TORII PHARMACEUTICAL CO., LTD.

Annual Report 2014/12

For the nine-month period ended December 31, 2014

The Corporate Mission of Torii

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

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

CS: Customer Satisfaction

Our Responsibility to Customers

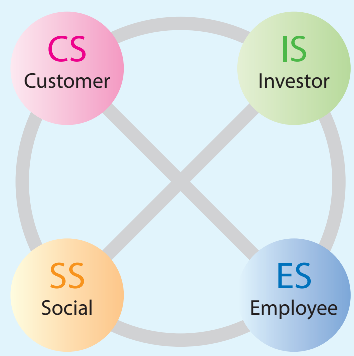
We strive to improve the quality of life (QOL) of patients by supplying superior medicines and accurate information through medical professionals.

SS: Social Satisfaction

Our Responsibility to Society

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

4S MODEL



IS: Investor Satisfaction

Our Responsibility to Shareholders

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

ES: Employee Satisfaction

Our Responsibility to Employees

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

The Torii Action Declaration

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

Contents

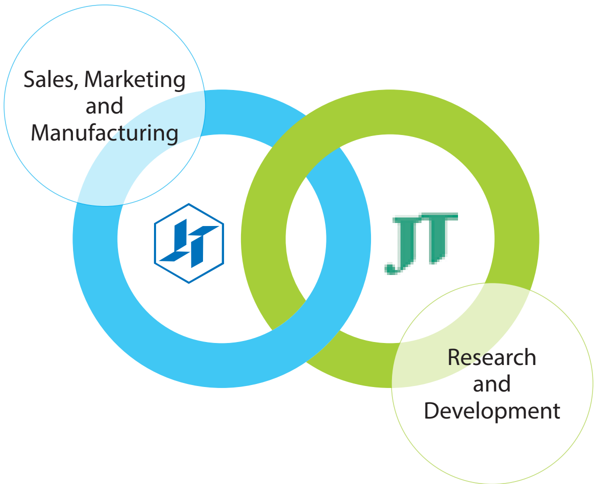
Forward-Looking Statements

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

Collaboration with Japan Tobacco Inc. ("JT")

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

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



Sales and Marketing

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

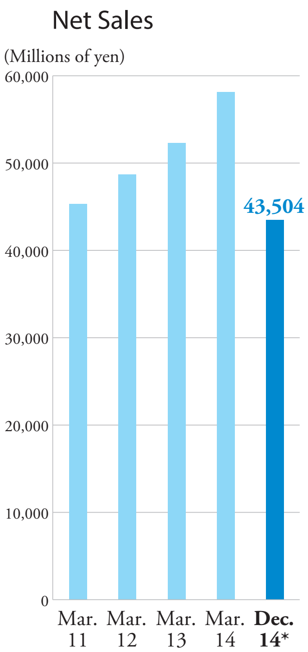
The Pharmaceutical Marketing & Promotion Group formulates business strategies based on analyses of market needs and projections of future changes in the market environment. It also supports initiatives to enhance the quality of the pharmaceutical information that MRs provide to medical professionals.

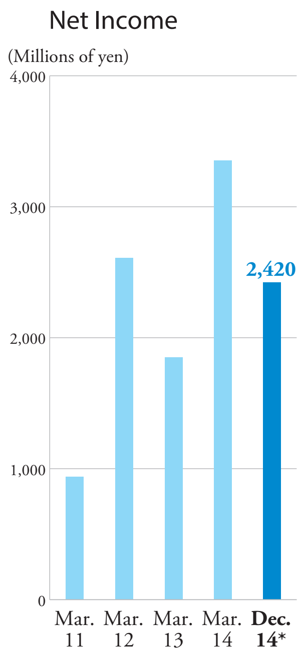
Within the Pharmaceutical Marketing & Promotion Group, the Customer Support Department is in charge of responding to inquiries from medical professionals, patients and their families. The Customer Support Department uses comments received from customers as the basis for feedback to the relevant business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

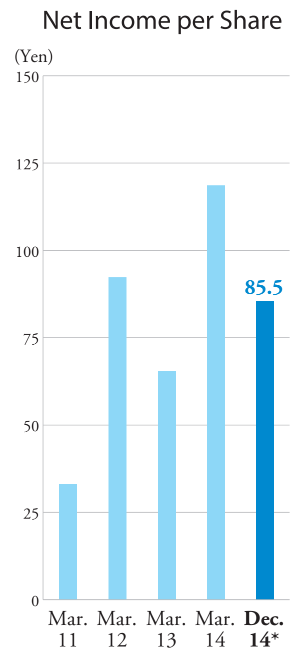
Financial Highlights

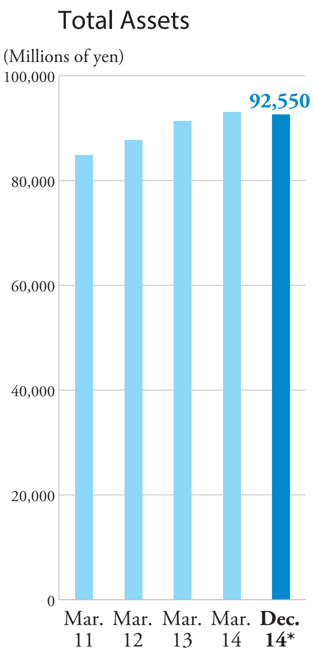
	Millions of yen		Thousands of U.S. dollars*1
	Dec. 2014*2	Mar. 2014	**Dec. 2014*2**
For the Year:			
Net sales	**¥43,504**	¥58,110	**$360,883**
Operating income	**4,032**	4,988	**33,448**
Income before income taxes	**3,781**	5,134	**31,368**
Net income	**2,420**	3,353	**20,071**
At Year-End:			
Total assets	**¥92,550**	¥93,138	**$767,733**
Total equity	**80,225**	79,018	**665,493**
	Yen		U.S. dollars*1
Per Share Data:			
Net income	**¥85.5**	¥118.5	**$0.71**
Cash dividends	**40.0**	40.0	**0.33**

*1 All dollar figures in this report refer to U.S. currency. Dollar figures in this report have been translated from yen, for convenience only, at the rate of ¥120.55=US$1.00, the approximate exchange rate prevailing on December 31, 2014.
*2 Fiscal year 2014 was a nine-month period from April 1, 2014 to December 31, 2014 due to a change in the Company's fiscal year-end.









