Annual Report 2020

For the year ended
December 31,
2020

TORII PHARMACEUTICAL CO., LTD.

CONTENTS

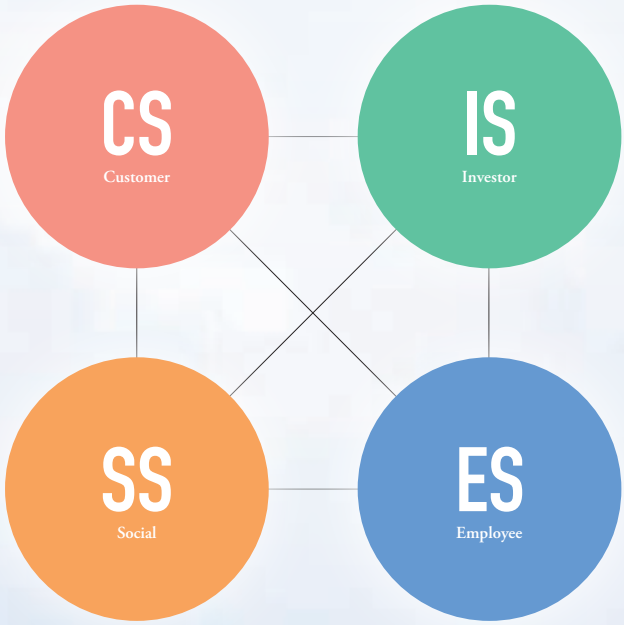
Corporate Mission / The Torii Action Declaration

The Corporate Mission of Torii

Torii Pharmaceutical Co., Ltd. (hereinafter "Torii") aims to contribute to the improvement of human health and to fulfill its responsibilities to customers, shareholders, society and employees, by supplying world-class pharmaceutical products.
We are dedicated to enhancing the satisfaction of customers, shareholders, society and employees through the fulfillment of our responsibilities with regard to each.
We will achieve this through the reinvestment of revenue generated from our diligent corporate activities.

4S MODEL

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



CS *Customer Satisfaction* Our Responsibility to Customers

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

IS *Investor Satisfaction* Our Responsibility to Shareholders

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

SS *Social Satisfaction* Our Responsibility to Society

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

ES *Employee Satisfaction* Our Responsibility to Employees

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

The Torii Action Declaration

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

Message from the President

We will continue to make concerted efforts throughout the Company to achieve sustainable business growth and boost corporate value over the medium to long term, based on the corporate mission: "contributing to the improvement of human health and fulfill its responsibilities to customers, shareholders, society and employees, by supplying world-class pharmaceutical products."

We look forward to your continued support and cooperation.

Goichi Matsuda
Representative Director,
President and Chief Executive Officer

Review of Fiscal 2020

With regard to the business environment in which the pharmaceutical industry operated, business risks mounted because of the increasing difficulty of new drug development, a sharp rise in R&D costs, intensifying international competition, and other factors. In the Japanese market in particular, the industry faced severe conditions due to increasing requests to curb healthcare expenditures such as through NHI drug price revisions and encouragement of greater use of generic drugs. Furthermore, due to the spread of COVID-19, business activities were affected by the trend of limited consultations for patients at medical institutions and self-imposed restrictions on visits to medical institutions by medical representatives (MRs).

Under these conditions, Torii aimed to continue generating a positive operating income (excluding expenses relating to new business investments, which include investments to acquire new in-licensed drugs and M&A) and expand profit margins during the period covered by the Medium-Term Management Plan 2021. To this end, Torii has been tackling the following key issues under the Medium-Term Management Plan 2021: business structure reform, growth strategy, and maintaining the trust of stakeholders.

As a result, with regard to financial results for fiscal 2020, Torii secured a positive operating income and achieved higher profit partly thanks to the effects of business structure reform measures. Furthermore, Torii responded to the impact of the spread of COVID-19, including self-imposed restrictions on visits to medical institutions by medical representatives (MRs), with such measures as enhancing efforts to provide information on the proper use of pharmaceutical products by utilizing IT.

Initiatives for the Key Issues of the Medium-Term Management Plan 2021

With regard to business structure reform, which we have set as the first key issue, we maintained our focus on optimization of the organizational structure, functions, and workforce and review of resource allocation and maximization of performance. In view of the decline in profitability of long-listed drugs partly due to the drastic

reform of the drug pricing system, we transferred the Sakura Plant to IWAKI SEIYAKU CO., LTD. on July 1, 2020 and have outsourced the production of the items produced at the Sakura Plant.

In terms of the growth strategy, the second key issue, we have made steady progress as announced in press releases, etc.

In the renal diseases and hemodialysis area, Torii launched ENAROY® Tablets, a drug for the treatment of anemia associated with chronic kidney disease, in December 2020. Regarding Riona Tablets, a drug for the treatment of hyperphosphatemia, Japan Tobacco Inc. (JT) received manufacturing and marketing approval for an additional indication of iron deficiency anemia (IDA) in March 2021. Torii and ASKA Pharmaceutical Co., Ltd. will engage in marketing of Riona Tablets for IDA based on the co-promotion agreement entered into by the two companies in June 2020.

In the skin diseases area, we launched CORECTIM® Ointment 0.5%, a drug for treatment of atopic dermatitis, in June 2020. Regarding CORECTIM® Ointment 0.25% and CORECTIM® Ointment 0.5%, JT received manufacturing and marketing approval for CORECTIM® Ointment 0.25% for an indication of atopic dermatitis for pediatric patients (aged 2 to <16) and manufacturing and marketing approval for CORECTIM® Ointment 0.5% for additional pediatric dosage and administration in March 2021.

With regard to the progress in other areas, regarding ORLADEYO Capsules, a plasma kallikrein inhibitor, for which Torii entered into a license agreement with BioCryst Pharmaceuticals, Inc. concerning the exclusive marketing rights in Japan, OrphanPacific, Inc. received manufacturing and marketing approval for an indication of the suppression of the onset of attacks in acute hereditary angioedema (HAE) in Japan in January 2021.

We made steady progress in terms of new in-licensing of drugs. We entered into an agreement with JT in January 2020 for co-development and commercialization of tapinarof, for which JT signed an exclusive license agreement with Dermavant Sciences GmbH for the development and commercialization for dermatological diseases and conditions in Japan. Moreover, in March 2021, we entered into a license agreement with Verrica Pharmaceuticals Inc. of the U.S. with respect to the exclusive development and commercialization of its skin disease treatment drug VP-102 for the treatment of molluscum contagiosum and common warts in Japan.

In other developments, in July 2020, Torii invested ¥1.0 billion in a biotech fund established by Medical Incubator Japan K.K. Through this investment, we aim at in-licensing of innovative drugs that will meet unmet needs.

Regarding maintaining the trust of stakeholders, the third key issue, we revised the management system to further separate management supervision from business execution in March 2020. Independent Outside Directors constitute a majority of the Board of Directors in order to provide highly effective supervision of management from an independent and objective standpoint. Each Head of Group is assigned the role of executive officer and is responsible for the execution of business operations.

We will continue to steadily pursue our initiatives for the key issues in fiscal 2021, the final year of the Medium-Term Management Plan 2021.

Progress of the Medium-Term Management Plan 2021

In view of the achievement in fiscal 2019, earlier than planned, of the target set by the Medium-Term Management Plan 2021, which was "to turn operating income* positive in fiscal 2022," Torii set a new target, which is "to keep operating income* positive and to increase profit throughout the period covered by the Medium-Term Management Plan 2021." In accordance with this target, Torii implemented three measures: ❶ business structure reform, ❷ growth strategy, and ❸ maintaining the trust of stakeholders.

The progress of the major initiatives for the key issues is as follows (as of March 25, 2021).

*Operating income excluding expenses relating to new business investments (investments including those for acquiring new in-licensed drugs and M&A)

❶ Business structure reform

- Optimization of the organizational structure, functions, and workforce
- Review of resource allocation and maximization of performance

Progress

- Transferred the Sakura Plant to IWAKI SEIYAKU CO., LTD. as part of business structure reform (July 2020)

❷ Growth strategy

- Maximization of the value of products currently under co-development with JT
- Co-development of new innovative drugs with JT and acquisition of new in-licensed drugs
- Reinforcement of organizations and functions

Progress

Renal diseases and hemodialysis

- JT filed a supplemental New Drug Application (sNDA) for Riona Tablets (generic name in Japan: ferric citrate hydrate, development code: JTT-751) for iron deficiency anemia (IDA) (May 2020)
  ⇒JT received approval for an additional indication of IDA in Japan for Riona Tablets (March 2021)
- Torii and ASKA Pharmaceutical Co., Ltd. entered into a co-promotion agreement covering the additional indication for Riona Tablets (June 2020)

Skin diseases

- Signed a license agreement with JT for co-development and commercialization of tapinarof in Japan (January 2020)
- JT filed a New Drug Application for JTE-052 (generic name: delgocitinib) ointment, a JAK inhibitor, for an indication of pediatric atopic dermatitis (May 2020)
  ⇒JT received manufacturing and marketing approval in Japan for CORECTIM® Ointment 0.25% for an indication of pediatric atopic dermatitis and CORECTIM® Ointment 0.5% for additional pediatric dosage and administration (March 2021)
- Entered into an option agreement with U.S. Verrica Pharmaceuticals Inc. for exclusive development and commercialization of Verrica's skin disease treatment drug VP-102 in Japan (August 2020)
  ⇒Exercised the option and entered into a license agreement with Verrica for exclusive development and commercialization of VP-102 for the treatment of molluscum contagiosum and common warts in Japan (March 2021)

Other

- Invested in a newly established fund in the life science field (July 2020)
- Regarding ORLADEYO Capsules (generic name: berotralstat hydrochloride), a plasma kallikrein inhibitor, for which Torii entered into a license agreement with BioCryst Pharmaceuticals, Inc. concerning the exclusive marketing rights in Japan, OrphanPacific, Inc. received manufacturing and marketing approval for an indication of the suppression of the onset of attacks in acute hereditary angioedema (HAE) in Japan (January 2021)

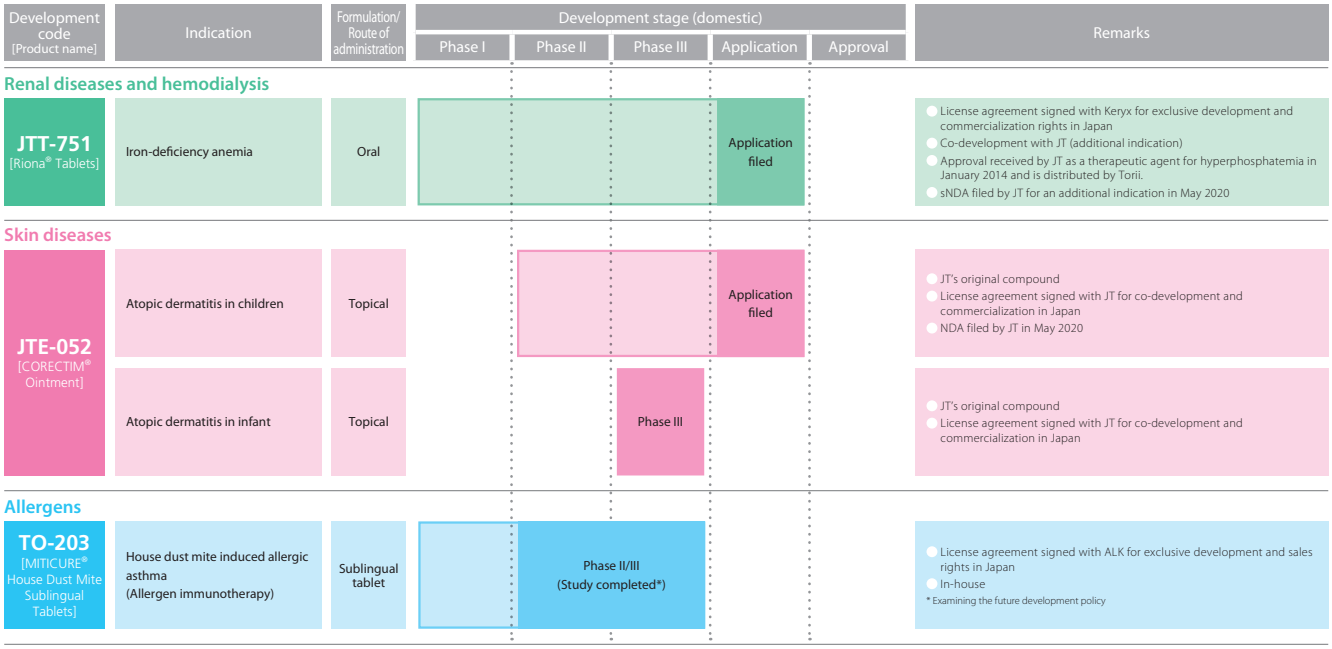
❸ Maintaining the trust of stakeholders

- Initiatives for enhancing and reinforcing corporate governance and compliance and for responding to various regulations

Progress

Revised the management system to further separate management supervision from business execution. Independent Outside Directors constitute a majority of the Board of Directors in order to provide highly effective supervision of management from an independent and objective standpoint. Each Head of Group is assigned the role of executive officer and is responsible for the execution of business operations (March 2020).

Principal Products in the Research and Development Pipeline (As of February 4, 2021)



Additional Information

- In January 2020, Torii signed an exclusive license agreement with JT for co-development and commercialization of tapinarof, a topical, therapeutic aryl hydrocarbon receptor-modulating agent (TAMA), in Japan. JT signed an exclusive license agreement on January 15, 2020, with Dermavant Sciences GmbH for the development and commercialization of tapinarof for dermatological diseases and conditions in Japan. (Torii and JT will jointly develop tapinarof.)
- In August 2020, Torii entered into an option agreement with Verrica Pharmaceuticals Inc. for exclusive development and commercialization of Verrica's skin disease treatment drug VP-102 in Japan.

Reference

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

Torii and its parent company JT (specifically, the pharmaceutical division of JT) each leverage their own pharmaceutical product and service strengths. Torii is primarily responsible for manufacturing and marketing functions, while the parent company is responsible for R&D functions. For JT's clinical development of pharmaceuticals, please refer to the following posted on JT's website:
https://www.jt.com/investors/results/S_information/pharmaceuticals/

Feature

Launch of CORECTIM® Ointment: A New Option for Treating Atopic Dermatitis

The First Topical Medication for Atopic Dermatitis Introduced in About 20 Years

Torii began sales of CORECTIM® Ointment 0.5% on June 24, 2020 for which JT had received manufacturing and marketing approval for an indication of atopic dermatitis in Japan on January 23, 2020.

