Annual Report 2018

For the year ended
December 31,
2018

TORII PHARMACEUTICAL CO., LTD.

Corporate Mission

The Corporate Mission of Torii

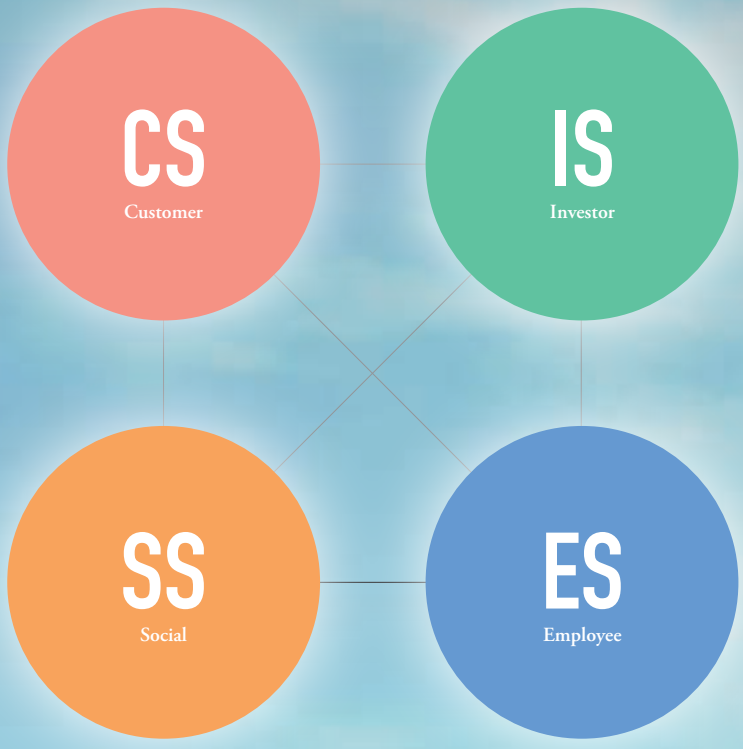
Torii Pharmaceutical Co., Ltd. (hereinafter "Torii") aims to contribute to the improvement of human health and to fulfill its responsibilities to customers, shareholders, society and employees, by supplying world-class pharmaceutical products.

We are dedicated to enhancing the satisfaction of customers, shareholders, society and employees through the fulfillment of our responsibilities with regard to each.

We will achieve this through the reinvestment of revenue generated from our diligent corporate activities.

4S MODEL

(Note) 4S is the collective term for CS, IS, SS, and ES.



CS *Customer Satisfaction* Our Responsibility to Customers

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

IS *Investor Satisfaction* Our Responsibility to Shareholders

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

SS *Social Satisfaction* Our Responsibility to Society

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

ES *Employee Satisfaction* Our Responsibility to Employees

We aim to provide motivation and fulfillment to all our employees by respecting every individual, ensuring equal opportunities for career 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.

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Top Message

My name is Goichi Matsuda. I assumed the office of Representative Director, President and Chief Executive Officer on March 26, 2019.

Regarding the business environment in which the pharmaceutical industry operates, business risks are mounting owing to such reasons as the increasing difficulty in new drug development, a sharp increase in research and development costs, and intensifying international competition, etc. In the Japanese market, in particular, amid the promotion of health-care system reforms, there is an urgent need to curb healthcare expenditures, such as through the drastic reform of the drug pricing system and encouragement of greater use of generic drugs. The business environment is expected to become more challenging in view of the trend toward increasingly rigorous regulations in various respects. Moreover, the termination of the exclusive rights to market the following six anti-HIV drugs in Japan: "Viread Tablets," "Emtriva Capsules," "Truvada Combination Tablets," "Stribild Combination Tablets," "Genvoya Combination Tablets," and "Descovy Combination Tablets", has a strong financial impact on Torii.

With a view to such an increasingly challenging business environment, we have formulated the "Medium-Term Management Plan 2021" that covers the three years ahead aiming to return to operating income in fiscal 2022 and achieve sustainable profit generation thereafter. During the three-year period of the "Medium-Term Management Plan 2021," we will implement business structure reforms and growth strategies in order to fundamentally improve our earnings structure. In addition, we will steadily undertake measures necessary to achieve medium and long-term growth. While pushing for major reforms of our business structure, we will continue placing priority on and work to maintain the trust of stakeholders.

We will continue to make a concerted effort to achieve sustainable business growth and medium- and long-term corporate value improvement in fiscal 2019, based on our corporate mission to "contribute to the improvement of human health and to fulfill our responsibilities to customers, shareholders, society and employees, by supplying world-class pharmaceutical products."

We would greatly appreciate your further support and cooperation.

Goichi Matsuda

Representative Director,
President and Chief Executive Officer

Formulate of the "Medium-Term Management Plan 2021"

Aiming to return to an operating income in fiscal 2022 and achieving sustainable profit generation thereafter in view of the increasingly challenging business environment, the Company formulated the Medium-Term Management Plan 2021 that covers the three-year period from fiscal 2019 to fiscal 2021.

The outline of the "Medium-Term Management Plan 2021" is as follows:

I. Business Structure Reform

Optimization of the organizational structure, functions, and workforce

In order to optimize the organizational structure, functions, and workforce suitable for the scale of the business, Torii will introduce a special program supporting employees who wish to retire voluntary and embark on a new career. At the same time, along with consolidation and elimination of branches, integration of R&D functions into JT, and reorganization of the head office, Torii will reduce the number of different products manufactured at our plant step by step.

Review of resource allocation and maximization of performance

Viewing "renal disease and hemodialysis," "skin disease" and "allergens" as franchise areas, Torii will strategically allocate resources, taking into consideration the situations of each area and our strengths, and establish an efficient business structure and operate it efficiently while emphasizing appropriate allocation of limited resources. Regarding long term listed drug, Torii will promote their transfer or contracting of their production to other companies in light of the expected decline in profitability.

II. Growth Strategy

Maximization of value of products currently under co-development with JT

Torii will maximize value of JTT-751, JTE-052 (application), and JTZ-951 that are in Phase III clinical trials conducted jointly with JT.

Co-development new innovative drugs with JT and acquisition of new in-licensed drugs

In order to acquire new in-licensed drugs under Torii's flexible strategy with JT, Torii will broaden the target for search and in-licensing to include candidates in and around the franchise areas. Also, Torii will steadily progress calcifediol extended-release capsules with JT.

Reinforcement of organization and function

In order to progress its growth strategy and explore long-term growth while monitoring current and future trends concerning medicine and healthcare, Torii will establish a new organization responsible for the product development strategy and increase the workforce in the Business Development Dept. and integrate the necessary functions. Moreover, Torii will establish a flexible activity structure that can meet the changing needs of society, such as the guidelines on sales information provision activities published by the Ministry of Health, Labor and Welfare as well as further enhancing capabilities of MRs and MSLs.

III. Maintaining the Trust of Stakeholders

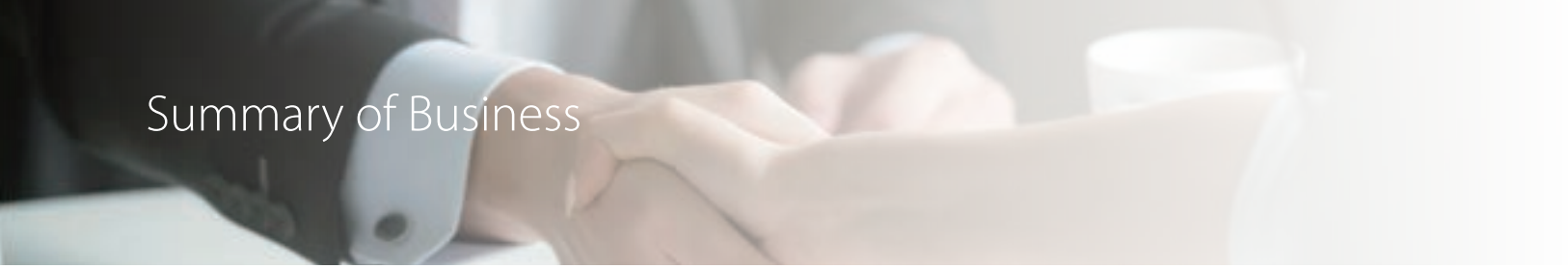
While continuing initiatives for enhancing and reinforcing corporate governance and promoting compliance, Torii will also appropriately respond to the changing needs of society, such as the revised Corporate Governance Code and the guidelines on sales information provision activities.

Financial Forecasts for Fiscal 2019

	December 31, 2018 results (Millions of Yen)	December 31, 2019 targets (Millions of Yen)	Change (Millions of Yen)	Change (%)
Net sales	¥62,551	¥38,000	¥(24,551)	(39.2)%
Operating income (loss)	4,951	(3,200)	(8,151)	—
Ordinary income (loss)	5,080	(3,100)	(8,180)	—
Net income	1,164	22,500	21,335	—

We forecast a significant decrease in net sales, although we are making efforts to maintain and expand existing products by viewing "renal disease and hemodialysis," "skin disease" and "allergens" as franchise areas, due to the impact of the termination of the exclusive rights to market six anti-HIV drugs.

As for profits, we will implement business structure reforms, such as optimization of the workforce through the introduction of a special program supporting employees who wish to retire voluntarily and embark on a new career, as well as cost reductions. However, the impact of such reforms will be limited in the next fiscal year. Accordingly, we forecast an operating loss and an ordinary loss. In addition, we plan to post business structure reform expenses of ¥5.2 billion in extraordinary loss, including extra retirement payments in relation to the implementation of a special program supporting employees' career changes. However, we will post a gain on transfer of marketing rights in extraordinary income of ¥40.6 billion in relation to the termination of the exclusive rights to market six anti-HIV drugs. As a result, we forecast a sharp increase in net income.



Summary of Business

Collaboration with Japan Tobacco Inc. (JT)

In the pharmaceutical industry, the technology required to develop new drugs is becoming increasingly sophisticated, and R&D costs are generally rising. At the same time, the requirements for new drug approval are becoming ever more demanding. As a result, it often takes many years to release a new product to market. In keeping with our tradition of always seeking and maximizing synergies, built over a corporate history dating back more than 130 years, Torii joined the JT Group in 1998. In 1999, we established a business collaboration with JT, which envisioned R&D oriented pharmaceutical activities. In this new partnership, R&D for new drugs came under the control of JT, while Torii took over sales and marketing functions. In April 2006, Torii also extended its manufacturing operations to include those of JT. This partnership has enabled JT and Torii to continuously supply high-quality pharmaceutical products.

Sales and Marketing

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

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

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

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

Manufacturing

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

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

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

Research and Development

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

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

As a result of the division of R&D functions between Torii Pharmaceutical and JT, until now JT has been responsible for R&D activities pertaining to new compounds, while Torii has been responsible primarily for improvements to the formulations of existing productions and the development of additional indications. Torii also has carried out its own R&D in its specific areas of expertise. Going forward, as stated in the Medium-Term Management Plan 2021, R&D functions will be unified to JT.

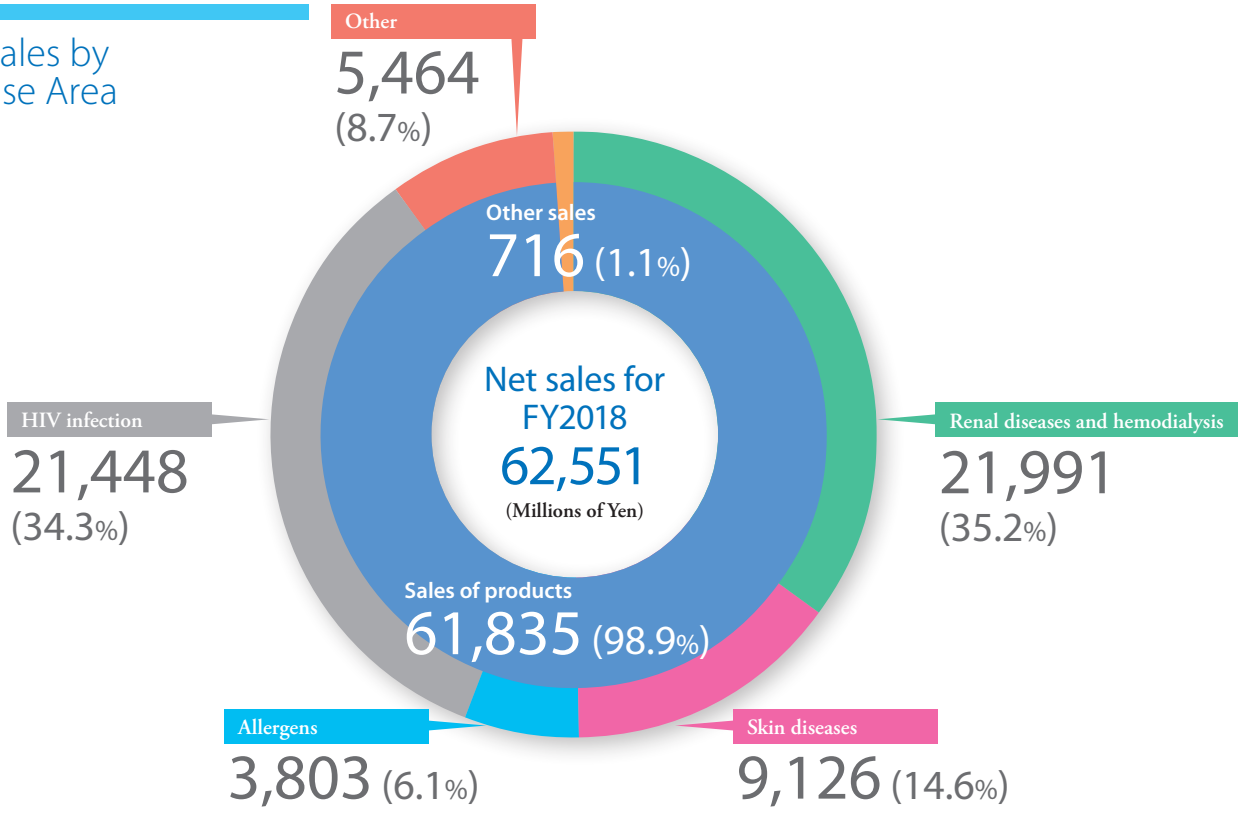
Mainstay Products

REMITCH
Oral antipruritic agent

Riona
Agent for hyperphosphatemia

ANTEBATE
Topical corticosteroid

Net Sales by Disease Area



Net Sales by Product

(Millions of Yen)

	Brand name	FY2017	FY2018
REMITCH	Oral antipruritic agent Renal diseases and Hemodialysis	13,838	**11,598**
Riona	Hyperphosphatemia agent Renal diseases and Hemodialysis	6,245	**6,603**
ANTEBATE*	Topical corticosteroid Skin diseases	6,282	**5,536**
CEDARTOLEN*	Japanese cedar pollinosis (Allergen Immunotherapy) Allergens	1,295	**1,859**
MITICURE*	House dust mite allergy (Allergen Immunotherapy) Allergens	461	**1,247**
CEDARCURE*	Japanese cedar pollinosis (Allergen Immunotherapy) Allergens	—	**405**

* In-house products

CEDARTOLEN SUBLINGUAL DROP—Japanese Cedar Pollen
Japanese cedar pollinosis (Allergen Immunotherapy)

MITICURE House Dust Mite Sublingual Tablets
House dust mite allergy (Allergen Immunotherapy)

CEDARCURE Japanese Cedar Pollen Sublingual Tablets
Japanese cedar pollinosis (Allergen Immunotherapy)

Research and Development

Torii divides its Research and Development (R&D) functions of pharmaceutical business between itself and its parent company, JT. JT is responsible for R&D activities pertaining to new compounds, while Torii is responsible 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. Moreover, Torii collaborates with JT to search out and develop candidates for new, in-licensed drugs.