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

Mainstay Products

Brand name	Area	Therapeutic indication	Net sales in fiscal 2013 (Billions of yen)	Net sales in fiscal 2014*2 (Billions of yen)
REMITCH	Renal diseases and Hemodialysis	Agent used for the treatment of pruritus in hemodialysis patients (oral antipruritus drug)	¥15.0	**¥10.6**
Truvada	HIV	Antiretroviral agent used for the treatment of HIV-1 infection in adults	13.4	**9.2**
ANTEBATE*1	Skin diseases and Allergens	Agent used for the treatment of the inflammatory manifestations of dermatosis (topical corticosteroid)	7.1	**5.1**
FUTHAN*1	Renal diseases and Hemodialysis	Agent used for the prevention of blood coagulation during extracorporeal circulation and for the treatment of acute pancreatitis and disseminated intravascular coagulation (protease inhibitor)	4.0	**2.8**
Stribild	HIV	Antiretroviral agent used for the treatment of HIV-1 infection in adults	1.2	**2.0**
Riona	Renal diseases and Hemodialysis	Agent used for the improvement of hyperphosphatemia in patients* with chronic kidney disease *Both dialysis and non-dialysis dependent CKD patients are included.	–	**1.8**
KAYEXALATE*1	Renal diseases and Hemodialysis	Agent used for the improvement of hyperkalemia caused by acute and chronic renal failure	2.3	**1.7**
URINORM*1	Renal diseases and Hemodialysis	Agent used for the treatment of hyperuricemia and gout (uricosuric agent)	2.4	**1.4**
Dovonex	Skin diseases and Allergens	Agent used for the treatment of psoriasis vulgaris	1.9	**1.2**
ZEFNART	Skin diseases and Allergens	Topical antifungal agent used for the treatment of tinea, including tinea pedis (athlete's foot).	1.6	**1.1**
LOCOID*1	Skin diseases and Allergens	Agent used for the treatment of the inflammatory manifestations of dermatosis (topical corticosteroid)	1.3	**1.0**

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


REMITCH


Truvada


ANTEBATE


FUTHAN


Stribild


Riona (Launched on May 12, 2014)

A Message from the President

Torii Pharmaceutical Co., Ltd. has formulated the medium-term management plan for the three year-period from fiscal 2013 (the year ended March 31, 2014) to fiscal 2015 and has 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 2014, the second year of the medium-term management plan (2013-2015), Torii strove to maintain and expand its market shares through intensive sales promotions in our franchise therapeutic fields, reinforcing our product life-cycle management. In addition, we achieved prompt market penetration for Riona Tablets, a hyperphosphatemia drug launched in May 2014. Furthermore, from October 2014 we made efforts to swiftly introduce CEDARTOLEN SUBLINGUAL DROP - Japanese Cedar Pollen, an allergen immunotherapy drug for Japanese cedar pollinosis, to the market.

Despite the negative consequences of the temporary increase in demand prior to the consumption tax hike as well as drug price revisions, the net sales were ¥43.5 billion, which is almost equivalent to that for the previous corresponding nine-month period (from April 1, 2013 through December 31, 2013), mainly due to the launch of Riona Tablets and the growth in sales of Stribild Combination Tablets (an anti-HIV drug).

We made substantial progress in research and development, in December 2014 receiving manufacturing and marketing approval for TO-204 (injection), an allergen immunotherapy drug for house dust mite allergy and for TO-205, a diagnostic product for allergies (Torii licensed these products from ALK-Abelló A/S (ALK) in 2011). In January 2015, we filed the New Drug Application (NDA) for TO-203 (a sublingual tablet for allergen immunotherapy which Torii also licensed from ALK) for the treatment of house dust mite induced allergic rhinitis. In addition, JT filed the NDA in December 2014 for JTE-350, a histamine dihydrochloride, which was jointly developed by Torii and JT. Furthermore, Torii was able to take a major step, starting Phase II//III clinical trials for TO-206 (a sublingual tablet) to confirm the efficacy of this allergen immunotherapy drug in comparison to a placebo for patients with Japanese cedar pollinosis.

Fiscal 2015 is the final year of the medium-term management plan. The business environment surrounding Torii is expected to become increasingly severe due to factors such as the government healthcare reforms to curb healthcare expenditures and intensifying competition with rival pharmaceutical companies marketing their competing products, however Torii will make great efforts across the company in order to achieve the management goals set out in the medium-term management plan.

March 2015

S. Takagi

Shoichiro Takagi

Representative Director,
President and Chief Executive Officer

Launch of CEDARTOLEN SUBLINGUAL DROP- Japanese Cedar Pollen an Allergen Immunotherapy Drug for Japanese Cedar Pollinosis

Torii launched CEDARTOLEN SUBLINGUAL DROP- Japanese Cedar Pollen ("CEDARTOLEN" hereinafter), an allergen immunotherapy drug for Japanese cedar pollinosis in Japan on October 8, 2014.

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 will make a contribution as a new option for treating Japanese cedar pollinosis.

About CEDARTOLEN

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.
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.

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

Approval conditions:

Necessary measures should be taken for manufacturing and marketing so that this drug will be i) prescribed and used only by physicians with adequate knowledge and expertise regarding sublingual immunotherapy, ii) used only under the supervision of physicians and medical institutions that can manage and explain the risks, etc. of this drug, and iii) dispensed after pharmacies confirm the physicians and medical institutions meet the above requirements.

•Approval date: January 17, 2014
•NHI pricing date: September 2, 2014
•Launch date: October 8, 2014

NHI drug price:

•CEDARTOLEN SUBLINGUAL DROP- Japanese Cedar Pollen 200 JAU/mL bottle: ¥421.10
•CEDARTOLEN SUBLINGUAL DROP- Japanese Cedar Pollen 2,000 JAU/mL bottle: ¥1,006.60
•CEDARTOLEN SUBLINGUAL DROP- Japanese Cedar Pollen 2,000 JAU/mL pack: ¥100.80

Torii launched CEDARTOLEN SUBLINGUAL DROP- Japanese Cedar Pollen, an allergen immunotherapy drug for Japanese cedar pollinosis, in October 2014, and Allergen Extract Standardized HDM「TORII」and Scratch Test HDM Allergen Extract「TORII」in April 2015.

Torii filed the New Drug Application (NDA) for TO-203, which is also licensed from ALK, in January 2015, for the treatment of house dust mite induced allergic rhinitis.

Furthermore, JT filed the NDA for JTE-350, which was jointly developed with Torii, in December 2014, and Torii started Phase II/III clinical trials for TO-206.

(As of April 28, 2015)

Field	Development code	Indication	Formulation/ Route of administration	Development stage (domestic)	Remarks
Skin disease and Allergens	TO-203	House dust mite induced allergic rhinitis (Allergen Immunotherapy)	Sublingual tablet	Application	•Licensing agreement signed with ALK for providing exclusive development and sales rights in Japan •In-house •NDA filing by Torii on January 26, 2015
		House dust mite induced allergic asthma (Allergen Immunotherapy)	Sublingual tablet	PhaseII/III	•Licensing agreement signed with ALK for providing exclusive development and sales rights in Japan •In-house
	TO-206	Japanese cedar pollinosis (Allergen Immunotherapy)	Sublingual tablet	PhaseII/III	•In-house
	JTE-350*	Diagnostic product (Histamine Dihydrochloride)	Positive control solution in the skin prick test	Application	•Licensing agreement signed with ALK for providing exclusive development and sales rights in Japan •Co-development with JT •NDA filing by JT on December 22, 2014

*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 invoiving the administration of test draugs and existing products or placebos to large groups of patients to assess effectiveness and safety

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.

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 maintain 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 Companies Act of Japan include the Board of Directors, the Audit & Supervisory Board Members, the Audit & Supervisory Board and the accounting auditors, as well as the Executive Committee, the Compliance Committee, the Compliance Advancement Department and the Internal Audit Department.

