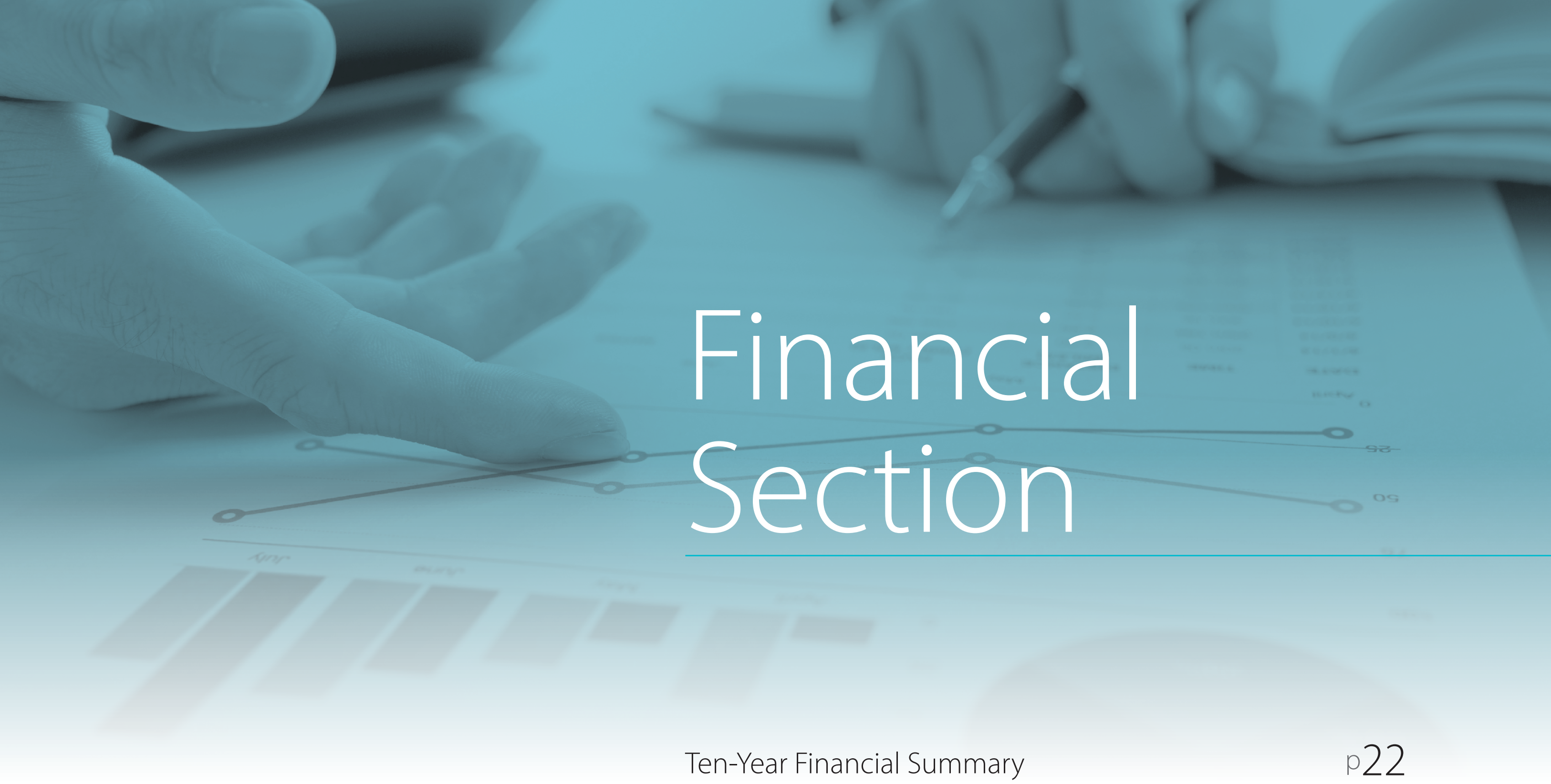


Financial Section

Ten-Year Financial Summary

	Millions of Yen			
	March 31		December 31	
	2013	2014	2014*2	2015
For the Year				
Net sales	¥52,294	¥58,109	¥43,504	¥62,378
Gross profit	29,452	31,842	22,917	31,564
Operating income	2,794	4,987	4,032	4,919
Income before income taxes	2,929	5,133	3,781	5,258
Net income	1,849	3,352	2,419	3,527
Capital expenditures	1,374	1,202	1,514	2,207
Research and development costs	7,824	6,662	3,400	5,237
Net cash provided by (used in) operating activities	151	(201)	(609)	4,940
Net cash provided by (used in) investing activities	874	17,706	499	957
Net cash used in financing activities	(1,181)	(1,319)	(1,410)	(1,582)
At Fiscal Year-End				
Total assets	¥91,350	¥93,137	¥92,550	¥98,868
Total equity	76,700	79,018	80,225	82,826
Number of shares issued (Thousands)	28,800	28,800	28,800	28,800
Number of employees	969	1,009	1,047	1,058

	Yen			
Per Share Data				
Total equity	¥2,710.2	¥2,792.1	¥2,834.8	¥2,926.8
Net income	65.4	118.5	85.5	124.7
Cash dividends	40	40	40	48

	%			
Key Ratios				
Operating income ratio	5.3	8.6	9.3	7.9
Return on equity (ROE)	2.4	4.3	3.0	4.3
Return on assets (ROA)	2.1	3.6	2.6	3.7
Shareholders' equity ratio	84.0	84.8	86.7	83.8
Dividend payout ratio	61.2	33.8	46.8	38.5

*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 ¥115.02=US$1.00, the approximate exchange rate prevailing on December 31, 2021.

