TORII PHARMACEUTICAL CO., LTD.

Annual Report 2016

For the year ended December 31, 2016

Values and Philosophy

The Corporate Mission of Torii

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

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

CS: Customer Satisfaction

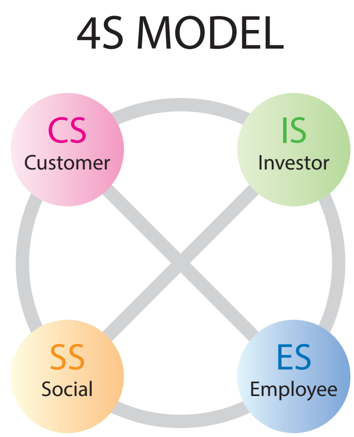
Our Responsibility to Customers

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

SS: Social Satisfaction

Our Responsibility to Society

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



IS: Investor Satisfaction

Our Responsibility to Shareholders

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

ES: Employee Satisfaction

Our Responsibility to Employees

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

The Torii Action Declaration

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

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Forward-Looking Statements

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

Collaboration with Japan Tobacco Inc. ("JT")

Functions of the pharmaceutical business are divided between Torii and JT, which is an attempt to produce synergies as a group by leveraging of each of their strengths in pharmaceutical products and services. In this partnership, R&D for new drugs came under the control of JT, while Torii took over sales and marketing functions. JT is responsible for research and development activities pertaining to new compounds, whereas Torii is responsible primarily for improvements to the formulations of existing products and the development of additional indications. Torii also carries out its own research and development in its specific areas of expertise. Moreover, Torii is collaborating with JT in searching and developing candidates for new in-licensed drugs.

Sales and Marketing

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

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

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

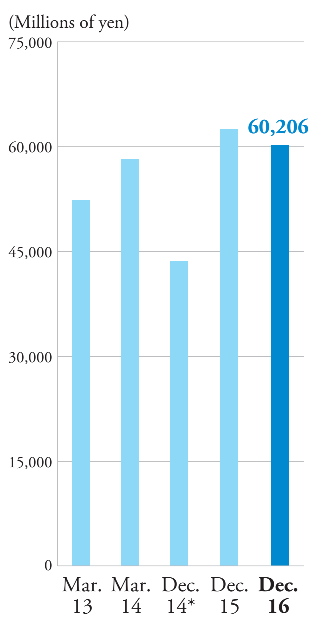
Torii also works actively with JT to in-license products that can be brought to the Japanese market.

Financial Highlights

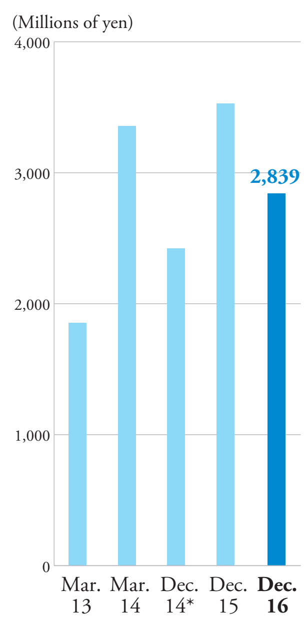
	Millions of yen		Thousands of U.S. dollars*1
	Dec. 2016	Dec. 2015	**Dec. 2016**
For the Year:			
Net sales	**¥60,206**	¥62,378	**$516,842**
Operating income	**3,819**	4,919	**32,786**
Income before income taxes	**4,056**	5,258	**34,820**
Net income	**2,839**	3,527	**24,379**
At Year-End:			
Total assets	**¥98,525**	¥98,868	**$845,785**
Total equity	**83,556**	82,826	**717,283**
	Yen		U.S. dollars*1
Per Share Data:			
Net income	**¥100.4**	¥124.7	**$0.86**
Cash dividends	**48.0**	48.0	**0.41**

*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 ¥116.49=US$1.00, the approximate exchange rate prevailing on December 31, 2016.

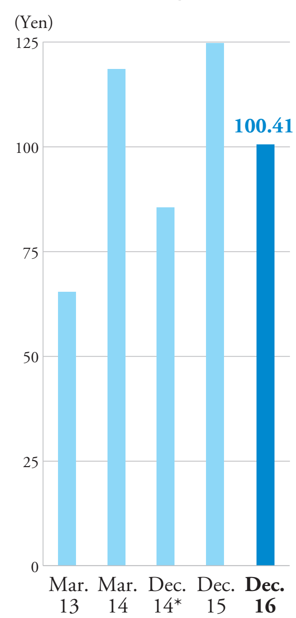
Net Sales



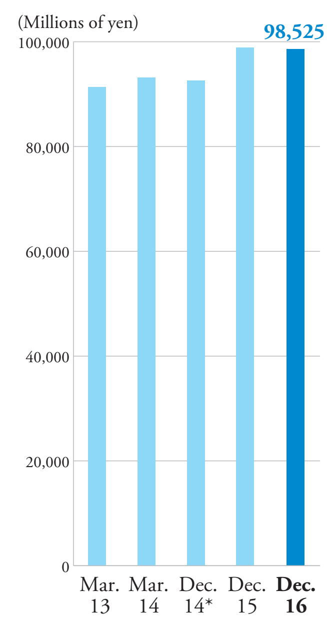
Net Income



Net Income per Share



Total Assets



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

Mainstay Products


REMITCH


Truvada


ANTEBATE


Riona


Stribild


CEDARTOLEN

Brand name	Area	Therapeutic indication	Net sales in fiscal 2015 (Billions of yen)	Net sales in fiscal 2016 (Billions of yen)
REMITCH	Renal diseases and Hemodialysis	Oral anti-pruritus agent	¥15.6	**¥13.6**
Truvada	HIV infection	Antiviral agent for HIV	12.9	**12.7**
ANTEBATE*1	Skin diseases	Topical corticosteroid	6.8	**6.2**
Riona	Renal diseases and Hemodialysis	Agent for hyperphosphatemia	5.0	**5.6**
FUTHAN*1	Renal diseases and Hemodialysis	Protease inhibitor	3.0	**2.4**
BIO-THREE	Other	Viable bacterial preparations	2.2	**2.4**
Stribild	HIV infection	Antiviral agent for HIV	3.1	**2.3**
KAYEXALATE*1	Renal diseases and Hemodialysis	Agent for hyperkalemia	2.2	**2.1**
Genvoya*2	HIV infection	Antiviral agent for HIV	–	**1.8**
LOCOID*1	Skin diseases	Topical corticosteroid	1.4	**1.3**
ZEFNART	Skin diseases	Topical antifungal agent	1.4	**1.2**
URINORM*1	Renal diseases and Hemodialysis	Uricosuric agent	1.6	**1.2**
Magsent	Other	Tocolysis in threatened premature labor Eclampsia-suppressing and treatment	1.1	**1.1**
CEDARTOLEN*1	Allergens	Japanese cedar pollinosis (Allergen Immunotherapy)	0.5	**0.9**
Others			4.5	**4.0**

*1 In-house products
*2 Launched on July 8, 2016

A Message from the President

Torii Pharmaceutical Co., Ltd., based on its 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," formulated its "medium-term management plan 2018" that covers the three-year period from fiscal 2016 to fiscal 2018, and has engaged in initiatives in order to achieve sustainable business growth and the medium- to long-term improvement in corporate value.

In fiscal 2016, the first year under the medium-term management plan 2018, net sales decreased over the previous corresponding period due to the inclusion of REMITCH CAPSULES, an oral anti-pruritus drug for hemodialysis patients, and Riona Tablets, a hyperphosphatemia drug, in items subject to repricing for market expansion under the drug price revisions implemented in April 2016, in addition to usual reduction of drug prices under the revisions. However, Torii has steadily strove to maximize the values of its mainstay products, while focusing on prompt market penetration and expansion of new products in priority areas, including the renal disease and hemodialysis area, skin disease area, allergen area and HIV infection area.

There has been progress in the area of research and development: (1) Riona Tablets, a hyperphosphatemia drug (JTT-751) developed jointly with JT, entered Phase II of the domestic clinical trials for the treatment of iron-deficiency anemia. (2) Torii signed a license agreement (joint development with JT) with Menlo Therapeutics for the exclusive rights to develop and commercialize serlopitant in Japan, which is a neurokinin (NK-1) receptor antagonist developed by Menlo Therapeutics. (3) JT and Torii concluded an exclusive agreement for the co-development and commercialization of JT's original compound, JTE-052, in Japan. JTE-052 is a JAK inhibitor for topical use in dermatological indications, and is being clinically developed by JT in Japan.

While the business environment surrounding the pharmaceutical industry is expected to become increasingly tough due to such factors as the promotion of healthcare reforms to curb healthcare expenditures and intensified competition with rival pharmaceutical companies and their competing products, we will continue to make a concert effort to achieve sustainable growth going forward in fiscal 2017.

March 2017

S. Takagi

Shoichiro Takagi
Representative Director,
President and Chief Executive Officer

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

In order to overcome changes in the increasingly challenging business environment and achieve sustainable business growth and the medium- to long-term improvement in corporate value, the Company has formulated its "medium-term management plan 2018" that covers the three-year period from fiscal 2016 to fiscal 2018, and has engaged in initiatives for the four key issues.