The current corporate governance structure is based on reciprocal supervision by the 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 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

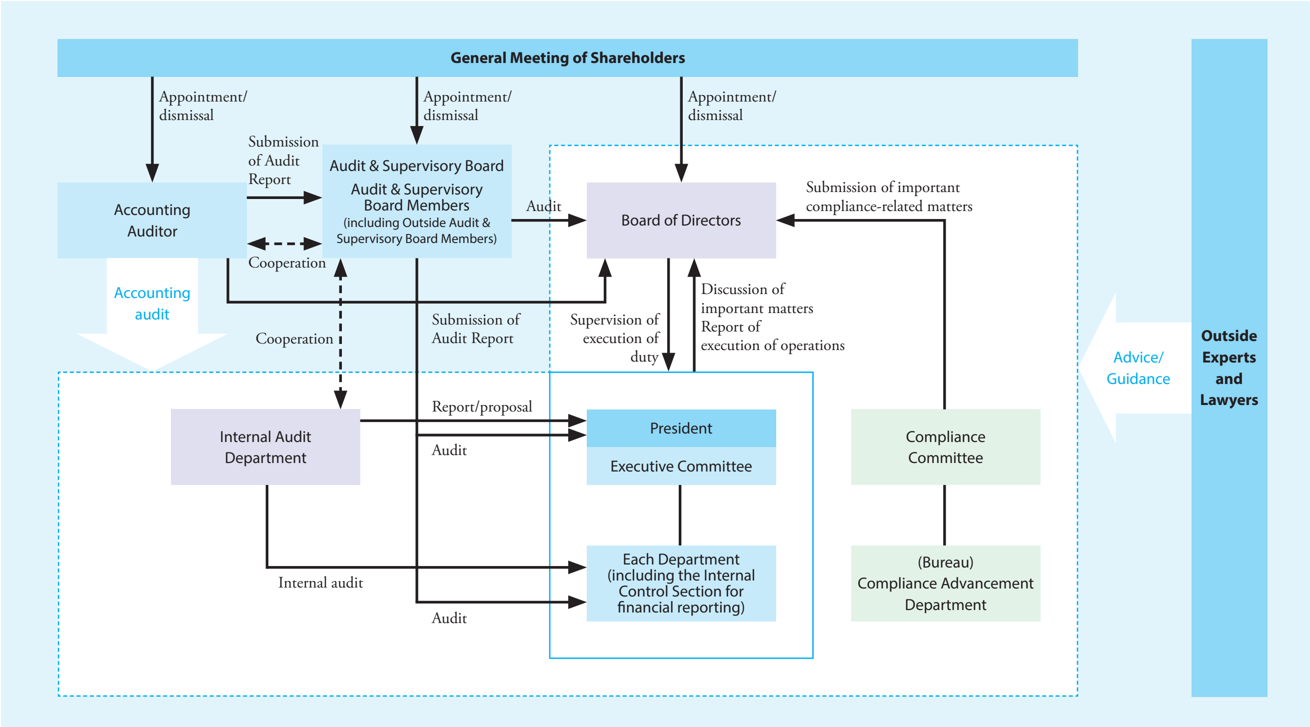
The Board of Directors currently consists of eight directors including one outside director. In principle, the board meets monthly, but additional meetings are scheduled flexibly as required. The Board of Directors makes decisions on matters stipulated in laws and regulations and in the Articles of Incorporation. 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.

Compliance Advancement Department

The Compliance Advancement Department has four dedicated members as well as 19 concurrent members in charge of compliance promotion at their respective units. Its task is to implement thorough compliance of laws, regulations and other requirements and conduct educational activities proactively and on a continuing basis by compiling and distributing guidelines that stipulate the values and ethics to be shared by the directors and employees and the standards to be observed by all the members of our organization.

Internal Audit Department

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

Accounting Auditors

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

Compliance Initiatives

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

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

Board of Directors and Audit & Supervisory Board Members

(As of March 25, 2015)

Chairman,
Member of the Board

Norihiko Matsuo

Representative Director,
President and
Chief Executive Officer

Shoichiro Takagi

Member of the Board,
Senior Executive Director

Yuji Kagohashi

Member of the Board,
Executive Director

Akihiko Tamura

(Head of Pharmaceutical Marketing & Promotion Group)

Member of the Board,
Executive Director

Takahiro Umeda

(Head of Planning & Administration Group)

Member of the Board,
Director

Yuko Kariya

(Head of Pharmacovigilance & Quality Assurance Group)

Member of the Board,
Director

Masaki Sunami

(Head of Production Group)

Member of the Board,
Director

Masao Torikai

Audit & Supervisory Board Members

Seiji Osa

Yukitomo Furuya

Wataru Aizawa

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

Organization

(As of January 1, 2015)

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

Financial Section

Contents

Ten-Year Financial Summary

	Millions of yen			
	March 31			
	2006	2007	2008	2009
For the Year:				
Net sales	¥40,478	¥39,577	¥40,845	¥37,349
Gross profit	25,579	24,202	24,596	23,700
Operating income	7,606	5,336	5,140	4,900
Income before income taxes	7,538	5,434	5,379	6,039
Net income	4,179	3,029	2,967	3,477
Capital expenditures	1,461	1,322	1,450	1,004
Research and development costs	911	1,766	1,828	1,192
Net cash provided by (used in) operating activities	3,425	3,415	3,333	3,260
Net cash provided by (used in) investing activities	104	(3,438)	822	228
Net cash used in financing activities	(796)	(738)	(738)	(991)
At Year-End:				
Total assets	¥76,782	¥77,542	¥80,439	¥81,433
Total equity	65,241	67,591	69,759	72,034
Number of shares issued (Thousands)	28,800	28,800	28,800	28,800
Number of employees	833	854	852	878
	Yen			
Per Share Data:				
Total equity	¥2,303.9	¥2,387.9	¥2,464.6	¥2,545.1
Net income	146.8	107.0	104.8	122.8
Cash dividends	26.0	26.0	30.0	36.0
	%			
Key Ratios:				
Operating income ratio	18.8	13.5	12.6	13.1
Return on equity (ROE)	6.6	4.6	4.3	4.9
Return on assets (ROA)	5.5	3.9	3.7	4.3
Shareholders' equity ratio	85.0	87.2	86.7	88.5
Dividend payout ratio	17.7	24.3	28.6	29.3

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

Millions of yen						Thousands of U.S. dollars*1
March 31					December 31	December 31
2010	2011	2012	2013	2014	2014*2	2014*2
¥42,416	¥45,336	¥48,718	¥52,294	¥58,110	¥43,504	$360,883
26,432	26,733	28,178	29,453	31,843	22,917	190,106
6,126	1,845	4,154	2,794	4,988	4,032	33,448
6,341	1,839	5,055	2,930	5,134	3,781	31,368
3,642	937	2,611	1,850	3,353	2,420	20,071
1,401	797	850	1,374	1,202	1,515	12,566
1,613	5,994	4,632	7,824	6,663	3,400	28,206
4,999	(516)	3,040	152	(201)	(610)	(5,059)
(10,397)	(21,303)	3,152	874	17,707	500	4,145
(1,182)	(1,243)	(1,154)	(1,181)	(1,319)	(1,411)	(11,701)
¥85,638	¥84,886	¥87,735	¥91,351	¥93,138	¥92,550	$767,733
74,642	74,246	75,833	76,701	79,018	80,225	665,493
28,800	28,800	28,800	28,800	28,800	28,800	28,800
890	905	927	969	1,009	1,047	1,047
Yen						U.S. dollars*1
¥2,637.3	¥2,623.4	¥2,679.5	¥2,710.2	¥2,792.1	¥2,834.8	$23.52
128.7	33.1	92.3	65.4	118.5	85.5	0.71
40.0	40.0	40.0	40.0	40.0	40.0	0.33
%						
14.4	4.1	8.5	5.3	8.6	9.3	
5.0	1.3	3.5	2.4	4.3	3.0	
4.3	1.1	3.0	2.1	3.6	2.6	
87.2	87.5	86.4	84.0	84.8	86.7	
31.1	120.8	43.4	61.2	33.8	46.8	

Financial Results for the Nine-Month Period Ended December 31, 2014

The business environment for the pharmaceutical industry remained challenging in fiscal 2014. Healthcare reforms continued to be implemented to regulate healthcare expenditures, including measures to increase the use of generic drugs.

