Consolidated Financial Statements and Notes

Consolidated Financial Statements

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Santen Pharmaceutical Co., Ltd. and Its Consolidated Subsidiaries

For the year ended March 31, 2019

		Millions of yen		Thousands of U.S. dollars
	Note	2018	2019	2019
Revenue	6, 7	¥224,942	¥234,026	$2,108,535
Cost of sales	8	(86,378)	(90,764)	(817,769)
Gross profit		138,564	143,262	1,290,766
Selling, general and administrative expenses	8	(68,788)	(71,273)	(642,158)
Research and development expenses	8	(24,398)	(23,759)	(214,061)
Amortization on intangible assets associated with products	16	(6,740)	(6,988)	(62,961)
Other income	9	417	4,028	36,287
Other expenses	10	(364)	(172)	(1,552)
Operating profit		38,691	45,098	406,322
Finance income	11	1,004	901	8,114
Finance expenses	11	(434)	(2,881)	(25,958)
Profit before tax		39,261	43,117	388,477
Income tax expenses	12	(4,000)	(11,174)	(100,679)
Net profit for the year		35,261	31,943	287,798
Other comprehensive income for the year, net of tax				
Items that will not be reclassified subsequently to profit or loss				
Remeasurements of defined benefit plans	13	284	9	79
Net gain or loss on financial assets measured at fair value through other comprehensive income	13	5,867	(3,289)	(29,636)
Items that may be reclassified subsequently to profit or loss				
Foreign currency translation adjustments	13	(686)	794	7,156
Other comprehensive income	13	5,464	(2,486)	(22,402)
Total comprehensive income for the year		40,725	29,456	265,396
Profit attributable to				
Owners of the company		35,247	31,954	287,899
Non-controlling interests		14	(11)	(100)
Net profit for the year		35,261	31,943	287,798
Total comprehensive income attributable to				
Owners of the company		40,648	29,519	265,958
Non-controlling interests		77	(62)	(561)
Total comprehensive income for the year		¥40,725	¥29,456	$265,396

Earnings per share		Yen		U.S. dollars
		2018	2019	2019
Basic earnings per share	14	¥86.73	¥78.67	$0.71
Diluted earnings per share	14	86.42	78.43	0.71

Consolidated Statement of Financial Position

Santen Pharmaceutical Co., Ltd. and Its Consolidated Subsidiaries

As of March 31, 2019

		Millions of yen		Thousands of U.S. dollars
	Note	2018	2019	2019
Assets				
Non-current assets				
Property, plant and equipment	15	¥29,706	¥31,699	$285,605
Intangible assets	16	134,495	131,110	1,181,281
Financial assets	17	35,775	30,044	270,691
Deferred tax assets	12	2,264	1,771	15,958
Other non-current assets		2,855	1,819	16,388
Total non-current assets		205,095	196,444	1,769,924
Current assets				
Inventories	18	30,636	35,235	317,457
Trade and other receivables	19	78,654	84,618	762,394
Other financial assets	17	472	267	2,408
Other current assets		4,322	3,826	34,469
Cash and cash equivalents	26	69,283	70,796	637,863
Total current assets		183,367	194,742	1,754,592
Total assets		388,463	391,186	3,524,516
Equity and liabilities				
Equity				
Equity attributable to owners of the company				
Share capital	20	8,032	8,252	74,345
Capital surplus	20	8,657	8,661	78,031
Treasury shares	20	(11)	(1,131)	(10,193)
Retained earnings	20	249,225	258,659	2,330,471
Other components of equity	20, 21	19,921	16,461	148,307
Total equity attributable to owners of the company		285,823	290,900	2,620,961
Non-controlling interests		1,734	1,672	15,063
Total equity		287,557	292,572	2,636,023
Liabilities				
Non-current liabilities				
Financial liabilities	22	21,244	23,520	211,911
Net defined benefit liabilities	23	1,804	1,992	17,945
Provisions	24	1,367	1,255	11,303
Deferred tax liabilities	12	12,909	9,389	84,597
Other non-current liabilities		1,380	1,795	16,172
Total non-current liabilities		38,704	37,951	341,928
Current liabilities				
Trade and other payables	25	29,743	32,079	289,023
Other financial liabilities	22	14,404	12,116	109,167
Income tax payable		7,656	7,185	64,739
Provisions	24	1,508	717	6,457
Other current liabilities		8,890	8,566	77,180
Total current liabilities		62,201	60,663	546,565
Total liabilities		100,905	98,614	888,493
Total equity and liabilities		¥388,463	¥391,186	$3,524,516

Consolidated Statement of Changes in Equity

Santen Pharmaceutical Co., Ltd. and Its Consolidated Subsidiaries

For the year ended March 31, 2018

Millions of yen

						Other components of equity	
	Note	Share capital	Capital surplus	Treasury shares	Retained earnings	Remeasurements of defined benefit plans	Net gain or loss on financial assets measured at fair value through other comprehensive income
Balance at April 1, 2017		¥7,792	¥8,417	¥(10)	¥223,283	¥—	¥9,470
Comprehensive income							
Net profit for the year					35,247		
Other comprehensive income	13					284	5,867
Total comprehensive income for the year		—	—	—	35,247	284	5,867
Transactions with owners							
Issuance of new shares	20	240	240				
Acquisition of treasury shares	20			(1)			
Dividends	20				(10,563)		
Changes for equity of subsidiary with non-controlling interests							
Share-based payments	20, 21						
Other					1,257	(284)	(973)
Total transactions with owners		240	240	(1)	(9,306)	(284)	(973)
Balance at March 31, 2018		¥8,032	¥8,657	¥(11)	¥249,225	¥—	¥14,364

Millions of yen

		Other components of equity					
	Note	Foreign currency translation adjustments	Subscription rights to shares	Total	Total equity attributable to owners of the company	Non-controlling interests	Total equity
Balance at April 1, 2017		¥5,332	¥825	¥15,628	¥255,110	¥819	¥255,929
Comprehensive income							
Net profit for the year				—	35,247	14	35,261
Other comprehensive income	13	(749)		5,401	5,401	63	5,464
Total comprehensive income for the year		(749)	—	5,401	40,648	77	40,725
Transactions with owners							
Issuance of new shares	20		(68)	(68)	412		412
Acquisition of treasury shares	20			—	(1)		(1)
Dividends	20			—	(10,563)		(10,563)
Changes for equity of subsidiary with non-controlling interests				—	—	838	838
Share-based payments	20, 21		218	218	218		218
Other				(1,257)	—		—
Total transactions with owners		—	150	(1,107)	(9,934)	838	(9,096)
Balance at March 31, 2018		¥4,583	¥975	¥19,921	¥285,823	¥1,734	¥287,557

Santen Pharmaceutical Co., Ltd. and Its Consolidated Subsidiaries
For the year ended March 31, 2019

Millions of yen

	Note	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity: Remeasurements of defined benefit plans	Other components of equity: Net gain or loss on financial assets measured at fair value through other comprehensive income
Balance at April 1, 2018		¥8,032	¥8,657	¥(11)	¥249,225	¥—	¥14,364
Comprehensive income							
Net profit for the year					31,954		
Other comprehensive income	13					9	(3,289)
Total comprehensive income for the year		—	—	—	31,954	9	(3,289)
Transactions with owners							
Issuance of new shares	20	152	152				
Acquisition of treasury shares	20		(148)	(13,911)			
Cancellation of treasury shares	20		(12,791)	12,791			
Transfer to retained earnings from capital surplus			12,791		(12,791)		
Dividends	20				(10,581)		
Share-based payments	20, 21	67	(1)				
Other					853	(9)	(844)
Total transactions with owners		220	4	(1,120)	(22,519)	(9)	(844)
Balance at March 31, 2019		¥8,252	¥8,661	¥(1,131)	¥258,659	¥—	¥10,230

Millions of yen

	Note	Other components of equity: Foreign currency translation adjustments	Other components of equity: Subscription rights to shares	Other components of equity: Total	Total equity attributable to owners of the company	Non-controlling interests	Total equity
Balance at April 1, 2018		¥4,583	¥975	¥19,921	¥285,823	¥1,734	¥287,557
Comprehensive income							
Net profit for the year				—	31,954	(11)	31,943
Other comprehensive income	13	845		(2,435)	(2,435)	(51)	(2,486)
Total comprehensive income for the year		845	—	(2,435)	29,519	(62)	29,456
Transactions with owners							
Issuance of new shares	20		(173)	(173)	132		132
Acquisition of treasury shares	20			—	(14,059)		(14,059)
Cancellation of treasury shares	20			—	—		—
Transfer to retained earnings from capital surplus				—	—		—
Dividends	20			—	(10,581)		(10,581)
Share-based payments	20, 21			—	67		67
Other				(853)	—		—
Total transactions with owners		—	(173)	(1,025)	(24,442)	—	(24,442)
Balance at March 31, 2019		¥5,428	¥802	¥16,461	¥290,900	¥1,672	¥292,572

