Quality Pharmaceuticals for Health and Life

ANNUAL REPORT 2012

For the year ended March 31, 2012

TORII PHARMACEUTICAL CO., LTD.

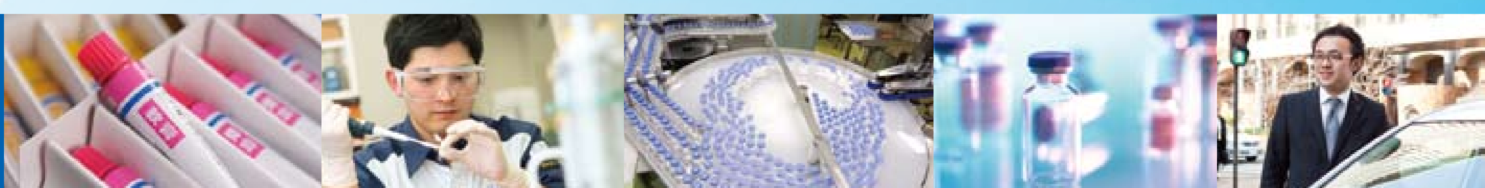
Profile

For more than 130 years, Torii Pharmaceutical Co., Ltd. has contributed to the improvement of human health by developing, producing and distributing ethical pharmaceutical products.

In 1998, Torii became a member of the Japan Tobacco Inc. ("JT") Group. To maximize group-level synergies, Torii has assumed responsibility for sales, marketing and manufacturing functions while R&D functions for new drugs are handled principally by JT. Within this close collaboration, Torii continues its efforts to contribute to the improvement of human health, drawing on assets that include a solid reputation and a tradition of excellence.

Torii markets drugs in a number of priority therapeutic areas: renal diseases and hemodialysis including pruritus in hemodialysis patients, acute diseases including acute pancreatitis, HIV, skin diseases including atopic dermatitis and lifestyle-related diseases such as gout.

By stationing medical representatives (MRs) in 14 branch offices throughout Japan, the Company is able to respond quickly to market needs and the specific requirements of medical professionals.



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.

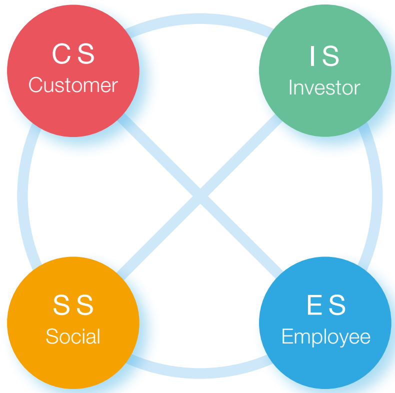
Values and Philosophy

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.

4S MODEL



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.

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.

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.

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.

OUR VISION FOR TORII

To achieve sustained growth as a trusted major player in the Japanese pharmaceutical market.

THE TORII ACTION DECLARATION

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

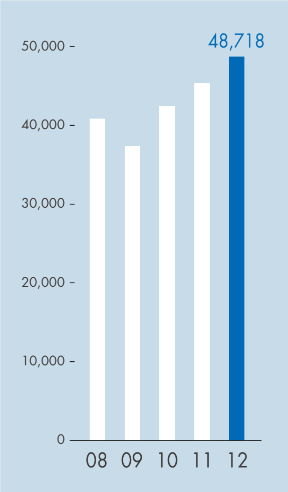
Non-consolidated Financial Highlights

Torii Pharmaceutical Co., Ltd.
Years Ended March 31, 2012 and 2011

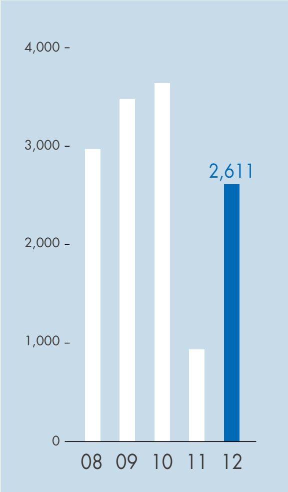
	Millions of Yen		% Change	Thousands of U.S. Dollars
	2012	2011		2012
For the year:				
Net sales	¥48,718	¥45,336	7.5 %	$592,747
Operating income	4,154	1,845	125.1	50,537
Income before income taxes	5,055	1,839	174.9	61,501
Net income	2,611	937	178.7	31,773
At year-end:				
Total assets	¥87,735	¥84,886	3.4 %	$1,067,465
Total equity	75,833	74,246	2.1	922,653
Per share data (in yen and U.S. dollars):				
Net income	¥92.3	¥33.1	178.9 %	$1.12
Cash dividends	40.0	40.0	—	0.49

Note: 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 ¥82.19=US$1.00, the approximate exchange rate prevailing on March 31, 2012.

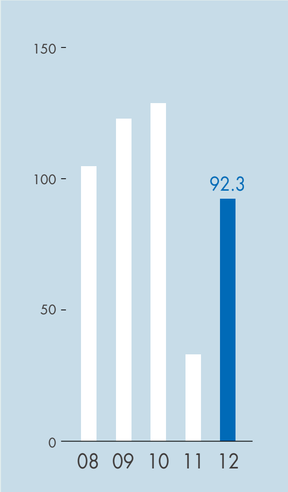
Net Sales
(Millions of Yen)



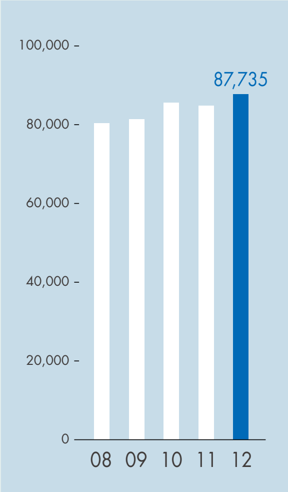
Net Income
(Millions of Yen)



Net Income per Share
(Yen)



Total Assets
(Millions of Yen)



Note: The years are fiscal years ended March 31.

A Message from the President

We achieved record-high net sales in fiscal 2011 (year ended March 31, 2012), the middle year of our medium-term “Plan Torii 2012”. Increased sales of REMITCH CAPSULES and KAYEXALATE DRYSYRUP in the renal disease and hemodialysis field, and Truvada Tablets in the HIV field were contributing factors to our best performance to date.

With regard to our research and development activities, our current Phase III clinical trials for TO-194SL (sublingual immunotherapy drug containing cedar pollen extract) and JTT-751 (hyperphosphatemia drug) are proceeding steadily. Furthermore, we completed Phase I clinical trials and are preparing for Phases II/III, regarding TO-203, which is a sublingual immunotherapy drug targeting asthma and allergic rhinitis triggered by mites.

Currently we are performing well as we enter the final year of Plan Torii 2012. We will continue to progress despite another round of drug price adjustments to the National Health Insurance Drug Price standards, implemented in April 2012. We strive to outperform the record sales in fiscal 2012 and to move forward with our research and development activities in order to achieve sustainable growth.