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

We launched CEDARTOLEN SUBLINGUAL DROP - Japanese Cedar Pollen (a sublingual immunotherapy drug) in October 2014 and have focused on its prompt market penetration.

Due to a change in our fiscal year, the fiscal term under review (fiscal 2014) is the nine-month period from April 1, 2014 to December 31, 2014. Consequently, information for the first nine months (from April 1, 2013 to December 31, 2013) of the fiscal period ended March 31, 2014, is provided for comparison.

Net Sales

The decrease in net sales from the previous corresponding period was limited to ¥20 million (0.0%), with net sales amounting to ¥43,504 million, mainly due to the launch of Riona Tablets (a hyperphosphatemia drug) and the growth in sales of Stribild Combination Tablets (an anti-HIV drug), despite the effects of a fall in demand after the temporary increase before the consumption tax hike as well as drug price revisions.

A breakdown of key products shows that sales of Truvada Combination Tablets decreased by ¥712 million (7.2%) to ¥9,229 million, sales of ANTEBATE declined by ¥395 million (7.1%) to ¥5,140 million and sales of REMITCH CAPSULES fell by ¥48 million (0.5%) to ¥10,564 million.

Cost of Sales

Cost of sales increased by ¥1,129 million (5.8%) over the previous corresponding period to ¥20,587 million, mainly due to changes in our internal product sales ranking.

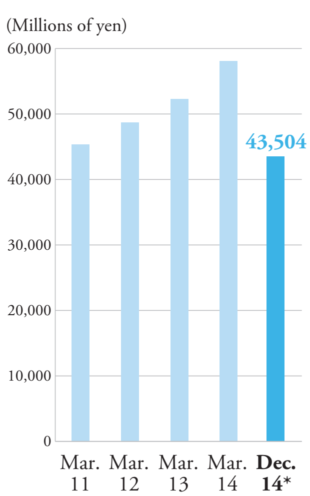
Selling, General and Administrative Expenses

Selling, general and administrative expenses were ¥1,195 million (6.0%) lower than the previous corresponding period at ¥18,885 million. This resulted mainly from a decrease in research and development costs.

Operating Income, Net Income

As a result of the above, operating income was ¥4,032 million, an increase of ¥46 million (1.1%) over the previous corresponding period. Net income increased by ¥42 million (1.7%) to ¥2,420 million.

Net Sales

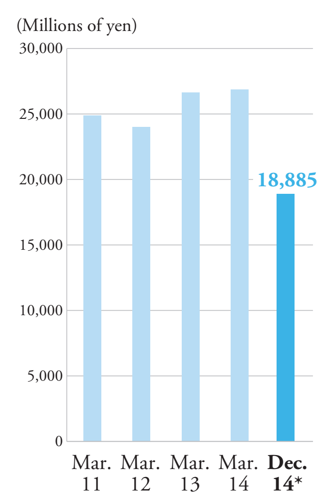


Sales of Mainstay Products

(Millions of yen)

	Mar. 2014	Dec. 2014*	Change
REMITCH	¥15,019	¥10,564	¥(4,455) (29.7)%
Truvada	13,429	9,229	(4,200) (31.3)%
ANTEBATE	7,143	5,140	(2,002) (28.0)%
FUTHAN	4,021	2,768	(1,252) (31.1)%
Stribild	1,220	1,942	722 59.2%

Selling, General and Administrative Expenses



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

Financial Position at December 31, 2014

Assets, Liabilities and Equity

Total assets decreased by ¥588 million (0.6%) from the end of the previous fiscal year to ¥92,550 million as of December 31, 2014. Current assets decreased by ¥345 million (0.5%) from the end of the previous fiscal year (March 31, 2014) to ¥72,122 million due to a ¥1,895 million decrease in marketable securities, a ¥1,521 million decrease in cash and cash equivalents and a ¥998 million decrease in deferred tax assets despite a ¥2,108 million increase in inventories and a ¥1,764 million increase in trade accounts receivable. Investments and other assets decreased by ¥274 million (1.8%) from the previous fiscal year-end to ¥14,622 million, in part because of a ¥690 million decrease in long-term prepaid expenses.

Current liabilities decreased by ¥1,945 million (14.6%) from the end of the previous fiscal year to ¥11,392 million. Reasons for this decrease included a ¥1,144 million decrease in other payables and a ¥929 million decrease in income taxes payable.

Total equity increased by ¥1,207 million (1.5%) from the end of the previous fiscal year to ¥80,225 million. Contributing factors included surplus dividends of ¥1,132 million and net income of ¥2,420 million.

Cash Flows

At ¥31,894 million, cash and cash equivalents as of December 31, 2014 were ¥1,521 million (4.6%) lower than at the end of the previous fiscal year.

Net cash used in operating activities amounted to ¥610 million. This result reflects income before income taxes of ¥3,781 million, depreciation and amortization of ¥924 million, a ¥2,108 million increase in inventories, a ¥1,757 million increase in trade notes and accounts receivable and income taxes paid of ¥1,172 million.

Net cash provided by investing activities amounted to ¥500 million. Major items included outflows of ¥3,110 million for purchases of investment securities and ¥556 million for purchases of property, plant and equipment, as well as inflows of ¥4,500 million in proceeds from sale and redemption of marketable securities.

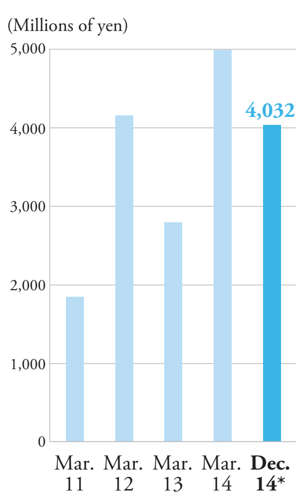
Net cash used in financing activities amounted to ¥1,411 million consisting mainly of ¥1,132 million for dividends paid.

Research and Development Activities

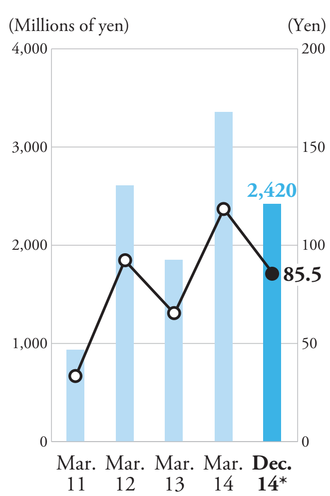
Research and development functions are divided between Torii and JT. JT is responsible for research and development activities pertaining to new compounds, whereas Torii is responsible primarily for improvements to the formulations of existing products and the development of additional indications. Torii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

Total research and development costs in the fiscal period ended December 31, 2014, amounted to ¥3,400 million.