In fiscal 2016, the first year under this medium-term management plan, we have steadily implemented the plan as follows:

With regards to **"(1) Carrying out active business investments aiming for medium- to long-term growth,"** we have been implementing in-license activities. These include the signing of a co-promotion contract with Eli Lilly Japan K.K. for "Taltz," a psoriasis treatment drug; the in-license of neurokinin (NK-1) receptor antagonist (internationally known as serlopitant) from Menlo Therapeutics Inc.; as well as the conclusion of a contract regarding the domestic co-development and commercialization of JAK inhibitor "JTE-052" for topical use in dermatological indications whose clinical development in Japan has been conducted by JT.

With regards to **"(2) Focusing on prompt market penetration and expansion of new products as well as maximizing values of mainstay products in each priority area,"** while promoting market penetration and expansion of "Riona," "CEDARTOLEN SUBLINGUAL DROP - Japanese Cedar Pollen" and "MITICURE® House Dust Mite Sublingual Tablets," we also focused on the co-promotional activities for "Taltz" and the prompt market penetration of the new anti-HIV drug "Genvoya."

With regards to **"(3) Improving and reinforcing business structure for sustainable growth,"** we created new departments and projects to establish a system where we can formulate and implement strategies on a cross-functional basis, as well as carrying out company-wide initiatives to improve productivity (to raise awareness).

With regards to **"(4) Earning and maintaining the trust of stakeholders,"** we continuously conducted educational and awareness-raising activities such as study groups in all divisions to enhance employee awareness of the importance of compliance. We have also established the corporate governance policy in line with the Japan's Corporate Governance Code, and carried out initiatives and disclosed information based on the policy.

On the other hand, with regards to the management targets for fiscal 2018, the final year of the medium-term management plan, no changes were made to the targets. There were also no changes made to the dividend policy, and the Company aims to maintain an annual dividend of ¥48 per share.

Management Target

	Results for the twelve months ended December 31, 2016 (Millions of yen)	Forecast for the twelve months ending December 31, 2017 (Millions of yen)	Target for the twelve months ending December 31, 2018*2 (Millions of yen)
Net sales	¥60,200	¥64,500	¥62,000
Operating income (before deduction of research and development costs)*1	8,400	10,100	8,000

*1 Research and development costs are difficult to forecast at present as they are expected to change significantly with active business investments aiming for medium- to long-term growth. Therefore, operating income before deduction of research and development costs is used as numerical target for profits.

*2 Target figures are formulated by applying certain assumptions concerning the effects of drug price revisions and measures to increase the use of generic drugs, etc. In the event that said assumptions change significantly, revisions will be made on the target figures in a prompt manner.

Launch of novel anti-HIV drugs, “Genvoya® Combination Tablets” and “Descovy® Combination Tablets LT and HT” in Japan

Genvoya® Combination Tablets

Descovy® Combination Tablets LT and HT

Torii launched a novel anti-HIV drug, “Genvoya® Combination Tablets” containing elvitegravir 150 mg, cobicistat 150 mg, emtricitabine 200 mg and tenofovir alafenamide 10 mg, fixed-dose combinations for the treatment of HIV-1 infection on July 8, 2016. Also, other novel anti-HIV drugs, namely “Descovy® Combination Tablets LT” containing emtricitabine and tenofovir alafenamide 200/10 mg, and “Descovy® Combination Tablets HT” containing emtricitabine and tenofovir alafenamide 200/25 mg, fixed-dose combinations for the treatment of HIV-1 infection in combination with other antiretroviral agent(s) were launched on January 27, 2017. JT received manufacturing and marketing approval for these drugs from the Japanese Ministry of Health, Labour and Welfare.

Tenofovir disoproxil fumarate (TDF), one of four ingredients of “Stribild® Combination Tablets” which has been marketed by Torii in Japan since 2013, is replaced with tenofovir alafenamide (TAF) to compose “Genvoya® Combination Tablets,” antiretroviral agents that provide one tablet, once-daily treatment.

TDF, one of two ingredients of “Truvada® Combination Tablets” which has been marketed by Torii in Japan since 2005, is replaced with TAF to compose “Descovy® Combination Tablets LT and HT.”

TAF is a novel targeted prodrug of tenofovir, a nucleotide reverse transcriptase inhibitor, discovered by Gilead Sciences, Inc. (Gilead). It has demonstrated high antiviral efficacy similar to and at a dose less than one-tenth of that of TDF in Gilead’s clinical trials in combination with other antiretroviral agents.

Marketing of “Genvoya® Combination Tablets” and “Descovy® Combination Tablets LT and HT” in Japan will constitute another contribution by Torii to the treatment of HIV.

Torii and JT Signed Exclusive License Agreement with Menlo Therapeutics for Development and Commercialization of NK-1 Receptor Antagonist in Japan

On August 10, 2016, Torii and JT signed a license agreement with Menlo Therapeutics Inc. (Menlo Therapeutics) for the exclusive rights to develop and commercialize serlopitant in Japan.

Serlopitant is a candidate compound of the first-in-class drug for the treatment of pruritus as an oral neurokinin (NK-1) receptor antagonist. It is expected to suppress pruritus involving the NK-1 signalling pathway. Serlopitant showed antipruritic effects in a phase 2 clinical trial in patients with chronic pruritus conducted by Menlo Therapeutics.

Under the terms of the agreement, it will be developed jointly by Torii and JT, and will be commercialized by Torii in Japan going forward.

Torii and JT Signed Exclusive License Agreement for Development and Commercialization of JAK Inhibitor in Japan

Torii and JT concluded an exclusive agreement for co-development and commercialization of JT's original compound, JTE-052, for topical use in dermatological indications in Japan on October 28, 2016.

JTE-052 inhibits Janus kinase (JAK), which plays important role in immunologically activating signal transduction. JTE-052 works by controlling excessive activation of immunoreaction and relieves autoimmune and allergic disease symptoms. JTE-052 is currently in phase 2 trials in atopic dermatitis patients in Japan.

Under the terms of the agreement, Torii and JT will jointly develop JTE-052 in Japan, with Torii commercializing it once the development and necessary approval procedures have been completed.

Torii and JT continue efforts to improve commercial value in JTE-052 by leveraging Torii's significant experience in the Japanese dermatology area.

Research and Development

Riona Tablets, a hyperphosphatemia drug (JTT-751) developed jointly with JT, entered Phase II of the domestic clinical trials for the treatment of iron-deficiency anemia.

In August 2016, JT and Torii signed a license agreement with Menlo Therapeutics Inc. (Menlo Therapeutics) for the exclusive rights to develop and commercialize serlopitant in Japan. Serlopitant is a neurokinin (NK-1) receptor antagonist which Menlo Therapeutics has developed. It will be developed jointly by JT and Torii, and will be marketed by Torii.

Toray Industries, Inc. (Toray) filed for an additional indication for improving pruritus in peritoneal dialysis patients in Japan (used only when sufficient efficacy is not obtained with the existing therapies or treatments) for REMITCH CAPSULES (in partnership with JT), an oral anti-pruritus drug for hemodialysis patients, in September 2016. Toray has already received manufacturing and marketing approval for REMITCH CAPSULES, which is promoted and distributed by Torii in Japan.

In October 2016, JT and Torii concluded an exclusive agreement for the co-development and commercialization of JT's original compound, JTE-052, in Japan. JTE-052 is a JAK inhibitor for topical use in dermatological indications, and is being clinically developed by JT in Japan. It will be developed jointly by JT and Torii, and will be marketed by Torii.

(As of April 27, 2017)

Development code (Product Name)	Indication	Formulation/ Route of administration	Development stage (domestic)	Remarks
Renal disease and hemodialysis				
JTT-751 (Riona® Tablets)	Iron-deficiency anemia	Oral	Phase II	•Licensing agreement signed with Keryx for development and commercialization of hyperphosphatemia drug in Japan •Co-development with JT •JT received manufacturing and marketing approval on January 17, 2014 •Riona is being promoted and distributed by Torii as a treatment of hyperphosphatemia.
Allergens				
TO-203 (MITICURE® House Dust Mite Sublingual Tablets)	House dust mite induced allergic asthma (Allergen Immunotherapy)	sublingual tablet	Phase II/III (Study completed*)	•Licensing agreement signed with ALK for providing exclusive development and sales rights in Japan •In-house
	House dust mite induced allergic rhinitis in children (Allergen Immunotherapy)	sublingual tablet	Application	•Licensing agreement signed with ALK for providing exclusive development and sales rights in Japan •In-house
TO-206	Japanese cedar pollinosis (Allergen Immunotherapy)	Sublingual tablet	Application	•In-house •NDA filing by Torii on December 25, 2015

*Examining the future development policy

Phase I

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

Phase II

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

Phase III

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

Environmental Protection and Social Contribution Activities

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

Environmental Protection Efforts

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

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

Social Contribution Activities

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

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

In addition, as a pharmaceutical company involved in anti-HIV drugs, Torii supports the “red ribbon” campaign, which provides help and understanding to people living with HIV/AIDS. We engage in awareness building activities targeting all employees in order to educate them and deepen their understanding, through distributing pamphlets on HIV/AIDS and promoting wearing red ribbon brooches in conjunction with “World AIDS Day” on December 1 of each year. The red ribbon articulates the message to not have prejudice against AIDS and people living with AIDS. Through the red ribbon campaign, we hope to provide patients and their families with support that goes beyond the mere provision of pharmaceuticals. Additionally, in fiscal 2016 we held an in-house seminar in an effort to deepen the understanding of HIV/AIDS.

