Financial Section

Ten-Year Financial Summary

	Millions of Yen					
	March 31	December 31				
	2014	2014*2	2015	2016	2017	2018
For the Year						
Net sales	¥58,109	¥43,504	¥62,378	¥60,206	¥64,135	¥62,551
Gross profit	31,842	22,917	31,564	29,919	32,841	30,707
Operating income	4,987	4,032	4,919	3,819	6,281	4,951
Income before income taxes	5,133	3,781	5,258	4,056	6,373	3,030
Net income	3,352	2,419	3,527	2,839	4,718	1,164
Capital expenditures	1,202	1,514	2,207	891	931	811
Research and development costs	6,662	3,400	5,237	4,654	4,608	4,138
Net cash provided by (used in) operating activities	(201)	(609)	4,940	3,402	6,349	8,259
Net cash provided by (used in) investing activities	17,706	499	957	1,361	(7,593)	(27,068)
Net cash used in financing activities	(1,319)	(1,410)	(1,582)	(2,289)	(1,546)	(1,432)
At Fiscal Year-End						
Total assets	¥93,137	¥92,550	¥98,868	¥98,525	¥104,741	¥103,253
Total equity	79,018	80,225	82,826	83,556	87,119	87,092
Number of shares issued (Thousands)	28,800	28,800	28,800	28,800	28,800	28,800
Number of employees	1,009	1,047	1,058	1,059	1,074	1,049

	Yen					
Per Share Data						
Total equity	¥2,792.1	¥2,834.8	¥2,926.8	¥2,978.8	¥3,105.7	¥3,103.3
Net income	118.5	85.5	124.7	100.4	168.2	41.5
Cash dividends	40	40	48	48	48	48

	%					
Key Ratios						
Operating income ratio	8.6	9.3	7.9	6.3	9.8	7.9
Return on equity (ROE)	4.3	3.0	4.3	3.4	5.5	1.3
Return on assets (ROA)	3.6	2.6	3.7	2.9	4.6	1.1
Shareholders' equity ratio	84.8	86.7	83.8	84.8	83.2	84.3
Dividend payout ratio	33.8	46.8	38.5	47.8	28.5	115.6

*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 ¥132.70=US$1.00, the approximate exchange rate prevailing on December 31, 2022.

*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.

*3 The "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) etc. have been applied from the beginning of the fiscal year ended December 31, 2022.

	Millions of Yen				Thousands of U.S. Dollars*1
	2019	2020	2021	December 31 2022	December 31 2022
For the Year					
Net sales	¥42,998	¥41,700	¥46,987	**¥48,896**	**$368,470**
Gross profit	22,295	21,737	24,338	**23,379**	**176,181**
Operating income	1,430	4,738	4,656	**5,540**	**41,750**
Income before income taxes	37,700	4,225	4,767	**5,722**	**43,123**
Net income	27,367	3,495	3,374	**3,944**	**29,724**
Capital expenditures	330	392	822	**662**	**4,992**
Research and development costs	2,956	596	832	**1,661**	**12,519**
Net cash provided by (used in) operating activities	42,499	(3,443)	(156)	**2,420**	**18,241**
Net cash provided by (used in) investing activities	2,099	7,625	(1,498)	**(13,676)**	**(103,064)**
Net cash used in financing activities	(1,433)	(1,425)	(1,546)	**(1,698)**	**(12,799)**
At Fiscal Year-End					
Total assets	¥139,943	¥126,026	¥130,810	**¥133,689**	**$1,007,454**
Total equity	113,125	115,091	117,015	**119,224**	**898,454**
Number of shares issued (Thousands)	28,800	28,800	28,800	**28,800**	**28,800**
Number of employees	660	568	560	**563**	**563**

	Yen				U.S. Dollars*1
Per Share Data					
Total equity	¥4,029.3	¥4,097.5	¥4,165.4	**¥4,243.1**	**$31.98**
Net income	975.0	124.5	120.1	**140.4**	**1.06**
Cash dividends	48	48	48	**100**	**0.75**

	%			
Key Ratios				
Operating income ratio	3.3	11.4	9.9	**11.3**
Return on equity (ROE)	27.3	3.1	2.9	**3.3**
Return on assets (ROA)	22.5	2.6	2.6	**3.0**
Shareholders' equity ratio	80.8	91.3	89.5	**89.2**
Dividend payout ratio	4.9	38.6	40.0	**71.2**

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

Financial Results for the Year Ended December 31, 2022

During the fiscal year ended December 31, 2022, the business environment surrounding the pharmaceutical industry was extremely challenging, characterized by rapid changes, including increased investment risk due to the increasing sophistication and difficulty of R&D, soaring prices of resources and raw materials in line with the protracted situation in Ukraine, the sharp depreciation of the yen and the accompanying inflation, as well as the drastic reform of the NHI drug pricing system (including annual NHI drug price revisions) and changes in information provision activities. Moreover, in view of COVID-19, the trend among patients to refrain from seeking consultations at medical institutions and self-imposed restrictions on visits to medical institutions by medical representatives (MRs) continued and had a certain impact on business activities.

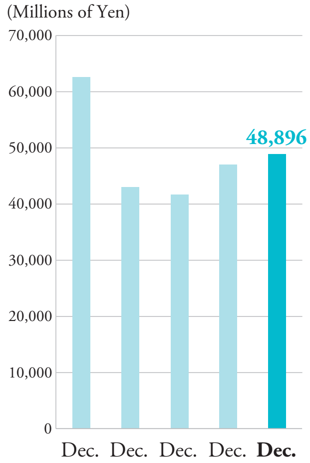
In these circumstances, the Company defined a new corporate philosophy and formulated the Medium-/Long-Term Business Vision "VISION2030" and the Medium-Term Management Plan 2022-2024, and has been implementing measures for its growth strategy and measures to maintain the trust of stakeholders in order to realize its Medium-/Long-Term Business Vision.

Net Sales

Despite a decrease resulting from the application of the Accounting Standard for Revenue Recognition and other standards and due to the impact of NHI drug price revisions, net sales amounted to ¥48,896 million (¥46,987 million for the previous fiscal year) owing to such factors as increased sales volume in the allergens area and in the skin disease area.