CORECTIM® Ointment is the world's first topical Janus kinase (JAK) inhibitor for treatment of atopic dermatitis* by inhibiting the action of JAKs, which play key roles in immune activation signaling in cells, thus suppressing the overactivation of immune responses.

*Atopic dermatitis is a chronic and pruritic inflammatory skin disease. It is thought to develop through exposure to various irritants or allergens for patients with a physiological abnormality of the skin (dry skin and abnormal skin barrier function).

- JT received manufacturing and marketing approval for CORECTIM® Ointment 0.25% for an indication of pediatric atopic dermatitis in Japan. In addition, JT received approval for additional pediatric dosage and administration for CORECTIM® Ointment 0.5% (March 2021).
- The Phase III clinical study for infant patients (aged under 24 months) is being conducted in Japan (as of April 2021).

Website for patients

Voice of the Customer Support Department

VOICE

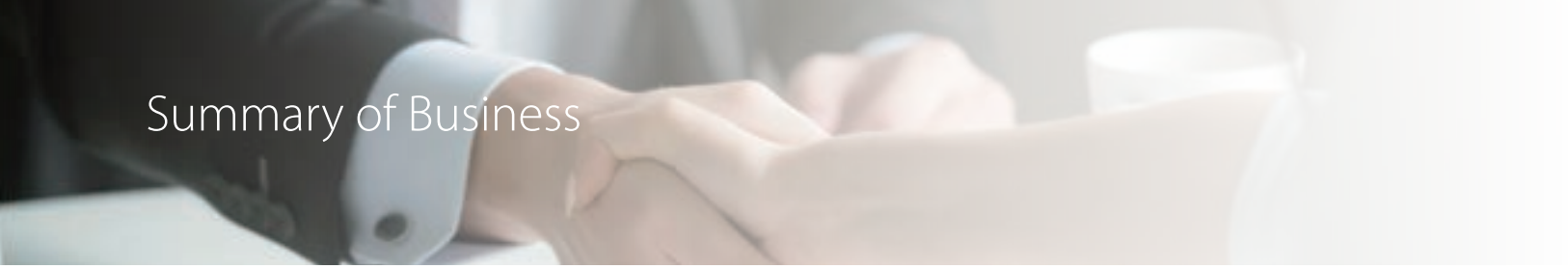
Numerous inquiries to the Customer Support Department

Ever since the approval granted for CORECTIM® Ointment in January 2020, Torii's Customer Support Department has been receiving numerous inquiries, mostly from medical professionals but also from some patients.

Patients' inquiries before the launch of CORECTIM® Ointment included questions about the schedule of the drug's launch and many patients expressed the desire for an early launch. Following the launch, the Customer Support Department received many inquiries about which institution would prescribe CORECTIM® Ointment. Patients' inquiries also included ones concerning safety, such as side effects, and others concerning dosage and administration and how to use the drug.

Among those making inquiries were atopic dermatitis patients who have been receiving treatment for several decades, family members of atopic dermatitis patients who have received many types of treatment since childhood, and people knowledgeable about drugs and treatment methods for atopic dermatitis including CORECTIM® Ointment. These inquiries were indicative of the high expectations of this drug with its novel mechanism of action.

We are making a company-wide effort to help as many patients as possible through the provision of information to medical professionals and patients.



Summary of Business

Collaboration with Japan Tobacco Inc. (JT)

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

Sales and Marketing

Torii has about 300 medical representatives (MRs) working at seven branch offices throughout Japan. In order to distribute information relating to pharmaceutical products, the MRs use Torii's marketing support system to access the information they need to provide prompt responses to specific needs. This marketing support system is crucial to effective information distribution, and also enhances clients' confidence in Torii through disseminating information widely shared by MRs and other business units to medical professionals.

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

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

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

Manufacturing

We outsource the entire process of pharmaceutical production. As a pharmaceutical company, in cooperation with our contract manufacturers, we work daily to fulfill our responsibility to ensure the quality and stable supply of our products.

Highly sophisticated quality assurance and safety management systems are required for pharmaceutical products that directly affect people's lives and health.

We have built a strong system of cooperation with pharmaceutical manufacturing sites and established a thorough quality management system of pharmaceutical products to maintain quality throughout all of our manufacturing processes and provide customers with an invisible feeling of reassurance. Each and every one of our employees is constantly aware that beyond the pharmaceutical products we manufacture, there are the patients and their families who need these products.

In order to provide pharmaceutical products that patients can use with the utmost confidence, we regularly visit pharmaceutical manufacturing sites to confirm manufacturing control and quality control with our own eyes.

Under the quality control system based on Good Manufacturing Practices (GMP)*, manufacturing sites produce pharmaceutical products while confirming quality for each process, conduct the prescribed tests, and release only those that pass the tests.

We also share information regarding product quality with each manufacturing site to implement process improvements and quality improvements on a daily basis.

*Standards for manufacturing control and quality control of pharmaceutical products

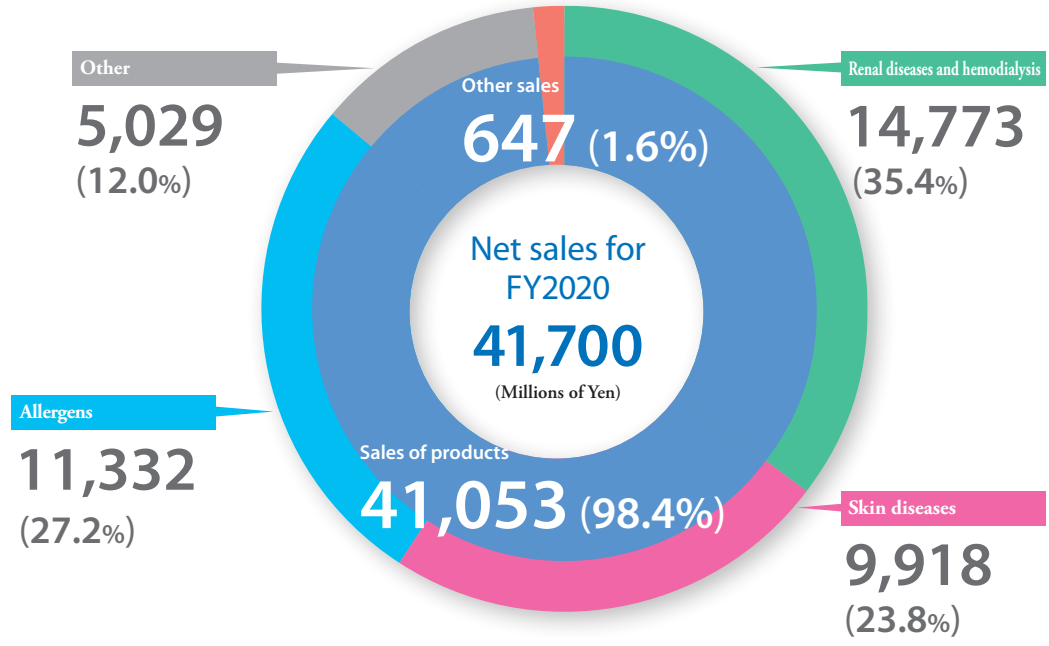
Research and Development

In the allocation of functions concerning R&D with JT, R&D functions for novel compounds are concentrated at JT.

JT is actively investing business resources to enhance and strengthen its R&D capabilities, aiming to create innovative, original drugs by building up a unique, world-class pharmaceutical business driven by R&D.

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

Net Sales by Disease Area



Mainstay Products

*In-house products

Riona Tablets
Therapeutic agent for hyperphosphatemia

Net sales

FY2019	FY2020
¥6,630 million	**¥6,507 million**

REMITCH
Oral antipruritic agent

Net sales

FY2019	FY2020
¥8,693 million	**¥6,365 million**

CORECTIM® Ointment
Topical Janus kinase (JAK) inhibitor

Net sales

FY2020
¥1,291 million

Launched in June 2020

ANTEBATE*
Topical corticosteroid

Net sales

FY2019	FY2020
¥5,439 million	**¥5,241 million**

CEDARCURE Japanese Cedar Pollen Sublingual Tablets*
Japanese cedar pollinosis (allergen immunotherapy)

Net sales

FY2019	FY2020
¥3,654 million	**¥6,139 million**

MITICURE House Dust Mite Sublingual Tablets*
House dust mite allergy (allergen immunotherapy)

Net sales

FY2019	FY2020
¥2,749 million	**¥4,776 million**

Corporate Governance

Basic Stance toward Corporate Governance

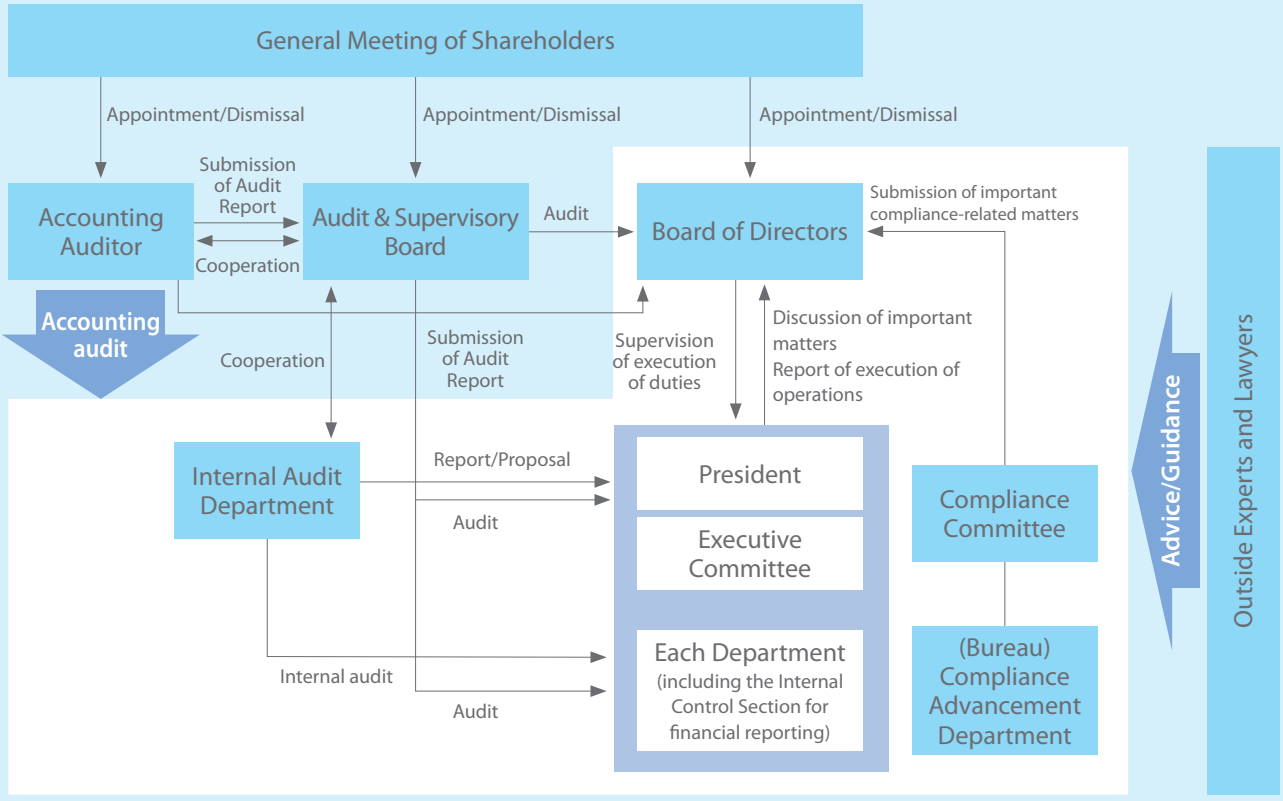
At Torii, corporate governance means the structure to enable the Company to respond to changes in the business environment quickly and appropriately and to conduct fair and transparent management towards the fulfillment of our corporate mission to contribute to the improvement of human health and to fulfill its responsibilities to customers, shareholders, society and employees, by supplying world-class pharmaceutical products. We recognize that the enhancement of corporate governance will lead to the Company's sustainable growth and medium- to long-term improvement in corporate value. Based on this philosophy, we have defined a Corporate Governance Policy.

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 enhance corporate governance through operation and maintenance of the basic policies regarding the development of internal control system.

Below is an overview of our corporate governance structure.

Overview of Corporate Governance Structure



Overview of Corporate Governance

Organization format	Company with Audit & Supervisory Board
Chairperson of the Board of Directors	Non-Executive Director
Number of Directors*	3 (including 2 Outside Directors)
Number of Audit & Supervisory Board Members*	3 (including 2 Outside Audit & Supervisory Board Members)
Appointment of Independent Officers*	2 Outside Directors, 2 Outside Audit & Supervisory Board Members
Number of Board of Directors meetings in 2020	14 times
Number of Audit & Supervisory Board meetings in 2020	14 times
Remuneration for Each Director	Executive Director compensation consists of monthly remuneration and bonuses based on positions. The bonus is granted based on the achievement of the individual and business performance. Non-Executive Director compensation, on the other hand, consists of monthly remuneration based on positions. Directors (other than Outside Directors) are also subject to the Restricted Stock Compensation Plan as a medium- and long-term incentive.
Remuneration for Each Audit & Supervisory Board Member	Monthly remuneration based on full-time/part-time member status
Accounting Auditor	Deloitte Touche Tohmatsu LLC

* Information as of March 25, 2021.

Management Structure

On March 26, 2020, the Company revised its management system to further separate management supervision from business execution, in order to enhance corporate governance and boost the efficiency of business execution. Independent Outside Directors constitute a majority of the Board of Directors to provide highly effective supervision of management from an independent and objective standpoint. Each Head of Group is assigned the role of executive officer and is responsible for the execution of business operations.

Evaluation of Effectiveness of the Board of Directors

In fiscal 2020, Torii evaluated the effectiveness of the Board of Directors by sending a questionnaire to all Directors and Audit & Supervisory Board Members. Items for evaluation included the contents of materials, explanations of agenda items, deliberation on agenda items, communication, the way in which meetings are held, etc. Questionnaire results as summarized by Independent Outside Directors showed that each item for evaluation was regarded as generally reasonable and appropriate. However, in view of the impact of the COVID-19 pandemic, some opined that communication between Directors, Audit & Supervisory Board Members, and Executive Officers, needs to be further enhanced. Based on these results, we will implement further improvements.

