and recommendations to the President based on its findings.

Accounting Auditors

Torii has concluded an audit agreement with the audit corporation, Deloitte Touche Tohmatsu (certified under the provisions of Article 2, Paragraph 1 of the Certified Public Accountants Law of Japan).

Compliance Initiatives

Torii regards the promotion of compliance as an important management priority. To enhance the effectiveness of our compliance promotion activities, we have formulated rules with regard to compliance structure and established the Compliance Committee, which reports directly to the Board of Directors and is presided over by the President, and the Compliance Advancement Department, which is responsible for companywide compliance promotion activities.

To ensure the early detection of potential or actual compliance infringements, we have established internal and external contact points, etc. for reporting issues. Any such reports are rigorously investigated so that the necessary actions can be taken.

Board of Directors and Audit & Supervisory Board Members

(As of March 24, 2016)


Chairman of the Board
Norihiko Matsuo


Representative Director, President and Chief Executive Officer
Shoichiro Takagi


Member of the Board, Executive Director
Akihiko Tamura
(Head of Pharmaceutical Marketing & Promotion Group)


Member of the Board, Executive Director
Takahiro Umeda
(Head of Planning & Administration Group)


Member of the Board, Director
Yuko Kariya
(Head of Pharmacovigilance & Quality Assurance Group)


Member of the Board, Director
Masaki Sunami
(Head of Production Group)


Member of the Board, Director
Atsuyuki Kakee
(Head of R&D Group)


Member of the Board, Director
Masao Torikai


Member of the Board, Director
Wataru Aizawa

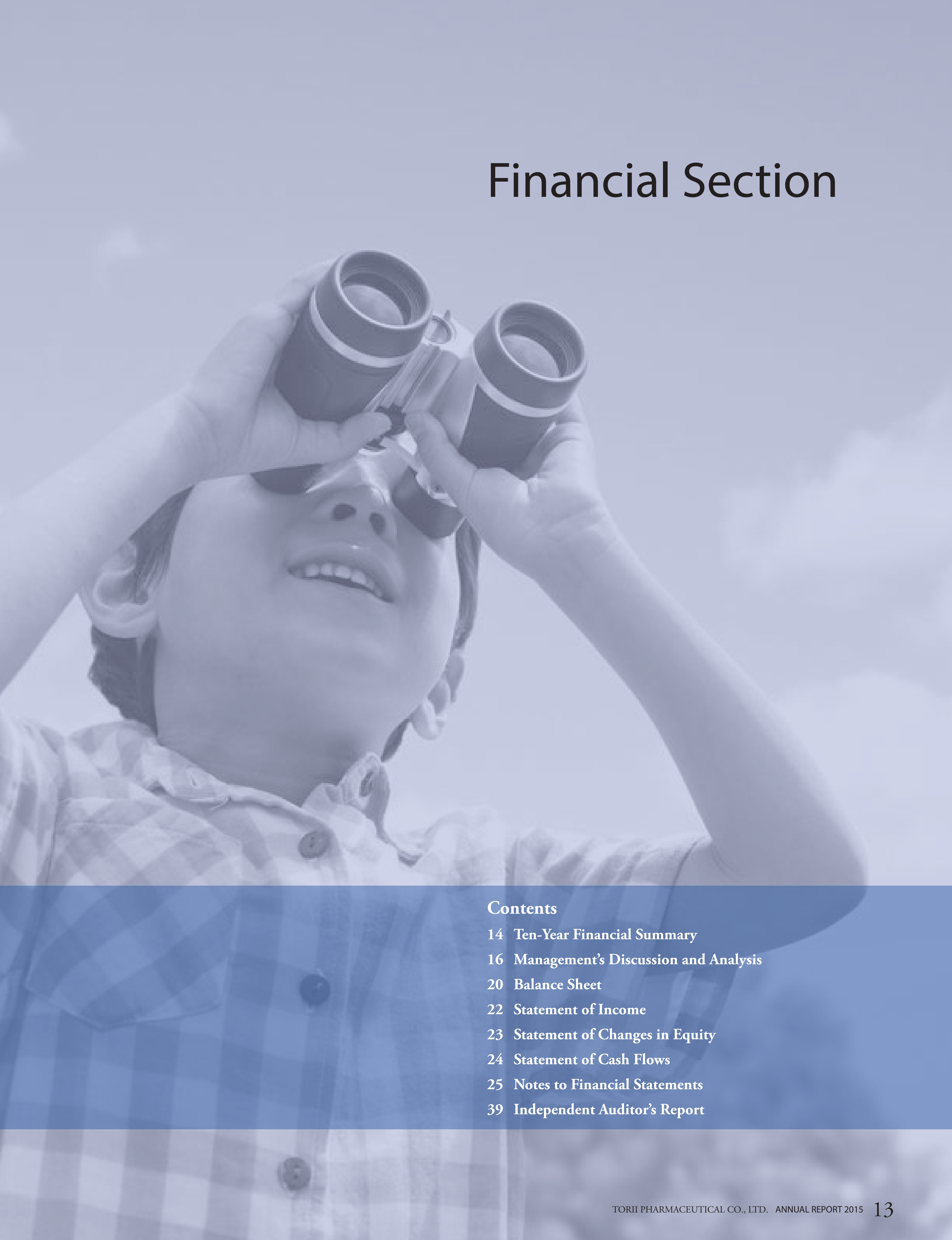
Audit & Supervisory Board Members
Yukitomo Furuya
Yasuyuki Yatsumoto
Toshio Fukuoka
Eiichi Izumo

Note:
Masao Torikai and Wataru Aizawa are an outside directors.
Toshio Fukuoka and Eiichi Izumo are outside audit & supervisory board members.

Organization

(As of January 1, 2016)

- General Meeting of Shareholders
  - Audit & Supervisory Board
- Board of Directors
- President
  - Executive Committee
- Secretary Dept.
- Internal Audit Dept.
- Planning & Administration Group
  - Corporate Planning Dept.
  - Compliance Advancement Dept.
  - Accounting Dept.
  - Human Resources Dept.
  - General Affairs Dept.
  - Information Technology Dept.
- Pharmaceutical Marketing & Promotion Group
  - Marketing Planning Dept.
  - Product Management Dept.
  - HIV Specialty Dept.
  - Wholesalers Relations Dept.
  - Sales Career Development Dept.
  - Branch Office
- Pharmacovigilance & Quality Assurance Group
  - Pharmacovigilance Dept.
  - Quality Assurance Dept.
  - Medical Compliance Dept.
  - Customer Support Dept.
- R&D Group
  - Business Development Dept.
  - Medical Affairs Dept.
  - Clinical Development Dept.
  - Regulatory Affairs Dept.
  - Research Laboratory
  - Research and Development Administration Dept.
- Production Group
  - Production & Logistics Dept.
  - Sakura Plant



Financial Section

Contents

	Millions of yen			
	March 31			
	2007	2008	2009	2010
For the Year:				
Net sales	¥39,577	¥40,845	¥37,349	¥42,416
Gross profit	24,202	24,596	23,700	26,432
Operating income	5,336	5,140	4,900	6,126
Income before income taxes	5,434	5,379	6,039	6,341
Net income	3,029	2,967	3,477	3,642
Capital expenditures	1,322	1,450	1,004	1,401
Research and development costs	1,766	1,828	1,192	1,613
Net cash provided by (used in) operating activities	3,415	3,333	3,260	4,999
Net cash provided by (used in) investing activities	(3,438)	822	228	(10,397)
Net cash used in financing activities	(738)	(738)	(991)	(1,182)
At Year-End:				
Total assets	¥77,542	¥80,439	¥81,433	¥85,638
Total equity	67,591	69,759	72,034	74,642
Number of shares issued (Thousands)	28,800	28,800	28,800	28,800
Number of employees	854	852	878	890
	Yen			
Per Share Data:				
Total equity	¥2,387.9	¥2,464.6	¥2,545.1	¥2,637.3
Net income	107.0	104.8	122.8	128.7
Cash dividends	26.0	30.0	36.0	40.0
	%			
Key Ratios:				
Operating income ratio	13.5	12.6	13.1	14.4
Return on equity (ROE)	4.6	4.3	4.9	5.0
Return on assets (ROA)	3.9	3.7	4.3	4.3
Shareholders' equity ratio	87.2	86.7	88.5	87.2
Dividend payout ratio	24.3	28.6	29.3	31.1

*1 All dollar figures in this report refer to U.S. currency. Dollar figures in this report have been translated from yen, for convenience only, at the rate of ¥120.61=US$1.00, the approximate exchange rate prevailing on December 31, 2015.
*2 Fiscal year 2014 was a nine-month period from April 1, 2014 to December 31, 2014 due to a change in the Company's fiscal year-end.