June 2012

N. Matsuo

Norihiko Matsuo
Representative Director, President and Chief Executive Officer

Medium-Term Management Plan —"Plan Torii 2012"

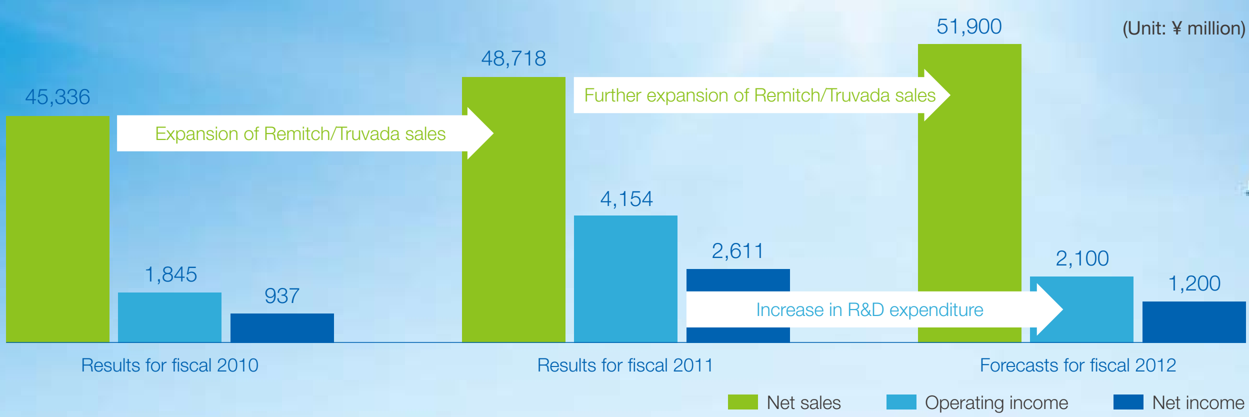
At ¥48,718 million, net sales for fiscal 2011 were the highest in Torii's history. In fiscal 2012, we expect to set another new record with net sales of ¥51,900 million. However, research and development expenditure will also be higher than the previous fiscal year, therefore we are anticipating declines in operating income and net income.

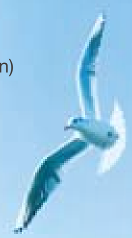
Financial Results and Forecasts

(Unit: ¥ million)

	Results for fiscal 2010	Forecasts for fiscal 2011	Results for fiscal 2011*1	Forecasts for fiscal 2012*2	Targets for fiscal 2012 (announced in May 2011)	Difference from target
Net sales	45,336	48,800	48,718 (– 82)	51,900 (+ 3,182)	51,000	+ 900
Operating income	1,845	2,700	4,154 (+ 1,454)	2,100 (– 2,054)	2,500	– 400
Net income	937	1,300	2,611 (+ 1,311)	1,200 (– 1,411)	1,600	– 400
Dividend per share (yen)	40	40	40 (—)	40 (—)	40	—
(Reference) R&D expenditure	5,994	5,985	4,632 (– 1,368)	7,957 (+ 3,325)	6,500	+ 1,457

*1 Upper figure: result for fiscal 2011, lower figure: increase or decrease compared with initial forecast for fiscal 2011
*2 Upper figure: forecast for fiscal 2012, lower figure: increase or decrease from result for fiscal 2011





Priority Sales Categories

(Unit: ¥ million)

	Forecast for fiscal 2012	Targets for fiscal 2012 (announced in May 2011)	Difference from target
HIV (Truvada Tablets, Viracept Tablets, Viread Tablets, Emtriva Capsules)	12,230	13,000	– 770
Renal disease and hemodialysis (REMITCH CAPSULES, KAYEXALATE)	13,800	12,500	+ 1,300
Skin disease (Dovonex Ointment, ANTEBATE, ZEFNART, LOCOID)	11,360	11,000	+ 360

Research and Development

We are currently conducting Phase III clinical trials in Japan for a sublingually administered immunotherapy drug containing a Japanese cedar pollen extract, and for JTT-751, a hyper-phosphatemia drug, which was licensed in from the U.S. company Keryx Biopharmaceuticals, Inc. in joint development with JT.

Main Products under Development

(As of June 21, 2012)

Field	Development code, etc.	Indication	Development stage	Remarks
Renal disease and hemodialysis	JTT-751 (JT development code)	Hyperphosphatemia	Phase III in progress	Co-development with JT
Allergens (cedar pollen)	TO-194SL (sublingual extract)	Allergic conditions triggered by cedar pollen (immunotherapy)	Phase III in progress	—
	Cedar pollen vaccine		Joint research in progress	Joint research with Riken (an institute of physical and chemical research)
Allergens (mites)	TO-203 (sublingual tablet)	Allergic conditions triggered by mites (asthma and allergic rhinitis) (immunotherapy)	Preparing for Phase II/III	Licensing agreement signed with ALK providing exclusive development and sales rights for Japan
	TO-204 (injection)		Preparing for clinical trials	
	TO-205 (diagnostic)		Preparing for clinical trials	

* Research and development functions are shared between Torii and JT. (Associated Information P. 6 R&D Activities)

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 safety and determine appropriate dosage levels and administration methods, etc.

Phase III

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

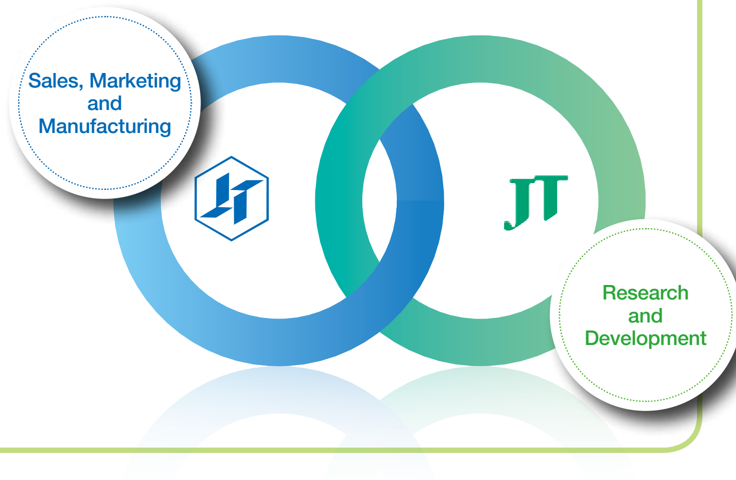
What is immunotherapy?

The aim of this therapy is to reduce allergic reactions by continued administration, in progressively larger doses, of the antigens that cause allergies. Currently Japanese health insurance covers only injection-based therapies, therefore Torii is developing sublingual immunotherapy drugs, which provide more convenient use for the patients.

Collaboration with 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. In April 2006, Torii also extended its manufacturing operations to include those of JT. This partnership has enabled us to continuously supply high-quality pharmaceutical products.



R&D Activities >>

JT aims to build a unique, world-class pharmaceutical business driven by R&D, and to increase our market presence through original and innovative drugs, implementing efforts in research and development that willl allow us to merit the respect and appreciation of patients and medical staff around the world.

The JT Central Pharmaceutical Research Institute consists of six specialized research facilities that collaborate closely on new drug R&D in three priority areas: (1) glucose and lipid metabolism, (2) virus research, (3) immune disorders and inflammation.

As a result of the division of R&D functions between Torii Pharmaceutical and JT, JT is now responsible for R&D activities pertaining to new compounds, while Torii is responsible primarily for improvements to the formulations of existing products, and the development of additional indications. Torii also carries out its own R&D in its specific areas of expertise.

JT Central Pharmaceutical Research Institute >>

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.

Within the Pharmaceutical Marketing & Promotion Group, the Customer Support Department is in charge of responding to inquiries from medical professionals, patients and their families. The Customer Support Department uses comments received from customers as the basis for feedback to the relevant business units, which use this information to improve products.

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.

Manufacturing Activities >>

In April 2006, Torii assumed responsibility for the JT Group's pharmaceutical manufacturing operations, which have been integrated into our Sakura Plant. Key products manufactured at this GMP*-certified plant include the protease inhibitor FUTHAN for injection, the topical corticosteroid ANTEBATE OINTMENT and ANTEBATE CREAM, and the uricosuric agent URINORM Tab. In addition, Torii is responsible for manufacturing investigational new drugs developed by JT.

Importantly, in manufacturing drugs, Torii focuses not only on quality but also on reducing the environmental burden of these operations, as evidenced by the ISO 14001certification of the Sakura Plant.

We will continue our efforts to ensure a reliable supply of high-quality pharmaceutical products.