Matters with Possible Significant Impact on Corporate Governance

Collaboration with Japan Tobacco Inc. (JT)

JT is Torii's parent company and owns 54.88% of Torii's voting shares.

Torii and its parent company JT (specifically, the pharmaceutical division of the company) each leverage their own pharmaceutical product and service strengths. Torii is primarily responsible for manufacturing and marketing functions, while the parent company is responsible for research and development functions. The allocation of functions is for the purpose of optimization to realize our corporate mission. Also, this enables us to conduct appropriate business activities by ensuring a certain level of independence while also maintaining close cooperation with the parent company.

The parent company does not apply restrictions such as approval requirements to Torii's business activities. The parent company has dispatched 52 of its employees (as of December 31, 2020) to Torii with the aim of improving the efficiency of business operations and enhancing management. However, since these employees were dispatched in response to Torii's request, Torii believes it is able to make independent management decisions.

Parent Company's Policies on Group Management

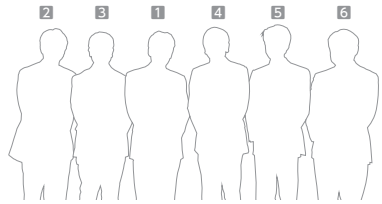
The policies of JT, Torii's parent company, on Group management are as follows:

JT aims for the Group's sustainable profit growth and increase of corporate value over the medium to long term in pursuit of the 4S model, its management principle, by sharing and practicing the Group mission on a group-wide basis.

Based on its belief that better corporate governance contributes to achieving the aforementioned goals, JT strives to optimize the Group structure by defining functions and regulations shared in the Group and managing the Group as a whole. In addition, JT coordinates compliance (including the internal reporting system), internal auditing, assurance of reliability of financial reporting and more with its subsidiaries and maintains these activities.

JT strives to give the best consideration to assure the independence of its listed subsidiary and to respect the rights of minority shareholders.

Directors and Audit & Supervisory Board Members



Representative Director,
President and Chief Executive Officer

Goichi Matsuda 1

Apr. 1990	Joined Japan Tobacco Inc.
Jan. 2009	Vice President, Planning Dept., Soft Drink Business Division, Food Business Headquarters of Japan Tobacco Inc.
Jun. 2009	Member of the Board Director of JT Beverage Inc.
Jul. 2010	Vice President, Planning Dept., Soft Drink Business Division of Japan Tobacco Inc.
Jul. 2012	Senior Manager, Soft Drink Business Division of Japan Tobacco Inc.
Jul. 2012	Member of the Board, Senior Vice President of Japan Beverage Holdings Inc.
Jun. 2013	Senior Vice President, Head of Beverage Business, of Japan Tobacco Inc.
Jun. 2013	Member of the Board, Director of JT Beverage Inc.
Jan. 2016	Senior Vice President, Deputy President, Pharmaceutical Business of Japan Tobacco Inc.
Jan. 2017	Corporate Advisor of Pharmaceutical Division of Japan Tobacco Inc.
Mar. 2017	Member of the Board, Director, Deputy Head of Pharmaceutical Marketing & Promotion Group and Vice President, Marketing Planning Dept. of the Company
Mar. 2019	Representative Director, President and Chief Executive Officer of the Company (current position)

Member of the Board, Director
(Outside)

Masao Torikai 2

Apr. 1994	Registered as lawyer (The Dai-ichi Tokyo Bar Association)
Apr. 1994	Joined Momo–o, Matsuo & Namba
Sept. 2000	Registered as lawyer in New York State
Jan. 2002	Partner of Momo-o, Matsuo & Namba (current position)
Jun. 2010	Audit & Supervisory Board Member of the Company
Jun. 2013	Member of the Board, Director of the Company (current position)
Jun. 2016	Outside Director serving as Audit & Supervisory Committee Member of TSUKUI CORPORATION (currently TSUKUI HOLDINGS CORPORATION) (current position)

Member of the Board, Director
(Outside)

Toshio Fukuoka 3

Apr. 1979	Joined Tokyo Regional Taxation Bureau
Jul. 2015	Retired from the position of District Director of Kawasaki–Kita Tax Office
Aug. 2015	Registered as tax accountant, established Toshio Fukuoka Tax Accountant Office, Representative (current position)
Mar. 2016	Audit & Supervisory Board Member of the Company
Jun. 2016	Outside Audit & Supervisory Board Member of FUJI FURUKAWA ENGINEERING & CONSTRUCTION CO. LTD. (current position)
Mar. 2018	Member of the Board, Director of the Company (current position)

Standing Audit & Supervisory Board Member

Ken Yamamoto 4

Apr. 1984	Joined Japan Tobacco and Salt Public Corporation (currently Japan Tobacco Inc.)
Apr. 2005	Senior Manager of Business Planning Dept., Pharmaceutical Division of Japan Tobacco Inc.
Jan. 2016	Senior Manager of Business Administrative Dept., Pharmaceutical Division of Japan Tobacco Inc.
Mar. 2016	Vice President of Accounting Dept. of the Company
Jan. 2017	Senior Vice President, Accounting Dept. of the Company
Mar. 2018	Executive Officer, Accounting Dept. of the Company
Oct. 2019	Executive Officer, Finance & Accounting Dept. of the Company
Mar. 2020	Audit & Supervisory Board Member of the Company (current position)

Audit & Supervisory Board Member
(Outside)

Eiichi Izumo 5

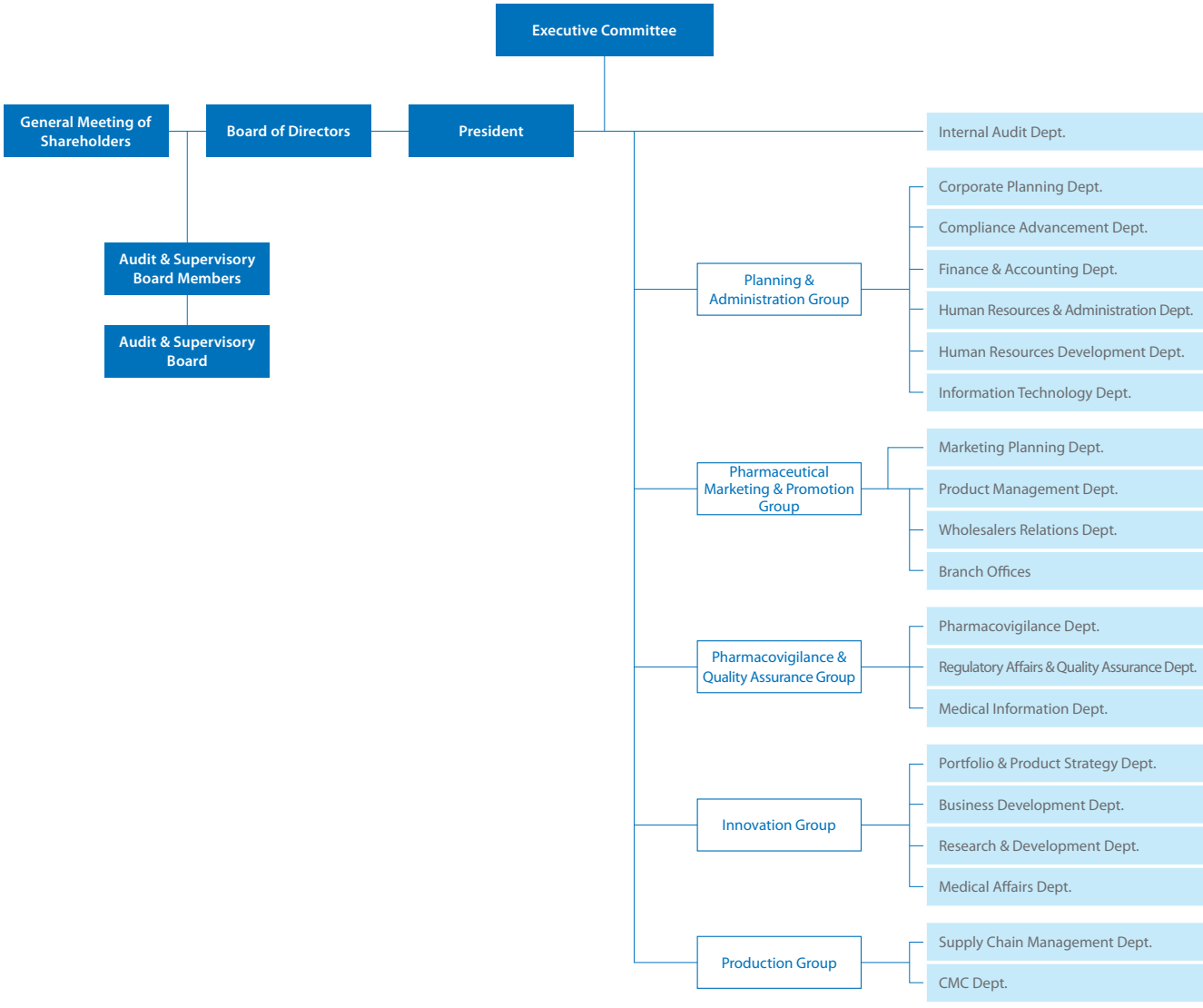
Apr. 1995	Joined Tohmatsu & Co. (currently Deloitte Touche Tohmatsu LLC)
Apr. 1998	Registered as certified public accountant
Jul. 2010	Partner of Deloitte Touche Tohmatsu LLC
Feb. 2015	Established Izumo CPA Office, Representative (current position)
Jun. 2015	Outside Audit & Supervisory Board member of Benesse Holdings, Inc. (current position)
Mar. 2016	Audit & Supervisory Board Member of the Company (current position)
Sep. 2020	Outside Audit and Supervisory Board Member of Lasertec Corporation (current position)

Audit & Supervisory Board Member
(Outside)

Takaharu Matsumura 6

Oct. 2000	Registered as lawyer (Tokyo Bar Association)
Jun. 2002	Joined New Tokyo International (later Bingham Sakai Mimura Aizawa –Foreign Law Joint Enterprise through office consolidation)
Apr. 2010	Partner of Bingham Sakai Mimura Aizawa – Foreign Law Joint Enterprise
Apr. 2015	Partner of Anderson Mori & Tomotsune (currently Anderson Mori & Tomotsune Foreign Law Joint Enterprise) through office consolidation (current position)
Apr. 2017	Outside Audit & Supervisory Board Member of PROPOLIFE GROUP INC. (current position)
Mar. 2018	Audit & Supervisory Board Member of the Company (current position)

Organization



Executive Officers

Senior Executive Officer	Head of Innovation Group	Atsuyuki Kakee
Senior Executive Officer	Head of Pharmaceutical Marketing & Promotion Group	Katsunobu Fujiwara
Senior Executive Officer	Head of Planning & Administration Group	Nobumasa Kondo
Executive Officer	Head of Production Group	Masaki Sunami
Executive Officer	Head of Pharmacovigilance & Quality Assurance Group	Noriaki Nishino

Corporate Governance in view of the Changing Environment and for Medium-to Long-term Growth

Goichi Matsuda
Representative Director, President and Chief Executive Officer

Masao Torikai
Member of the Board, Director (Outside)

Toshio Fukuoka
Member of the Board, Director (Outside)

Review of Fiscal 2020, the Second Year of the Medium-Term Management Plan

Matsuda With regard to the Medium-Term Management Plan, there were two major developments. One was the transfer of the Sakura Plant to IWAKI SEIYAKU CO., LTD. as part of business structure reform, which was a tough decision. The other was that our employees seized the initiative in cultivating a new corporate culture, sharing values to promote reform. With regard to financial results, both net sales and operating income exceeded the plan's targets, led by sales expansion in the allergens area.

Torikai It is significant that values are shared throughout Torii to promote reform on the initiative of employees rather than by a top-down approach. Amid the COVID-19 pandemic, we had to respond to unprecedented change, including working from home. In these circumstances, our employees did their utmost and demonstrated their ability to adapt to change and it was thanks to them that Torii was able to steadily achieve good results.

Fukuoka Responding to the COVID-19 pandemic was the priority in fiscal 2020. Supply chains were disrupted and our medical representatives (MRs) refrained from visiting medical institutions. As for concern that our sales would be adversely affected, it was thanks to employees' efforts that this did not occur. This achievement was backed by our employees' strong sense of obligation to fulfill our social responsibility of providing pharmaceutical products and the fact that Torii's fundamentals have been strengthened by overhauling its organization and functions, optimizing resource allocation, and other measures implemented for business structure reform.

Matsuda I am deeply grateful to our employees. Meanwhile, issues remain. In order to reform the corporate culture, we need to continue by trial and error for some time since current circumstances make it difficult to implement concrete initiatives face to face. In fiscal 2021, we plan to launch some new products and achieve additional indications for existing products. As MRs continue to refrain from visiting medical institutions, how best to effectively provide information to medical professionals is an issue.

Torikai Fiscal 2021 is expected to be a watershed since we need to implement the growth strategy with a view to the next five or ten years while responding to the COVID-19 pandemic.

Fukuoka Going forward, the role of MRs will become a vital issue that needs to be addressed. The ways of providing information are changing along with the external environment. In order to enhance the value of MRs, it is necessary to

enhance their expertise. There is an urgent need to respond to digital transformation (DX), and how best to do that is another important issue.

Enrichment of Corporate Governance under the New Management Structure

Matsuda Considering that pharmaceutical companies bear such heavy responsibility concerning people's lives and health, I recognize that our duty to ensure thorough compliance is greater than is generally the case in other industries. This is particularly true for us, since, as listed companies, both our parent JT and Torii are continually under pressure to improve and strengthen corporate governance. In view of these circumstances, Torii transitioned to a new management structure* in fiscal 2020 to maintain the trust of stakeholders. Although it is difficult to evaluate corporate governance in the first year of the transition because of the impact of the COVID-19 pandemic, we have established the new structure and are making it work.

Fukuoka As a result of further delegation of authority to Executive Officers, business execution has become speedy. Over the past 12 months, as I observed Executive Officers and Vice Presidents of divisions speak at Executive Committee meetings, I think the delegation of authority was proven effective by their enthusiasm and keen awareness about the agenda and fast decision-making. On the other hand, in the case of Torii, almost all members of the Board of Directors attend weekly Executive Committee meetings and monthly business report meetings. So, before submitting to the Board of Directors, principal matters of importance have already been discussed in depth and considered by the members of the Board. To go a step further, there is still room for the Board of Directors to deliberate on business strategy based on innovative ideas, going beyond refining of the existing business, as well as DX-driven reform. I think Outside Directors should become more actively involved in setting the agenda, rather than simply monitoring what is reported or submitted to them.