Below are some of the major achievements of our in-licensing and research and (joint) development activities.

(Renal diseases and hemodialysis)

- A domestic phase III clinical trial for iron deficiency anemia within a new indication has been conducted for hyperphosphatemia agent Riona Tablets (development number: JTT-751) in collaboration with JT.

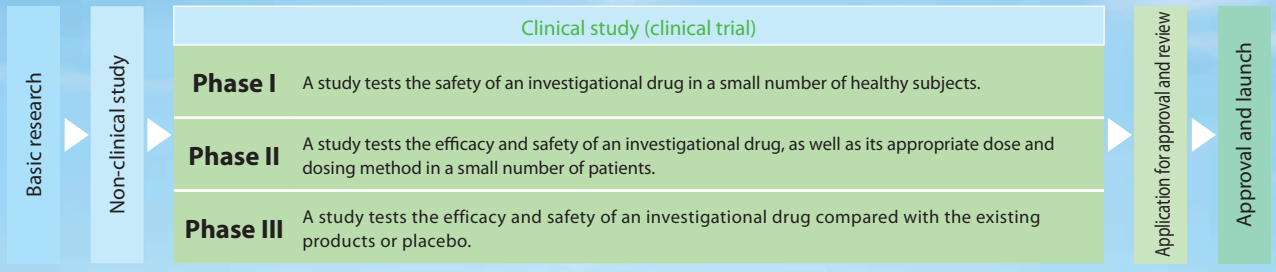
(Skin diseases)

- JT and Torii decided to discontinue development of Serlopitant (development code: JTS-661), a neurokinin (NK-1) receptor antagonist. In June 2018, we canceled the license agreement for the exclusive rights to develop and commercialize Serlopitant in Japan concluded with Menlo Therapeutics Inc. in August 2016.
- A domestic Phase III clinical trial for children was conducted for JTE-052 (Delgocitinib) ointment, a JAK inhibitor, for which Torii signed a license agreement with JT for joint development and commercialization in Japan. In January 2019, JT filed an application for manufacturing and marketing approval for adults in Japan.

(Allergens)

- In February 2018, we received an application for additional approval of dosage and administration for children for MITICURE House Dust Mite Sublingual Tablets (Allergen Immunotherapy) (development code: TO-203) being distributed in Japan by Torii.

The Process of Creating a New Drug



It is said that approximately 1 in every 30,000 candidate drugs only is approved as a new drug. A new drug is launched only after it has been rigorously reviewed by experts and received approval from the national government.

Mainstay Research and Development Products (As of February 6, 2019)

Development code [Product name]	Indication	Formulation/ Route of administration	Development stage (domestic)					Remarks
			Phase I	Phase II	Phase III	Application	Approval	
Renal diseases and hemodialysis								
JTT-751 [Riona® Tablets]	Iron-deficiency anemia	Oral			Phase III			○ Licensing agreement signed with Keryx for development and commercialization of hyperphosphatemia drug in Japan ○ Co-development with JT (Additional indication) ○ Riona filed by JT has been approved as a treatment of hyperphosphatemia in January 2014, and is being promoted and distributed by Torii
JTZ-951	Anemia associated with chronic kidney disease	Oral			Phase III			○ JT's original compound ○ Licensing agreement signed with JT for development and commercialization in Japan
Skin diseases								
JTE-052	Atopic dermatitis	Topical				Application		○ JT's original compound ○ Licensing agreement signed with JT for development and commercialization in Japan ○ Approval for development and commercialization applied by JT in January 2019
	Atopic dermatitis in children	Topical			Phase III			○ JT's original compound ○ Licensing agreement signed with JT for development and commercialization in Japan
Allergens								
TO-203 [MITICURE® House Dust Mite Sublingual Tablets]	House dust mite induced allergic asthma (Allergen Immunotherapy)	Sublingual tablet		Phase II/III (Study completed*) * Examining the future development policy				○ Licensing agreement signed with ALK-Abelló A/S for providing exclusive development and distribution rights in Japan ○ In-house

(Reference)
In October 2017, JT announced that the company signed an exclusive license agreement with EirGen Pharma Limited for the development and commercialization in Japan of calcifediol extended-release capsules (marketed by OPKO Health, Inc. in the U.S. under the brand name "RAYALDEE®") for the treatment of secondar hyperparathyroidism (SHPT) in chronic kidney disease, and Torii is expected to distribute the product after it is approved.

Corporate Governance

Basic Stance toward Corporate Governance

At Torii, corporate governance means the structure to enable the Company to respond to changes in the business environment quickly and appropriately and to conduct fair and transparent management towards the fulfillment of 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. We recognize that the enhancement of corporate governance will lead to the Company's sustainable growth and medium- to long-term improvement in corporate value. Based on this philosophy, we have defined a Corporate Governance Policy.

This Corporate Governance Policy is available for viewing on our website.

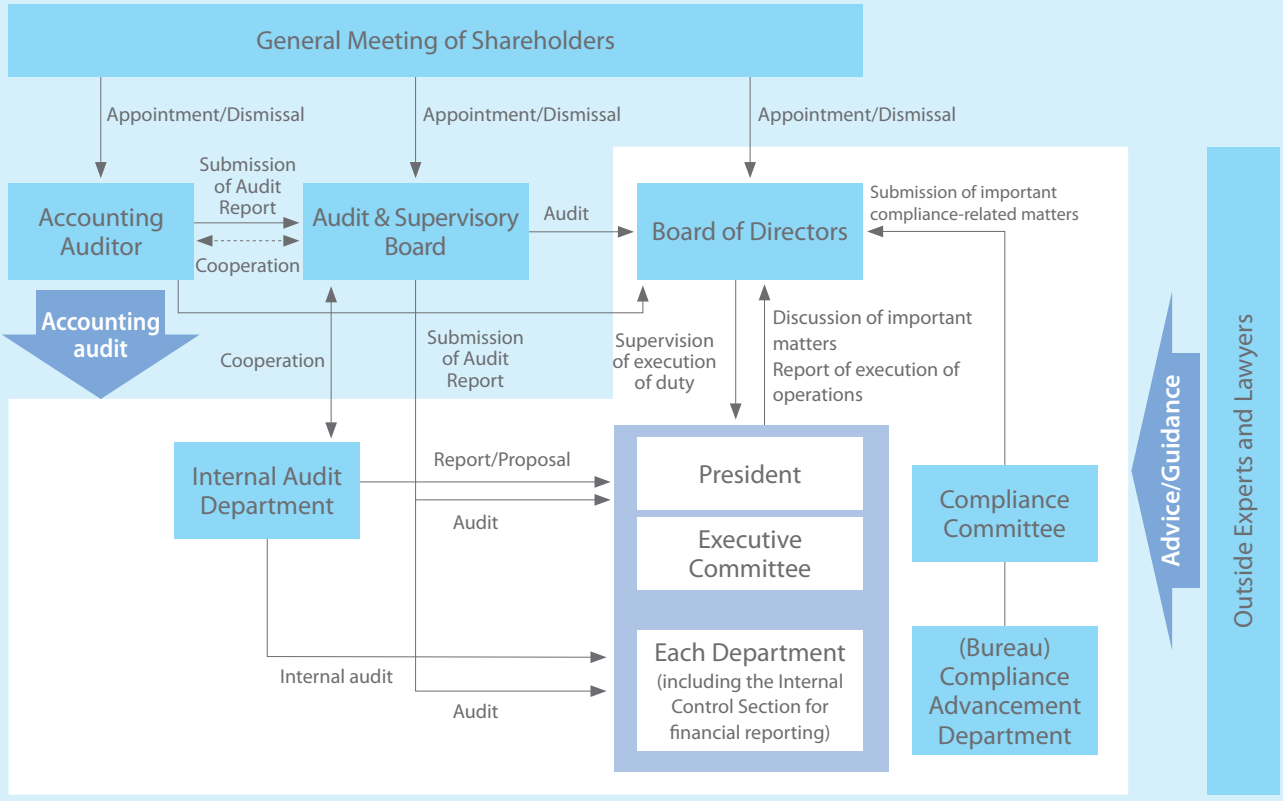
https://www.torii.co.jp/company/governance.html

Corporate Governance Structure

The corporate governance organs adopted by Torii under the Companies Act of Japan include the General Meeting of Shareholders, the Directors, 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 from the perspective of building an effective corporate structure. In addition, Torii considers it appropriate to appoint Independent Outside Directors and Independent Outside Audit & Supervisory Board Members in order to seek out for enhancement of corporate governance through operation and maintenance of the basic policies regarding the development of internal control system.

Below is an overview of our corporate governance structure.

Overview of Corporate Governance Structure



Overview of Corporate Governance

Organization format	Company with Audit & Supervisory Board
Chairperson of the Board of Directors	Non-Executive Director
Number of Directors*	7 (including 2 Outside Directors)
Number of Audit & Supervisory Board Members*	3 (including 2 Outside Audit & Supervisory Board Members)
Selection of Independent Officers*	2 Outside Directors, 2 Outside Audit & Supervisory Board Members
Number of Board of Directors meetings in 2018	14 times
Number of Audit & Supervisory Board meetings in 2018	13 times

Remuneration for Each Director	Executive Director compensation consists of monthly remuneration and bonuses based on positions. The bonus is granted based on the achievement of individual and business performance. Non-Executive Director compensation, on the other hand, consists of monthly remuneration based on positions. Directors (other than Outside Directors) are also subject to the Restricted Stock Compensation Plan as a medium- and long-term incentive.
Remuneration for Each Audit & Supervisory Board Member	Monthly remuneration based on full-time/part-time member status
Accounting Auditor	Deloitte Touche Tohmatsu LLC

* Information as of March 26, 2019.

Evaluation of Effectiveness of the Board of Directors

In fiscal 2018, Torii evaluated the effectiveness of the Board of Directors by sending a questionnaire to all Directors and Audit & Supervisory Board Members. Items for evaluation included the contents of materials, explanations of materials and so on, and deliberation on matters and other items (training, communication and so on). Questionnaire results as summarized by Independent Outside Directors showed that the items were regarded as generally reasonable and appropriate. Based on these results, we will implement improvements, including further enhancement of communication between Board of Directors members.

Efforts to Eliminate Antisocial Forces

As a good corporate citizen, Torii ensures that in order to create a better society, all employees refuse to associate with and resolutely stand against antisocial forces or groups which threaten citizens' social order or safety. Torii assigns personnel responsible for this issue to each site and provides them with training. Torii has also created manuals for handling antisocial forces and coordinated with related government agencies and a company attorney as necessary.

Matters with Possible Significant Impact on Corporate Governance

JT is Torii's parent company, and owns 54.87% of Torii's voting shares.

Torii and its parent company, JT (specifically, the pharmaceutical division of the company) each leverage their own pharmaceutical product and service strengths. Torii is primarily responsible for manufacturing and marketing functions, while the parent company is responsible for research and development functions. Dividing functions is intended for optimization to realize our corporate mission. Also, this enables us to conduct appropriate business activities by ensuring a certain level of independence while also maintaining close cooperation with the parent company. Torii and the parent company have reached an agreement that, as a general rule, Torii handles domestic sales of pharmaceutical products newly developed by the parent company.

The parent company does not apply restrictions such as approval requirements to Torii's business activities. The parent company has dispatched its 88 employees to Torii with the aim of improving the efficiency of business operations and enhancing management. However, these employees were dispatched in response to a request from Torii, so that Torii believes that it is able to make independent management decisions.

Directors and Audit & Supervisory Board Members

Representative Director, President and Chief Executive Officer

Goichi Matsuda

April 1990
Joined Japan Tobacco Inc.

January 2009
Vice President, Planning Dept., Soft Drink Business Division, Food Business Headquarters of Japan Tobacco Inc.

June 2009
Member of the Board Director of JT Beverage Inc.

July 2010
Vice President, Planning Dept., Soft Drink Business Division of Japan Tobacco Inc.

July 2012
Senior Manager, Soft Drink Business Division of Japan Tobacco Inc.

July 2012
Member of the Board, Senior Vice President of Japan Beverage Holdings Inc.

June 2013
Senior Vice President, Head of Beverage Business, of Japan Tobacco Inc.

June 2013
Member of the Board, Director of JT Beverage Inc.

January 2016
Senior Vice President, Deputy President, Pharmaceutical Business of Japan Tobacco Inc.

January 2017
Corporate Advisor of Pharmaceutical Division of Japan Tobacco Inc.

March 2017
Member of the Board, Director, Deputy Head of Pharmaceutical Marketing & Promotion Group and Vice President, Marketing Planning Dept. of the Company

March 2019
Representative Director, President and Chief Executive Officer of the Company (current position)

Member of the Board, Director
Head of Pharmacovigilance & Quality Assurance Group

Yuko Kariya

April 1983
Joined the Company

April 2007
Vice President, Customer Support Dept. of the Company

June 2012
Executive Vice President, Head of Pharmacovigilance & Quality Assurance Group of the Company

June 2013
Member of the Board, Director, Head of Pharmacovigilance & Quality Assurance Group of the Company (current position)

Member of the Board, Director
Head of Production Group and Vice President, Head of Sakura Plant

Masaki Sunami

April 1982
Joined Japan Ciba-Geigy Ltd. (currently Novartis Pharma K.K.)

November 1984
Joined Nitto Electric Industrial Co., Ltd. (currently Nitto Denko Corporation)

March 1991
Joined Japan Tobacco Inc.

April 2011
Senior Director, Product Development Laboratories, Central Pharmaceutical Research Institute of Japan Tobacco Inc.

April 2014
Deputy Head of Production Group of the Company

March 2015
Member of the Board, Director, Head of Production Group of the Company

October 2018
Head of Production Group and Vice President, Head of Sakura Plant of the Company
(current position)

Member of the Board, Director
Head of R&D Group and Vice President, Business Development Dept.

Atsuyuki Kakee

April 1989
Joined Japan Tobacco Inc.

October 2006
Vice President, Clinical Research Planning Dept., Pharmaceutical Division. of Japan Tobacco Inc.

April 2012
Vice President, Clinical Research Dept., Pharmaceutical Division of Japan Tobacco Inc.

January 2015
Senior Manager of Business Planning Dept., Pharmaceutical Division. of Japan Tobacco Inc.

January 2015
Deputy Head of R&D Group of the Company

March 2015
Executive Vice President, Head of R&D Group of the Company

April 2015
Executive Vice President, Head of R&D Group and Vice President, Business Development Dept. of the Company

January 2016
Executive Vice President, Head of R&D Group and Vice President, Business Development Dept. and Medical Affairs Dept. of the Company

March 2016
Member of the Board, Director, Head of R&D Group and Vice President, Business Development Dept. and Medical Affairs Dept. of the Company

January 2018
Member of the Board, Director, Head of R&D Group and Vice President, Business Development Dept. of the Company (current position)

Member of the Board, Director
Head of Pharmaceutical Marketing & Promotion Group and Vice President, Marketing Planning Dept.