Sakura Plant >>

*GMP stands for Good Manufacturing Practice.

Mainstay Products

Brand name	Therapeutic indication	Net sales in fiscal 2011 (¥ billion)	Area
Truvada	Antiretroviral agent used for the treatment of HIV-1 infection in adults	9.9	HIV
REMITCH	Agent used for the treatment of pruritus in hemodialysis patients(oral antipruritus drug)	9.7	Renal diseases and Hemodialysis
ANTEBATE	Agent used for the treatment of the inflammatory manifestations of dermatosis (topical corticosteroid)	6.6	Skin diseases
FUTHAN	Agent used for the prevention of blood coagulation during extracorporeal circulation and for the treatment of acute pancreatitis and disseminated intravascular coagulation (protease inhibitor)	5.1	Acute diseases Renal diseases and Hemodialysis
URINORM	Agent used for the treatment of hyperuricemia and gout (uricosuric agent)	3.2	Lifestyle-related diseases
Dovonex	Agent used for the treatment of psoriasis vulgaris	1.8	Skin diseases
KAYEXALATE	Agent used for the improvement of hyperkalemia caused by acute and chronic renal failure	1.5	Renal diseases and Hemodialysis
ZEFNART	Topical antifungal agent used for the treatment of tinea, including tinea pedis (athlete's foot).	1.4	Skin diseases
LOCOID	Agent used for the treatment of the inflammatory manifestations of dermatosis (topical corticosteroid)	1.3	Skin diseases
Serotone	Agent used for the treatment of emesis due to cancer chemotherapy (5-HT_3 antagonist)	1.3	Acute diseases


Truvada


REMITCH


ANTEBATE


FUTHAN


URINORM

Environmental Protection and Social Contribution Activities

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

We are actively working to protect the environment under the Torii Pharmaceutical Environmental Charter, which defines our basic environmental policy and code of conduct. Guided by this charter, 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. 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. To reduce environmental loads systematically, we have established the Torii Environmental Action Plan, which describes our single-year and medium-term environmental targets.

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. We are continually expanding and enhancing the content of this report.

*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

Every year since 1993, we have held company-wide community contribution campaigns around November 1, the day of the Company's foundation. In these campaigns, we participate in blood donations and clean up the local area around our offices.

We also participate in the "Green Fund" program, under which funds are offered to help preserve forests in Japan and overseas, and to foster volunteers for forest-related projects.

Torii started a "Collection Volunteer" activity in 2010 for the gathering of used postage stamps and prepaid cards, which are donated to the Council of Social Welfare. In addition, the company has been conducting a program since February 2012 to collect "bellmarks"* and donate them to the Bellmark Foundation.

In order to support employee social contribution activities, since 2006 we have promoted a volunteer leave system, which allows employees to take up to five paid holidays a year for volunteer activities.

Another leave system supports bone marrow donation. Under this system, the prospective donor is allowed paid leave for the number of days necessary for the testing and procedures, including hospitalization for donor registration and actual donation.

*Bellmarks: A system in which "bellmarks" attached to product packaging are cut out and collected at individual schools and other educational institutions and then sent to the Bellmark Foundation. The bellmark deposits for each school are accumulated at a value of one yen each and are used by the school for the purchase of school supplies. Also, 10% of the fees for equipment purchases are donated as assistance to schools in remote areas.

Torii employees taking part in blood donations.

Bellmarks, collected for the "Collection Volunteer" activity.

Corporate Governance

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.

Torii's relationship with its parent company, JT (specifically the pharmaceutical division of the company) is based on its roles and functions, under which Torii is involved primarily in production and distribution, and JT in R&D. Within this framework, we enjoy a certain level of independence while also maintaining close cooperation with the parent company as we work to realize our corporate mission through appropriate business activities.

Corporate Governance Structure

In addition to the General Meeting of Shareholders and the Directors, the corporate governance organs adopted by Torii under the Corporate Law of Japan include the Board of Directors, the corporate auditors, the Audit Board and the accounting auditors, as well as the Executive Committee, the Compliance Committee and the Audit Department.

The current corporate governance structure is based on reciprocal supervision by the six directors, the audit system maintained by three corporate auditors, of whom two are outside auditors, and cooperation among the corporate auditors, the accounting auditors and units responsible for internal audits and internal control systems. We believe that we have established effective executive and supervisory structures.

Corporate Auditors and the Audit Board

Torii has appointed corporate auditors and established an Audit 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 Board consists of three corporate auditors, including two outside auditors with expert knowledge. By sharing knowledge and information and exchanging views, members of the Audit Board strive to carry out their audit activities from an independent and neutral perspective and with a high standard of objectivity.

Torii and Masao Torikai, an outside auditor, have entered into an agreement that limits liability under Article 423, Paragraph 1 of the Companies Act pursuant to the provisions of Article 34 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 six 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 receives reports on corporate operations and supervises directors in the performance of their duties.

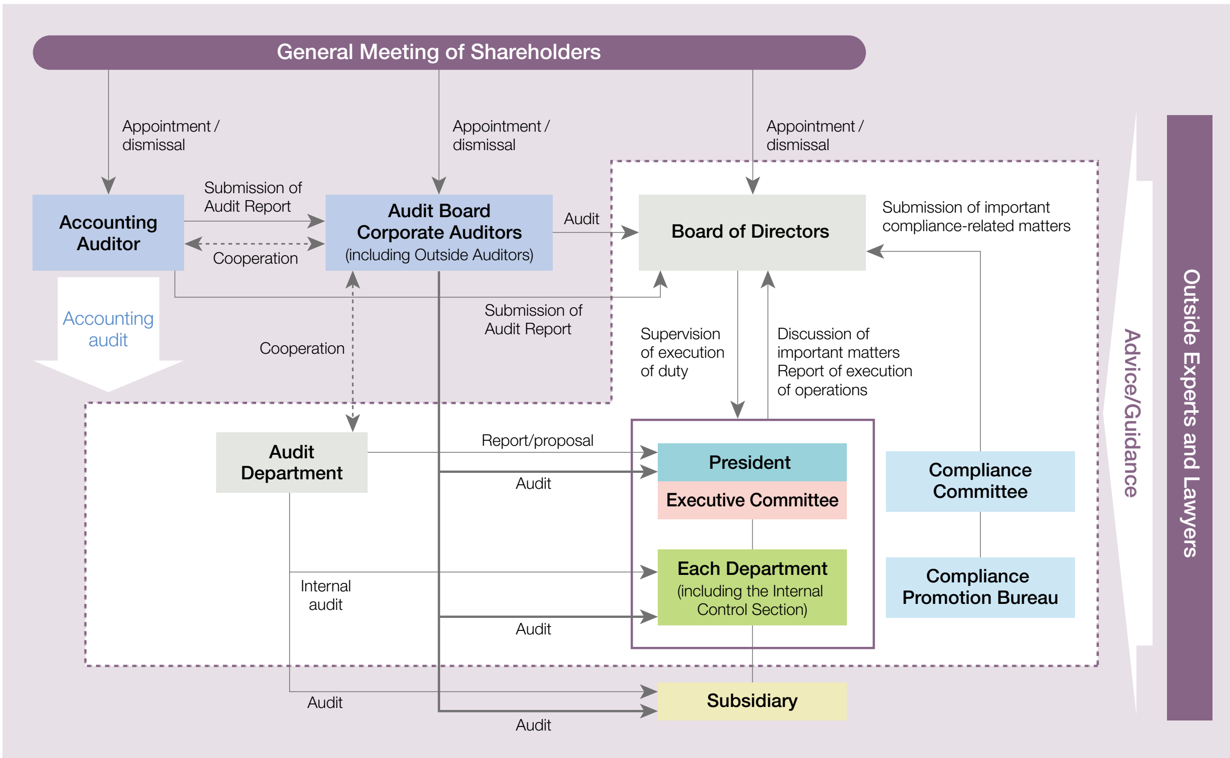
Executive Committee

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 eight-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

Overview of Corporate Governance Structure



serious compliance violations or situations that could lead to such violations are referred to the Board of Directors.