Torikai Torii introduced the new management structure not because there was a big problem with the former structure but because the Company was pursuing further improvement in management, such as enhancing transparency, by capitalizing on external perspectives. As President Matsuda mentioned, because of the impact of the COVID-19 pandemic in its first year, the new structure has yet to be thoroughly evaluated. As an Outside Director, I have opportunities to get involved, including by participating in many meetings. I think we are in a position to more vigorously offer recommendations and proposals.

Fukuoka Torii is a down-to-the-earth company committed to sound management practice. In an era in which the business environment is changing rapidly, we need deeper discussion, including to introduce factors that shed a new light on the current situation, with an eye to prospects further into the future. Members of the Board and Executive Officers should have a company-wide perspective in considering these issues. By offering recommendations that trigger discussion, I would like to act as a catalyst.

Matsuda Free-flowing discussion with both of you will be a good opportunity for us to receive suggestions from an external viewpoint. I would like to make it happen.

*The management structure where Independent Outside Directors constitute a majority of the Board of Directors

Initiatives in Fiscal 2021 and the Role of Outside Directors

Matsuda As this is the final year of the Medium-Term Management Plan, we will bring to perfection the measures for business structure reform, the growth strategy, and maintaining the trust of stakeholders. I would like to receive objective advice from a broad perspective from both of you in your roles as Outside Directors and draw on your input in decision-making. As management and business execution become more separated, those engaged in business execution can concentrate on their operation, but it may narrow down their perspective. I would appreciate if you can monitor and guide us taking this downside risk into consideration.

Torikai In stating our views on long-term prospects from an objective perspective and expressing opinions that will contribute to sustainable growth of Torii, as Outside Directors we are eager to vigorously offer recommendations and proposals, as mentioned earlier in this discussion.

Fukuoka Greater use of remote meetings during the COVID-19 pandemic has led to greater efficiency in some ways. I think the use of such remote means should also enable us to enhance communication among members of the Board. In fiscal 2021, I will keenly watch the performance of the newly established departments, such as the Human Resources Development Dept., the Research & Development Dept., and the CMC Dept. In particular, the Human Resources Development Dept. will have my attention, because it has the important role of effectively promoting the sustainable growth of the Company.

Matsuda Human resources development is an eternal theme for companies and an issue that should always be focused on. The Human Resources Development Dept. was newly established for the purpose of enhancing the expertise of MRs. The Human Resources Development Dept. will collaborate with the Human Resources & Administration Dept. to promote human development (*hitozukuri*) in the broader sense of the term. We are resolved to attain the goals of the Medium-Term Management Plan this year and will formulate the next Medium-Term Management Plan targeting a new round of growth.

A web conference system was used for this roundtable discussion.

Our Responsibility to Customers

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

Quality Management

Quality Management Measures

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

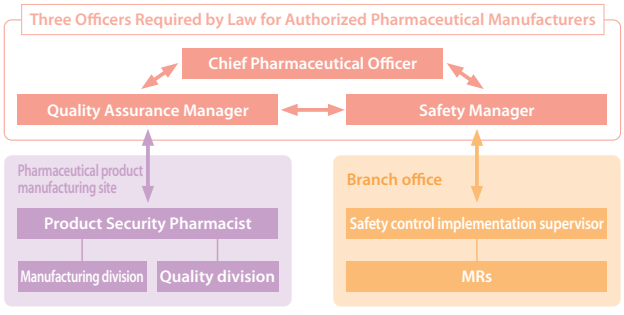
Quality Assurance Policy
1. We are attentive to the opinions and requests of customers and actively strive to improve the quality of our products.
2. We work closely with manufacturing sites to maintain a constant supply of products with stable quality.
3. We bring together our knowledge and experience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

Quality Assurance and Safety Control System

In order to comply with various laws, ordinances, and regulations, we have established the three officers required by law for authorized pharmaceutical manufacturers (Chief Pharmaceutical Officer, Quality Assurance Manager, and Safety Manager). These three work closely together to thoroughly ensure the quality assurance and the safety of pharmaceutical products after their launch.

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

Quality Assurance and Safety Control System



GMP-based Product Assurance

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

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

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

Response to Product Recall

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

Considerations for Packaging, Labeling and Individual Product Boxes

We engage in discussions with related divisions and consider and revise designs to make packaging and labeling as clear and easy to read as possible while also improving ease of product identification based on information from medical institutions and patients as well as the industry guidelines. Furthermore, we make necessary improvements to individual product boxes, such as inserting perforated lines on the boxes for scrapping, as desirable, for ease of disposal by medical institutions and change sealing tapes in accordance with the industry guidelines.

Stable Supply

Stable Supply Measures

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

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

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

Measures for Managing Logistics while Ensuring Quality

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

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

Appropriate Information Provision

Information Collection and Provision

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

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

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

Promotion of Proper Use

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

Measures through MRs

The mission of our MRs is to accurately convey various information on pharmaceutical products to medical professionals, collect information such as that on the safety of products after launch, and provide information on proper use obtained as a result of the evaluation and analysis of this information by the Pharmacovigilance Department to medical professionals. This helps ensure that pharmaceutical products are used properly.

MRs work to promote the proper use of pharmaceutical products for the sake of patients by providing information to medical professionals as well as collecting information from them.

MR Education and Training

We are emphasizing human resource development of our MRs so that they can ensure the trust of medical professionals.

We carry out a range of education and training programs to ensure that MRs properly provide information to and collect it from medical professionals with integrity. Regular MR training programs are designed to enable MRs to better leverage in the field the knowledge and skills they acquire. Tools for checking the status of training of less experienced MRs are used to support the growth of each junior MR.

Customer Support Department

Customer Support Department Initiatives

Our Customer Support Department interfaces directly with medical professionals, patients, and their families, handling a broad range of inquiries.

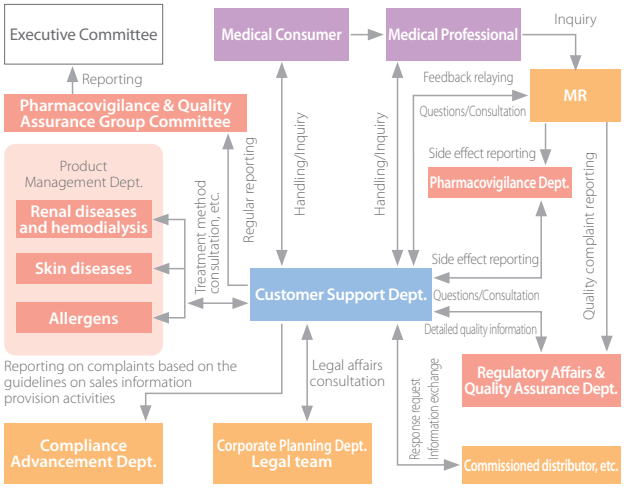
No matter how excellent a pharmaceutical product may be, it is only effective when used properly. To this end, we have worked to provide high-quality, appropriate, science-based drug information that takes into account the needs of our customers.

Sharing Customer Feedback within the Company

As an open corporate contact point with customers, the Customer Support Department shares questions and opinions from customers with corresponding divisions, enabling them to consider future actions based on the latest information on safety, interaction, usage method and others.

In order to meet customers' expectations, we will continue to reflect customer feedback in product improvements and the provision of high-quality information, contributing to patients' health.

System for Sharing Information within the Company

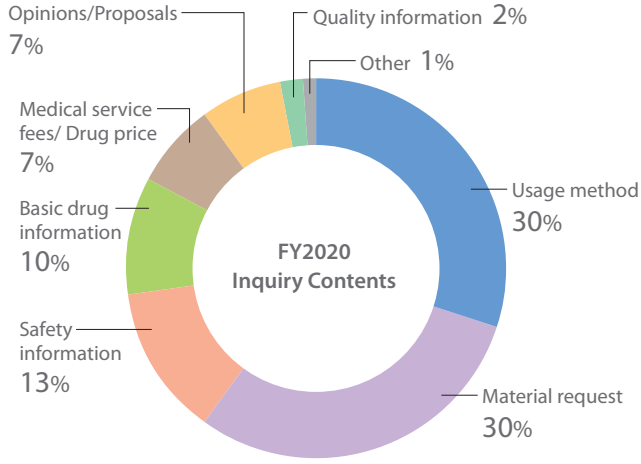


Customer Support Education

We participate in external training related to customer service both inside and outside the pharmaceutical industry, to ensure that each and every customer is treated with integrity. Staff members who deal with customers are trained using the same continually updated materials as are used by MRs, and participate actively in study sessions held by related divisions, workshops, and academic society meetings so that they understand the latest drug information. This enables them to provide customers with accurate, appropriate information.

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

The "Health Information" section of our website provides health-related information such as information regarding disease mechanisms and symptoms. We have created websites such as "Touseki no Kayumi (Dialysis Pruritus).jp" and "Torii-san's Allergen Immunotherapy Navigation," through which we provide information to foster an accurate understanding of disorders. Furthermore, we have created PDF versions of pamphlets such as "Jozuna Rin to Kalium no Torikata (How to Efficiently Control Intake of Phosphorous and Potassium" and "Kichin-to Shirou Atopic Dermatitis (Atopic Dermatitis Navigation)," which are available on our website. We provide this information to help patients deepen their understanding of diseases, their treatments, and points to remember in everyday life, in order to contribute to the health of patients.



Our Responsibility to Shareholders

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

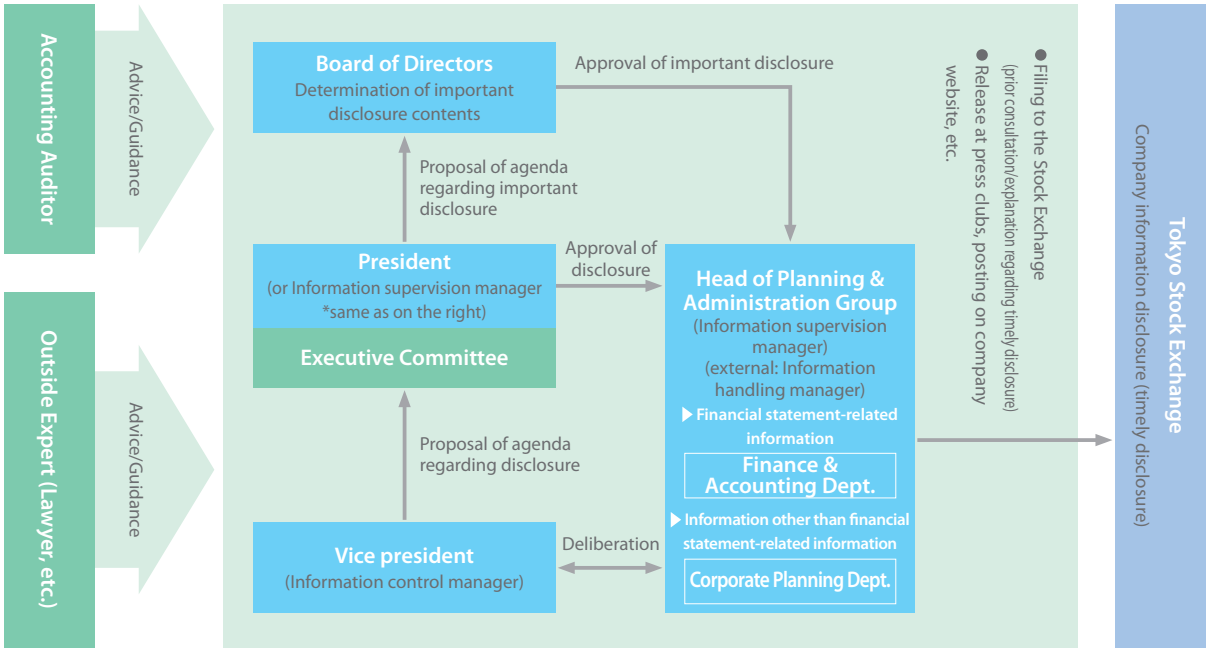
Information Disclosure

Information Disclosure Measures

Communication with our shareholders and investors

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

Overview of Torii's Timely Disclosure System



Dividend Policy

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

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

At the 129th General Meeting of Shareholders, held on March 25, 2021, it was resolved that Torii will pay a year-end dividend of ¥24 per share for the current fiscal year. Together with the ¥24 per share paid in interim dividends, this amounts to an annual dividend of ¥48 per share.

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

Resolution date	Total dividends (Millions of Yen)	Dividend per share (Yen)
July 31, 2020 Resolution by Board of Directors meeting	673	24
March 25, 2021 Resolution by General Meeting of Shareholders	674	24

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

CSR Initiatives

Our Responsibility to Society

We strive to mitigate global warming as we maintain a high ethical standard regarding our corporate social responsibility through business activities that reflect the needs of society in order to be a good corporate citizen.

Torii Pharmaceutical Environmental Charter

Basic Policy on the Environment

As a company aspiring to contribute to the health and happiness of people through pharmaceutical products, Torii Pharmaceutical considers protection of the global environment to be an important issue and conducts business activities with environmental protection in mind.

Code of Conduct

1. Throughout our business activities from R&D to production, distribution, provision of information on pharmaceutical products, and sales, we comply with environmental laws and regulations applicable to our operations and internal rules. At the same time, we recognize the impact of our operations on the environment and strive to reduce it.
2. Upon grasping and understanding the Environmental Action Plan, we actively collaborate on company-wide measures concerning environmental issues in addition to engaging in the environmental initiatives of our own departments.
3. While promoting resource saving and energy saving and endeavoring to realize a low-carbon society, we strive to reduce waste and facilitate recycling.
4. We monitor industrial waste processors to which disposal is consigned, raw materials suppliers, etc. to confirm their compliance with laws and regulations and their initiatives for environmental issues.
5. We actively collaborate on company-wide social contribution activities in addition to engaging in the social contribution activities of our own departments.
6. We also strive to take action concerning environmental issues and endeavor to make social contributions in our private lives.