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

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

(As of March 24, 2017)

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 meet the expectations of our 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 the medium- to long-term improvement in corporate value.

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

Corporate Governance Structure

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.

Audit & Supervisory Board Members and the Audit & Supervisory Board

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

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

Board of Directors

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

Torii and Non-Executive Directors have entered into an agreement that limits liability under Article 423, Paragraph 1 of the Companies Act pursuant to the provisions of the company's Articles of Incorporation. The limit of liability for damages pursuant to this agreement is the amount provided by law.

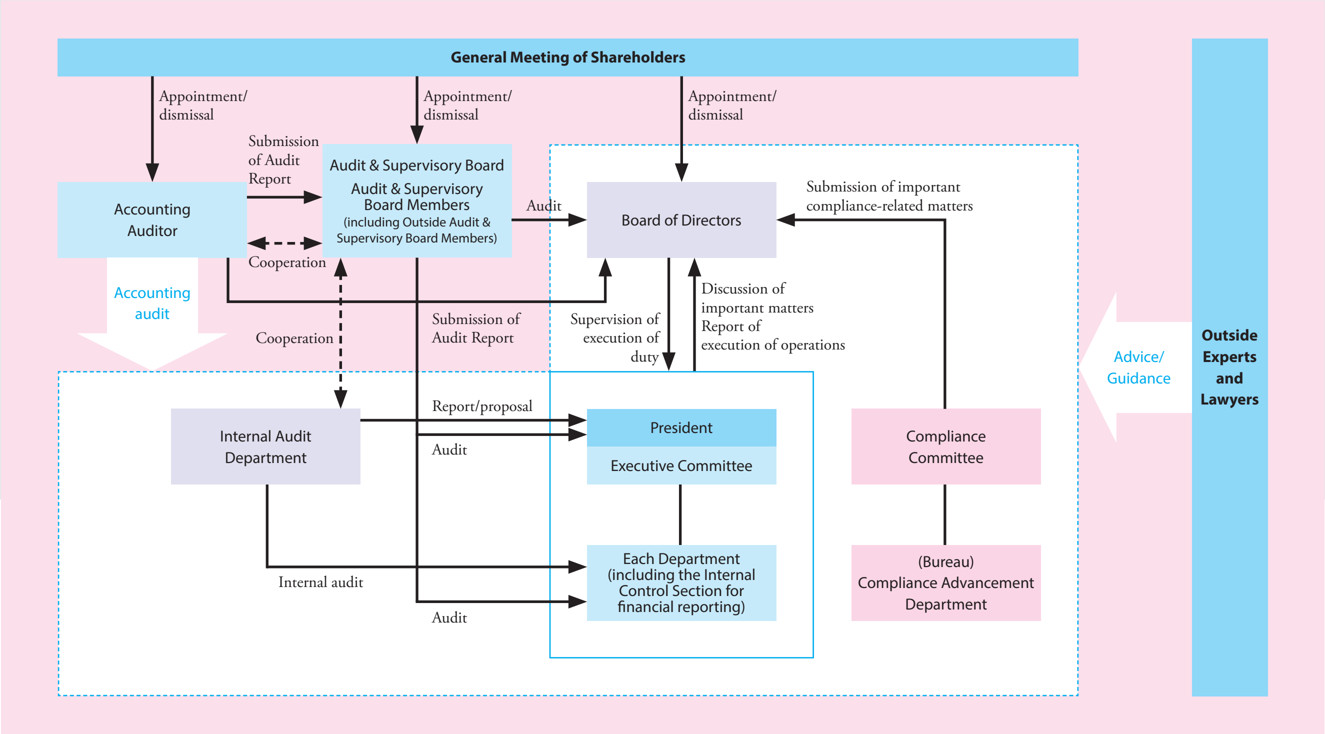
Executive Committee

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

Compliance Committee

The ten-member Compliance Committee monitors

Overview of Corporate Governance Structure



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

Compliance Advancement Department

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

Internal Audit Department

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

Accounting Auditors

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

Compliance Initiatives

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

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

Board of Directors and Audit & Supervisory Board Members

(As of March 24, 2017)

Representative Director, President and Chief Executive Officer

Shoichiro Takagi

Member of the Board, Executive Director

Akihiko Tamura

Member of the Board, Executive Director

Takahiro Umeda

(Head of Planning & Administration Group)

Member of the Board, Director

Yuko Kariya

(Head of Pharmacovigilance & Quality Assurance Group)

Member of the Board, Director

Masaki Sunami

(Head of Production Group)

Member of the Board, Director

Atsuyuki Kakee

(Head of R&D Group)

Member of the Board, Director

Katsunobu Fujiwara

(Head of Pharmaceutical Marketing & Promotion Group)

Member of the Board, Director

Goichi Matsuda

(Deputy Head of Pharmaceutical Marketing & Promotion Group)

Member of the Board, Director

Masao Torikai

Member of the Board, Director

Wataru Aizawa

Audit & Supervisory Board Members

Yukitomo Furuya

Yasuyuki Yatsumoto

Toshio Fukuoka

Eiichi Izumo

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

Organization

(As of January 1, 2017)

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

Financial Section

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Ten-Year Financial Summary

	Millions of yen			
	March 31			
	2008	2009	2010	2011
For the Year:				
Net sales	¥40,845	¥37,349	¥42,416	¥45,335
Gross profit	24,596	23,700	26,431	26,732
Operating income	5,139	4,899	6,125	1,844
Income before income taxes	5,378	6,038	6,340	1,839
Net income	2,967	3,476	3,642	937
Capital expenditures	1,449	1,004	1,401	797
Research and development costs	1,828	1,191	1,613	5,994
Net cash provided by (used in) operating activities	3,332	3,260	4,998	(516)
Net cash provided by (used in) investing activities	821	228	(10,396)	(21,302)
Net cash used in financing activities	(737)	(990)	(1,182)	(1,243)
At Year-End:				
Total assets	¥80,439	¥81,433	¥85,637	¥84,885
Total equity	69,759	72,034	74,641	74,246
Number of shares issued (Thousands)	28,800	28,800	28,800	28,800
Number of employees	852	878	890	905

	Yen			
Per Share Data:				
Total equity	¥2,464.6	¥2,545.1	¥2,637.3	¥2,623.4
Net income	104.8	122.8	128.7	33.1
Cash dividends	30.0	36.0	40.0	40.0

	%			
Key Ratios:				
Operating income ratio	12.6	13.1	14.4	4.1
Return on equity (ROE)	4.3	4.9	5.0	1.3
Return on assets (ROA)	3.7	4.3	4.3	1.1
Shareholders' equity ratio	86.7	88.5	87.2	87.5
Dividend payout ratio	28.6	29.3	31.1	120.8

*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 ¥116.49=US$1.00, the approximate exchange rate prevailing on December 31, 2016.

*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**	**December 31**
2012	2013	2014	2014*2	2015	**2016**	**2016**
¥48,717	¥52,294	¥58,109	¥43,504	¥62,378	**¥60,206**	**$516,842**
28,178	29,452	31,842	22,917	31,564	**29,919**	**256,839**
4,153	2,794	4,987	4,032	4,919	**3,819**	**32,786**
5,054	2,929	5,133	3,781	5,258	**4,056**	**34,820**
2,611	1,849	3,352	2,419	3,527	**2,839**	**24,379**
849	1,374	1,202	1,514	2,207	**891**	**7,654**
4,631	7,824	6,662	3,400	5,237	**4,654**	**39,952**
3,040	151	(201)	(609)	4,940	**3,402**	**29,212**
3,151	874	17,706	499	957	**1,361**	**11,688**
(1,154)	(1,181)	(1,319)	(1,410)	(1,582)	**(2,289)**	**(19,651)**
¥87,734	¥91,350	¥93,137	¥92,550	¥98,868	**¥98,525**	**$845,785**
75,832	76,700	79,018	80,225	82,826	**83,556**	**717,283**
28,800	28,800	28,800	28,800	28,800	**28,800**	**28,800**
927	969	1,009	1,047	1,058	**1,059**	**1,059**

Yen						U.S. dollars*1
¥2,679.5	¥2,710.2	¥2,792.1	¥2,834.8	¥2926.8	**¥2,978.8**	**$25.57**
92.3	65.4	118.5	85.5	124.7	**100.4**	**0.86**
40.0	40.0	40.0	40.0	48.0	**48.0**	**0.41**

%					
8.5	5.3	8.6	9.3	7.9	**6.3**
3.5	2.4	4.3	3.0	4.3	**3.4**
3.0	2.1	3.6	2.6	3.7	**2.9**
86.4	84.0	84.8	86.7	83.8	**84.8**
43.4	61.2	33.8	46.8	38.5	**47.8**

Management's Discussion and Analysis

Financial Results for the Year Ended December 31, 2016

The business environment for the pharmaceutical industry was very challenging in fiscal 2016 due to an effect of drug price revision implemented in April 2016 as well as healthcare reforms to regulate healthcare expenditures including measures to increase the use of generic drugs.