Millions of yen						Thousands of U.S. dollars*1
March 31				December 31	**December 31**	**December 31**
2011	2012	2013	2014	2014*2	**2015**	**2015**
¥45,336	¥48,718	¥52,294	¥58,110	¥43,504	**¥62,378**	**$517,191**
26,733	28,178	29,453	31,843	22,917	**31,564**	**261,705**
1,845	4,154	2,794	4,988	4,032	**4,919**	**40,785**
1,839	5,055	2,930	5,134	3,781	**5,258**	**43,599**
937	2,611	1,850	3,353	2,420	**3,527**	**29,247**
797	850	1,374	1,202	1,515	**2,208**	**18,306**
5,994	4,632	7,824	6,663	3,400	**5,237**	**43,422**
(516)	3,040	152	(201)	(610)	**4,940**	**40,963**
(21,303)	3,152	874	17,707	500	**958**	**7,939**
(1,243)	(1,154)	(1,181)	(1,319)	(1,411)	**(1,582)**	**(13,116)**
¥84,886	¥87,735	¥91,351	¥93,138	¥92,550	**¥98,869**	**$819,739**
74,246	75,833	76,701	79,018	80,225	**82,826**	**686,729**
28,800	28,800	28,800	28,800	28,800	**28,800**	**28,800**
905	927	969	1,009	1,047	**1,058**	**1,058**
Yen						U.S. dollars*1
¥2,623.4	¥2,679.5	¥2,710.2	¥2,792.1	¥2,834.8	**¥2926.8**	**$24.27**
33.1	92.3	65.4	118.5	85.5	**124.7**	**1.03**
40.0	40.0	40.0	40.0	40.0	**48.0**	**0.4**
%						
4.1	8.5	5.3	8.6	9.3	**7.9**	
1.3	3.5	2.4	4.3	3.0	**4.3**	
1.1	3.0	2.1	3.6	2.6	**3.7**	
87.5	86.4	84.0	84.8	86.7	**83.8**	
120.8	43.4	61.2	33.8	46.8	**38.5**	

Financial Results for the Year Ended December 31, 2015

The business environment for the pharmaceutical industry remained challenging in fiscal 2015. Healthcare reforms continued to be implemented to regulate healthcare expenditures, including measures to increase the use of generic drugs.

Under these circumstances, Torii strove to maintain and expand its market share through extensive promotional activities by area or by product, and product lifestyle management in three priority areas: 1) the renal and hemodialysis area represented by REMITCH CAPSULES (an oral antipruritic drug for hemodialysis patients) and Riona Tablets (a hyperphosphatemia drug), 2) the HIV area represented by Truvada Combination Tablets (an anti-HIV drug), and 3) the skin and allergen area represented by ANTEBATE (a topical corticosteroid).

We also focused on prompt market penetration of CEDARTOLEN SUBLINGUAL DROP - Japanese Cedar Pollen (a sublingual immunotherapy drug), which was launched in October 2014, to propagate allergen immunotherapy. MITICURE® House Dust Mite Sublingual Tablets (allergen immunotherapy tablet) was launched in December 2015.

Due to a change in our fiscal year, the previous fiscal term (fiscal 2014) was the nine-month period from April 1, 2014 to December 31, 2014. Consequently, information for the twelve months (from January 1, 2014 to December 31, 2014) of the previous year is provided for comparison.

Net Sales

Net sales increased by ¥4,289 million (7.4%) over the previous corresponding period to ¥62,378 million.

A breakdown of key products shows that sales of Riona Tablets increased by ¥3,223 million (177.9%) to ¥5,035 million, sales of Stribild Combination Tablets (an anti-HIV drug) rose by ¥667 million (27.1%) to ¥3,134 million and sales of REMITCH CAPSULES grew by ¥666 million (4.4%) to ¥15,637 million.

Sales of CEDARTOLEN SUBLINGUAL DROP - Japanese Cedar Pollen amounted to ¥512 million.

Cost of Sales

Cost of sales increased by ¥3,418 million (12.5%) over the previous corresponding period to ¥30,814 million due to an increase in net sales, the posting of loss on abandonment of products with imminent expiration dates for use concerning CEDARTOLEN SUBLINGUAL DROP - Japanese Cedar Pollen and changes in our internal product sales ranking.

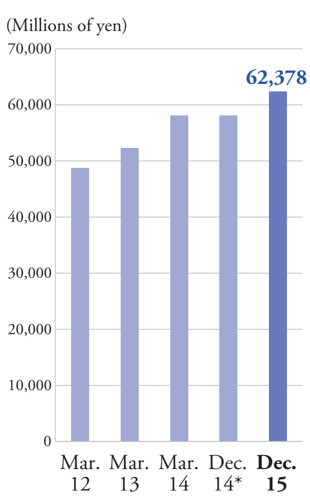
Selling, General and Administrative Expenses

Selling, general and administrative expenses were ¥986 million (3.8%) higher than the previous corresponding period at ¥26,645 million. This resulted mainly from an increase in research and development costs.

Operating Income, Net Income

As a result of the above, operating income was ¥4,919 million, a decrease of ¥115 million (2.3%) over the previous corresponding period. Net income increased by ¥133 million (3.9%) to ¥3,527 million because of the posting of gain on sales of land under extraordinary income.

Net Sales

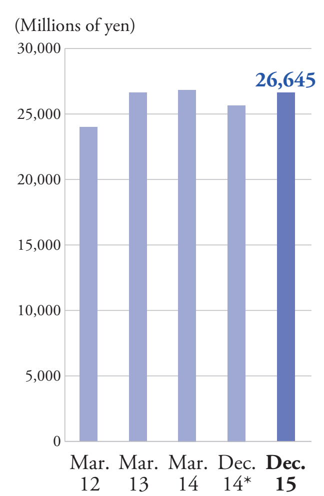


Sales of Mainstay Products

(Millions of yen)

	Dec. 2014*	Dec. 2015	Change
REMITCH	¥14,971	¥15,637	¥666 4.4%
Truvada	12,717	12,938	221 1.7%
ANTEBATE	6,747	6,881	134 2.0%
Riona	1,812	5,035	3,223 177.9%
Stribild	2,466	3,134	667 27.1%

Selling, General and Administrative Expenses



*Torii has changed the closing date of the accounting period from March 31 to December 31 since FY2014. Figures from Jan to Dec 2014, the same term of the last year, is presented with Financial Results for FY2015.

Financial Position at December 31, 2015

Assets, Liabilities and Equity

Total assets increased by ¥6,319 million (6.8%) from the end of the previous fiscal year to ¥98,869 million as of December 31, 2015. Current assets increased by ¥5,033 million (7.0%) from the end of the previous fiscal year to ¥77,155 million mainly due to a ¥4,316 million increase in cash and cash equivalents and a ¥1,992 million increase in trade accounts receivable despite a ¥1,401 million decrease in marketable securities. Investments and other assets rose by ¥909 million (6.2%) from the previous fiscal year-end to ¥15,532 million, in part because of a ¥1,300 million increase in long-term prepaid expenses mainly attributable to the posting of development milestone payments.

Current liabilities increased by ¥3,717 million (30.2%) from the end of the previous fiscal year to ¥16,042 million. Reasons for this increase included a ¥1,642 million increase in income taxes payable, a ¥1,472 million increase in other payables and an ¥805 million increase in trade accounts payable.

Total equity increased by ¥2,601 million (3.2%) from the end of the previous fiscal year to ¥82,826 million. Contributing factors included surplus dividends of ¥1,245 million and net income of ¥3,527 million.

Cash Flows

At ¥36,210 million, cash and cash equivalents as of December 31, 2015 were ¥4,316 million (13.5%) higher than at the end of the previous fiscal year.