Environmental Action Plan

Achieved Unachieved

		FY2020 Environmental Action Plan	FY2020 results	Evaluation	FY2021 Environmental Action Plan
Greenhouse gas emissions reductions	Company-wide	FY2020 target: 1,371 t-CO_2 or less	FY2020 result: 1,117 t-CO_2 Vs. FY2020 target: 18.5% reduction	☺	FY2021 target: 1,300 t-CO_2 or less
	Head office	FY2020 target: 353 t-CO_2 or less [Main measures] ・Continue installing energy-saving vending machines ・Continue implementing Cool Biz and Warm Biz energy-saving initiatives	FY2020 result: 326 t-CO_2 Vs. FY2020 target: 7.6% reduction [Measures implemented] ・Continued installing energy-saving vending machines ・Continued implementing Cool Biz and Warm Biz energy-saving initiatives	☺	FY2021 target: 326 t-CO_2 or less [Main measures] ・Continue installing energy-saving vending machines ・Continue implementing Cool Biz and Warm Biz energy-saving initiatives
	Sales vehicles	FY2020 target: 1,018 t-CO_2 or less [Main measures] ・Continue selecting fuel-efficient vehicles such as hybrids ・Continue promotion of eco-drive awareness and education activities	FY2020 result: 791 t-CO_2 Vs. FY2020 target: 22.2% reduction [Measures implemented] ・Continued selecting fuel-efficient vehicles such as hybrids ・Continued promotion of eco-drive awareness and education activities	☺	FY2021 target: 974 t-CO_2 or less [Main measures] ・Continue selecting fuel-efficient vehicles such as hybrids ・Continue promotion of eco-drive awareness and education activities ・Introduce telematics to reduce fuel consumption by minimizing sudden start, sudden braking, etc.
Maintain/increase waste recycling rate	Head office	FY2020 target: 97% or above [Main measures] ・Continue to consign disposal to industrial waste processors with high recycling rates ・Continue selling off items with value	FY2020 result: 97.8% [Measures implemented] ・Continued to consign disposal to industrial waste processors with high recycling rates ・Continued selling off items with value	☺	FY2021 target: 97% or above [Main measures] ・Continue to consign disposal to industrial waste processors with high recycling rates ・Continue selling off items with value

Overview of Business Activities and Their Environmental Impacts

Head office/ Branch offices

INPUT

Total energy usage

Electricity:	1,047,000 kWh
City gas:	3,000 m³
Gasoline:	341 kL

Offices

Planning and administration, Information systems, General office work, sales

OUTPUT

Waste and generation of items with value

Total waste discharge:	20.2 t
Items with value sold:	0.0 t
Recycling volume:	19.8 t
Final disposal volume:	0.4 t

Emissions into the atmosphere

CO_2:	1,239 t

Logistics

INPUT

Total energy usage

Electricity:	496,000 kWh
Light oil:	10 kL

Logistics

OUTPUT

Product use

Specified agents, hospitals, pharmacies

Packaging recycling consignment volume

Plastic containers/paper: 20 t

Emissions into the atmosphere

CO_2:	234 t

Compliance Measures

Response to the Violation of the Antimonopoly Act

In March 2020, Torii received a cease and desist order and a surcharge payment order from the Japan Fair Trade Commission (JFTC) pursuant to the Antimonopoly Act for a violation of the Antimonopoly Act concerning the setting of the wholesale price of the CALVAN Tablets. Taking these orders gravely and seriously, we are implementing measures to prevent recurrence, including revising the Code of Conduct, establishing the guidelines, holding regular training sessions, and strengthening supervisory functions. We will continue our efforts to ensure thorough compliance with laws and regulations in order to prevent recurrence and restore trust as soon as possible.

Compliance as a Pharmaceutical Company

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

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

Compliance Promotion Structure

Torii defines the promotion of compliance as one of the key management issues involved in achieving its corporate mission. After creating its compliance structure in September 2001, Torii established the Compliance Committee in 2004. This committee deliberates regarding compliance promotion issues. In order to further enhance company compliance, Torii established the Medical Compliance Department in August 2014. This department is responsible for reviewing clinical research and Torii's academic information materials. In January 2015, Torii formed the Compliance Advancement Department, responsible for company-wide compliance promotion operations. In October 2019, the two departments were merged for greater efficiency and effectiveness.

Employee Awareness-Raising and Education

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

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

Compliance Questionnaires

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

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

Compliance Book

Compliance Card

Reporting and Consultation Contact Point (Hotline)

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

Transparency Initiatives

Collaboration with universities and other research institutions and medical institutions is vital and essential for us to contribute to peoples' health as a pharmaceutical company.

During the course of these activities, we sometimes pay medical institutions compensation for their contributions, and we believe that we must maintain transparency in our relationships with them. We also believe that we must guarantee transparency in the relationships between patient groups and pharmaceutical companies so that the opinions and input from patients and supporters can be sufficiently leveraged within medical treatment as a social resource.

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

Our Responsibility to Employees

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

Human Resources Development

In order to create a stronger organization, we carry out training, focused on management and mid-level employees, with the aim of enhancing their development- and management-related skills and knowledge in areas such as subordinate development, encouraging teams, and providing instruction to junior colleagues. Together with elective training and distance learning for which employees apply, we are conducting ongoing, systematic personnel development.

In addition, we offer distance learning programs focused on the business skills that we believe employees need to conduct their work, continuously implementing measures that support and promote employees' self-led development. Subsidies are provided to employees who have satisfied program completion requirements.

Training Participation Results (Fiscal 2020)

Learning and training	Number of participants
Life planning training (information provision)	31 [0]
Topic-specific training (business basics, team power, global)	14 [15]
Management training (including e-learning)	228 [10]
Position-specific training (excluding new employee training)	97 [120]
New employee training	0 [16]
Distance learning/e-learning (self-improvement)	356 [122]

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

Creating Better Working Environments

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

For Torii to achieve sustainable growth and enhancement of corporate value over the medium to long term, flexible and swift actions are required. For this purpose, we aim to realize inclusive environments where each and every employee can work on their own initiative and work flexibly. Our goal is for each and every employee to work independently and autonomously with awareness. We aim become an enabling organization by offering organizational support to employees through the Company's systems and raising awareness.

Status of Measures for Promoting Active Participation by Female Employees

Item	As of December 31, 2020
Percentage of women in management positions	9.9% [8.1%]
Percentage of women in all employees	21.8% [21.7%]
Percentage of women in newly hired employees	44.4% [27.8%]
Average years of service between Male vs Female	Men: 13.8 years Women: 10.8 years [Men: 13.8 years Women: 10.3 years]
Average overtime per month	14.5 hours [13.8 hours]
Rate of taking annual paid leave (April 2020 to March 2021)	59.1% [80.2%]

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

Human Rights Measures

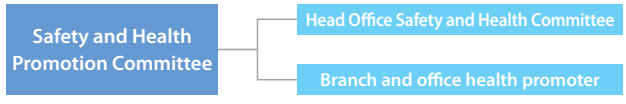
We believe it is important that people working in the same workplaces respect one another and build relationships of mutual trust, and that as members of society all people always respect the rights of others. This is why on December 10, Human Rights Day, we carry out measures aimed at developing a shared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

Occupational Safety and Health

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

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

Company-Wide Safety and Health Control Organizations



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

Financial Section

Ten-Year Financial Summary

	Millions of Yen			
	March 31			December 31
	2012	2013	2014	2014*2
For the Year				
Net sales	¥48,717	¥52,294	¥58,109	¥43,504
Gross profit	28,178	29,452	31,842	22,917
Operating income	4,153	2,794	4,987	4,032
Income before income taxes	5,054	2,929	5,133	3,781
Net income	2,611	1,849	3,352	2,419
Capital expenditures	849	1,374	1,202	1,514
Research and development costs	4,631	7,824	6,662	3,400
Net cash provided by (used in) operating activities	3,040	151	(201)	(609)
Net cash provided by (used in) investing activities	3,151	874	17,706	499
Net cash used in financing activities	(1,154)	(1,181)	(1,319)	(1,410)
At Fiscal Year-End				
Total assets	¥87,734	¥91,350	¥93,137	¥92,550
Total equity	75,832	76,700	79,018	80,225
Number of shares issued (Thousands)	28,800	28,800	28,800	28,800
Number of employees	927	969	1,009	1,047

	Yen			
Per Share Data				
Total equity	¥2,679.5	¥2,710.2	¥2,792.1	¥2,834.8
Net income	92.3	65.4	118.5	85.5
Cash dividends	40	40	40	40

	%			
Key Ratios				
Operating income ratio	8.5	5.3	8.6	9.3
Return on equity (ROE)	3.5	2.4	4.3	3.0
Return on assets (ROA)	3.0	2.1	3.6	2.6
Shareholders' equity ratio	86.4	84.0	84.8	86.7
Dividend payout ratio	43.4	61.2	33.8	46.8

*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 ¥103.50.00=US$1.00, the approximate exchange rate prevailing on December 31, 2020.

*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
2015	2016	2017	2018	2019	December 31 2020	December 31 2020
¥62,378	¥60,206	¥64,135	¥62,551	¥42,998	**¥41,700**	**$402,901**
31,564	29,919	32,841	30,707	22,295	**21,737**	**210,027**
4,919	3,819	6,281	4,951	1,430	**4,738**	**45,778**
5,258	4,056	6,373	3,030	37,700	**4,225**	**40,823**
3,527	2,839	4,718	1,164	27,367	**3,495**	**33,770**
2,207	891	931	811	330	**392**	**3,788**
5,237	4,654	4,608	4,138	2,956	**596**	**5,764**
4,940	3,402	6,349	8,259	42,499	**(3,443)**	**(33,268)**
957	1,361	(7,593)	(27,068)	2,099	**7,625**	**73,677**
(1,582)	(2,289)	(1,546)	(1,432)	(1,433)	**(1,425)**	**(13,773)**
¥98,868	¥98,525	¥104,741	¥103,253	¥139,943	**¥126,026**	**$1,217,650**
82,826	83,556	87,119	87,092	113,125	**115,091**	**1,111,994**
28,800	28,800	28,800	28,800	28,800	**28,800**	
1,058	1,059	1,074	1,049	660	**568**	

Yen						U.S. Dollars*1
¥2,926.8	¥2,978.8	¥3,105.7	¥3,103.3	¥4,029.3	**¥4,097.5**	**$39.59**
124.7	100.4	168.2	41.5	975.0	**124.5**	**1.20**
48	48	48	48	48	**48**	**0.46**

%					
7.9	6.3	9.8	7.9	3.3	**11.4**
4.3	3.4	5.5	1.3	27.3	**3.1**
3.7	2.9	4.6	1.1	22.5	**2.6**
83.8	84.8	83.2	84.3	80.8	**91.3**
38.5	47.8	28.5	115.6	4.9	**38.6**

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

Financial Results for the Year Ended December 31, 2020

With regard to the business environment in which the pharmaceutical industry operated, business risks mounted because of the increasing difficulty of new drug development, a sharp rise in R&D costs, intensifying international competition, and other factors. In the Japanese market in particular, the industry faced severe conditions due to increasing request to curb healthcare expenditures such as through NHI drug price revisions and encouragement of greater use of generic drugs. Furthermore, due to the spread of COVID-19, business activities were affected by the trend of limited consultations for patients at medical institutions and self-imposed restrictions on visits to medical institutions by medical representatives (MRs).

Under these conditions, Torii aimed to continue generating a positive operating income (excluding expenses relating to new business investments, which include investments to acquire new in-licensed drugs and M&A) and expand profit margins during the period covered by the Medium-Term Management Plan 2021. To this end, Torii has been tackling the following key issues under the Medium-Term Management Plan 2021: a. business structure reform, b. growth strategy, and c. maintaining the trust of stakeholders.

In the year ended December 31, 2020, Torii secured a positive operating income and achieved higher profit partly thanks to the effects of business structure reform measures. Furthermore, although business activities were affected by the impact of the spread of COVID-19, including self-imposed restrictions on visits to medical institutions by medical representatives (MRs), Torii responded with such measures as enhancing efforts to provide information on the proper use of pharmaceutical products by utilizing IT.

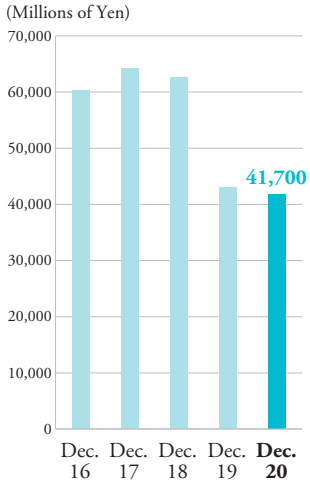
Net Sales

Torii secured sales of products on par with the previous fiscal year owing to factors such as increased sales volume in the allergens area, despite the impact of NHI drug price revisions (October 2019 and April 2020). However, net sales decreased by ¥1,297 million (3.0%) over the previous corresponding period to ¥41,700 million due to factors including a decline in distribution fees in connection with the termination of transitional measures related to six anti-HIV drugs.

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) decreased by ¥123 million (1.9%) to ¥6,507 million, owing to the impact of NHI drug price revisions. Sales of REMITCH (an oral antipruritic agent for hemodialysis patients) decreased by ¥2,328 million (26.8%) to ¥6,365 million, affected by

Net Sales

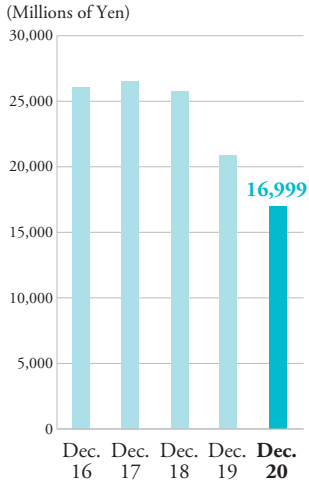


Sales of Mainstay Products

(Millions of Yen)

	Dec. 2019	Dec. 2020	Change
Riona	¥6,630	¥6,507	¥(123) (1.9)%
REMITCH	8,693	6,365	(2,328) (26.8)%
CEDARCURE	3,654	6,139	2,484 68.0%
ANTEBATE	5,439	5,241	(198) (3.6)%
MITICURE	2,749	4,776	2,027 73.7%

Selling, General and Administrative Expenses



generic products as well as NHI drug price revisions. In addition, ENAROY Tablets, for which manufacturing and marketing approval in Japan was received by JT in September 2020 for an indication of renal anemia, were listed on the NHI drug price list in November 2020, and Torii launched the drug in December 2020.

- In the skin disease area, sales of ANTEBATE (a topical corticosteroid) declined by ¥198 million (3.6%) to ¥5,241 million, owing to the impact of NHI drug price revisions. Sales of CORECTIM Ointment (a topical JAK inhibitor), which Torii launched in June 2020, amounted to ¥1,291 million.
- In the allergens area, sales of CEDARCURE Japanese Cedar Pollen Sublingual Tablets (allergen immunotherapy) increased by ¥2,484 million (68.0%) to ¥6,139 million, due to the further spread of allergen immunotherapy. Sales of MITICURE House Dust Mite Sublingual Tablets (allergen immunotherapy) increased by ¥2,027 million (73.7%) to ¥4,776 million.