*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]
					December 31	December 31
2016	2017	2018	2019	2020	2021	2021
¥60,206	¥64,135	¥62,551	¥42,998	¥41,700	**¥46,987**	**$362,548**
29,919	32,841	30,707	22,295	21,737	**24,338**	**188,991**
3,819	6,281	4,951	1,430	4,738	**4,656**	**41,193**
4,056	6,373	3,030	37,700	4,225	**4,767**	**36,734**
2,839	4,718	1,164	27,367	3,495	**3,374**	**30,387**
891	931	811	330	392	**822**	**3,409**
4,654	4,608	4,138	2,956	596	**832**	**5,186**
3,402	6,349	8,259	42,499	(3,443)	**(156)**	**(29,936)**
1,361	(7,593)	(27,068)	2,099	7,625	**(1,498)**	**66,298**
(2,289)	(1,546)	(1,432)	(1,433)	(1,425)	**(1,546)**	**(12,394)**

¥98,525	¥104,741	¥103,253	¥139,943	¥126,026	**¥130,810**	**$1,095,694**
83,556	87,119	87,092	113,125	115,091	**117,015**	**1,000,620**
28,800	28,800	28,800	28,800	28,800	**28,800**	**28,800**
1,059	1,074	1,049	660	568	**560**	**568**

Yen						U.S. Dollars*[1]
¥2,978.8	¥3,105.7	¥3,103.3	¥4,029.3	¥4,097.5	**¥4,165.4**	**$35.62**
100.4	168.2	41.5	975.0	124.5	**120.1**	**1.08**
48	48	48	48	48	**48**	**0.42**

%					
6.3	9.8	7.9	3.3	11.4	**9.9**
3.4	5.5	1.3	27.3	3.1	**2.9**
2.9	4.6	1.1	22.5	2.6	**2.6**
84.8	83.2	84.3	80.8	91.3	**89.5**
47.8	28.5	115.6	4.9	38.6	**40.0**

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

Financial Results for the Year Ended December 31, 2021

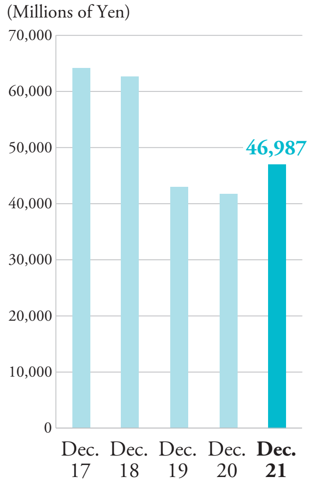
With regard to the business environment in which the pharmaceutical industry operated, business risks mounted because of the increasing difficulty of new drug development, a sharp rise in R&D costs, intensifying international competition, and other factors. In the Japanese market in particular, the industry faced severe conditions due to increasing requests to curb healthcare expenditures such as through the drastic reform of the NHI drug pricing system (including annual 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.

Net Sales

Despite the impact of NHI price revisions and a decrease due to the completion of production of items outsourced in line with the transfer of the Sakura Plant in July 2020, net sales increased by ¥5,287 million (12.7%) year on year to ¥46,987 million owing to such factors as increased sales volume in the allergens area and the launch of CORECTIM® Ointment (topical JAK inhibitor) in July 2020.

Net Sales

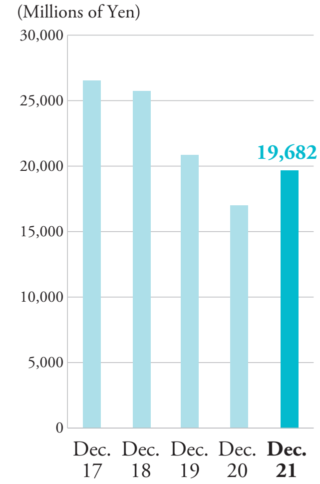


Sales of Mainstay Products

(Millions of Yen)

	Dec. 2020	Dec. 2021	Change
CEDARCURE	¥6,139	¥8,325	¥2,186 35.6%
MITICURE	4,776	7,386	2,610 54.6%
Riona	6,507	6,863	355 5.5%
REMITCH	6,365	5,058	(1,306) (20.5)%
ANTEBATE	5,241	4,825	(415) (7.9)%

Selling, General and Administrative Expenses



Sales of mainstay products in franchise areas were as follows:

- In the renal disease and hemodialysis area, sales of Riona Tablets (a therapeutic agent for hyperphosphatemia and a therapeutic agent for iron deficiency anemia) increased by ¥355 million (5.5%) to ¥6,863 million. Sales of REMITCH (an oral antipruritic agent for hemodialysis patients) decreased by ¥1,306 million (20.5%) to ¥5.058 million, affected by generic products in addition to the impact of NHI drug price revisions.
- In the skin disease area, sales of ANTEBATE (a topical corticosteroid) decreased by ¥415 million (7.9%) to ¥4,825 million, owing to the impact of NHI drug price revisions. Sales of CORECTIM Ointment increased by ¥2,733 million (211.7%) to ¥4,025 million.
- In the allergens area, sales of CEDARCURE Japanese Cedar Pollen Sublingual Tablets (allergen immunotherapy) increased by ¥2,186 million (35.6%) to ¥8,325 million, due to the further spread of allergen immunotherapy. Sales of MITICURE House Dust Mite Sublingual Tablets (allergen immunotherapy) increased by ¥2,610 million (54.6%) to ¥7,386 million.

Cost of Sales

Cost of sales increased by ¥2,687 million (13.5%) year on year to ¥22,649 million.

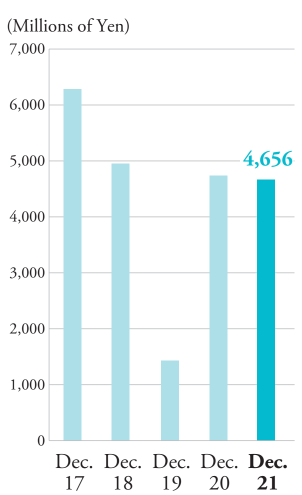
Selling, General and Administrative (SG&A) Expenses

Selling, general and administrative expenses increased by ¥2,682 million (15.8%) to ¥19,682 million, due mainly to increases in expenses associated with net sales and selling expenses in line with new product launches etc. as well as one-time expenses such as for computer upgrading.