Under these circumstances, Torii strove to maximize the value of its mainstay products while focusing on prompt market penetration and expansion of the new products in the following priority areas; 1) the renal and hemodialysis area represented by REMITCH CAPSULES (an oral antipruritic drug for hemodialysis patients) and Riona Tablets (a hyperphosphatemia drug), 2) the HIV area represented by Truvada Combination Tablets (an anti-HIV drug), and 3) the skin disease area represented by ANTEBATE (a topical corticosteroid), and 4) the allergen area represented by CEDARTOLEN SUBLINGUAL DROP - Japanese Cedar Pollen (a sublingual immunotherapy drug).

In July 2016, we launched Genvoya Combination Tablets (an anti-HIV drug) which Torii acquired the sales right from Japan Tobacco Inc. (hereinafter "JT"). We also launched Descovy Combination Tablets (an anti-HIV drug) in January 2017, for which JT received manufacturing and marketing approval in Japan in December 2016.

In addition, Eli Lilly Japan K.K. (hereinafter "Eli Lilly Japan") launched Taltz indicated for psoriasis vulgaris in November 2016, for which Eli Lilly Japan and Torii has signed the co-promotion contract.

Net Sales

Net sales decreased by ¥2,171 million (3.5%) over the previous corresponding period to ¥60,206 million. This is due to the inclusion of REMITCH CAPSULES and Riona Tablets in items subject to repricing for market expansion under the drug price revisions implemented in April 2016, in addition to usual reduction of drug prices under the revisions.

Sales of mainstay products in the priority areas were as follows.

In the renal and hemodialysis area, both REMITCH CAPSULES and Riona Tablets were affected negatively by repricing for market expansion under the drug price revisions. However, sales of REMITCH CAPSULES decreased only by ¥1,991 million (12.7%) over the previous corresponding period to ¥13,645 million partially offset by increase in sales volume, while sales of Riona Tablets increased by ¥599 million (11.9%) over the corresponding period to ¥5,634 million by focusing on prompt market penetration and expansion.

In the skin disease area, sales of ANTEBATE decreased by ¥603 million (8.8%) to ¥6,277 million compared to the previous corresponding period.

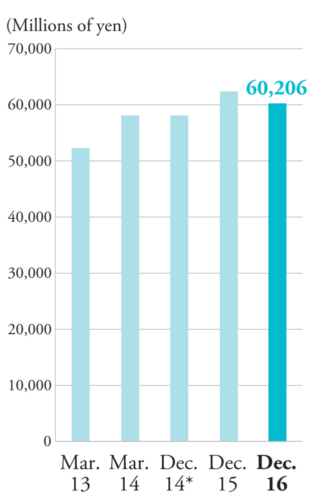
In the allergen area, CEDARTOLEN SUBLINGUAL DROP - Japanese Cedar Pollen increased by ¥425 million (83.2%) over the previous corresponding period to ¥937 million, as we focused on propagating allergen immunotherapy.

In the HIV area, sales of Truvada Combination Tablets decreased by ¥183 million (1.4%) to ¥12,754 million, and Stribild Combination Tablets (an anti-HIV drug) decreased by ¥762 million (24.3%) to ¥2,371 million over the corresponding period, respectively. On the other hand, Genvoya Combination Tablets, a successor of Stribild Combination Tablets launched in July 2016, recorded its sales of ¥1,865 million.

Cost of Sales

Cost of sales decreased by ¥526 million (1.7%) over the previous corresponding period to ¥30,287 million due to changes in our internal product sales ranking in addition to a decrease in net sales.

Net Sales

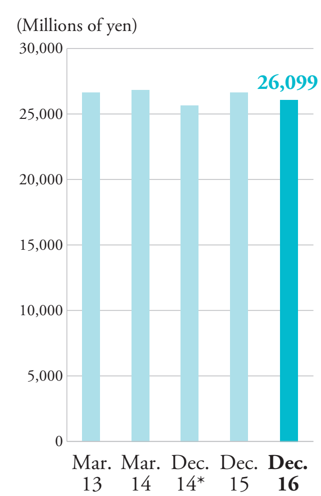


Sales of Mainstay Products

(Millions of yen)

	Dec. 2015	**Dec. 2016**	Change
REMITCH	¥15,636	**¥13,645**	¥(1,991) (12.7)%
Truvada	12,938	**12,754**	(183) (1.4)%
ANTEBATE	6,881	**6,277**	(603) (8.8)%
Riona	5,034	**5,634**	599 11.9%
Stribild	3,133	**2,371**	(762) (24.3)%

Selling, General and Administrative Expenses



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

Selling, General and Administrative Expenses

Selling, general and administrative expenses were ¥545 million (2.0%) lower than the previous corresponding period at ¥26,099 million. This resulted mainly from a decrease in research and development costs, partially offset by a one-time expense relating to replacement of personal computers.

Operating Income, Net Income

As a result of the above, operating income was ¥3,819 million, a decrease of ¥1,099 million (22.4%) over the previous corresponding period. Net income decreased by ¥687 million (19.5%) to ¥2,839 million compared to the previous corresponding period.

Financial Position at December 31, 2016

Assets, Liabilities and Equity

Total assets decreased by ¥343 million (0.3%) from the end of the previous fiscal year to ¥98,525 million as of December 31, 2016. Current assets increased by ¥2,968 million (3.8%) from the end of the previous fiscal year to ¥80,123 million mainly due to a ¥2,475 million increase in cash and cash equivalents partially offset by a ¥1,335 million decrease in trade accounts receivable. Investments and other assets decreased by ¥2,882 million (18.6%) from the end of the previous fiscal year to ¥12,649 million due to a ¥2,923 million decrease in investment securities.

Total liabilities decreased by ¥1,073 million (6.7%) from the end of the previous fiscal year to ¥14,969 million. Reasons for this decrease included a ¥1,148 million decrease in income taxes payable.

Total equity increased by ¥729 million (0.9%) from the end of the previous fiscal year to ¥83,556 million. Contributing factors included purchase of treasury shares of ¥615 million, surplus dividends of ¥1,358 million and net income of ¥2,839 million.

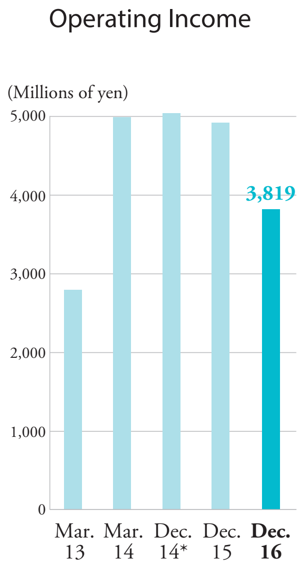
Cash Flows

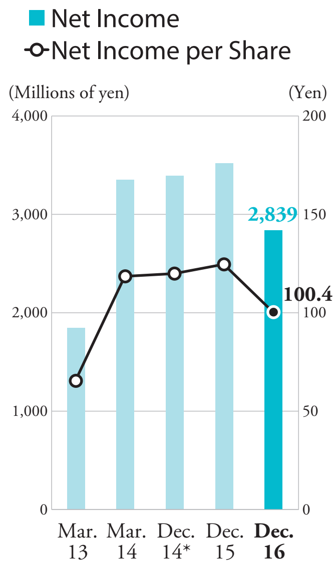
At ¥38,685 million, cash and cash equivalents as of December 31, 2016 were ¥2,475 million (6.8%) higher than at the end of the previous fiscal year.

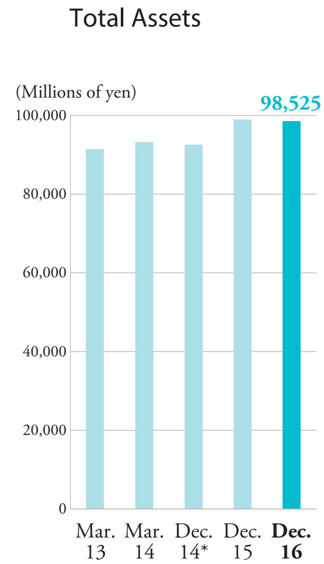
Net cash provided by operating activities amounted to ¥3,402 million (Net cash provided by operating activities for the previous corresponding year was ¥4,940 million). This result reflects income before income taxes of ¥4,056 million, depreciation and amortization of ¥1,339 million, a ¥1,344 million decrease in trade notes and accounts receivable, a ¥770 million increase in inventories, income taxes paid of ¥2,500 million.

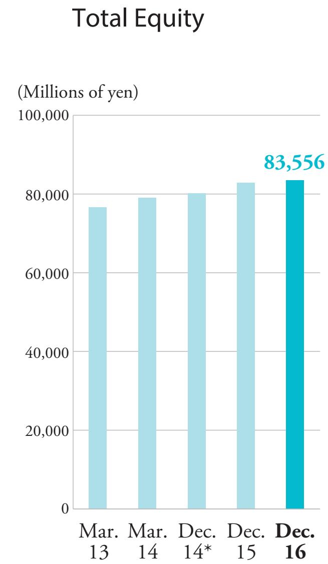
Net cash provided by investing activities amounted to ¥1,361 million (Net cash provided by investing activities for the previous corresponding year was ¥957 million). Major items included inflows of ¥2,203 million in proceeds from sale and redemption of securities and ¥1,414 million in proceeds from sale and redemption of investment securities, as well as outflows of ¥1,611 million of purchases of investment securities and ¥500 million of purchases of property, plant and equipment.