Santen Pharmaceutical Co., Ltd. and Its Consolidated Subsidiaries
For the year ended March 31, 2019

Thousands of U.S. dollars

	Note	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	
						Remeasurements of defined benefit plans	Net gain or loss on financial assets measured at fair value through other comprehensive income
Balance at April 1, 2018		$72,365	$77,998	$(101)	$2,245,468	$—	$129,413
Comprehensive income							
Net profit for the year					287,899		
Other comprehensive income	13					79	(29,636)
Total comprehensive income for the year		—	—	—	287,899	79	(29,636)
Transactions with owners							
Issuance of new shares	20	1,374	1,374				
Acquisition of treasury shares	20		(1,335)	(125,336)			
Cancellation of treasury shares	20		(115,244)	115,244			
Transfer to retained earnings from capital surplus			115,244		(115,244)		
Dividends	20				(95,334)		
Share-based payments	20, 21	606	(5)				
Other					7,682	(79)	(7,604)
Total transactions with owners		1,980	33	(10,092)	(202,895)	(79)	(7,604)
Balance at March 31, 2019		$74,345	$78,031	$(10,193)	$2,330,471	$—	$92,173

Thousands of U.S. dollars

	Note	Other components of equity			Total equity attributable to owners of the company	Non-controlling interests	Total equity
		Foreign currency translation adjustments	Subscription rights to shares	Total			
Balance at April 1, 2018		$41,289	$8,784	$179,487	$2,575,218	$15,624	$2,590,841
Comprehensive income							
Net profit for the year				—	287,899	(100)	287,798
Other comprehensive income	13	7,617		(21,941)	(21,941)	(461)	(22,402)
Total comprehensive income for the year		7,617	—	(21,941)	265,958	(561)	265,396
Transactions with owners							
Issuance of new shares	20		(1,557)	(1,557)	1,190		1,190
Acquisition of treasury shares	20			—	(126,671)		(126,671)
Cancellation of treasury shares	20			—	—		—
Transfer to retained earnings from capital surplus				—	—		—
Dividends	20			—	(95,334)		(95,334)
Share-based payments	20, 21			—	601		601
Other				(7,682)	—		—
Total transactions with owners		—	(1,557)	(9,239)	(220,214)	—	(220,214)
Balance at March 31, 2019		$48,906	$7,227	$148,307	$2,620,961	$15,063	$2,636,023

Consolidated Statement of Cash Flows

Santen Pharmaceutical Co., Ltd. and Its Consolidated Subsidiaries

For the year ended March 31, 2019

		Millions of yen		Thousands of U.S. dollars
	Note	2018	2019	2019
Cash flows from operating activities				
Net profit for the year		¥35,261	¥31,943	$287,798
Depreciation and amortization		10,896	10,969	98,831
Impairment losses		150	—	—
Gain on disposal of non-current assets		—	(3,592)	(32,366)
Finance expenses (income)		(327)	(700)	(6,305)
Income tax expenses		4,000	11,174	100,679
Decrease (increase) in trade and other receivables		(7,116)	(6,303)	(56,787)
Decrease (increase) in inventories		(1,435)	(5,000)	(45,047)
Increase (decrease) in trade and other payables		5,697	2,445	22,030
Increase (decrease) in provisions and net defined benefit liabilities		285	(518)	(4,666)
Increase (decrease) in accounts payable-other		961	1,181	10,638
Increase (decrease) in long-term accounts payable-other		17	1,885	16,986
Other		728	2,116	19,064
Subtotal		49,117	45,601	410,854
Interest received		145	187	1,688
Dividends received		598	521	4,694
Interest paid		(27)	(8)	(68)
Income tax paid		(6,990)	(13,408)	(120,800)
Net cash flows from (used in) operating activities		42,843	32,894	296,368
Cash flows from investing activities				
Payments for acquisition of investments		(565)	(931)	(8,390)
Proceeds from sale of investments		2,879	2,156	19,425
Payments for acquisition of property, plant and equipment		(3,984)	(5,470)	(49,280)
Proceeds from sales of property, plant and equipment		—	4,338	39,089
Payments for acquisition of intangible assets		(5,953)	(2,863)	(25,791)
Other		(636)	(166)	(1,498)
Net cash flows from (used in) investing activities		(8,259)	(2,935)	(26,444)
Cash flows from financing activities				
Proceeds from long-term loans		—	567	5,104
Repayments of long-term loans		(8,316)	(4,098)	(36,922)
Purchase of treasury stock	20	(1)	(14,124)	(127,258)
Capital contribution from non-controlling interests		838	—	—
Dividends paid		(10,559)	(10,580)	(95,323)
Other		408	128	1,156
Net cash flows from (used in) financing activities		(17,631)	(28,107)	(253,242)
Net increase (decrease) in cash and cash equivalents		16,953	1,852	16,682
Cash and cash equivalents at the beginning of period	26	52,282	69,283	624,228
Effect of exchange rate changes on cash and cash equivalents		48	(338)	(3,047)
Cash and cash equivalents at the end of period	26	¥69,283	¥70,796	$637,863

Notes to Consolidated Financial Statements

1. Reporting Entity

Santen Pharmaceutical Co., Ltd. and its consolidated subsidiaries (the“Santen Group”) conduct businesses centered on the production and sale of prescription pharmaceuticals.

Santen Pharmaceutical Co., Ltd. (the“Company”) is a company incorporated in Japan. The addresses of the Company’s headquarters and its major operating sites are disclosed on its corporate website (http://www.santen.com/en/).

The shares of the Company are listed on the Tokyo Stock Exchange.

2. Basis of Preparation

(1) Compliance with IFRS

The Santen Group has prepared its consolidated financial statements under International Financial Reporting Standards (“IFRS”).

(2) Basis of Measurement

The Santen Group’s consolidated financial statements have been prepared on a historical cost basis, except for the financial instruments stated in Note 3“Significant Accounting Policies.”

(3) Functional Currency and Presentation Currency

The Santen Group’s consolidated financial statements are presented in Japanese yen, which is the Company’s functional currency. All financial information presented in Japanese yen has been rounded to the nearest million, except when otherwise indicated.

For the convenience of readers outside Japan, the accompanying consolidated financial statements are also presented in U.S. dollars by translating Japanese yen amounts at the exchange rate of ¥110.99 to US $1.00, the approximate rate of exchange at the end of March 31, 2019. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at the above or any other rate.

(4) New Standards and Interpretations - Adopted

The main standards and interpretations adopted by the Santen Group from the fiscal year ended March 31, 2019 are as follows. During the fiscal year ended March 31, 2019, there was no material impact on the Santen Group’s consolidated financial statements from the adoption of these standards and interpretations.

Standard		Mandatory adoption (From the fiscal year beginning on or after)	Adopted by the Santen Group	Description of new standards, interpretations and amendments
IFRS 9	Financial Instruments	January 1, 2018	Fiscal year ended March 2019	Amendments to classification, measurement, impairment and hedge accounting of financial instruments
IFRS 15	Revenue from Contracts with Customers	January 1, 2018	Fiscal year ended March 2019	Amendments to standard for recognition of revenue

IFRS 9 Financial Instruments

The Santen Group had already adopted IFRS 9 (amended in October 2010 and December 2011). From the fiscal year ended March 31, 2019, it adopted IFRS 9 (July 2014 version).

Classification and Measurement of Financial Assets

Under IFRS 9 (July 2014 version), a new category was established for subsequent measurement of fair value through other comprehensive income for debt instruments. The Santen Group evaluates the business model for holding financial assets and the contractual terms of the financial instruments. If both of the following conditions are met, then the Santen Group conducts a subsequent measurement of the fair value through other comprehensive income. The Santen Group has applied the transitional treatment that the nonpresentation allows not to restate comparative information.

・Cases in which the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

・Cases in which the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Impairment losses on Financial Assets

From April 1, 2018, the Santen Group changed its method for measuring impairment losses on financial assets from the incurred loss model stipulated by IAS 39 to the expected credit loss model stipulated by IFRS 9. Following the transitional measures for the transition on April 1, 2018, the past fiscal year's consolidated financial statements were not revised, and a loss allowance was measured based on the expected credit loss model.

IFRS 15 Revenue from Contracts with Customers

The Santen Group has adopted IFRS 15 from the fiscal year ended March 31, 2019.This standard replaces IAS 18 Revenue and IAS 11 Construction Contracts. IFRS 15 provides a comprehensive framework for determining the amount and timing of revenue recognition including presentation in the financial statements. In adopting IFRS 15, the Santen Group has applied the approved transitional measure for recognizing the cumulative impact of adoption of the standard on the starting adoption date.

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

For sales of goods, the customer usually acquires control over the goods when they are transferred. Therefore, the performance obligation is deemed to be satisfied and the revenue recognized at the time when the goods are transferred. The revenue is measured as the net amount after deducting returns, rebates and discounts. Since the transaction price is usually received within one year of satisfying the performance obligation, as a practical expedient measure, key financial elements are not adjusted.

