Quality Pharmaceuticals for Health and Life

TORII PHARMACEUTICAL CO., LTD.

Annual Report 2014

For the year ended March 31, 2014

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.

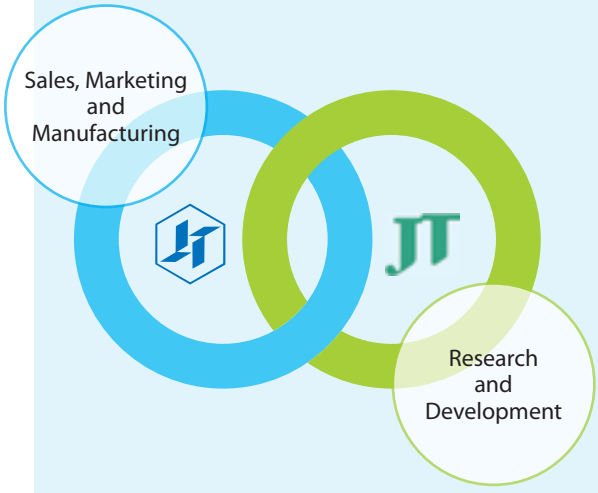
Values and Philosophy

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.

About Torii



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. 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.

CS: Customer Satisfaction

Our Responsibility to Customers

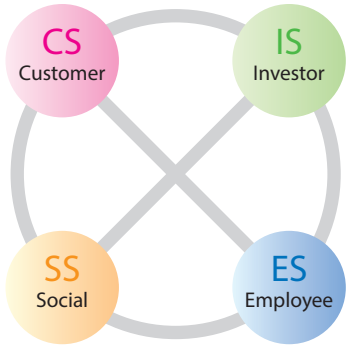
We strive to improve the quality of life (QOL) of patients by supplying superior medicines and accurate information through medical professionals.

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.

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.

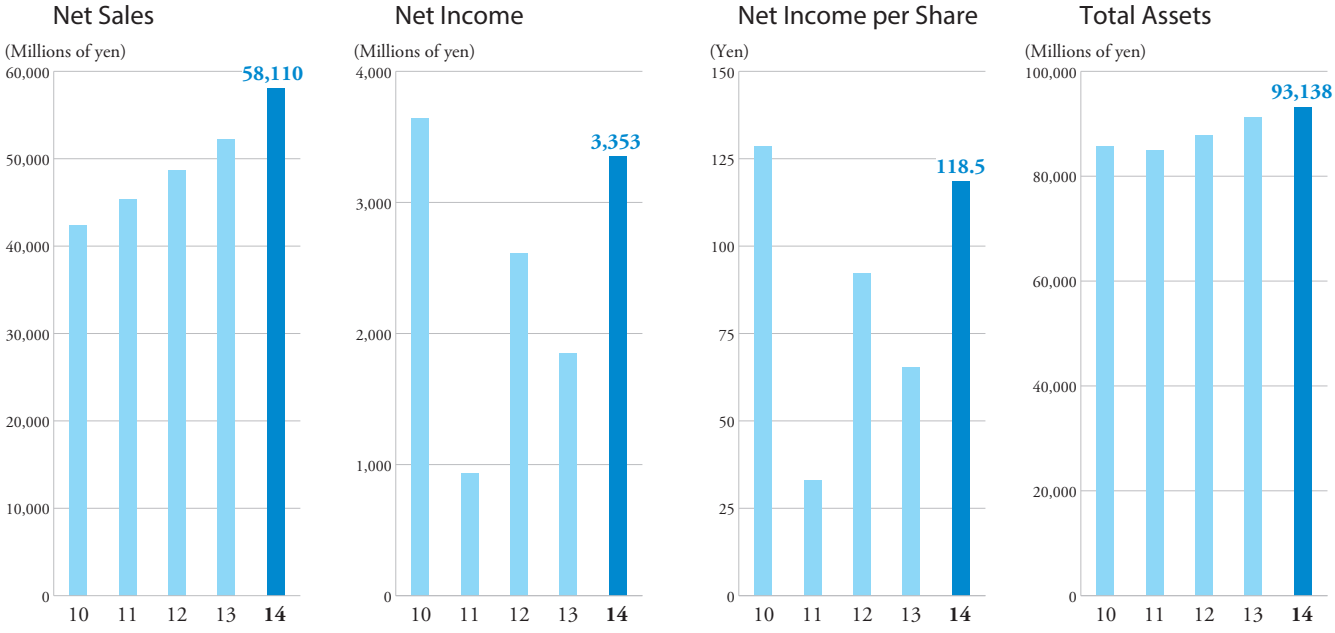
Within the Pharmaceutical Marketing & Promotion Group, the Customer Support Department is in charge of responding to inquiries from medical professionals, patients and their families. The Customer Support Department uses comments received from customers as the basis for feedback to the relevant business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

Nonconsolidated Financial Highlights

Torii Pharmaceuticals Co., Ltd.
Years ended March 31, 2014 and 2013

	Millions of yen		% Change	Thousands of U.S. dollars
	2014	2013	2014/2013	**2014**
For the Year:				
Net sales	**¥58,110**	¥52,294	11.1%	**$564,613**
Operating income	**4,988**	2,794	78.5	**48,464**
Income before income taxes	**5,134**	2,930	75.2	**49,883**
Net income	**3,353**	1,850	81.2	**32,577**
At Year-End:				
Total assets	**¥93,138**	¥91,351	2.0%	**$904,954**
Total equity	**79,018**	76,701	3.0	**767,763**
	Yen		% Change	U.S. dollars
Per Share Data:				
Net income	**¥118.5**	¥65.4	81.2%	**$1.15**
Cash dividends	**40.0**	40.0	–	**0.39**

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 ¥102.94=US$1.00, the approximate exchange rate prevailing on March 31, 2014.



Mainstay Products

Brand name	Area	Therapeutic indication	Net sales in fiscal 2012 (Billions of yen)	Net sales in fiscal 2013 (Billions of yen)
REMITCH	Renal diseases and Hemodialysis	Agent used for the treatment of pruritus in hemodialysis patients (oral antipruritus drug)	¥12.1	**¥15.0**
Truvada	HIV	Antiretroviral agent used for the treatment of HIV-1 infection in adults	11.6	**13.4**
ANTEBATE*	Skin diseases and Allergens	Agent used for the treatment of the inflammatory manifestations of dermatosis (topical corticosteroid)	6.8	**7.1**
FUTHAN*	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)	4.5	**4.0**
URINORM*	Renal diseases and Hemodialysis	Agent used for the treatment of hyperuricemia and gout (uricosuric agent)	2.8	**2.4**
KAYEXALATE*	Renal diseases and Hemodialysis	Agent used for the improvement of hyperkalemia caused by acute and chronic renal failure	2.0	**2.3**
Dovonex	Skin diseases and Allergens	Agent used for the treatment of psoriasis vulgaris	1.9	**1.9**
ZEFNART	Skin diseases and Allergens	Topical antifungal agent used for the treatment of tinea, including tinea pedis (athlete's foot).	1.5	**1.6**
LOCOID*	Skin diseases and Allergens	Agent used for the treatment of the inflammatory manifestations of dermatosis (topical corticosteroid)	1.4	**1.3**
Stribild	HIV	Antiretroviral agent used for the treatment of HIV-1 infection in adults	—	**1.2**

*In-house products

REMITCH

Truvada

ANTEBATE

FUTHAN

URINORM

Stribild (Launched on May 13, 2013)

A Message from the President

Torii Pharmaceutical Co., Ltd. has formulated the medium-term management plan for the three year-period from fiscal 2013 (year ended March 31, 2014) to fiscal 2015 and has been engaged in initiatives to ensure Torii's sustainable growth going forward. The current management plan is based on our corporate mission 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,"

During fiscal 2013, the initial year of the medium-term management plan (2013-2015), net sales increased from the previous fiscal year as a result of business growth on the back of thorough product-specific promotions and reinforced product lifecycle management, as well as the increase in sales of REMITCH CAPSULES and Truvada Combination Tablets (due to the effects of the temporary increase in demand prior to the consumption tax hike) and the launch of Stribild Combination Tablets in May 2013.

In terms of research and development, we made substantial progress, receiving manufacturing and marketing approval for CEDARTOLEN SUBLINGUAL DROP- Japanese Cedar Pollen, a sublingual immunotherapy drug for Japanese cedar pollinosis, and Riona Tablets, a hyperphosphatemia drug. Additionally we filed for manufacturing and marketing approval for TO-204, an immunotherapy drug targeting allergic conditions triggered by mites, and TO-205, a diagnostic product against mite allergy.

In conjunction with the change in fiscal year-end of JT, the parent company, Torii has decided to change its fiscal year-end from March 31 of each year to December 31 of each year in an effort to maintain operational efficiency relating to the formulation of management plans, performance management and consolidated account closings, by conforming to the fiscal year of JT. The partial amendment of the Articles of Incorporation to this effect was approved by the 122nd General Meeting of Shareholders, which was held on June 25, 2014. Consequently, as a transitional period, fiscal year 2014 will be a 9-month year from April 1, 2014 through December 31, 2014.