Net cash provided by operating activities amounted to ¥4,940 million. This result reflects income before income taxes of ¥5,258 million, depreciation and amortization of ¥1,458 million, an ¥805 million increase in trade accounts payable, a ¥1,992 million increase in trade notes and accounts receivable, a ¥1,300 increase in long-term prepaid expenses and income taxes paid of ¥414 million.

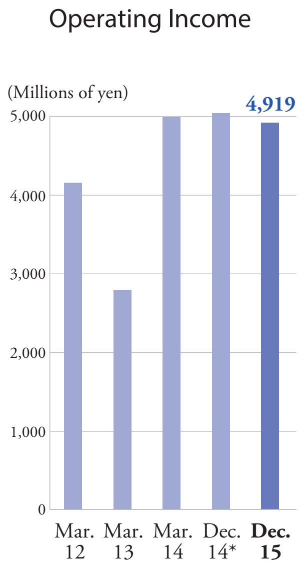
Net cash provided by investing activities amounted to ¥958 million. Major items included outflows of ¥1,096million for purchases of property, plant and equipment and ¥501 million for purchases of investment securities, as well as inflows of ¥2,600 million in proceeds from sale and redemption of marketable securities.

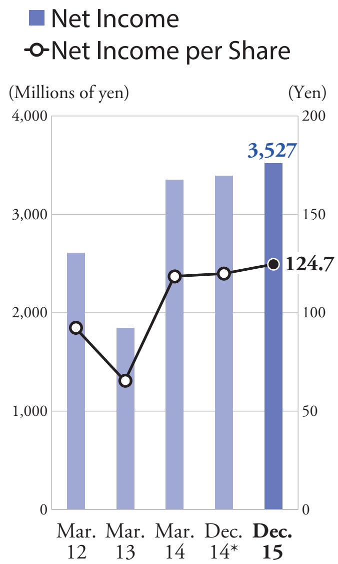
Net cash used in financing activities amounted to ¥1,582 million consisting mainly of ¥1,245 million for dividends paid.

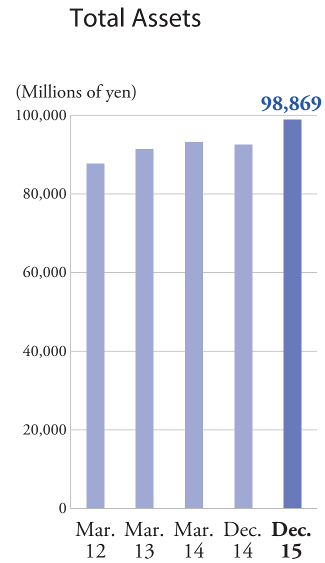
Research and Development Activities

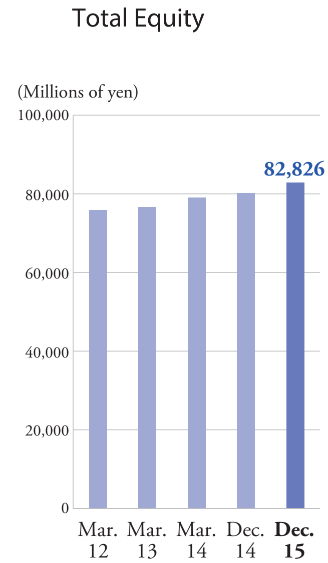
Research and development functions are divided between Torii and JT. JT is responsible for research and development activities pertaining to new compounds, whereas Torii is responsible primarily for improvements to the formulations of existing products and the development of additional indications. Torii also carries out its own research and development in its specific areas of expertise.

Total research and development costs in the year ended December 31, 2015, amounted to ¥5,237 million.









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Forecast for the Fiscal Year Ending December 31, 2016

The business environment surrounding the pharmaceutical industry is expected to become increasingly tough due to such factors as the promotion of healthcare reforms to curb healthcare expenditures and intensified competition with rival pharmaceutical companies and their competing products.

Under these circumstances, we will endeavor to achieve sustainable business growth and improve corporate value by concentrating our management resources in priority areas: the renal and hemodialysis area, the skin disease area, the allergen area and the HIV area.

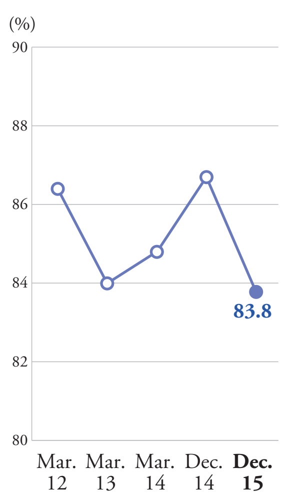
With regard to the next fiscal year, net sales are expected to decrease due to the inclusion of REMITCH CAPSULES and Riona Tablets in items subject to repricing for market expansion under the drug price revisions scheduled for April 2016, in addition to usual reduction of drug prices under the revisions. While striving to further expand these two products, we will focus on prompt market penetration of Ixekizumab, a strategic sales collaboration product, and the newly launched anti-HIV single tablet regimen (E/C/F/TAF) containing elvitegravir, cobicistat, emtricitabine and tenofovir alafenamide, as well as on market expansion for CEDARTOLEN SUBLINGUAL DROP - Japanese Cedar Pollen and MITICURE® House Dust Mite Sublingual Tablets. We will also make further efforts to acquire and develop in-licensed drugs (including alliances) for medium- to long-term growth.

As for profits, operating income, ordinary income and net income are projected to decrease mainly due to an increase in selling expenses following releases of new products, in addition to a decrease in net sales.

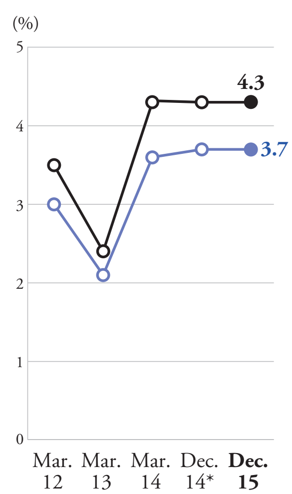
The current forecast for the year ending December 31, 2016, is as follows:

	(Reference) Results for the twelve months ended December 31, 2015 (Millions of yen)	Forecast for the twelve months ending December 31, 2016 (Millions of yen)	Change (Millions of yen)	% Change (%)
Net sales	¥62,378	¥61,000	¥(1,378)	(2.2)%
Operating income	4,919	3,300	(1,619)	(32.9)
Net income	3,527	2,300	(1,227)	(34.8)

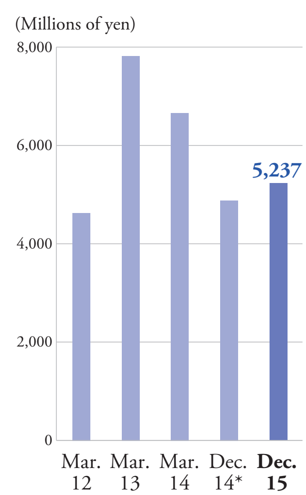
Shareholders' Equity Ratio



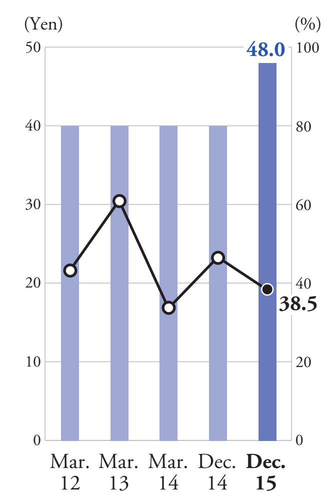
Return on Equity (ROE)
Return on Assets (ROA)



Research and Development Costs



Cash Dividends
Dividend Payout Ratio



*Torii has changed the closing date of the accounting period from March 31 to December 31 since FY2014. Figures from Jan to Dec 2014, the same term of the last year, is presented with Financial Results for FY2015.

Basic Policy for Distribution of Profits and Dividends for Fiscal 2015 and Fiscal 2016

Torii's basic policy is to distribute its surplus dividends in a stable and continuous manner based on the understanding that generating appropriate shareholder returns is one of the key issues for the management.

According to the aforementioned basic policy, Torii will continue to generate stable shareholder returns while preparing for investments from a medium- to long-term perspective, in view of enhancements to its business constitution, future business expansion and other considerations.

Torii decided to pay an annual dividend of ¥48 per share for the fiscal year ended December 31, 2015 (including an interim dividend of ¥24 which has already been paid), in accordance with the aforementioned basic policy.