(5) Approval of Consolidated Financial Statements

The Santen Group's consolidated financial statements for the fiscal year ended March 31, 2019 were approved on September 6, 2019 by Chairman and CEO Akira Kurokawa, President and COO Shigeo Taniuchi and Senior Corporate Officer, Corporate Administration, Chief Financial Officer (CFO), Head of Finance and Administration Division Kazuo Koshiji.

3. Significant Accounting Policies

Unless otherwise stated, the Santen Group has consistently applied the accounting policies set forth below to all periods presented on the consolidated financial statements.

1) Basis of Consolidation

The Santen Group's consolidated financial statements have been prepared based on the financial statements of the Company, subsidiaries and associates.

A. Subsidiaries

Subsidiaries are entities controlled by the Santen Group.
Control means that the Santen Group has power over the investee, has exposure to variable returns from involvement with the investee, and has the ability to use its power over the investee to affect the amount of the investors' returns.
The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control is lost.
In the case of changes in the ownership interest in subsidiaries, if the Company retains control over the subsidiaries, they are accounted for as equity transactions.
All intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions are eliminated in preparing consolidated financial statements.
The financial statements of subsidiaries that have different fiscal year-ends than the Santen Group are consolidated using financial statements based on a provisional closing as of the Santen Group's fiscal year-end.

B. Associates

Associates are entities over which the Santen Group has significant influence over the financial and operating policies, but does not have control or joint control over it.
Investments in associates are accounted for using the equity method, from the date on which the Group obtains significant influence to the date on which the Santen Group loses significant influence.

2) Business Combinations

Business combinations are accounted for using the acquisition method.
The identifiable assets acquired and the liabilities assumed are measured at the fair values at the acquisition date.
The Santen Group measures the consideration for an acquisition as the sum of (1) the consideration transferred in a business combination, (2) the amount of any non-controlling interest and (3) in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree. The Santen Group recognizes goodwill as any excess of this consideration for acquisition over the net amount of the identifiable assets acquired and the liabilities assumed at the acquisition date. If the net amount of the identifiable assets and liabilities of the acquiree exceeds the consideration for acquisition, the acquirer recognizes the excess amount as profit or loss on the acquisition date. The consideration transferred in the business combination is calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer.
Any expenses arising in connection with business combinations are accounted for as cost when incurred.

3) Foreign Currency Translation

Foreign currency transactions are translated into the functional currency using exchange rates at the dates of transactions or rates that approximate the exchange rates at the dates of the transactions.
Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using the exchange rate at the fiscal year-end, and exchange differences are recognized as profit or loss.
Assets and liabilities of foreign operations are translated into the presentation currency using the exchange rate at the fiscal year-end. Income and expenses of foreign operations are translated into the presentation currency using the average exchange rate during the fiscal year, except for cases of significant exchange rate movements. Exchange differences are recognized in other comprehensive income. If a foreign operation is discontinued, the cumulative exchange differences of the relevant foreign operation are reclassified to profit or loss when it is discontinued.

4) Revenue

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

For sales of goods, the customer usually acquires control over the goods when they are transferred. Therefore, the performance obligation is deemed to be satisfied, and the revenue is recognized at the time when the goods are transferred. Furthermore, the revenue is measured as the net amount after deducting returns, rebates and discounts. Since the transaction price is usually received within one year of satisfying the performance obligation, as a practical expedient measure, key financial elements are not adjusted.

Following the transitional measures for IFRS 15, the Santen Group adopted the approach of recognizing the cumulative effect of adopting the standard at the beginning of the fiscal year ended March 31, 2019, and not presenting a restatement of revised comparative information. The accounting policies for the fiscal year for comparison are as follows.

<u>A. Revenue</u>

Revenue is measured at the fair value of the consideration received or receivable after deducting discounts, returns, and taxes such as consumption taxes. The Santen Group primarily recognizes the following as revenue:

i Sale of goods

Revenue from the sale of goods is recognized when all the following conditions have been satisfied:
(a) The Santen Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
(b) The Santen Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
(c) The amount of revenue can be measured reliably;
(d) It is probable that the economic benefits associated with the transaction will flow to the entity;
(e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

ii Intellectual property

Revenue from intellectual property is recognized on an accrual basis in accordance with the substance of the relevant agreement.

<u>B. Other Income</u>

Revenue that is based on factors other than the aforementioned revenue and finance income is recognized as other income.

<u>C. Finance Income</u>

i Interest

Interest is recognized using the effective interest method.

ii Dividends

Dividends are recognized when the Group’s right to receive the dividend is established.

5) Research and Development Expenses

Internally generated development expenses are recognized as an intangible asset only if the capitalisation criteria under IAS 38 are satisfied.
Therefore, internal expenditure incurred for ongoing internal development projects is not capitalised until marketing approval is obtained from the regulatory authorities in a major market, which is considered the time at which the criteria of capitalisation under IAS 38 are met.
Expenditure on research and development of an internal project is fully expensed as “Research and development expenses” when incurred.

6) Government Grants

Government grants are recognized at fair value when there is a reasonable assurance that the Santen Group will comply with the conditions attached to them and receive the grants.
Government grants related to income are recognized in profit or loss on a systematic basis over the periods in which the entity recognizes as expenses the related costs for which the grants are intended to compensate.
Government grants related to assets are recognized as deferred income that is recognized in profit or loss on a systematic basis over the useful life of the asset.

7) Income Taxes

Income taxes consist of current income taxes and deferred taxes.
Current income tax is measured at the amount that is expected to be paid to or recoverd from the taxation authorities using the tax rates enacted or substantively enacted at the end of the reporting period. Current income tax is recognized in profit or loss, except for taxes that arise from transactions or events that are recognized in other comprehensive income or directly in equity as well as those that arise from business combinations.
Deferred taxes are calculated based on the temporary differences between the carrying amounts for financial reporting purposes and the amounts used for taxation purposes at the end of the reporting period. Deferred tax assets are recognized for deductible temporary differences, unused tax credits and unused tax losses to the extent that it is probable that future taxable profit will be available against which they can be utilized. Deferred tax liabilities are basically recognized for taxable temporary differences.
Deferred tax assets and deferred tax liabilities are not recognized for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and affects neither accounting profit nor taxable profit on the transaction date. Deferred tax liabilities are not recognized for taxable temporary differences on initial recognition of goodwill.
Deferred tax liabilities are not recognized for taxable temporary differences associated with investments in subsidiaries and associates when the parent company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not be reversed within the foreseeable future. Moreover, deferred tax assets are not recognized for deductible temporary differences when the temporary difference will be reversed in the foreseeable future or taxable profit will be available against which the temporary difference can be utilized.
Deferred tax assets and liabilities are calculated based on the tax rates that are expected to apply to the period when the deferred tax assets will be realized or the deferred tax liabilities will be settled.
Deferred tax assets and deferred tax liabilities are offset when there is a legally enforceable right to offset current tax assets and current tax liabilities and the deferred tax assets and liabilities are related to income taxes levied by the same taxation authority on the same taxable entity.

8) Property, Plant and Equipment

Property, plant and equipment is recognized at cost, which includes any costs directly attributable to the acquisition of the asset and dismantlement, removal and restoration costs, as well as borrowing costs eligible for capitalization.
After recognition, property, plant, and equipment is measured by using the cost model and is stated at cost less accumulated depreciation and accumulated impairment losses.
Property, plant and equipment other than land are depreciated using the straight-line method over the estimated useful lives of each item from the date the assets are available for use. The estimated useful lives of major property, plant and equipment are as follows:

Buildings and structures	:3 to 50 years
Machinery and vehicles	:3 to 10 years
Tools, furniture and fixtures	:4 to 10 years

The depreciation methods, residual values and estimated useful lives are reviewed annually and adjusted as necessary.
Impairment losses are stated in“10)Impairment of Property, Plant and Equipment and Intangible Assets.”

9) Intangible Assets

Intangible assets are identifiable non-monetary assets without physical substance and have been acquired individually or through business combinations. The major intangible assets are goodwill, intangible assets associated with products, and software.

A. Goodwill

The measurement of goodwill on initial recognition is stated in"2) Business combinations."After initial recognition, goodwill is not amortized and is measured at cost less any accumulated impairment losses. Goodwill is allocated to the cash-generating units that are expected to benefit from synergies derived from business combinations.

B. Intangible Assets Other than Goodwill

Intangible assets other than goodwill that are acquired individually are recognized at cost, specifically any cost directly attributable to the acquisition of the asset. Intangible assets other than goodwill that are acquired through business combinations are recognized based on the fair value at the business combination date.

After recognition, intangible assets are measured using the cost model and are stated at cost less accumulated amortization and accumulated impairment losses.

These intangible assets are amortized using the straight-line method over the estimated useful lives (within approximately 20 years) from the date the assets are available for use. The estimated useful lives are calculated based on the term of legal protection or the economical life, and are regularly reviewed.

Impairment losses are shown in"10)Impairment of Property, Plant and Equipment and Intangible Assets."

The treatment of expenditures related to research and development incurred within the Santen Group is shown in"5) Research and Development Expenses."