Net Sales

(Millions of Yen)



Sales of Mainstay Products

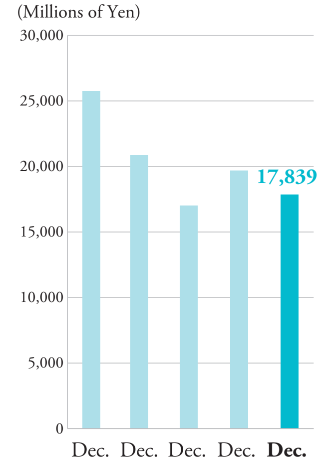
(Millions of Yen)

	Dec. 2021	Dec. 2022	Change*
CEDARCURE	¥8,325	**¥9,608**	–
MITICURE	7,386	**8,694**	–
Riona	6,863	**6,939**	–
CORECTIM	4,025	**5,469**	–
REMITCH	5,058	**3,536**	–

*"Accounting Standard for Revenue Recognition" etc. have been applied from the beginning of the current fiscal year.
The standard is different from the revenue recognition in the results for the FY2021. Increase (Decrease) in products is not listed.

Selling, General and Administrative Expenses

(Millions of Yen)



Sales of mainstay products in franchise areas were as follows:

- In the renal disease and hemodialysis area, sales of Riona Tablets (a therapeutic agent for hyperphosphatemia and a therapeutic agent for iron deficiency anemia) amounted to ¥6,939 million (¥6,863 million for the previous fiscal year). Sales of REMITCH (an oral antipruritic agent for hemodialysis patients) were ¥3,536 million (¥5,058 million for the previous fiscal year), affected by generic products in addition to the impact of NHI drug price revisions.
- In the skin disease area, sales of CORECTIM ointment (topical JAK inhibitor) amounted to ¥5,469 million (¥4,025 million for the previous fiscal year) owing to increased sales volume, including prescriptions for children. Sales of ANTEBATE (topical corticosteroid) were ¥3,995 million (¥4,825 million for the previous fiscal year), owing to the impact of NHI drug price revisions.
- In the allergens area, sales of CEDARCURE Japanese Cedar Pollen Sublingual Tablets (allergen immunotherapy) amounted to ¥9,608 million (¥8,325 million for the previous fiscal year), due to the further spread of allergen immunotherapy. Sales of MITICURE House Dust Mite Sublingual Tablets (allergen immunotherapy) amounted to ¥8,694 million (¥7,386 million for the previous fiscal year).

Cost of Sales

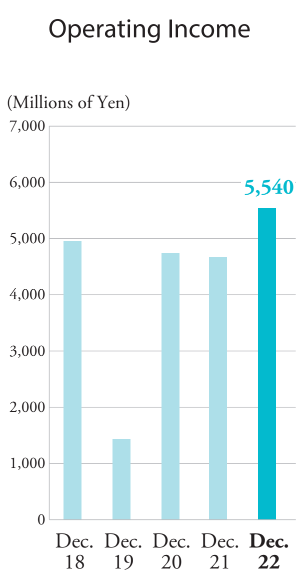
Cost of sales was ¥25,516 million (¥22,649 million for the previous fiscal year) mainly owing to increased sales volume and increased manufacturing costs resulting from continued yen depreciation.

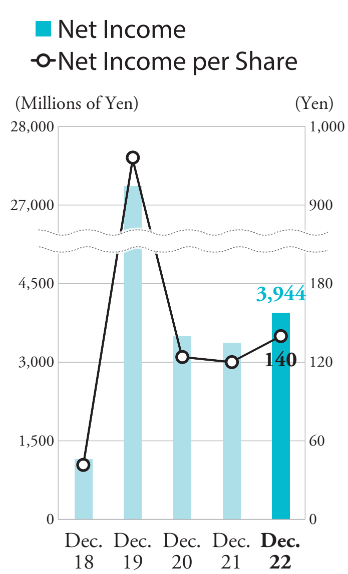
Selling, General and Administrative Expenses

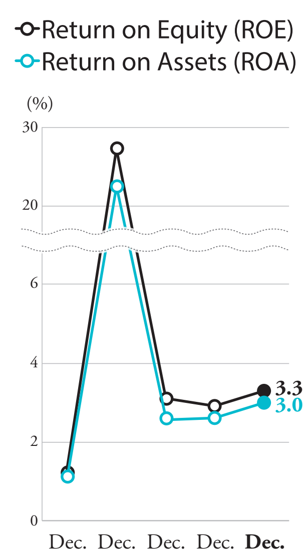
Although research and development expenses increased, selling, general and administrative expenses were ¥17,839 million (¥19,682 million for the previous fiscal year), mainly attributable to a decrease resulting from the application of the Accounting Standard for Revenue Recognition and other standards.

Operating Income and Net Income

As a result of the above, operating income was ¥5,540 million, an increase of ¥884 million (19.0%) year on year. Net income was ¥3,944 million, an increase of ¥569 million (16.9%) year on year due to the recording of gain on sale of investment securities due to reduction of policy shareholdings under extraordinary income.







Financial Position at December 31, 2022

Assets, Liabilities and Equity

Total assets increased by ¥2,878 million (2.2%) from the end of the previous fiscal year to ¥133,689 million as of December 31, 2022. Current assets decreased by ¥5,689 million (5.8%) to ¥91,603 million, mainly due to a ¥12,954 million decrease in cash and cash equivalents, despite a ¥6,291 million increase in marketable securities and a ¥905 million increase in receivables. Net property, plant and equipment increased by ¥203 million (9.8%) from the end of the previous fiscal year to ¥2,282 million mainly due to a ¥388 million increase in leased assets. Investment and other assets increased by ¥8,363 million (26.6%) from the end of the previous fiscal year to ¥39,803 million mainly due to a ¥7,973 million increase in investment securities and a ¥396 million increase in long-term prepaid expenses.

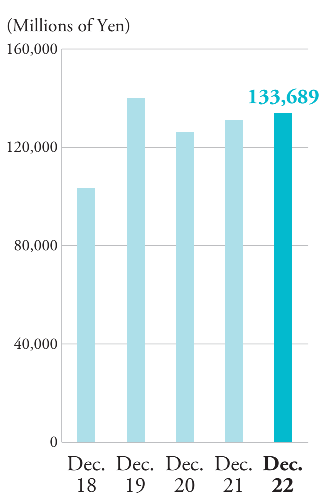
Total liabilities increased by ¥668 million (4.8%) from the end of the previous fiscal year to ¥14,464 million. Reasons for this change included a ¥1,264 million increase in payables, despite a ¥416 million decrease in income taxes payable and a ¥129 million decrease in liability for retirement benefits.