Net cash used in financing activities amounted to ¥2,289 million consisting mainly of ¥1,358 million for dividends paid and ¥615 million for purchase of treasury shares (Net cash used in financing activities for the previous corresponding period was ¥1,582 million).









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Research and Development Activities

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

Total research and development costs in the year ended December 31, 2016, amounted to ¥4,654 million.

Key results of the in-licensing as well as (joint) research and development activities for the fiscal year ended December 31, 2016 are as follows:

- Riona Tablets, a hyperphosphatemia drug (JT development code: JTT-751) developed jointly with JT, entered Phase II of the domestic clinical trials for the treatment of iron-deficiency anemia.
- In August 2016, JT and Torii signed a license agreement with Menlo Therapeutics Inc. (Menlo Therapeutics) for the exclusive rights to develop and commercialize serlopitant in Japan. Serlopitant is a neurokinin (NK-1) receptor antagonist which Menlo Therapeutics has developed. It will be developed jointly by JT and Torii, and will be marketed by Torii.
- Toray Industries, Inc. (Toray) filed for an additional indication for improving pruritus in peritoneal dialysis patients in Japan (used only when sufficient efficacy is not obtained with the existing therapies or treatments) for REMITCH CAPSULES (in partnership with JT), an oral anti-pruritus drug for hemodialysis patients, in September 2016. Toray has already received manufacturing and marketing approval for REMITCH CAPSULES, which is promoted and distributed by Torii in Japan.
- In October 2016, JT and Torii concluded an exclusive agreement for the co-development and commercialization of JT's original compound, JTE-052, in Japan. JTE-052 is a JAK inhibitor for topical use in dermatological indications, and is being clinically developed by JT in Japan. It will be developed jointly by JT and Torii, and will be marketed by Torii.

Forecast for the Fiscal Year Ending December 31, 2017

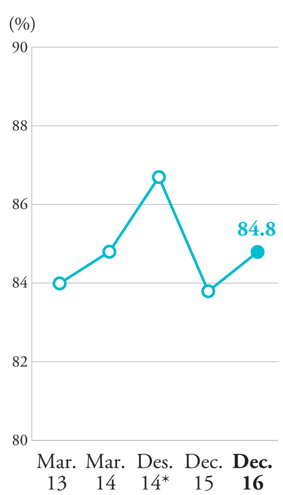
The business environment surrounding the pharmaceutical industry is expected to become increasingly tough due to such factors as the promotion of healthcare reforms to curb healthcare expenditures and intensified competition with rival pharmaceutical companies and their competing products.

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

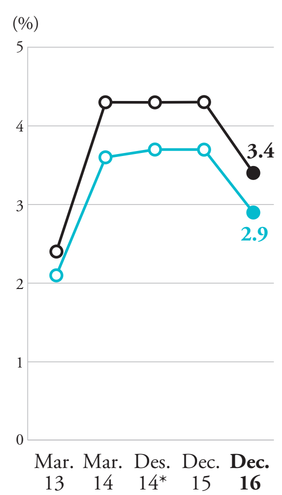
With regard to the next fiscal year, we will propel Riona Tablets to be our core product while maximizing the sales of REMITCH CAPSULES. For Genvoya Combination Tablets and Descovy Combination Tablets, our new anti-HIV drugs, we will focus on their prompt market penetration. By propagating allergen immunotherapy, we will also aim for further market penetration of CEDARTOLEN SUBLINGUAL DROP - Japanese Cedar Pollen and MITICURE House Dust Mite Sublingual Tablets (allergen immunotherapy drug), in addition to focusing on further co-promotion of Taltz.

Moreover, we will also make further efforts to acquire and develop in-licensed drugs (including alliances) proactively for medium- to long-term growth.

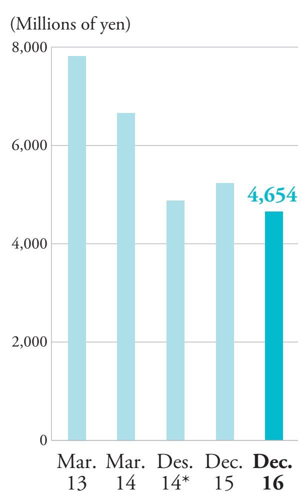
Shareholders' Equity Ratio



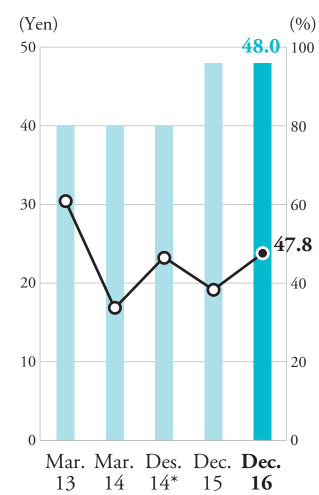
Return on Equity (ROE)
Return on Assets (ROA)



Research and Development Costs



Cash Dividends
Dividend Payout Ratio



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

The current forecast for the year ending December 31, 2017, is as follows:

	(Reference) Results for the twelve months ended December 31, 2016 (Millions of yen)	Forecast for the twelve months ending December 31, 2017 (Millions of yen)	Change (Millions of yen)	% Change (%)
Net sales	¥60,206	¥64,500	¥4,293	7.1%
Operating income	3,819	5,300	1,480	38.8
Net income	2,839	3,900	1,060	37.3

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

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

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

Torii decided to pay an annual dividend of ¥48 per share for the fiscal year ended December 31, 2016 (including an interim dividend of ¥24 which has already been paid), in accordance with the aforementioned basic policy.

Torii plans to pay an annual dividend of ¥48 per share (consisting of an interim dividend of ¥24 and a year-end dividend of ¥24) for the fiscal year ending December 31, 2017.

Risk Analysis

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

Changes to the Pharmaceutical Affairs Law, Other Acts or Regulations

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

Delay or Discontinuance of Research and Development

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

Drug Price Listing and Revisions

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

Adverse Drug Reactions

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

Stoppage of Product Supply and Product Recall

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

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

Litigation Risk

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

Balance Sheet

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	December 31, 2016	December 31, 2015	**December 31, 2016**
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents (Notes 13 and 14)	**¥ 38,685**	¥ 36,210	**$ 332,094**
Marketable securities (Notes 3 and 13)	**1,902**	1,208	**16,331**
Receivables (Note 13):			
Trade notes	**7**	7	**62**
Trade accounts	**26,514**	27,849	**227,612**
Parent	**192**	68	**1,656**
Other	**123**	102	**1,063**
Inventories (Note 4)	**10,606**	9,836	**91,054**
Deferred tax assets (Note 10)	**1,285**	1,235	**11,039**
Prepaid expenses and other current assets	**804**	635	**6,902**
Total current assets	**80,123**	77,155	**687,817**
PROPERTY, PLANT AND EQUIPMENT (Note 6):			
Land	**680**	691	**5,842**
Buildings and structures	**11,441**	11,390	**98,219**
Machinery and equipment	**8,078**	7,886	**69,353**
Furniture and fixtures	**2,714**	2,661	**23,302**
Lease assets (Note 12)	**1,768**	1,754	**15,183**
Construction in progress	**31**	45	**266**
Total	**24,715**	24,429	**212,166**
Accumulated depreciation	**(18,962)**	(18,247)	**(162,784)**
Net property, plant and equipment	**5,752**	6,182	**49,382**
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 3 and 13)	**3,877**	6,800	**33,283**
Software	**788**	846	**6,771**
Long-term prepaid expenses	**6,486**	6,530	**55,678**
Deferred tax assets (Note 10)	**711**	552	**6,111**
Other assets	**785**	800	**6,740**
Total investments and other assets	**12,649**	15,531	**108,585**
TOTAL	**¥ 98,525**	¥ 98,868	**$ 845,785**

See notes to financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	December 31, 2016	December 31, 2015	December 31, 2016
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Payables (Note 13):			
Trade accounts	¥ 3,861	¥ 4,275	$ 33,145
Parent (Note 14)	3,006	2,615	25,811
Other	3,008	3,250	25,827
Current portion of long-term lease obligations	199	342	1,714
Income taxes payable (Note 13)	767	1,915	6,587
Accrued expenses	653	656	5,610
Accrued employees' bonuses	676	660	5,804
Accrued bonuses to directors and Audit & Supervisory Board members	47	54	408
Other current liabilities	1,089	702	9,356
Total current liabilities	13,310	14,472	114,265
LONG-TERM LIABILITIES:			
Liability for retirement benefits (Note 7)	637	393	5,475
Long-term lease obligations	571	725	4,909
Asset retirement obligations	150	149	1,292
Other long-term liabilities	297	300	2,557
Total long-term liabilities	1,658	1,569	14,235
EQUITY (Notes 8 and 9):			
Common stock—authorized, 54,000,000 shares;			
issued, 28,800,000 shares in December 2016 and 2015	5,190	5,190	44,553
Capital surplus:	6,420	6,416	55,116
Additional paid-in capital	6,416	6,416	55,077
Stock acquisition rights	4		38
Retained earnings:			
Legal reserve	1,297	1,297	11,138
Unappropriated	71,568	70,087	614,378
Unrealized gain on available-for-sale securities	558	698	4,793
Treasury stock—at cost, 751,125 shares in December 2016 and 500,768 shares in December 2015	(1,478)	(863)	(12,695)
Total equity	83,556	82,826	717,283
TOTAL	¥ 98,525	¥ 98,868	$ 845,785