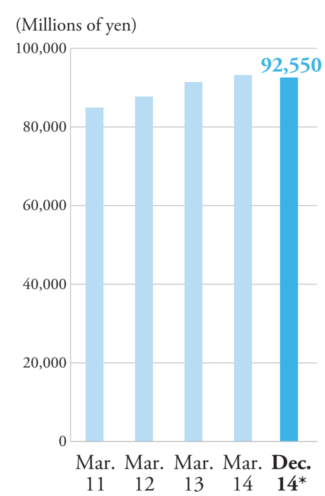
Operating Income



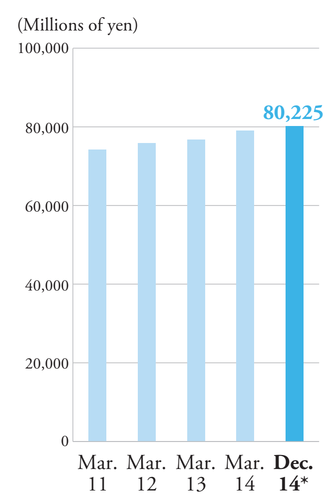
Net Income
Net Income per Share



Total Assets



Total Equity



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

Forecast for the Fiscal Year Ending December 31, 2015

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

Under these circumstances, we will endeavor to 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 continue to focus on the prompt market penetration of Riona Tablets, which we launched in May 2014, and CEDARTOLEN SUBLINGUAL DROP - Japanese Cedar Pollen, which we launched in October 2014.

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

The current forecast for the fiscal year ending December 31, 2015, is as follows:

No alterations have been made to the management targets for fiscal 2015 that were set out in the medium-term management plan (announced on April 25, 2013) with regard to net sales, operating income and net income.

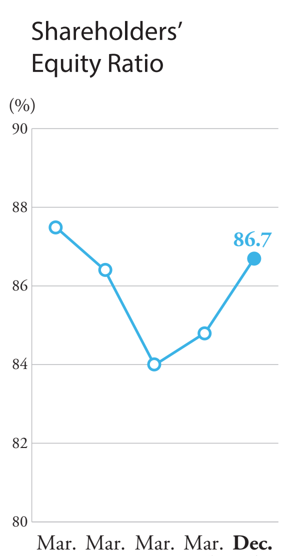
	(Reference) Results for the twelve months ended December 31, 2014 (Millions of yen)	Forecast for the twelve months ending December 31, 2015 (Millions of yen)	Change (Millions of yen)	% Change (%)
Net sales	¥58,090	¥63,000	¥4,910	8.5%
Operating income	5,034	5,500	466	9.3
Net income	3,394	3,500	106	3.1

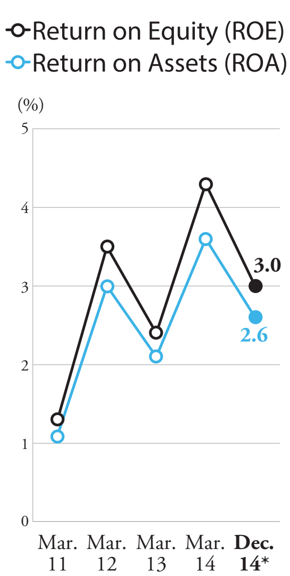
Note: The "(Reference) Results for the twelve months ended December 31, 2014" states the total figures of the twelve-month period, which include the actual figures for three months (January - March 2014) of the preceding fiscal term and the actual figures for the nine-month fiscal term (April - December 2014), given as reference.

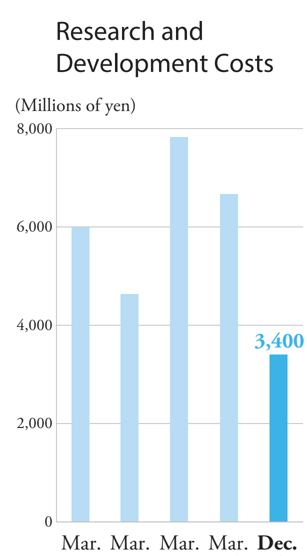
Basic Policy for Distribution of Profits and Dividends for Fiscal 2014 and Fiscal 2015

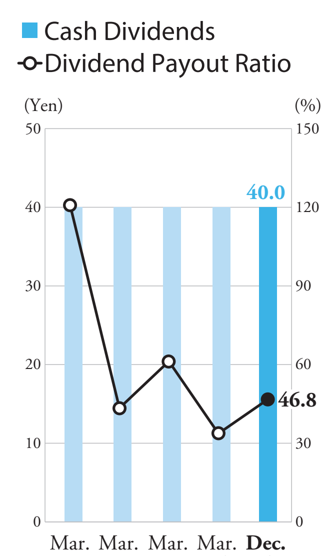
Torii's basic policy is to distribute its surplus dividends in a stable and continuous manner based on the understanding that generating appropriate shareholder returns is one of the key issues for the management.

According to the aforementioned basic policy, Torii will continue to generate stable shareholder returns while preparing for









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

investments from a medium- to long-term perspective, in view of enhancements to its business constitution, future business expansion and other considerations.

Torii decided to pay an annual dividend of ¥40 per share for the fiscal period ended December 31, 2014 (including an interim dividend of ¥20 which has already been paid), in accordance with the aforementioned basic policy.

Torii plans to pay an annual dividend of ¥48 per share (consisting of an interim dividend of ¥24 and a year-end dividend of ¥24) for the fiscal year ending December 31, 2015, as set out in the medium-term management plan.

Risk Analysis

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

Changes to the Pharmaceutical and Medical Device Law, Other Acts or Regulations

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

Delay or Discontinuance of Research and Development

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

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

Drug Price Listing and Revisions

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

Adverse Drug Reactions

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

Stoppage of Product Supply and Product Recall

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

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

Litigation Risk

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

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	December 31, 2014	March 31, 2014	December 31, 2014
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents (Notes 11 and 12)	¥ 31,894	¥ 33,415	$ 264,573
Marketable securities (Notes 3 and 11)	2,610	4,505	21,648
Receivables (Note 11):			
Trade notes	7	14	59
Trade accounts	25,857	24,093	214,494
Parent	45	209	374
Other	49	29	405
Inventories (Note 4)	10,137	8,029	84,088
Deferred tax assets (Note 8)	813	1,811	6,743
Prepaid expenses and other current assets	710	362	5,890
Total current assets	72,122	72,467	598,274
PROPERTY, PLANT AND EQUIPMENT (Note 5):			
Land	702	702	5,827
Buildings and structures	11,580	11,512	96,058
Machinery and equipment	7,654	7,688	63,492
Furniture and fixtures	2,605	2,463	21,610
Lease assets (Note 10)	1,167	616	9,681
Construction in progress	112	304	927
Total	23,820	23,285	197,595
Accumulated depreciation	(18,014)	(17,510)	(149,432)
Net property, plant and equipment	5,806	5,775	48,163
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 3 and 11)	7,071	6,708	58,653
Software	587	497	4,868
Long-term prepaid expenses	5,230	5,920	43,391
Prepaid pension cost (Note 6)		57	
Deferred tax assets (Note 8)	802	854	6,652
Other assets	932	860	7,732
Total investments and other assets	14,622	14,896	121,296
TOTAL	¥ 92,550	¥ 93,138	$ 767,733