Torii plans to pay an annual dividend of ¥48 per share (consisting of an interim dividend of ¥24 and a year-end dividend of ¥24) for the fiscal year ending December 31, 2016.

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 and Medical Device 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 and Medical Device Law and other legislation. Changes to these regulations could affect 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.

In the process leading to market release, some projects may have to be delayed, changed or abandoned. Furthermore, even after having filed applications for manufacturing and marketing approval, some projects may be declined. In such a situation, Torii's future growth potential and profitability will decline and there is a risk that the business performance of Torii could be affected.

Drug Price Listing and Revisions

In Japan ethical drugs are, in principle, covered by the medical insurance system and the prices of ethical drugs are official prices determined by the government. These prices are revised approximately every two years, depending on the determined prices or the details of the revisions, there is a risk that the business performance of Torii could be affected.

Adverse Drug Reactions

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

Stoppage of Product Supply and Product Recall

Our products are manufactured at the Sakura Plant, which is our only production facility, and at other specified outside manufacturers. In addition, some raw materials are procured from specific outside manufacturers and other sources. If this plant or outside manufacturing plants are closed or those operations are suspended due to technical or regulatory problems; fire, earthquake or other disaster; or, if production becomes 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.

Furthermore, in the event that our products are subject to quality-related problems, we may voluntarily decide to conduct product recall or follow orders to recall products if instructed by the national or municipal governments. In such a situation, there is a risk that the business performance of Torii could be affected.

Litigation Risk

In the course of our business activities, we are exposed to the risk of litigation, including product liability litigation, litigation relating to side effects and litigation relating to patent infringements. Such litigation could affect the business performance of Torii.

Balance Sheet

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	December 31, 2015	December 31, 2014	**December 31, 2015**
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents (Notes 12 and 13)	**¥ 36,210**	¥ 31,894	**$ 300,227**
Marketable securities (Notes 3 and 12)	**1,209**	2,610	**10,023**
Receivables (Note 12):			
Trade notes	**7**	7	**59**
Trade accounts	**27,850**	25,857	**230,907**
Parent	**68**	45	**566**
Other	**103**	49	**849**
Inventories (Note 4)	**9,837**	10,137	**81,559**
Deferred tax assets (Note 9)	**1,235**	813	**10,244**
Prepaid expenses and other current assets	**636**	710	**5,273**
Total current assets	**77,155**	72,122	**639,707**
PROPERTY, PLANT AND EQUIPMENT (Note 6):			
Land	**692**	702	**5,735**
Buildings and structures	**11,390**	11,580	**94,440**
Machinery and equipment	**7,934**	7,654	**65,782**
Furniture and fixtures	**2,664**	2,605	**22,091**
Lease assets (Note 11)	**1,847**	1,167	**15,310**
Construction in progress	**46**	112	**380**
Total	**24,573**	23,820	**203,738**
Accumulated depreciation	**(18,391)**	(18,014)	**(152,480)**
Net property, plant and equipment	**6,182**	5,806	**51,258**
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 3 and 12)	**6,801**	7,071	**56,385**
Software	**846**	587	**7,017**
Long-term prepaid expenses	**6,531**	5,230	**54,148**
Deferred tax assets (Note 9)	**553**	802	**4,583**
Other assets	**801**	932	**6,641**
Total investments and other assets	**15,532**	14,622	**128,774**
TOTAL	**¥ 98,869**	¥ 92,550	**$ 819,739**

See notes to financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	December 31, 2015	December 31, 2014	December 31, 2015
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Payables (Note 12):			
Trade accounts	¥ 4,275	¥ 3,470	$ 35,446
Parent (Note 13)	2,616	2,642	21,687
Other	3,250	1,778	26,950
Current portion of long-term lease obligations	342	331	2,839
Income taxes payable (Note 12)	1,915	273	15,881
Accrued expenses	658	1,032	5,454
Accrued employees' bonuses	661	695	5,476
Accrued bonuses to directors and Audit & Supervisory Board members	54	49	449
Asset retirement obligations			
Other current liabilities	702	1,122	5,816
Total current liabilities	14,473	11,392	119,998
LONG-TERM LIABILITIES:			
Liability for retirement benefits (Note 7)	393	174	3,260
Guarantees and lease deposits received	242	160	2,000
Long-term lease obligations	725	388	6,014
Asset retirement obligations	150	149	1,243
Other long-term liabilities	60	62	495
Total long-term liabilities	1,570	933	13,012
EQUITY (Note 8):			
Common stock—authorized, 54,000,000 shares;			
issued, 28,800,000 shares in December 2015 and 2014	5,190	5,190	43,031
Capital surplus—additional paid-in capital	6,416	6,416	53,196
Retained earnings:			
Legal reserve	1,298	1,298	10,758
Unappropriated	70,087	67,805	581,107
Unrealized gain on available-for-sale securities	698	377	5,795
Treasury stock—at cost, 500,768 shares in December 2015 and 500,068 shares in December 2014	(863)	(861)	(7,158)
Total equity	82,826	80,225	686,729
TOTAL	¥ 98,869	¥ 92,550	$ 819,739

Statement of Income

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Year Ended December 31, 2015	Nine-Month Period Ended December 31, 2014	Year Ended December 31, 2015
NET SALES	¥ 62,378	¥ 43,504	$ 517,191
COST OF SALES (Notes 7, 11 and 13)	30,814	20,587	255,486
Gross profit	31,564	22,917	261,705
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 7, 10 and 11)	26,645	18,885	220,920
Operating income	4,919	4,032	40,785
OTHER INCOME (EXPENSES):			
Interest and dividend income	102	78	850
Gain on sales of land	320		2,654
Loss on disposal of property, plant and equipment (Note 1)	(54)	(361)	(448)
Impairment loss (Note 5)	(143)		(1,184)
Other—net	114	32	942
Other income (expenses) —net	339	(251)	2,814
INCOME BEFORE INCOME TAXES	5,258	3,781	43,599
INCOME TAXES (Note 9):			
Current	2,030	268	16,830
Deferred	(299)	1,093	(2,478)
Total income taxes	1,731	1,361	14,352
NET INCOME	¥ 3,527	¥ 2,420	$ 29,247

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Note 2.q):			
Net income	¥ 124.7	¥ 85.5	$ 1.030
Cash dividends applicable to the period	48.0	40.0	0.40

See notes to financial statements.

Statement of Changes in Equity

	Outstanding Number of Shares of Common Stock	Millions of Yen						
		Common Stock (Note 8)	Capital Surplus ((Note 8) Additional Paid-in Capital	Retained Earnings (Note 8) Legal Reserve	Retained Earnings (Note 8) Unappropriated	Unrealized Gain (Loss) on Available-for-Sale Securities	Treasury Stock	Total Equity
BALANCE, APRIL 1, 2014	**28,300,242**	**¥ 5,190**	**¥ 6,416**	**¥ 1,298**	**¥ 66,517**	**¥ 457**	**¥ (860)**	**¥ 79,018**
Net income					2,420			2,420
Cash dividends paid, ¥40.0 per share					(1,132)			(1,132)
Repurchase of treasury stock	(310)						(1)	(1)
Net decrease in unrealized gain on available-for-sale securities						(80)		(80)
BALANCE, DECEMBER 31, 2014	**28,299,932**	**5,190**	**6,416**	**1,298**	**67,805**	**377**	**(861)**	**80,225**
Net income					3,527			3,527
Cash dividends paid, ¥48.0 per share					(1,245)			(1,245)
Repurchase of treasury stock	(700)						(2)	(2)
Net increase in unrealized gain on available-for-sale securities						321		321
BALANCE, DECEMBER 31, 2015	**28,299,232**	**¥ 5,190**	**¥ 6,416**	**¥ 1,298**	**¥ 70,087**	**¥ 698**	**¥ (863)**	**¥ 82,826**

	Thousands of U.S. Dollars (Note 1)						
	Common Stock (Note 8)	Capital Surplus (Note 8) Additional Paid-in Capital	Retained Earnings (Note 8) Legal Reserve	Retained Earnings (Note 8) Unappropriated	Unrealized Gain (Loss) on Available-for-Sale Securities	Treasury Stock	Total Equity
BALANCE, DECEMBER 31, 2014	**$ 43,031**	**$ 53,196**	**$ 10,758**	**$ 562,184**	**$ 3,133**	**$ (7,140)**	**$ 655,162**
Net income				29,247			29,247
Cash dividends paid, $0.40 per share				(10,324)			(10,324)
Repurchase of treasury stock						(18)	(18)
Net increase in unrealized gain on available-for-sale securities					2,662		2,662
BALANCE, DECEMBER 31, 2015	**$ 43,031**	**$ 53,196**	**$ 10,758**	**$ 581,107**	**$ 5,795**	**$ (7,158)**	**$ 686,729**

See notes to financial statements.