While a decrease in net sales is expected in fiscal 2014 due to the effects of drug price revisions, and the backlash from the temporary increase in demand prior to the consumption tax hike, Torii will make a continued effort to achieve the goals set out in the medium-term management plan.

June 2014

S. Takagi

Shoichiro Takagi

Representative Director,
President and Chief Executive Officer

Outline of Medium-Term Management Plan (from Fiscal 2013 to Fiscal 2015)

Torii has formulated the medium-term management plan for the 3-year period from fiscal 2013 to fiscal 2015, and has been engaged in initiatives to ensure Torii's sustainable growth going forward. The forecast for fiscal 2014(*), the second year of the plan, and the management targets for fiscal 2015, the final year of the plan, are as follows.

*Although fiscal 2014 will be a 9-month year as a result of the change in fiscal year-end, information for the 12-month period (from January to December) reflecting the change has been given as reference.

Forecast for fiscal year ending December 31, 2014 (12-month information)

During the 12-month period of fiscal 2014, despite the impact of drug price revision, net sales are expected to increase due to the growing sales of Stribild Combination Tablets and Riona Tablets. Meanwhile, as a result of the increase in sales cost ratio due to changes in our internal product sales ranking and drug price revisions, operating income and net income are expected to remain on par with the previous fiscal year.

•Forecasts for the fiscal year ending December 31, 2014 (12-month information)

	January to December 2013	January to December 2014	Change
Net sales	¥55.3 billion	¥57.5 billion	+¥2.2 billion
Operating income	¥ 3.6 billion	¥ 3.7 billion	+¥0.1 billion
Net income	¥ 2.3 billion	¥ 2.6 billion	+¥0.2 billion

Figures of Jan–Dec 2013
Jan–Mar 2013 (FY2012 (12months)–FY2012 First nine months (9months))+Apr–Dec 2013 (FY2013 First nine months)

Figures of Jan–Dec 2014
Jan–Mar 2014 (FY2013 (12months)–FY2013 First nine months (9months))+Apr–Dec 2014 (FY2014 forecast)

Management targets for the final year of the medium-term management plan

As for the management targets for fiscal 2015, the final year of the plan, no alterations have been made to the targets despite the new fiscal year period due to change in fiscal year-end (from April 1, 2015 through March 31, 2016 to January 1, 2015 through December 31, 2015). The dividend policy also remains the same, targeting an annual dividend of 48 yen per share.

•Management targets for the fiscal year ending December 31, 2015

	Targets for FY 2015 prior to change (April to March)	Targets for FY 2015 after change (January to December)	Change
Net sales	¥63.0 billion	¥63.0 billion	—
Operating income	¥ 5.5 billion	¥ 5.5 billion	—
Net income	¥ 3.5 billion	¥ 3.5 billion	—
Annual dividend per share	¥48	¥48	—

Launch of Riona Tablets 250mg for the treatment of hyperphosphatemia

Torii launched Riona Tablets 250mg in Japan on May 12, 2014. Riona Tablets is a novel phosphate binder containing ferric citrate hydrate as the active pharmaceutical ingredient. This new agent binds to phosphate in the gastrointestinal tract and decreases serum phosphorus concentration through inhibiting phosphate absorption into the body.

Patients with chronic kidney disease (CKD) often suffer from hyperphosphatemia, as a result of lower phosphorous excretion from the kidney. Persisting hyperphosphatemia leads to calcareous deposition in various organs and periarticular tissues. In particular, a calcified blood vessel wall causes arterial sclerosis and increases the risk of cardiac infarct and angina. Furthermore, bone lesions can be caused by secondary hyperparathyroidism associated with the increase in secretion of parathyroid hormone, negatively affecting activities of daily living and quality of life. Therefore, it is important for hyperphosphatemia in patients with CKD, including dialysis and non-dialysis dependent CKD, to maintain the target level of serum phosphorus.

We expect to contribute to treat hyperphosphatemia in patients with CKD, including dialysis and non-dialysis dependent CKD, through marketing Riona® Tablets in Japan.

•About Riona Tablets

Product Name	Riona Tablets 250mg
Generic Name	Ferric Citrate Hydrate
Indication	Improvement of hyperphosphatemia in patients* with chronic kidney disease *Both dialysis and non-dialysis dependent CKD patients are included.
Dosage and Administration	The usual adult dosage for oral use begins at 500 mg of ferric citrate three times daily immediately after meals. Thereafter, the dosage should be adjusted based on the degree of symptoms and serum phosphorus concentration. The maximum daily dosage is 6,000 mg.
Package	Riona Tablets 250mg: 100 tablets
NHI Drug Price	¥99.80 per tablet
Approval Date	January 17, 2014
NHI Pricing Date	April 17, 2014
Launch Date	May 12, 2014
Manufacturing and Distributor	Japan Tobacco Inc.
Distributor	Torii Pharmaceutical Co., Ltd.

"CEDARTOLEN SUBLINGUAL DROP–Japanese Cedar Pollen" a Sublingual Immunotherapy Drug for Japanese cedar Pollinosis, approved in Japan

Torii received manufacturing and marketing approval of "CEDARTOLEN SUBLINGUAL DROP–Japanese Cedar Pollen" ("CEDARTOLEN" hereinafter), a sublingual immunotherapy drug for Japanese cedar pollinosis, from the Japanese Ministry of Health, Labour and Welfare in January, 2014.

Japanese cedar pollinosis collectively refers to an allergic disease caused by Japanese cedar pollen. Patients with Japanese cedar pollinosis primarily have allergic rhinitis and allergic conjunctivitis.

According to a nationwide survey, it is estimated that about 20% of Japanese people have pollinosis and that about 70% of those have Japanese cedar pollinosis.

(A FY 2010 MHLW-subsidized research program for prophylaxis/treatment of immunological allergic diseases, "Research for Correct Treatment of Pollinosis")

CEDARTOLEN, which is the first sublingual immunotherapy drug approved in Japan, 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 CEDARTOLEN, as a new therapeutic option, to contribute to the treatment of Japanese cedar pollinosis, and continues its effort to launch CEDARTOLEN in October at the earliest.

Outlines of the approval

Product name

CEDARTOLEN® SUBLINGUAL DROP–Japanese Cedar Pollen 200 JAU/mL bottle
CEDARTOLEN® SUBLINGUAL DROP–Japanese Cedar Pollen 2,000 JAU/mL bottle
CEDARTOLEN® SUBLINGUAL DROP–Japanese Cedar Pollen 2,000 JAU/mL pack

Indication

Japanese cedar pollinosis (Allergen immunotherapy)

Dosage and administration

1. Period of updosing (1st–2nd weeks)
For adults and children over 12 years of age, the following doses will be administered sublingually once daily for 2 weeks after the initiation of administration. The solution should be retained for 2 minutes, and then swallowed. Gargling, eating, and drinking should be avoided for the next 5 minutes.

1st week of updosing		2nd week of updosing	
CEDARTOLEN® SUBLINGUAL DROP–Japanese Cedar Pollen 200 JAU/mL bottle		CEDARTOLEN® SUBLINGUAL DROP–Japanese Cedar Pollen 2,000 JAU/mL bottle	
Day 1	0.2 mL	Day 1	0.2 mL
Day 2	0.2 mL	Day 2	0.2 mL
Day 3	0.4 mL	Day 3	0.4 mL
Day 4	0.4 mL	Day 4	0.4 mL
Day 5	0.6 mL	Day 5	0.6 mL
Day 6	0.8 mL	Day 6	0.8 mL
Day 7	1 mL	Day 7	1 mL

2. Period of maintenance (3rd week and thereafter)
In the period of maintenance following the completion of the period of gradual increase, the full dose of CEDARTOLEN® SUBLINGUAL DROP–Japanese Cedar Pollen 2,000 JAU/mL pack (1 mL) will be administered sublingually once daily. The solution should be retained for 2 minutes, and then swallowed. Gargling, eating, and drinking should be avoided for the next 5 minutes.

Approval conditions

Necessary measures should be taken for manufacturing and marketing so that this drug will be prescribed and used only by physicians with adequate knowledge and experience regarding sublingual immunotherapy, will be used only under the supervision of physicians and medical institutions that can manage and explain the risks, etc. of this drug, and will be dispensed at pharmacies only after the pertinent physicians and medical institutions have been confirmed.

Research and Development

Torii launched "Riona Tablets", which was jointly developed with JT, in May 2014, and received manufacturing and marketing approval for "CEDARTOLEN SUBLINGUAL DROP- Japanese Cedar Pollen" in Japan in January 2014. In addition, Torii filed for manufacturing and marketing approval for TO-204 and TO-205, both of which are licensed from ALK-Abelló A/S (ALK). Torii is also currently preparing to file for the approval for JTE-350, a histamine dihydrochloride, which is being jointly developed with JT.