See notes to financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	December 31, 2014	March 31, 2014	December 31, 2014
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Payables (Note 11):			
Trade accounts	¥ 3,470	¥ 3,809	$ 28,786
Parent (Note 12)	2,642	2,651	21,918
Other	1,778	2,922	14,750
Current portion of long-term lease obligations	331	201	2,747
Income taxes payable (Note 11)	273	1,202	2,265
Accrued expenses	1,032	638	8,561
Accrued employees' bonuses	695	1,346	5,759
Accrued bonuses to directors and Audit & Supervisory Board members	49	64	404
Asset retirement obligations		5	
Other current liabilities	1,122	499	9,308
Total current liabilities	11,392	13,337	94,498
LONG-TERM LIABILITIES:			
Liability for retirement benefits (Note 6)	174	116	1,442
Guarantees and lease deposits received	160	268	1,330
Long-term lease obligations	388	193	3,215
Asset retirement obligations	149	144	1,239
Other long-term liabilities	62	62	516
Total long-term liabilities	933	783	7,742
EQUITY (Note 7):			
Common stock—authorized, 54,000,000 shares;			
issued, 28,800,000 shares in December 2014 and March 2014	5,190	5,190	43,053
Capital surplus—additional paid-in capital	6,416	6,416	53,223
Retained earnings:			
Legal reserve	1,298	1,298	10,763
Unappropriated	67,805	66,517	562,464
Unrealized gain on available-for-sale securities	377	457	3,134
Treasury stock—at cost, 500,068 shares in December 2014 and 499,758 shares in March 2014	(861)	(860)	(7,144)
Total equity	80,225	79,018	665,493
TOTAL	¥ 92,550	¥ 93,138	$ 767,733

Statement of Income

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Nine-Month Period Ended December 31, 2014	Year Ended March 31, 2014	Nine-Month Period Ended December 31, 2014
NET SALES	¥ 43,504	¥ 58,110	$ 360,883
COST OF SALES (Notes 6, 10 and 12)	20,587	26,267	170,777
Gross profit	22,917	31,843	190,106
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 6, 9 and 10)	18,885	26,855	156,658
Operating income	4,032	4,988	33,448
OTHER INCOME (EXPENSES):			
Interest and dividend income	78	121	649
Loss on disposal of property, plant and equipment (Note 1)	(361)	(6)	(2,997)
Other—net	32	31	268
Other (expenses) income—net	(251)	146	(2,080)
INCOME BEFORE INCOME TAXES	3,781	5,134	31,368
INCOME TAXES (Note 8):			
Current	268	1,591	2,223
Deferred	1,093	190	9,074
Total income taxes	1,361	1,781	11,297
NET INCOME	¥ 2,420	¥ 3,353	$ 20,071

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Note 2.q):			
Net income	¥ 85.5	¥ 118.5	$ 0.71
Cash dividends applicable to the period	40.0	40.0	0.33

See notes to financial statements.

		Millions of Yen						
			Capital Surplus (Note 7)	Retained Earnings (Note 7)				
	Outstanding Number of Shares of Common Stock	Common Stock (Note 7)	Additional Paid-in Capital	Legal Reserve	Unappropriated	Unrealized Gain (Loss) on Available-for-Sale Securities	Treasury Stock	Total Equity
BALANCE, APRIL 1, 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**
Net income					2,420			2,420
Cash dividends paid, ¥40.0 per share					(1,132)			(1,132)
Repurchase of treasury stock	(310)						(1)	(1)
Net decrease in unrealized gain on available-for-sale securities						(80)		(80)
BALANCE, DECEMBER 31, 2014	**28,299,932**	**¥ 5,190**	**¥ 6,416**	**¥ 1,298**	**¥ 67,805**	**¥ 377**	**¥ (861)**	**¥ 80,225**

	Thousands of U.S. Dollars (Note 1)						
		Capital Surplus (Note 7)	Retained Earnings (Note 7)				
	Common Stock (Note 7)	Additional Paid-in Capital	Legal Reserve	Unappropriated	Unrealized Gain (Loss) on Available-for-Sale Securities	Treasury Stock	Total Equity
BALANCE, MARCH 31, 2014	**$ 43,053**	**$ 53,223**	**$ 10,763**	**$ 551,783**	**$ 3,795**	**$ (7,136)**	**$ 655,481**
Net income				20,071			20,071
Cash dividends paid, $0.33 per share				(9,390)			(9,390)
Repurchase of treasury stock						(8)	(8)
Net decrease in unrealized gain on available-for-sale securities					(661)		(661)
BALANCE, DECEMBER 31, 2014	**$ 43,053**	**$ 53,223**	**$ 10,763**	**$ 562,464**	**$ 3,134**	**$ (7,144)**	**$ 665,493**

See notes to financial statements.

Statement of Cash Flows

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Nine-Month Period Ended December 31, 2014	Year Ended March 31, 2014	Nine-Month Period Ended December 31, 2014
OPERATING ACTIVITIES:			
Income before income taxes	¥ 3,781	¥ 5,134	$ 31,368
Adjustments for:			
Income taxes paid	(1,172)	(1,111)	(9,725)
Depreciation and amortization	924	1,089	7,669
Changes in assets and liabilities:			
Increase in trade notes and accounts receivable	(1,757)	(3,933)	(14,579)
Increase in inventories	(2,108)	(499)	(17,483)
(Decrease) increase in trade accounts payable	(339)	433	(2,814)
Other—net	61	(1,314)	505
Total adjustments	(4,391)	(5,335)	(36,427)
Net cash used in operating activities	(610)	(201)	(5,059)
INVESTING ACTIVITIES:			
Proceeds from withdrawal of time deposits		4,000	
Purchases of marketable securities		(6,497)	
Proceeds from sale and redemption of marketable securities	4,500	23,200	37,329
Purchases of property, plant and equipment	(556)	(640)	(4,612)
Proceeds from sales of property, plant and equipment			1
Purchases of investment securities	(3,110)	(2,205)	(25,799)
Other—net	(334)	(151)	(2,774)
Net cash provided by investing activities	500	17,707	4,145
FINANCING ACTIVITIES:			
Repurchase of treasury stock	(1)	(1)	(8)
Dividends paid	(1,132)	(1,133)	(9,390)
Repayments of lease obligations	(278)	(185)	(2,303)
Net cash used in financing activities	(1,411)	(1,319)	(11,701)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,521)	16,187	(12,615)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	33,415	17,228	277,188
CASH AND CASH EQUIVALENTS, END OF PERIOD	¥ 31,894	¥ 33,415	$ 264,573

See notes to financial statements.

1 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

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

In preparing these financial statements, certain reclassifications and rearrangements have been made to the financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the March 31, 2014 financial statements to conform to the classifications used in December 31, 2014.

The financial statements are stated in Japanese yen, the currency of the country in which Torii Pharmaceutical Co., Ltd. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥120.55 to $1, the approximate rate of exchange at December 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, 2014, the loss on disposal of property, plant and equipment was included in other—net among the other income (expenses) section of the statement of income. As during this fiscal period ended December 31, 2014, the amount became more material, such amount is disclosed separately in other—net among the other income (expenses) section of the statement of income for the nine-month period ended December 31, 2014. The amount included in other—net for the year ended March 31, 2014, is ¥6 million.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Nonconsolidation—The Company has no subsidiaries as of December 31, 2014.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Company applied for (c) above effective April 1, 2014, and changed the method of attributing expected benefit to period from a straight-line basis to a benefit formula basis. There is no effect of applying the revised accounting standard for (c) above in applicable periods.