Cost of Sales

Cost of sales decreased by ¥740 million (3.6%) to ¥19,962 million, mainly due to changes in the sales mix.

Selling, General and Administrative (SG&A) Expenses

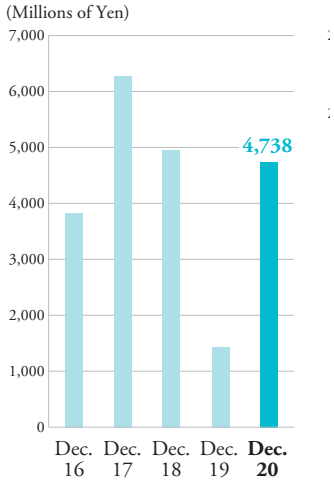
SG&A expenses decreased by ¥3,865 million (18.5%) to ¥16,999 million, due mainly to a decline in R&D expenses, impacts from the optimization of the Company's workforce through a special program supporting employees' career changes implemented in the previous fiscal year, and self-imposed restrictions on visits to medical institutions by medical representatives (MRs) as a result of the spread of COVID-19.

Operating Income and Net Income

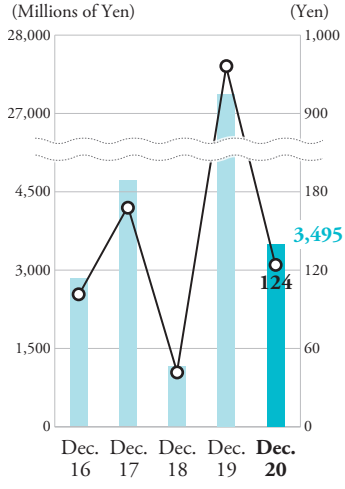
As a result of the above, operating income was ¥4,738 million, an increase of ¥3,307 million (231.2%) over the previous corresponding period.

Net income was ¥3,495 million, a decrease of ¥23,872 million (87.2%) over the previous corresponding period. This was primarily due to the recoding of a gain on transfer of sales rights for six anti-HIV drugs in the previous fiscal year. The Company also recorded a loss associated with the transfer of the Sakura Plant to IWAKI SEIYAKU CO., LTD. on July 1, 2020, as business structure reform expenses.

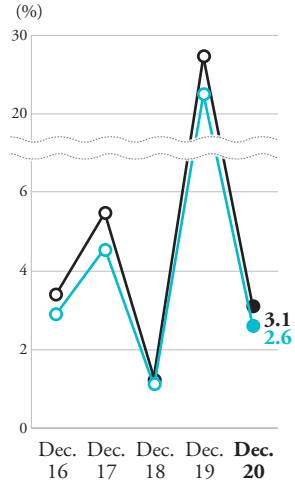
Operating Income



Net Income
Net Income per Share



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



Financial Position at December 31, 2020

Assets, Liabilities and Equity

Total assets decreased by ¥13,917 million (9.9%) from the end of the previous fiscal year to ¥126,026 million as of December 31, 2020. Current assets decreased by ¥13,275 million (12.1%) to ¥96,742 million, mainly due to a ¥9,372 million decrease in marketable securities and a ¥6,147 million decrease in trade accounts receivable, despite a ¥2,756 million increase in cash and cash equivalents. Net property, plant and equipment decreased by ¥1,000 million (36.0%) to ¥1,777 million. Investment and other assets rose by ¥358 million (1.3%) to ¥27,506 million mainly due to a ¥1,045 million increase in investment securities, despite a ¥586 million decrease in deferred tax assets.

Total liabilities decreased by ¥15,882 million (59.2%) to ¥10,935 million. Reasons for this change included a ¥9,794 million decrease in income taxes payable, a ¥3,477 million decrease in consumption tax payable included in Other Current Liabilities in Current Liabilities, and a ¥2,070 million decrease in payables.

Total equity rose by ¥1,965 million (1.7%) to ¥115,091 million. Contributing factors included surplus dividends of ¥1,347 million and net income of ¥3,495 million.

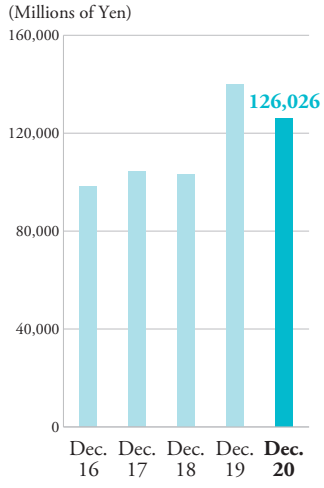
Cash Flows for the Year Ended December 31, 2020

At ¥61,576 million, cash and cash equivalents as of December 31, 2020 were ¥2,756 million (4.7%) higher than at the end of the previous fiscal year.

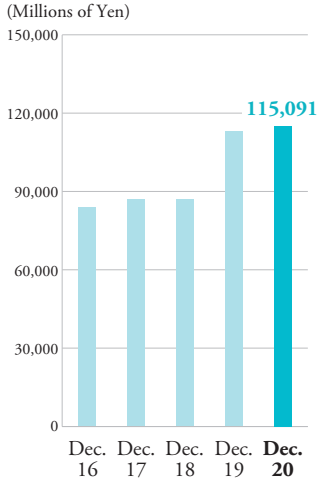
Cash Flows from Operating Activities

Net cash used in operating activities amounted to ¥3,443 million. (Net cash provided by operating activities for the previous corresponding year totaled ¥42,499 million.) This result reflected a decrease of ¥3,477 million in consumption tax payable, a decrease of ¥609 million in trade accounts payable, payment of ¥501 million for business structure reform expenses, and income taxes paid of ¥9,410 million, despite income before income taxes of ¥4,225 million, depreciation and amortization of ¥582 million, and a ¥6,193 million decrease in trade notes and accounts receivable.

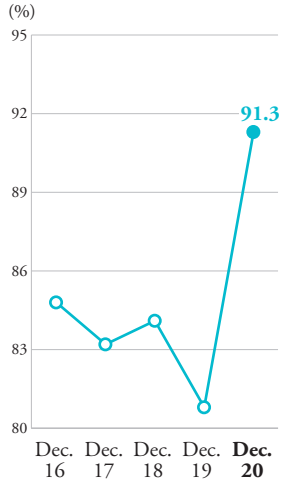
Total Assets



Total Equity



Shareholders' Equity Ratio



Cash Flows from Investing Activities

Net cash provided by investing activities amounted to ¥7,625 million. (Net cash provided by investing activities for the previous corresponding year totaled ¥2,099 million.) Major items included inflows of ¥44,900 million in proceeds from sale and redemption of marketable securities, ¥1,100 million in proceeds from transfer of business, and ¥882 million in proceeds from sale and redemption of investment securities. These inflows were partly offset by outflows of ¥29,007 million in purchases of marketable securities and ¥9,837 million in purchases of investment securities.

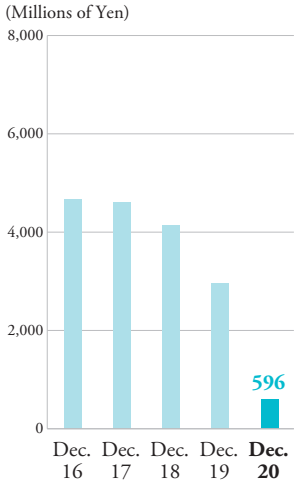
Cash Flows from Financing Activities

Net cash used in financing activities amounted to ¥1,425 million, consisting mainly of ¥1,347 million in dividends paid. (Net cash used in financing activities for the previous corresponding period totaled ¥1,433 million.)

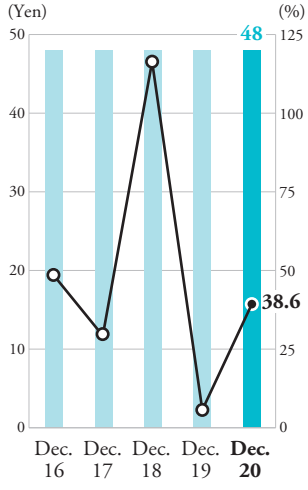
Resources for Capital and Liquidity of Funds

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, and co-development with JT. 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, 2020	December 31, 2019	December 31, 2020
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents (Notes 11 and 12)	¥ 61,576	¥ 58,819	$ 594,937
Marketable securities (Notes 3 and 11)	8,528	17,901	82,401
Receivables (Note 11):			
Trade notes	7	14	70
Trade accounts	18,949	25,096	183,082
Parent	119	137	1,157
Other	212	267	2,054
(Allowance for Doubtful Accounts)	(2)		(21)
Inventories (Note 4)	7,152	7,513	69,108
Prepaid expenses and other current assets	198	266	1,919
Total current assets	96,742	110,017	934,711
PROPERTY, PLANT AND EQUIPMENT:			
Land	344	446	3,328
Buildings and structures	3,343	10,324	32,307
Machinery and equipment	134	7,384	1,299
Furniture and fixtures	718	1,933	6,939
Lease assets (Note 10)	1,502	1,977	14,517
Construction in progress		9	
Total	6,043	22,075	58,391
Accumulated depreciation	(4,265)	(19,297)	(41,214)
Net property, plant and equipment	1,777	2,778	17,176
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 3 and 11)	20,810	19,764	201,064
Software	303	420	2,932
Long-term prepaid expenses	5,157	5,207	49,827
Deferred tax assets (Note 8)	587	1,174	5,681
Other assets	647	581	6,255
Total investments and other assets	27,506	27,147	265,762
TOTAL	¥126,026	¥139,943	$1,217,650

See notes to financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	December 31, 2020	December 31, 2019	December 31, 2020
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Payables (Note 11):			
Trade accounts	¥ 3,929	¥ 3,862	$ 37,964
Parent (Note 12)	1,274	2,155	12,314
Other	3,026	4,282	29,239
Current portion of long-term lease obligations	85	85	827
Income taxes payable (Note 11)	41	9,836	401
Accrued expenses	285	347	2,755
Accrued employees' bonuses	391	444	3,784
Accrued bonuses to directors and Audit & Supervisory Board members	13	37	131
Asset retirement obligations	42		413
Other current liabilities	370	3,890	3,582
Total current liabilities	9,461	24,942	91,415
LONG-TERM LIABILITIES:			
Liability for retirement benefits (Note 5)	948	1,150	9,164
Long-term lease obligations	209	294	2,022
Asset retirement obligations	59	148	575
Other long-term liabilities	256	282	2,477
Total long-term liabilities	1,473	1,875	14,240
EQUITY (Notes 6 and 7):			
Common stock—authorized, 54,000,000 shares; issued,			
28,800,000 shares in December 2020 and 2019	5,190	5,190	50,144
Capital surplus:	6,437	6,429	62,202
Additional paid-in capital	6,416	6,416	61,990
Other capital surplus	21	13	211
Stock acquisition rights	10	11	96
Retained earnings:			
Legal reserve	1,297	1,297	12,536
Unappropriated	102,926	100,779	994,459
Unrealized gain on available-for-sale securities	636	850	6,152
Treasury stock—at cost, 714,558 shares in December 2020 and 726,961 shares in December 2019	(1,407)	(1,431)	(13,598)
Total equity	115,091	113,125	1,111,994
TOTAL	¥ 126,026	¥ 139,943	$ 1,217,650

Statement of Income

Torii Pharmaceutical Co., Ltd.
Year ended December 31, 2020

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Year Ended December 31, 2020	Year Ended December 31, 2019	Year Ended December 31, 2020
NET SALES	**¥ 41,700**	¥ 42,998	**$ 402,901**
COST OF SALES (Notes 5, 10 and 12)	**19,962**	20,702	**192,874**
Gross profit	**21,737**	22,295	**210,027**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 5, 9 and 10)	**16,999**	20,864	**164,248**
Operating income	**4,738**	1,430	**45,778**
OTHER INCOME (EXPENSES):			
Interest and dividend income	**275**	221	**2,661**
Gain on transfer of sales rights		40,614	
Loss on disposal of property, plant and equipment (Note 1)	**(9)**	(101)	**(92)**
Business structure reform expenses (Note 14)	**(736)**	(4,504)	**(7,119)**
Other—net	**(41)**	39	**(405)**
Other income (expenses)—net	**(512)**	36,269	**(4,955)**
INCOME BEFORE INCOME TAXES	**4,225**	37,700	**40,823**
INCOME TAXES (Note 8):			
Current	**49**	10,007	**482**
Deferred	**680**	326	**6,570**
Total income taxes	**729**	10,333	**7,053**
NET INCOME	**¥ 3,495**	¥ 27,367	**$ 33,770**
	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Note 2.q):			
Basic Net income	**¥ 124.5**	¥ 975.0	**$ 1.20**
Diluted net income	**124.5**	—	**—**
Cash dividends applicable to the period	**48.0**	48.0	**0.46**

See notes to financial statements.

Statement of Changes in Equity

Torii Pharmaceutical Co., Ltd.
Year ended December 31, 2020

		Millions of Yen								
			Capital Surplus (Note 7)			Retained Earnings (Note 7)				
	Outstanding Number of Shares of Common Stock	Common Stock (Note 7)	Additional Paid-in Capital	Other Capital Surplus	Stock Acquisition Rights (Note 7)	Legal Reserve	Unappropriated	Unrealized Gain (Loss) on Available-for-Sale Securities	Treasury Stock	Total Equity
BALANCE, DECEMBER 31, 2018	**28,061,154**	**¥ 5,190**	**¥ 6,416**	**¥ 10**	**¥ 11**	**¥ 1,297**	**¥ 74,759**	**¥ 864**	**¥ (1,455)**	**¥ 87,092**
Net income							27,367			27,367
Cash dividends paid, ¥48.0 per share							(1,347)			(1,347)
Repurchase of treasury stock	(816)								(1)	(1)
Disposal of treasury stock	12,701			2					25	27
Net change in the year								(13)		(13)
BALANCE, DECEMBER 31, 2019	**28,073,039**	**5,190**	**6,416**	**13**	**11**	**1,297**	**100,779**	**850**	**(1,431)**	**113,125**
Net income							3,495			3,495
Cash dividends paid, ¥48.0 per share							(1,347)			(1,347)
Repurchase of treasury stock	(188)								(0)	(0)
Disposal of treasury stock	12,591			8					24	33
Net change in the year					(1)			(213)		(214)
BALANCE, DECEMBER 31, 2020	**28,085,442**	**¥ 5,190**	**¥ 6,416**	**¥ 21**	**¥ 10**	**¥ 1,297**	**¥ 102,926**	**¥ 636**	**¥ (1,407)**	**¥115,091**

	Thousands of U.S. Dollars (Note 1)								
		Capital Surplus (Note 7)			Retained Earnings (Note 7)				
	Common Stock (Note 7)	Additional Paid-in Capital	Other Capital Surplus	Stock Acquisition Rights (Note 7)	Legal Reserve	Unappropriated	Unrealized Gain (Loss) on Available-for-Sale Securities	Treasury Stock	Total Equity
BALANCE, DECEMBER 31, 2019	**$ 50,144**	**$ 61,990**	**$ 127**	**$ 109**	**$ 12,536**	**$ 973,711**	**$ 8,215**	**$ (13,831)**	**$1,093,003**
Net income						33,770			33,770
Cash dividends paid, $0.46 per share						(13,021)			(13,021)
Repurchase of treasury stock								(5)	(5)
Disposal of treasury stock			83					239	323
Net change in the year				(12)			(2,063)		(2,076)
BALANCE, DECEMBER 31, 2020	**$ 50,144**	**$ 61,990**	**$ 211**	**$ 96**	**$ 12,536**	**$ 994,459**	**$ 6,152**	**$ (13,598)**	**$1,111,994**

See notes to financial statements.