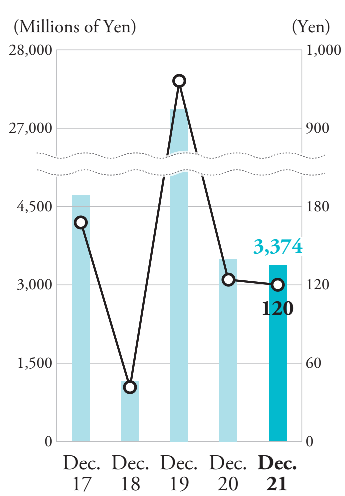
Operating Income and Net Income

As a result of the above, operating income was ¥4,656 million, a decrease of ¥81 million (1.7%) year on year. Net income was ¥3,374 million, a decrease of ¥120 million (3.5%).

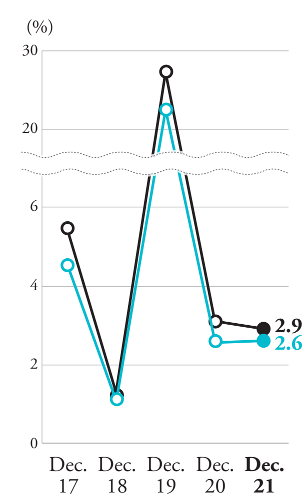
Operating Income



Net Income
Net Income per Share



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



Financial Position at December 31, 2021

Assets, Liabilities and Equity

Total assets increased by ¥4,784 million (3.8%) from the end of the previous fiscal year to ¥130,810 million as of December 31, 2021. Current assets increased by ¥550 million (0.6%) to ¥97,292 million, mainly due to a ¥1,353 million increase in trade accounts receivable, a ¥1,256 million increase in finished products and merchandise, and a ¥354 million increase in raw materials and supplies, despite a ¥3,202 million decrease in cash and cash equivalents. Net property, plant and equipment increased by ¥300 million (16.9%) from the end of the previous fiscal year to ¥2,078 million mainly due to a ¥389 million increase in leased assets. Investment and other assets increased by ¥3,933 million (14.3%) from the end of the previous fiscal year to ¥31,439 million mainly due to a ¥2,155 million increase in long-term prepaid expenses and a ¥1,498 million increase in investment securities.

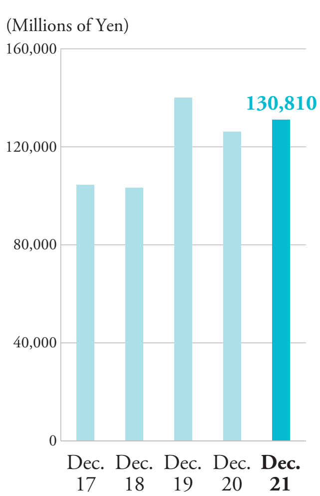
Total liabilities increased by ¥2,859 million (26.2%) to ¥13,795 million. Reasons for this change included a ¥1,495 million increase in income taxes payable, a ¥649 million increase in payables, and a ¥330 million increase in consumption tax payable included in Other Current Liabilities in Current Liabilities, and a ¥2,070 million decrease in payables.

Total equity rose by ¥1,924 million (1.7%) to ¥117,015 million. Contributing factors included surplus dividends of ¥1,348 million and net income of ¥3,374 million.

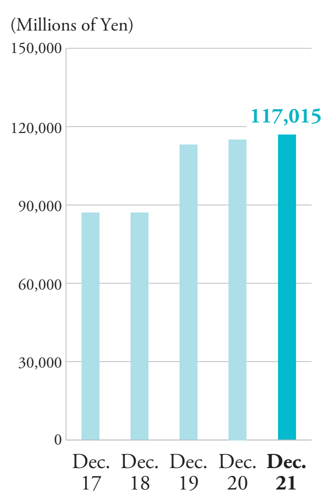
Cash Flows for the Year Ended December 31, 2021

At ¥58,374 million, cash and cash equivalents as of December 31, 2021 were ¥3,201 million (5.2%) lower than at the end of the previous fiscal year.

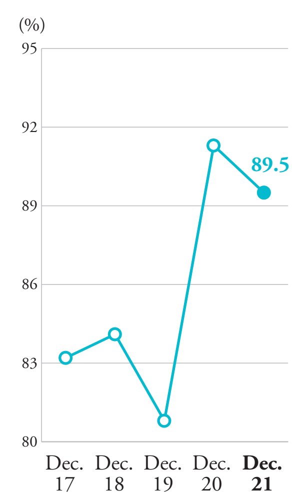
Total Assets



Total Equity



Shareholders' Equity Ratio



Cash Flows from Operating Activities

Net cash used in operating activities amounted to ¥156 million. (Net cash used in operating activities for the previous year totaled ¥3,443 million.) This result reflected an increase of ¥3,052 million in trade notes and accounts receivable, an increase of ¥2,155 million in long-term prepaid expenses, and an increase of ¥1,610 million in inventories, despite income before income taxes of ¥4,767 million and depreciation and amortization of ¥413 million.

Cash Flows from Investing Activities

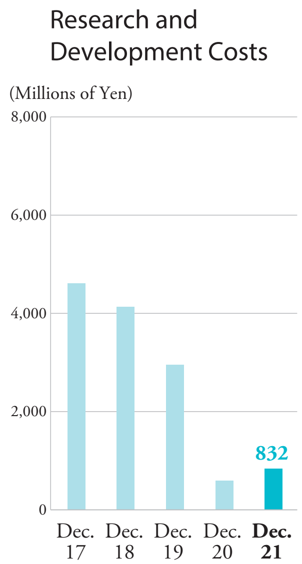
Net cash used in investing activities amounted to ¥1,498 million. (Net cash provided by investing activities for the previous year totaled ¥7,625 million.) Major items included inflows of ¥18,420 million in proceeds from sale and redemption of marketable securities and ¥5,360 million in proceeds from sale and redemption of investment securities. These inflows were offset by outflows of ¥14,900 million in purchases of marketable securities and ¥9,376 million in purchases of investment securities.