Statement of Cash Flows

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Year Ended December 31, 2015	Nine-Month Period Ended December 31, 2014	Year Ended December 31, 2015
OPERATING ACTIVITIES:			
Income before income taxes	¥ 5,258	¥ 3,781	$ 43,599
Adjustments for:			
Income taxes paid	(414)	(1,172)	(3,429)
Depreciation and amortization	1,458	924	12,089
Changes in assets and liabilities:			
Increase in trade notes and accounts receivable	(1,993)	(1,757)	(16,519)
Decrease (increase) in inventories	300	(2,108)	2,486
Increase (decrease) in trade accounts payable	805	(339)	6,674
Other—net	(474)	61	(3,937)
Total adjustments	(318)	(4,391)	(2,636)
Net cash provided by (used in) operating activities	4,940	(610)	40,963
INVESTING ACTIVITIES:			
Proceeds from sale and redemption of marketable securities	2,600	4,500	21,557
Purchases of property, plant and equipment	(1,096)	(556)	(9,086)
Proceeds from sale of property, plant and equipment	343		2,841
Purchases of investment securities	(501)	(3,110)	(4,153)
Other—net	(388)	(334)	(3,220)
Net cash provided by investing activities	958	500	7,939
FINANCING ACTIVITIES:			
Repurchase of treasury stock	(2)	(1)	(17)
Dividends paid	(1,245)	(1,132)	(10,324)
Repayments of lease obligations	(335)	(278)	(2,775)
Net cash used in financing activities	(1,582)	(1,411)	(13,116)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,316	(1,521)	35,786
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	31,894	33,415	264,441
CASH AND CASH EQUIVALENTS, END OF PERIOD	¥ 36,210	¥ 31,894	$ 300,227

See notes to financial statements.

1 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

The accompanying financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these financial statements, certain reclassifications and rearrangements have been made to the financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2014 financial statements to conform to the classifications used in 2015.

The financial statements are stated in Japanese yen, the currency of the country in which Torii Pharmaceutical Co., Ltd. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥120.61 to $1, the approximate rate of exchange at December 31, 2015. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

Due to ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits" the presentation method of the note to retirement benefits based on the multiemployer pension plan was changed and the financial statements that had been reported in the period ended December 31, 2014 were reclassified. The details of the reclassification and the amount of money on the financial statements in the period ended December 31, 2014 are explained in Note 7.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Nonconsolidation—The Company has no subsidiaries as of December 31, 2015.

b. Cash Equivalents—Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value.

Cash equivalents include time deposits, short-term investments, and deposits in the cash management system, all of which mature or become due within three months of the date of acquisition.

c. Inventories—Inventories are stated at the lower of cost, determined by the average method, or net selling value.

d. Marketable and Investment Securities—Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: available-for-sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Nonmarketable available-for-sale securities are stated at cost determined by the moving-average method.

For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

e. Property, Plant and Equipment—Property, plant and equipment are stated at cost. Depreciation is computed by the declining-balance method while the straight-line method is applied to buildings acquired after April 1, 1998. The range of useful lives is from 15 to 50 years for buildings and structures, 8 years for machinery and equipment, and from 2 to 15 years for furniture and fixtures. Equipment held for lease is depreciated by the straight-line method over the respective lease periods.

f. Long-Lived Assets—The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

g. Software—Software is carried at cost less accumulated amortization, which is calculated by the straight-line method principally over 5 years.

h. Retirement and Pension Plans—The Company has a contributory defined pension plan covering substantially all of its employees and an unfunded retirement lump-sum grants plan. In addition to the above, the executive officers are entitled to receive unfunded severance indemnity payments. The Company participates in a contributory multiemployer pension plan, the "Tokyo Pharmaceutical Welfare Pension Fund." For the contributory multiemployer pension plan, contributions to that plan are charged to income when paid. Plan assets contributed to this fund are not recorded in the balance sheet. The defined benefit obligations are attributed to periods on a benefit formula basis. Actuarial gains and losses are amortized on a straight-line basis over 10 years within the average remaining service period. Past service costs are amortized on a straight-line basis over 5 years within the average remaining service period.

In May 2012, the Accounting Standards Board of Japan (the "ASBJ") issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the accounting standard for retirement benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000, and the other related practical guidance, and were followed by partial amendments from time to time through 2009.

(a) Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and any resulting deficit or surplus is recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits).
(b) The revised accounting standard does not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts are recognized in profit or loss over a certain period no longer than the expected average remaining service period of the employees. However, actuarial gains and losses and past service costs that arose in the current period and have not yet been recognized in profit or loss are included in other comprehensive income and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments.
(c) The revised accounting standard also made certain amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases.
(d) In nonconsolidated financial statements, the new requirements for (a) and (b) above would not be applied, with the current requirements remaining applicable.

This accounting standard and the guidance for (a) and (b) above are effective for the end of annual periods beginning on or after April 1, 2013, and for (c) above are effective for the beginning of annual periods beginning on or after April 1, 2014, or for the beginning of annual periods beginning on or after April 1, 2015, subject to certain disclosure in December 2014, both with earlier application being permitted from the beginning of annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to financial statements in prior periods is required.

The Company does not apply the revised accounting standard for (a) and (b) above to the financial statements, accordingly.

The liability for retirement benefits is accounted for based on defined benefit obligations and plan assets at the balance sheet date.

i. Asset Retirement Obligations—In March 2008, the ASBJ issued ASBJ Statement No. 18, "Accounting Standard for Asset Retirement Obligations" and ASBJ Guidance No. 21, "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

j. Research and Development Costs—Research and development costs are charged to income as incurred.

k. Leases—In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions. The revised accounting standard for lease transactions was effective for fiscal years beginning on or after April 1, 2008.

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information was disclosed in the note to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions should be capitalized by recognizing lease assets and lease obligations in the balance sheet. In addition, the revised accounting standard permits leases that existed at the transition date and do not transfer ownership of the leased property to the lessee to be measured at the amount of obligation under finance leases less interest expense at the transition date and recorded as acquisition cost of lease assets.

The Company applied the revised accounting standard effective April 1, 2008. In addition, the Company accounted for leases that existed at the transition date and did not transfer ownership of the leased property to the lessee as acquisition cost of lease assets measured at the amount of obligation under finance leases less interest expense at the transition date.

All other leases are accounted for as operating leases.

l. Bonuses to Directors and Audit & Supervisory Board Members—Bonuses to directors and Audit & Supervisory Board members are accrued at the fiscal year end to which such bonuses are attributable.

m. Income Taxes—The provision for income taxes is computed based on the pretax income included in the statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.

n. Appropriations of Retained Earnings—Appropriations of retained earnings are reflected in the financial statements for the following year upon shareholders' approval.

o. Foreign Currency Transactions—All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the statement of income to the extent that they are not hedged by forward exchange contracts.

p. Derivatives and Hedging Activities—The Company uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange. Foreign exchange forward contracts are utilized by the Company to reduce foreign currency exchange risks. The Company does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments and foreign currency transactions are classified and accounted for as either assets or liabilities and measured at fair value.

Gains or losses on derivative transactions are recognized in the statement of income.

q. Per Share Information—Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period, which was 28,299,629 shares and 28,300,100 shares for the years ended December 31, 2015 and 2014, respectively.

Diluted net income per share is not disclosed because there were no dilutive potential common shares that were outstanding during each of the two years in the year ended December 31, 2015.