Audit Department

The Audit Department currently has eight 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 an 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 and we are continually working to enhance the effectiveness of our compliance promotion activities. In addition to measures to ensure compliance with laws, regulations and other requirements, we also formulate compliance-related rules, compile and distribute guidelines stipulating shared values and ethical standards that we expect members of our organization to observe. In addition, we maintain an active program of educational activities.

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

Board of Directors and Corporate Auditors (As of June 21, 2012)

Representative Director,
President and Chief Executive Officer

Norihiko Matsuo

Representative Director,
Executive Deputy President

Hiroshi Kanaya

Member of the Board,
Senior Executive Director

Yuji Kagohashi

(Head of R&D Group and in charge of Pharmacovigilance & Quality Assurance)

Standing Auditors

Seiji Osa
Shohei Yabe

Auditor

Masao Torikai

Member of the Board,
Executive Director

Akihiko Tamura

(Head of Pharmaceutical Marketing & Promotion Group)

Member of the Board,
Director

Takahiro Umeda

(Head of Corporate Planning & Administration Group)

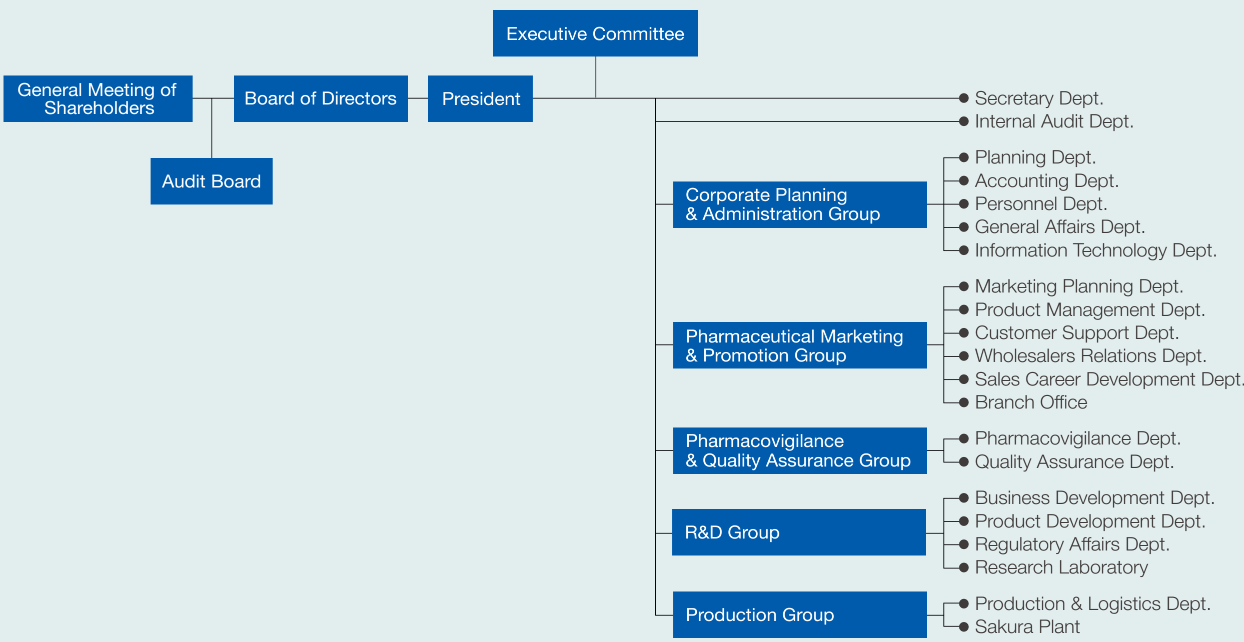
Member of the Board,
Director

Shoichiro Takagi

(Deputy Head of Pharmaceutical Marketing & Promotion Group)

Note: Seiji Osa and Masao Torikai meet the requirements for external auditors as stipulated in Article 2, Item 16 of the Companies Act of Japan.

Organization (As of June 21, 2012)



Review of Operations

Financial Results for the Year Ended March 31, 2012

Operating Environment

Healthcare reforms have been continuously regulated for healthcare expenditure, including measures to encourage the increased use of generic drugs. Therefore, business environment for the pharmaceutical industry has been challenging in the fiscal year 2011.

Torii endeavored to achieve its sustained sales growth, principally from two therapeutic areas. In the HIV field, Truvada (anti-HIV drug) and in the renal and hemodialysis field, REMITCH CAPSULES (oral antipruritus drug for hemodialysis patients) and KAYEXALATE DRYSYRUP (hyperkalemia drug, launched in February 2011).

In addition, we have enhanced and strengthened our marketing capabilities on a fundamental basis. Through extensive promotional activities and consistent dedication to perform well in product lifecycle management for each product category, we have strived to increase or maintain the market shares of existing products. These include our mainstay products: the topical corticosteroid ANTEBATE, the protease inhibitor FUTHAN for injection and the uricosuric agent URINORM Tab.

Operating Results

Net Sales

Net sales increased by ¥3,382 million (7.5%) year on year to ¥48,718 million. A breakdown of key product shows that sales of REMITCH CAPSULES increased by ¥2,369 million (32.2%) to ¥9,735 million, and sales of Truvada grew by ¥1,693 million (20.5%) to ¥9,946 million. However, there was a ¥698 million (12.0%) year-on-year decline in sales of FUTHAN for injection, which amounted to ¥5,131 million.

Cost of Sales

At ¥20,540 million, the cost of sales rose by ¥1,937 million (10.4%) over the previous year's level. This increase was attributable to both sales growth and changes in the sales mix.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were ¥864 million (3.5%) lower year on year at ¥24,024 million. The reduction resulted mainly from the accounting treatment of an upfront payment to ALK in the previous fiscal year as R&D expenditure.

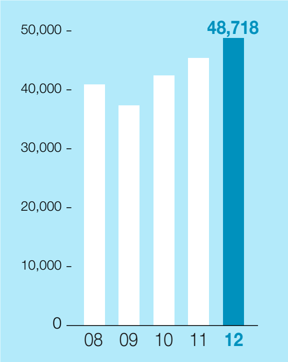
Operating Income

These changes were reflected in operating income of ¥4,154 million, an increase of ¥2,309 million (125.1%) over the previous year's result.

Net Income

Net income increased by ¥1,674 million (178.7%) year on year to ¥2,611 million. Contributing factors included a ¥785 million reimbursement resulting from the cancellation of a joint development project concerning the additional indication of nalfurafine hydrochloride (TRK-820) to treat pruritus in liver disease patients.

Net Sales
(Millions of Yen)



Note: The years are fiscal years ended March 31.

Sales of Mainstay Products
(Millions of Yen)

	2011	2012	Change
Truvada	8,253	9,946	1,693 20.5%
REMITCH	7,367	9,735	2,369 32.2%
ANTEBATE	6,248	6,584	336 5.4%
FUTHAN	5,829	5,131	(698) (12.0%)
URINORM	3,425	3,239	(187) (5.4%)

Financial Position

(1) Assets, Liabilities and Equity

Total assets increased by ¥2,849 million (3.4%) year on year to ¥87,735 million as of March 31, 2012. Despite a ¥17,380 million reduction in marketable securities, current assets increased by ¥1,789 million (2.6%) to ¥70,352 million. This reflects an ¥11,500 million increase in time deposits, a ¥5,038 million increase in cash and cash equivalents and an ¥1,156 million increase in trade accounts receivable. Investments and other assets rose by ¥1,434 million (13.5%) to ¥12,086 million, in part because of a ¥2,162 million increase in investment securities.