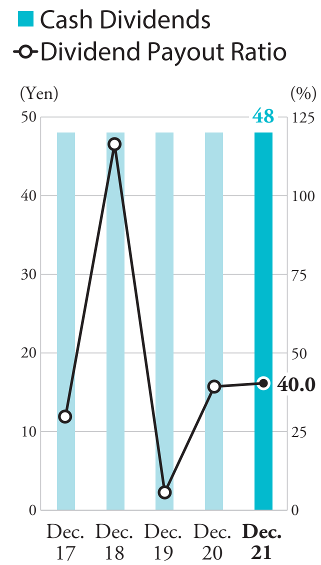
Cash Flows from Financing Activities

Net cash used in financing activities amounted to ¥1,546 million, consisting mainly of ¥1,348 million in dividends paid. (Net cash used in financing activities for the previous year totaled ¥1,425 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.





Balance Sheet

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	December 31, 2021	December 31, 2020	**December 31, 2021**
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents (Notes 12 and 13)	**¥ 58,374**	¥ 61,576	**$ 507,518**
Marketable securities (Notes 4 and 12)	**7,198**	8,528	**62,580**
Receivables (Note 12):			
Trade notes		7	
Trade accounts	**20,302**	18,949	**176,509**
Parent	**1,754**	119	**15,257**
Other	**283**	212	**2,468**
(Allowance for doubtful Accounts)		(2)	
Inventories (Note 5)	**8,763**	7,152	**76,191**
Prepaid expenses and other current assets	**615**	198	**5,349**
Total current assets	**97,292**	96,742	**845,876**
PROPERTY, PLANT AND EQUIPMENT:			
Land	**344**	344	**2,994**
Buildings and structures	**3,310**	3,343	**28,778**
Machinery and equipment	**134**	134	**1,168**
Furniture and fixtures	**741**	718	**6,445**
Lease asset (Note 11)	**1,892**	1,502	**16,452**
Construction in progress			**8**
Total	**6,423**	6,043	**55,848**
Accumulated depreciation	**(4,345)**	(4,265)	**(37,776)**
Net property, plant and equipment	**2,078**	1,777	**18,071**
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 4 and 12)	**22,309**	20,810	**193,957**
Software	**408**	303	**3,548**
Long-term prepaid expenses	**7,312**	5,157	**63,579**
Deferred tax assets (Note 9)	**641**	587	**5,579**
Other long-term assets	**767**	647	**6,675**
Total investments and other assets	**31,439**	27,506	**273,340**
Total	**¥130,810**	¥126,026	**$1,137,288**

See notes to financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	December 31, 2021	December 31, 2020	December 31, 2021
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Payable (Note 12):			
Trade accounts	¥ 4,084	¥ 3,929	$ 35,510
Parent (Note 13)	1,761	1,274	15,313
Other	3,275	3,026	28,475
Current portion of long-term lease obligations (Note 11)	211	85	1,837
Income taxes payable (Note 12)	1,536	41	13,362
Accrued expenses	405	285	3,526
Accrued employees' bonuses	394	391	3,432
Accrued bonuses to directors and Audit & Supervisory Board members	13	13	118
Asset retirement obligations	14	42	122
Other current liabilities	674	370	5,867
Total current liabilities	12,372	9,461	107,565
LONG-TERM LIABILITIES:			
Liability for retirement benefits (Note 6)	837	948	7,280
Long-term lease obligations (Note 11)	275	209	2,393
Asset retirement obligations	53	59	468
Other long-term liabilities	256	256	2,229
Total long-term liabilities	1,423	1,473	12,372
EQUITY (Notes 7):			
Common stock—authorized, 54,000,000 shares; issued,			
28,800,000 shares in December 2021 and 2020	5,190	5,190	45,122
Capital surplus:	6,445	6,437	56,034
Additional paid-in capital	6,416	6,416	55,781
Other capital surplus	29	21	253
Stock acquisition rights (Note 8)		10	
Retained earnings:			
Legal reserve	1,297	1,297	11,280
Unappropriated	104,952	102,926	912,474
Unrealized gain on available-for-sale securities	523	636	4,554
Treasury stock—at cost, 707,605 shares in December 2021 and 714,558 shares in December 2020	(1,393)	(1,407)	(12,117)
Total equity	117,015	115,091	1,017,349
Total	¥ 130,810	¥ 126,026	$ 1,137,288

Statement of Income

Torii Pharmaceutical Co., Ltd.
Year ended December 31, 2021

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Year Ended December 31, 2021	Year Ended December 31, 2020	**Year Ended December 31, 2021**
NET SALES	**¥ 46,987**	¥ 41,700	**$ 408,520**
COST OF SALES	**22,649**	19,962	**196,919**
Gross profit	**24,338**	21,737	**211,600**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 10)	**19,682**	16,999	**171,118**
Operating income	**4,656**	4,738	**40,481**
OTHER INCOME (EXPENSES):			
Interest and dividend income	**281**	275	**2,448**
Loss on disposal of property, plant and equipment	**(37)**	(9)	**(327)**
Business structure reform expenses (Note 14)	**(12)**	(736)	**(105)**
Other—net	**(130)**	(41)	**(1,135)**
Other income (expenses) —net	**111**	(512)	**966**
INCOME BEFORE INCOME TAXES	**4,767**	4,225	**41,448**
INCOME TAXES (Note 9):			
Current	**1,396**	49	**12,143**
Deferred	**(3)**	680	**(33)**
Total income taxes	**1,392**	729	**12,109**
NET INCOME	**¥ 3,374**	¥ 3,495	**$ 29,338**
	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Note 2.q):			
Basic net income	**¥ 120.1**	¥ 124.5	**$ 1.04**
Diluted net income	**120.1**	124.5	**1.04**
Cash dividends applicable to the period	**48.0**	48.0	**0.42**

See notes to financial statements.