(As of July 30, 2014)

Field	Development code (Product name)	Indication	Formulation/ Route of administration	Development stage (domestic)	Remarks
Skin disease and Allergens	TO-194SL (CEDARTOLEN SUBLINGUAL DROP- Japanese Cedar Pollen)	Japanese cedar pollinosis (Allergen Immunotherapy)	Sublingual liquid	approval	•In-house •Torii received manufacturing and marketing approval on January 17, 2014
	TO-203	House dust mite induced allergic asthma and rhinitis (Allergen Immunotherapy)	Sublingual tablet	Application preparing (rhinitis)	•Licensing agreement signed with ALK for providing exclusive development and sales rights in Japan •In-house
	TO-204	House dust mite induced allergic asthma and rhinitis (Allergen Immunotherapy)	Injection	Application	•Licensing agreement signed with ALK for providing exclusive development and sales rights in Japan •In-house •NDA filing by Torii on December 24, 2013
	TO-205	Diagnostic product against house dust mite allergy	Skin prick test solution	Application	•Licensing agreement signed with ALK for providing exclusive development and sales rights in Japan •In-house •NDA filing by Torii on December 24, 2013
	TO-206	Japanese cedar pollinosis (Allergen Immunotherapy)	Sublingual tablet	PhaseI	•In-house
	JTE-350*	Diagnostic product (Histamine Dihydrochloride)	Positive control solution in the skin prick test	Application preparing	•Licensing agreement signed with ALK for providing exclusive development and sales rights in Japan •Co-development with JT

*This drug is one of the medical products publicly offered for a development company by the Study Group on Unapproved and Off-label Drugs of High Medical Need, set up by the Ministry of Health, Labour and Welfare

PhaseI: Administration of test drugs to small groups of healthy subjects to assess safety
PhaseII: Administration of test drugs to small groups of patients to assess effectiveness and determine appropriate dosage levels and administration methods, etc.
PhaseIII: 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 Allergen immunotherapy?

Allergen immunotherapy is a therapeutic method that the causative allergen of an allergic disease is administered at a low concentration/dose at first and is increased gradually in order to attenuate hypersensitivity to the allergen. Currently Japanese health insurance covers only injection-based therapies, therefore Torii is developing sublingual immunotherapy drugs, which provide more convenient use for the patients.

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 lowemission, 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 singleyear 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.

*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.

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.

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.

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 Audit & Supervisory Board Members, the Audit & Supervisory Board and the accounting auditors, as well as the Executive Committee, the Compliance Committee and the Internal Audit Department.

The current corporate governance structure is based on reciprocal supervision by the eight directors, the audit system maintained by three 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, one outside director has been elected at the 121st General Meeting of Shareholders held on June 20, 2013 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 three 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 Wataru Aizawa, an outside Audit & Supervisory Board Member, 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

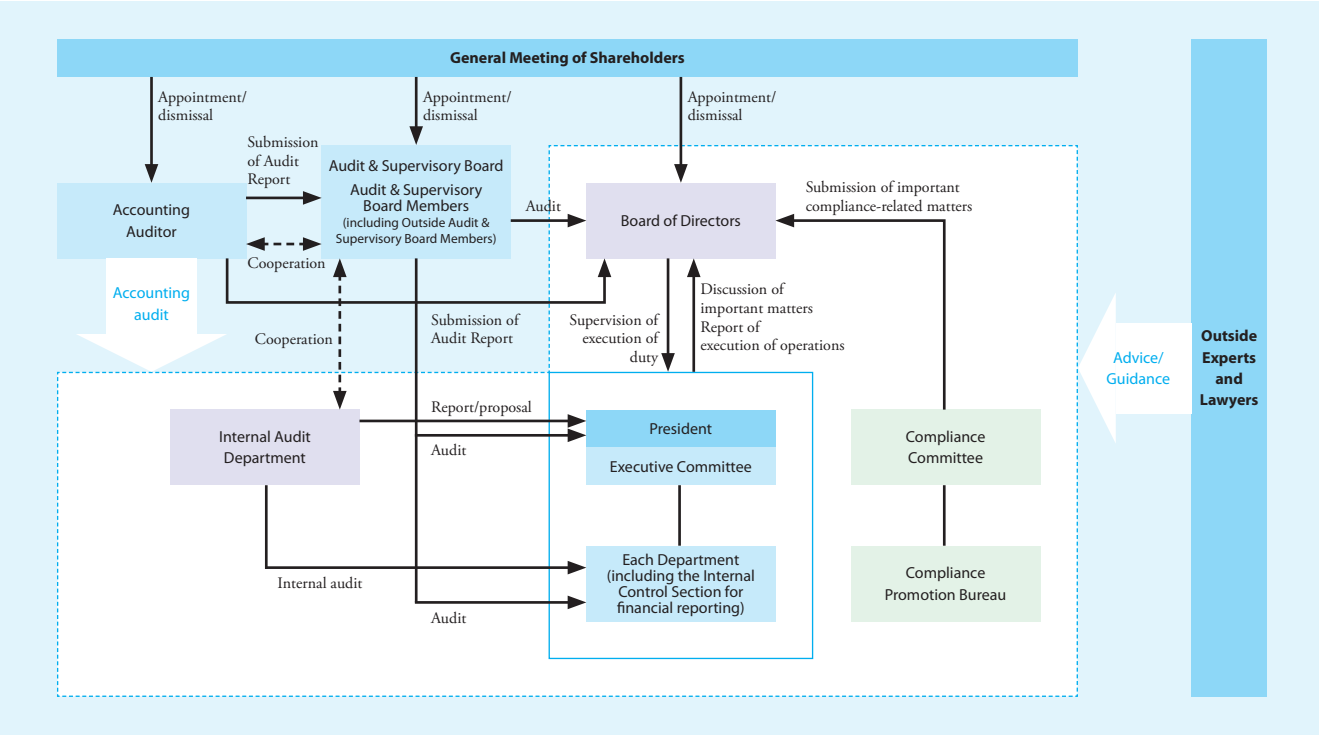
The Board of Directors currently consists of eight directors including one outside director. In principle, the board meets monthly, but additional meetings are scheduled flexibly as required. The Board of Directors makes decisions on matters stipulated in laws and regulations and in the Articles of Incorporation.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

Torii and Masao Torikai, an outside director, 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 twelve 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.

Overview of Corporate Governance Structure



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.

Internal Audit Department

The Internal Audit Department currently has nine 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 Audit & Supervisory Board Members

(As of June 20, 2014)

Chairman of the Board

Norihiko Matsuo

Representative Director, President and Chief Executive Officer

Shoichiro Takagi

Representative Director, Executive Deputy President

Hiroshi Kanaya

Member of the Board, Senior Executive Director

Yuji Kagohashi

(Head of R&D Group)