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

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

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

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

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

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

All other leases are accounted for as operating leases.

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

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

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

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

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

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

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

q. Per Share Information—Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period, which was 28,300,100 shares and 28,300,714 shares for the nine-month period ended December 31, 2014 and the year ended March 31, 2014, respectively.

Diluted net income per share is not disclosed because there were no dilutive potential common shares that were outstanding during the fiscal periods ended December 31, 2014 and March 31, 2014.

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

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.

s. Change of Fiscal Year-End—In this fiscal period, the Company has changed its fiscal year-end from March 31 to December 31 by resolution at the 122nd general shareholders' meeting held on June 25, 2014, for the purpose of unifying the fiscal year-end with JT, the parent company, which will maintain operational efficiency relating to the formulation of management plans, performance management, and consolidated account closing.

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

3 MARKETABLE AND INVESTMENT SECURITIES

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

	Millions of Yen		Thousands of U.S. Dollars
	December 31, 2014	March 31, 2014	December 31,2014
Current:			
Government and corporate bonds	¥2,610	¥ 1,505	$ 21,648
Trust fund investments and other		3,000	
Total	¥2,610	¥ 4,505	$ 21,648
Noncurrent:			
Equity securities	¥1,019	¥ 1,150	$ 8,450
Government and corporate bonds	6,052	5,558	50,203
Total	¥7,071	¥ 6,708	$ 58,653

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

	Millions of Yen			
December 31, 2014	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	¥ 358	¥ 551		¥ 909
Debt securities	8,631	34	¥ 3	8,662
March 31, 2014				
Available-for-sale:				
Equity securities	¥ 358	¥ 682		¥ 1,040
Debt securities	7,040	23		7,063
Other	3,000			3,000

	Thousands of U.S. Dollars			
December 31, 2014	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	$ 2,969	$ 4,569		$ 7,538
Debt securities	71,599	277	$ 25	71,851

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

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

4 INVENTORIES

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

	Millions of Yen		Thousands of U.S. Dollars
	December 31, 2014	March 31, 2014	December 31,2014
Finished products and merchandise	¥ 6,631	¥ 4,505	$ 55,003
Work in process	595	624	4,933
Raw materials and supplies	2,911	2,900	24,152
Total	¥ 10,137	¥ 8,029	$ 84,088

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 ¥126 million ($1,048 thousand) for the nine-month period ended December 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, 2014	Increase/Decrease	December 31, 2014	December 31, 2014
¥ 692	¥ (18)	¥ 674	¥ 3,217

Millions of Yen			
Carrying Amount			Fair Value
April 1, 2013	Increase/Decrease	March 31, 2014	March 31, 2014
¥ 726	¥ (34)	¥ 692	¥ 3,128

Thousands of U.S. Dollars			
Carrying Amount			Fair Value
April 1, 2014	Increase/Decrease	December 31, 2014	December 31, 2014
$ 5,739	$ (147)	$ 5,592	$ 26,690

Notes: 1. Carrying amount recognized in the balance sheet is net of accumulated depreciation and accumulated impairment losses, if any.

2. Fair values of major properties as of December 31, 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 December 31, 2014 and March 31, 2014, consisted of the following:

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

	Millions of Yen		Thousands of U.S. Dollars
	Nine-Month Period Ended December 31, 2014	Year Ended March 31, 2014	Nine-Month Period Ended December 31, 2014
Balance at beginning of period	¥ 6,838	¥ 7,116	$ 56,721
Current service cost	267	331	2,212
Interest cost	79	107	653
Actuarial losses	923	4	7,662
Benefits paid	(128)	(720)	(1,064)
Prior service cost	435		3,611
Balance at end of period	¥ 8,414	¥ 6,838	$ 69,795

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

	Millions of Yen		Thousands of U.S. Dollars
	Nine-Month Period Ended December 31, 2014	Year Ended March 31, 2014	Nine-Month Period Ended December 31, 2014
Balance at beginning of period	¥ 6,559	¥ 6,526	$ 54,406
Expected return on plan assets	98	131	816
Actuarial losses	468	284	3,883
Contributions from the employer	204	266	1,694
Benefits paid	(128)	(648)	(1,064)
Balance at end of period	¥ 7,201	¥ 6,559	$ 59,735

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

	Millions of Yen		Thousands of U.S. Dollars
	December 31, 2014	March 31, 2014	December 31, 2014
Funded defined benefit obligation	¥ 8,056	¥ 6,585	$ 66,831
Plan assets	(7,201)	(6,559)	(59,735)
	855	26	7,096
Unfunded defined benefit obligation	358	253	2,964
Unrecognized actuarial loss	(618)	(220)	(5,127)
Unrecognized prior service cost	(421)		(3,491)
Net liability arising from defined benefit obligation	¥ 174	¥ 59	$ 1,442

	Millions of Yen		Thousands of U.S. Dollars
	December 31, 2014	March 31, 2014	December 31, 2014
Liability for retirement benefits	¥ 174	¥ 116	$ 1,442
Asset for retirement benefits		(57)	
Net liability arising from defined benefit obligation	¥ 174	¥ 59	$ 1,442

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

	Millions of Yen		Thousands of U.S. Dollars
	Nine-Month Period Ended December 31, 2014	Year Ended March 31, 2014	Nine-Month Period Ended December 31, 2014
Service cost	¥ 267	¥ 331	$ 2,212
Interest cost	79	107	653
Expected return on plan assets	(98)	(131)	(816)
Recognized actuarial losses	57	57	476
Amortization of prior service cost	14		120
Net periodic benefit costs	¥ 319	¥ 364	$ 2,645

(5) Plan assets
a. Components of plan assets
Plan assets consisted of the following:

	December 31, 2014	March 31, 2014
Debt investments	58%	60%
Equity investments	35	32
General account of life insurance companies	7	8
Others	0	0
Total	100%	100%

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

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

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

(7) Multiemployer pension plan

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

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

	Millions of Yen		Thousands of U.S. Dollars
	March 31		March 31,
	2014	2013	2014
Fair value of plan assets	¥512,489	¥465,230	$4,251,254
Pension benefit obligation recorded by pension fund	522,290	497,125	4,332,558
Difference	¥ (9,801)	¥ (31,895)	$ (81,304)

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

	December 31, 2014	March 31, 2014
Contribution percentage	1.4%	1.4%

Notes (March 31, 2014):

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

Notes (March 31, 2013):

1. The difference mainly resulted from prior service cost of ¥(49,513) 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.

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 35.6% and 38.0% for the nine-month period ended December 31, 2014 and the year ended March 31, 2014, respectively.