Current liabilities increased by ¥1,619 million (16.8%) from the end of the previous fiscal year (March 31, 2011) to ¥11,231 million. Reasons for the higher figure include an ¥862 million increase in trade accounts payable, and a ¥656 million increase in income taxes payable. At ¥671 million, long-term liabilities were ¥357 million (34.7%) lower than at the end of the previous year.

Total equity increased by ¥1,587 million (2.1%) from the end of the previous fiscal year to ¥75,833 million. Contributing factors included surplus dividends of ¥1,131 million, and net income of ¥2,611 million.

(2) Cash Flows

At ¥17,383 million, cash and cash equivalents as of March 31, 2012 were ¥5,038 million (40.8%) higher than at the end of the previous fiscal year.

Net cash provided by operating activities amounted to ¥3,040 million. This result reflects income before income taxes of ¥5,055 million, depreciation and amortization of ¥1,195 million, a ¥862 million increase in trade accounts payable, income taxes paid of ¥2,073 million, a ¥1,156 million increase in trade notes and accounts receivable, and a ¥966 million increase in inventories. In the previous fiscal year, net cash of ¥516 million was used in operating activities.

Net cash provided by investing activities amounted to ¥3,152 million. Major items included outflows of ¥46,000 million for payments into time deposits, ¥3,411 million for the purchases of investment securities, and ¥2,106 million for the purchases of marketable securities, and inflows of ¥34,500 million proceeds from withdrawals of time deposits, and ¥20,790 million proceeds from sales and redemptions of marketable securities. In the previous fiscal year there was a net outflow of ¥21,303 million.

Net cash used in financing activities amounted to ¥1,154 million, compared with ¥1,243 million used in the previous fiscal year. This consisted mainly of ¥1,131 million for dividends paid.

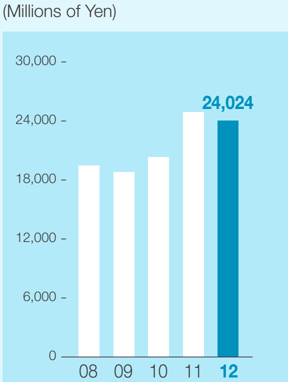
(3) Research and Development Activities

Research and development functions are divided between Torii and its parent company, JT. Research and development activities pertaining to new compounds have been centered within JT, while Torii mainly focuses on improvements to the formulations of existing products and the development of additional indications. Torii also carries out its own research and development in its areas of expertise.

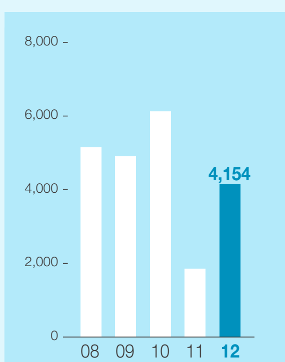
We are currently conducting Phase III clinical trials in Japan for a sublingually administered immunotherapy drug containing a Japanese cedar pollen extract, and for JTT-751 (JT development code), a hyperphosphatemia drug, which was licensed in from the U.S. company Keryx Biopharmaceuticals, Inc. in joint development with JT.

Additionally, Phase I clinical trials in Japan were completed for a immunotherapy drug in tablet form, which was licensed in

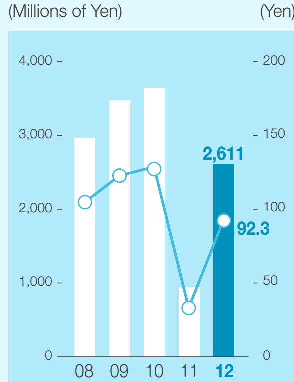
Selling, General and Administrative Expenses
(Millions of Yen)



Operating Income
(Millions of Yen)



Net Income
Net Income per Share
(Millions of Yen) (Yen)



Note: The years are fiscal years ended March 31.

from ALK. We are now preparing for the next phase of trials for this product, which is intended for the treatment of mite allergies.

Torii is also involved in joint research with RIKEN (an institute of physical and chemical research) concerning a cedar pollen vaccine for use in next-generation immunotherapy.

A joint development project for nalfurafine hydrochloride (TRK-820), involving Torii, Toray Industries, Inc. and JT, was terminated. This project was intended to develop an additional indication for the treatment of pruritus associated with liver disease.

Total research and development expenditure in the year ended March 31, 2012 amounted to ¥4,632 million.

Risk Analysis

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

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

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

- **Drug Price Adjustments**

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

- **Adverse Drug Reactions**

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

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

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

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

- **Stoppage of Product Supply**

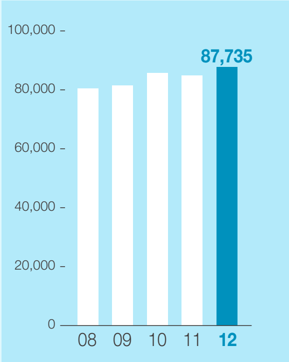
  Our products are manufactured at the Sakura Plant, which is our only production facility, and at other specified outside manufacturers. If this plant or outside manufacturing plants are closed or those operations suspended due to technical or regulatory problems; fire, earthquake or other disaster; or,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

- **Litigation Risk**

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

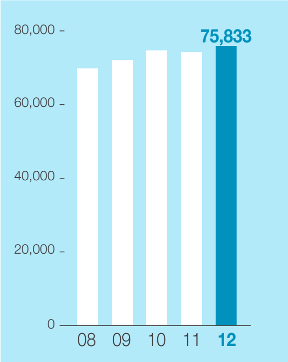
Total Assets

(Millions of Yen)



Total Equity

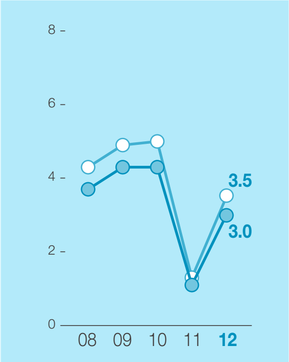
(Millions of Yen)



Return on Equity (ROE)

Return on Assets (ROA)

(%)



Non-consolidated Balance Sheet

Torii Pharmaceutical Co., Ltd.
March 31, 2012

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2012	2011	2012
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents (Notes 11 and 12)	¥ 17,383	¥ 12,345	$ 211,494
Time deposits (Note 11)	23,000	11,500	279,839
Marketable securities (Notes 3 and 11)	2,200	19,580	26,768
Receivables (Note 11):			
Trade accounts	19,510	18,354	237,371
Parent and subsidiary	81	82	989
Other	4	26	46
Inventories (Note 4)	6,343	5,377	77,172
Deferred tax assets (Note 8)	1,620	1,040	19,710
Prepaid expenses and other current assets	211	259	2,582
Total current assets	70,352	68,563	855,971
PROPERTY, PLANT AND EQUIPMENT (Note 5)**:**			
Land	702	702	8,546
Buildings and structures	11,296	11,205	137,439
Machinery and equipment	7,126	6,930	86,707
Furniture and fixtures	2,383	2,240	28,995
Lease assets (Note 10)	65	101	787
Construction in progress	63	31	762
Total	21,635	21,209	263,236
Accumulated depreciation	(16,338)	(15,538)	(198,784)
Net property, plant and equipment	5,297	5,671	64,452
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 3 and 11)	6,392	4,230	77,776
Investment in subsidiary (Notes 3 and 11)	10	10	122
Software	544	497	6,619
Long-term prepaid expenses	2,750	3,149	33,460
Guarantees and lease deposits to lessors	614	620	7,471
Deferred tax assets (Note 8)	1,512	1,860	18,391
Other assets	264	286	3,203
Total investments and other assets	12,086	10,652	147,042
TOTAL	¥ 87,735	¥ 84,886	$1,067,465