Cash dividends per share presented in the accompanying statement of income are dividends applicable to the respective fiscal years, including dividends to be paid after the end of the year.

r. Accounting Changes and Error Corrections—In December 2009, the ASBJ issued ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections" and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections." Accounting treatments under this standard and guidance are as follows: (1) Changes in Accounting Policies—When a new accounting policy is applied with revision of accounting standards, the new policy is applied retrospectively unless the revised accounting standards include specific transitional provisions. When the revised accounting standards include specific transitional provisions, an entity shall comply with the specific transitional provisions. (2) Changes in Presentation—When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation. (3) Changes in Accounting Estimates—A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods. (4) Corrections of Prior-Period Errors—When an error in prior-period financial statements is discovered, those statements are restated.

s. New Accounting Pronouncements— In December 2015, the ASBJ issued ASBJ Guidance No. 26, "Guidance on Recoverability of Deferred Tax Assets."

(1) Summary

With regard to the treatment of the recoverability of deferred tax assets, the following treatments stated in JICPA Auditing Standards Committee Report No. 66 "Audit Treatment for Determining the Recoverability of Deferred Tax Assets" were reviewed. The process for estimating deferred tax assets stated in this report whereby companies are categorized into five categories and deferred tax assets are calculated based on each of these categories will basically be retained.

i. Treatment of companies that do not fulfill any of the requirements for the classifications from Category 1 to Category 5
ii. Requirements for the classifications of Category 2 and Category 3
iii. Treatment of deductible temporary differences of which timing of the reversal cannot be scheduled for companies classified into Category 2
iv. Treatment concerning the reasonable estimable period of taxable income before adjusting deductible or taxable temporary differences for companies classified into Category 3
v. Treatment when a company fulfilling the requirements of Category 4 also falls under Category 2 or Category 3

(2) Scheduled application date

The Company plans to apply the above guidance from the beginning of the fiscal year ending December 2017.

(3) Impact of the application of the accounting standard and other pronouncements

The Company was still assessing impacts on its financial statements at the time of the preparation of the financial statements for the current fiscal year.

t. Change of Fiscal Year End—In the prior fiscal period, the Company changed its fiscal year end from March 31 to December 31 by resolution at the 122nd general shareholders' meeting held on June 25, 2014, for the purpose of unifying the fiscal year end with JT, the parent company, which will maintain operational efficiency relating to the formulation of management plans, performance management, and consolidated account closing.

As a consequence of this change of fiscal year end, fiscal year 2014 was a nine-month period from April 1, 2014 to December 31, 2014.

3 MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of December 31, 2015 and 2014, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	December 31, 2015	December 31, 2014	**December 31, 2015**
Current:			
Government and corporate bonds	**¥1,209**	¥ 2,610	**$ 10,023**
Trust fund investments and other			
Total	**¥1,209**	¥ 2,610	**$ 10,023**
Noncurrent:			
Equity securities	**¥1,480**	¥ 1,019	**$ 12,269**
Government and corporate bonds	**5,321**	6,052	**44,116**
Total	**¥6,801**	¥ 7,071	**$ 56,385**

The costs and aggregate fair values of marketable and investment securities at December 31, 2015 and 2014, were as follows:

	Millions of Yen			
December 31, 2015	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	**¥ 358**	**¥ 1,012**		**¥ 1,370**
Debt securities	**6,514**	**20**	**¥ 4**	**6,530**
December 31, 2014				
Available-for-sale:				
Equity securities	¥ 358	¥ 551		¥ 909
Debt securities	8,631	34	¥ 3	8,662

	Thousands of U.S. Dollars			
December 31, 2015	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	**$ 2,968**	**$ 8,389**		**$ 11,357**
Debt securities	**54,008**	**164**	**$ 33**	**54,139**

Available-for-sale securities whose fair value was not readily determinable as of December 31, 2015 and 2014, were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	December 31, 2015	December 31, 2014	**December 31, 2015**
Available-for-sale—Unlisted equity securities	**¥ 110**	¥ 110	**$ 912**
Total	**¥ 110**	¥ 110	**$ 912**

4 INVENTORIES

Inventories at December 31, 2015 and 2014, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	December 31, 2015	December 31, 2014	December 31, 2015
Finished products and merchandise	**¥ 6,132**	¥ 6,631	**$ 50,843**
Work in process	**509**	595	**4,219**
Raw materials and supplies	**3,196**	2,911	**26,497**
Total	**¥ 9,837**	¥ 10,137	**$ 81,559**

5 LONG-LIVED ASSETS

The Company reviewed its long-lived assets for impairment as of December 31, 2015. As a result, the Company recognized an impairment loss of ¥143 million ($1,184 thousand) as other expense for idle assets of the Sakura Plant due to no expectation of being used and these idle assets were written down to the recoverable amount of "Zero". No impairment loss was recognized in 2014.

6 INVESTMENT PROPERTY

In November 2008, the ASBJ issued ASBJ Statement No. 20, "Accounting Standard for Investment Property and Related Disclosures" and issued ASBJ Guidance No. 23, "Guidance on Accounting Standard for Investment Property and Related Disclosures."

The Company holds office buildings (including land) used by the Company and rental commercial properties (including land and leased land) in Tokyo and other areas. Parts of the office buildings used by the Company are used as rental office space, and these spaces are included in investment property. Net of rental income and operating expenses for those rental properties was ¥221 million ($1,831 thousand) for the fiscal year ended December 31, 2015.

The carrying amounts, changes in such balances, and market prices of such properties are as follows:

Millions of Yen			
Carrying Amount			Fair Value
January 1, 2015	Increase/Decrease	December 31, 2015	December 31, 2015
¥ 674	¥ (10)	**¥ 664**	**¥ 3,272**

Millions of Yen			
Carrying Amount			Fair Value
April 1, 2014	Increase/Decrease	December 31, 2014	December 31, 2014
¥ 692	¥ (18)	¥ 674	¥ 3,217

Thousands of U.S. Dollars			
Carrying Amount			Fair Value
January 1, 2015	Increase/Decrease	December 31, 2015	December 31, 2015
$ 5,589	$ (87)	**$ 5,502**	**$ 27,125**

Notes: 1. Carrying amount recognized in the balance sheet is net of accumulated depreciation and accumulated impairment losses, if any.
2. Fair values of major properties as of December 31, 2015, are based on written appraisals, etc., by independent real estate appraisers. The values of minor properties are based on specific valuations or indicators that are believed to reflect market prices appropriately.

7 RETIREMENT AND PENSION PLANS

Employees whose service with the Company is terminated are, under most circumstances, entitled to retirement and pension benefits determined by reference to basic rates of pay at the time of termination, length of service and conditions under which the termination occurs. If the termination is involuntary, caused by retirement at the mandatory retirement age or caused by death, the employee is entitled to greater payments than in the case of voluntary termination. Additional retirement benefits which may be paid to employees upon retirement have not been included in the actuarial calculation of the projected benefit obligation. The net liabilities for retirement benefits at December 31, 2015 and 2014, consisted of the following:

(1) The changes in defined benefit obligation for the year ended December 31, 2015 and the nine-month period ended December 31, 2014, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	Year Ended December 31, 2015	Nine-Month Period Ended December 31, 2014	**Year Ended December 31, 2015**
Balance at beginning of period	**¥ 8,414**	¥ 6,838	**$ 69,760**
Current service cost	**462**	267	**3,830**
Interest cost	**50**	79	**418**
Actuarial losses	**3**	923	**22**
Benefits paid	**(627)**	(128)	**(5,200)**
Prior service cost		435	
Balance at end of period	**¥ 8,302**	¥ 8,414	**$ 68,830**

(2) The changes in plan assets for the year ended December 31, 2015 and the nine-month period ended December 31, 2014, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	Year Ended December 31, 2015	Nine-Month Period Ended December 31, 2014	**Year Ended December 31, 2015**
Balance at beginning of period	**¥ 7,201**	¥ 6,559	**$ 59,705**
Expected return on plan assets	**144**	98	**1,194**
Actuarial losses	**148**	468	**1,227**
Contributions from the employer	**331**	204	**2,745**
Benefits paid	**(589)**	(128)	**(4,882)**
Balance at end of period	**¥ 7,235**	¥ 7,201	**$ 59,989**