Statement of Changes in Equity

		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, 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**
Net income							3,374			3,374
Cash dividends paid, ¥48.0 per share							(1,348)			(1,348)
Repurchase of treasury stock	(48)								(0)	(0)
Disposal of treasury stock	7,001			7					13	20
Net change in the year					(10)			(112)		(122)
BALANCE, DECEMBER 31, 2021	**28,092,395**	**¥ 5,190**	**¥ 6,416**	**¥ 29**		**¥ 1,297**	**¥ 104,952**	**¥ 523**	**¥ (1,393)**	**¥ 117,015**

	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, 2020	**$ 45,122**	**$ 55,781**	**$ 190**	**$ 87**	**$ 11,280**	**$ 894,858**	**$ 5,535**	**$ (12,236)**	**$ 1,000,620**
Net income						29,338			29,338
Cash dividends paid, $0.41 per share						(11,722)			(11,722)
Repurchase of treasury stock								(1)	(1)
Disposal of treasury stock			62					119	182
Net change in the year				(87)			(981)		(1,068)
BALANCE, DECEMBER 31, 2021	**$ 45,122**	**$ 55,781**	**$ 253**		**$ 11,280**	**$ 912,474**	**$ 4,554**	**$ (12,117)**	**$ 1,017,349**

See notes to financial statements.

Statement of Cash Flows

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Year Ended December 31, 2021	Year Ended December 31, 2020	**Year Ended December 31, 2021**
OPERATING ACTIVITIES:			
Income before income taxes	**¥ 4,767**	¥ 4,225	**$ 41,448**
Adjustments for:			
Income taxes paid	**21**	(9,410)	**188**
Depreciation and amortization	**413**	582	**3,592**
Business structure reform expenses	**12**	736	**105**
Payments for Business structure reform expenses	**(11)**	(501)	**(98)**
Changes in assets and liabilities:			
Increase (decrease) in accrued consumption taxes	**330**	(3,477)	**2,874**
Decrease (increase) in trade notes and accounts receivable	**(1,345)**	6,155	**(11,700)**
Decrease (increase) in inventories	**(1,610)**	360	**(14,005)**
Increase (decrease) in trade accounts payable	**577**	(629)	**5,021**
Other—net	**(3,310)**	(1,484)	**(28,784)**
Total adjustments	**(4,923)**	(7,668)	**(42,806)**
Net cash used in operating activities	**(156)**	(3,443)	**(1,358)**
INVESTING ACTIVITIES:			
Purchases of marketable securities	**(14,900)**	(29,007)	**(129,547)**
Proceeds from sale and redemption of marketable securities	**18,420**	44,900	**160,146**
Purchases of property, plant and equipment	**(150)**	(293)	**(1,312)**
Proceeds from sale of property, plant and equipment		0	
Purchases of investment securities	**(9,376)**	(9,837)	**(81,517)**
Proceeds from sale and redemption of investment securities	**5,360**	882	**46,602**
Payments for investments in capital	**(200)**		**(1,738)**
Proceeds from transfer of business		1,100	
Other—net	**(651)**	(118)	**(5,661)**
Net cash (used in) provided by investing activities	**(1,498)**	7,625	**(13,028)**
FINANCING ACTIVITIES:			
Repurchase of treasury stock	**0**	0	**(1)**
Proceeds from exercise of stock option	**(198)**	8	**(1,722)**
Dividends paid		(1,347)	
Repayments of lease obligations	**(1,348)**	(85)	**(11,722)**
Net cash used in financing activities	**(1,546)**	(1,425)	**(13,445)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(3,201)**	2,756	**(27,832)**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**61,576**	58,819	**535,350**
CASH AND CASH EQUIVALENTS, END OF YEAR	**¥ 58,374**	¥ 61,576	**$ 507,518**

See notes to financial statements.

Notes to Financial Statements

1 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

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

In preparing these financial statements, certain reclassifications and rearrangements have been made to the financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2020 financial statements to conform to the classifications used in 2021.

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 ¥115.02 to $1, the approximate rate of exchange at December 31, 2021. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. No consolidation—The Company has no subsidiaries as of December 31, 2021.

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

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

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

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

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

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

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

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

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

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

i. 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 28,090,290 shares and 28,079,831 shares for the years ended December 31, 2021 and 2020, 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, 2021.

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—"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 26, 2021)

(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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING ESTIMATE

Evaluation of long-term prepaid expenses

(1) Carrying amounts

	Millions of Yen	Thousands of U.S. Dollars
	2021	**2021**
Long-term prepaid expenses	**¥ 7,312**	**$ 63,571**

(2) Information on the significant accounting estimate

We have recorded long-term prepaid expenses related to marketing rights that are deemed to be highly recoverable due to future earnings from expenditures related to in-licensing contracts, evenly expensed over the period of effect, and account for the large portion of long-term prepaid expenses of ¥7,312 million as of December 31, 2021.