Total equity rose by ¥2,209 million (1.9%) from the end of the previous fiscal year to ¥119,224 million. Contributing factors included surplus dividends of ¥1,348 million and net income of ¥3,944 million.

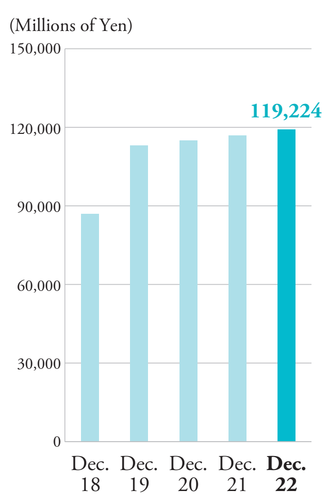
Cash Flows for the Year Ended December 31, 2022

At ¥45,420 million, cash and cash equivalents as of December 31, 2022 were ¥12,954 million (22.2%) lower than at the end of the previous fiscal year.

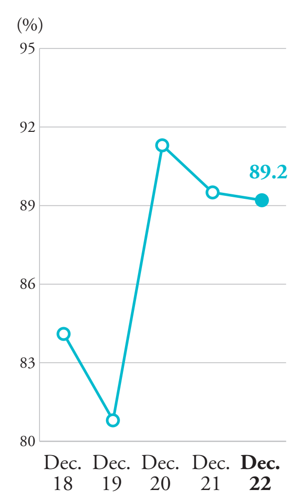
Total Assets



Total Equity



Shareholders' Equity Ratio



Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥2,420 million. (Net cash used in operating activities for the previous year totaled ¥156 million.) This result reflected income before income taxes of ¥5,722 million, an increase of ¥806 million in trade accounts payable, depreciation and amortization of ¥454 million, an increase of ¥320 million in trade accounts receivable, an increase of ¥206 million in inventories and income taxes paid of ¥2,006 million.

Cash Flows from Investing Activities

Net cash used in investing activities amounted to ¥13,676 million. (Net cash used in investing activities for the previous year totaled ¥1,498 million.) Major items included inflows of ¥12,100 million in proceeds from sale and redemption of marketable securities and ¥5,564 million in proceeds from sale and redemption of investment securities. These inflows were offset by outflows of ¥19,136 million in purchases of investment securities and ¥12,309 million in purchases of marketable securities.

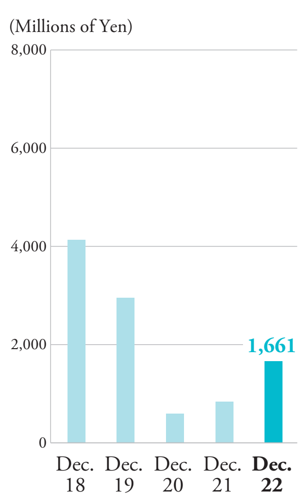
Cash Flows from Financing Activities

Net cash used in financing activities amounted to ¥1,698 million, consisting mainly of ¥1,348 million in dividends paid. (Net cash used in financing activities for the previous year totaled ¥1,546 million.)

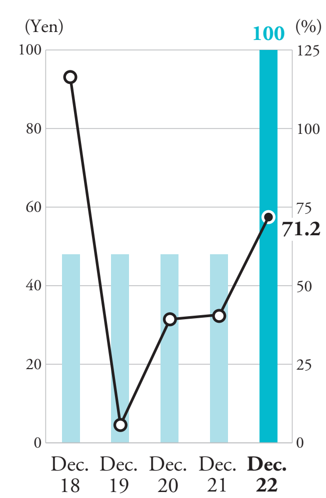
Resources for Capital and Liquidity of Funds

Torii mainly requires funds for working capital to procure raw materials for the manufacturing of products, purchase merchandise, and secure goods, services, etc. for operating activities, as well as for strategic investments such as capital expenditures, acquisition of new in-licensed drugs to achieve sustainable growth, co-development with JT, and for payment of dividends. The Company procures these required funds from its own funds. With regard to the liquidity of funds, Torii secures liquid assets such as cash and deposits to be prepared for working capital and certain strategic investments.

Research and Development Costs



Cash Dividends
Dividend Payout Ratio



Balance Sheet

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	December 31, 2022	December 31, 2021	December 31, 2022
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents (Notes 13 and 14)	¥ 45,420	¥ 58,374	$ 342,277
Marketable securities (Notes 4 and 13)	13,489	7,198	101,655
Receivables (Note 13):			
Trade accounts	20,622	20,302	155,408
Parent	2,303	1,754	17,356
Other	319	283	2,411
Inventories (Note 6)	8,970	8,763	67,596
Prepaid expenses and other current assets	477	615	3,595
Total current assets	91,603	97,292	690,301
PROPERTY, PLANT AND EQUIPMENT:			
Land	344	344	2,595
Buildings and structures	3,359	3,310	25,317
Machinery and equipment	134	134	1,013
Furniture and fixtures	757	741	5,705
Lease asset (Note 12)	2,281	1,892	17,191
Construction in progress			
Total	6,877	6,423	51,823
Accumulated depreciation	(4,594)	(4,345)	(34,622)
Net property, plant and equipment	2,282	2,078	17,201
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 4 and 13)	30,282	22,309	228,205
Software	415	408	3,134
Long-term prepaid expenses	7,709	7,312	58,093
Deferred tax assets (Note 9)	650	641	4,900
Other long-term assets	745	767	5,616
Total investments and other assets	39,803	31,439	299,951
Total	¥133,689	¥130,810	$1,007,454

See notes to financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	December 31, 2022	December 31, 2021	December 31, 2022
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Payable:			
Trade accounts	¥ 4,342	¥ 4,084	$ 32,724
Parent (Note 14)	2,297	1,761	17,311
Other	3,745	3,275	28,224
Current portion of long-term lease obligations (Note 12)	283	211	2,139
Income taxes payable	1,120	1,536	8,446
Accrued expenses	337	405	2,541
Accrued employees' bonuses	402	394	3,031
Accrued bonuses to directors and Audit & Supervisory Board members	14	13	107
Asset retirement obligations		14	
Other current liabilities	678	674	5,109
Total current liabilities	13,221	12,372	99,635
LONG-TERM LIABILITIES:			
Liability for retirement benefits (Note 7)	707	837	5,332
Long-term lease obligations (Note 12)	241	275	1,822
Asset retirement obligations	54	53	407
Other long-term liabilities	239	256	1,801
Total long-term liabilities	1,242	1,423	9,364
EQUITY (Note 8):			
Common stock—authorized, 54,000,000 shares; issued,			
28,800,000 shares in December 2022 and 2021	5,190	5,190	39,110
Capital surplus:	6,453	6,445	48,630
Additional paid-in capital	6,416	6,416	48,349
Other capital surplus	37	29	280
Retained earnings:			
Legal reserve	1,297	1,297	9,777
Unappropriated	107,548	104,952	810,464
Unrealized gain on available-for-sale securities	117	523	883
Treasury stock—at cost, 701,362 shares in December 2022 and 707,605 shares in December 2021	(1,381)	(1,393)	(10,412)
Total equity	119,224	117,015	898,454
Total	¥133,689	¥130,810	$1,007,454