Katsunobu Fujiwara

April 1987
Joined the Company

June 2008
Vice President, Head of Yokohama Branch Office of the Company

June 2009
Vice President, Product Management Dept. of the Company

April 2011
Senior Vice President, Product Management Dept. of the Company

June 2012
Executive Vice President, Head of Osaka Branch Office of the Company

June 2014
Executive Vice President, Marketing Planning Dept. of the Company

March 2017
Member of the Board, Director, Head of Pharmaceutical Marketing & Promotion Group and Vice President, Product Management Dept. of the Company

January 2018
Member of the Board, Director, Head of Pharmaceutical Marketing & Promotion Group of the Company

March 2019
Member of the Board, Director, Head of Pharmaceutical Marketing & Promotion Group and Vice President, Marketing Planning Dept. of the Company
(current position)

Member of the Board, Director (Outside)

Masao Torikai

April 1994
Registered as lawyer (Dai-Ichi Tokyo Bar Association)

April 1994
Joined Momo-o, Matsuo & Namba

September 2000
Registered as lawyer in New York State

January 2002
Partner of Momo-o, Matsuo & Namba (current position)

June 2010
Audit & Supervisory Board Member of the Company

June 2013
Member of the Board, Director of the Company (current position)

June 2016
Outside Director serving as Audit & Supervisory Committee Member of TSUKUI CORPORATION (current position)

Member of the Board, Director (Outside)

Toshio Fukuoka

April 1979
Joined Tokyo Regional Taxation Bureau

July 2015
Retired from the position of District Director of Kawasaki-Kita Tax Office

August 2015
Registered as tax accountant, established Toshio Fukuoka Tax Accountant Office Representative (current position)

March 2016
Audit & Supervisory Board Member of the Company

June 2016
Outside Audit & Supervisory Board Member of FUJI FURUKAWA ENGINEERING & CONSTRUCTION CO. LTD. (current position)

March 2018
Member of the Board, Director of the Company (current position)

Standing Audit & Supervisory Board Member

Yasuyuki Yatsumoto

April 1987
Joined Japan Tobacco Inc.

April 2008
Senior General Manager, Corporate Planning Dept. of the Company

July 2012
Vise President, Business Planning Dept., Pharmaceutical Division of Japan Tobacco Inc.

January 2016
Senior Manager, Business Administrative Dept., Pharmaceutical Division of Japan Tobacco Inc.

March 2016
Audit & Supervisory Board Member of the Company (current position)

Audit & Supervisory Board Member (Outside)

Eiichi Izumo

April 1995
Joined Tohmatsu & Co. (currently Deloitte Touche Tohmatsu LLC)

April 1998
Registered as certified public accountant

July 2010
Partner of Deloitte Touche Tohmatsu LLC

February 2015
Established Izumo CPA Office Representative (current position)

June 2015
Outside Audit & Supervisory Board member of Benesse Holdings, Inc. (current position)

March 2016
Audit & Supervisory Board Member of the Company (current position)

Audit & Supervisory Board Member (Outside)

Takaharu Matsumura

October 2000
Registered as lawyer (Tokyo Bar Association)

June 2002
Joined New Tokyo International (later Bingham Sakai Mimura Aizawa - Foreign Law Joint Enterprise through office consolidation)

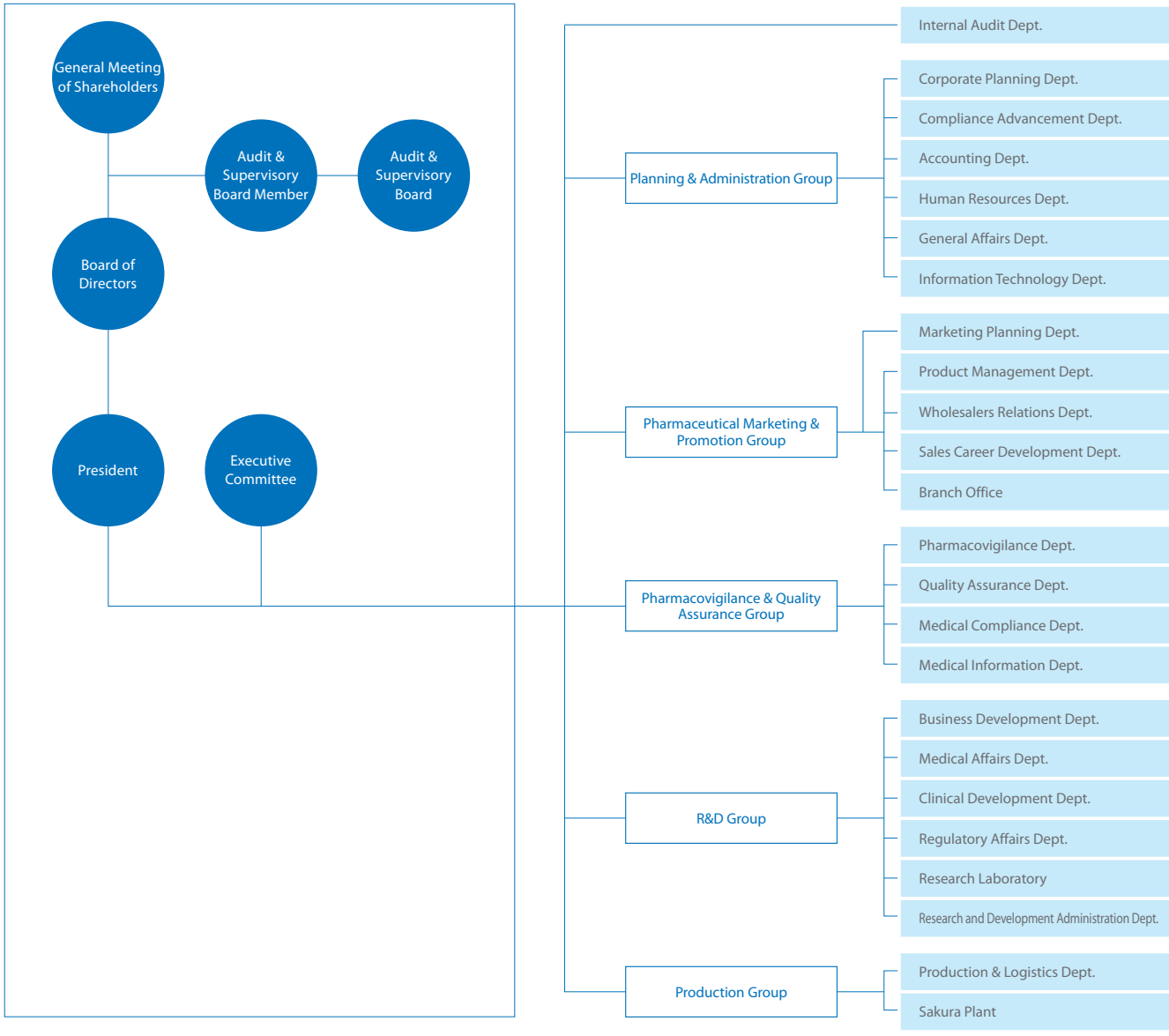
April 2010
Partner of Bingham Sakai Mimura Aizawa - Foreign Law Joint Enterprise

April 2015
Partner of Anderson Mori & Tomotsune through office consolidation (current position)

April 2017
Outside Audit & Supervisory Board Member of PROPOLIFE GROUP INC. (current position)

March 2018
Audit & Supervisory Board Member of the Company (current position)

Organization



CSR Initiatives 1

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.

Quality Assurance

Quality Management Measures

We have established a thorough quality management system of pharmaceutical products to maintain quality throughout all of our manufacturing processes and provide customers with an invisible feeling of reassurance. Each and every one of our employees is constantly aware that beyond the pharmaceutical products we manufacture, there are the patients and their families who need these products. To ensure that our employees maintain this mentality, we have formulated a Quality Assurance Policy, and conduct quality assurance operations in accordance with this policy.

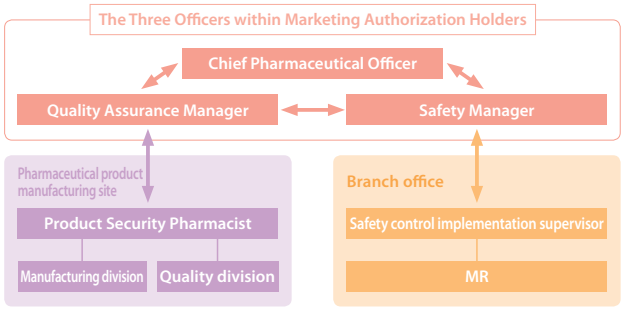
Quality Assurance Policy
1. We are attentive to the opinions and requests of customers and actively strive to improve the quality of our products.
2. We work closely with manufacturing sites to maintain a constant supply of products with stable quality.
3. We bring together our knowledge and experience to carry out quality assurance activities based on facts and data.

Quality Assurance and Safety Control System

In order to comply with various laws, ordinances, and regulations, we have established The Three Officers within Marketing Authorization Holders (Chief Pharmaceutical Officer, Quality Assurance Manager, and Safety Manager). These three work closely together to thoroughly ensure the quality assurance and the safety of pharmaceutical products after their launch.

We perform quality assurance of pharmaceutical products through proper operation on a daily basis including making appropriate decisions on market release and managing and supervising domestic and overseas manufacturers responsible for manufacturing active ingredients, and handling quality information and quality defects.

Diagram on Quality Assurance and Safety Control System



Gmp-Based Product Assurance

Good Manufacturing Practices, or GMP, refers to standards for manufacturing control and quality control of pharmaceutical products. Torii uses a quality control system based on GMP to manufacture pharmaceutical products while confirming quality during every process. Manufactured pharmaceutical products are appropriately tested, and only the products that pass this testing are released.

In order to provide pharmaceutical products that patients can feel reassured, we regularly visit manufacturing sites to confirm manufacturing control and quality control with our own eyes. We also share information regarding product quality with each manufacturing site to implement process improvements and quality improvements on a daily basis.

Three Principles of GMP
Minimize human error
Prevent contamination and quality deterioration
Design systems that ensure high-quality

Recall Manual

In the event of quality defects that require a pharmaceutical product recall, our highest priority is to ensure the safety of patients. Under the direction of Chief Pharmaceutical Officer, we report to administrative authorities, share information with medical institutions and other organizations, rapidly recall affected products, identify the cause of the issue, and implement improvement measures. We also review and revise supply schedules and provide information on alternative products to avoid inconveniencing the patients that use the pharmaceutical product in question.

Considerations to Packaging, Labeling and Individual Product Boxes

We engage in discussions with related divisions and consider and revise designs to make packaging and labeling as clear and easy to read as possible as well as improve ease of product identification based on information from medical institutions and patients. We also take measures for medical institutions to dispose of the individual product box more easily by adding the perforated line to the box for scrapping as necessary.

Stable Supply

Stable Supply Measures

Providing a stable supply of pharmaceutical products is one of the most important missions of companies that handle pharmaceutical products, on which people's lives directly depend.

Providing a stable supply of pharmaceutical products requires measures that encompass entire supply chains, and involve Torii itself and numerous partners responsible for duties from the procurement of drug substances (active pharmaceutical ingredients) and other raw materials to manufacturing of pharmaceutical products, inventory optimization, and logistics.

Our ongoing manufacturing measures include the creation of systems in preparation for unforeseen circumstances and the ability to procure drug substances and raw materials from multiple suppliers. We will continue to enhance our supply chain, enabling us to provide the amounts of pharmaceutical products needed, when needed, where needed.

Measures for Managing Logistics while Ensuring Quality

As a pharmaceutical company, it is our duty to build a system capable of providing patients with a stable supply of safe, high-quality pharmaceutical products manufactured under strict quality control.

Our logistics center stores pharmaceutical products in refrigerated or room-temperature warehouse in accordance with the temperature control category (refrigerated storage or room-temperature storage) defined for each pharmaceutical product. With regard to logistics, from the perspective of transport quality, we exclusively use dedicated vehicles for pharmaceutical product transport (refrigerated trucks for products requiring refrigeration), and can track individual pharmaceutical products through all processes, including manufacturing, storage, and transport, using their serial numbers. We also regularly check temperature control and strive for higher quality logistics management. With regard to risk management, we have envisioned the potential for a large-scale disaster and created a system that uses two logistics centers, one in East Japan and the other in West Japan, such that if one center is affected by the disaster, the other center can continue to supply pharmaceutical products.

Appropriate Information Provision

Information Collection and Provision

Torii strives to promote the proper use of pharmaceutical products, and through our MRs we collect safety information from medical professionals such as data on side effects.

The feedback from our information collected and our analysis is provided on an ongoing, steady basis to medical professionals, contributing to the safe and effective use of pharmaceutical products by patients.

We also participate in relevant academic society meetings and update product information sites for medical professionals to provide a wide range of information on the proper use of pharmaceutical products.

Promotion of Proper Use

In order to ensure safer use of pharmaceutical products, we constantly collect safety information such as side effects. We evaluate and analyze the safety information collected, and when the results indicate the need for additional information on proper use, we revise the precautions in the package insert and update the drug information. We have implemented measures so that our pharmaceutical products are used more safely by notifying medical professionals of the contents of these revisions.

Measures through MRs

The mission of our MRs is to accurately convey a variety of information regarding pharmaceutical products to medical professionals, collect and analyze information such as safety of products after their launch, and provide information on proper use obtained as a result of these efforts to medical professionals so that pharmaceutical products are used properly.

MRs work to promote the proper use of pharmaceutical products for the sake of patients by providing information to medical professionals.

MR Education and Training

We have worked on human resource development of our MRs so that they can ensure the trust of medical professionals.

We carry out a range of education and training programs to ensure that MRs properly provide and collect information to/from medical professionals with integrity. Regular MR training programs are designed to enable MRs to better leverage their obtained knowledge and skills in the field. MR training status check tools are used to support the growth of each MR.

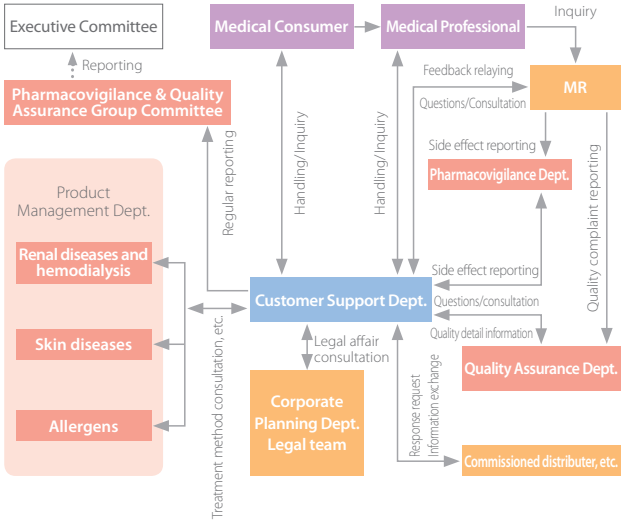
Customer Support Dept. Initiatives

Our Customer Support Dept. interfaces directly with medical professionals, patients, and their families, handling a broad range of inquiries. No matter how excellent a pharmaceutical product may be, it is only effective when used properly. To this end, we have worked to provide high-quality, appropriate, scientific-based drug information that takes into account the needs of our customers.

Sharing Customer Feedback within the Company

As an open corporate contact point with customers, the Customer Support Dept. shares questions and opinions from customers with corresponding divisions, enabling them to consider future actions based on the latest information on safety, interaction, usage method and others. To order to meet customers' expectations, we will continue to reflect customer feedback in product improvements and the provision of high-quality information, contributing to patients' health.

Diagram on Quality Assurance And Safety Control System



Customer Support Education

We use telephone communication training and training based on telephone service quality diagnosis results with the aim of conscientiously dealing with each and every customer. Every month, staff members that deal with customers receive the same continuing training that MRs do, as well as actively participate in study sessions held by related divisions, workshops, and academic society meetings to learn the latest drug information, enabling them to provide customers with accurate, appropriate information.