Statement of Income

Torii Pharmaceutical Co., Ltd.
December 31, 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Year Ended December 31, 2016	Year Ended December 31, 2015	Year Ended December 31, 2016
NET SALES	¥ 60,206	¥ 62,378	$ 516,842
COST OF SALES (Notes 7, 12 and 14)	30,287	30,814	260,003
Gross profit	29,919	31,564	256,839
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 7, 11 and 12)	26,099	26,645	224,052
Operating income	3,819	4,919	32,786
OTHER INCOME (EXPENSES):			
Interest and dividend income	61	102	530
Gain on sales of land	86	320	739
Loss on disposal of property, plant and equipment (Note 1)	(29)	(54)	(253)
Impairment loss (Note 5)		(142)	
Other—net	118	113	1,017
Other income (expenses) —net	236	339	2,033
INCOME BEFORE INCOME TAXES	4,056	5,258	34,820
INCOME TAXES (Note 10):			
Current	1,338	2,029	11,494
Deferred	(122)	(298)	(1,052)
Total income taxes	1,216	1,730	10,441
NET INCOME	¥ 2,839	¥ 3,527	$ 24,379

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Note 2.r):			
Net income	¥ 100.4	¥ 124.7	$ 0.86
Cash dividends applicable to the period	48.0	48.0	0.41

See notes to financial statements.

Statement of Changes in Equity

	Outstanding Number of Shares of Common Stock	Millions of Yen							
		Common Stock (Note 8)	Capital Surplus (Note 8)		Retained Earnings (Note 8)		Unrealized Gain (Loss) on Available-for-Sale Securities	Treasury Stock	Total Equity
			Additional Paid-in Capital	Stock Acquisition Rights	Legal Reserve	Unappropriated			
BALANCE, DECEMBER 31, 2014	**28,299,932**	**¥ 5,190**	**¥ 6,416**		**¥ 1,297**	**¥ 67,805**	**¥ 377**	**¥ (861)**	**¥ 80,225**
Net income						3,527			3,527
Cash dividends paid, ¥48.0 per share						(1,245)			(1,245)
Repurchase of treasury stock	(700)							(2)	(2)
Net change in the year							321		321
BALANCE, DECEMBER 31, 2015	**28,299,232**	**5,190**	**6,416**		**1,297**	**70,087**	**698**	**(863)**	**82,826**
Net income						2,839			2,839
Cash dividends paid, ¥48.0 per share						(1,358)			(1,358)
Repurchase of treasury stock	(250,357)							(615)	(615)
Net change in the year				4			(140)		(136)
BALANCE, DECEMBER 31, 2016	**28,048,875**	**¥ 5,190**	**¥ 6,416**	**¥ 4**	**¥ 1,297**	**¥ 71,568**	**¥ 558**	**¥ (1,478)**	**¥ 83,556**

	Thousands of U.S. Dollars (Note 1)							
	Common Stock (Note 8)	Capital Surplus (Note 8)		Retained Earnings (Note 8)		Unrealized Gain (Loss) on Available-for-Sale Securities	Treasury Stock	Total Equity
		Additional Paid-in Capital	Stock Acquisition Rights	Legal Reserve	Unappropriated			
BALANCE, DECEMBER 31, 2015	**$ 44,553**	**$ 55,077**		**$ 11,138**	**$ 601,659**	**$ 5,999**	**$ (7,411)**	**$ 711,017**
Net income					24,379			24,379
Cash dividends paid, $0.41 per share					(11,660)			(11,660)
Repurchase of treasury stock							(5,284)	(5,284)
Net change in the year			38			(1,206)		(1,167)
BALANCE, DECEMBER 31, 2016	**$ 44,553**	**$ 55,077**	**$ 38**	**$ 11,138**	**$ 614,378**	**$ 4,793**	**$ (12,695)**	**$ 717,283**

See notes to financial statements.

Statement of Cash Flows

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Year Ended December 31, 2016	Year Ended December 31, 2015	Year Ended December 31, 2016
OPERATING ACTIVITIES:			
Income before income taxes	¥ 4,056	¥ 5,258	$ 34,820
Adjustments for:			
Income taxes paid	(2,500)	(413)	(21,463)
Depreciation and amortization	1,339	1,457	11,496
Changes in assets and liabilities:			
Decrease (increase) in trade notes and accounts receivable	1,334	(1,992)	11,458
(Increase) decrease in inventories	(770)	299	(6,610)
(Decrease) increase in trade accounts payable	(414)	804	(3,554)
Other—net	357	(474)	3,065
Total adjustments	(653)	(317)	(5,608)
Net cash provided by operating activities	3,402	4,940	29,212
INVESTING ACTIVITIES:			
Proceeds from sale and redemption of marketable securities	2,203	2,600	18,914
Purchases of property, plant and equipment	(500)	(1,095)	(4,300)
Proceeds from sale of property, plant and equipment	101	342	867
Purchases of investment securities	(1,611)	(500)	(13,831)
Proceeds from sale and redemption of investment securities	1,414		12,139
Other—net	(244)	(388)	(2,100)
Net cash provided by investing activities	1,361	957	11,688
FINANCING ACTIVITIES:			
Repurchase of treasury stock	(615)	(2)	(5,284)
Dividends paid	(1,358)	(1,245)	(11,660)
Repayments of lease obligations	(315)	(334)	(2,706)
Net cash used in financing activities	(2,289)	(1,582)	(19,651)
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,475	4,316	21,249
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	36,210	31,894	310,844
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 38,685	¥ 36,210	$ 332,094

See notes to financial statements.

1 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

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

In preparing these financial statements, certain reclassifications and rearrangements have been made to the financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2015 financial statements to conform to the classifications used in 2016.

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 ¥116.49 to $1, the approximate rate of exchange at December 31, 2016. 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, which were previously rounded off to the nearest unit, are generally rounded down from the fiscal year ended December 31, 2016.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Nonconsolidation—The Company has no subsidiaries as of December 31, 2016.

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

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

c. Inventories—Inventories are stated at the lower of cost, determined by the 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— In June 17, 2016, the Accounting Standards Board of Japan (the "ASBJ") issued ASBJ Practical Issues Task Force ("PITF") No. 32, "Practical Solution on a change in depreciation method due to Tax Reform 2016," which related to the revision of the Corporation Tax Act. The Company applied this PITF effective April 1, 2016, and changed its depreciation method for structures acquired on or after April 1, 2016, from the declining-balance method to the straight-line method. There was no significant impact on the financial statements from this accounting change.

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 after April 1, 1998, structures acquired 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 circumstances indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

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

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

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

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

(b) The revised accounting standard does not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts are recognized in profit or loss over a certain period no longer than the expected average remaining service period of the employees. However, actuarial gains and losses and past service costs that arose in the current period and have not yet been recognized in profit or loss are included in other comprehensive income and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments.

(c) The revised accounting standard also made certain amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases.

(d) In nonconsolidated financial statements, the new requirements for (a) and (b) above would not be applied, with the current requirements remaining applicable.

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

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

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

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

j. Stock Options—In December 2005, the ASBJ issued ASBJ Statement No. 8, "Accounting Standard for Stock Options" and related guidance. The new standard and guidance are applicable to stock options newly granted on and after May 1, 2006. This standard requires companies to measure the cost of employee stock options based on the fair value at the date of grant and recognize compensation expense over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non-employees based on the fair value of either the stock options or the goods or services received. In the balance sheet, stock options are presented as stock acquisition rights as a separate component of equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions. In addition, the standard allows unlisted companies to measure options at their intrinsic value if they cannot reliably estimate fair value.

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

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

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

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

All other leases are accounted for as operating leases.

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

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 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 28,283,414 shares and 28,299,629 shares for the years ended December 31, 2016 and 2015, respectively.

Diluted net income per share is not disclosed because there were no dilutive potential common shares that were outstanding during years ended December 31, 2016 and 2015.

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

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

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

(1) Summary

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

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

(2) Scheduled application date

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

(3) Impact of the application of the accounting standard and other pronouncements
There was no impact on the financial statements.