Statement of Cash Flows

Torii Pharmaceutical Co., Ltd.
Year ended December 31, 2020

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Year Ended December 31, 2020	Year Ended December 31, 2019	**Year Ended December 31, 2020**
OPERATING ACTIVITIES:			
Income before income taxes	**¥ 4,225**	¥ 37,700	**$ 40,823**
Adjustments for:			
Income taxes paid	**(9,410)**	(1,401)	**(90,923)**
Depreciation and amortization	**582**	985	**5,625**
Business structure reform expenses	**736**	4,504	**7,119**
Payments for Business structure reform expenses	**(501)**	(4,373)	**(4,848)**
Gain on transfer of sales rights		(40,614)	
The consideration of returning sales rights received		42,137	
Changes in assets and liabilities:			
Increase (decrease) in accrued consumption taxes	**(3,477)**	2,885	**(33,596)**
Decrease in trade notes and accounts receivable	**6,155**	1,983	**59,469**
Decrease in inventories	**360**	801	**3,485**
Increase in trade accounts payable	**(629)**	(70)	**(6,083)**
Other—net	**(1,484)**	(2,038)	**(14,339)**
Total adjustments	**(7,668)**	4,798	**(74,091)**
Net cash provided by (used in) operating activities	**(3,443)**	42,499	**(33,268)**
INVESTING ACTIVITIES:			
Purchases of marketable securities	**(29,007)**	(31,713)	**(280,265)**
Proceeds from sale and redemption of marketable securities	**44,900**	44,300	**433,816**
Purchases of property, plant and equipment	**(293)**	(419)	**(2,832)**
Proceeds from sale of property, plant and equipment	**0**	1	**0**
Purchases of investment securities	**(9,837)**	(11,853)	**(95,049)**
Proceeds from sale and redemption of investment securities	**882**	1,903	**8,528**
Proceeds from transfer of business	**1,100**		**10,628**
Other—net	**(118)**	(119)	**(1,147)**
Net cash provided by investing activities	**7,625**	2,099	**73,677**
FINANCING ACTIVITIES:			
Repurchase of treasury stock	**(0)**	(1)	**(5)**
Proceeds from exercise of stock option	**8**		**79**
Dividends paid	**(1,347)**	(1,347)	**(13,021)**
Repayments of lease obligations	**(85)**	(85)	**(825)**
Net cash used in financing activities	**(1,425)**	(1,433)	**(13,773)**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**2,756**	43,165	**26,635**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**58,819**	15,654	**568,301**
CASH AND CASH EQUIVALENTS, END OF YEAR	**¥ 61,576**	¥ 58,819	**$ 594,937**

See notes to financial statements.

1 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

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

In preparing these financial statements, certain reclassifications and rearrangements have been made to the financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2019 financial statements to conform to the classifications used in 2020.

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 ¥103.50 to $1, the approximate rate of exchange at December 31, 2020. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Nonconsolidation—The Company has no subsidiaries as of December 31, 2020.

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

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

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

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

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

e. Property, Plant and Equipment—Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company is computed by the declining-balance method while the straight-line method is applied to buildings acquired on or after April 1, 1998, and building improvements and structures acquired on or after April 1, 2016. The range of useful lives is from 15 to 50 years for buildings and structures, 8 years for machinery and equipment, and from 2 to 15 years for furniture and fixtures. Equipment held for lease is depreciated by the straight-line method over the respective lease periods.

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

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

k. 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.

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

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

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

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

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

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

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

q. Per Share Information—Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period, which was 28,079,831 shares and 28,069,668 shares for the years ended December 31, 2020 and 2019, 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, 2020.

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.

r. 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.

s. New Accounting Pronouncements— (1) "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 31, 2020)

(a) Overview

These are the comprehensive accounting standards for revenue recognition. Revenue is recognized based on the following five-step approach.

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

(b) Scheduled Date of Adoption

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

(c) Effect of Adoption

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

(2) "Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections" (ASBJ Statement No.24 March 31, 2020)

(a) Overview

Having been presented with a proposal that consideration should be given to enrich the information in the explanatory notes on "the principles and procedures for accounting treatments adopted in cases where the provisions of relevant accounting standards and regulations are not clear", the ASBJ performed the necessary revisions to the Standard and issued the revised Standard as "Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections".

In addition, when seeking to enrich the information in the explanatory notes on "the principles and procedures for accounting treatments adopted in cases where the provisions of relevant accounting standards and regulations are not clear", in order to avoid affecting business that has been conducted under conditions where the provisions of relevant accounting standards and regulations are clear, it is assumed to inherit the provisions of the Annotations on the Corporate Accounting Principles(Annotation No. 1-2).

(b) Scheduled Date of Adoption

This accounting standard will be applied at the end of the fiscal year ending December 31, 2021.

(3) "Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No.31, March 31, 2020)

(a) Overview

With regard to the disclosure of "Sources of estimation uncertainty" required by paragraph 125 of International Accounting Standards (IAS) 1 "Presentation of Financial Statements"(hereinafter, "IAS 1") issued in 2003 by the International Accounting Standards Board (IASB), because this information is of value to users of the financial statements, there were requests to consider disclosing this under Japanese GAAP as information included in explanatory notes, and the ASBJ developed and issued "Accounting Standard for Disclosure of Accounting Estimates" (hereinafter, the "Standard").

The basic approach taken by the ASBJ in the development of the Standard was, rather than to expand individual notes, to state the general principle(disclosure objectives), and then to allow the company to make a decision on specific content to be disclosed in light of the disclosure objectives. In the development, the ASBJ also made it its policy to make reference to the provisions of paragraph 125 of IAS 1.

(b) Scheduled Date of Adoption

This accounting standard will be applied at the end of the fiscal year ending December 31, 2021.

3 MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of December 31, 2020 and 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	December 31, 2020	December 31, 2019	**December 31, 2020**
Current:			
Government and corporate bonds	**¥ 5,528**	¥ 5,900	**$ 53,416**
Trust fund investments and other		12,000	
Total	**¥ 5,528**	¥ 17,901	**$ 53,416**
Noncurrent:			
Equity securities	**¥ 1,265**	¥1,513	**$ 12,225**
Government and corporate bonds	**12,940**	12,578	**125,033**
Trust fund investments and other	**6,603**	5,672	**63,806**
Total	**¥ 20,810**	¥ 19,764	**$ 201,064**

The costs and aggregate fair values of marketable and investment securities at December 31, 2020 and 2019, were as follows:

	Millions of Yen			
December 31, 2020	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	**¥ 357**	**¥ 797**		**¥ 1,155**
Debt securities	**18,485**	**32**	**¥ 47**	**18,469**
Other	**8,518**	**131**		**8,649**

December 31, 2019				
Available-for-sale:				
Equity securities	¥ 357	¥ 1,045		¥ 1,403
Debt securities	18,456	39	¥ 17	18,479
Other	17,520	152		17,673

	Thousands of U.S. Dollars			
December 31, 2020	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	**$ 3,458**	**$ 7,704**		**$ 11,162**
Debt securities	**178,599**	**310**	**$ 460**	**178,449**
Other	**91,522**	**1,269**		**92,791**

Available-for-sale securities whose fair value was not readily determinable as of December 31, 2020 and 2019, were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	December 31, 2020	December 31, 2019	**December 31, 2020**
Available-for-sale—Unlisted equity securities	**¥ 110**	¥ 110	**$ 1,062**
Investment in limited partnership	**954**	—	**9,874**
Total	**¥ 1,064**	¥ 110	**$ 10,936**

4 INVENTORIES

Inventories at December 31, 2020 and 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	December 31, 2020	December 31, 2019	**December 31, 2020**
Finished products and merchandise	**¥ 4,285**	¥ 4,090	**$ 41,410**
Work in process		645	
Raw materials and supplies	**2,866**	2,778	**27,697**
Total	**¥ 7,152**	¥ 7,513	**$ 69,108**

5 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, 2020 and 2019, consisted of the following:

(1) The changes in defined benefit obligation for the years ended December 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	Year Ended December 31, 2020	Year Ended December 31, 2019	Year Ended December 31, 2020
Balance at beginning of period	¥ 6,760	¥ 8,246	$ 65,314
Current service cost	325	463	3,143
Interest cost	38	49	374
Actuarial losses (gains)	104	(127)	1,011
Benefits paid	(331)	(1,872)	(3,201)
Decrease due to transfer of business	(671)		(6,487)
Balance at end of period	¥ 6,226	¥ 6,760	$ 60,155

(2) The changes in plan assets for the years ended December 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	Year Ended December 31, 2020	Year Ended December 31, 2019	Year Ended December 31, 2020
Balance at beginning of period	¥ 6,082	¥ 7,170	$ 58,772
Expected return on plan assets	115	143	1,113
Actuarial gains	176	294	1,706
Contributions from the employer	224	320	2,172
Benefits paid	(286)	(1,846)	(2,768)
Decrease due to transfer of business	(571)		(5,520)
Balance at end of period	¥ 5,741	¥ 6,082	$ 55,477

(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, 2020	December 31, 2019	December 31, 2020
Funded defined benefit obligation	¥ 5,545	¥ 5,986	$ 53,579
Plan assets	(5,741)	(6,082)	(55,477)
	(196)	(96)	(1,897)
Unfunded defined benefit obligation	680	773	6,575
Unrecognized actuarial losses	464	473	4,486
Unrecognized prior service cost			
Net liability arising from defined benefit obligation	¥ 948	¥ 1,150	$ 9,164

	Millions of Yen		Thousands of U.S. Dollars
	December 31, 2020	December 31, 2019	December 31, 2020
Liability for retirement benefits	¥ 948	¥ 1,150	$ 9,164
Net liability arising from defined benefit obligation	¥ 948	¥ 1,150	$ 9,164

(4) The components of net periodic benefit costs for the years ended December 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	Year Ended December 31, 2020	Year Ended December 31, 2019	Year Ended December 31, 2020
Service cost	¥ 325	¥ 463	$ 3,143
Interest cost	38	49	374
Expected return on plan assets	(115)	(143)	(1,113)
Recognized actuarial (gains) losses	(71)	(22)	(688)
Amortization of prior service cost		72	
Net periodic benefit costs	¥ 177	¥ 419	$ 1,716
The special severance benefit payment with the early retirement offer		¥ 4,061	

Notes: The special severance benefit payment is recorded in "Business structure reform expenses".

(5) Plan assets

a. Components of plan assets

Plan assets consisted of the following:

	December 31, 2020	December 31, 2019
Debt investments	42%	45%
Equity investments	28	25
General account of life insurance companies	9	9
Others	21	21
Total	100%	100%

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

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

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

(6) Assumptions used for the years ended December 31, 2020 and 2019, were set forth as follows:

	Year Ended December 31, 2020	Year Ended December 31, 2019
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 ¥59 million ($575 thousand) and ¥90 million are disclosed in cost of sales and selling, general and administrative expenses for the years ended December 31, 2020 and 2019 respectively, for which plan assets could not be allocated to each participating employer.

The funded status of the multiemployer pension plan at December 31, 2020 (based on information available as of March 31, 2020) and December 31, 2019 (based on information available as of March 31, 2019) to which contributions were recorded as net periodic retirement benefit costs, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	March 31		
	2020	2019	March 31, 2020
Fair value of plan assets	¥ 151,134	¥ 157,063	$ 1,460,236
Sum of actuarial liabilities of pension plan and minimum actuarial reserve	150,361	151,840	1,452,766
Difference	¥ 773	¥ 5,223	$ 7,470

The Company's contribution percentage for the multiemployer pension plan at December 31, 2020 and 2019, was as follows:

	December 31, 2020	December 31, 2019
Contribution percentage	0.8%	0.9%

Notes (March 31, 2020):
1. The difference mainly resulted from prior service cost of ¥(11,040) million ($(106,673) thousand), deficiency brought forward of ¥(7,003) million ($(67,663) thousand) and special reserve fund of ¥18,816 million ($181,806 thousand).
2. Prior service cost is the present value of the amount of special contributions and the method of amortization is equal to the payment terms. The ratio of employer contribution is 0.7%. The remaining term of amortization is 4 years and 5 months as of March 31, 2020.

Notes (March 31, 2019):
1. The difference mainly resulted from prior service cost of ¥(13,593) million, deficiency brought forward of ¥(136,643) million and special reserve fund of ¥155,460 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 5 years and 5 months as of March 31, 2019.

6 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.

7 STOCK OPTIONS

The stock options outstanding as of December 31, 2020, 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 ($ 26)	From April 9, 2018 to April 8, 2021

The stock option activity is as follows:

	2016 Stock Option
	(Shares)
Year Ended December 31, 2019	
Non-vested	
December 31, 2018—Outstanding	
Granted	
Canceled	
Vested	
December 31, 2019—Outstanding	
Vested	
December 31, 2018—Outstanding	26,400
Vested	
Exercised	
Canceled	
December 31, 2019—Outstanding	26,400
Year Ended December 31, 2020	
Non-vested	
December 31, 2019—Outstanding	
Granted	
Canceled	
Vested	
December 31, 2020—Outstanding	
Vested	
December 31, 2019—Outstanding	26,400
Vested	
Exercised	(3,000)
Canceled	
December 31, 2020—Outstanding	23,400
Exercise price	¥ 2,736 ($ 26)
Average stock price at exercise	
Fair value price at grant date	¥ 427.70 ($ 4.13)

8 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, 2020 and 2019, respectively.