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

Masao Torikai

Audit & Supervisory Board Members

Seiji Osa

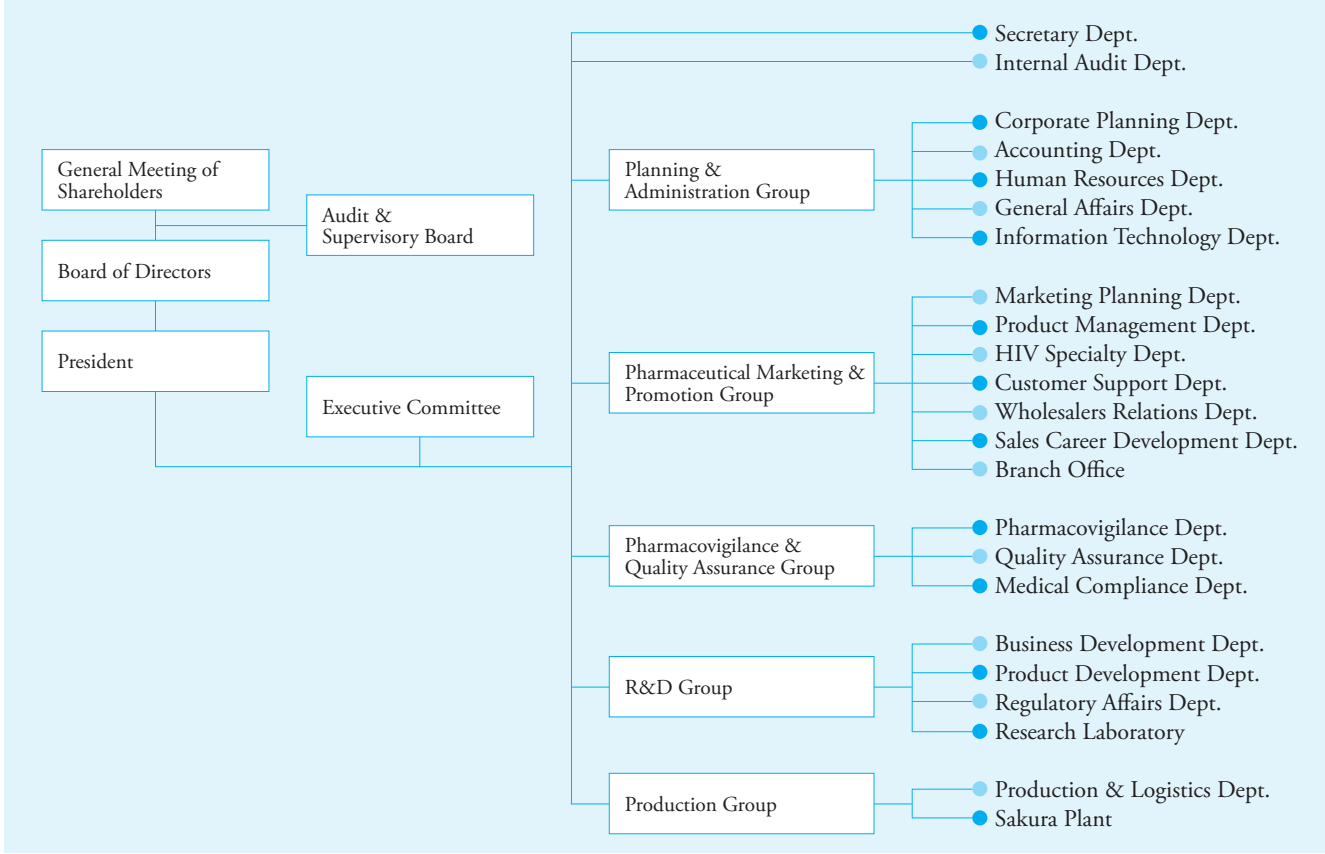
Shohei Yabe

Wataru Aizawa

Note:
Masao Torikai is an outside director.
Seiji Osa and Wataru Aizawa are outside audit & supervisory board members.

Organization

(As of August 1, 2014)



Financial Section

Contents

Ten-Year Nonconsolidated Financial Summary

Torii Pharmaceuticals Co., Ltd.
Years ended March 31, 2005 to 2014

	Millions of yen			
	2005	2006	2007	2008
For the Year:				
Net sales	¥41,908	¥40,478	¥39,577	¥40,845
Gross profit	26,301	25,579	24,202	24,596
Operating income	8,499	7,606	5,336	5,140
Income before income taxes	10,115	7,538	5,434	5,379
Net income	5,793	4,179	3,029	2,967
Capital expenditures	911	1,461	1,322	1,450
Research and development costs	455	911	1,766	1,828
Net cash provided by (used in) operating activities	5,590	3,425	3,415	3,333
Net cash provided by (used in) investing activities	(4,328)	104	(3,438)	822
Net cash used in financing activities	(827)	(796)	(738)	(738)
At Year-End:				
Total assets	¥74,042	¥76,782	¥77,542	¥80,439
Total equity	61,677	65,241	67,591	69,759
Number of shares issued (Thousands)	28,800	28,800	28,800	28,800
Number of employees	855	833	854	852
	Yen			
Per Share Data:				
Total equity	¥2,178.0	¥2,303.9	¥2,387.9	¥2,464.6
Net income	203.8	146.8	107.0	104.8
Cash dividends	26.0	26.0	26.0	30.0
	%			
Key Ratios:				
Operating income ratio	20.3	18.8	13.5	12.6
Return on equity (ROE)	9.8	6.6	4.6	4.3
Return on assets (ROA)	8.1	5.5	3.9	3.7
Shareholders' equity ratio	83.3	85.0	87.2	86.7
Dividend payout ratio	12.8	17.7	24.3	28.6

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 ¥102.94=US$1.00, the approximate exchange rate prevailing on March 31, 2014.

Millions of yen						Thousands of U.S. dollars
2009	2010	2011	2012	2013	**2014**	**2014**
¥37,349	¥42,416	¥45,336	¥48,718	¥52,294	**¥58,110**	**$564,613**
23,700	26,432	26,733	28,178	29,453	**31,843**	**309,394**
4,900	6,126	1,845	4,154	2,794	**4,988**	**48,464**
6,039	6,341	1,839	5,055	2,930	**5,134**	**49,883**
3,477	3,642	937	2,611	1,850	**3,353**	**32,577**
1,004	1,401	797	850	1,374	**1,202**	**11,681**
1,192	1,613	5,994	4,632	7,824	**6,663**	**64,738**
3,260	4,999	(516)	3,040	152	**(201)**	**(1,953)**
228	(10,397)	(21,303)	3,152	874	**17,707**	**172,045**
(991)	(1,182)	(1,243)	(1,154)	(1,181)	**(1,319)**	**(12,817)**
¥81,433	¥85,638	¥84,886	¥87,735	¥91,351	**¥93,138**	**$904,954**
72,034	74,642	74,246	75,833	76,701	**79,018**	**767,763**
28,800	28,800	28,800	28,800	28,800	**28,800**	**28,800**
878	890	905	927	969	**1,009**	**1,009**
Yen						U.S. dollars
¥2,545.1	¥2,637.3	¥2,623.4	¥2,679.5	¥2,710.2	**¥2792.1**	**$27.10**
122.8	128.7	33.1	92.3	65.4	**118.5**	**1.15**
36.0	40.0	40.0	40.0	40.0	**40.0**	**0.39**
%						
13.1	14.4	4.1	8.5	5.3	**8.6**	
4.9	5.0	1.3	3.5	2.4	**4.3**	
4.3	4.3	1.1	3.0	2.1	**3.6**	
88.5	87.2	87.5	86.4	84.0	**84.8**	
29.3	31.1	120.8	43.4	61.2	**33.8**	

Management's Discussion and Analysis

Financial Results for the Year Ended March 31, 2014

The business environment for the pharmaceutical industry remained challenging in the fiscal year 2013. Healthcare reforms have been continuously regulated for healthcare expenditure, including measures to encourage the increased use of generic drugs.

Under these circumstances, Torii strived to maintain and increase its market share through extensive promotional activities and product lifecycle management in three priority fields: 1) the renal and hemodialysis field represented by REMITCH CAPSULES (oral antipruritus drug for hemodialysis patients), 2) the HIV field represented by Truvada Combination Tablets (anti-HIV drug), as well as Stribild Combination Tablets (anti-HIV drug) which was launched in May 2013, and 3) the skin and allergens field represented by ANTEBATE (topical corticosteroid).

We have been engaged in activities to promote the smooth market release of two products (Riona Tablets and CEDARTOLEN SUBLINGUAL DROP). JT received manufacturing and marketing approval for Riona Tablets (hyperphosphatemia drug) in Japan in January 2014.Additionally in January 2014, Torii obtained the same approval for CEDARTOLEN SUBLINGUAL DROP - Japanese Cedar Pollen (sublingual immunotherapy drug).

Net Sales

Net sales increased by ¥5,816 million (11.1%) year on year to ¥58,110 million.

A breakdown of key products shows that, due to the effects of the temporary increase in demand prior to the consumption tax hikes in addition to the initiatives described above, sales of REMITCH CAPSULES increased by ¥2,913 million (24.1%) year on year to ¥15,019 million, and sales of Truvada Combination Tablets increased by ¥1,835 million (15.8%) to ¥13,429 million. Sales for Stribild Combination Tablets, which was launched in May 2013, amounted to ¥1,220 million.

Cost of Sales

Cost of sales increased by ¥3,426 million (15.0%) over the previous year's level to ¥26,267 million, due to the increase in net sales, as well as changes in our internal product sales ranking.

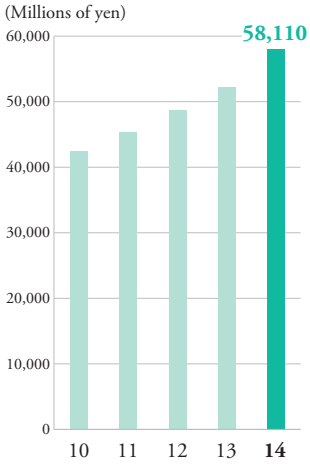
Selling, General and Administrative Expenses

Selling, general and administrative expenses were ¥196 million (0.7%) higher year on year at ¥26,855 million. This resulted mainly from the increase in sales promotion costs, which offset the decrease in R&D expenditure.

Operating Income, Net Income

These changes were reflected in operating income of ¥4,988 million, an increase of ¥2,194 million (78.5%) over the previous year's results. Net income increased by ¥1,503 million (81.2%) year on year to ¥3,353 million.

Net Sales

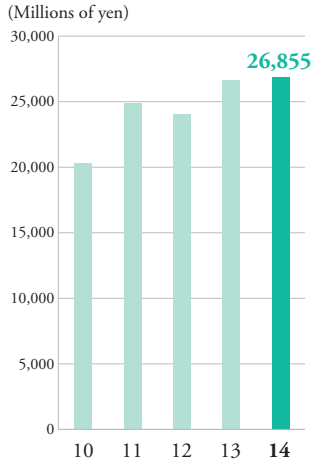


Sales of Mainstay Products

(Millions of yen)

	2013	2014	Change
REMITCH	12,107	15,019	2,913 24.1%
Truvada	11,594	13,429	1,835 15.8%
ANTEBATE	6,766	7,143	376 5.6%
FUTHAN	4,534	4,021	(513) (11.3)%
URINORM	2,751	2,395	(356) (13.0)%

Selling, General and Administrative Expenses



Financial Position at March 31, 2014

Assets, Liabilities and Equity

Total assets increased by ¥1,787 (2.0%) year on year to ¥93,138 million as of March 31, 2014. Current assets increased by ¥974 million (1.4%) from the end of the previous fiscal year (March 31, 2013) to ¥72,467 million, due to a ¥16,187 million increase in cash and cash equivalents, a ¥3,926 million increase in trade accounts receivable and a ¥499 million increase in inventories, among others, which offset the ¥15,692 million decrease in marketable securities. Investments and other assets increased by ¥690 million (4.9%) from the previous fiscal year-end to ¥14,896 million, in part because of a ¥1,329 million increase in investment securities.