Statement of Income

Torii Pharmaceutical Co., Ltd.
Year ended December 31, 2022

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Year Ended December 31, 2022	Year Ended December 31, 2021	Year Ended December 31, 2022
NET SALES (Note 10)	¥ 48,896	¥ 46,987	$ 368,470
COST OF SALES	25,516	22,649	192,288
Gross profit	23,379	24,338	176,181
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 11)	17,839	19,682	134,431
Operating income	5,540	4,656	41,750
OTHER INCOME (EXPENSES):			
Interest and dividend income	313	281	2,363
Loss on disposal of property, plant and equipment	(2)	(37)	(18)
Business structure reform expenses (Note 15)		(12)	
Other—net	(129)	(120)	(972)
Other income (expenses) —net	182	111	1,373
INCOME BEFORE INCOME TAXES	5,722	4,767	43,123
INCOME TAXES (Note 9):			
Current	1,611	1,396	12,145
Deferred	166	(3)	1,254
Total income taxes	1,778	1,392	13,399
NET INCOME	¥ 3,944	¥ 3,374	$ 29,724
	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Note 2.q):			
Basic net income	¥ 140.4	¥ 120.1	$ 1.06
Cash dividends applicable to the period	100.0	48.0	0.75

See notes to financial statements.

Statement of Changes in Equity

		Millions of Yen								
			Capital Surplus (Note 8)			Retained Earnings (Note 8)				
	Outstanding Number of Shares of Common Stock	Common Stock (Note 8)	Additional Paid-in Capital	Other Capital Surplus	Stock Acquisition Rights (Note 8)	Legal Reserve	Unappropriated	Unrealized Gain (Loss) on Available-for-Sale Securities	Treasury Stock	Total Equity
BALANCE, DECEMBER 31, 2020	**28,085,442**	**¥ 5,190**	**¥ 6,416**	**¥ 21**	**¥ 10**	**¥ 1,297**	**¥ 102,926**	**¥ 636**	**¥ (1,407)**	**¥ 115,091**
Net income							3,374			3,374
Cash dividends paid, ¥48.0 per share							(1,348)			(1,348)
Repurchase of treasury stock	(48)								(0)	(0)
Disposal of treasury stock	7,001			7					13	20
Net change in the year					(10)			(112)		(122)
BALANCE, DECEMBER 31, 2021	**28,092,395**	**5,190**	**6,416**	**29**		**1,297**	**104,952**	**523**	**(1,393)**	**117,015**
Net income							3,944			3,944
Cash dividends paid, ¥48.0 per share							(1,348)			(1,348)
Repurchase of treasury stock	(309)								(0)	(0)
Disposal of treasury stock	6,552			8					12	20
Net change in the year								(406)		(406)
BALANCE, DECEMBER 31, 2022	**28,098,638**	**¥ 5,190**	**¥ 6,416**	**¥ 37**		**¥ 1,297**	**¥ 107,548**	**¥ 117**	**¥ (1,381)**	**¥ 119,224**

	Thousands of U.S. Dollars (Note 1)								
		Capital Surplus (Note 8)			Retained Earnings (Note 8)				
	Common Stock (Note 8)	Additional Paid-in Capital	Other Capital Surplus	Stock Acquisition Rights (Note 8)	Legal Reserve	Unappropriated	Unrealized Gain (Loss) on Available-for-Sale Securities	Treasury Stock	Total Equity
BALANCE, DECEMBER 31, 2021	**$ 39,110**	**$ 48,349**	**$ 219**		**$ 9,777**	**$ 790,903**	**$ 3,947**	**$ (10,502)**	**$ 881,805**
Net income						29,724			29,724
Cash dividends paid, $0.36 per share						(10,162)			(10,162)
Repurchase of treasury stock								(6)	(6)
Disposal of treasury stock			60					97	158
Net change in the year							(3,063)		(3,063)
BALANCE, DECEMBER 31, 2022	**$ 39,110**	**$ 48,349**	**$ 280**		**$ 9,777**	**$ 810,464**	**$ 883**	**$ (10,412)**	**$ 898,454**

See notes to financial statements.

Statement of Cash Flows

Torii Pharmaceutical Co., Ltd.
Year ended December 31, 2022

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Year Ended December 31, 2022	Year Ended December 31, 2021	Year Ended December 31, 2022
OPERATING ACTIVITIES:			
Income before income taxes	¥ 5,722	¥ 4,767	$ 43,123
Adjustments for:			
Income taxes refund (paid)	(2,006)	21	(15,123)
Depreciation and amortization	454	413	3,423
Business structure reform expenses		12	
Payments for Business structure reform expenses	(12)	(11)	(91)
Changes in assets and liabilities:			
Increase (decrease) in accrued consumption taxes	(4)	330	(32)
Decrease (increase) in trade accounts receivable	(320)	(1,345)	(2,416)
Increase in inventories	(206)	(1,610)	(1,555)
Increase in trade accounts payable	806	577	6,076
Other—net	(2,012)	(3,310)	(15,163)
Total adjustments	(3,301)	(4,923)	(24,882)
Net cash provided by (used in) operating activities	2,420	(156)	18,241
INVESTING ACTIVITIES:			
Purchases of marketable securities	(12,309)	(14,900)	(92,759)
Proceeds from sale and redemption of marketable securities	12,100	18,420	91,183
Purchases of property, plant and equipment	(120)	(150)	(904)
Purchases of investment securities	(19,136)	(9,376)	(144,211)
Proceeds from sale and redemption of investment securities	5,564	5,360	41,934
Payments for investments in capital		(200)	
Other—net	224	(651)	1,693
Net cash used in investing activities	(13,676)	(1,498)	(103,064)
FINANCING ACTIVITIES:			
Repurchase of treasury stock	0	0	(6)
Dividends paid	(1,348)	(1,348)	(10,162)
Repayments of lease obligations	(348)	(198)	(2,629)
Net cash used in financing activities	(1,698)	(1,546)	(12,799)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(12,954)	(3,201)	(97,622)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	58,374	61,576	439,900
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 45,420	¥ 58,374	$ 342,277

See notes to financial statements.