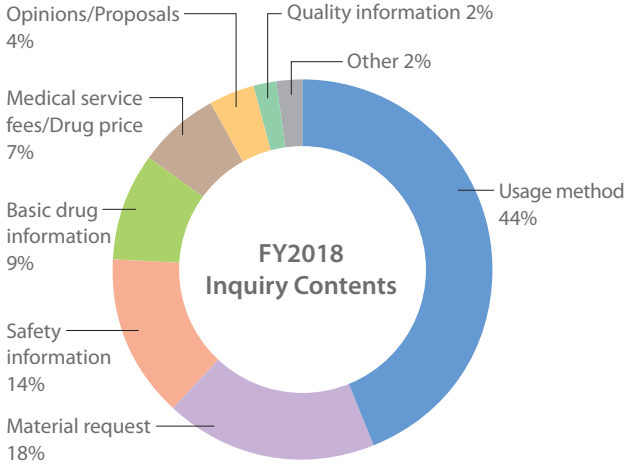
Communication and Awareness-Raising through the Website "Health Information" Section and Pamphlets for Patients

The "Health Information" section of our website provides health-related information such as information regarding disease mechanisms and symptoms.

We have created sites such as "Touseki no Kayumi (Dialysis Pruritus).jp" and "Torii-san's Allergen Immunotherapy Navigation," through which we provide information to foster an accurate understanding of disorders. Furthermore, we have created PDF versions of pamphlets such as "Senryu de Yomitoku Touseki no Kayumi Taisaku (Learning about Dialysis Pruritus through senryu poems).jp" and "Kichin-to Shirou Atopic Dermatitis (Atopic Dermatitis Navigation)," which are available on our website. We provide this information to help patients deepen their understanding about diseases, their treatments, and points to remember in everyday life, in order to contribute to the health of patients.

https://www.tousekinokayumi.jp/

https://www.torii-alg.jp/



CSR Initiatives 2

Our Responsibility to Shareholders

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

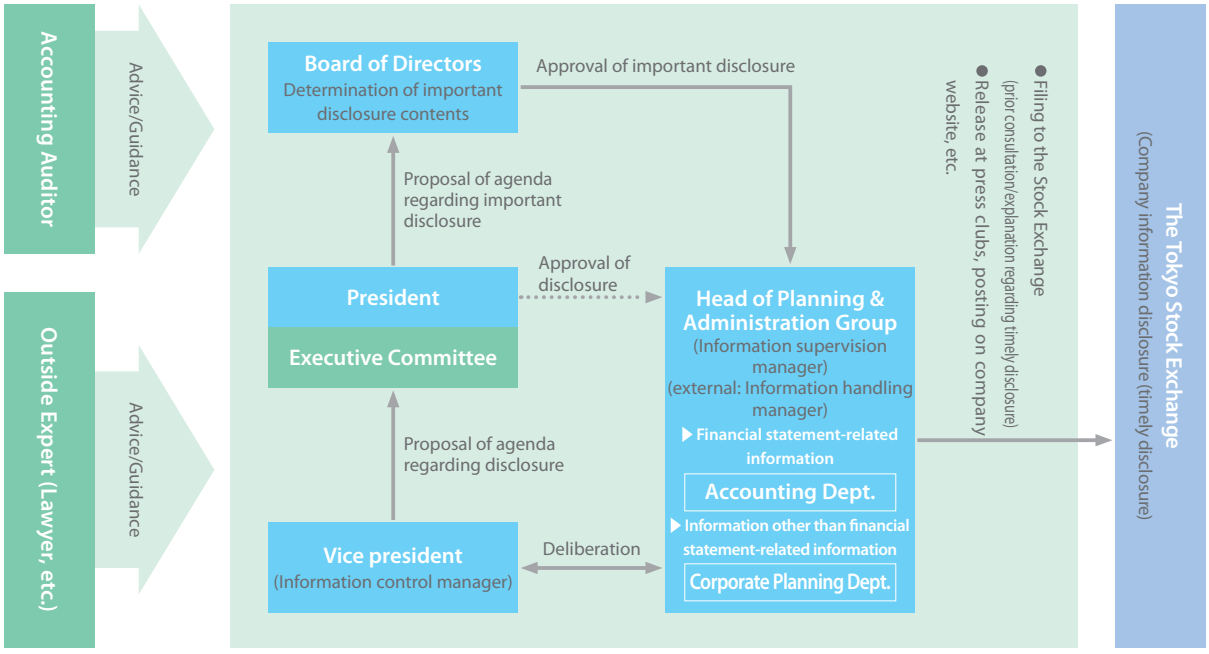
Information Disclosure

Information Disclosure Measures

Communication with our shareholders and investors

In order to promote dialogue with our shareholders and investors, Torii holds individual consultations upon request, as well as endeavors to disclose information in a timely and appropriate manner by posting financial highlights, financial results, securities reports, annual reports, press releases, and other information on the Torii website.

Overview of Torii's Timely Disclosure System



Dividend Policy

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

Torii's basic approach is to pay surplus dividends twice per year in the form of an interim dividend and a year-end dividend. The interim dividend is decided by the Board of Directors, and the year-end dividend is decided by the General Meeting of Shareholders. The Articles of Incorporation of Torii stipulate that interim dividends may be decided by resolution of the Board of Directors.

At the 127th General Meeting of Shareholders, held on March 26, 2019, it was resolved that Torii will pay a year-end dividend of ¥24 per share for the current fiscal year. Together with the ¥24 per share paid in interim dividends, this amounts to an annual dividend of ¥48 per share.

Surplus dividends whose record date falls within the current fiscal year are as follows.

Resolution date	Total dividends (Millions of Yen)	Dividend per share (Yen)
July 30, 2018 Resolution by Board of Directors meeting	673	24
March 26, 2019 Resolution by General Meeting of Shareholders	673	24

Regarding the surplus dividends throughout the three-year period covered by the "Medium-Term Management Plan 2021," in accordance with the basic policy of distributing dividends in a continuous and stable manner, Torii will continue to pay the same level of dividends compared to the previous years.

CSR Initiatives 3

Our Responsibility to Society

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

Environmental Action Plan

Achieved / Unachieved

		Environmental Action Plan (FY2016 to FY2018)	FY2018 Environmental Action Plan	FY2018 results	Evaluation	FY2019 Environmental Action Plan
Greenhouse gas emissions reductions	Company-wide	Medium-term target: Reduce total CO_2 emissions in FY2018 by 3% in comparison to those of FY2015 (6,643t-CO_2) as a base **FY2018 target: 6,445t-CO_2 or less**	**FY2018 target: 6,445t-CO_2 or less**	**FY2018 results: 6,326t-CO_2** **Vs. FY2018 target: 1.7% reduction**	☺	**FY2019 target: 6,182t-CO_2 or less (Reference value)**
	Sakura site	**FY2018 target: 4,432t-CO_2 or less**	**FY2018 target: 4,432t-CO_2 or less** [Main measures] ・Install warehouse building air conditioner inverter ・Turn off air conditioners in Research Laboratory at night and on holidays etc.	**FY2018 results: 4,348t-CO_2** **Vs. FY2018 target: 1.9% reduction** [Main measures] ・Install warehouse building air conditioner inverter ・Turn off air conditioners in Research Laboratory at night and on holidays ・Implement reductions through additional energy-saving measures ・Implement reductions through ISO WG activities	☺	**FY2019 target: 43t-CO_2 (Reduce 1% of previous fiscal year's results)** [Main measures] ・Switch to LED lighting (No. 1 and No. 2 ointment) ・Update multi-split air conditioners ・Replace outdoor lights with LED lights ・Adjust air volume in AC-3 of No. 4 Plant Bldg. ・Implement ISO Working Group Activities (Review air conditioning in product development work room, Research Laboratory, supply warehouse)
	Head office	Maintain maximum head office building CO_2 emissions of 370t-CO_2 or less **FY2016 to FY2018 target: 370t-CO_2 or less**	**FY2018 target: 370t-CO_2 or less** [Main measures] ・Continue installing energy-saving vending machines ・Raise awareness through head office environmental action month (ongoing) ・Continue implementing Cool Biz and Warm Biz energy-saving initiatives	**FY2018 results: 344t-CO_2** **Vs. FY2018 target: 7.0% reduction** [Main measures] ・Continue installing energy-saving vending machines ・Raise awareness through head office environmental action month (ongoing) ・Continue implementing Cool Biz and Warm Biz energy-saving initiatives	☺	**FY2019 target: 375t-CO_2 or less** [Main measures] ・Raise awareness through head office environmental action month (ongoing) ・Continue implementing Cool Biz and Warm Biz energy-saving initiatives
	Sales vehicles	**FY2018 target: 1,643t-CO_2 or less**	**FY2018 target: 1,643t-CO_2 or less** [Main measures] ・Select fuel-efficient vehicles such as hybrids ・Continue promotion of eco-drive awareness and education activities	**FY2018 results: 1,634t-CO_2** **Vs. FY2018 target: 0.5% reduction** [Main measures] ・Complete switching from privately-owned vehicles to company vehicles by eliminating privately-owned vehicle system ・Ratio of hybrid cars in total number of sales vehicles: 73.8% (up 0.2% YoY) ・Continue selecting fuel-efficient vehicles such as hybrids ・Continue promotion of eco-drive awareness and education activities	☺	**FY2019 target: 1,502t-CO_2 or less** [Main measures] ・Continue selecting fuel-efficient vehicles such as hybrids ・Continue promotion of eco-drive awareness and education activities
Reduce water usage	Sakura site	Reduce total water usage to FY2015 level or below **FY2016 to FY2018 target: 36,751m³ or less**	**FY2018 target: 36,751m³ or less** [Main measures] ・Proper use of water through water usage amount analysis	**FY2018 results: 31,077m³** **Vs. FY2018 target: 15.4% reduction** [Main measures] ・Turn off air conditioners in scrubber of Research Laboratory at night and on holidays ・Replace dilapidated water supply equipment (ball taps)	☺	**FY2019 target: 31,077m³ or less** [Main measures] ・Update wet scrubber
Maintain/increase waste recycling rate	Sakura site	Maintain/increase recycling rate **FY2016 to FY2018 target: 97% or above**	**FY2018 target: 97% or above** [Main measures] ・Thorough waste separation ・Continue selling off valuables	**FY2018 results: 98.8%** [Main measures] ・Thorough waste separation ・Continue selling off valuables	☺	**FY2019 target: 97% or above** [Main measures] ・Thorough waste separation ・Continue selling off valuables
	Head office	Maintain/increase recycling rate **FY2016 to FY2018 target: 99% or above**	**FY2018 target: 99% or above** [Main measures] ・Consign disposal to industrial waste processors with high recycling rates ・Continue selling off valuables	**FY2018 results: 100%** [Main measures] ・Consign disposal to industrial waste processors with high recycling rates ・Continue selling off valuables	☺	**FY2019 target: 97% or above*** [Main measures] ・Continue to consign disposal to industrial waste processors with high recycling rates ・Continue selling off valuables * Excludes thermal recycling from recycling rate calculation from FY2019.

The targets of the Environmental Action Plan for fiscal 2016 and 2017 were not attained due to the failure to achieve the target for greenhouse gas emissions at the Sakura site. In fiscal 2018, the final year of the plan, the target was achieved. Other targets such as greenhouse gas emissions (head office and sales vehicles), water consumption (Sakura site), and waste recycling rate (Sakura site and head office) were achieved in all three years.

Overview of Business Activities and Their Environmental Impacts

Sakura site (Plant and Research Laboratory)

INPUT

Total energy usage
- Electricity: 8,194,000 kWh
- City gas: 406,000 m³
- Light oil: 4 kL
- Gasoline: 1 kL

Water resource usage
- Utility water: 31,000 m³

Raw material and secondary material input
- Raw materials and containers: 526 t

Production
Manufacturing, packaging, quality control, planning and administration, general office work

Research and development
Non-clinical study, drug formulation research

OUTPUT

Waste and valuable generation
- Total waste discharge: 183.5 t
- Valuables sold: 50.7 t
- Recycling volume: 181.3 t
- Final disposal volume: 2.2 t

Discharge into aquatic environment
- Wastewater processed: 27,000 m³

Emissions into air
- CO_2: 4,348 t

Logistics

INPUT

Total energy usage
- Electricity: 456,000 kWh
- Light oil: 16 kL

Logistics

OUTPUT

Product use
Specified agents, hospitals, pharmacies

Packaging recycling consignment volume
- Plastic containers/paper: 22 t

Emissions into air
- CO_2: 212 t

Head office/ Branch office

INPUT

Total energy usage
- Electricity: 1,423,000 kWh
- City gas: 5,000 m³
- Heating oil: 3 kL
- Gasoline: 705 kL

Office
Planning and administration
Information systems
General office work, sales

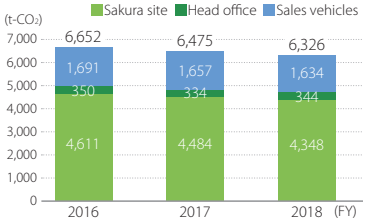
OUTPUT

Waste and valuable generation
- Total waste discharge: 39.3 t
- Valuables sold: 0.0 t
- Recycling volume: 35.1 t
- Final disposal volume: 4.2 t

Emissions into air
- CO_2: 2,275 t

Global Warming Prevention Initiatives

CO_2 Emissions Volume



* The graph above only shows figures included within the Environmental Action Plan (it does not include branches)

Company-wide 6,326 t-CO_2

Head office 344 t-CO_2

Sakura site 4,348 t-CO_2

Sales vehicles 1,634 t-CO_2

Major Sales Vehicle Measures

Torii has implemented measures to reduce CO_2 emissions by sales vehicles used for MR activities by deploying hybrid cars and promoting ecologically friendly driving.

In areas other than cold climates, we employ fuel-efficiency hybrid vehicles, bringing the total number to 458 as of December 31, 2018.

We will continue to promote the use of fuel-efficient vehicles such as hybrid cars and strive to reduce the CO_2 emissions from our sales vehicles.

Compliance with the Act on Rationalizing Energy Use

Every quarter, Torii convenes a meeting of the Energy Saving Promotion Committee, which is composed of members such as energy management supervisors from related environmental departments. This committee focuses on the assessment, analysis, and management of energy usage, and engages in timely discussions aimed at rationalizing energy usage.

Green Purchasing and Procurement Measures

Torii promotes green purchasing of office supplies (including sales promotion goods) in accordance with its Green Purchasing Guidelines. In fiscal 2018, we purchased green products that impose less negative environmental impact as well, and we will continue to strive to purchase environmentally friendly products in the future.

We are also dedicated to using environmentally friendly packaging and containers that are free of quality issues.

Environmental Education

In fiscal 2018, Torii worked to raise environmental awareness by providing environmental training to new employees.

The Sakura site has formulated annual education plans for plant employees and provides regular education in accordance with its ISO 14001 environmental management system. Orientation education is also provided to newly hired and newly transferred employees.

Measures for Creating a Recycling-Oriented Society

Main Head Office Measures

Based on the Environmental Action Plan, the head office is working to maintain and raise its waste recycling rate. For the environmental action month that has been implemented since 2016, in fiscal 2018 we defined "more thorough waste separation" as a priority issue, and strove to raise awareness of each employee's separation of waste (especially paper waste) generated during daily business activities.

In addition, to further improve waste separation and waste recycling rates, we worked to create easy-to-understand postings for waste separation for which it is easy to make a mistake. Going forward, we will continue to maintain and improve our waste recycling rate, contributing to the creation of a recycling-oriented society.