Current liabilities decreased by ¥632 million (4.5%) from the end of the previous fiscal year to ¥13,337 million. Reasons for this include the decrease in payables to the parent and subsidiary by ¥2,655 million, which offset the ¥433 increase in trade accounts payable and the ¥489 million increase in income taxes payable.

Total equity increased by ¥2,318 million (3.0%) from the end of the previous fiscal year to ¥79,018 million. Contributing factors included surplus dividends of ¥1,133 million and net income of ¥3,353 million.

Cash Flows

At ¥33,415 million, cash and cash equivalents as of March 31, 2014 were ¥16,187 million (94.0%) higher than at the end of the previous fiscal year.

Net cash used in operating activities amounted to ¥201 million. This result reflects income before income taxes of ¥5,134 million, depreciation and amortization of ¥1,089 million, the ¥433 million increase in trade accounts payable, as well as the ¥3,933 million increase in trade notes and accounts receivable, the ¥2,655 million decrease in payables to the parent and subsidiary, and income taxes paid of ¥1,111 million. In the previous fiscal year, net cash of ¥152 million was provided by operating activities.

Net cash provided by investing activities amounted to ¥17,707million. Major items included outflows of ¥6,497 million for the purchases of marketable securities, ¥2,205 million for the purchases of investment securities, and ¥640 million for the purchases of property, plant and equipment, and inflows of ¥23,200 million proceeds from sales and redemption of marketable securities, and ¥4,000 million proceeds from withdrawals of time deposits. In the previous fiscal year, there was a net inflow of ¥874 million.

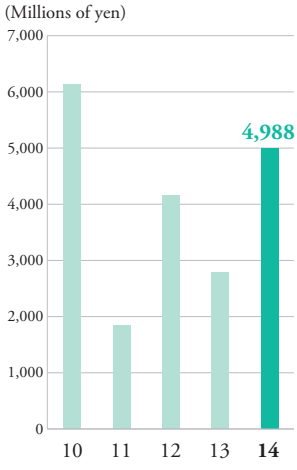
Net cash used in financing activities amounted to ¥1,319 million, compared with ¥1,181 million used in the previous fiscal year. This consisted mainly of ¥1,133 million for dividends paid.

Research and Development Activities

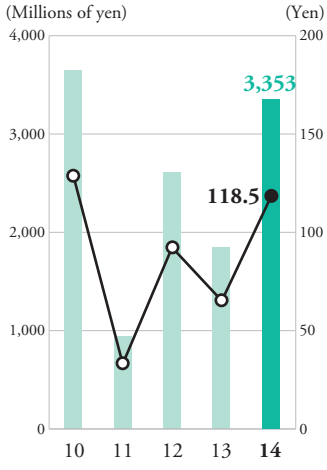
Research and development functions are divided between Torii and JT. JT is responsible for research and development activities pertaining to new compounds, while Torii is responsible primarily for improvements to the formulations of existing products, and the development of additional indications. Torii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

Total research and development expenditure in the year ended March 31, 2014 amounted to ¥6,663 million.

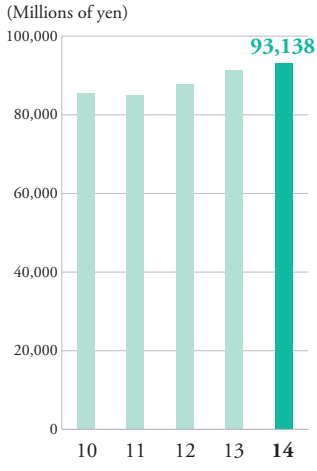
Operating Income



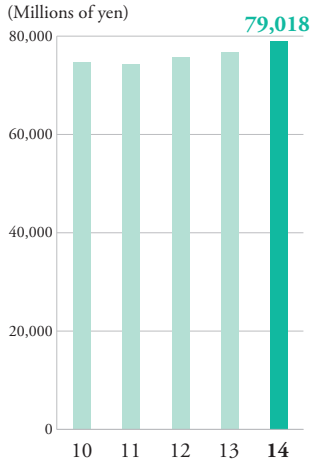
Net Income
Net Income per Share



Total Assets



Total Equity



Forecast for the Fiscal Year Ending December 31, 2014

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

Under these circumstances, we will endeavor to improve our business performance by maintaining and expanding the market share of our existing products in priority fields: the renal and hemodialysis field, the skin and allergen field and the HIV field. We will also strive to promote the market release and achieve prompt market penetration of Riona Tablets, a hyperphosphatemia drug, and CEDARTOLEN SUBLINGUAL DROP- Japanese Cedar Pollen, a sublingual immunotherapy drug for Japanese cedar pollinosis.

In order to accomplish further growth in the years ahead, we will license, develop and sell new products, and push ahead with research and development in the allergen field.

The current forecast for the fiscal year ending December 31, 2014 is as follows.

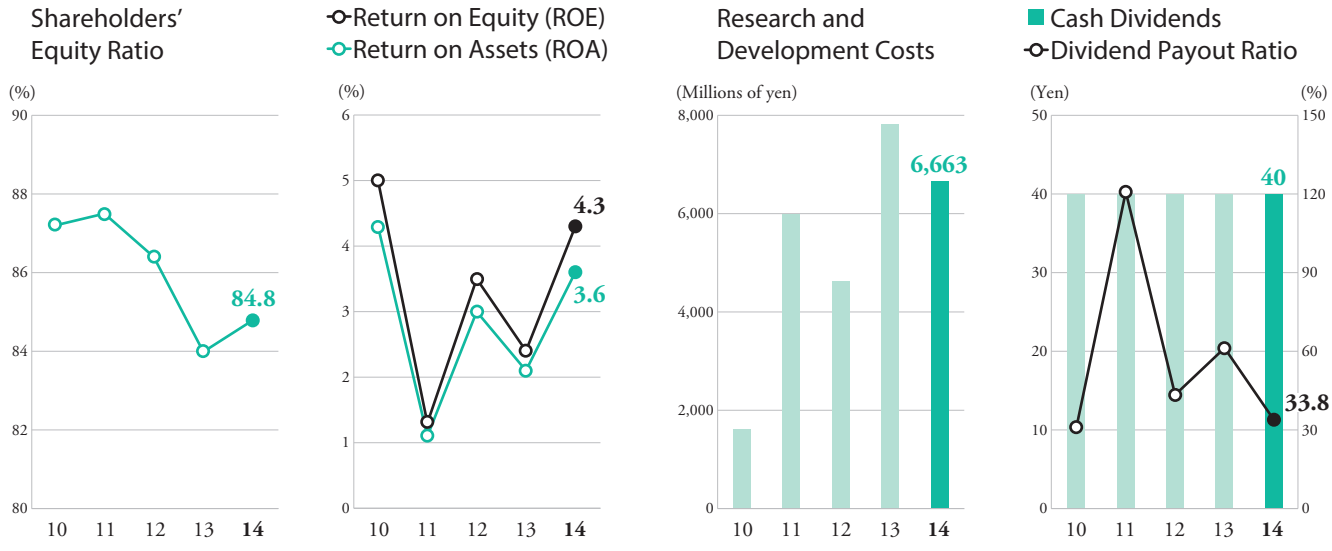
	(Reference) Results for the nine months ended December 31, 2013 (Millions of yen)	Forecast for the nine months ending December 31, 2014 (Millions of yen)	Change (Millions of yen)	% Change (%)
Net sales	43,525	42,900	(625)	(1.4)
Operating income	3,986	2,700	(1,286)	(32.3)
Net income	2,378	1,600	(778)	(32.7)

Net sales are expected to decrease due to the effects of drug price revisions, in addition to the backlash from the temporary increase in demand prior to the consumption tax hike.

Both operating income and net income are also expected to decrease despite the decline in R&D expenditures. These decreases will derive from the increase in sales cost and its ratio, which originates from changes in our internal product sales ranking and drug price revisions, in addition to the increase in promotion costs for newly launched products and personnel expenses.

It should be noted that the Company has decided to change its fiscal year to January 1 through December 31 of each year (Fiscal year-end will be December 31 of each year). Consequently, in terms of the forecast for the year ending December 31, 2014, which will be a transitional period for the change of fiscal year, the Company has stated forecasts for the nine months from April 1, 2014 to December 31, 2014.

The Company has also provided the results for the nine months period from April 1, 2013 to December 31, 2013 as reference.



Basic Policy for Distribution of Profits and Dividends for Fiscal 2013 and Fiscal 2014

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/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 ¥40 per share for the fiscal year ended March 31, 2014 (interim dividend of ¥20 has already been paid).