Notes to Financial Statements

1 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

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

In preparing these financial statements, certain reclassifications and rearrangements have been made to the financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2021 financial statements to conform to the classifications used in 2022.

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 ¥132.70 to $1, the approximate rate of exchange at December 31, 2022. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. No consolidation—The Company has no subsidiaries as of December 31, 2022.

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

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

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

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

Nonmarketable available-for-sale securities are stated at cost determined by the moving-average method. For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

e. Property, Plant and Equipment—Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company is computed by the declining-balance method while the straight-line method is applied to buildings acquired on or after April 1, 1998, and building improvements and structures acquired on or after April 1, 2016. The range of useful lives is from 15 to 50 years for buildings and structures, 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. Software—Software is carried at cost less accumulated amortization, which is calculated by the straight-line method principally over 5 years.

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

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

h. Asset Retirement Obligations— An asset retirement obligation is recorded for a legal obligation imposed either by law or contract that results from the acquisition, construction, development and normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

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

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

All other leases are accounted for as operating leases.

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

l. 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.

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

n. 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.

o. 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.

p. 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 28,096,794 shares and 28,090,290 shares for the years ended December 31, 2022 and 2021, respectively.

Diluted net income per share is not disclosed because there were no dilutive potential common shares that were outstanding during the year ended December 31, 2022.

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.

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

r. Accounting Standard for revenue and expense— "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020)
The Company mainly manufactures and sells medicines and recognizes the consideration in exchange for the products as revenue when its customers obtain control of the products. Revenue from the sale of products is recognized at the time of shipment if the period between shipment and delivery to customers is normal. Revenue is measured at the consideration promised in contracts with customers, net of returns, discounts and rebates, and is not measured based on estimation. In addition, considerations of the transaction have been received within one year since the fulfillment of the performance obligation, and do not include any significant financial factors.

s. New Accounting Pronouncements—"Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021)

(a) Overview
It stipulates the treatment of the calculation and notes of the market value of investment trusts and the treatment of the notes of the market value of investment in partnerships, etc. in which the amount equivalent to equity is recorded on the balance sheet on a net basis.

(b) Scheduled Date of Adoption
The Company expects to apply the guidance for the period beginning on January 1, 2023.

(c) Effect of Adoption
The impact is under evaluation at the time of preparation of the financial statements.

3 SUMMARY OF SIGNIFICANT ACCOUNTING ESTIMATE

Evaluation of long-term prepaid expenses

(1) Carrying amounts

	Millions of Yen	Thousands of U.S. Dollars
	December 31, 2022	December 31, 2022
Long-term prepaid expenses	¥ 7,709	$ 58,093

(2) Information on the significant accounting estimate

We have recorded long-term prepaid expenses related to marketing rights that are deemed to be highly recoverable due to future earnings from expenditures related to in-licensing contracts, evenly expensed over the period of effect, and have accounted for the large portion of long-term prepaid expenses of ¥7,709 million as of December 31, 2022.

If the actual earnings of each pharmaceutical product are continuously negative, or if the future earnings based on the sales plan developed by the management will not be achieved, there is a possibility that there will be impairment indications of the marketing rights. If there are impairment indications and the total amount of expected future cash flows before discounts is less than the carrying amount of the marketing rights, an impairment loss will be recognized.

4 ACCOUNTING CHANGE

(1) Application of Accounting Standards for Revenue Recognition

Effective January 1, 2022, the Company adopted ASBJ Statement No. 29, "Accounting Standard for Revenue Recognition" (thereinafter: "Revenue Recognition Accounting Standard") and ASBJ Guidance No. 30, "Implementation Guidance on Accounting Standard for Revenue Recognition," issued on March 31, 2020 and recognizes revenue at the amount expected to be received in exchange for promised goods or services when control of the goods or services is transferred to customers.

As a result, part of the sales promotion expenses, which were previously recorded as selling, general and administrative expenses, are deducted from net sales. Part of the freight storage expenses and advertising expenses, which were previously recorded as selling, general and administrative expenses, are recorded as cost of sales. In addition, the allowance for sales returns, which was previously recorded as an independent account in current liability, is included in other current liabilities as a refund liability.

The Company applies the alternative treatment set forth in Article 98 of the "Implementation Guidance on Accounting Standard for Revenue Recognition" and recognizes revenue upon shipment of goods or products if the period between the time of shipment and the time when control of such goods or products is transferred to the customer is the normal period.

With regard to the application of the Revenue Recognition Accounting Standards, etc., the transitional treatment stipulated in the proviso in Article 84 of the Revenue Recognition Accounting Standards is followed. The cumulative effect of retrospectively applying the new accounting policy prior to the beginning of the current fiscal year is added to or deducted from retained earnings at the beginning of the current fiscal year, and the new accounting policy is applied from the balance at the beginning of the current fiscal year.

As a result, net sales decreased by ¥2,865 million, cost of sales increased by ¥357 million, and selling, general and administrative expenses decreased by ¥3,222 million. However, there was no effect on operating income, and income before income taxes. There was also no impact on the beginning balance of retained earnings. In accordance with the transitional treatment stipulated in Article 89-2 of the Revenue Recognition Accounting Standard, no reclassifications have been made for the previous fiscal year.

In addition, in accordance with the transitional treatment stipulated in Article 89-3 of the Revenue Recognition Accounting Standard, the revenue recognition related notes for the previous fiscal year have not been presented.

(2) Application of Accounting Standards for Fair Value Measurement

Effective January 1, 2022, the Company adopted ASBJ Statement No. 30, "Accounting Standard for Fair Value Measurement" issued on July 4, 2019. In accordance with the transitional treatment stipulated in Article 19 of the above standard and Article 44-2 of the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019), the new accounting policy will be applied in the future. There is no impact on the financial statements.

In addition, in the note of financial instruments and related disclosures, the Company decided to disclose the breakdown of fair value of financial instruments by level, etc. However, in accordance with the transitional treatment stipulated in Article 7-4 of the "Implementation Guidance on Disclosure of Fair Value of Financial Instruments" (ASBJ Guidance No. 19, July 4, 2019), the relevant information for the previous fiscal year is not stated.