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

4 MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of December 31, 2021 and 2020, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	December 31, 2021	December 31, 2020	December 31, 2021
Current:			
Government and corporate bonds	¥ 3,197	¥ 5,528	$ 27,803
Trust fund investments and other	4,000		34,777
Total	¥ 7,198	¥ 5,528	$ 62,580
Noncurrent:			
Equity securities	¥ 1,220	¥ 1,265	$ 10,607
Government and corporate bonds	17,683	12,940	153,746
Trust fund investments and other	3,405	6,603	29,604
Total	¥ 22,309	¥ 20,810	$ 193,957

The costs and aggregate fair values of marketable and investment securities at December 31, 2021 and 2020, were as follows:

	Millions of Yen			
December 31, 2021	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	¥ 357	¥ 752		¥ 1,110
Debt securities	20,883	27	¥ 29	20,881
Other	7,405			7,405
December 31, 2020				
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, 2021	Thousands of U.S. Dollars Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	$ 3,109	$ 6,541		$ 9,650
Debt securities	181,566	243	$ 260	181,549
Other	64,380			64,381

Available-for-sale securities whose fair value was not readily determinable as of December 31, 2021 and 2020, were as follows:

	Carrying Amount Millions of Yen		Thousands of U.S. Dollars
	December 31, 2021	December 31, 2020	December 31, 2021
Available-for-sale—Unlisted equity securities	¥ 110	¥ 110	$ 956
Investment in limited partnership	¥ 886	¥ 954	$ 7,710
Total	¥ 996	¥ 1,064	$ 8,667

5 INVENTORIES

Inventories at December 31, 2021 and 2020, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	December 31, 2021	December 31, 2020	December 31, 2021
Finished products and merchandise	¥ 5,542	¥ 4,285	$ 48,185
Raw materials and supplies	3,221	2,866	28,006
Total	¥ 8,763	¥ 7,152	$ 76,191

6 RETIREMENT AND PENSION PLANS

Employees whose service with the Company is terminated are, under most circumstances, entitled to retirement and pension benefits determined by reference to basic rates of pay at the time of termination, length of service and conditions under which the termination occurs. If the termination is involuntary, caused by retirement at the mandatory retirement age or caused by death, the employee is entitled to greater payments than in the case of voluntary termination. Additional retirement benefits which may be paid to employees upon retirement have not been included in the actuarial calculation of the projected benefit obligation. The net liabilities for retirement benefits at December 31, 2021 and 2020, consisted of the following:

(1) The changes in defined benefit obligation for the years ended December 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	Year Ended December 31, 2021	Year Ended December 31, 2020	Year Ended December 31, 2021
Balance at beginning of period	¥ 6,226	¥ 6,760	$ 54,130
Current service cost	302	325	2,629
Interest cost	37	38	324
Actuarial losses (gains)	(36)	104	(320)
Benefits paid	(243)	(331)	(2,120)
Decrease due to transfer of business		(671)	
Balance at end of period	¥ 6,285	¥ 6,226	$ 54,643

(2) The changes in plan assets for the years ended December 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	Year Ended December 31, 2021	Year Ended December 31, 2020	Year Ended December 31, 2021
Balance at beginning of period	¥ 5,741	¥ 6,082	$ 49,921
Expected return on plan assets	114	115	998
Actuarial gains	184	176	1,604
Contributions from the employer	217	224	1,891
Benefits paid	(229)	(286)	(1,998)
Decrease due to transfer of business		(571)	
Balance at end of period	¥ 6,029	¥ 5,741	$ 52,417

(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, 2021	December 31, 2020	December 31, 2021
Funded defined benefit obligation	¥ 5,602	¥ 5,545	$ 48,712
Plan assets	(6,029)	(5,741)	(52,417)
	(426)	(196)	(3,704)
Unfunded defined benefit obligation	682	680	5,931
Unrecognized actuarial losses	581	464	5,053
Net liability arising from defined benefit obligation	¥ 837	¥ 948	$ 7,280

	Millions of Yen		Thousands of U.S. Dollars
	December 31, 2021	December 31, 2020	December 31, 2021
Liability for retirement benefits	¥ 837	¥ 948	$ 7,280
Net liability arising from defined benefit obligation	¥ 837	¥ 948	$ 7,280

(4) The components of net periodic benefit costs for the years ended December 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	Year Ended December 31, 2021	Year Ended December 31, 2020	**Year Ended December 31, 2021**
Service cost	**¥ 302**	¥ 325	**$ 2,629**
Interest cost	**37**	38	**324**
Expected return on plan assets	**(114)**	(115)	**(998)**
Recognized actuarial (gains) losses	**(104)**	(71)	**(908)**
Net periodic benefit costs	**¥ 120**	¥ 177	**$ 1,047**

(5) Plan assets

a. Components of plan assets

Plan assets consisted of the following:

	December 31, 2021	December 31, 2020
Debt investments	**47%**	42%
Equity investments	**25**	28
General account of life insurance companies	**8**	9
Others	**20**	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, 2021 and 2020, were set forth as follows:

	Year Ended December 31, 2021	Year Ended December 31, 2020
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 ¥54 million ($475 thousand) and ¥59 million are disclosed in cost of sales and selling, general and administrative expenses for the years ended December 31, 2021 and 2020 respectively, for which plan assets could not be allocated to each participating employer.

The funded status of the multiemployer pension plan at December 31, 2021 (based on information available as of March 31, 2021) and December 31, 2020 (based on information available as of March 31, 2020) to which contributions were recorded as net periodic retirement benefit costs, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	March 31 2021	2020	March 31, 2021
Fair value of plan assets	¥ 166,870	¥ 151,134	$ 1,450,799
Sum of actuarial liabilities of pension plan and minimum actuarial reserve	150,293	150,361	1,306,675
Difference	¥ 16,577	¥ 773	$ 144

The Company's contribution percentage for the multiemployer pension plan at December 31, 2021 and 2020, was as follows:

	December 31, 2021	December 31, 2020
Contribution percentage	**0.8%**	0.8%

Notes (March 31, 2021):
1. The difference mainly resulted from prior service cost of ¥(8,572) million ($(74,526) thousand) , surplus brought forward of ¥13,336 million ($115,945 thousand)and special reserve fund of ¥11,813 million ($102,703 thousand).
2. Prior service cost is the present value of the amount of special contributions and the method of amortization is principal and interest equal repayment. The ratio of employer contribution is 0.7%. The remaining term of amortization is 3 years and 5 months as of March 31, 2021.