Torii has decided to change its fiscal year to January 1 through December 31 of each year (Fiscal year-end will be December 31 of each year) and accordingly the fiscal year ending December 31, 2014, being a transitional period for the change, will be an irregular nine-month fiscal year. Nevertheless, in accordance with the aforementioned basic policy, Torii plans to pay an annual dividend of ¥40 per share (consisting of an interim dividend of ¥20, with a record date of September 30, and a year-end dividend of ¥20).

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.

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.

Nonconsolidated Balance Sheet

Torii Pharmaceutical Co., Ltd.
March 31, 2014

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2014	2013	2014
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents (Notes 11 and 12)	¥ 33,415	¥ 17,228	$ 324,670
Time deposits (Note 11)		4,000	
Marketable securities (Notes 3 and 11)	4,505	20,197	43,769
Receivables (Note 11):			
Trade notes	14	7	138
Trade accounts	24,093	20,167	234,092
Parent and subsidiary	209	75	2,028
Other	29	36	286
Inventories (Note 4)	8,029	7,531	78,014
Deferred tax assets (Note 8)	1,811	1,733	17,596
Prepaid expenses and other current assets	362	519	3,515
Total current assets	72,467	71,493	704,108
PROPERTY, PLANT AND EQUIPMENT (Note 5)**:**			
Land	702	702	6,825
Buildings and structures	11,512	11,389	111,850
Machinery and equipment	7,688	7,166	74,701
Furniture and fixtures	2,463	2,460	23,931
Lease assets (Note 10)	616	256	5,987
Construction in progress	304	487	2,953
Total	23,285	22,460	226,247
Accumulated depreciation	(17,510)	(16,808)	(170,136)
Net property, plant and equipment	5,775	5,652	56,111
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 3 and 11)	6,708	5,380	65,182
Investment in subsidiary (Notes 3 and 11)		10	
Software	497	531	4,825
Long-term prepaid expenses (Note 12)	5,920	6,188	57,523
Prepaid pension cost (Note 6)	57	102	551
Deferred tax assets (Note 8)	854	1,176	8,294
Other assets	860	819	8,360
Total investments and other assets	14,896	14,206	144,735
TOTAL	¥ 93,138	¥ 91,351	$ 904,954

See notes to nonconsolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2014	2013	2014
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Payables (Note 11):			
Trade accounts	¥ 3,809	¥ 3,377	$ 37,012
Parent and subsidiary (Note 12)	2,651	5,306	25,756
Other	2,922	2,272	28,388
Current portion of long-term lease obligations	201	141	1,955
Income taxes payable (Note 11)	1,202	713	11,681
Accrued expenses	638	638	6,198
Accrued employees' bonuses	1,346	1,211	13,076
Accrued bonuses to directors and Audit & Supervisory Board members	64	55	627
Asset retirement obligations	5	3	50
Other current liabilities	499	253	4,844
Total current liabilities	13,337	13,969	129,587
LONG-TERM LIABILITIES:			
Liability for retirement benefits (Note 6)	116	134	1,126
Guarantees and lease deposits received	268	268	2,600
Long-term lease obligations	193	72	1,879
Asset retirement obligations	144	145	1,395
Other long-term liabilities	62	62	604
Total long-term liabilities	783	681	7,604
EQUITY (Note 7)**:**			
Common stock—authorized, 54,000,000 shares;			
issued, 28,800,000 shares in 2014 and 2013	5,190	5,190	50,428
Capital surplus—additional paid-in capital	6,416	6,416	62,340
Retained earnings:			
Legal reserve	1,298	1,298	12,607
Unappropriated	66,517	64,297	646,303
Unrealized gain on available-for-sale securities	457	359	4,444
Treasury stock—at cost, 499,758 shares in 2014 and 499,074 shares in 2013	(860)	(859)	(8,359)
Total equity	79,018	76,701	767,763
TOTAL	¥ 93,138	¥ 91,351	$ 904,954

Nonconsolidated Statement of Income

Torii Pharmaceutical Co., Ltd.
Year Ended March 31, 2014

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2014	2013	2014
NET SALES	¥ 58,110	¥ 52,294	$ 564,613
COST OF SALES (Notes 6, 10 and 12)	26,267	22,841	255,219
Gross profit	31,843	29,453	309,394
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 6, 9 and 10)	26,855	26,659	260,930
Operating income	4,988	2,794	48,464
OTHER INCOME (EXPENSES):			
Interest and dividend income	121	177	1,178
Other—net	25	(41)	241
Other income—net	146	136	1,419
INCOME BEFORE INCOME TAXES	5,134	2,930	49,883
INCOME TAXES (Note 8)**:**			
Current	1,591	939	15,460
Deferred	190	141	1,846
Total income taxes	1,781	1,080	17,306
NET INCOME	¥ 3,353	¥ 1,850	$ 32,577

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Note 2.q)**:**			
Net income	¥ 118.5	¥ 65.4	$ 1.15
Cash dividends applicable to the year	40.0	40.0	0.39

See notes to nonconsolidated financial statements.

Nonconsolidated Statement of Changes in Equity

Torii Pharmaceutical Co., Ltd.
Year Ended March 31, 2014

	Outstanding Number of Shares of Common Stock	Millions of Yen						
		Common Stock (Note 7)	Capital Surplus (Note 7)	Retained Earnings (Note 7)		Unrealized Gain on Available-for-Sale Securities	Treasury Stock	Total Equity
			Additional Paid-in Capital	Legal Reserve	Unappropriated			
BALANCE, APRIL 1, 2012	**28,301,299**	**¥ 5,190**	**¥ 6,416**	**¥ 1,298**	**¥ 63,579**	**¥ 208**	**¥ (858)**	**¥ 75,833**
Net income					1,850			1,850
Cash dividends paid, ¥40.0 per share					(1,132)			(1,132)
Repurchase of treasury stock	(373)						(1)	(1)
Net increase in unrealized gain on available-for-sale securities						151		151
BALANCE, MARCH 31, 2013	**28,300,926**	**5,190**	**6,416**	**1,298**	**64,297**	**359**	**(859)**	**76,701**
Net income					3,353			3,353
Cash dividends paid, ¥40.0 per share					(1,133)			(1,133)
Repurchase of treasury stock	(684)						(1)	(1)
Net increase in unrealized gain on available-for-sale securities						98		98
BALANCE, MARCH 31, 2014	**28,300,242**	**¥ 5,190**	**¥ 6,416**	**¥ 1,298**	**¥ 66,517**	**¥ 457**	**¥ (860)**	**¥ 79,018**

	Thousands of U.S. Dollars (Note 1)						
	Common Stock (Note 7)	Capital Surplus (Note 7)	Retained Earnings (Note 7)		Unrealized Gain on Available-for-Sale Securities	Treasury Stock	Total Equity
		Additional Paid-in Capital	Legal Reserve	Unappropriated			
BALANCE, MARCH 31, 2013	**$ 50,428**	**$ 62,340**	**$ 12,607**	**$ 624,725**	**$ 3,485**	**$ (8,340)**	**$ 745,245**
Net income				32,577			32,577
Cash dividends paid, $0.39 per share				(10,999)			(10,999)
Repurchase of treasury stock						(19)	(19)
Net increase in unrealized gain on available-for-sale securities					959		959
BALANCE, MARCH 31, 2014	**$ 50,428**	**$ 62,340**	**$ 12,607**	**$ 646,303**	**$ 4,444**	**$ (8,359)**	**$ 767,763**

See notes to nonconsolidated financial statements.

Nonconsolidated Statement of Cash Flows

Torii Pharmaceutical Co., Ltd.
Year Ended March 31, 2014

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2014	2013	2014
OPERATING ACTIVITIES:			
Income before income taxes	¥ 5,134	¥ 2,930	$ 49,883
Adjustments for:			
Income taxes paid	(1,111)	(1,922)	(10,795)
Depreciation and amortization	1,089	1,062	10,582
Changes in assets and liabilities:			
Increase in trade notes and accounts receivable	(3,933)	(664)	(38,218)
Increase in inventories	(499)	(1,188)	(4,847)
Increase in trade accounts payable	433	11	4,204
Other—net	(1,314)	(77)	(12,762)
Total adjustments	(5,335)	(2,778)	(51,836)
Net cash (used in) provided by operating activities	(201)	152	(1,953)
INVESTING ACTIVITIES:			
Payments into time deposits		(26,000)	
Proceeds from withdrawal of time deposits	4,000	45,000	38,865
Purchases of marketable securities	(6,497)	(17,992)	(63,131)
Proceeds from sale and redemption of marketable securities	23,200	2,200	225,418
Purchases of property, plant and equipment	(640)	(1,175)	(6,219)
Proceeds from sales of property, plant and equipment		1	4
Purchases of investment securities	(2,205)	(1,000)	(21,422)
Other—net	(151)	(160)	(1,470)
Net cash provided by investing activities	17,707	874	172,045
FINANCING ACTIVITIES:			
Repurchase of treasury stock	(1)	(1)	(19)
Dividends paid	(1,133)	(1,132)	(10,999)
Repayments of lease obligations	(185)	(48)	(1,799)
Net cash used in financing activities	(1,319)	(1,181)	(12,817)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	16,187	(155)	157,275
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	17,228	17,383	167,395
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 33,415	¥ 17,228	$ 324,670

See notes to nonconsolidated financial statements.