10) Impairment of Property, Plant and Equipment and Intangible Assets

At the end of each reporting period, the Santen Group assesses whether there is any indication of impairment that property, plant and equipment and intangible assets available for use may be impaired for each asset or cash-generating unit. If there is an indication of impairment, the Santen Group performs impairment test and assesses the recoverability of each asset or cash-generating unit.

Goodwill and intangible assets that are not yet available for use are performed impairment test annually, irrespective of whether there is any indication of impairment.

The cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflow from other assets or groups of assets.

The recoverable amount of an asset or a cash-generating unit is determined at the higher of its fair value less cost of disposal or its value in use. In determining the value in use, the estimated future cash flow is discounted to the present value using a discount rate that reflects the time value of money and the risks specific to the asset. If the carrying amount of the asset or cash-generating unit exceeds the recoverable amount, impairment loss is recognized in profit or loss and the carrying amount is reduced to the recoverable amount.

An asset or a cash-generating unit other than goodwill for which impairment loss was recognized in prior years is assessed at the end of the reporting period to determine whether there is any indication that the impairment loss recognized in prior periods may no longer exist or may have decreased. If any such indication exists, the recoverable amount of the asset or cash-generating unit is estimated. In cases in which the recoverable amount exceeds the carrying amount of the asset or cash-generating unit, the impairment loss is reversed up to the lower of the estimated recoverable amount or the carrying amount that would have been determined if no impairment loss had been recognized in prior years.

11) Leases

Leases are classified as finance leases when substantially all the risks and rewards incidental to ownership of an asset are transferred to the lessee. Leases other than finance leases are classified as operating leases.

At the commencement of the lease term, the Companies recognize finance leases as assets and liabilities in the consolidated statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The lease assets that have been recognized are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term of the asset.

Lease payments under an operating lease shall be recognized as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

12) Financial Instruments

The Santen Group adopted IFRS 9 Financial Instruments (2014) from the fiscal year ended March 31, 2019. However, with regard to classification and measurement there were no material changes from IFRS 9 Financial Instruments (October 2010 and December 2011 amendments).

<u>A. Financial Assets</u>

i Initial recognition and measurement

Financial assets are classified as financial assets measured at amortized cost, financial assets measured at fair value through other comprehensive income, and financial assets measured at fair value through profit and loss.The classification of financial assets is determined upon initial recognition.

Financial assets are initially recognized on the transaction date upon which the Company becomes a party to the contractual terms of the financial instrument.

(Financial assets measured at amortized cost)

Financial assets are classified as financial assets measured at amortized cost if they meet the following conditions.

・The financial asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows.

・The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(Financial assets measured at fair value through other comprehensive income)

(a) Debt instruments that are measured at fair value through other comprehensive income

Financial assets are classified as debt instruments that are measured at fair value through other comprehensive income if they meet the following conditions.

・The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

・The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(b) Equity instruments measured at fair value through other comprehensive income

For all investments in equity instruments other than those held for trading among financial assets measured at amortized cost and debt instruments measured at fair value through other comprehensive income that are equity instruments, the Santen Group has irrevocably elected to present changes in fair value after initial recognition under other comprehensive income.

(Financial assets measured at fair value through profit and loss)

Financial assets not classified as financial assets measured at amortized cost or as financial assets measured at fair value through other comprehensive income are classified as financial assets measured at fair value through profit and loss.

No investments in debt instruments are designated for measurement at fair value through profit and loss so as to eliminate or significantly reduce mismatches in accounting.

All financial assets except trade receivables that contain a significant financing component, are initially measured by the sum of the fair value and the transaction cost, except when they are classified as financial assets measured at fair value through profit and loss.

ii Subsequent measurement

Measurement of financial assets after initial recognition is conducted in accordance with their classification as follows.

(Financial assets measured at amortized cost)

Financial assets measured at amortized costs are measured by the effective interest rate method.

(Financial assets measured at fair value through other comprehensive income)

(a) Debt instruments that are measured at fair value through other comprehensive income

Changes in the fair value of debt instruments measured at fair value through other comprehensive income are recognized as other comprehensive income until the financial asset is derecognized, except for impairment gain or impairment loss and foreign exchange gains and losses.

If the financial asset is derecognized, other comprehensive income recognized in the past is transferred to profit and loss.

(b) Equity instruments that are measured at fair value through other comprehensive income

Changes in the fair value of equity instruments measured at fair value through other comprehensive income are recognized as other comprehensive income.

If the financial asset is derecognized, or if the fair value has decreased markedly, other comprehensive income recognized in the past is transferred directly to retained earnings.

(Financial assets measured at fair value through profit and loss)

Financial assets measured at fair value through profit and loss are measured at fair value after initial recognition and changes in fair value are recognized as profit and loss.

iii Impairment losses

Fiscal year ended March 31, 2018 (April 1, 2017 to March 31, 2018)

Financial assets that are measured at amortized cost are assessed whether there is any objective evidence of impairment at the end of each reporting period. If there is objective evidence of impairment, impairment loss is recognized in profit or loss as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

If an impairment loss is reduced by an event occurring after the recognition of impairment losses, the reduction in the impairment loss is reversed through profit or loss.

Fiscal year ended March 31, 2019 (April 1, 2018 to March 31, 2019)

An allowance for doubtful accounts is recognized for expected credit losses related to financial assets measured at amortized cost.

(Determination of significant increase in credit risk)

At the end of each fiscal year, the non-performance risk for financial assets at the end of the fiscal year is compared with the risk on the initial recognition date to evaluate whether there has been a significant increase in credit risk for the financial asset since initial recognition. In performing this evaluation, the Santen Group considers the financial status of the transaction counterparty, the overdue information, etc.

If all or part of a financial asset is deemed unrecoverable, or extremely difficult to recover, for example when the debtor is in serious financial difficulty, or has been delinquent for a long period after the due date, then the asset is deemed to be in default.

If a financial asset is in default, or if there is evidence for impairment, such as notable financial difficulty of the issuer or debtor, then the asset is deemed to be credit impaired.

(Measurement of expected credit loss)

Expected credit loss is the present value of the difference between the contractual cash flow that is supposed to be received based on the contract and the cash flow that is expected to be received.

If the credit risk of a financial asset has increased significantly since initial recognition, the allowance for doubtful accounts related to that financial asset is measured using an amount equal to the expected credit loss over the entire period. If it has not increased significantly, then it is measured using an amount equivalent to the expected credit loss over a 12-month period.

For trade receivables that do not include a significant financial element, allowance for doubtful accounts is measured using an amount equal to the expected credit loss over the entire period.

If all or part of a financial asset is reasonably deemed unrecoverable, the carrying amount of the financial asset is amortized directly.

The provision for allowance for doubtful accounts related to financial assets is recognized in profit and loss.

If an event occurs that reduces the allowance for doubtful accounts, a reversal of the allowance is recognized in profit and loss.

iv Derecognition

The Santen Group derecognizes a financial asset only when the contractual right to receive the cash flows from the asset expires or when the Companies transfer the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. On derecognition of a financial asset, the difference between the carrying amount and the consideration received or receivable is recognized in profit or loss, and the cumulative gain or loss that was previously accumulated in other comprehensive income (loss) is reclassified to retained earnings.

B. Financial Liabilities

i Initial recognition and measurement

Financial liabilities are classified as financial liabilities measured through amortized cost and financial liabilities measured at fair value through profit and loss. This classification is determined when the financial liability is initially recognized.

Financial liabilities are initially recognized on the transaction date upon which the Santen Group becomes a party to the contractual terms of the financial instrument.

All financial liabilities are initially measured at fair value; however, financial liabilities measured at amortized cost are measured using the amount net of directly incurred transaction expenses.

ii Subsequent measurement

Measurement of financial liabilities after initial recognition is dependent on their classification, as follows.

(a) Financial liabilities measured at amortized cost

Financial liabilities measured at amortized cost are measured at amortized cost by the effective interest rate method after initial recognition. Interest expense through the effective interest rate method and gain and loss upon derecognition are recognized in profit and loss.

(b) Financial liabilities measured at fair value through profit and loss

Financial liabilities measured at fair value through profit and loss are measured at fair value after initial recognition and changes in fair value are recognized as profit and loss.

iii Derecognition

The Santen Group derecognizes financial liabilities when the obligation specified in the contract is exempted, cancelled, or expired.

C. Offsetting of Financial Assets and Financial Liabilities

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Santen Group:

(a) Currently has a legally enforceable right to set off the recognized amounts;

(b) Intends either to settle on a net basis, or realize the asset and settle the liability simultaneously.

D. Derivatives

The Company utilizes derivatives for hedging the risk arising from fluctuation in foreign currency exchange rates, interest rates and share price. Derivatives are initially measured at fair value on the date when the derivative contracts are entered into and are subsequently remeasured to fair value at each reporting date. The Santen Group does not enter into derivatives for trading or speculative purposes.

13) Inventories

Inventories are measured at the lower of cost and net realizable value.