5 MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of December 31, 2022 and 2021, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	December 31, 2022	December 31, 2021	**December 31, 2022**
Current:			
Government and corporate bonds	**¥ 10,989**	¥ 3,197	**$ 82,810**
Trust fund investments and other	**2,500**	4,000	**18,844**
Total	**¥ 13,489**	¥ 7,198	**$ 101,655**
Noncurrent:			
Equity securities	**¥ 926**	¥ 1,220	**$6,981**
Government and corporate bonds	**26,021**	17,683	**196,090**
Trust fund investments and other	**3,335**	3,405	**25,134**
Total	**¥ 30,282**	¥ 22,309	**$ 228,205**

The costs and aggregate fair values of marketable and investment securities as of December 31, 2022 and 2021, were as follows:

	Millions of Yen			
December 31, 2022	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	**¥ 280**	**¥ 535**		**¥ 816**
Debt securities	**37,377**		**¥ 367**	**37,010**
Other	**5,835**	**1**	**0**	**5,836**
December 31, 2021				
Available-for-sale:				
Equity securities	¥ 357	¥ 752		¥ 1,110
Debt securities	20,883	27	¥ 29	20,881
Other	7,405	0		7,405

	Thousands of U.S. Dollars			
December 31, 2022	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	**$ 2,116**	**$ 4,036**		**$ 6,152**
Debt securities	**281,668**		**$ 2,768**	**278,900**
Other	**43,973**	**7**	**2**	**43,979**

Available-for-sale securities whose fair value was not readily determinable as of December 31, 2022 and 2021, were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	December 31, 2022	December 31, 2021	December 31, 2022
Available-for-sale—Unlisted equity securities	¥ 110	¥ 110	$ 828
Investment in limited partnership	¥ 818	¥ 886	$ 6,164
Total	¥ 928	¥ 996	$ 6,993

6 INVENTORIES

Inventories as of December 31, 2022 and 2021, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	December 31, 2022	December 31, 2021	December 31, 2022
Finished products and merchandise	¥ 6,165	¥ 5,542	$ 46,465
Raw materials and supplies	2,804	3,221	21,131
Total	¥ 8,970	¥ 8,763	$ 67,596

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 as of December 31, 2022 and 2021, consisted of the following:

(1) The changes in defined benefit obligation for the years ended December 31, 2022 and 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	Year Ended December 31, 2022	Year Ended December 31, 2021	Year Ended December 31, 2022
Balance at beginning of period	¥ 6,285	¥ 6,226	$ 47,363
Current service cost	307	302	2,317
Interest cost	37	37	284
Actuarial losses (gains)	(1,339)	(36)	(10,091)
Benefits paid	(248)	(243)	(1,870)
Decrease due to transfer of business			
Balance at end of period	¥ 5,042	¥ 6,285	$ 38,002

(2) The changes in plan assets for the years ended December 31, 2022 and 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	Year Ended December 31, 2022	Year Ended December 31, 2021	Year Ended December 31, 2022
Balance at beginning of period	¥ 6,029	¥ 5,741	$ 45,433
Expected return on plan assets	120	114	908
Actuarial gains	(329)	184	(2,481)
Contributions from the employer	227	217	1,716
Benefits paid	(234)	(229)	(1,764)
Decrease due to transfer of business			
Balance at end of period	¥ 5,813	¥ 6,029	$ 43,812

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

	Millions of Yen		Thousands of U.S. Dollars
	December 31, 2022	December 31, 2021	December 31, 2022
Funded defined benefit obligation	¥ 4,867	¥ 5,602	$ 36,677
Plan assets	(5,813)	(6,029)	(43,812)
	(946)	(426)	(7,134)
Unfunded defined benefit obligation	175	682	1,325
Unrecognized actuarial losses	1,478	581	11,142
Net liability arising from defined benefit obligation	¥ 707	¥ 837	$ 5,332

	Millions of Yen		Thousands of U.S. Dollars
	December 31, 2022	December 31, 2021	December 31, 2022
Liability for retirement benefits	¥ 707	¥ 837	$ 5,332
Net liability arising from defined benefit obligation	¥ 707	¥ 837	$ 5,332

(4) The components of net periodic benefit costs for the years ended December 31, 2022 and 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	Year Ended December 31, 2022	Year Ended December 31, 2021	Year Ended December 31, 2022
Service cost	¥ 307	¥ 302	$ 2,317
Interest cost	37	37	284
Expected return on plan assets	(120)	(114)	(908)
Recognized actuarial (gains) losses	(112)	(104)	(847)
Net periodic benefit costs	¥ 112	¥ 120	$ 844

(5) Plan assets

a. Components of plan assets

Plan assets consisted of the following:

	December 31, 2022	December 31, 2021
Debt investments	45%	47%
Equity investments	24	25
General account of life insurance companies	10	8
Others	21	20
Total	100%	100%

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

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

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

(6) Assumptions used for the years ended December 31, 2022 and 2021, were set forth as follows:

	Year Ended December 31, 2022	Year Ended December 31, 2021
Discount rate	1.8%	0.6%
Expected rate of return on plan assets	2.0	2.0

(7) Multiemployer pension plan

Contributions to the multiemployer pension plan of ¥58 million ($438 thousand) and ¥54 million are disclosed in selling, general and administrative expenses for the years ended December 31, 2022 and 2021 respectively, for which plan assets could not be allocated to each participating employer.

The funded status of the multiemployer pension plan as of December 31, 2022 (based on information available as of March 31, 2022) and December 31, 2021 (based on information available as of March 31, 2021) 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,
	2022	2021	2022
Fair value of plan assets	¥ 182,141	¥ 166,870	$ 1,372,578
Sum of actuarial liabilities of pension plan and minimum actuarial reserve	151,351	150,293	1,140,556
Difference	¥ 30,789	¥ 16,577	$ 232,021

The Company's contribution percentage for the multiemployer pension plan as of December 31, 2022 and 2021, was as follows:

	December 31, 2022	December 31, 2021
Contribution percentage	0.9%	0.8%

Notes (March 31, 2022):

1. The difference mainly resulted from prior service cost of ¥ (6,169) million ($(46,488) thousand), surplus brought forward of ¥11,809 million ($88,990 thousand) and special reserve fund of ¥25,149 million ($189,517 thousand).
2. Prior service cost is the present value of the amount of special contributions and the method of amortization is principal and interest equal repayment. The ratio of employer contribution is 0.7%. The remaining term of amortization is 2 years and 5 months as of March 31, 2022.