1 BASIS OF PRESENTATION OF NONCONSOLIDATED FINANCIAL STATEMENTS

The accompanying nonconsolidated 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 nonconsolidated financial statements, certain reclassifications and rearrangements have been made to the nonconsolidated 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 2013 nonconsolidated financial statements to conform to the classifications used in 2014.

The nonconsolidated 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 ¥102.92 to $1, the approximate rate of exchange at March 31, 2014. 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.

Prior to April 1, 2013, the guarantees and lease deposits to lessors was disclosed separately in the investments and other assets section of the nonconsolidated balance sheet. Since during this fiscal year ended March 31, 2014, the amount became less material, such amount is included in the other assets among the investments and other assets section of the nonconsolidated balance sheet as of March 31, 2014. The amount included in the other assets as of March 31, 2013, is ¥631 million.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Nonconsolidation—The nonconsolidated financial statements do not include the accounts of a subsidiary. Since a subsidiary dissolved itself on February 28, 2014, the Company has no subsidiaries as of March 31, 2014.

Consolidation of the Company's subsidiary would not significantly change net sales or net income reported in the accompanying nonconsolidated 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: 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.

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 it has a 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 nonconsolidated balance sheet. The projected benefit obligations are attributed to periods on a straight-line 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 consolidated financial statements in prior periods is required.

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

The liability for 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 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 which 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 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 nonconsolidated 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 nonconsolidated 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 nonconsolidated 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 28,300,714 shares and 28,301,112 shares for the years ended March 31, 2014 and 2013, 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, 2014.

Cash dividends per share presented in the accompanying nonconsolidated 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 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.

s. New Accounting Pronouncements

Accounting Standard for Retirement Benefits—On May 17, 2012, 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 followed by partial amendments from time to time through 2009.

Major changes are as follows:

(a) Treatment in the balance sheet

Under the current requirements, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are not recognized in the balance sheet, and the difference between retirement benefit obligations and plan assets (hereinafter, "deficit or surplus"), adjusted by such unrecognized amounts, is recognized as a liability or asset.

Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss shall be recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and any resulting deficit or surplus shall be recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits).

(b) Treatment in the statement of income and the statement of comprehensive income

The revised accounting standard does not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts would be 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 shall be 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) Amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases

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)Treatment in nonconsolidated financial statements

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 consolidated financial statements in prior periods is required.

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

The company expects to apply for (c) above from April 1, 2014, and there is no effect of applying the revised accounting standard for (c) above in future applicable periods.

3 MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2014 and 2013, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Current:			
Government and corporate bonds	¥1,505	¥11,197	$ 14,620
Trust fund investments and other	3,000	9,000	29,149
Total	¥4,505	¥20,197	$ 43,769
Noncurrent:			
Equity securities	¥1,150	¥ 994	$ 11,175
Government and corporate bonds	5,558	4,386	54,007
Total	¥6,708	¥ 5,380	$ 65,182

The costs and aggregate fair values of marketable and investment securities at March 31, 2014 and 2013, were as follows:

	Millions of Yen			
March 31, 2014	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	¥ 358	¥ 682		¥ 1,040
Debt securities	7,040	23		7,063
Other	3,000			3,000
March 31, 2013				
Available-for-sale:				
Equity securities	¥ 358	¥ 526		¥ 884
Debt securities	15,558	28	¥ 3	15,583
Other	9,000			9,000

	Thousands of U.S. Dollars			
March 31, 2014	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	$ 3,478	$ 6,628		$ 10,106
Debt securities	68,407	221		68,628
Other	29,149			29,149

Available-for-sale securities whose fair value was not readily determinable as of March 31, 2014 and 2013, were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Available-for-sale—Unlisted equity securities	¥ 110	¥ 110	$ 1,068
Total	¥ 110	¥ 110	$ 1,068

4 INVENTORIES

Inventories at March 31, 2014 and 2013, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Finished products and merchandise	¥ 4,505	¥ 4,971	$ 43,768
Work in process	624	477	6,065
Raw materials and supplies	2,900	2,083	28,181
Total	¥ 8,029	¥ 7,531	$ 78,014

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 ¥166 million ($1,616 thousand) for the fiscal year ended March 31, 2014.

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, 2013	Increase/Decrease	March 31, 2014	March 31, 2014
¥ 726	¥ (34)	¥ 692	¥ 3,128

Millions of Yen			
Carrying Amount			Fair Value
April 1, 2012	Increase/Decrease	March 31, 2013	March 31, 2013
¥ 754	¥ (28)	¥ 726	¥ 3,169

Thousands of U.S. Dollars			
Carrying Amount			Fair Value
April 1, 2013	Increase/Decrease	March 31, 2014	March 31, 2014
$ 7,057	$ (335)	$ 6,722	$ 30,397

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, 2014, 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 retirement benefits at March 31, 2014 and 2013, consisted of the following:

Year Ended March 31, 2014

(1) The changes in defined benefit obligation for the year ended March 31, 2014, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Balance at beginning of year	¥ 7,116	$ 69,138
Current service cost	331	3,219
Interest cost	107	1,037
Actuarial losses	4	37
Benefits paid	(720)	(6,994)
Balance at end of year	¥ 6,838	$ 66,437

(2) The changes in plan assets for the year ended March 31, 2014, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Balance at beginning of year	¥ 6,526	$ 63,410
Expected return on plan assets	131	1,268
Actuarial losses	284	2,764
Contributions from the employer	266	2,583
Benefits paid	(648)	(6,300)
Balance at end of year	¥ 6,559	$ 63,725

(3) Reconciliation between the liability recorded in the nonconsolidated balance sheet and the balances of defined benefit obligation and plan assets

	Millions of Yen	Thousands of U.S. Dollars
Funded defined benefit obligation	¥ 6,585	$ 63,977
Plan assets	(6,559)	(63,725)
	26	252
Unfunded defined benefit obligation	253	2,460
Unrecognized actuarial loss	(220)	(2,137)
Net liability arising from defined benefit obligation	¥ 59	$ 575

	Millions of Yen	Thousands of U.S. Dollars
Liability for retirement benefits	¥116	$1,126
Asset for retirement benefits	(57)	(551)
Net liability arising from defined benefit obligation	¥ 59	$ 575

(4) The components of net periodic benefit costs for the year ended March 31, 2014, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Service cost	¥ 331	$ 3,219
Interest cost	107	1,037
Expected return on plan assets	(131)	(1,268)
Recognized actuarial losses	57	551
Net periodic benefit costs	¥ 364	$ 3,539

(5) Plan assets

a. Components of plan assets

Plan assets consisted of the following:

Debt investments	60%
Equity investments	32%
General account of life insurance companies	8%
Others	0%
Total	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 March 31, 2014, were set forth as follows:

Discount rate	1.5%
Expected rate of return on plan assets	2.0%

(7) Multiemployer pension plan

Contributions to the multiemployer pension plan of ¥247 million ($2,404 thousand) are disclosed in cost of sales and selling, general and administrative expenses at March 31, 2014, for which plan assets could not be allocated to each participating employer.

The funded status of the multiemployer pension plan at 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
	March 31,2013
Fair value of plan assets	¥465,230
Pension benefit obligation recorded by pension fund	497,125
Difference	¥ (31,895)

The Company's contribution percentage for multiemployer pension plan at March 31, 2014, was 1.4%.

Notes:

1. The difference mainly resulted from prior service cost of ¥(49,514) million and an adjustment of surplus of ¥17,618 million.
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 9 years and 0 months as of April 1, 2013.

Year Ended March 31, 2013
The liabilities for retirement benefits at March 31, 2013, consisted of the following:

	Millions of Yen
Projected benefit obligation	¥ 7,116
Fair value of plan assets	(6,526)
Unrecognized actuarial loss	(558)
Prepaid pension cost	102
Net liability	¥ 134

The components of net periodic benefit costs for the year ended March 31, 2013, are as follows:

	Millions of Yen
Service cost	¥ 317
Interest cost	111
Expected return on plan assets	(120)
Recognized actuarial loss	158
Net periodic retirement benefit costs	¥ 466

In addition, contributions to the multiemployer pension plan of ¥232 million are disclosed in cost of sales and selling, general and administrative expenses at March 31, 2013.

Assumptions used for the year ended March 31, 2013, are set forth as follows:

Discount rate	1.5%
Expected rate of return on plan assets	2.0%
Amortization period of prior service cost	5 years
Recognition period of actuarial gain/loss	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 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 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 normal effective statutory tax rates of 38.0% for the years ended March 31, 2014 and 2013.