The cost of inventories is calculated based on the weighted-average cost method, including raw materials, direct labor and other direct costs as well as relevant overhead expenses. The net realizable value is determined based on the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

14) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, demand deposits and short-term highly liquid investments that are subject to insignificant risk of change in value, due within three months from the date of acquisition and readily convertible to known amounts of cash.

15) Assets Held for Sale

The Santen Group classifies a non-current asset or disposal group which must be available for immediate sale in its present condition and its sale must be highly probable as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

The Santen Group measures a non-current asset or disposal group classified as held for sale at the lower of its carrying amount and fair value less costs to sell.

16) Capital

A. Ordinary Shares

Proceeds from the issuance of ordinary shares are included in share capital and capital surplus. The transaction costs (net of tax) of equity transactions are deducted from capital surplus.

B. Treasury Shares

Treasury shares purchased by the Company are measured as the amount of the consideration paid for the shares and are recognized as a deduction from capital. The Company does not recognize any gains or losses on the acquisition, sale or cancellation of treasury shares. If the Company sells treasury shares, any differences between the carrying amount and the sales amount are recorded under capital surplus.

17) Share-based Payments

As a stock remuneration system for directors (excluding outside directors) and corporate officers, from the fiscal year ended March 31, 2019, a performance share unit system, a restricted stock-linked remuneration system and a restricted stock unit system have been adopted. In conjunction with the introduction of the new stock remuneration system, the stock option system has been abolished, except for options that have already been allotted.

A. Performance share unit system and restricted stock unit system

Within the performance share unit system and restricted stock unit system, a portion corresponding to equity settled payment transactions is measured making reference to the fair value of the allotted shares of the Company, and recognized as an expense throughout the vesting period, with the same amount recognized as an increase in capital. Furthermore, a portion corresponding to cash-settled payment transactions is recognized as an expense throughout the vesting period, with the same amount recognized as an increase in liabilities.

On the reporting date and settlement date, the fair value of the liability is remeasured, and changes in the fair value are recognized in profit and loss.

B. Restricted stock-linked remuneration system

Remuneration under the restricted stock-linked remuneration system is measured making reference to the fair value of the allotted shares of the Company and recognized as an expense throughout the vesting period, with the same amount recognized as an increase in capital.

18) Employee Benefits

A. Post-employment Benefits

The Santen Group has adopted defined benefit plans and defined contribution plans as post-employment benefit plans for employees.

i Defined benefit plans

The present value of defined benefit obligation and the related current service costs and past service cost are calculated based on the projected unit credit method.

The discount rates are determined with reference to the market yields of high-quality corporate bonds at the end of each reporting period. Service cost and net interest on the net defined benefit liabilities are recognized in profit or loss.

Actuarial gains and losses, return on plan assets excluding amounts included in net interest on the net defined benefit liabilities, and changes in the effect of the asset ceiling are recognized in other comprehensive income and reclassified to retained earnings in the period in which they are recognized.

ii Defined contribution plans

Costs for defined contribution plans are recognized as expenses when they are paid.

B. Short-term Employee Benefits

The undiscounted amount of short-term employee benefits expected to be paid in exchange for that service are recognized as expenses when employees have rendered services to the Santen Group.

19) Provisions

A provision is recognized when the Santen Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and the amount of the obligations can be estimated reliably. When the effect of the time value of money is material, the amount of a provision shall be the present value of the expenditures expected to be required to settle the obligation.

4. Use of Judgments, Estimates and Assumptions

In preparing the Santen Group's consolidated financial statements, management makes judgments, estimates and assumptions that affect the adoption of accounting policies and the reported amounts of assets and liabilities, and income and expenses. Actual results may differ from these estimates.

Judgments, estimates and assumptions made by management that may have a significant effect on the amounts recognized in the consolidated financial statements are as follows:

• Impairment of property, plant and equipment and intangible assets
• Recoverability of deferred tax assets
• Provisions
• Measurement of defined benefit obligations
• Fair value of financial instruments
• Measurement of the fair value of assets acquired and liabilities assumed through business combinations
• Evaluation of the fair value of contingent consideration from business combinations
• Share-based payments

5. New Standards and Interpretations Not Yet Adopted

The new standards, interpretations and amendments that have been issued as of the approval date of consolidated financial statements, which the Santen Group has not yet early adopted are set forth in the table below.

Standard		Mandatory adoption (From the fiscal year beginning on or after)	To be adopted by the Santen Group	Description of new standards, interpretations and amendments
IFRS 16	Leases	January 1, 2019	Fiscal year ending March 2020	Amendments to accounting treatment for lease arrangements

IFRS 16 introduces a single accounting model for all leases for the lessee rather than classifying leases into finance leases and operating leases for the lessee, and in principle, requires recognition of a right-of-use asset, representing the right to use the underlying asset, and a lease liability, which is the lease payment obligation, throughout the lease period.
After the right-of-use asset and the lease liability are recognized, amortization of the right-of-use asset and interest expense for the lease liability are recorded.
The Santen Group plans to adopt the exemption clause under which it can select not to apply the requirements of the standard for short -term leases and low value assets.
The Company plans to apply the modified retrospective approach to recognizing the cumulative effect of adoption of the standard on the adoption date. Moreover, the Santen Group plans to adopt the practical expedient measure regarding exemption from application of the lease definition during the transition. In this case, the standard will be applied to all contracts concluded prior to April 1, 2019 and identified as leases based on IAS 17 Leases and IFRIC 4 Determining Whether an Arrangement Contains a Lease.
With the application of the standard, as amounts based on information currently available, the Santen Group plans to record right-of-use assets of ¥7,696 million ($69,342 thousand) and lease liabilities of ¥8,564 million ($77,158 thousand) on the adoption date.

6. Operating Segments

(1) Reportable Segments

The reportable segments of the Santen Group are segments for which separate financial information is available, and that are evaluated regularly by the Board of Directors in order to decide on resource allocation and assess performance.

Previously, the Santen Group's reportable segment comprised the pharmaceuticals segment, with all operating segments other than the reportable segments classified in the other segment. From the fiscal year ended March 31, 2018, the Santen Group has reclassified its businesses into a single integrated operating segment, which it has designated as its reportable segment.

This reclassification was made after the Santen Group determined that it would be more reasonable to present the Santen Group's businesses as an integrated whole, as a result of reviewing the operating segments in light of factors such as the actual state of business development and the management structure.

(2) Products and Services Information

For the year ended March 31, 2018 (April 1, 2017 to March 31, 2018)

Millions of yen

	Prescription pharmaceuticals	OTC pharmaceuticals	Medical devices	Other	Total
Revenue from external customers	¥206,967	¥14,594	¥2,583	¥798	¥224,942

For the year ended March 31, 2019 (April 1, 2018 to March 31, 2019)

Millions of yen

	Prescription pharmaceuticals	OTC pharmaceuticals	Medical devices	Other	Total
Revenue from external customers	¥216,030	¥14,223	¥2,709	¥1,065	¥234,026

For the year ended March 31, 2019 (April 1, 2018 to March 31, 2019)

Thousands of U.S. dollars

	Prescription pharmaceuticals	OTC pharmaceuticals	Medical devices	Other	Total
Revenue from external customers	$1,946,391	$128,144	$24,403	$9,597	$2,108,535

(3) Geographical Areas Information

For the year ended March 31, 2018 (April 1, 2017 to March 31, 2018)

Millions of yen

	Japan	EMEA	Americas	Asia	Total
Revenue from external customers*1	¥158,653	¥35,015	¥371	¥30,903	¥224,942
Non-current assets*2	110,912	9,089	42,430	4,626	167,057

Notes:

1. Revenue is classified into countries or regions based on customer location.
2. Non-current assets are classified into countries or regions based on the asset location. Financial instruments and deferred tax assets are excluded. The non-current assets in the Americas are located in the U.S.A.

For the year ended March 31, 2019 (April 1, 2018 to March 31, 2019)

Millions of yen

	Japan	EMEA	Americas	Asia	Total
Revenue from external customers*1	¥160,456	¥36,156	¥533	¥36,881	¥234,026
Non-current assets*2	104,563	8,598	44,425	7,043	164,629

For the year ended March 31, 2019 (April 1, 2018 to March 31, 2019)

Thousands of U.S. dollars

	Japan	EMEA	Americas	Asia	Total
Revenue from external customers*1	$1,445,683	$325,760	$4,801	$332,292	$2,108,535
Non-current assets*2	942,094	77,462	400,258	63,460	1,483,275

Notes:

1. Revenue is classified into countries or regions based on customer location.
2. Non-current assets are classified into countries or regions based on the asset location. Financial instruments and deferred tax assets are excluded. The non-current assets in the Americas are located in the U.S.A.