(3) Reconciliation between the liability recorded in the balance sheet and the balances of defined benefit obligation and plan assets is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	December 31, 2015	December 31, 2014	**December 31, 2015**
Funded defined benefit obligation	**¥ 7,834**	¥ 8,056	**$ 64,951**
Plan assets	**(7,235)**	(7,201)	**(59,989)**
	599	855	**4,962**
Unfunded defined benefit obligation	**468**	358	**3,879**
Unrecognized actuarial loss	**(340)**	(618)	**(2,814)**
Unrecognized prior service cost	**(334)**	(421)	**(2,767)**
Net liability arising from defined benefit obligation	**¥ 393**	¥ 174	**$ 3,260**

	Millions of Yen		Thousands of U.S. Dollars
	December 31, 2015	December 31, 2014	**December 31, 2015**
Liability for retirement benefits	**¥ 393**	¥ 174	**$ 3,260**
Net liability arising from defined benefit obligation	**¥ 393**	¥ 174	**$ 3,260**

(4) The components of net periodic benefit costs for the year ended December 31, 2015 and the nine-month period ended December 31, 2014, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	Year Ended December 31, 2015	Nine-Month Period Ended December 31, 2014	**Year Ended December 31, 2015**
Service cost	**¥ 462**	¥ 267	**$ 3,830**
Interest cost	**50**	79	**418**
Expected return on plan assets	**(144)**	(98)	**(1,194)**
Recognized actuarial losses	**134**	57	**1,105**
Amortization of prior service cost	**87**	14	**722**
Net periodic benefit costs	**¥ 589**	¥ 319	**$ 4,881**

(5) Plan assets

a. Components of plan assets

Plan assets consisted of the following:

	December 31, 2015	December 31, 2014
Debt investments	**68%**	58%
Equity investments	**24**	35
General account of life insurance companies	**7**	7
Others	**1**	0
Total	**100%**	100%

b. Method of determining the expected rate of return on plan assets

The expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

(6) Assumptions used for the year ended December 31, 2015 and the nine-month period ended December 31, 2014, were set forth as follows:

	Year Ended December 31, 2015	Nine-Month Period Ended December 31, 2014
Discount rate	**0.6%**	1.5%
Expected rate of return on plan assets	**2.0**	2.0

(7) Multiemployer pension plan
Contributions to the multiemployer pension plan of ¥204 million ($1,695 thousand) are disclosed in cost of sales and selling, general and administrative expenses for the nine-month period ended December 31, 2014, for which plan assets could not be allocated to each participating employer.

The funded status of the multiemployer pension plan at December 31, 2014 (available information as of March 31, 2014) and March 31, 2014 (available information as of March 31, 2013) to which contributions were recorded as net periodic retirement benefit costs, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	March 31 2015	2014	March 31, 2015
Fair value of plan assets	¥571,380	¥512,489	$4,737,422
Sum of actuarial liabilities of pension plan and minimum actuarial reserve*	561,736	522,290	4,657,460
Difference	¥ 9,644	¥ (9,801)	$ (79,962)

* This item was presented as "Pension benefit obligation recorded by pension fund" as of December 31, 2014.

The Company's contribution percentage for the multiemployer pension plan at December 31, 2014 and March 31, 2014, was as follows:

	December 31, 2015	December 31, 2014
Contribution percentage	**1.4%**	1.4%

Notes (March 31, 2015):
1. The difference mainly resulted from prior service cost of ¥(40,108) million ($(332,538) thousand), surplus brought forward of ¥14,311 million ($118,654 thousand) and special reserve fund of ¥35,441 million ($293,846 thousand).
2. Prior service cost is the present value of the amount of special contributions and the method of amortization is principal and interest equal repayment. The ratio of employer contribution is 15.5‰. The remaining term of amortization is 7 years and 0 months as of March 31, 2015.

Notes (March 31, 2014):
1. The difference mainly resulted from prior service cost of ¥(45,242) million ($(375,297) thousand) and an adjustment of surplus of ¥35,441 million ($293,993 thousand).
2. Prior service cost is the present value of the amount of special contributions and the method of amortization is principal and interest equal repayment. The ratio of employer contribution is 15.5‰. The remaining term of amortization is 8 years and 0 months as of March 31, 2014.

8 EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

a. Dividends
Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. For companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the Company has prescribed so in its articles of incorporation. However, the Company cannot do so because it does not meet all the above criteria.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. Increases/Decreases and Transfer of Common Stock, Reserve and Surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends, until the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

c. Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by a specific formula.

Under the Companies Act, stock acquisition rights are presented as a separate component of equity.

The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

9 INCOME TAXES

The Company is subject to Japanese national and local income taxes, which, in the aggregate, resulted in a normal effective statutory tax rate of 35.6% for the year ended December 31, 2015 and the nine-month period ended December 31, 2014.

The tax effects of significant temporary differences, which resulted in deferred tax assets and liabilities at December 31, 2015 and 2014, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	December 31, 2015	December 31, 2014	**December 31, 2015**
Deferred tax assets:			
Prepayment of research and development costs	**¥ 599**	¥ 439	**$ 4,967**
Deferred charges for tax purposes	**524**	798	**4,343**
Accrued bonuses to employees	**219**	247	**1,813**
Accrued enterprise taxes	**165**	36	**1,368**
Liabilities for retirement benefits	**127**	62	**1,053**
Loss on valuation of inventories	**120**		**995**
Overdepreciation	**113**	65	**939**
Loss on revaluation of golf club memberships	**49**	55	**412**
Impairment loss	**46**		**384**
Other	**215**	184	**1,781**
Less valuation allowance	**(54)**	(59)	**(447)**
Total	**2,123**	1,827	**17,608**
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	**335**	203	**2,781**
Other		9	
Total	**335**	212	**2,781**
Net deferred tax assets	**¥ 1,788**	¥ 1,615	**$ 14,827**

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate as reflected in the accompanying statement of income for the year ended December 31, 2015, with the corresponding figures for the nine-month period ended December 31, 2014, is as follows:

	Year Ended December 31, 2015	Nine-Month Period Ended December 31, 2014
Normal effective statutory tax rate	**35.6%**	35.6%
Expenses not deductible for income tax purposes	**1.4**	1.4
Dividend income deductible for income tax purposes	**(0.1)**	(0.1)
Per capita levy	**1.3**	1.4
Tax credits	**(8.7)**	(2.6)
Valuation allowance	**3.6**	
Other—net	**(0.2)**	0.3
Actual effective tax rate	**32.9%**	36.0%

New tax reform laws enacted in 2015 in Japan changed the normal effective statutory tax rate for the fiscal year beginning on or after April 1, 2015, to approximately 33.1% and for the fiscal year beginning on or after April 1, 2016, to approximately 32.3%. The effect of these changes was to decrease deferred tax assets, net of deferred tax liabilities, by ¥191 million ($1,586 thousand) and increase unrealized gain on available-for-sale securities by ¥34 million ($278 thousand) in the balance sheet as of December 31, 2015, and to increase income taxes—deferred in the statement of income for the year then ended by ¥158 million ($1,308 thousand).

10 RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥5,237 million ($43,422 thousand) and ¥3,400 million for the year ended December 31, 2015 and the nine-month period ended December 31, 2014, respectively.

11 LEASES

The Company leases certain office space and other assets under operating leases.

Total rental expenses including lease payments under finance leases for the year ended December 31, 2015 and the nine-month period ended December 31, 2014, were ¥1,288 million ($10,679 thousand) and ¥1,514 million, respectively.

Obligations under finance leases and the minimum rental commitments under noncancelable operating leases were as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	2015		2015	
	Finance Leases	Operating Leases	Finance Leases	Operating Leases
Due within one year	¥ 342	¥ 53	$ 2,839	$ 439
Due after one year	725	¥ 95	6,014	785
Total	¥ 1,067	¥ 148	$ 8,853	$ 1,224

12 FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Policy for Financial Instruments

To provide for a new business investment, the Company invests surplus funds in financial instruments, which are selected primarily for liquidity and security. Derivatives are used, not for speculative purposes, but to manage exposure to financial risks as described in (2) below.

(2) Nature of Financial Instruments and Related Risks, and Risk Management Systems

Receivables, such as trade notes and trade accounts, are exposed to customer credit risk. The Company manages due dates and outstanding balances for individual customers in accordance with its credit management rules. The Company has also established a system to monitor the credit status of major customers on a half yearly basis.

Marketable and investment securities consist mainly of bonds, held with the aim of investing surplus funds and shares in companies with which the Company has business relationships. These bonds and shares are exposed to the credit risk of the issuers and to the risk of market price fluctuation.