The tax effects of significant temporary differences, which resulted in deferred tax assets and liabilities at March 31, 2014 and 2013, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Deferred tax assets:			
Prepayment of research and development costs	¥ 1,121	¥ 1,091	$ 10,890
Deferred charges for tax purposes	976	1,250	9,480
Accrued bonuses to employees	479	460	4,655
Accrued enterprise taxes	116	74	1,131
Accrued expenses	68	62	663
Loss on revaluation of golf club memberships	56	55	540
Liabilities for retirement benefits	41	48	401
Other	153	175	1,488
Less valuation allowance	(70)	(70)	(683)
Total	2,940	3,145	28,565
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	247	193	2,404
Other	28	43	271
Total	275	236	2,675
Net deferred tax assets	¥ 2,665	¥ 2,909	$ 25,890

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate as reflected in the accompanying nonconsolidated statement of income for the year ended March 31, 2014, with the corresponding figures for 2013, is as follows:

	2014	2013
Normal effective statutory tax rate	38.0%	38.0%
Expenses not deductible for income tax purposes	2.2	3.8
Dividend income deductible for income tax purposes	(0.3)	(0.7)
Per capita levy	1.4	2.4
Tax credits	(8.6)	(7.1)
Valuation allowance	2.7	
Other—net	(0.7)	0.5
Actual effective tax rate	34.7%	36.9%

New tax reform laws enacted in 2014 in Japan changed the normal effective statutory tax rate for the fiscal year beginning on or after April 1, 2014, from approximately 38.0% to 35.6%.The effect of this change was to decrease deferred tax assets in the nonconsolidated balance sheet as of March 31, 2014, by ¥140 million ($1,363 thousand) and to increase unrealized gain on available-for-sale securities in the nonconsolidated balance sheet as of March 31, 2014 by ¥0 million ($0 thousand) and to increase income taxes—deferred in the nonconsolidated statement of income for the year then ended by ¥140 million ($1,363 thousand).

9 RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥6,663 million ($64,738 thousand) and ¥7,824 million for the years ended March 31, 2014 and 2013, 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, 2014 and 2013, were ¥1,708 million ($16,597 thousand) and ¥1,567 million, respectively.

The minimum rental commitments under noncancelable operating leases at March 31, 2014, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Due within one year	¥ 48	¥ 38	$ 466
Due after one year	58	9	560
Total	¥ 106	¥ 47	$ 1,026

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

	Millions of Yen		
March 31, 2014	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	**¥ 33,415**	**¥ 33,415**	
Receivables:			
Trade accounts	**24,093**	**24,093**	
Parent and subsidiary	**209**	**209**	
Marketable and investment securities—Available-for-sale securities	**11,103**	**11,103**	
Total	**¥ 68,820**	**¥ 68,820**	
Payables:			
Trade accounts	**¥ 3,809**	**¥ 3,809**	
Parent and subsidiary	**2,651**	**2,651**	
Other	**2,922**	**2,922**	
Income taxes payable	**1,202**	**1,202**	
Total	**¥ 10,584**	**¥ 10,584**	
March 31, 2013			
Cash and cash equivalents	¥ 17,228	¥ 17,228	
Time deposits	4,000	4,000	
Receivables:			
Trade accounts	20,167	20,167	
Parent and subsidiary	75	75	
Marketable and investment securities—Available-for-sale securities	25,467	25,467	
Total	¥ 66,937	¥ 66,937	
Payables:			
Trade accounts	¥ 3,377	¥ 3,377	
Parent and subsidiary	5,306	5,306	
Other	2,272	2,272	
Income taxes payable	713	713	
Total	¥ 11,668	¥ 11,668	

	Thousands of U.S. Dollars		
March 31, 2014	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	**$ 324,670**	**$ 324,670**	
Receivables:			
Trade accounts	**234,092**	**234,092**	
Parent and subsidiary	**2,028**	**2,028**	
Marketable and investment securities—Available-for-sale securities	**107,883**	**107,883**	
Total	**$ 668,673**	**$ 668,673**	
Payables:			
Trade accounts	**$ 37,012**	**$ 37,012**	
Parent and subsidiary	**25,756**	**25,756**	
Other	**28,388**	**28,388**	
Income taxes payable	**11,681**	**11,681**	
Total	**$ 102,837**	**$ 102,837**	

•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
	2014	2013	2014
Unlisted shares	¥ 110	¥ 110	$ 1,068
Investment in subsidiary		10	

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

	Millions of Yen	
March 31, 2014	Due in 1 Year or Less	Due after 1 Year through 5 Years
Cash and cash equivalents	¥ 33,413	
Receivables:		
Trade accounts	24,093	
Parent and subsidiary	209	
Marketable and investment securities—Available-for-sale securities with contractual maturities	4,505	¥ 5,558
Total	¥ 62,220	¥ 5,558

	Thousands of U.S. Dollars	
March 31, 2014	Due in 1 Year or Less	Due after 1 Year through 5 Years
Cash and cash equivalents	$ 324,662	
Receivables:		
Trade accounts	234,092	
Parent and subsidiary	2,028	
Marketable and investment securities—Available-for-sale securities with contractual maturities	43,769	$ 54,007
Total	$ 604,551	$ 54,007

12 RELATED PARTY TRANSACTIONS

Transactions of the Company with the parent company for the years ended March 31, 2014 and 2013, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Purchases	¥ 8,308	¥ 7,171	$ 80,722
Acquisition of marketing rights		2,700	
Forward exchange contracts		1,288	

The balances due to or from the parent company at March 31, 2014 and 2013, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Deposits included in cash and cash equivalents	¥ 20,709	¥ 6,325	$ 201,211
Trade accounts payable	2,574	2,297	25,006
Accounts payable—other		2,835	

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, 2014 and 2013.

Sales to major customers were as follows:

	Millions of Yen		Thousands of U.S. Dollars
Name of Customer	2014	2013	2014
Mediceo Corporation	¥ 15,299	¥ 13,426	$ 148,649
Alfresa Corporation	12,746	11,218	123,840
Suzuken Co., Ltd.	11,182	9,502	108,644
Toho Pharmaceutical Co., Ltd.	6,115	5,824	59,419

Independent Auditor's 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 nonconsolidated balance sheet of Torii Pharmaceutical Co., Ltd. as of March 31, 2014, and the related nonconsolidated 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 Nonconsolidated Financial Statements

Management is responsible for the preparation and fair presentation of these nonconsolidated 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 nonconsolidated 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 nonconsolidated 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 nonconsolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the nonconsolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the nonconsolidated 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 nonconsolidated 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 nonconsolidated 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 nonconsolidated financial statements referred to above present fairly, in all material respects, the financial position of Torii Pharmaceutical Co., Ltd. as of March 31, 2014, 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 nonconsolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

June 13, 2014

Member of
Deloitte Touche Tohmatsu Limited

Corporate Information

(As of March 31, 2014)

Torii Pharmaceutical Co., Ltd.

Head Office
Torii Nihonbashi Bldg., 4-1, Nihonbashi-Honcho 3-chome, Chuo-ku, Tokyo 103-8439, Japan
Telephone: +81-3-3231-6811
Facsimile: +81-3-5203-7333

Branch Offices (location)
Sapporo, Sendai, Takasaki, Saitama, Tokyo, Yokohama, Nagoya, Kyoto, Osaka, Kobe, Takamatsu, Hiroshima, Fukuoka, Kumamoto

Sakura Plant
2183-1, Teranosaku, Oota, Sakura, Chiba 285-0808, Japan
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
5,740

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

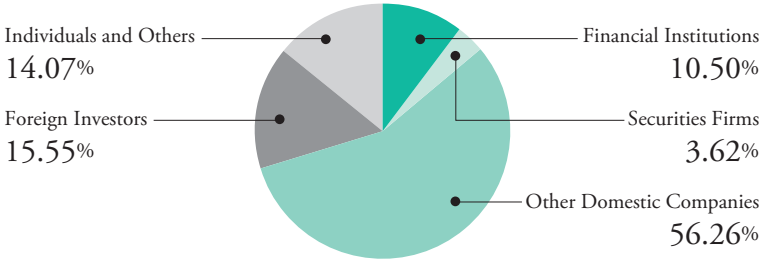
Number of Employees
1,009

Major Shareholders

Name	Number of shares (thousands)	Shareholding ratio (%)
Japan Tobacco Inc.	15,398.8	53.46
ROYAL BANK OF CANADA TRUST COMPANY (CAYMAN) LIMITED	1,921.9	6.67
THE TACHIBANA SECURITIES CO.,LTD.	748.5	2.59
Japan Trustee Seivices Bank, Ltd. (Trust Account)	692.8	2.40
CGML PB CLIENT ACCOUNT/ COLLATERAL	556.1	1.93
Sumitomo Mitsui Banking Corporation	340.8	1.18
CBNY DFA INTL SMALL CAP VALUE PORTFOLIO	302.8	1.05
Torii Pharmaceuteical Co.,Ltd. Employee Shareholdings association	255.1	0.88
The Master Trust Bank of Japan, Ltd. (Trust Account)	252.6	0.87
Mizuho Bank, Ltd.	210.0	0.72

Note: In addition to the above, the Company holds 499.7 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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