Notes (March 31, 2021):

1. The difference mainly resulted from prior service cost of ¥ (8,572) million, surplus brought forward of ¥13,336 million ($115,945 thousand) and special reserve fund of ¥11,813 million.
2. Prior service cost is the present value of the amount of special contributions and the method of amortization is equal to the payment terms. The ratio of employer contribution is 0.7%. The remaining term of amortization is 3 years and 5 months as of March 31, 2021.

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 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 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 approximately 30.6% and 30.6% for the years ended December 31, 2022 and 2021, respectively.

The tax effects of significant temporary differences, which resulted in deferred tax assets and liabilities as of December 31, 2022 and 2021, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	December 31, 2022	December 31, 2021	**December 31, 2022**
Deferred tax assets:			
Accrued enterprise taxes	**¥ 73**	¥ 94	**$ 552**
Liabilities for retirement benefits	**216**	256	**1,631**
Accrued expenses	**54**	47	**413**
Prepayment of research and development costs	**98**	45	**745**
Accrued bonuses to employees	**123**	120	**927**
Loss on valuation of inventories	**51**	15	**391**
Other	**140**	311	**1,058**
Less valuation allowance	**(50)**	(29)	**(382)**
Total	**708**	862	**5,338**
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	**51**	226	**389**
Other	**6**	(5)	**48**
Total	**58**	220	**438**
Net deferred tax assets	**¥ 650**	¥ 641	**$ 4,900**

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates as reflected in the accompanying statement of income for the year ended December 31, 2022, with the corresponding figures for 2021, is as follows:

	Year Ended December 31, 2022	Year Ended December 31, 2021
Normal effective statutory tax rate	**30.6%**	30.6%
Expenses not deductible for income tax purposes	**0.5**	0.2
Dividend income deductible for income tax purposes	**(0.0)**	(0.0)
Per capita levy	**0.6**	0.7
Tax credits	**(0.9)**	(0.9)
Increase in valuation allowance	**0.4**	(0.3)
Other—net	**(0.1)**	(1.1)
Actual effective tax rate	**31.1%**	29.2%

10 REVENUE

(1) Disaggregation of Revenue
Revenues from contracts with customers on a disaggregated basis for the year ended December 31, 2022, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2022	2022
Products and services		
Renal dialysis	¥ 12,013	$ 90,528
Skin disease	12,391	93,382
Allergens	18,499	139,409
Others	5,658	42,641
Other revenues from contracts with customers	332	2,507
Total	¥ 48,896	$ 368,470

Note: Real estate rental income of 2 million yen is included in other revenues from contracts with customers.

(2) Basic Information to Understand Revenue from Contracts with Customers
The notes are omitted because the same content is described in "[Notes] 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — s. Accounting Standard for revenue and expense."

(3) Information to Understand Amount of Revenue in Current Fiscal Year onwards
1. Outstanding Contract Assets and Liabilities
   Not applicable
2. Transaction price allocated to remaining performance obligations
   Since there are no significant transactions with an individual expected contract term exceeding one year, we will use practical expediency methods. Therefore, information on remaining performance obligations is not presented. In addition, there are no such amount in the consideration arising from contracts with customers as a significant variable consideration that was not included in transaction price.

11 RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥1,661 million ($12,519 thousand) and ¥832 million for the years ended December 31, 2022 and 2021, 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 years ended December 31, 2022 and 2021, were ¥765million ($5,768 thousand) and ¥491 million, respectively.

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

	Millions of Yen	Thousands of U.S. Dollars
	2022 Operating Leases	2022 Operating Leases
Due within one year	¥ 19	$ 147
Due after one year	9	73
Total	¥ 29	$ 220

13 FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Policy for Financial Instruments
To prepare for new business investment, the Company invests surplus funds in financial instruments, which are selected primarily by considering liquidity and security. Derivatives are used to manage exposure to financial risks described in (2) below, but not for speculative purposes.

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

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

Marketable and investment securities consist mainly of bonds held with the aim of investing surplus funds, and shares in companies with which the Company has business relationships. These bonds and shares are exposed to the credit risk of the issuers and to the risk of market price fluctuation.

Most trade accounts and accrued payments, which are operating liabilities, have due dates within one year. Some of these items are denominated in foreign currencies and are therefore exposed to the risk of exchange rate fluctuations. Derivatives are forward foreign currency contracts, which are used to manage exposure to financial risks from changes in foreign currency exchange rates of payables.

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

(a) Fair values of financial instruments
Fair values of financial instruments are as follows. Investments in equity instruments that do not have a quoted market price in an active market are not included in the following table. The fair values of cash and cash equivalents, payables, accrued expenses, income taxes payables, receivables, money trust (included in marketable securities) with the same nature as cash deposit, etc. are not disclosed because their maturities are short and the carrying values approximate fair value.

	Millions of Yen		
December 31, 2022	Carrying Amount	Fair Value	Unrealized Gain/Loss
Marketable and investment securities—Available-for-sale securities	**42,844**	**42,844**	
December 31, 2021			
Marketable and investment securities—Available-for-sale securities	29,397	29,397	

	Thousands of U.S. Dollars		
December 31, 2022	Carrying Amount	Fair Value	Unrealized Gain/Loss
Marketable and investment securities—Available-for-sale securities	**322,868**	**322,868**	

(b) Financial instruments without quoted market price

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	December 31, 2022	December 31, 2021	**December 31, 2022**
Unlisted shares	**¥ 110**	¥ 110	**$ 828**
Investment in limited partnership	**818**	886	**6,164**
Total	**¥ 928**	¥ 996	**$ 6,993**

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

	Millions of Yen		
December 31, 2022	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years
Cash and cash equivalents	**¥ 45,419**		
Receivables:			
Trade accounts	**20,622**		
Parent	**2,303**		
Marketable and investment securities—Available-for-sale securities with contractual maturities	**12,989**	**¥ 14,824**	**¥ 1,992**
Total	**¥ 81,335**	**¥ 14,824**	**¥ 1,992**

	Millions of Yen		
December 31, 2021	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years
Cash and cash equivalents	¥ 58,374		
Receivables:			
Trade accounts	20,302		
Parent	1,754		
Marketable and investment securities—Available-for-sale securities with contractual maturities	7,198	¥ 11,067	¥ 2,301
Total	¥ 87,629	¥ 11,067	¥ 2,301

	Thousands of U.S. Dollars		
December 31, 2022	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years
Cash and cash equivalents	**$ 342,274**		
Receivables:			
Trade accounts	**155,408**		
Parent	**17,356**		
Marketable and investment securities—Available-for-sale securities with contractual maturities	**97,887**	**$ 111,715**	**$ 15,015**
Total	**$ 612,928**	**$ 111,715**	**$ 15,015**

(5) Financial Instruments Categorized by Fair Value Hierarchy

The fair value of financial instruments is categorized into the following three levels, depending on the observability and significance of the inputs used in making fair value measurements:

Level 1 fair value: Input used to measure fair value is observable, and fair value of target assets or liabilities is measured at quoted prices at active markets.