See notes to non-consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2012	2011	2012
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Payables (Note 11):			
Trade accounts	¥ 3,366	¥ 2,504	$ 40,951
Parent and subsidiary (Note 12)	1,776	2,100	21,614
Other	2,023	1,650	24,620
Current portion of long-term lease obligations	16	21	190
Income taxes payable (Note 11)	1,707	1,051	20,765
Accrued expenses	699	741	8,509
Accrued employees' bonuses	1,157	1,158	14,077
Accrued bonuses to directors and corporate auditors	59	50	718
Other current liabilities	428	337	5,209
Total current liabilities	11,231	9,612	136,653
LONG-TERM LIABILITIES:			
Liability for retirement benefits (Note 6)	162	507	1,966
Guarantees and lease deposits received	269	270	3,270
Long-term lease obligations	21	33	259
Asset retirement obligations	155	154	1,890
Other long-term liabilities	64	64	774
Total long-term liabilities	671	1,028	8,159
EQUITY (Note 7)**:**			
Common stock—authorized, 54,000,000 shares; issued, 28,800,000 shares in 2012 and 2011	5,190	5,190	63,146
Capital surplus—additional paid-in capital	6,416	6,416	78,063
Retained earnings:			
Legal reserve	1,298	1,298	15,787
Unappropriated	63,579	62,099	773,561
Unrealized gain on available-for-sale securities	208	100	2,531
Treasury stock—at cost, 498,701 shares in 2012 and 498,302 shares in 2011	(858)	(857)	(10,435)
Total equity	75,833	74,246	922,653
TOTAL	¥87,735	¥84,886	$1,067,465

Non-consolidated Statement of Income

Torii Pharmaceutical Co., Ltd.
Year Ended March 31, 2012

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2012	2011	2012
NET SALES	¥48,718	¥45,336	$592,747
COST OF SALES (Notes 6, 10 and 12)	20,540	18,603	249,905
Gross profit	28,178	26,733	342,842
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 6, 9 and 10)	24,024	24,888	292,305
Operating income	4,154	1,845	50,537
OTHER INCOME (EXPENSES):			
Interest and dividend income	140	159	1,707
Refunds of cancellation of co-develop contract	785		9,550
Loss on disaster	(63)		(767)
Other—net	39	(165)	474
Other income (expenses)—net	901	(6)	10,964
INCOME BEFORE INCOME TAXES	5,055	1,839	61,501
INCOME TAXES (Note 8)**:**			
Current	2,722	2,112	33,109
Deferred	(278)	(1,210)	(3,381)
Total income taxes	2,444	902	29,728
NET INCOME	¥ 2,611	¥937	$ 31,773

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Note 2.q)**:**			
Net income	¥92.3	¥33.1	$1.12
Cash dividends applicable to the year	40.0	40.0	0.49

See notes to non-consolidated financial statements.

Non-consolidated Statement of Changes in Equity

Torii Pharmaceutical Co., Ltd.
Year Ended March 31, 2012

	Outstanding Number of Shares of Common Stock	Millions of Yen						
			Capital Surplus (Note 7)	Retained Earnings (Note 7)				
		Common Stock (Note 7)	Additional Paid-in Capital	Legal Reserve	Unappropriated	Unrealized Gain on Available-for-Sale Securities	Treasury Stock	Total Equity
BALANCE, APRIL 1, 2010	28,302,438	¥5,190	¥6,416	¥1,298	¥62,351	¥ 243	¥(856)	¥74,642
Net income					937			937
Cash dividends paid, ¥42.0 per share					(1,189)			(1,189)
Repurchase of treasury stock	(740)						(1)	(1)
Net decrease in unrealized gain on available-for-sale securities						(143)		(143)
BALANCE, MARCH 31, 2011	28,301,698	5,190	6,416	1,298	62,099	100	(857)	74,246
Net income					2,611			2,611
Cash dividends paid, ¥40.0 per share					(1,131)			(1,131)
Repurchase of treasury stock	(399)						(1)	(1)
Net increase in unrealized gain on available-for-sale securities						108		108
BALANCE, MARCH 31, 2012	28,301,299	¥5,190	¥6,416	¥1,298	¥63,579	¥ 208	¥(858)	¥75,833

	Thousands of U.S. Dollars (Note 1)						
		Capital Surplus (Note 7)	Retained Earnings (Note 7)				
	Common Stock (Note 7)	Additional Paid-in Capital	Legal Reserve	Unappropriated	Unrealized Gain on Available-for-Sale Securities	Treasury Stock	Total Equity
BALANCE, MARCH 31, 2011	$63,146	$78,063	$15,787	$755,562	$1,217	$(10,428)	$903,347
Net income				31,773			31,773
Cash dividends paid, $0.49 per share				(13,774)			(13,774)
Repurchase of treasury stock						(7)	(7)
Net increase in unrealized gain on available-for-sale securities					1,314		1,314
BALANCE, MARCH 31, 2012	$63,146	$78,063	$15,787	$773,561	$2,531	$(10,435)	$922,653

See notes to non-consolidated financial statements.

Non-consolidated Statement of Cash Flows

Torii Pharmaceutical Co., Ltd.
Year Ended March 31, 2012

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2012	2011	2012
OPERATING ACTIVITIES:			
Income before income taxes	¥ 5,055	¥ 1,839	$ 61,501
Adjustments for:			
Income taxes paid	(2,073)	(3,011)	(25,223)
Depreciation and amortization	1,195	1,395	14,538
Changes in assets and liabilities:			
Increase in trade notes and accounts receivable	(1,156)	(1,999)	(14,062)
(Increase) decrease in inventories	(966)	215	(11,749)
Increase in trade accounts payable	862	195	10,491
Other—net	123	850	1,494
Total adjustments	(2,015)	(2,355)	(24,511)
Net cash provided by (used in) operating activities	3,040	(516)	36,990
INVESTING ACTIVITIES:			
Payments into time deposits	(46,000)	(25,000)	(559,679)
Proceeds from withdrawal of time deposits	34,500	21,000	419,759
Purchases of marketable securities	(2,106)	(30,077)	(25,619)
Proceeds from sale and redemption of marketable securities	20,790	15,871	252,945
Purchases of property, plant and equipment	(455)	(553)	(5,539)
Proceeds from sales of property, plant and equipment	1		12
Purchases of investment securities	(3,411)	(2,303)	(41,500)
Proceeds from sale and redemption of investment securities	66	14	808
Other—net	(233)	(255)	(2,837)
Net cash provided by (used in) investing activities	3,152	(21,303)	38,350
FINANCING ACTIVITIES:			
Repurchase of treasury stock	(1)	(1)	(7)
Dividends paid	(1,131)	(1,189)	(13,774)
Repayments of lease obligations	(22)	(53)	(262)
Net cash used in financing activities	(1,154)	(1,243)	(14,043)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,038	(23,062)	61,297
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	12,345	35,407	150,197
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 17,383	¥ 12,345	$ 211,494

See notes to non-consolidated financial statements.

Notes to Non-consolidated Financial Statements

Torii Pharmaceutical Co., Ltd.
Year Ended March 31, 2012

1. BASIS OF PRESENTING NON-CONSOLIDATED FINANCIAL STATEMENTS

During the more than 130 years since its foundation, Torii Pharmaceutical Co., Ltd. (the “Company”) has been developing, producing and distributing ethical pharmaceutical products. In 1998, 54.46% of the Company’s voting shares were acquired by Japan Tobacco Inc. (“JT”), and the Company became a member of the JT Group. To maximally leverage the synergistic effects of the Group, the Company continues to manufacture its products and has assumed responsibility for the sales, marketing and distribution of the pharmaceutical products of JT, while JT’s pharmaceutical operations are dedicated to research and development functions.