(4) Information on Major Customers

For the year ended March 31, 2018 (April 1, 2017 to March 31, 2018)

Millions of yen

Major customers	Revenue
Suzuken Co., Ltd.	¥42,463
Mediceo Corporation	33,680

For the year ended March 31, 2019 (April 1, 2018 to March 31, 2019)

Millions of yen

Major customers	Revenue
Suzuken Co., Ltd.	¥44,325
Mediceo Corporation	32,313

For the year ended March 31, 2019 (April 1, 2018 to March 31, 2019)

Thousands of U.S. dollars

Major customers	Revenue
Suzuken Co., Ltd.	$399,356
Mediceo Corporation	291,136

7. Revenue

The breakdown of revenue recognized from contracts with customers is set forth in the tables below. In adopting IFRS 15, the Santen Group has applied the approved transitional measure of recognizing the cumulative effect of adoption of the standard on the starting date of adoption, and has not presented a restatement of revised information for the fiscal year ended March 31, 2018.

(1) Breakdown of revenue

Fiscal year ended March 31, 2019 (April 1, 2018 to March 31, 2019)

Millions of yen

	Japan	EMEA	Americas	Asia	Total
Prescription Pharmaceuticals	¥142,950	¥36,053	¥527	¥36,500	¥216,030
Over-the-Counter (OTC) Pharmaceuticals	13,930	–	–	293	14,223
Medical Devices	2,600	103	6	–	2,709
Others	977	–	–	88	1,065
Total	¥160,456	¥36,156	¥533	¥36,881	¥234,026

Note: Revenue is classified into countries or regions based on customer location.

Fiscal year ended March 31, 2019 (April 1, 2018 to March 31, 2019)

Thousands of U.S. dollars

	Japan	EMEA	Americas	Asia	Total
Prescription Pharmaceuticals	$1,287,955	$324,831	$4,748	$328,856	$1,946,391
Over-the-Counter (OTC) Pharmaceuticals	125,503	–	–	2,641	128,144
Medical Devices	23,422	929	52	–	24,403
Others	8,802	–	–	795	9,597
Total	$1,445,683	$325,760	$4,801	$332,292	$2,108,535

Note: Revenue is classified into countries or regions based on customer location.

(2) Contract balance

The balances of receivables and contract liabilities arising from contracts with customers were as follows.

	Millions of yen		Thousands of U.S. dollars
	Start of the fiscal year ended March 31, 2019 (April 1, 2018)	End of the fiscal year ended March 31, 2019 (March 31, 2019)	End of the fiscal year ended March 31, 2019 (March 31, 2019)
Receivables arising from contracts with customers	¥78,857	¥84,834	$764,338
Contract liabilities	6,211	6,721	60,553

Receivables arising from contracts with customers are included in trade and other receivables on the consolidated statement of financial position. Contract liabilities are included in trade and other payables. During the fiscal year ended March 31, 2019, there were no revenues recognized from performance of obligations satisfied (or partially satisfied) in past periods.

(3) Transaction price allocated to remaining performance obligations

The Santen Group has no important transactions with individual contract periods in excess of one year.

Moreover, consideration arising from contracts with customers does not include important amounts not included in the transaction price. In addition, the Santen Group has applied the practical expedient measure of IFRS 15 Paragraph 121, and doesn't present information regarding remaining performance obligations whose initial expected remaining period is within one year.

(4) Assets recognized from the cost of acquiring and performing contracts with customers
The Santen Group has no incremental costs for acquiring contracts or costs related to performance that must be recognized as assets.

8. Nature of Major Expenses

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Cost of sales (Merchandise)	¥46,066	¥49,895	$449,546
Wages and bonuses	33,834	36,394	327,907
Advertising and sales promotion expenses	19,109	20,317	183,053
Raw material cost	16,403	14,681	132,275
Specialist expenses and commissions	11,455	9,455	85,183
Legal welfare expenses	4,671	4,973	44,809
Post-employment benefit cost	2,401	2,443	22,015
Depreciation and amortization	4,156	3,981	35,871
Others	41,468	43,656	393,330
Total	¥179,564	¥185,796	$1,673,988

Note: The amounts in the above table are recorded in cost of sales, selling, general and administrative expenses, and research and development expenses.

9. Other Income

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Gains from sales of property, plant and equipment *	¥—	¥3,592	$32,366
Government grants	69	162	1,460
Other	348	273	2,460
Total	¥417	¥4,028	$36,287

Note: Proceeds from sale of property, plant and equipment of ¥3,592 million were recorded in other income due to sales of property, plant and equipment held by the Company.

10. Other Expenses

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Loss on disposal of non-current assets	¥30	¥46	$416
Impairment losses *	150	—	—
Other	184	126	1,135
Total	¥364	¥172	$1,552

Note: Impairment losses are stated in Note 15 "Property, Plant and Equipment 2)” and Note 16 "Intangible Assets 2).”

11. Finance Income and Expenses

(1) Finance Income

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Interest income			
Financial assets measured at amortized cost	¥147	¥186	$1,678
Financial assets measured at fair value through profit or loss	10	−	−
Dividend income			
Financial assets measured at fair value through other comprehensive income	598	521	4,694
Life insurance	154	191	1,723
Total dividend income	752	712	6,417
Foreign exchange gains	94	−	−
Other	0	2	19
Total	¥1,004	¥901	$8,114

(2) Finance Expenses

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Interest expense			
Financial liabilities measured at amortized cost	¥24	¥7	$68
Other	1	1	6
Total interest expense	25	7	68
Loss on valuation of derivatives	−	255	2,293
Foreign exchange losses	−	1,412	12,718
Net interest related to post-employment benefits	6	5	44
Changes in the fair value of financial assets measured at fair value through profit or loss	231	−	−
Changes in the fair value of contingent consideration	−	1,203	10,836
Other	171	−	−
Total	¥434	¥2,881	$25,958

12. Deferred Taxes and Income Taxes

1) Deferred Taxes

i. Major items and changes in deferred tax assets and liabilities

Millions of yen

	As of April 1, 2017	Recognized through profit or loss	Recognized in other comprehensive income	As of March 31, 2018
Deductible temporary differences				
Retirement benefit liabilities	¥3,173	¥217	¥(141)	¥3,248
Inventories	862	90	−	952
Accrued bonuses	829	(20)	−	809
Depreciation and amortization	726	48	−	774
Research and development expenses	631	(50)	−	581
Accrued enterprise taxes	188	224	−	413
Paid absences	132	(5)	−	127
Impairment losses	69	12	−	80
Unearned revenue	29	3	−	32
Other	1,581	144	−	1,725
Subtotal	8,219	664	(141)	8,741
Taxable temporary differences				
Financial assets measured at fair value through other comprehensive income	(5,242)	−	(2,150)	(7,391)
Intangible assets associated with products	(20,935)	6,591	−	(14,344)
Other	(28)	(2)	−	(29)
Subtotal	(26,204)	6,589	(2,150)	(21,764)
Unused tax losses and tax credits				
Unused tax credits	840	(54)	−	786
Unused tax losses	1,578	14	−	1,593
Subtotal	2,418	(40)	−	2,378
Net amount	¥(15,567)	¥7,213	¥(2,291)	¥(10,645)

Note: The difference between the net amount of temporary differences recognized through profit or loss in the table above and the total deferred income taxes stated in “2) Income Tax Expenses i. Income Taxes Recognized through Profit or Loss” is attributable to foreign exchange fluctuations.

Millions of yen

	As of April 1, 2018	Recognized through profit or loss	Recognized in other comprehensive income	As of March 31, 2019
Deductible temporary differences				
Retirement benefit liabilities	¥3,248	¥36	¥(34)	¥3,250
Inventories	952	65	−	1,016
Accrued bonuses	809	86	−	895
Depreciation and amortization	774	(99)	−	675
Research and development expenses	581	188	−	769
Accrued enterprise taxes	413	(82)	−	330
Paid absences	127	(1)	−	126
Impairment losses	80	−	−	80
Unearned revenue	32	(2)	−	30
Other	1,725	(95)	−	1,629
Subtotal	8,741	94	(34)	8,801
Taxable temporary differences				
Financial assets measured at fair value through other comprehensive income	(7,391)	−	1,825	(5,567)
Intangible assets associated with products	(14,344)	(543)	−	(14,887)
Other	(29)	1	−	(28)
Subtotal	(21,764)	(542)	1,825	(20,482)
Unused tax losses and tax credits				
Unused tax credits	786	961	−	1,746
Unused tax losses	1,593	724	−	2,317
Subtotal	2,378	1,685	−	4,063
Net amount	¥(10,645)	¥1,236	¥1,790	¥(7,618)

Note: The difference between the net amount of temporary differences recognized through profit or loss in the table above and the total deferred income taxes stated in “2) Income Tax Expenses i. Income Taxes Recognized through Profit or Loss” is attributable to foreign exchange fluctuations.