Major Sakura Site Measures

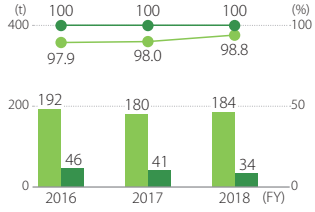
In fiscal 2018, we properly managed our waste disposal contractors through measures such as introducing an electronic manifest on a trial basis and conducting inspections of intermediate and final disposal sites. We also worked to improve waste recycling rates mainly by promoting and expanding sales of valuables such as scrap iron, waste paper and other papers, and engaged in waste reduction activities.

We also continued to carry on last year's water usage reduction measures, identifying waste through detailed analysis (by inspection and replacement of ball tap water supply devices).

Waste Production Volume and Recycling Rates

Sakura site 98.8%

Head office 100%



Water Usage

Sakura site 31,077 m³

Head office 3,970 m³

Compliance Measures

Compliance as a Pharmaceutical Company

Pharmaceutical companies are required to constantly maintain a high level of ethics and transparency in their corporate activities.

Torii has defined various internal standards such as the Torii Pharmaceutical Promotion Code based on the JPMA Code of Practice by the Japan Pharmaceutical Manufacturers Association and the guidelines on sales information provision activities by the Ministry of Health, Labor and Welfare, and engages in compliance-oriented activities.

Compliance Promotion Structure

Torii defines the promotion of compliance as one of the key management issues involved in achieving its corporate mission. After creating its compliance structure in September 2001, Torii established Compliance Committee in 2004. This committee deliberates regarding compliance promotion issues. In order to further enhance company compliance, Torii established Medical Compliance Department in August 2014. This department is responsible for reviewing clinical research and Torii's academic information materials. In January 2015, Torii formed Compliance Advancement Department, responsible for company-wide compliance promotion operations.

Employee Awareness-Raising and Education

Torii defines compliance as maintaining the trust of stakeholders and not disappointing them. To this end, we distribute a compliance book that defines concrete action standards serving as guidelines for specific actions as well as values and ethics that all employees should share, and we engage in education and awareness-raising activities on a continual basis. We conduct compliance training in our new employee training and new General Manager training programs, and we hold two study sessions per year in each of our company's divisions to thoroughly ingrain compliance throughout the Company.

Furthermore, we implement drug injury education for all employees to deepen the knowledge of drug-related injuries and foster awareness on patients' use of drugs.

Compliance Questionnaires

We administer compliance questionnaires every two years to understand and evaluate employees' attitudes towards compliance, current company and workplace compliance conditions, and compliance implementation conditions, and we use these findings in our future compliance promotion activities.

The results of these questionnaires are posted for viewing by all employees on our company intranet. The issues identified through these questionnaires are also used as topics in our compliance study sessions.

Reporting and Consultation Contact Point (Hotline)

We have established an internal reporting and consultation desk and an external reporting contact point (lawyer) for compliance issue reporting and consultation. We strive to promptly identify and minimize the threats posed to the company by legal violations. In addition to our company-wide reporting and consultation desk, we have also established consultation desks within individual groups to better facilitate consultation.

Compliance Book

Compliance Card

Transparency Guidelines

Collaboration with universities and other research institutions and medical institutions is vital and essential for us to contribute to peoples' health as a pharmaceutical company. During the course of these activities, we sometimes pay medical institutions compensation for their contributions, and we believe that we must maintain transparency in our relationships with them. We also believe that we must guarantee transparency in the relationships between patient groups and pharmaceutical companies so that the opinions and input from patients and supporters can be sufficiently leveraged within medical treatment as a social resource.

Based on this philosophy, we have defined Transparency Guideline for the Relation between Corporate Activities and Medical Institutions and Transparency Guidelines for the Relation between Corporate Activities and Patient Groups. We will satisfy our responsibility to society through our activities, which are based on these guidelines.

https://www.torii.co.jp/csr/guideline.html

Approach to Society

Social Contribution Campaign

As part of our social contribution activities fostering employee participation, we conduct a social contribution campaign each November on the anniversary of our founding. In fiscal 2018, the 26th time this year, as part of efforts to contribute to the local community at each work site nationwide, we conducted cleanup activities and blood donations. At the head office, many employees are actively participating in donating blood each time in cooperation with nearby companies.

Cleanup activity (Nagoya branch office)

Donation Activity through Reuse of Used Books

Since December 2016, we have been carrying out company-wide donation through reuse of used books as social contribution activities fostering employee participation. In this activity, after collecting used books that are no longer needed, we donate the equivalent amount of purchases to designated social support groups through the donation site by reusing used books. In fiscal 2018, with the aim of achieving a society where children affected by HIV/AIDS can help to pioneer the future, we donated to AIDS Orphan Support NGO PLAS, an organization that is working on life improvement and life planning support for HIV/AIDS orphans and families with orphans.

Green Donation

We believe that passing on a healthy forest environment to future generations will lead to the prevention of an increasing number of natural disasters and global warming by promoting forest maintenance and greening. Each year in April and October, we conduct company-wide green donations to maintain forests in Japan and abroad and foster forest volunteers.

As for fundraising activities in October, donations were raised as limited-use donations for the recovery support project for the heavy rainfall disaster of July 2018 and the Hokkaido Eastern Iburi Earthquake in September 2018. The collected funds will be used to promote greening in the affected areas.

Donation box

CSR Initiatives 4

Our Responsibility to Employees

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

Personnel Development

In order to create a stronger organization, we carry out training, focused on management and mid-level employees, with the aim of enhancing their development and management related skills and knowledge in areas such as subordinate development, encouraging teams, and providing instruction to junior colleagues. Together with elective training and distance learning for which employees apply, we are conducting ongoing, systematic personnel development. We have also introduced systems that provide training follow-up to ensure that participants can leverage their knowledge and skills in their work.

Four times every year, we offer distance learning programs focused on the business skills that we believe employees need to conduct their work, continuously implementing measures that support and promote employees' self-led development. 60% of distance learning program fees are subsidized for employees who have satisfied program completion requirements.

Training Participation Results (Fiscal 2018)

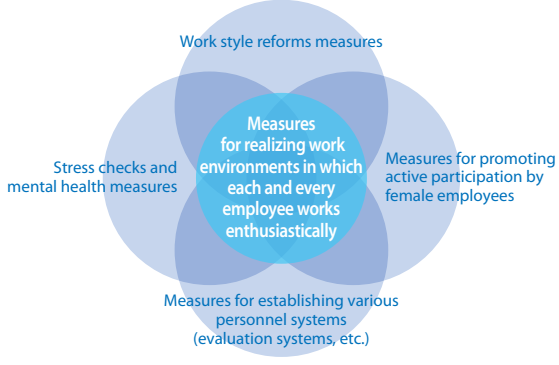
Learning and training	Number of participants
Life planning training (information provision)	34 [24]
Topic-specific training (business basics, team power, global)	36 [41]
Management training	55 [81]
Position-specific training (excluding new employee training)	298 [267]
New employee training	38 [54]
Distance learning (self-improvement)	113 [122]

Note: Figures in brackets are the previous year's figures.

Creating Better Working Environments

Measures for Realizing Work Environments in which Each and Every Employee Works Enthusiastically

Torii has engaged in various activities, such as (1) work style reforms measures, (2) measures for promoting active participation by female employees, (3) measures for establishing various personnel systems (evaluation systems, etc.), and (4) stress checks and mental health measures. These are all measures for realizing work environments in which each and every employee works enthusiastically. By sincerely addressing each of these activities, we are creating a pleasant work environment even under the restricted circumstances including pregnancy, child-birth, child-raising and nursing care. This enables our driven, skilled employees to maintain their high levels of motivation and leverage their abilities, contributing to sustained growth for the employees and the company.



Status of Measures for Promoting Active Participation by Female Employees

Item	As of December 31, 2018
% of women in the board members	7.1% [7.1%]
% of women in management positions	6.4% [5.4%]
% of women in all employees	20.9% [20.3%]
% of women in newly-hired employees	32.5% [31.7%]
Average years of service between Male vs Female	Men: 14.0 years Women: 10.6 years [Men: 13.6 years Women: 10.1 years]
Average overtime per month	13.5 hours [14.3 hours]
Rate of taking annual paid leave (April 2018 to March 2019)	73.6% [64.9%]

Note: Figures in brackets are the previous year's figures.

Human Rights Measures

We believe it is important that people working in the same workplaces respect one another and build relationships of mutual trust, and that as members of society all people always respect the rights of others. This is why on December 10, Human Rights Day, we carry out measures aimed at developing a shared awareness of human rights throughout workplaces and heightening respect for human rights. These measures include familiarizing employees with pamphlets created by the Human Rights Bureau of the Ministry of Justice containing information regarding human rights issues and initiatives.

Occupational Safety and Health

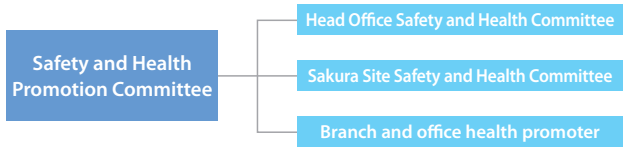
Each of our work sites carries out safety and health measures in order to achieve safe and healthy work environments.

The head office carries out Health Officer inspections (once per week), Industrial Physician inspections (once per month), and Safety and Health Committee inspections (held for each floor [five times per year]), and labor and management work to improve workplace environments through deliberations at Head Office Safety and Health Committee meetings held each month.

The Sakura site (Plant and Research Laboratory) also carries out Health Officer inspections (once per week), Industrial Physician inspections (once per month), safety and health inspections by each division (once per month), air environment measurement for offices in each division (once every two months), and working environment measurement for workplaces that handle organic solvents and chemicals (twice per year) to maintain and improve workplace environments. Problems and issues are identified at monthly workplace meetings held by each division and Workplace Safety and Health Committee meeting held once per month; through Safety and Health Committee meetings, labor and management deliberate on these matters and implement necessary measures.

Furthermore, health and safety control activities are carried out from a variety of perspectives. These include not only holding risk assessments for newly purchased devices but also implementing a rolling risk assessment twice per year. This ensures that adequate safety measures have been taken against potential dangers in existing devices and processes, training for new General Managers when appointing a Safety Officer, participation in labor management training and other safety and health-related training, and lecture meetings on mental health.

Company-Wide Safety and Health Control Organization



* A Safety and Health Committee is established for worksites with 50 or more full-time workers
* A Health promoter officer is appointed for worksites with 10 or more but less than 50 full-time workers

Financial Section

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Ten-Year Financial Summary

	Millions of Yen			
	March 31			
	2010	2011	2012	2013
For the Year				
Net sales	¥42,416	¥45,335	¥48,717	¥52,294
Gross profit	26,431	26,732	28,178	29,452
Operating income	6,125	1,844	4,153	2,794
Income before income taxes	6,340	1,839	5,054	2,929
Net income	3,642	937	2,611	1,849
Capital expenditures	1,401	797	849	1,374
Research and development costs	1,613	5,994	4,631	7,824
Net cash provided by (used in) operating activities	4,998	(516)	3,040	151
Net cash provided by (used in) investing activities	(10,396)	(21,302)	3,151	874
Net cash used in financing activities	(1,182)	(1,243)	(1,154)	(1,181)
At Fiscal Year-End				
Total assets	¥85,637	¥84,885	¥87,734	¥91,350
Total equity	74,641	74,246	75,832	76,700
Number of shares issued (Thousands)	28,800	28,800	28,800	28,800
Number of employees	890	905	927	969
	Yen			
Per Share Data				
Total equity	¥2,637.3	¥2,623.4	¥2,679.5	¥2,710.2
Net income	128.7	33.1	92.3	65.4
Cash dividends	40	40	40	40
	%			
Key Ratios				
Operating income ratio	14.4	4.1	8.5	5.3
Return on equity (ROE)	5.0	1.3	3.5	2.4
Return on assets (ROA)	4.3	1.1	3.0	2.1
Shareholders' equity ratio	87.2	87.5	86.4	84.0
Dividend payout ratio	31.1	120.8	43.4	61.2

*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 ¥111.00=US$1.00, the approximate exchange rate prevailing on December 31, 2018.

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

Millions of Yen						Thousands of U.S. Dollars*1
March 31	December 31				December 31	December 31
2014	2014*2	2015	2016	2017	2018	2018
¥58,109	¥43,504	¥62,378	¥60,206	¥64,135	¥62,551	$563,526
31,842	22,917	31,564	29,919	32,841	30,707	276,640
4,987	4,032	4,919	3,819	6,281	4,951	44,609
5,133	3,781	5,258	4,056	6,373	3,030	27,303
3,352	2,419	3,527	2,839	4,718	1,164	10,492
1,202	1,514	2,207	891	931	811	7,309
6,662	3,400	5,237	4,654	4,608	4,138	37,282
(201)	(609)	4,940	3,402	6,349	8,259	74,414
17,706	499	957	1,361	(7,593)	(27,068)	(243,864)
(1,319)	(1,410)	(1,582)	(2,289)	(1,546)	(1,432)	(12,905)
¥93,137	¥92,550	¥98,868	¥98,525	¥104,741	¥103,546	$932,849
79,018	80,225	82,826	83,556	87,119	87,092	784,620
28,800	28,800	28,800	28,800	28,800	28,800	28,800
1,009	1,047	1,058	1,059	1,074	1,049	1,049

Yen					U.S. Dollars*1
¥2,792.1	¥2,834.8	¥2,926.8	¥2,978.8	¥3,105.7	¥3,103.3	$27.96
118.5	85.5	124.7	100.4	168.2	41.5	0.37
40	40	48	48	48	48	0.43

%					
8.6	9.3	7.9	6.3	9.8	7.9
4.3	3.0	4.3	3.4	5.5	1.3
3.6	2.6	3.7	2.9	4.6	1.1
84.8	86.7	83.8	84.8	83.2	84.1
33.8	46.8	38.5	47.8	28.5	115.6

Management's Analysis of Financial Conditions, Operating Results and Cash Flows

Financial Results for the Year Ended December 31, 2018

The business environment for the pharmaceutical industry was extremely challenging in fiscal 2018 due to the drastic reform of the drug price system backed by difficult financial social security conditions and intensified competition with other pharmaceutical companies which have rival products.

Under these circumstances, Torii concentrated management resources on our priority areas of "the renal disease and hemodialysis area," "the skin disease area," "the allergens area" and "the HIV infection area," in order to develop Riona Tablets (a hyperphosphatemia agent) into one of our core products and to maximize sales of REMITCH (an oral antipruritic agent for hemodialysis patients), whose generic products had been launched, and we strove to promote allergen immunotherapy to realize market expansion of CEDARTOLEN SUBLINGUAL DROP—Japanese Cedar Pollen (allergen immunotherapy) and MITICURE House Dust Mite Sublingual Tablets (allergen immunotherapy), as well as the further market penetration of Descovy Combination Tablets (an anti-HIV drug) and Genvoya Combination Tablets (an anti-HIV drug).

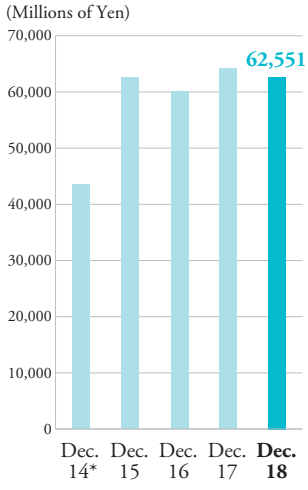
Net Sales

Net sales decreased by ¥1,583 million (2.5%) over the previous corresponding period to ¥62,551 million. This was mainly due to a decline in products sales of ¥1,100 million (1.7%) over the previous corresponding period to ¥61,835 million affected by the NHI price revision in April 2018 and generic products, as well as a drop in other sales of ¥483 million (40.3%) over the previous corresponding period to ¥716 million as a result of the decline of commission income; however, the total sales volume of products grew thanks to maximization of the value of mainstay products and further market penetration and expansion.