Most trade accounts and accrued payments, which are operating liabilities, have due dates within one year. Some of these items are denominated in foreign currencies and are therefore exposed to the risk of exchange rate fluctuations. Lease obligations under finance leases are mainly contributions for manufacturing facilities owned by outsourcing contractors and the redemption date will be in eight years at most from December 31, 2015. Derivatives are forward foreign currency contracts, which are used to manage exposure to financial risks from changes in foreign currency exchange rates of payables.

(3) Fair Values of Financial Instruments

The fair values of financial instruments are based on market prices and prices calculated using reasonable methods when no market prices are available.

(a)Fair values of financial instruments

	Millions of Yen		
December 31, 2015	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	**¥ 36,210**	**¥ 36,210**	
Receivables:			
Trade accounts	**27,850**	**27,850**	
Parent	**68**	**68**	
Marketable and investment securities—Available-for-sale securities	**7,900**	**7,900**	
Total	**¥ 72,028**	**¥ 72,028**	
Payables:			
Trade accounts	**¥ 4,275**	**¥ 4,275**	
Parent	**2,616**	**2,616**	
Other	**3,250**	**3,250**	
Income taxes payable	**1,915**	**1,915**	
Lease obligations	**1,068**	**1,067**	**(1)**
Total	**¥ 13,124**	**¥ 13,123**	**(1)**
December 31, 2014			
Cash and cash equivalents	¥ 31,894	¥ 31,894	
Receivables:			
Trade accounts	25,857	25,857	
Parent	45	45	
Marketable and investment securities—Available-for-sale securities	9,571	9,571	
Total	¥ 67,367	¥ 67,367	
Payables:			
Trade accounts	¥ 3,470	¥ 3,470	
Parent	2,642	2,642	
Other	1,778	1,778	
Income taxes payable	273	273	
Lease obligations	719	718	(1)
Total	¥ 8,882	¥ 8,881	(1)

December 31, 2015	Thousands of U.S. Dollars Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	$ 300,227	$ 300,227	
Receivables:			
Trade accounts	230,907	230,907	
Parent	566	566	
Marketable and investment securities—Available-for-sale securities	65,496	65,496	
Total	$ 597,196	$ 597,196	
Payables:			
Trade accounts	$ 35,446	$ 35,446	
Parent	21,687	21,687	
Other	26,950	26,950	
Income taxes payable	15,881	15,881	
Lease obligations	8,853	8,849	(4)
Total	$ 108,817	$ 108,813	(4)

Cash and Cash Equivalents, Receivables, Payables, and Income Taxes Payable

The carrying values of cash and cash equivalents, receivables, payables, and income taxes payable approximate fair value because of their short maturities.

Marketable and Investment Securities

The fair values of marketable and investment securities are measured at the quoted market price of the stock exchange for the equity instruments, and at the quoted price obtained from the financial institution for certain debt instruments. The information on the fair values of marketable and investment securities by classification is included in Note 3.

Lease obligations

The fair values of lease obligations are measured at the present value calculated by discounting expected lease payments and related interest for the remaining period using an expected interest rate for a similar new lease transaction.

(b) Financial instruments whose fair value cannot be reliably determined

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	December 31, 2015	December 31, 2014	December 31, 2015
Unlisted shares	¥ 110	¥ 110	$ 912

There are no market prices for these items and it is likely that the cost of estimating future cash flows would be excessive.

(4) Maturity Analysis for Financial Assets and Securities with Contractual Maturities

December 31, 2015	Millions of Yen Due in 1 Year or Less	Due after 1 Year through 5 Years
Cash and cash equivalents	¥ 36,210	
Receivables:		
Trade accounts	27,850	
Parent	68	
Marketable and investment securities—Available-for-sale securities with contractual maturities	1,209	¥ 5,321
Total	¥ 65,337	¥ 5,321

December 31, 2015	Thousands of U.S. Dollars	
	Due in 1 Year or Less	Due after 1 Year through 5 Years
Cash and cash equivalents	$ 300,221	
Receivables:		
Trade accounts	230,907	
Parent	566	
Marketable and investment securities—Available-for-sale securities with contractual maturities	10,023	$ 44,116
Total	$ 541,717	$ 44,116

Since the quantitative materiality of lease obligations increased during this fiscal year ended December 31, 2015, lease obligations are disclosed. Due to the change in the presentation method, the relevant amount for the nine-month period ended December 31, 2014 is disclosed.

13 RELATED PARTY TRANSACTIONS

Transactions of the Company with the parent company for the year ended March 31, 2015 and the nine-month period ended December 31, 2014, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	Year Ended December 31, 2015	Nine-Month Period Ended December 31, 2014	Year Ended December 31, 2015
Purchases	¥ 10,974	¥ 7,883	$ 90,990

The balances due to or from the parent company at December 31, 2015 and 2014, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	December 31, 2015	December 31, 2014	December 31, 2015
Deposits included in cash and cash equivalents	¥ 4,349	¥ 14,978	$ 36,055
Trade accounts payable	2,578	2,625	21,377

14 SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures" and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

Information relating to business segments is omitted as the Company operated solely in the pharmaceutical business for the year ended December 31, 2015 and the nine-month period ended December 31, 2014.

Sales to major customers were as follows:

	Millions of Yen		Thousands of U.S. Dollars
Name of Customer	**Year Ended December 31, 2015**	Nine-Month Period Ended December 31, 2014	**Year Ended December 31, 2015**
Mediceo Corporation	**¥ 14,334**	¥ 10,641	**$ 118,850**
Suzuken Co., Ltd.	**13,949**	9,282	**115,657**
Alfresa Corporation	**13,903**	9,581	**115,276**
Toho Pharmaceutical Co., Ltd.	**6,338**	4,523	**52,552**

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Torii Pharmaceutical Co., Ltd.:

We have audited the accompanying balance sheet of Torii Pharmaceutical Co., Ltd. as of December 31, 2015, and the related statements of income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Torii Pharmaceutical Co., Ltd. as of December 31, 2015, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

March 16, 2016

Member of
Deloitte Touche Tohmatsu Limited

Torii Pharmaceutical Co., Ltd.

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Established
November 1, 1921

Paid-In Capital
¥5,190 million

Number of Shares of Common Stock
Authorized: 54,000,000
Issued: 28,800,000

Number of Shareholders
5,538

Stock Exchange Listing
The First Section of the Tokyo Stock Exchange

Ticker Symbol Number
4551

Fiscal Year-End
December 31

General Meeting of Shareholders
March

Stock Transfer Agent
Sumitomo Mitsui Trust Bank, Limited

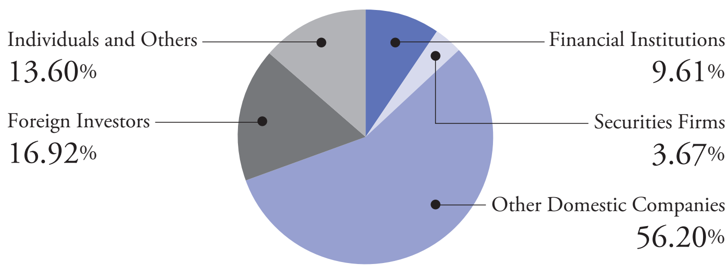
Number of Employees
1,058

Major Shareholders

Name	Number of shares (Thousand)	Shareholding ratio (%)
Japan Tobacco Inc.	15,398.8	53.46
ROYAL BANK OF CANADA TRUST COMPANY (CAYMAN) LIMITED	1,871.9	6.49
THE TACHIBANA SECURITIES CO., LTD.	746.8	2.59
Japan Trustee Seivices Bank, Ltd. (Trust Account)	495.9	1.72
STATE STREET BANK AND TRUST COMPANY 505223	446.9	1.55
Sumitomo Mitsui Banking Corporation	340.8	1.18
Torii Pharmaceuteical Co.,Ltd. Employee Shareholdings association	284.7	0.98
The Master Trust Bank of Japan, Ltd. (Trust Account)	277.0	0.96
Mizuho Bank, Ltd.	210.0	0.72
CBNY-GOVERNMENT OF NORWAY	192.3	0.66

Note: In addition to the above, the Company holds 500.7 thousand shares of treasury stock (a 1.73% shareholding).

Share Distribution



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