Thousands of U.S. dollars

	As of April 1, 2018	Recognized through profit or loss	Recognized in other comprehensive income	As of March 31, 2019
Deductible temporary differences				
Retirement benefit liabilities	$29,266	$324	$(310)	$29,280
Inventories	8,574	584	—	9,158
Accrued bonuses	7,293	772	—	8,066
Depreciation and amortization	6,977	(896)	—	6,081
Research and development expenses	5,236	1,692	—	6,928
Accrued enterprise taxes	3,718	(743)	—	2,975
Paid absences	1,144	(8)	—	1,136
Impairment losses	724	—	—	724
Unearned revenue	288	(19)	—	269
Other	15,539	(860)	—	14,679
Subtotal	78,759	847	(310)	79,295
Taxable temporary differences				
Financial assets measured at fair value through other comprehensive income	(66,593)	—	16,439	(50,154)
Intangible assets associated with products	(129,235)	(4,896)	—	(134,131)
Other	(264)	8	—	(256)
Subtotal	(196,093)	(4,888)	16,439	(184,541)
Unused tax losses and tax credits				
Unused tax credits	7,078	8,655	—	15,733
Unused tax losses	14,349	6,525	—	20,874
Subtotal	21,426	15,181	—	36,607
Net amount	$(95,908)	$11,140	$16,129	$(68,639)

Note: The difference between the net amount of temporary differences recognized through profit or loss in the table above and the total deferred income taxes stated in “2) Income Tax Expenses i. Income Taxes Recognized through Profit or Loss” is attributable to foreign exchange fluctuations.

ii. Deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax assets are recognized in the statement of financial position

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Deductible temporary differences	¥764	¥242	$2,182
Carry-forwards of unused tax losses	6,090	5,963	53,724
Carry-forwards of unused tax credits	1,553	1,212	10,919

iii. The expiry schedule for unused tax losses for which no deferred tax assets are recognized in the statement of financial position

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
1st year	¥10	¥6	$55
2nd year	52	41	371
3rd year	47	42	378
4th year	41	18	159
5th year onward	5,940	5,856	52,761
Total	¥6,090	¥5,963	$53,724

iv. In the fiscal years ended March 31, 2019 and 2018, there were subsidiaries that recognized carry-forwards of unused tax losses. In the fiscal year ended March 31, 2019, deferred tax assets of ¥2,317 million ($20,874 thousand) were recognized to the extent that future taxable profit was expected (¥1,593 million as of March 31, 2018). The recoverability of deferred tax assets depends on future taxable profit. The future taxable profit used to recognize these deferred tax assets has been projected in line with business plans approved by management, and is highly likely to be achieved based on a comparison of actual performance trends against previous plans. Accordingly, management believes that the recoverability of deferred tax assets presents no particular issues.

v. In the fiscal years ended March 31, 2019 and 2018, the Company did not recognize deferred tax liabilities related to the taxable temporary differences associated with investment in subsidiaries. This is because the Company was able to control the timing of reversal for temporary differences, and it was certain that the differences would not be reversed in the foreseeable future. The taxable temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognized amounted to ¥16,573 million ($149,320 thousand) as of March 31, 2019 and ¥13,581 million as of March 31, 2018.

2) Income Tax Expenses

i. Income Taxes Recognized through Profit or Loss

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Current income taxes			
Current	¥10,963	¥12,599	$113,517
Subtotal	10,963	12,599	113,517
Deferred income taxes			
Occurrence and reversal of temporary differences	(1,414)	(1,425)	(12,838)
Change in tax rate	(5,549)	−	−
Subtotal	(6,963)	(1,425)	(12,838)
Total income tax expenses	¥4,000	¥11,174	$100,679

Current income taxes include tax benefits arising from previously unrecognized carry-forwards of unused tax losses, tax credits or temporary differences of a prior period. As a result of these tax benefits, current income taxes were reduced by ¥12 million ($112 thousand) in the fiscal year ended March 31, 2019 and ¥12 million in the fiscal year ended March 31, 2018.

Deferred corporation income taxes include tax benefits arising from previously unrecognized carry-forwards of tax losses and tax credits or temporary differences of past periods. Accordingly, the increase in deferred corporation income taxes for the fiscal year ended March 31, 2019 was ¥861 million ($7,760 thousand) (not applicable in the fiscal year ended March 31, 2018).

ii. Reconciliation of Applicable Income Tax Rate

In the fiscal years ended March 31, 2019 and March 31, 2018, the Company was mainly subject to corporation income tax, inhabitant tax and enterprise tax, and the effective statutory tax rates calculated on those taxes were 30.5% for the fiscal year ended March 31, 2019 and 30.8% for the fiscal year ended March 31, 2018, respectively. However, foreign subsidiaries are subject to taxes in their respective countries.

	2018	2019
Effective statutory income tax rate	30.8%	30.5%
Non-deductible items / non-taxable income	1.0%	1.3%
Tax credit for research and development expenses	(6.8)%	(3.9)%
Differences in tax rates applied to subsidiaries	(2.2)%	(1.6)%
Effect of changes in tax rates	(14.0)%	−
Movements in unrecognized deferred tax assets	1.5%	1.5%
Effect of changes in contingent consideration	(0.8)%	(2.5)%
Other	0.7%	0.6%
Actual tax rate	10.2%	25.9%

The Tax Cuts and Jobs Act was enacted on December 22, 2017 (local time) in the United States. The major changes introduced by the new Act included a reduction in the federal corporate tax rate from 35% to 21% from January 1, 2018. Accordingly, the Santen Group has performed a revaluation of deferred tax assets and liabilities at its U.S. subsidiaries based on the new corporate tax rate. As a result, corporation income tax expenses for the fiscal year ended March 31, 2018 were reduced by ¥5,105 million.

13. Other Comprehensive Income

Reclassification adjustments and tax effects related to other comprehensive income are as follows.

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Remeasurements of defined benefit plans			
Amounts arising during the year	¥424	¥42	$379
Reclassification adjustments to profit or loss	—	—	—
Before tax effects	424	42	379
Tax effects	(141)	(33)	(300)
Remeasurements of defined benefit plans	284	9	79
Net gain or loss on financial assets measured at fair value through other comprehensive income			
Amounts arising during the year	8,449	(4,734)	(42,655)
Reclassification adjustments to profit or loss	—	—	—
Before tax effects	8,449	(4,734)	(42,655)
Tax effects	(2,582)	1,445	13,018
Net gain or loss on financial assets measured at fair value through other comprehensive income	5,867	(3,289)	(29,636)
Foreign currency translation adjustments			
Amounts arising during the year	(686)	794	7,156
Reclassification adjustments to profit or loss	—	—	—
Before tax effects	(686)	794	7,156
Tax effects	—	—	—
Foreign currency translation adjustments	(686)	794	7,156
Total other comprehensive income	¥5,464	¥(2,486)	$(22,402)

14. Earnings Per Share

The bases of calculating basic earnings per share and diluted earnings per share is as follows.

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Basis of calculating basic earnings per share			
Profit attributable to owners of the Company	¥35,247	¥31,954	$287,899
Profit not attributable to ordinary shareholders of the Company	–	1	8
Profit used to calculate basic earnings per share	35,247	31,953	287,891
Basis of calculating diluted earnings per share			
Profit used to calculate basic earnings per share	¥35,247	¥31,953	$287,891
Adjustment	–	1	8
Profit used to calculate diluted earnings per share	35,247	31,954	287,899

	Thousands of shares	
	2018	2019
Weighted average number of shares during the year	406,415	406,167
Increase in ordinary shares for stock remuneration transactions (1,000 shares)	1,456	1,229
Weighted average number of diluted ordinary shares during the year	407,871	407,396

	Yen		U.S. dollars
	2018	2019	2019
Earnings per share (attributable to owners of the Company)			
Basic	¥86.73	¥78.67	$0.71
Diluted	86.42	78.43	0.71

Note: Company shares held in trust for the stock remuneration system are included in treasury stock, so the calculation of earnings per share is performed after deducting these shares from the average number of shares outstanding during the period.

15. Property, Plant and Equipment

1) Statements of Changes in Acquisition Cost, Accumulated Depreciation and Accumulated Impairment Losses and the Carrying Amount by Category

A. Acquisition Cost

Millions of yen

	Buildings and structures	Machinery, equipment and vehicles	Tools, fixtures and fittings	Land	Construction in progress	Total
Balance as of April 1, 2017	¥46,212	¥15,022	¥13,741	¥6,935	¥3,698	¥85,609
Additions	399	352	621	―	2,793	4,164
Transfers	872	2,258	274	―	(3,404)	―
Disposals	(53)	(219)	(375)	―	(2)	(649)
Foreign currency translation differences	310	60	133	5	100	608
Balance as of March 31, 2018	¥47,740	¥17,474	¥14,394	¥6,940	¥3,185	¥89,732
Additions	389	1,786	509	―	3,345	6,029
Transfers	100	515	189	―	(804)	―
Disposals	(8,148)	(721)	(808)	(0)	(44)	(9,720)
Foreign currency translation differences	(176)	(290)	(99)	(3)	(68)	(636)
Balance as of March 31, 2019	¥39,905	¥18,763	¥14,185	¥6,937	¥5,614	¥85,405