Sales of mainstay products in each priority area were as follows:

- In the renal disease and hemodialysis area, sales of REMITCH decreased by ¥2,240 million (16.2%) only over the previous corresponding period to ¥11,598 million affected by generic products and the NHI price revision. Sales of Riona Tablets rose ¥357 million (5.7%) over the previous corresponding period to ¥6,603 million due to market penetration and expansion efforts.
- In the skin disease area, sales of ANTEBATE (topical corticosteroid) declined by ¥745 million (11.9%) to ¥5,536 million compared to the previous corresponding period mainly due to the NHI price revision.
- In the allergens area, sales of CEDARTOLEN SUBLINGUAL DROP—Japanese Cedar Pollen increased by ¥563 million (43.5%) over the previous corresponding period to ¥1,859 million and MITICURE House Dust Mite Sublingual Tablets, which was approved as an additional dosage and administration for pediatric indication in February 2018, jumped by ¥785 million (170.4%) over the previous corresponding period to ¥1,247 million due to our focusing on promoting the use of allergen

Net Sales

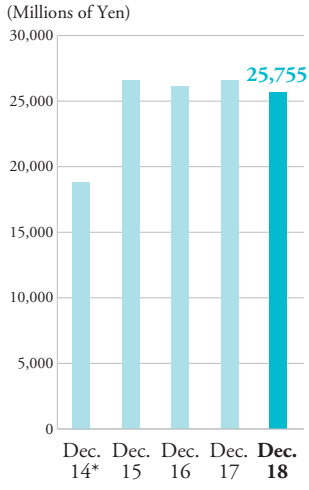


Sales of Mainstay Products

(Millions of Yen)

	Dec. 2017	Dec. 2018	Change
REMITCH	¥13,838	¥11,598	¥(2,240) (16.2)%
Descovy	9,218	12,467	3,249 35.3%
Genvoya	6,325	7,369	1,043 16.5%
ANTEBATE	6,282	5,536	(745) (11.9)%
Riona	6,245	6,603	357 5.7%

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.

immunotherapy. In June 2018, Torii launched CEDARCURE Japanese Cedar Pollen Sublingual Tablets (allergen immunotherapy), which has characteristics such as higher potency, wider range of treatment age, easer to swallow and improved convenience of use with storage at room temperature compared to CEDARTOLEN SUBLINGUAL DROP—Japanese Cedar Pollen.

- In the HIV infection area, sales of Truvada Combination Tablets (an anti-HIV drug) decreased by ¥2,504 million (63.5%) over the previous corresponding period to ¥1,436 million, but sales of its successor product, Descovy Combination Tablets, which were launched in January 2017, increased by ¥3,249 million (35.3%) over the previous corresponding period to ¥12,467 million. Sales of Genvoya Combination Tablets rose by ¥1,043 million (16.5%) over the previous corresponding period to ¥7,369 million.

Cost of Sales

Cost of sales increased by ¥550 million (1.8%) over the previous corresponding period to ¥31,844 million, mainly due to the recording of a loss on disposal of excess Japanese cedar pollen inventory, which is the main raw material for CEDARTOLEN SUBLINGUAL DROP—Japanese Cedar Pollen and CEDARCURE Japanese Cedar Pollen Sublingual Tablets.

Selling, General and Administrative (SG&A) Expenses

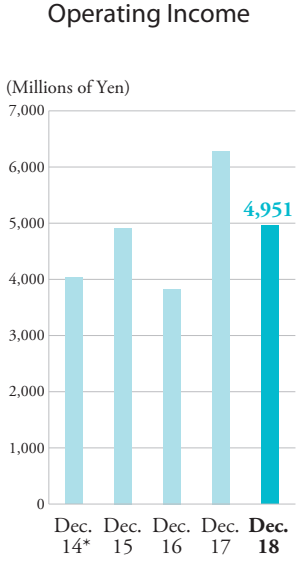
SG&A expenses decreased by ¥804 million (3.0%) over the previous corresponding period to ¥25,755 million, primarily as the result of lower research and development costs and administrative expenses.

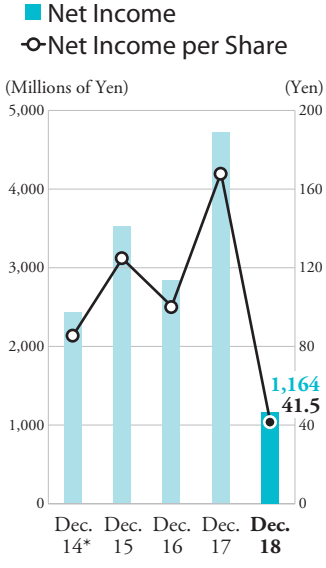
Operating Income and Net Income

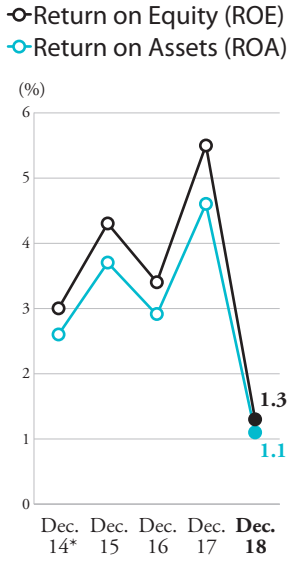
As a result of the above, operating income was ¥4,951 million, a decrease of ¥1,329 million (21.2%) over the previous corresponding period. Net income declined by ¥3,553 million (75.3%) to ¥1,164 million. This result reflected the recording of business structure reform expenses* and the reversal of a portion of deferred tax assets in consideration of future business forecasts and other factors.

*Business structure reform expenses

Considering the current situations that profitability of its long-term listed drugs is dropping due to the drastic reform of the drug price system, Torii will gradually promote their transfer or contracting of their production to other companies in order to improve profitability, and also integrate its research and development functions into Japan Tobacco Inc. (JT), its parent company. Accordingly, Torii evaluated the future collectability of fixed assets of the Sakura Plant and Research Laboratory, both of which have research and development functions, in accordance with the "Accounting Standard for Impairment of Fixed Assets" and recognized an impairment loss of ¥2,021 million as business structure reform expenses for the fiscal year ended December 31, 2018.







* 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, 2018

Assets, Liabilities and Equity

Total assets decreased by ¥1,195 million (1.1%) from the end of the previous fiscal year to ¥103,546 million as of December 31, 2018. Current assets declined by ¥3,739 million (4.5%) from the end of the previous fiscal year to ¥80,240 million, mainly due to a ¥20,241 million drop in cash and cash equivalents, a ¥1,877 million decrease in trade accounts receivable and a ¥1,811 million decline in inventories despite a ¥20,250 million increase in marketable securities. Property, plant and equipment decreased by ¥2,108 million (38.1%) from the end of the previous fiscal year to ¥3,431 million, primarily reflecting a ¥1,229 million decline in buildings and structures and a ¥512 million reduction in furniture and fixtures. Investments and other assets rose by ¥4,653 million (30.6%) from the end of the previous fiscal year to ¥19,874 million, mainly due to a ¥6,292 million increase in investment securities, despite a ¥954 million decrease in long-term prepaid expenses, and a ¥505 million decline in deferred tax assets.

Total liabilities decreased by ¥1,168 million (6.6%) from the end of the previous fiscal year to ¥16,453 million. Reasons for this decline included a ¥1,105 million drop in payables.

Total equity decreased by ¥26 million (0.0%) from the end of the previous fiscal year to ¥87,092 million. Contributing factors included surplus dividends of ¥1,346 million and net income of ¥1,164 million.

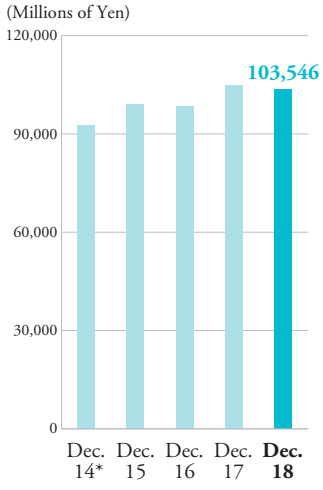
Cash Flows for the Year Ended December 31, 2018

At ¥15,654 million, cash and cash equivalents as of December 31, 2018 were ¥20,241 million (56.4%) lower than at the end of the previous fiscal year.

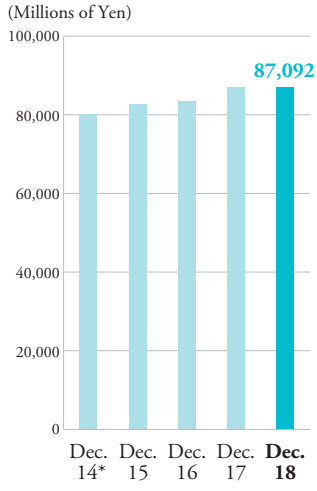
Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥8,259 million. (Net cash provided by operating activities for the previous corresponding year was ¥6,349 million.) This result reflected income before income taxes of ¥3,030 million, depreciation and amortization of ¥1,040 million, business structure reform expenses of ¥2,021 million, a ¥1,985 million decrease in trade notes and accounts receivable, a ¥1,811 million decrease in inventories, and income taxes paid of ¥1,855 million.

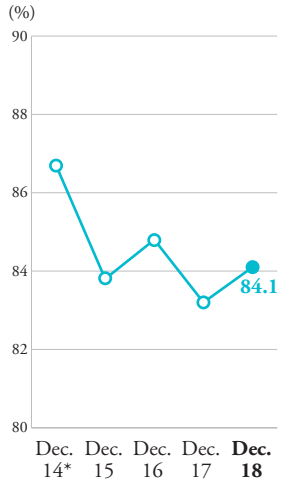
Total Assets



Total Equity



Shareholders' Equity Ratio



* 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.

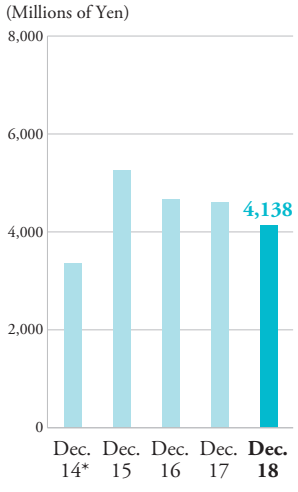
Cash Flows from Investing Activities

Net cash used in investing activities amounted to ¥27,068 million. (Net cash provided by investing activities for the previous corresponding year was ¥7,593 million.) Major items included inflows of ¥7,740 million in proceeds from sale and redemption of marketable securities, as well as outflows of ¥25,710 million in purchases of marketable securities and ¥8,448 million in purchases of investment securities.

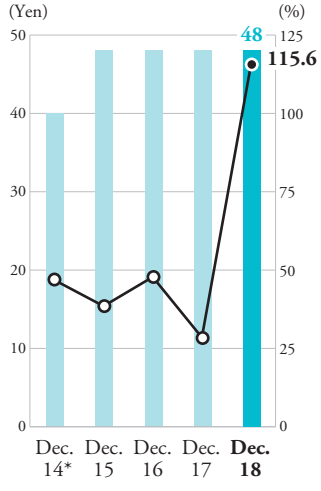
Cash Flows from Financing Activities

Net cash used in financing activities amounted to ¥1,432 million, consisting mainly of ¥1,346 million in dividends paid. (Net cash used in financing activities for the previous corresponding period was ¥1,546 million.)

Research and Development Costs



Cash Dividends
Dividend Payout Ratio



* 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.

Balance Sheet

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	December 31, 2018	December 31, 2017	December 31, 2018
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents (Notes 12 and 13)	¥ 15,654	¥ 35,895	$ 141,029
Marketable securities (Notes 3 and 12)	25,606	5,356	230,686
Receivables (Note 12):			
Trade notes		14	
Trade accounts	27,094	28,972	244,096
Parent	975	981	8,785
Other	137	145	1,243
Inventories (Note 4)	8,315	10,126	74,911
Deferred tax assets (Note 9)	1,786	1,577	16,099
Prepaid expenses and other current assets	670	910	6,037
Total current assets	80,240	83,980	722,889
PROPERTY, PLANT AND EQUIPMENT:			
Land	446	680	4,018
Buildings and structures	10,274	11,504	92,562
Machinery and equipment	8,079	8,181	72,786
Furniture and fixtures	2,150	2,662	19,370
Lease assets (Note 11)	1,977	1,959	17,816
Construction in progress	99	97	895
Total	23,027	25,084	207,450
Accumulated depreciation	(19,595)	(19,544)	(176,535)
Net property, plant and equipment	3,431	5,540	30,914
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 3 and 12)	13,770	7,478	124,061
Software	567	708	5,108
Long-term prepaid expenses	4,793	5,748	43,187
Deferred tax assets (Note 9)		505	
Other assets	742	780	6,687
Total investments and other assets	19,874	15,220	179,045
TOTAL	¥103,546	¥104,741	$ 932,849

See notes to financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	December 31, 2018	December 31, 2017	December 31, 2018
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Payables (Note 12):			
Trade accounts	¥ 3,714	¥ 4,429	$ 33,463
Parent (Note 13)	3,441	4,227	31,000
Other	3,579	3,183	32,245
Current portion of long-term lease obligations	85	85	768
Income taxes payable (Note 12)	852	1,396	7,679
Accrued expenses	757	746	6,824
Accrued employees' bonuses	675	684	6,088
Accrued bonuses to directors and Audit & Supervisory Board members	63	52	572
Other current liabilities	1,105	1,062	9,959
Total current liabilities	14,274	15,868	128,602
LONG-TERM LIABILITIES:			
Liability for retirement benefits (Note 6)	1,077	895	9,706
Long-term lease obligations	380	465	3,427
Asset retirement obligations	151	151	1,367
Deferred tax liabilities (Note 9)	292		2,638
Other long-term liabilities	276	241	2,487
Total long-term liabilities	2,178	1,753	19,626
EQUITY (Notes 7 and 8):			
Common stock—authorized, 54,000,000 shares;			
issued, 28,800,000 shares in December 2018 and 2017	5,190	5,190	46,756
Capital surplus:	6,426	6,416	57,894
Additional paid-in capital	6,416	6,416	57,801
Other capital surplus	10		92
Stock acquisition rights	11	9	101
Retained earnings:			
Legal reserve	1,297	1,297	11,689
Unappropriated	74,759	74,940	673,504
Unrealized gain on available-for-sale securities	864	745	7,784
Treasury stock—at cost, 738,846 shares in December 2018 and 751,603 shares in December 2017	(1,455)	(1,480)	(13,111)
Total equity	87,092	87,119	784,620
TOTAL	¥ 103,546	¥ 104,741	$ 932,849

Statement of Income

Torii Pharmaceutical Co., Ltd.
Year ended December 31, 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Year Ended December 31, 2018	Year Ended December 31, 2017	Year Ended December 31, 2018
NET SALES	¥ 62,551	¥ 64,135	$ 563,526
COST OF SALES (Notes 6, 11 and 13)	31,844	31,293	286,886
Gross profit	30,707	32,841	276,640
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 6, 10 and 11)	25,755	26,559	232,030
Operating income	4,951	6,281	44,609
OTHER INCOME (EXPENSES):			
Interest and dividend income	76	48	692
Loss on disposal of property, plant and equipment (Note 1)	(5)	(29)	(52)
Loss on disaster	(22)		(203)
Business structure reform expenses (Note 5)	(2,021)		(18,209)
Other—net	51	73	467
Other income (expenses)—net	(1,921)	92	(17,306)
INCOME BEFORE INCOME TAXES	3,030	6,373	27,303
INCOME TAXES (Note 9):			
Current	1,329	1,822	11,977
Deferred	536	(167)	4,832
Total income taxes	1,865	1,655	16,810
NET INCOME	¥ 1,164	¥ 4,718	$ 10,492

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Note 2.r):			
Basic net income	¥ 41.5	¥ 168.2	$ 0.37
Diluted net income	—	168.2	—
Cash dividends applicable to the period	48.0	48.0	0.43

See notes to financial statements.