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

	Millions of Yen		Thousands of U.S. Dollars
	December 31, 2014	March 31, 2014	December 31, 2014
Deferred tax assets:			
Deferred charges for tax purposes	¥ 798	¥ 976	$ 6,624
Prepayment of research and development costs	439	1,121	3,645
Accrued bonuses to employees	247	479	2,050
Overdepreciation	65	33	543
Liabilities for retirement benefits	62	41	513
Loss on revaluation of golf club memberships	55	56	454
Accrued enterprise taxes	36	116	295
Other	184	188	1,523
Less valuation allowance	(59)	(70)	(493)
Total	1,827	2,940	15,154
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	203	247	1,687
Other	9	28	72
Total	212	275	1,759
Net deferred tax assets	¥ 1,615	¥ 2,665	$ 13,395

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

	Nine-Month Period Ended December 31, 2014	Year Ended March 31, 2014
Normal effective statutory tax rate	**35.6%**	38.0%
Expenses not deductible for income tax purposes	**1.4**	2.2
Dividend income deductible for income tax purposes	**(0.1)**	(0.3)
Per capita levy	**1.4**	1.4
Tax credits	**(2.6)**	(8.6)
Valuation allowance		2.7
Other—net	**0.3**	(0.7)
Actual effective tax rate	**36.0%**	34.7%

9 RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥3,400 million ($28,206 thousand) and ¥6,663 million for the nine-month period ended December 31, 2014 and the year ended March 31, 2014, 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 nine-month period ended December 31, 2014 and the year ended March 31, 2014, were ¥1,514 million ($12,561 thousand) and ¥1,708 million, respectively.

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

	Millions of Yen		Thousands of U.S. Dollars
	December 31, 2014	March 31, 2014	**December 31, 2014**
Due within one year	**¥ 58**	¥ 48	**$ 484**
Due after one year	**148**	58	**1,225**
Total	**¥ 206**	¥ 106	**$ 1,709**

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		
December 31, 2014	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	**¥ 31,894**	**¥ 31,894**	
Receivables:			
Trade accounts	**25,857**	**25,857**	
Parent	**45**	**45**	
Marketable and investment securities—Available-for-sale securities	**9,571**	**9,571**	
Total	**¥ 67,367**	**¥ 67,367**	
Payables:			
Trade accounts	**¥ 3,470**	**¥ 3,470**	
Parent	**2,642**	**2,642**	
Other	**1,778**	**1,778**	
Income taxes payable	**273**	**273**	
Total	**¥ 8,163**	**¥ 8,163**	
March 31, 2014			
Cash and cash equivalents	¥ 33,415	¥ 33,415	
Receivables:			
Trade accounts	24,093	24,093	
Parent	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	2,651	2,651	
Other	2,922	2,922	
Income taxes payable	1,202	1,202	
Total	¥ 10,584	¥ 10,584	

	Thousands of U.S. Dollars		
December 31, 2014	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	**$ 264,573**	**$ 264,573**	
Receivables:			
Trade accounts	**214,494**	**214,494**	
Parent	**374**	**374**	
Marketable and investment securities—Available-for-sale securities	**79,389**	**79,389**	
Total	**$ 558,830**	**$ 558,830**	
Payables:			
Trade accounts	**$ 28,786**	**$ 28,786**	
Parent	**21,918**	**21,918**	
Other	**14,750**	**14,750**	
Income taxes payable	**2,265**	**2,265**	
Total	**$ 67,719**	**$ 67,719**	

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

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

Marketable and Investment Securities

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

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

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

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

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

	Millions of Yen	
December 31, 2014	Due in 1 Year or Less	Due after 1 Year through 5 Years
Cash and cash equivalents	**¥ 31,893**	
Receivables:		
Trade accounts	**25,857**	
Parent	**45**	
Marketable and investment securities—Available-for-sale securities with contractual maturities	**2,610**	**¥ 6,052**
Total	**¥ 60,405**	**¥ 6,052**

December 31, 2014	Thousands of U.S. Dollars Due in 1 Year or Less	Thousands of U.S. Dollars Due after 1 Year through 5 Years
Cash and cash equivalents	$ 264,566	
Receivables:		
Trade accounts	214,494	
Parent	374	
Marketable and investment securities—Available-for-sale securities with contractual maturities	21,648	$ 50,203
Total	$ 501,082	$ 50,203

12 RELATED PARTY TRANSACTIONS

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

	Millions of Yen		Thousands of U.S. Dollars
	Nine-Month Period Ended December 31, 2014	Year Ended March 31, 2014	Nine-Month Period Ended December 31, 2014
Purchases	¥ 7,883	¥ 8,308	$ 65,392

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

	Millions of Yen		Thousands of U.S. Dollars
	December 31, 2014	March 31, 2014	December 31, 2014
Deposits included in cash and cash equivalents	¥ 14,978	¥ 20,709	$ 124,248
Trade accounts payable	2,625	2,574	21,777

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 nine-month period ended December 31, 2014 and the year ended March 31, 2014.

Sales to major customers were as follows:

	Millions of Yen		Thousands of U.S. Dollars
Name of Customer	Nine-Month Period Ended December 31, 2014	Year Ended March 31, 2014	Nine-Month Period Ended December 31, 2014
Mediceo Corporation	¥ 10,641	¥ 15,299	$ 88,270
Alfresa Corporation	9,581	12,746	79,476
Suzuken Co., Ltd.	9,282	11,182	77,001
Toho Pharmaceutical Co., Ltd.	4,523	6,115	37,522

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying balance sheet of Torii Pharmaceutical Co., Ltd. as of December 31, 2014, and the related statements of income, changes in equity, and cash flows for the nine-month period ended December 31, 2014, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Torii Pharmaceutical Co., Ltd. as of December 31, 2014, and the results of its operations and its cash flows for the nine-month period ended December 31, 2014, in accordance with accounting principles generally accepted in Japan.

Convenience Translation

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

Deloitte Touche Tohmatsu LLC

March 16, 2015

Member of
Deloitte Touche Tohmatsu Limited

(As of December 31, 2014)

Torii Pharmaceutical Co., Ltd.

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3-chome, Chuo-ku, Tokyo 103-8439, Japan
Telephone: +81-3-3231-6811
Facsimile: +81-3-5203-7333

Branch Offices (location)
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Sakura Plant
2183-1, Teranosaku, Oota, Sakura,
Chiba 285-0808, Japan
Telephone: +81-43-485-7111

Research Laboratory
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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
5,835

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

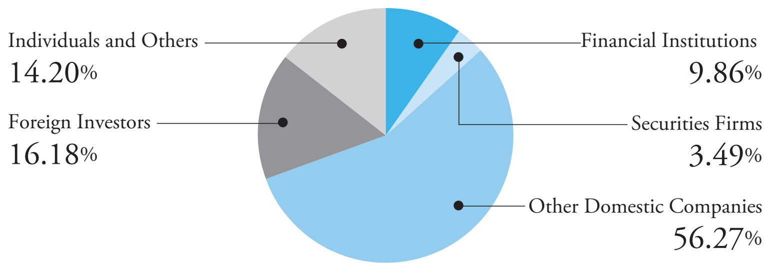
Number of Employees
1,047

Major Shareholders

Name	Number of shares (Thousand)	Shareholding ratio (%)
Japan Tobacco Inc.	15,398.8	53.46
ROYAL BANK OF CANADA TRUST COMPANY (CAYMAN) LIMITED	1,921.9	6.67
THE TACHIBANA SECURITIES CO.,LTD.	748.8	2.60
Japan Trustee Seivices Bank, Ltd. (Trust Account)	558.1	1.93
CGML PB CLIENT ACCOUNT/ COLLATERAL	544.2	1.88
Sumitomo Mitsui Banking Corporation	340.8	1.18
CBNY DFA INTL SMALL CAP VALUE PORTFOLIO	283.1	0.98
Torii Pharmaceuteical Co., Ltd. Employee Shareholdings association	275.5	0.95
The Master Trust Bank of Japan, Ltd. (Trust Account)	211.1	0.73
Mizuho Bank, Ltd.	210.0	0.72

Note: In addition to the above, the Company holds 500.0 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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