The tax effects of significant temporary differences, which resulted in deferred tax assets and liabilities at December 31, 2020 and 2019, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	December 31, 2020	December 31, 2019	**December 31, 2020**
Deferred tax assets:			
Impairment loss	**—**	¥ 618	
Accrued enterprise taxes	**¥ 18**	511	**$ 174**
Liabilities for retirement benefits	**290**	351	**2,804**
Prepayment of research and development costs	**48**	162	**470**
Accrued bonuses to employees	**119**	150	**1,158**
Loss on valuation of inventories	**42**	89	**406**
Other	**393**	346	**3,800**
Less valuation allowance	**(43)**	(687)	**(419)**
Total	**868**	1,544	**8,395**
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	**276**	370	**2,672**
Other	**3**	—	**41**
Total	**280**	370	**2,741**
Net deferred tax assets	**¥ 587**	¥ 1,174	**$ 5,681**

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, 2020, with the corresponding figures for 2019, is as follows:

	Year Ended December 31, 2020	Year Ended December 31, 2019
Normal effective statutory tax rate	**30.6%**	30.6%
Expenses not deductible for income tax purposes	**0.8**	0.1
Dividend income deductible for income tax purposes	**(0.0)**	(0.0)
Per capita levy	**0.9**	0.2
Tax credits	**—**	(2.2)
Increase in valuation allowance	**(15.3)**	(1.1)
Other—net	**0.3**	(0.2)
Actual effective tax rate	**17.3%**	27.4%

9 RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥596 million ($5,764 thousand) and ¥2,956 million for the years ended December 31, 2020 and 2019, respectively.

10 LEASES

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

Total rental expenses including lease payments under finance leases for the years ended December 31, 2020 and 2019, were ¥475 million ($4,597 thousand) and ¥707 million, respectively.

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

	Millions of Yen	Thousands of U.S. Dollars
	2020	2020
	Operating Leases	Operating Leases
Due within one year	¥ 42	$ 408
Due after one year	58	568
Total	¥ 101	$ 976

11 FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Policy for Financial Instruments

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

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

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

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

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

(3) Fair Values of Financial Instruments

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

(a) Fair values of financial instruments

	Millions of Yen		
December 31, 2020	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	**¥ 61,576**	**¥ 61,576**	
Receivables:			
Trade accounts	**18,949**	**18,949**	
Parent	**119**	**119**	
Marketable and investment securities—Available-for-sale securities	**29,228**	**29,228**	
Total	**¥ 109,873**	**¥ 109,873**	
Payables:			
Trade accounts	**¥ 3,929**	**¥ 3,929**	
Parent	**1,274**	**1,274**	
Other	**3,026**	**3,026**	
Income taxes payable	**41**	**41**	
Total	**¥ 8,271**	**¥ 8,271**	

December 31, 2019			
Cash and cash equivalents	¥ 58,819	¥ 58,819	
Receivables:			
Trade accounts	25,096	25,096	
Parent	137	137	
Marketable and investment securities—Available-for-sale securities	37,556	37,556	
Total	¥ 121,610	¥ 121,610	
Payables:			
Trade accounts	¥ 3,862	¥ 3,862	
Parent	2,155	2,155	
Other	4,282	4,282	
Income taxes payable	9,836	9,836	
Total	¥ 20,137	¥ 20,137	

December 31, 2020	Thousands of U.S. Dollars		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	$ 594,937	$ 594,937	
Receivables:			
Trade accounts	183,082	183,082	
Parent	1,157	1,157	
Marketable and investment securities—Available-for-sale securities	282,403	282,403	
Total	$ 1,061,582	$ 1,061,582	
Payables:			
Trade accounts	$ 37,964	$ 37,964	
Parent	12,314	12,314	
Other	29,239	29,239	
Income taxes payable	401	401	
Total	$ 79,920	$ 79,920	

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, 2020	December 31, 2019	December 31, 2020
Unlisted shares	¥ 110	¥ 110	$ 1,062
Investment in limited partnership	954	—	9,874
Total	¥ 1,064	¥ 110	$ 10,936

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

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

December 31, 2020	Millions of Yen		
	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years
Cash and cash equivalents	¥ 61,575		
Receivables:			
Trade accounts	18,949		
Parent	119		
Marketable and investment securities—Available-for-sale securities with contractual maturities	5,528	¥ 8,218	¥ 4,932
Total	¥ 86,173	¥ 8,218	¥ 4,932

December 31, 2019	Millions of Yen		
	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years
Cash and cash equivalents	¥ 58,819		
Receivables:			
Trade accounts	25,096		
Parent	137		
Marketable and investment securities—Available-for-sale securities with contractual maturities	17,901	¥ 9,984	¥ 5,835
Total	¥ 101,955	¥ 9,894	¥ 5,835

December 31, 2020	Thousands of U.S. Dollars		
	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years
Cash and cash equivalents	$ 594,936		
Receivables:			
Trade accounts	183,082		
Parent	1,157		
Marketable and investment securities—Available-for-sale securities with contractual maturities	$ 53,418	$ 79,406	$ 47,657
Total	$ 832,595	$ 79,406	$ 47,657

12 RELATED PARTY TRANSACTIONS

Transactions of the Company with the parent company for the years ended December 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	Year Ended December 31, 2020	Year Ended December 31, 2019	Year Ended December 31, 2020
Purchases	¥3,318	¥ 20,097	$ 32,057
The consideration of returning sales rights	—	42,137	—
Forward exchange contracts	3,267	4,236	31,567

The balances due to or from the parent company at December 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	December 31, 2020	December 31, 2019	December 31, 2020
Deposits included in cash and cash equivalents	¥ 27,859	¥ 37,796	$ 269,169
Trade accounts payable	1,213	1,890	11,719

13 SEGMENT INFORMATION

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

Information relating to business segments is omitted as the Company operated solely in the pharmaceutical business for the years ended December 31, 2020 and 2019.

Sales to major customers were as follows:

	Millions of Yen		Thousands of U.S. Dollars
Name of Customer	Year Ended December 31, 2020	Year Ended December 31, 2019	Year Ended December 31, 2020
Alfresa Corporation	¥ 9,398	¥ 9,048	$ 90,803
Mediceo Corporation	9,041	8,510	87,360
Suzuken Co., Ltd.	8,564	8,413	82,747
Toho Pharmaceutical Co., Ltd.	4,645	4,781	44,885

14 BUSINESS COMBINATIONS

Business divestiture

The Company has resolved at its Board of Directors meeting held on March 18, 2020 to transfer its Sakura Plant in Sakura, Chiba, to IWAKI SEIYAKU CO., LTD. ("IWAKI") ("Transaction"). On July 1, the Company completed an absorption-type company split (simplified absorption-type company split), resulting in a transfer of all shares of Sakura New Company from the Company to IWAKI on the same day.

1. Outline of the business divestiture

(1) Name of the successor company
IWAKI SEIYAKU CO., LTD.

(2) Detail of the divested business
Sakura Plant

(3) Primary reasons for the business combination
The Company had reached the conclusion that it would be the best choice to transfer Sakura Plant to IWAKI whose manufacturing function has high compatibility and complementarity with that of Sakura Plant and outsource production of Sakura Plant's line of products. Given the situation that the profitability of the long term listed drugs had been decreasing due to the impact caused by the drastic reform of the drug pricing system, the Company had been considering the possibility of gradual transfer of the pharmaceutical products manufactured on their own companies or of switching to contract manufacturing, as part of the business structure reform named "Medium-Term Management Plan 2021".

Employment of the employees working for Sakura Plant is maintained under IWAKI. The Company's products is continuously manufactured in Sakura Plant for a stable supply. The Company believes that the quality assurance system and technology capabilities that have been established within Sakura Plant is carried on to IWAKI to maintain the stable supply.

(4) Date of the business divestiture
July 1, 2020

(5) Matters regarding the outline of transaction including its legal form
(a) Company spin-off
In the Transaction, a wholly-owned subsidiary is founded by the Company, followed by succession of Sakura Plant's land, structure, and assets owned by the Company to Sakura New Company through company spin-off (absorption-type company split)
(b) Share transfer
Share transfer limiting consideration to property such as cash

(c) Consideration for the transfer
¥1,100 million ($10,628 thousand)

2. Outline of accounting treatment

(1) Amount of loss on business transfer
¥464 million ($4,491 thousand)

(2) Fair carrying amounts and breakdown of main items of assets related to the business transferred

	Millions of Yen	Thousands of U.S. Dollars
	2020	2020
Land	¥ 101	$ 981
Buildings	380	3,675
Manufacturing equipment	307	2,969
Inventories	776	7,499
Total	¥ 1,565	$ 15,126

(3) Accounting treatment
Loss on the Transaction is recognized as Business structure reform expenses on the statements of income.

3. Reportable segment that included the divested business

Pharmaceuticals

Independent Auditor's Report

Deloitte.

Deloitte Touche Tohmatsu LLC
Marunouchi Nijubashi Building
3-2-3 Marunouchi, Chiyoda-ku
Tokyo 100-8360
Japan

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the nonconsolidated financial statements of Torii Pharmaceutical Co., Ltd. (the "Company"), which comprise the nonconsolidated balance sheet as of December 31, 2020, and the nonconsolidated statement of income, nonconsolidated statement of changes in equity and nonconsolidated statement of cash flows for the year then ended, and notes to the nonconsolidated financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

In our opinion, the accompanying nonconsolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020, and its financial performance for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

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

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 Nonconsolidated 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.

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

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

In preparing the nonconsolidated 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 Nonconsolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the nonconsolidated 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 nonconsolidated 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 nonconsolidated 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 nonconsolidated 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 nonconsolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as the overall presentation, structure and content of the nonconsolidated financial statements, including the disclosures, and whether the nonconsolidated 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.

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.

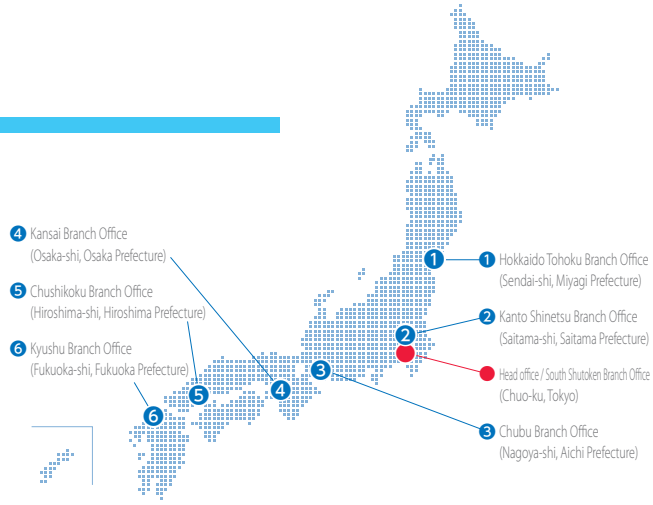
Deloitte Touche Tohmatsu LLC

March 16, 2021

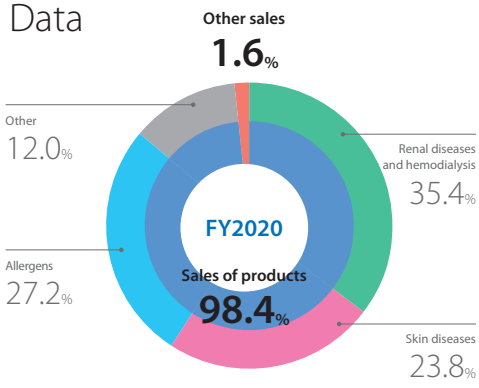
Corporate Information

Corporate Overview

Corporate name	Torii Pharmaceutical Co., Ltd.
Established	November 1, 1921
Paid-in capital	¥5,190 million
Business line	Manufacturing and marketing of pharmaceutical products
Number of employees	568 (as of December 31, 2020)
Stock exchange listing	The first section of the Tokyo Stock Exchange (Securities code: 4551)
Head office	4-1, Nihonbashi-Honcho 3-chome, Chuo-ku, Tokyo 103-8439, Japan Telephone: +81-3-3231-6811



Corporate Data



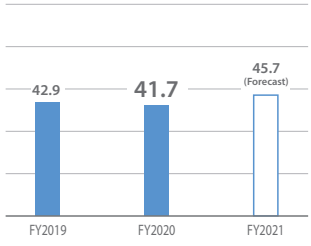
Net sales by disease area

(Millions of Yen)

	FY2019	FY2020
Net sales	42,998	**41,700**
Sales of products	40,641	**41,053**
Renal diseases and hemodialysis	18,005	**14,773**
Skin diseases	9,049	**9,918**
Allergens	7,627	**11,332**
Other	5,959	**5,029**
Other sales	2,356	**647**

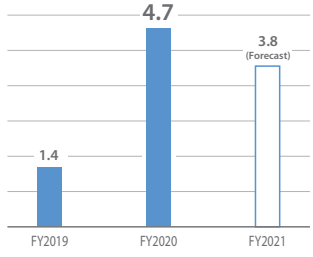
Net Sales

(Billions of Yen)



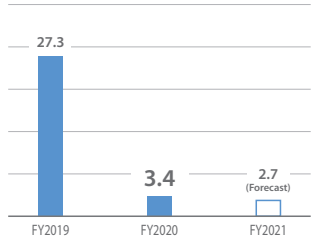
Operating Income

(Billions of Yen)



Net Income

(Billions of Yen)



Mainstay Products (as of December 31, 2020)

Riona Tablets Therapeutic agent for hyperphosphatemia

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

ANTEBATE Topical corticosteroid

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

REMITCH Oral antipruritic agent

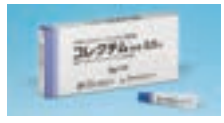
REMITCH is a treatment for pruritus in patients on dialysis and with chronic liver disease for which conventional antipruritic medications are ineffective.

CEDARCURE Japanese Cedar Pollen Sublingual Tablets

Japanese cedar pollinosis (allergen immunotherapy)

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

CORECTIM® Ointment Topical Janus kinase (JAK) inhibitor



CORECTIM® Ointment is the world's first topical JAK inhibitor for treatment of atopic dermatitis that suppresses the overactivation of immune responses by inhibiting the action of JAKs, which play key roles in immune activation signaling in cells.

MITICURE House Dust Mite Sublingual Tablets

House dust mite allergy (allergen immunotherapy)

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

TORII PHARMACEUTICAL CO., LTD.

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