Statement of Changes in Equity

		Millions of Yen								
			Capital Surplus (Note 7)			Retained Earnings (Note 6)				
	Outstanding Number of Shares of Common Stock	Common Stock (Note 7)	Additional Paid-in Capital	Other Capital Surplus	Stock Acquisition Rights (Note 7)	Legal Reserve	Unappropriated	Unrealized Gain (Loss) on Available-for-Sale Securities	Treasury Stock	Total Equity
BALANCE, DECEMBER 31, 2016	**28,048,875**	**¥ 5,190**	**¥ 6,416**		**¥ 4**	**¥ 1,297**	**¥ 71,568**	**¥ 558**	**¥ (1,478)**	**¥ 83,556**
Net income							4,718			4,718
Cash dividends paid, ¥48.0 per share							(1,346)			(1,346)
Repurchase of treasury stock	(478)								(1)	(1)
Net change in the year					5			186		192
BALANCE, DECEMBER 31, 2017	**28,048,397**	**5,190**	**6,416**		**9**	**1,297**	**74,940**	**745**	**(1,480)**	**87,119**
Net income							1,164			1,164
Cash dividends paid, ¥48.0 per share							(1,346)			(1,346)
Repurchase of treasury stock	(301)								(0)	(0)
Disposal of treasury stock	13,058			¥ 10					25	35
Net change in the year					1			118		120
BALANCE, DECEMBER 31, 2018	**28,061,154**	**¥ 5,190**	**¥ 6,416**	**¥ 10**	**¥ 11**	**¥ 1,297**	**¥ 74,759**	**¥ 864**	**¥ (1,455)**	**¥ 87,092**

	Thousands of U.S. Dollars (Note 1)								
		Capital Surplus (Note 7)			Retained Earnings (Note 6)				
	Common Stock (Note 7)	Additional Paid-in Capital	Other Capital Surplus	Stock Acquisition Rights (Note 7)	Legal Reserve	Unappropriated	Unrealized Gain (Loss) on Available-for-Sale Securities	Treasury Stock	Total Equity
BALANCE, DECEMBER 31, 2017	**$ 46,756**	**$ 57,801**		**$ 89**	**$ 11,689**	**$ 675,143**	**$ 6,712**	**$ (13,336)**	**$ 784,857**
Net income						10,492			10,492
Cash dividends paid, $0.43 per share						(12,131)			(12,131)
Repurchase of treasury stock								(6)	(6)
Disposal of treasury stock			$ 92					231	324
Net change in the year				12			1,071		1,084
BALANCE, DECEMBER 31, 2018	**$ 46,756**	**$ 57,801**	**$ 92**	**$ 101**	**$ 11,689**	**$ 673,504**	**$ 7,784**	**$ (13,111)**	**$ 784,620**

See notes to financial statements.

Statement of Cash Flows

Torii Pharmaceutical Co., Ltd.
Year ended December 31, 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Year Ended December 31, 2018	Year Ended December 31, 2017	**Year Ended December 31, 2018**
OPERATING ACTIVITIES:			
Income before income taxes	**¥ 3,030**	¥ 6,373	**$ 27,303**
Adjustments for:			
Income taxes paid	**(1,855)**	(1,263)	**(16,713)**
Depreciation and amortization	**1,040**	1,174	**9,373**
Business structure reform expenses (impairment loss)	**2,021**		**18,209**
Changes in assets and liabilities:			
Decrease (increase) in trade notes and accounts receivable	**1,892**	(2,465)	**17,048**
Decrease in inventories	**1,811**	480	**16,318**
Decrease (increase) in trade accounts payable	**(714)**	568	**(6,438)**
Other—net	**1,033**	1,481	**9,311**
Total adjustments	**5,229**	(23)	**47,110**
Net cash provided by operating activities	**8,259**	6,349	**74,414**
INVESTING ACTIVITIES:			
Purchases of marketable securities	**(25,710)**	(5,463)	**(231,627)**
Proceeds from sale and redemption of marketable securities	**7,740**	2,500	**69,729**
Purchases of property, plant and equipment	**(528)**	(529)	**(4,762)**
Proceeds from sale of property, plant and equipment	**0**	2	**6**
Purchases of investment securities	**(8,448)**	(4,642)	**(76,109)**
Proceeds from sale and redemption of investment securities		800	
Other—net	**(122)**	(260)	**(1,102)**
Net cash used in investing activities	**(27,068)**	(7,593)	**(243,864)**
FINANCING ACTIVITIES:			
Repurchase of treasury stock	**(0)**	(1)	**(6)**
Dividends paid	**(1,346)**	(1,346)	**(12,131)**
Repayments of lease obligations	**(85)**	(198)	**(767)**
Net cash used in financing activities	**(1,432)**	(1,546)	**(12,905)**
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(20,241)**	(2,789)	**(182,356)**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**35,895**	38,685	**323,385**
CASH AND CASH EQUIVALENTS, END OF YEAR	**¥ 15,654**	¥ 35,895	**$ 141,029**

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 ("Japanese GAAP"), which are different in certain respects as to the 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 2017 financial statements to conform to the classifications used in 2018.

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 ¥111.00 to $1, the approximate rate of exchange at December 31, 2018. 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.

Figures in the Company's financial statements and other items are generally rounded down.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Nonconsolidation—The Company has no subsidiaries as of December 31, 2018.

b. Cash Equivalents—Cash equivalents are short-term investments that are readily convertible into cash and 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 weighted-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 available-for-sale securities, which 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 of property, plant and equipment of the Company is computed by the declining-balance method while the straight-line method is applied to buildings acquired on or after April 1, 1998, and building improvements and structures acquired on or after April 1, 2016. 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 circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

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

h. Retirement and Pension Plans—The Company has a contributory defined pension plan covering substantially all of its employees and an unfunded retirement lump-sum grants plan. The Company participates in a contributory multiemployer pension plan, the "Tokyo Pharmaceutical Company 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.

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—An asset retirement obligation is recorded for a legal obligation imposed either by law or contract that results from the acquisition, construction, development and 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 adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

j. Stock Options—Compensation expense for employee stock options which were granted on and after May 1, 2006 are recognized based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services in accordance with ASBJ Statement No. 8, "Accounting Standard for Share-Based Payment." Stock options granted to nonemployees are accounted for based on the fair value of either the stock option or the goods or services received. In the balance sheet, the stock option is presented as a stock acquisition right, as a separate component of equity until, exercised.

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

l. Leases— Finance lease transactions are capitalized to recognize lease assets and lease obligations in the balance sheet.

All other leases are accounted for as operating leases.

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

n. 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.

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

p. 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.

q. 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.

r. 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 28,057,218 shares and 28,048,699 shares for the years ended December 31, 2018 and 2017, respectively.

Diluted net income per share is not disclosed because there were no dilutive potential common shares that were outstanding during the year ended December 31, 2018.

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

s. Accounting Changes and Error Corrections—Under 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 are required as follows: (1) Changes in Accounting Policies—When a new accounting policy is applied following the revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions. (2) Changes in Presentation—When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation. (3) Changes in Accounting Estimates—A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods. (4) Corrections of Prior-Period Errors—When an error in prior-period financial statements is discovered, those statements are restated.

t. New Accounting Pronouncements—On March 30, 2018, the ASBJ issued ASBJ Statement No. 29, "Accounting Standard for Revenue Recognition" and ASBJ Guidance No. 30, "Implementation Guidance on Accounting Standard for Revenue Recognition." The core principle of the standard and guidance is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in

exchange for those goods or services. An entity recognizes revenue in accordance with that core principle by applying the following steps:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The accounting standard and guidance are effective for annual periods beginning on or after April 1, 2021. Earlier application is permitted for annual periods beginning on or after April 1, 2018.

The Company expects to apply the accounting standard and guidance for annual periods beginning on or after January 1, 2022, and is in the process of measuring the effects of applying the accounting standard and guidance in future applicable periods.

3 MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of December 31, 2018 and 2017, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	December 31, 2018	December 31, 2017	**December 31, 2018**
Current:			
Government and corporate bonds	**¥ 17,606**	¥ 5,356	**$ 158,613**
Trust fund investments and other	**8,000**		**72,073**
Total	**¥ 25,606**	¥ 5,356	**$ 230,686**
Noncurrent:			
Equity securities	**¥ 1,703**	¥ 1,543	**$ 15,343**
Government and corporate bonds	**9,043**	5,935	**81,469**
Trust fund investments and other	**3,024**		**27,248**
Total	**¥ 13,770**	¥ 7,478	**$ 124,061**

The costs and aggregate fair values of marketable and investment securities at December 31, 2018 and 2017, were as follows:

	Millions of Yen			
December 31, 2018	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	**¥ 357**	**¥ 1,235**		**¥ 1,593**
Debt securities	**26,668**	**8**	**¥ 27**	**26,649**
Other	**11,000**	**24**		**11,024**

December 31, 2017				
Available-for-sale:				
Equity securities	¥ 357	¥ 1,075		¥ 1,433
Debt securities	11,297	4	¥ 11	11,291

	Thousands of U.S. Dollars			
December 31, 2018	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	**$ 3,224**	**$ 11,128**		**$ 14,352**
Debt securities	**240,255**	**72**	**$ 245**	**240,082**
Other	**99,099**	**222**		**99,321**

Available-for-sale securities whose fair value was not readily determinable as of December 31, 2018 and 2017, were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	December 31, 2018	December 31, 2017	December 31, 2018
Available-for-sale—Unlisted equity securities	¥ 110	¥ 110	$ 990
Total	¥ 110	¥ 110	$ 990

4 INVENTORIES

Inventories at December 31, 2018 and 2017, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	December 31, 2018	December 31, 2017	December 31, 2018
Finished products and merchandise	¥ 4,722	¥ 6,036	$ 42,547
Work in process	626	609	5,648
Raw materials and supplies	2,965	3,480	26,715
Total	¥ 8,315	¥ 10,126	$ 74,911

5 LONG-LIVED ASSETS

The Company reviewed its long-lived assets for impairment as of December 31, 2018. The Company grouped assets of the Sakura Plant and Institute from business-use assets to disposed assets and the carrying value of disposed assets for which profitability declined were written down to the recoverable amount. As a result, the Company recognized loss on impairment of fixed assets in the amount of ¥2,021 million ($18,209 thousand). The components of the loss on impairment consisted of buildings and structures of ¥1,417 million ($12,774 thousand), machinery and equipment of ¥253 million ($2,286 thousand), land of ¥234 million ($2,112 thousand), and other property, plant and equipment of ¥114 million ($1,035 thousand). The recoverable amount of that group was measured at its value in use and the discount rate used for computation of the present value of future cash flows was 6.57%.

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, 2018 and 2017, consisted of the following:

(1) The changes in defined benefit obligation for the years ended December 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	Year Ended December 31, 2018	Year Ended December 31, 2017	Year Ended December 31, 2018
Balance at beginning of period	¥ 8,237	¥ 8,166	$ 74,212
Current service cost	463	459	4,174
Interest cost	49	49	445
Actuarial losses	6	74	57
Benefits paid	(509)	(511)	(4,593)
Balance at end of period	¥ 8,246	¥ 8,237	$ 74,295

(2) The changes in plan assets for the years ended December 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	Year Ended December 31, 2018	Year Ended December 31, 2017	Year Ended December 31, 2018
Balance at beginning of period	¥ 7,447	¥ 7,224	$ 67,090
Expected return on plan assets	148	144	1,341
Actuarial (losses) gains	(313)	199	(2,822)
Contributions from the employer	351	341	3,163
Benefits paid	(463)	(462)	(4,171)
Balance at end of period	¥ 7,170	¥ 7,447	$ 64,601

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

	Millions of Yen		Thousands of U.S. Dollars
	December 31, 2018	December 31, 2017	December 31, 2018
Funded defined benefit obligation	¥ 8,049	¥ 8,046	$ 72,520
Plan assets	(7,170)	(7,447)	(64,601)
	878	599	7,918
Unfunded defined benefit obligation	197	191	1,775
Unrecognized actuarial losses	73	264	665
Unrecognized prior service cost	(72)	(159)	(653)
Net liability arising from defined benefit obligation	¥ 1,077	¥ 895	$ 9,706

	Millions of Yen		Thousands of U.S. Dollars
	December 31, 2018	December 31, 2017	December 31, 2018
Liability for retirement benefits	¥ 1,077	¥ 895	$ 9,706
Net liability arising from defined benefit obligation	¥ 1,077	¥ 895	$ 9,706

(4) The components of net periodic benefit costs for the years ended December 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	Year Ended December 31, 2018	Year Ended December 31, 2017	Year Ended December 31, 2018
Service cost	¥ 463	¥ 459	$ 4,174
Interest cost	49	49	445
Expected return on plan assets	(148)	(144)	(1,341)
Recognized actuarial losses	128	197	1,159
Amortization of prior service cost	87	87	784
Net periodic benefit costs	¥ 579	¥ 648	$ 5,221

(5) Plan assets

a. Components of plan assets

Plan assets consisted of the following:

	December 31, 2018	December 31, 2017
Debt investments	52%	43%
Equity investments	22	29
General account of life insurance companies	7	7
Others	19	21
Total	100%	100%

Notes: "Others" mainly includes insurance-linked products and hedge funds.

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 years ended December 31, 2018 and 2017, were set forth as follows:

	Year Ended December 31, 2018	Year Ended December 31, 2017
Discount rate	0.6%	0.6%
Expected rate of return on plan assets	2.0	2.0

(7) Multiemployer pension plan

Contributions to the multiemployer pension plan of ¥106 million ($956 thousand) and ¥121 million are disclosed in cost of sales and selling, general and administrative expenses for the years ended December 31, 2018 and 2017 respectively, for which plan assets could not be allocated to each participating employer.

The funded status of the multiemployer pension plan at December 31, 2018 (based on information available as of March 31, 2018) and December 31, 2017 (based on information available as of March 31, 2017) to which contributions were recorded as net periodic retirement benefit costs, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	March 31		
	2018	2017	March 31, 2018
Fair value of plan assets	¥ 531,843	¥ 549,912	$ 4,791,385
Sum of actuarial liabilities of pension plan and minimum actuarial reserve	512,770	547,838	4,619,552
Difference	¥ 19,073	¥ 2,074	$ 171,832

The Company's contribution percentage for the multiemployer pension plan at December 31, 2018 and 2017, was as follows:

	December 31, 2018	December 31, 2017
Contribution percentage	1.4%	1.5%

Notes (March 31, 2018):
1. The difference mainly resulted from prior service cost of ¥(23,254) million ($(209,503) thousand), surplus brought forward of ¥11,381 million ($102,532 thousand) and special reserve fund of ¥30,947 million ($278,803 thousand).
2. Prior service cost is the present value of the amount of special contributions and the method of amortization is equal to the payment terms. The ratio of employer contribution is 15.5‰. The remaining term of amortization is 4 years and 0 months as of March 31, 2018.

Notes (March 31, 2017):
1. The difference mainly resulted from prior service cost of ¥(28,872) million, surplus brought forward of ¥(2,650) million and special reserve fund of ¥28,296 million.
2. Prior service cost is the present value of the amount of special contributions and the method of amortization is equal to the payment terms. The ratio of employer contribution is 15.5‰. The remaining term of amortization is 5 years and 0 months as of March 31, 2017.