3 MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of December 31, 2016 and 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	December 31, 2016	December 31, 2015	December 31, 2016
Current:			
Government and corporate bonds	¥ 1,902	¥ 1,208	$ 16,331
Total	¥ 1,902	¥ 1,208	$ 16,331
Noncurrent:			
Equity securities	¥ 1,273	¥ 1,479	$ 10,930
Government and corporate bonds	2,603	5,320	22,353
Total	¥ 3,877	¥ 6,800	$ 33,283

The costs and aggregate fair values of marketable and investment securities at December 31, 2016 and 2015, were as follows:

	Millions of Yen			
December 31, 2016	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	¥ 357	¥ 805		¥ 1,163
Debt securities	4,511	2	¥ 7	4,506
December 31, 2015				
Available-for-sale:				
Equity securities	¥ 357	¥ 1,011		¥ 1,369
Debt securities	6,513	19	¥ 3	6,529

	Thousands of U.S. Dollars			
December 31, 2016	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	$ 3,072	$ 6,913		$ 9,985
Debt securities	38,728	19	$ 63	38,684

Available-for-sale securities whose fair value was not readily determinable as of December 31, 2016 and 2015, were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	December 31, 2016	December 31, 2015	December 31, 2016
Available-for-sale—Unlisted equity securities	¥ 110	¥ 110	$ 944
Total	¥ 110	¥ 110	$ 944

4 INVENTORIES

Inventories at December 31, 2016 and 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	December 31, 2016	December 31, 2015	December 31, 2016
Finished products and merchandise	¥ 6,330	¥ 6,132	$ 54,341
Work in process	603	508	5,180
Raw materials and supplies	3,673	3,195	31,532
Total	¥ 10,606	¥ 9,836	$ 91,054

5 LONG-LIVED ASSETS

The Company reviewed its long-lived assets for impairment as of December 31, 2015. As a result, the Company recognized an impairment loss of ¥142 million as other expense for idle assets of the Sakura Plant due to there being no expectation of used these idle assets were written down to the recoverable amount of "Zero".

No impairment loss was recognized in 2016.

6 INVESTMENT PROPERTY

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

The Company holds office buildings (including land) used by the Company and rental commercial properties (including land and leased land) in Tokyo and other areas. Parts of the office buildings used by the Company are used as rental office space, and these spaces are included in investment property. Net of rental income and operating expenses for those rental properties were ¥147 million ($1,267 thousand) and ¥220 million for the fiscal years ended December 31, 2016 and 2015, respectively.

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

Millions of Yen			
Carrying Amount			Fair Value
January 1, 2016	Increase(Decrease)	December 31, 2016	December 31, 2016
¥ 663	¥ (22)	¥ 641	¥ 3,171

Millions of Yen			
Carrying Amount			Fair Value
January 1, 2015	Increase(Decrease)	December 31, 2015	December 31, 2015
¥ 674	¥ (10)	¥ 663	¥ 3,271

Thousands of U.S. Dollars			
Carrying Amount			Fair Value
January 1, 2016	Increase(Decrease)	December 31, 2016	December 31, 2016
$ 5,697	$ (194)	$ 5,502	$ 27,226

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

2. Fair values of major properties as of December 31, 2016, are based on written appraisals, etc., by independent real estate appraisers. The values of minor properties are based on specific valuations or indicators that are believed to appropriately reflect market prices.

7 RETIREMENT AND PENSION PLANS

Employees whose service with the Company is terminated are, under most circumstances, entitled to retirement and pension benefits determined by reference to basic rates of pay at the time of termination, length of service and conditions under which the termination occurs. If the termination is involuntary, caused by retirement at the mandatory retirement age or caused by death, the employee is entitled to greater payments than in the case of voluntary termination. Additional retirement benefits which may be paid to employees upon retirement have not been included in the actuarial calculation of the projected benefit obligation. The net liabilities for retirement benefits at December 31, 2016 and 2015, consisted of the following:

(1) The changes in defined benefit obligation for the years ended December 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	Year Ended December 31, 2016	Year Ended December 31, 2015	**Year Ended December 31, 2016**
Balance at beginning of period	**¥ 8,301**	¥ 8,413	**$ 71,264**
Current service cost	**446**	461	**3,833**
Interest cost	**49**	50	**427**
Actuarial losses	**(71)**	2	**(613)**
Benefits paid	**(559)**	(627)	**(4,804)**
Balance at end of period	**¥ 8,166**	¥ 8,301	**$ 70,107**

(2) The changes in plan assets for the years ended December 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	Year Ended December 31, 2016	Year Ended December 31, 2015	**Year Ended December 31, 2016**
Balance at beginning of period	**¥ 7,235**	¥ 7,201	**$ 62,110**
Expected return on plan assets	**144**	144	**1,242**
Actuarial losses	**32**	147	**280**
Contributions from the employer	**338**	331	**2,908**
Benefits paid	**(527)**	(588)	**(4,526)**
Balance at end of period	**¥ 7,224**	¥ 7,235	**$ 62,014**

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

	Millions of Yen		Thousands of U.S. Dollars
	December 31, 2016	December 31, 2015	**December 31, 2016**
Funded defined benefit obligation	**¥ 7,980**	¥ 7,833	**$ 68,510**
Plan assets	**(7,224)**	(7,235)	**(62,014)**
	756	598	**6,495**
Unfunded defined benefit obligation	**185**	467	**1,596**
Unrecognized actuarial loss	**(58)**	(339)	**(498)**
Unrecognized prior service cost	**(246)**	(333)	**(2,117)**
Net liability arising from defined benefit obligation	**¥ 637**	¥ 393	**$ 5,475**

	Millions of Yen		Thousands of U.S. Dollars
	December 31, 2016	December 31, 2015	December 31, 2016
Liability for retirement benefits	¥ 637	¥ 393	$ 5,475
Net liability arising from defined benefit obligation	¥ 637	¥ 393	$ 5,475

(4) The components of net periodic benefit costs for the years ended December 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	Year Ended December 31, 2016	Year Ended December 31, 2015	Year Ended December 31, 2016
Service cost	¥ 446	¥ 461	$ 3,833
Interest cost	49	50	427
Expected return on plan assets	(144)	(144)	(1,242)
Recognized actuarial losses	177	133	1,521
Amortization of prior service cost	87	87	747
Net periodic benefit costs	¥ 615	¥ 588	$ 5,287

(5) Plan assets

a. Components of plan assets

Plan assets consisted of the following:

	December 31, 2016	December 31, 2015
Debt investments	64%	68%
Equity investments	27	24
General account of life insurance companies	7	7
Others	2	1
Total	100%	100%

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

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

(6) Assumptions used for the years ended December 31, 2016 and 2015, were set forth as follows:

	Year Ended December 31, 2016	Year Ended December 31, 2015
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 ¥254 million ($2,188 thousand) and ¥257 million are disclosed in cost of sales and selling, general and administrative expenses for the years ended December 31, 2016 and 2015, for which plan assets could not be allocated to each participating employer.

The funded status of the multiemployer pension plan at December 31, 2016 (based on information available as of March 31, 2016) and December 31, 2015 (based on information available as of March 31, 2015) to which contributions were recorded as net periodic retirement benefit costs, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	March 31		March 31,
	2016	2015	2016
Fair value of plan assets	¥ 531,916	¥ 571,380	$ 4,566,201
Sum of actuarial liabilities of pension plan and minimum actuarial reserve	538,160	561,736	4,619,799
Difference	¥ (6,243)	¥ 9,644	$ (53,598)

The Company's contribution percentage for the multiemployer pension plan at December 31, 2016 and December 31, 2015, was as follows:

	December 31, 2016	December 31, 2015
Contribution percentage	1.5%	1.4%

Notes (March 31, 2016):
1. The difference mainly resulted from prior service cost of ¥(34,540) million ($(296,510) thousand), deficiency brought forward of ¥(21,454) million ($(184,176) thousand) and special reserve fund of ¥49,751 million ($427,089 thousand).
2. Prior service cost is the present value of the amount of special contributions and the method of amortization is equal payment method. The ratio of employer contribution is 15.5‰. The remaining term of amortization is 6 years and 0 months as of March 31, 2016.

Notes (March 31, 2015):
1. The difference mainly resulted from prior service cost of ¥(40,107) million, surplus brought forward of ¥14,310 million and special reserve fund of ¥35,440 million.
2. Prior service cost is the present value of the amount of special contributions and the method of amortization is equal payment method. The ratio of employer contribution is 15.5‰. The remaining term of amortization is 7 years and 0 months as of March 31, 2016.

8 EQUITY

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

a. Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. 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 cannot do so because it does not meet all the above criteria.

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

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

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

9 STOCK OPTIONS

The stock options outstanding as of December 31, 2016, 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 ($ 23)	From April 9, 2018 to April 8, 2021

The stock option activity is as follows:

Year Ended December 31, 2016	2016 Stock Option (Shares)
Non-vested	
December 31, 2015—Outstanding	
Granted	28,000
Canceled	
Vested	
December 31, 2016—Outstanding	28,000
Vested	
December 31, 2015—Outstanding	
Vested	
Exercised	
Canceled	
December 31, 2016—Outstanding	
Exercise price	¥ 2,736 ($ 23)
Average stock price at exercise	
Fair value price at grant date	¥ 427.70 ($ 3.67)

The Assumptions Used to Measure the Fair Value of the 2016 Stock Option

Estimate method:	Black-Scholes option pricing model
Volatility of stock price:	30.87%
Estimated remaining outstanding period:	Three and a half years
Estimated dividend:	¥48 per share
Risk free interest rate:	(0.228)%

10 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 33.1% and 35.6% for the year ended December 31, 2016 and 2015, respectively.