Notes (March 31, 2020):
1. The difference mainly resulted from prior service cost of ¥(11,040) million, deficiency brought forward of ¥(7,003) million ($(67,663) thousand) and special reserve fund of ¥18,816 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 4 years and 5 months as of March 31, 2020.

7 EQUITY

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

a. Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. Additionally, for companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the Company has prescribed so in its articles of incorporation. However, the Company does not meet all the above criteria.

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

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

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

c. Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by a specific formula.

Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

8 STOCK OPTIONS

The stock options outstanding as of December 31, 2021, are as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2016 Stock Option	6 Directors 6 Executive Vice Presidents	28,000 shares	2016.4.8	¥ 2,736 ($ 23)	From April 9, 2018 to April 8, 2021

The stock option activity is as follows:

	2016 Stock Option (Shares)
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	
Canceled	
December 31, 2020—Outstanding	26,400
Year Ended December 31, 2021	
Non-vested	
December 31, 2020—Outstanding	
Granted	
Canceled	
Vested	
December 31, 2021—Outstanding	
Vested	
December 31, 2020—Outstanding	23,400
Vested	
Exercised	
Canceled	23,400
December 31, 2021—Outstanding	
Exercise price	¥ 2,736 ($ 23)
Average stock price at exercise	
Fair value price at grant date	¥ 427.70 ($ 3.72)

9 INCOME TAXES

The Company is subject to Japanese national and local income taxes, which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 30.6% and 30.6% for the years ended December 31, 2021 and 2020, respectively.

The tax effects of significant temporary differences, which resulted in deferred tax assets and liabilities at December 31, 2021 and 2020, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	December 31, 2021	December 31, 2020	**December 31, 2021**
Deferred tax assets:			
Accrued enterprise taxes	**¥ 94**	¥ 18	**$ 817**
Liabilities for retirement benefits	**256**	290	**2,227**
Accrued expenses	**47**	41	**417**
Prepayment of research and development costs	**45**	48	**396**
Accrued bonuses to employees	**120**	119	**1,050**
Loss on valuation of inventories	**15**	42	**137**
Other	**311**	351	**2,711**
Less valuation allowance	**(29)**	(43)	**(258)**
Total	**862**	868	**7,499**
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	**226**	276	**1,971**
Other	**(5)**	3	**(50)**
Total	**220**	280	**1,920**
Net deferred tax assets	**¥ 641**	¥ 587	**$ 5,579**

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, 2021, with the corresponding figures for 2020, is as follows:

	Year Ended December 31, 2021	Year Ended December 31, 2020
Normal effective statutory tax rate	**30.6%**	30.6%
Expenses not deductible for income tax purposes	**0.2**	0.8
Dividend income deductible for income tax purposes	**(0.0)**	(0.0)
Per capita levy	**0.7**	0.9
Tax credits	**(0.9)**	—
Increase in valuation allowance	**(0.3)**	(15.3)
Other—net	**(1.1)**	0.3
Actual effective tax rate	**29.2%**	17.3%

10 RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥832 million ($7,238 thousand) and ¥596 million for the years ended December 31, 2021 and 2020, respectively.

11 LEASES

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

Total rental expenses including lease payments under finance leases for the years ended December 31, 2021 and 2020, were ¥491 million ($4,277 thousand) and ¥475 million, respectively.

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

	Millions of Yen	Thousands of U.S. Dollars
	2021 Operating Leases	2021 Operating Leases
Due within one year	¥ 29	$ 256
Due after one year	29	254
Total	¥ 58	$ 511

12 FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Policy for Financial Instruments

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

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

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

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

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

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

(a) Fair values of financial instruments

	Millions of Yen		
December 31, 2021	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	**¥ 58,374**	**¥ 58,374**	
Receivables:			
Trade accounts	**20,302**	**20,302**	
Parent	**1,754**	**1,754**	
Marketable and investment securities—Available-for-sale securities	**29,397**	**29,397**	
Total	**¥ 109,828**	**¥ 109,828**	
Payables:			
Trade accounts	**¥ 4,084**	**¥ 4,084**	
Parent	**1,761**	**1,761**	
Other	**3,275**	**3,275**	
Income taxes payable	**1,536**	**1,536**	
Total	**¥ 10,657**	**¥ 10,657**	
December 31, 2020			
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, 2021	Thousands of U.S. Dollars Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	**$ 507,518**	**$ 507,518**	
Receivables:			
Trade accounts	**176,509**	**176,509**	
Parent	**15,257**	**15,257**	
Marketable and investment securities—Available-for-sale securities	**255,582**	**255,582**	
Total	**$ 954,867**	**$ 954,867**	
Payables:			
Trade accounts	**$ 35,510**	**$ 35,510**	
Parent	**15,313**	**15,313**	
Other	**28,475**	**28,475**	
Income taxes payable	**13,362**	**13,362**	
Total	**$ 92,661**	**$ 92,661**	

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, 2021	December 31, 2020	**December 31, 2021**
Unlisted shares	**¥ 110**	¥ 110	**$ 956**
Investment in limited partnership	**886**	954	**7,710**
Total	**¥ 996**	¥ 1,064	**$ 8,667**

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, 2021	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	**¥ 58,374**		
Receivables:			
Trade accounts	**20,302**		
Parent	**1,754**		
Marketable and investment securities—Available-for-sale securities with contractual maturities	**7,198**	**¥ 11,067**	**¥ 2,301**
Total	**¥ 87,629**	**¥ 11,067**	**¥ 2,301**

	Millions of Yen		
December 31, 2020	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