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. Additionally, for companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the Company has prescribed so in its articles of incorporation. However, the Company 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 within equity under certain conditions upon resolution of the shareholders.

c. Treasury Stock and Treasury Stock Acquisition Rights
The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

8 STOCK OPTIONS

The stock options outstanding as of December 31, 2018, are as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2016 Stock Option	6 Directors 6 Executive Vice Presidents	28,000 shares	2016.4.8	¥ 2,736 ($ 24)	From April 9, 2018 to April 8, 2021

The stock option activity is as follows:

	2016 Stock Option (Shares)
Year Ended December 31, 2017	
Non-vested	
December 31, 2016—Outstanding	28,000
Granted	
Canceled	(1,600)
Vested	
December 31, 2017—Outstanding	26,400
Vested	
December 31, 2016—Outstanding	
Vested	
Exercised	
Canceled	
December 31, 2017—Outstanding	

Year Ended December 31, 2018	
Non-vested	
December 31, 2017—Outstanding	26,400
Granted	
Canceled	
Vested	(26,400)
December 31, 2018—Outstanding	
Vested	
December 31, 2017—Outstanding	
Vested	26,400
Exercised	
Canceled	
December 31, 2018—Outstanding	26,400
Exercise price	¥ 2,736 ($ 24)
Average stock price at exercise	
Fair value price at grant date	¥ 427.70 ($ 3.85)

9 INCOME TAXES

The Company is subject to Japanese national and local income taxes, which, in the aggregate, resulted in a normal effective statutory tax rate of 30.9% for each of the years ended December 31, 2018 and 2017.

The tax effects of significant temporary differences, which resulted in deferred tax assets and liabilities at December 31, 2018 and 2017, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	December 31, 2018	December 31, 2017	**December 31, 2018**
Deferred tax assets:			
Prepayment of research and development costs	**¥ 1,173**	¥ 1,006	**$ 10,572**
Impairment loss	**640**	29	**5,766**
Liabilities for retirement benefits	**329**	274	**2,970**
Accrued bonuses to employees	**206**	211	**1,863**
Loss on valuation of inventories	**142**	14	**1,280**
Accrued enterprise taxes	**68**	100	**617**
Other	**412**	797	**3,720**
Less valuation allowance	**(1,098)**	(21)	**(9,897)**
Total	**1,875**	2,412	**16,894**
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	**376**	324	**3,393**
Other	**4**	5	**40**
Total	**381**	329	**3,433**
Net deferred tax assets	**¥ 1,494**	¥ 2,083	**$ 13,460**

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate as reflected in the accompanying statement of income for the year ended December 31, 2018, with the corresponding figures for 2017, is as follows:

	Year Ended December 31, 2018	Year Ended December 31, 2017
Normal effective statutory tax rate	**30.9%**	30.9%
Expenses not deductible for income tax purposes	**2.5**	1.2
Dividend income deductible for income tax purposes	**(0.0)**	(0.0)
Per capita levy	**2.3**	1.1
Tax credits	**(9.4)**	(6.8)
Increase in valuation allowance	**36.3**	
Other—net	**(0.9)**	(0.4)
Actual effective tax rate	**61.6%**	26.0%

10 RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥4,138 million ($37,282 thousand) and ¥4,608 million for the years ended December 31, 2018 and 2017, respectively.

11 LEASES

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

Total rental expenses including lease payments under finance leases for the years ended December 31, 2018 and 2017, were ¥1,368 million ($12,331 thousand) and ¥1,354 million, respectively.

The minimum rental commitments under noncancelable operating leases were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2018	2018
	Operating Leases	Operating Leases
Due within one year	¥ 77	$ 698
Due after one year	123	1,108
Total	¥ 200	$ 1,806

12 FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Policy for Financial Instruments

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

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

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

Fair values of financial instruments are based on quoted prices in active markets. If a quoted price is not available, another rational valuation technique is used instead.

(a) Fair values of financial instruments

	Millions of Yen		
December 31, 2018	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	**¥ 15,654**	**¥ 15,654**	
Receivables:			
Trade accounts	**27,094**	**27,094**	
Parent	**975**	**975**	
Marketable and investment securities—Available-for-sale securities	**39,267**	**39,267**	
Total	**¥ 82,991**	**¥ 82,991**	
Payables:			
Trade accounts	**¥ 3,714**	**¥ 3,714**	
Parent	**3,441**	**3,441**	
Other	**3,579**	**3,579**	
Income taxes payable	**852**	**852**	
Total	**¥ 11,587**	**¥ 11,587**	

December 31, 2017			
Cash and cash equivalents	¥ 35,895	¥ 35,895	
Receivables:			
Trade accounts	28,972	28,972	
Parent	981	981	
Marketable and investment securities—Available-for-sale securities	12,724	12,724	
Total	¥ 78,574	¥ 78,574	
Payables:			
Trade accounts	¥ 4,429	¥ 4,429	
Parent	4,227	4,227	
Other	3,183	3,183	
Income taxes payable	1,396	1,396	
Total	¥ 13,236	¥ 13,236	

December 31, 2018	Thousands of U.S. Dollars		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	$ 141,029	$ 141,029	
Receivables:			
Trade accounts	244,096	244,096	
Parent	8,785	8,785	
Marketable and investment securities—Available-for-sale securities	353,757	353,757	
Total	$ 747,668	$ 747,668	
Payables:			
Trade accounts	$ 33,463	$ 33,463	
Parent	31,000	31,000	
Other	32,245	32,245	
Income taxes payable	7,679	7,679	
Total	$ 104,388	$ 104,388	

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, 2018	December 31, 2017	December 31, 2018
Unlisted shares	¥ 110	¥ 110	$ 990

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

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

December 31, 2018	Millions of Yen		
	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years
Cash and cash equivalents	¥ 15,653		
Receivables:			
Trade accounts	27,094		
Parent	975		
Marketable and investment securities—Available-for-sale securities with contractual maturities	25,606	¥ 4,450	¥ 7,617
Total	¥ 69,330	¥ 4,450	¥ 7,617

December 31, 2018	Thousands of U.S. Dollars		
	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years
Cash and cash equivalents	$ 141,026		
Receivables:			
Trade accounts	244,096		
Parent	8,785		
Marketable and investment securities—Available-for-sale securities with contractual maturities	230,686	$ 40,091	$ 68,625
Total	$ 624,595	$ 40,091	$ 68,625

13 RELATED PARTY TRANSACTIONS

Transactions of the Company with the parent company for the years ended December 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	Year Ended December 31, 2018	Year Ended December 31, 2017	Year Ended December 31, 2018
Purchases	¥ 12,412	¥ 12,922	$ 111,826

The balances due to or from the parent company at December 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	December 31, 2018	December 31, 2017	December 31, 2018
Deposits included in cash and cash equivalents	¥ 9,169	¥ 9,836	$ 82,609
Trade accounts payable	2,942	3,813	26,511

14 SEGMENT INFORMATION

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

Information relating to business segments is omitted as the Company operated solely in the pharmaceutical business for the years ended December 31, 2018 and 2017.

Sales to major customers were as follows:

	Millions of Yen		Thousands of U.S. Dollars
Name of Customer	**Year Ended December 31, 2018**	Year Ended December 31, 2017	**Year Ended December 31, 2018**
Mediceo Corporation	**¥ 15,371**	¥ 15,454	**$ 138,478**
Alfresa Corporation	**14,511**	14,849	**130,730**
Suzuken Co., Ltd.	**13,128**	12,847	**118,276**
Toho Pharmaceutical Co., Ltd.	**6,785**	6,455	**61,131**

15 ADDITIONAL INFORMATION

Termination of the License Agreements by which JT Granted the Company the Exclusive Rights to Market the Six Anti-HIV Drugs in Japan

In November 2018, the Company and JT agreed to terminate the license agreements by which JT granted the Company the exclusive rights to market the Six Anti-HIV Drugs in Japan. In January 2019, the Company received payment of ¥42,100 million ($379,279 thousand) by returning the license. Furthermore, Gilead Sciences K.K. ("Gilead K.K.") has been responsible for providing information about the Six anti-HIV Drugs to medical institutions since January 2019. Until Gilead K.K. completely succeeds JT's marketing approval of the Six Anti-HIV Drugs in Japan, as a transitional measure, the Company is responsible for distribution and received ¥1,100 million ($9,909 thousand) from JT for the above responsibility.

16 SUBSEQUENT EVENTS

Offer of Voluntary Early Retirement

At the Board of Directors meeting held on February 6, 2019, the Company resolved to make a voluntary early retirement offer to its employees, as follows.

Target number of applicants:	Not specified
Eligibility:	(Corporate, Marketing and Promotion Dept.) Employees of the Company who have worked for no less than 2 years as of April 1, 2019 (Other Dept.) Employees of the Company who have worked for no less than 2 years as of April 1, 2019 and will be at least 50 years of age as of March 31, 2020 (Not available to those employed in the Production Group)
Application period:	From April 15, 2019 to May 31, 2019
Retirement date:	September 30, 2019
Incentives:	A severance benefit premium will be paid in addition to the ordinary severance benefit. Also, outplacement assistance will be provided to those requesting it.

Impact on Financial Performance

The special severance benefit payment and expenses for outplacement assistance arising in connection with the early retirement offer will be recorded during the fiscal year ended December 31, 2019. Because details such as the number of employees applying for voluntary early retirement and the total amount of special severance benefit payments have yet to be determined, the impact on financial performance is uncertain at this t

Deloitte.

Deloitte Touche Tohmatsu LLC
Shinagawa Intercity
2-15-3 Konan
Minato-ku, Tokyo 108-6221
Japan

Tel: +81 (3) 6720 8200
Fax: +81 (3) 6720 8205
www.deloitte.com/jp/en

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, 2018, and the related statements of income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Torii Pharmaceutical Co., Ltd. as of December 31, 2018, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

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

Deloitte Touche Tohmatsu LLC

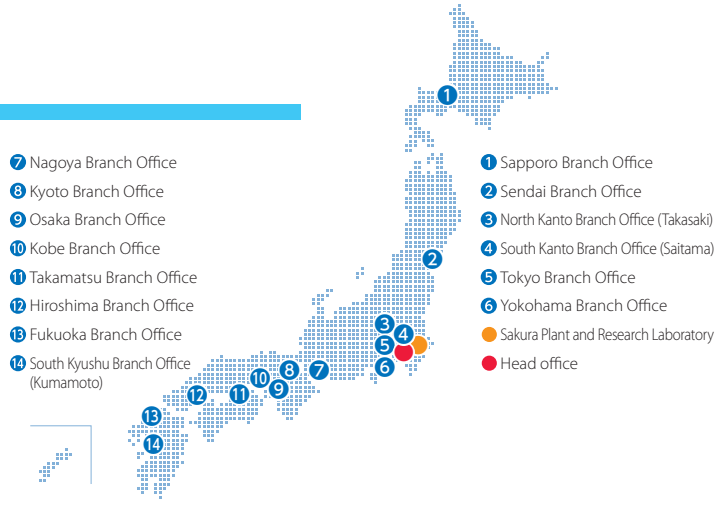
March 19, 2019

Member of
Deloitte Touche Tohmatsu Limited

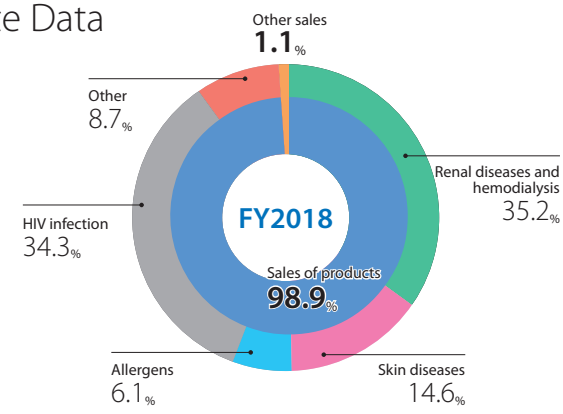
Corporate Information

Corporate Overview

Corporate name	Torii Pharmaceutical Co., Ltd.
Established	November 1, 1921
Paid-in capital	¥5,190 million
Business lines	Manufacturing and marketing of pharmaceutical products
Number of employees	1,049
Stock exchange listing	The first section of the Tokyo Stock Exchange (Securities code: 4551)
Head office	4-1, Nihonbashi-Honcho 3-chome, Chuo-ku, Tokyo 103-8439, Japan Telephone: +81-3-3231-6811



Corporate Data

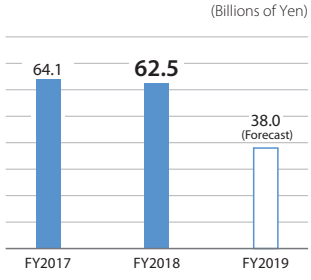


Net sales by disease area

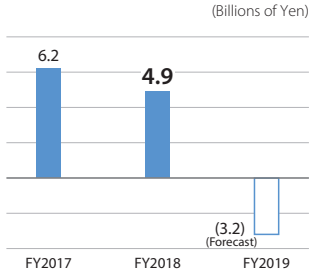
(Millions of Yen)

	FY2017	FY2018
Net sales	64,135	**62,551**
Sales of products	62,935	**61,835**
Renal diseases and hemodialysis	25,276	**21,991**
Skin diseases	9,905	**9,126**
Allergens	2,099	**3,803**
HIV infection	19,777	**21,448**
Other	5,877	**5,464**
Other sales	1,199	**716**

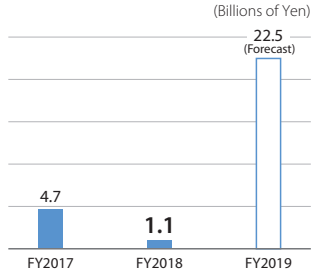
Net Sales



Operating Income (Loss)



Net Income



Mainstay Products

REMITCH Oral antipruritic agent

REMITCH is a treatment for pruritus in patients on dialysis and with chronic liver disease for which conventional antipruritic medications are ineffective.

Riona Tablets Therapeutic agent for hyperphosphatemia

Riona is a medication which treats hyperphosphatemia in patients with chronic kidney disease, including hemodialysis, peritoneal dialysis, and non-dialysis chronic kidney disease patients, by suppressing phosphate absorption into the body.

ANTEBATE Topical corticosteroid

ANTEBETE is a treatment that improves the symptoms in patients with skin diseases such as atopic dermatitis and contact dermatitis, by suppressing inflammation.

CEDARTOLEN SUBLINGUAL DROP—Japanese Cedar Pollen
Japanese cedar pollinosis (Allergen Immunotherapy)

CEDARTOLEN is Japan's first sublingually-administered allergen immunotherapy for Japanese cedar pollinosis. It is used for the treatment through acclimating the body to allergens by administering the product to help alleviate allergy symptoms.

MITICURE House Dust Mite Sublingual Tablets
House dust mite allergy (Allergen Immunotherapy)

MITICURE is an allergen immunotherapy tablet for house dust mite-induced allergic rhinitis. This drug was approved an additional dosage and administration for pediatric indication in February 2018.

CEDARCURE Japanese Cedar Pollen Sublingual Tablets
Japanese cedar pollinosis (Allergen Immunotherapy)

CEDARCURE is a sublingual allergen immunotherapy drug for Japanese cedar pollinosis. This fast-dissolving sublingual tablet was first available in Japan for adult and pediatric patients.

TORII PHARMACEUTICAL CO., LTD.

4-1, Nihonbashi-Honcho 3-chome, Chuo-ku, Tokyo, 103-8439, Japan
TEL: +81-3-3231-6811　FAX: +81-3-5203-7333

https://www.torii.co.jp/en/