The accompanying non-consolidated 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 conformity 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 non-consolidated financial statements, certain reclassifications and rearrangements have been made to the non-consolidated 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 2011 non-consolidated financial statements to conform to the classifications used in 2012.

The non-consolidated financial statements are stated in Japanese yen, the currency of the country in which 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 ¥82.19 to $1, the approximate rate of exchange at March 31, 2012. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Non-consolidation—The non-consolidated financial statements do not include the accounts of a subsidiary. The investment in a subsidiary is stated at cost.

Consolidation of the Company’s subsidiary would not significantly change the total assets, net sales or net income reported in the accompanying non-consolidated financial statements.

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: (1) investment securities in a subsidiary are reported at cost, and (2) available-for-sale securities, which are not classified as aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Non-marketable 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 five years.

h. Retirement and Pension Plans—The Company has a contributory defined pension plan covering substantially all of its employees. 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 non-consolidated balance sheet.

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

i. Asset Retirement Obligations—In March 2008, the Accounting Standards Board of Japan (the "ASBJ") published 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 issued in June 1993. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted for fiscal years beginning on or after April 1, 2007.

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were to be capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes 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 which existed at the transition date and do not transfer ownership of the leased property to the lessee to be measured at the obligations 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 which 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 obligations under finance leases less interest expense at the transition date.

All other leases are accounted for as operating leases.

l. Bonuses to Directors and Corporate Auditors—Bonuses to directors and corporate auditors are accrued at the 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 non-consolidated 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 tax laws 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 non-consolidated 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 non-consolidated 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 28,301,556 shares and 28,302,119 shares for the years ended March 31, 2012 and 2011, 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 period ended March 31, 2012.

Cash dividends per share presented in the accompanying non-consolidated statement of income are dividends applicable to the respective 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 Presentations—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. This accounting standard and the guidance are applicable to accounting changes and corrections of prior-period errors which are made from the beginning of the fiscal year that begins on or after April 1, 2011.

3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2012 and 2011 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Current—Government and corporate bonds	¥2,200	¥19,580	$26,768
Non-current:			
Equity securities	¥ 783	¥ 647	$ 9,526
Government and corporate bonds	5,609	3,525	68,250
Trust fund investments and other		58	
Total	¥6,392	¥ 4,230	$77,776

The costs and aggregate fair values of marketable and investment securities at March 31, 2012 and 2011 were as follows:

	Millions of Yen			
March 31, 2012	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	¥ 358	¥315		¥ 673
Debt securities	7,804	22	¥17	7,809
March 31, 2011				
Available-for-sale:				
Equity securities	¥ 358	¥178		¥ 536
Debt securities	23,100	22	¥17	23,105
Other	75		17	58

	Thousands of U.S. Dollars			
March 31, 2012	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	$ 4,355	$3,833		$ 8,188
Debt securities	94,958	262	$202	95,018

Available-for-sale securities whose fair value was not readily determinable as of March 31, 2012 and 2011 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Available-for-sale—Unlisted equity securities	¥110	¥111	$1,338
Total	¥110	¥111	$1,338

The investment securities of the subsidiary whose fair value cannot be reliably determined at March 31, 2012 are measured at the original acquisition cost. The carrying amount of such investment securities of subsidiary is ¥10 million ($122 thousand).

4. INVENTORIES

Inventories at March 31, 2012 and 2011 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Finished products and merchandise	¥4,272	¥3,333	$51,970
Work in process	440	359	5,357
Raw materials and supplies	1,631	1,685	19,845
Total	¥6,343	¥5,377	$77,172

5. 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 ¥164 million ($1,989 thousand) for the fiscal year ended March 31, 2012.

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

Millions of Yen			
Carrying Amount			Fair Value
April 1, 2011	Increase/Decrease	March 31, 2012	March 31, 2012
¥771	¥(17)	¥754	¥3,238

Millions of Yen			
Carrying Amount			Fair Value
April 1, 2010	Increase/Decrease	March 31, 2011	March 31, 2011
¥891	¥(120)	¥771	¥3,242

Thousands of U.S. Dollars			
Carrying Amount			Fair Value
April 1, 2011	Increase/Decrease	March 31, 2012	March 31, 2012
$9,379	$(201)	$9,178	$39,397

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 March 31, 2012 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.

6. 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 employees' retirement benefits at March 31, 2012 and 2011 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Projected benefit obligation	¥ 7,383	¥ 7,595	$ 89,828
Fair value of plan assets	(6,023)	(5,240)	(73,278)
Unrecognized actuarial loss	(1,198)	(1,848)	(14,584)
Net liabilities	¥ 162	¥ 507	$ 1,966

The Company does not state the retirement benefit liability separately from the pension plan, because the Company is unable to reasonably estimate the liability amount.

The components of net periodic retirement benefit costs for the years ended March 31, 2012 and 2011 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Service cost	¥ 341	¥ 318	$ 4,146
Interest cost	114	112	1,386
Expected return on plan assets	(105)	(102)	(1,275)
Recognized actuarial loss	237	305	2,889
Net periodic retirement benefit costs	¥ 587	¥ 633	$ 7,146

In addition, contributions to the multiemployer pension plan of ¥223 million ($2,711 thousand) and ¥219 million are disclosed in cost of sales and selling, general and administrative expeses at March 31, 2012 and 2011, respectively.

Assumptions used for the years ended March 31, 2012 and 2011 are set forth as follows:

	2012	2011
Discount rate	1.5%	1.5%
Expected rate of return on plan assets	2.0%	2.0%
Amortization period of prior service cost	5 years	5 years
Recognition period of actuarial gain/loss	10 years	10 years

7. 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 such as (1) having a Board of Directors, (2) having independent auditors, (3) having a Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal 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 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.

8. 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 40.7% for the years ended March 31, 2012 and 2011.

The tax effects of significant temporary differences, which resulted in deferred tax assets and liabilities at March 31, 2012 and 2011, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Deferred tax assets:			
Deferred charges for tax purposes	¥1,442	¥1,639	$17,542
Prepayment of research and development costs	952	375	11,583
Accrued bonuses to employees	440	471	5,349
Accrued enterprise taxes	136	99	1,659
Accrued expenses	85	87	1,032
Loss on revaluation of golf club memberships	59	67	715
Liabilities for retirement benefits	58	207	706
Other	154	119	1,869
Less valuation allowance	(74)	(84)	(895)
Total	3,252	2,980	39,560
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	114	72	1,383
Other	6	8	76
Total	120	80	1,459
Net deferred tax assets	¥3,132	¥2,900	$38,101

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate as reflected in the accompanying non-consolidated statements of income for the years ended March 31, 2012 and 2011 is as follows:

	2012	2011
Normal effective statutory tax rate	40.7%	40.7%
Expenses not deductible for income tax purposes	5.9	15.1
Dividend income deductible for income tax purposes	(0.1)	(0.4)
Per capita levy	0.6	1.7
Tax credits	(4.4)	(13.0)
Valuation allowance	5.7	4.6
Other—net	(0.1)	0.3
Actual effective tax rate	48.3%	49.0%

On December 2, 2011, new tax reform laws were enacted in Japan which changed the normal effective statutory tax rate from approximately 40.7% to 38.0% effective for the fiscal years beginning on or after April 1, 2012 through March 31, 2015, and to 35.6% afterwards. The effect of this change was to decrease deferred taxes in the non-consolidated balance sheet as of March 31, 2012 by ¥274 million ($3,339 thousand), to increase unrealized gain on available-for-sale securities in the non-consolidated balance sheet as of March 31, 2012 by ¥16 million ($197 thousand) and to increase income taxes—deferred in the non-consolidated statement of income for the year then ended by ¥291 million ($3,536 thousand).

9. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥4,632 million ($56,352 thousand) and ¥5,994 million for the years ended March 31, 2012 and 2011, respectively.

10. LEASES

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

Total rental expenses including lease payments under finance leases for the years ended March 31, 2012 and 2011 were ¥1,289 million ($15,686 thousand) and ¥1,279 million, respectively.

11. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Policy for Financial Instruments

To provide for 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. 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

March 31, 2012	Carrying Amount (Millions of Yen)	Fair Value (Millions of Yen)	Unrealized Gain/Loss (Millions of Yen)
Cash and cash equivalents	¥17,383	¥17,383	
Time deposits	23,000	23,000	
Receivables:			
Trade accounts	19,510	19,510	
Parent and subsidiary	81	81	
Marketable and investment securities—			
Available-for-sale securities	8,482	8,482	
Total	¥68,456	¥68,456	
Payables:			
Trade accounts	¥ 3,366	¥ 3,366	
Parent and subsidiary	1,776	1,776	
Other	2,023	2,023	
Income taxes payable	1,707	1,707	
Total	¥ 8,872	¥ 8,872	

March 31, 2011	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥12,345	¥12,345	
Time deposits	11,500	11,500	
Receivables:			
Trade accounts	18,354	18,354	
Parent and subsidiary	82	82	
Marketable and investment securities—			
Available-for-sale securities	23,699	23,699	
Total	¥65,980	¥65,980	
Payables:			
Trade accounts	¥ 2,504	¥ 2,504	
Parent and subsidiary	2,100	2,100	
Other	1,650	1,650	
Income taxes payable	1,051	1,051	
Total	¥ 7,305	¥ 7,305	

March 31, 2012	Thousands of U.S. Dollars Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	$211,494	$211,494	
Time deposits	279,839	279,839	
Receivables:			
Trade accounts	237,371	237,371	
Parent and subsidiary	989	989	
Marketable and investment securities—			
Available-for-sale securities	103,206	103,206	
Total	$832,899	$832,899	
Payables:			
Trade accounts	$ 40,951	$ 40,951	
Parent and subsidiary	21,614	21,614	
Other	24,620	24,620	
Income taxes payable	20,765	20,765	
Total	$107,950	$107,950	

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

The carrying values of cash and cash equivalents, time deposits, 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.

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

	Carrying Amount Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Unlisted shares	¥110	¥111	$1,338
Investment in subsidiary	10	10	122

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

March 31, 2012	Millions of Yen Due in 1 Year or Less	Due after 1 Year through 5 Years
Cash and cash equivalents	¥17,380	
Time deposits	23,000	
Receivables:		
Trade accounts	19,510	
Parent and subsidiary	81	
Marketable and investment securities—		
Available-for-sale securities with contractual maturities	2,200	¥5,609
Total	¥62,171	¥5,609

March 31, 2012	Thousands of U.S. Dollars	
	Due in 1 Year or Less	Due after 1 Year through 5 Years
Cash and cash equivalents	$211,464	
Time deposits	279,839	
Receivables:		
Trade accounts	237,371	
Parent and subsidiary	989	
Marketable and investment securities—		
Available-for-sale securities with contractual maturities	26,768	$68,250
Total	$756,431	$68,250

12. RELATED PARTY TRANSACTIONS

Transactions of the Company with the parent company for the years ended March 31, 2012 and 2011 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Purchases	¥6,377	¥5,055	$77,586

The balances due to or from the parent company at March 31, 2012 and 2011 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Deposits included in cash and cash equivalents	¥6,276	¥12,071	$76,360
Trade accounts payable	1,352	1,314	16,451

13. 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 years ended March 31, 2012 and 2011.

Sales to major customers were as follows:

	Millions of Yen		Thousands of U.S. Dollars
Name of Customer	2012	2011	2012
Mediceo Corporation	¥11,736	¥10,910	$142,791
Alfresa Corporation	10,311	9,458	125,450
Suzuken Co., Ltd.	9,385	8,570	114,184
Toho Pharmaceutical Co., Ltd.	5,622	5,333	68,406

Independent Auditors' Report

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying non-consolidated balance sheet of Torii Pharmaceutical Co., Ltd. as of March 31, 2012, and the related non-consolidated 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 Non-consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the non-consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the non-consolidated 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 non-consolidated 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 non-consolidated 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 non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of Torii Pharmaceutical Co., Ltd. as of March 31, 2012, and the results of its operations and its cash flows for the year then ended in conformity 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 conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

June 6, 2012

Member of
Deloitte Touche Tohmatsu Limited

Corporate Information (As of March 31, 2012)

Torii Pharmaceutical Co., Ltd.

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Torii Nihonbashi Bldg., 4-1, Nihonbashi-Honcho
3-chome, Chuo-ku, Tokyo 103-8439, Japan
Telephone: +81-3-3231-6811
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Branch Offices (location)
Sapporo, Sendai, Takasaki, Saitama, Tokyo, Yokohama, Nagoya, Kyoto, Osaka, Kobe, Takamatsu, Hiroshima, Fukuoka, Kumamoto

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2183-1, Teranosaku, Oota, Sakura,
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Telephone: +81-43-485-7111

Research Laboratory
2183-1, Teranosaku, Oota, Sakura,
Chiba 285-0808, Japan
Telephone: +81-43-485-5981

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
5,319

Stock Exchange Listing
The First Section of the Tokyo Stock Exchange

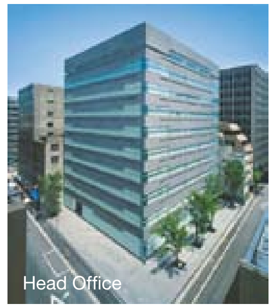
Ticker Symbol Number
4551

Fiscal Year-end
March 31

General Meeting of Shareholders
June

Stock Transfer Agent
Sumitomo Mitsui Trust Bank, Limited

Number of Employees
927

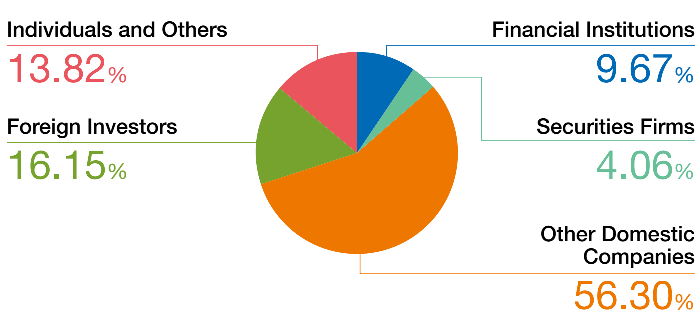

Head Office

Major Shareholders

Name	Number of shares (thousands)	Shareholding ratio (%)
Japan Tobacco Inc.	15,398.8	53.46
THE TACHIBANA SECURITIES CO., LTD.	1,031.7	3.58
Royal Bank of Canada Trust Company (Cayman) Limited	934.0	3.24
Goldman Sachs International	775.9	2.69
BBH for Fidelity Low-Priced Stock Fund (Principal All Sector Subportfolio)	620.0	2.15
Japan Trustee Services Bank, Ltd. (Trust Account)	505.8	1.75
Sumitomo Mitsui Banking Corporation	340.8	1.18
CBNY DFA INTL SMALL CAP VALUE PORTFOLIO	323.1	1.12
Mizuho Bank, Ltd.	300.0	1.04
NORTHERN TRUST CO. AVFC RE U.S. TAX EXEMPTED PENSION FUNDS SEC LENDING	293.7	1.01

Note: In addition to the above, the Company holds 498.7 thousand shares of treasury stock (a 1.73% shareholding).

Share Distribution



TORII PHARMACEUTICAL CO., LTD.

URL: http://www.torii.co.jp

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