Level 2 fair value: Input used to measure fair value is observable, and fair value is measured with inputs other than those used in Level 1.

Level 3 fair value: Input used to measure fair value is not observable.

If multiple inputs are used that have a significant impact on the measurement of fair value, fair value is classified at the lowest level in the fair value measurement among the levels to which each of these inputs belongs.

(a) The financial instruments measured at the fair values in the balance sheet

March 31, 2022	Millions of Yen			
	Level 1	Level 2	Level 3	Total
Marketable and investment securities:	**816**	**39,510**		**40,327**
Available-for-sale securities:				

March 31, 2022	Thousands of U.S. Dollars			
	Level 1	Level 2	Level 3	Total
Marketable and investment securities:	**6,152**	**297,745**		**303,898**
Available-for-sale securities:				

Note: Investment trusts to which the transitional provisions of Article 26 of the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, July 4, 2019) have been applied are not included in the above table. The amount of these investment trusts on the balance sheet is ¥2,517 million ($18,970 thousand).

(b) The financial instruments not measured at the fair values in the balance sheet
Not applicable

The following is a description of valuation methodologies and inputs used for measurement of the fair value of Instruments:

Marketable and Investment Securities
The fair values of listed equity securities are measured at the quoted market price from stock exchange, and bonds and others are measured at the price from stock exchange or financial institutions. Listed equity securities are categorized as Level 1 since they are traded in active markets. Bonds and others are categorized as Level 2 since they are not traded frequently, and quoted price in active markets cannot be recognized.

14 RELATED PARTY TRANSACTIONS

Transactions of the Company with the parent company for the years ended December 31, 2022 and 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	Year Ended December 31, 2022	Year Ended December 31, 2021	**Year Ended December 31, 2022**
Purchases	**¥ 6,733**	¥ 6,059	**$ 50,744**
Forward exchange contracts	**7,862**	8,192	**59,251**

The balances due to or from the parent company as of December 31, 2022 and 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	December 31, 2022	December 31, 2021	**December 31, 2022**
Deposits included in cash and cash equivalents	**¥ 11,217**	¥ 23,362	**$ 84,529**
Trade accounts payable	**2,242**	1,708	**16,898**

15 BUSINESS STRUCTURE REFORM EXPENSES

Business structure reform expenses are the amount of labor cost-related losses related to the transfer of Sakura Plant in 2020.

16 SEGMENT INFORMATION

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

Information relating to business segments is omitted as the Company operated solely in the pharmaceutical business for the years ended December 31, 2022 and 2021.

Sales to major customers were as follows:

	Millions of Yen		Thousands of U.S. Dollars
Name of Customer	**Year Ended December 31, 2022**	Year Ended December 31, 2021	**Year Ended December 31, 2022**
Alfresa Corporation	**¥ 11,088**	¥ 10,678	**$ 83,560**
Mediceo Corporation	**10,884**	10,467	**82,022**
Suzuken Co., Ltd.	**10,238**	10,101	**77,158**
Toho Pharmaceutical Co., Ltd.	**5,787**	5,257	**43,612**

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the financial statements of Torii Pharmaceutical Co., Ltd. (the "Company"), which comprise the balance sheet as of December 31, 2022, and the statement of income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022, and its financial performance 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the financial statements of the current period. The matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on the matter.

Determination of Indicators of Impairment of Marketing Rights	
Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
The Company has recorded long-term prepaid expenses related to marketing rights that are deemed to be highly recoverable due to future earnings from expenditures related to in-licensing contracts, which accounted for the majority of long-term prepaid expenses of ¥7,709 million as of December 31, 2022. As described in notes to the financial statements "SUMMARY OF SIGNIFICANT ACCOUNTING ESTIMATE," "Evaluation of long-term prepaid expenses," the Company has recorded long-term prepaid expenses related to marketing rights that is expected to generate future revenues, and has assessed for indications of impairment for each of the marketing rights for its pharmaceutical products. The Company assessed for impairment indicators by using the earning forecast based on the sales plan developed by the management. If the actual earnings of each pharmaceutical product are continuously negative, or if the future earning forecast based on the sales plan developed by the management is not achieved, there is a possibility that there will be impairment indications of the marketing rights. If there are impairment indications and the total amount of expected future cash flows before discount is less than the carrying amount of the marketing rights, an impairment loss is recognized. As described above, the earning forecast based on the sales plan depends on future forecast and involves management judgments. Since these management's judgments have a significant impact on the determination of impairment indications of marketing rights, we have identified the determination of indicators of impairment of marketing rights to be a key audit matter.	Our audit procedures on the determination of indicators of impairment of marketing rights included the following, among others: • We tested the design and operating effectiveness of internal controls over the process to ensure the material for the determination of impairment indication is appropriately prepared and reviewed. • We made inquiries of management and read the minutes to evaluate that there are no changes that could have a significant impact on the future earning forecast based on the sales plan developed by the management. • We obtained management analysis for the impairment indication testing and evaluated whether the actual earnings of each pharmaceutical products continued to be negative. • We considered whether an indication of management bias existed in management's forecast of the earnings of each pharmaceutical product by comparing the earning forecast based on the sales plan developed by management with actual results.

Other Information

Management is responsible for the other information. Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Responsibilities of Management and Audit & Supervisory Board Members and the Audit & Supervisory Board for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgment. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate whether the overall presentation and disclosures of the financial statements are in accordance with accounting principles generally accepted in Japan, as well as the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with Audit & Supervisory Board members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit & Supervisory Board members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Audit & Supervisory Board members and the Audit & Supervisory Board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Company which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Deloitte Touche Tohmatsu LLC

April 17, 2023