The tax effects of significant temporary differences, which resulted in deferred tax assets and liabilities at December 31, 2016 and 2015, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	December 31, 2016	December 31, 2015	December 31, 2016
Deferred tax assets:			
Prepayment of research and development costs	¥ 878	¥ 599	$ 7,543
Deferred charges for tax purposes	498	523	4,282
Accrued bonuses to employees	208	218	1,793
Liabilities for retirement benefits	195	126	1,675
Overdepreciation	116	113	1,001
Accrued enterprise taxes	72	164	623
Other	296	430	2,541
Less valuation allowance	(21)	(53)	(187)
Total	2,245	2,123	19,274
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	241	328	2,076
Other	5	6	47
Total	247	335	2,124
Net deferred tax assets	¥ 1,997	¥ 1,788	$ 17,150

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, 2016, with the corresponding figures for 2015, is as follows:

	Year Ended December 31, 2016	Year Ended December 31, 2015
Normal effective statutory tax rate	33.1%	35.6%
Expenses not deductible for income tax purposes	2.1	1.4
Dividend income deductible for income tax purposes	(0.0)	(0.1)
Per capita levy	1.7	1.3
Tax credits	(9.1)	(8.7)
Valuation allowance	2.7	3.6
Other—net	(0.5)	(0.2)
Actual effective tax rate	30.0%	32.9%

New tax reform laws enacted in 2016 in Japan changed the normal effective statutory tax rate for the fiscal year beginning on or after January 1, 2017, to approximately 30.9% and for the fiscal year beginning on or after January 1, 2019, to approximately 30.6%. The effect of these changes was to decrease deferred tax assets, net of deferred tax liabilities, by ¥98 million ($841 thousand) and increase unrealized gain on available-for-sale securities by ¥13 million ($115 thousand) in the balance sheet as of December 31, 2016, and to increase income taxes—deferred by ¥111 million ($956 thousand) in the statement of income for the year then ended.

11 RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥4,654 million ($39,952 thousand) and ¥5,237 million for the year ended December 31, 2016 and 2015, respectively.

12 LEASES

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

Total rental expenses including lease payments under finance leases for the year ended December 31, 2016 and 2015, were ¥1,345 million ($11,547 thousand) and ¥1,287 million, respectively.

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

	Millions of Yen		Thousands of U.S. Dollars	
	2016		2016	
	Finance Leases	Operating Leases	Finance Leases	Operating Leases
Due within one year	¥ 199	¥ 56	$ 1,714	$ 489
Due after one year	571	¥ 223	4,909	1,917
Total	¥ 771	¥ 280	$ 6,624	$ 2,406

13 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

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

(a) Fair values of financial instruments

	Millions of Yen		
December 31, 2016	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	**¥ 38,685**	**¥ 38,685**	
Receivables:			
Trade accounts	**26,514**	**26,514**	
Parent	**192**	**192**	
Marketable and investment securities—Available-for-sale securities	**5,669**	**5,669**	
Total	**¥ 71,062**	**¥ 71,062**	
Payables:			
Trade accounts	**¥ 3,861**	**¥ 3,861**	
Parent	**3,006**	**3,006**	
Other	**3,008**	**3,008**	
Income taxes payable	**767**	**767**	
Total	**¥ 10,643**	**¥ 10,643**	
December 31, 2015			
Cash and cash equivalents	¥ 36,210	¥ 36,210	
Receivables:			
Trade accounts	27,849	27,849	
Parent	68	68	
Marketable and investment securities—Available-for-sale securities	7,899	7,899	
Total	¥ 72,027	¥ 72,027	
Payables:			
Trade accounts	¥ 4,275	¥ 4,275	
Parent	2,615	2,615	
Other	3,250	3,250	
Income taxes payable	1,915	1,915	
Total	¥ 12,056	¥ 12,056	

	Thousands of U.S. Dollars		
December 31, 2016	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	**$ 332,094**	**$ 332,094**	
Receivables:			
Trade accounts	**227,612**	**227,612**	
Parent	**1,656**	**1,656**	
Marketable and investment securities—Available-for-sale securities	**48,670**	**48,670**	
Total	**$ 610,033**	**$ 610,033**	
Payables:			
Trade accounts	**$ 33,145**	**$ 33,145**	
Parent	**25,811**	**25,811**	
Other	**25,827**	**25,827**	
Income taxes payable	**6,587**	**6,587**	
Total	**$ 91,371**	**$ 91,371**	

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, 2016	December 31, 2015	December 31, 2016
Unlisted shares	¥ 110	¥ 110	$ 944

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

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

	Millions of Yen		
December 31, 2016	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Year through 10 Years
Cash and cash equivalents	¥ 38,685		
Receivables:			
Trade accounts	26,514		
Parent	192		
Marketable and investment securities—Available-for-sale securities with contractual maturities	1,902	¥ 1,503	¥ 1,100
Total	¥ 67,295	¥ 1,503	¥ 1,100

	Thousands of U.S. Dollars		
December 31, 2016	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Year through 10 Years
Cash and cash equivalents	$ 332,091		
Receivables:			
Trade accounts	227,612		
Parent	1,656		
Marketable and investment securities—Available-for-sale securities with contractual maturities	16,331	$ 12,909	$ 9,443
Total	$ 577,692	$ 12,909	$ 9,443

Since the quantitative materiality of lease obligations decreased during this fiscal year ended December 31, 2016, lease obligations are not disclosed. Due to the change in the presentation method, the relevant amounts for the years ended December 31, 2015 are not disclosed.

14 RELATED PARTY TRANSACTIONS

Transactions of the Company with the parent company for the year ended December 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	Year Ended December 31, 2016	Year Ended December 31, 2015	Year Ended December 31, 2016
Purchases	¥ 12,320	¥ 10,974	$ 105,762
Forward exchange contracts		2,009	

The balances due to or from the parent company at December 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	December 31, 2016	December 31, 2015	December 31, 2016
Deposits included in cash and cash equivalents	¥ 7,091	¥ 4,348	$ 60,879
Trade accounts payable	2,837	2,578	24,355

15 SEGMENT INFORMATION

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

Information relating to business segments is omitted as the Company operated solely in the pharmaceutical business for the year ended December 31, 2016 and 2015.

Sales to major customers were as follows:

	Millions of Yen		Thousands of U.S. Dollars
Name of Customer	Year Ended December 31, 2016	Year Ended December 31, 2015	Year Ended December 31, 2016
Mediceo Corporation	¥ 14,714	¥ 14,334	$ 126,316
Alfresa Corporation	13,793	13,949	118,405
Suzuken Co., Ltd.	12,300	13,903	105,590
Toho Pharmaceutical Co., Ltd.	6,124	6,338	52,574

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying balance sheet of Torii Pharmaceutical Co., Ltd. as of December 31, 2016, 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, 2016, 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 15, 2017

Member of
Deloitte Touche Tohmatsu Limited

Corporate Information

(As of December 31, 2016)

Torii Pharmaceutical Co., Ltd.

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

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

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

Established
November 1, 1921

Paid-In Capital
¥5,190 million

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

Number of Shareholders
5,225

Stock Exchange Listing
The First Section of the Tokyo Stock Exchange

Ticker Symbol Number
4551

Fiscal Year-End
December 31

General Meeting of Shareholders
March

Stock Transfer Agent
Sumitomo Mitsui Trust Bank, Limited

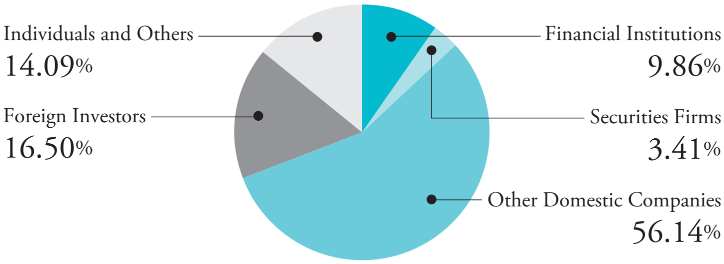
Number of Employees
1,059

Major Shareholders

Name	Number of shares (Thousand)	Shareholding ratio (%)
Japan Tobacco Inc.	15,398.8	53.46
ROYAL BANK OF CANADA TRUST COMPANY (CAYMAN) LIMITED	1,676.8	5.82
THE TACHIBANA SECURITIES CO., LTD.	740.8	2.57
STATE STREET BANK AND TRUST COMPANY 505223	606.5	2.10
Japan Trustee Seivices Bank, Ltd. (Trust Account)	562.0	1.95
Sumitomo Mitsui Banking Corporation	340.8	1.18
Torii Pharmaceuteical Co.,Ltd. Employee Shareholdings association	307.6	1.06
The Master Trust Bank of Japan, Ltd. (Trust Account)	306.7	1.06
Japan Trustee Seivices Bank, Ltd. (Trust Account 9)	193.0	0.67
MEDIPAL HOLDINGS CORPORATION	168.9	0.58

Note: In addition to the above, the Company holds 751.1 thousand shares of treasury stock (a 2.60% shareholding).

Share Distribution



TORII PHARMACEUTICAL CO., LTD.

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

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