	Thousands of U.S. Dollars		
December 31, 2021	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years
Cash and cash equivalents	**$ 507,517**		
Receivables:			
Trade accounts	**176,509**		
Parent	**15,257**		
Marketable and investment securities—Available-for-sale securities with contractual maturities	**62,580**	**$ 96,218**	**$ 20,012**
Total	**$ 761,865**	**$ 96,218**	**$ 20,012**

13 RELATED PARTY TRANSACTIONS

Transactions of the Company with the parent company for the years ended December 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	Year Ended December 31, 2021	Year Ended December 31, 2020	**Year Ended December 31, 2021**
Purchases	**¥ 6,059**	¥ 3,318	**$ 52,684**
Forward exchange contracts	**8,192**	3,267	**71,225**

The balances due to or from the parent company at December 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	December 31, 2021	December 31, 2020	**December 31, 2021**
Deposits included in cash and cash equivalents	**¥ 23,362**	¥ 27,859	**$ 203,114**
Trade accounts payable	**1,708**	1,213	**14,855**

14 BUSINESS STRUCTURE REFORM EXPENSES

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

15 SEGMENT INFORMATION

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

Information relating to business segments is omitted as the Company operated solely in the pharmaceutical business for the years ended December 31, 2021 and 2020.

Sales to major customers were as follows:

	Millions of Yen		Thousands of U.S. Dollars
Name of Customer	**Year Ended December 31, 2021**	Year Ended December 31, 2020	**Year Ended December 31, 2021**
Alfresa Corporation	**¥ 10,678**	¥ 9,398	**$ 92,838**
Mediceo Corporation	**10,467**	9,041	**91,003**
Suzuken Co., Ltd.	**10,101**	8,564	**87,821**
Toho Pharmaceutical Co., Ltd.	**5,257**	4,645	**45,706**

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the financial statements of Torii Pharmaceutical Co., Ltd. (the "Company"), which comprise the balance sheet as of December 31, 2021, and the statement of income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021, and its financial performance and its cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

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

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Initial Acquisition of Marketing Rights	
Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
The Company has recorded long-term prepaid expenses related to marketing rights that are deemed to be highly recoverable due to future earnings from expenditures related to in-licensing contracts, and account for the large portion of long-term prepaid expenses of ¥7,312 million as of December 31, 2021. In March 2021, the Company has entered into a License Agreement with Verrica Pharmaceuticals Inc. in the United States with respect to the exclusive development and commercialization of skin disease treatment drug VP-102 in Japan. The Company has recorded ¥1,211 million in long-term prepaid expenses as marketing rights for related expenditures. For marketing rights related to VP-102 that were newly recorded on the balance sheet during the current fiscal year, the management evaluates the profitability of the pharmaceuticals based on the business plan formulated and the assumption that it is recoverable from future earnings. Significant assumptions used in management's assessment of the profitability are future marketability, drug price, the expected number of the patients and the market share. Management determined these assumptions based on external data. As described above, estimates of significant assumptions, on which assessments of VP-102 profitability are based, depend on forecasting future earnings and involve judgments made by management. Therefore as these management's judgments have a significant impact on the recoverability of initial acquisition marketing rights, we have determined the initial acquisition of marketing rights to be a key audit matter.	Our audit procedures on the recoverability of initial acquisition of marketing rights related to VP-102 included the followings, among others: • We tested the design and operating effectiveness of internal controls over the process to ensure the business plan based on the assessments of VP- 102 profitability is appropriately prepared. • We inspected in-licensing contracts of VP-102 to obtain an understanding of the transactions as well as the rights and obligations of the Company involved in the contracts. • We evaluated the reasonableness of the future marketability, the drug price, the expected number of the patients and the market share, which are significant assumptions in the assessment of VP-102 profitability, by making inquiries of the management about their estimation method and rationale. We also tested the consistency with external data used in the management estimate. • We considered whether an indication of management bias existed when management estimated future revenues from VP-102, by comparing management's projected revenues for other previous in-licensing contracts with actual results.

Determination of Indicators of Impairment of Marketing Rights	
Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
The Company has recorded long-term prepaid expenses related to marketing rights that are deemed to be highly recoverable due to future earnings from expenditures related to in-licensing contracts, and account for the large portion of long-term prepaid expenses of ¥7,312 million as of December 31, 2021. As described in notes to the financial statements "SUMMARY OF SIGNIFICANT ACCOUNTING ESTIMATE," "Evaluation of long-term prepaid expenses," the Company has recorded long-term prepaid expenses related to marketing rights that is expected to generate future revenues, and assessed for indications of impairment for each of the marketing rights for its pharmaceutical products. The Company assessed for impairment indicators by using the earning forecast based on the sales plan developed by the management. If the actual earnings of each pharmaceutical product are continuously negative, or if the future earning forecast based on the sales plan developed by the management will not be achieved, there is a possibility that there will be impairment indications of the marketing rights. If there are impairment indications and the total amount of expected future cash flows before discounts is less than the carrying amount of the marketing rights, an impairment loss is recognized. As described above, the earning forecast based on the sales plan depends on future forecast and involves management judgments. Since these management's judgments have a significant impact on the determination of impairment indications of marketing rights, we have identified the determination of indicators of impairment of marketing rights to be a key audit matter.	Our audit procedures on the determination of indicators of impairment of marketing rights included the following, among others: • We tested the design and operating effectiveness of internal controls over the process to ensure the material for the determination of impairment indication is appropriately prepared and reviewed. • We made inquiries of the management and read the minutes to evaluate that there are no changes that could have a significant impact on the future earning forecast based on the sales plan developed by the management. • We obtained management analysis for the impairment indication testing and evaluated whether the actual earnings of each pharmaceutical products continued to be negative. • We considered whether an indication of management bias existed in management's forecast of the earnings of each pharmaceutical product by comparing the earning forecast based on the sales plan developed by management with actual results.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

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

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

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

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

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

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

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

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

Deloitte Touche Tohmatsu LLC

March 17, 2022