Thousands of U.S. dollars

	Buildings and structures	Machinery, equipment and vehicles	Tools, fixtures and fittings	Land	Construction in progress	Total
Balance as of March 31, 2018	$430,124	$157,438	$129,686	$62,527	$28,695	$808,470
Additions	3,508	16,090	4,584	―	30,139	54,321
Transfers	900	4,640	1,702	―	(7,241)	―
Disposals	(73,412)	(6,496)	(7,276)	(2)	(394)	(87,578)
Foreign currency translation differences	(1,583)	(2,617)	(891)	(24)	(614)	(5,728)
Balance as of March 31, 2019	$359,538	$169,055	$127,805	$62,501	$50,585	$769,484

B. Accumulated Depreciation and Impairment Losses

Millions of yen

	Buildings and structures	Machinery, equipment and vehicles	Tools, fixtures and fittings	Land	Construction in progress	Total
Balance as of April 1, 2017	¥(33,370)	¥(12,283)	¥(11,380)	¥−	¥(26)	¥(57,059)
Depreciation	(1,210)	(884)	(933)	−	−	(3,028)
Impairment losses	(5)	(14)	(24)	−	(3)	(47)
Disposals	48	194	339	−	−	580
Foreign currency translation differences	(196)	(175)	(98)	−	(4)	(472)
Others	−	−	(10)	−	10	−
Balance as of March 31, 2018	¥(34,733)	¥(13,162)	¥(12,106)	¥−	¥(24)	¥(60,026)
Depreciation	(1,050)	(852)	(896)	−	−	(2,798)
Disposals	7,373	715	810	−	−	8,897
Foreign currency translation differences	50	97	80	−	(5)	221
Others	−	−	(3)	−	3	−
Balance as of March 31, 2019	¥(28,361)	¥(13,203)	¥(12,115)	¥−	¥(27)	¥(53,706)

Thousands of U.S. dollars

	Buildings and structures	Machinery, equipment and vehicles	Tools, fixtures and fittings	Land	Construction in progress	Total
Balance as of March 31, 2018	$(312,943)	$(118,588)	$(109,074)	$−	$(217)	$(540,821)
Depreciation	(9,462)	(7,680)	(8,070)	−	−	(25,212)
Disposals	66,427	6,439	7,296	−	−	80,162
Foreign currency translation differences	451	870	720	−	(49)	1,992
Others	−	−	(26)	−	26	−
Balance as of March 31, 2019	$(255,526)	$(118,958)	$(109,154)	$−	$(240)	$(483,878)

C. Carrying Amount

	Millions of yen					
	Buildings and structures	Machinery, equipment and vehicles	Tools, fixtures and fittings	Land	Construction in progress	Total
As of April 1, 2017	¥12,842	¥2,739	¥2,362	¥6,935	¥3,672	¥28,550
As of March 31, 2018	13,006	4,312	2,288	6,940	3,161	29,706
As of March 31, 2019	11,544	5,560	2,070	6,937	5,588	31,699

	Thousands of U.S. dollars					
	Buildings and structures	Machinery, equipment and vehicles	Tools, fixtures and fittings	Land	Construction in progress	Total
As of March 31, 2019	$104,012	$50,097	$18,651	$62,501	$50,344	$285,605

2) Impairment Losses

In the fiscal year ended March 31, 2018, the Company recorded ¥47 million in impairment losses, under other expenses on the consolidated statement of profit or loss and other comprehensive income.

Regarding the impairment losses recognized in the fiscal year ended March 31, 2018 for tools, fixtures and fittings, the carrying amounts of these assets were written down to the recoverable amounts due to the decline in expected profitability. Those recoverable amounts were measured at the value in use.

Impairment losses were not recorded for the fiscal year ended March 31, 2019.

3) Other Disclosures

The Santen Group has contractual commitments for the acquisition of property, plant and equipment as of March 31, 2019 totaling ¥2,841 million ($25,593 thousand) and ¥1,172 million as of March 31, 2019 and 2018, respectively.

16. Intangible Assets

1) Statements of Changes in Acquisition Cost, Accumulated Amortization and Accumulated Impairment Losses and the Carrying Amount by Category

A. Acquisition Cost

Millions of yen

	Goodwill	Intangible assets associated with products	Software	Other	Total
Balance as of April 1, 2017	¥22,770	¥135,748	¥10,768	¥1,213	¥170,498
Additions	―	4,444	617	763	5,825
Transfers	―	―	477	(477)	―
Disposals	―	―	(321)	(56)	(377)
Foreign currency translation differences	(474)	(1,562)	17	(108)	(2,128)
Balance as of March 31, 2018	¥22,295	¥138,630	¥11,558	¥1,335	¥173,819
Additions	―	1,219	858	726	2,803
Transfers	―	―	765	(765)	―
Disposals	―	―	(91)	(0)	(91)
Foreign currency translation differences	417	1,497	(61)	3	1,857
Balance as of March 31, 2019	¥22,713	¥141,347	¥13,028	¥1,300	¥178,388

Thousands of U.S. dollars

	Goodwill	Intangible assets associated with products	Software	Other	Total
Balance as of March 31, 2018	$200,877	$1,249,035	$104,133	$12,032	$1,566,077
Additions	―	10,983	7,729	6,541	25,253
Transfers	―	―	6,890	(6,890)	―
Disposals	―	―	(817)	(1)	(818)
Foreign currency translation differences	3,761	13,490	(552)	28	16,728
Balance as of March 31, 2019	$204,638	$1,273,508	$117,383	$11,711	$1,607,240

B. Accumulated Amortization and Accumulated Impairment Losses

Millions of yen

	Goodwill	Intangible assets associated with products	Software	Other	Total
Balance as of April 1, 2017	¥—	¥(22,906)	¥(7,880)	¥(778)	¥(31,563)
Amortization	—	(6,740)	(1,123)	(5)	(7,868)
Impairment losses	—	(50)	(53)	—	(103)
Disposals	—	—	299	—	299
Foreign currency translation differences	—	(116)	(5)	32	(89)
Balance as of March 31, 2018	¥—	¥(29,812)	¥(8,761)	¥(751)	¥(39,324)
Amortization	—	(6,988)	(1,180)	(3)	(8,171)
Disposals	—	—	75	0	76
Foreign currency translation differences	—	124	33	(14)	142
Balance as of March 31, 2019	¥—	¥(36,676)	¥(9,833)	¥(768)	¥(47,277)

Thousands of U.S. dollars

	Goodwill	Intangible assets associated with products	Software	Other	Total
Balance as of March 31, 2018	$—	$(268,600)	$(78,938)	$(6,766)	$(354,304)
Amortization	—	(62,961)	(10,635)	(24)	(73,620)
Disposals	—	—	680	3	683
Foreign currency translation differences	—	1,117	296	(130)	1,283
Balance as of March 31, 2019	$—	$(330,443)	$(88,598)	$(6,918)	$(425,959)

C. Carrying Amount

Millions of yen

	Goodwill	Intangible assets associated with products	Software	Other	Total
As of April 1, 2017	¥22,770	¥112,842	¥2,888	¥435	¥138,935
As of March 31, 2018	22,295	108,819	2,796	585	134,495
As of March 31, 2019	22,713	104,671	3,195	532	131,110

Thousands of U.S. dollars

	Goodwill	Intangible assets associated with products	Software	Other	Total
As of March 31, 2019	$204,638	$943,065	$28,785	$4,794	$1,181,281

2) Impairment Losses

In the fiscal year ended March 31, 2018, the Company recorded ¥103 million in impairment losses under other expenses on the consolidated statement of profit or loss and other comprehensive income.

Regarding the impairment losses recognized in the fiscal year ended March 31, 2018 for software and intangible assets associated with products, the carrying amounts of these assets were written down to the recoverable amounts due to the decline in expected profitability. Those recoverable amounts were measured at the value in use.

Impairment losses were not recorded for the fiscal year ended March 31, 2019.

3) Impairment Test for Goodwill

In the fiscal year ended March 31, 2019, the Santen Group recorded goodwill of ¥22,713 million ($204,638 thousand) for that period, along with ¥22,295 million as of March 31, 2018. The goodwill was recognized as a result of the acquisitions of Santen S.A.S. and InnFocus, Inc.

Impairment testing of goodwill is performed annually. The recoverable amount in the impairment test for goodwill was measured using the market value of the share price of the Company. In the fiscal year ended March 31, 2019, the Santen Group did not recognize an impairment loss on goodwill, because the recoverable amount exceeded the carrying amount.

The Company has concluded there is little likelihood of additional significant impairment losses, assuming stock market prices fluctuate within a reasonable range.

4) Other Disclosures

i. Amortization of intangible assets associated with products is recorded as amortization on intangible assets associated with products in the consolidated statement of profit or loss and other comprehensive income. Amortization associated with other intangible assets is included in cost of sales, selling, general and administrative expenses and research and development expenses in the consolidated statement of profit or loss and other comprehensive income.

ii. The Santen Group did not recognize any internally generated intangible assets as of March 31, 2019, and as of March 31 2018.

iii. Significant Intangible Assets

The significant intangible assets associated with products recognized in the consolidated statement of financial position were mainly composed of the patents, trademarks, domain names, and product marketing and distribution rights related to ophthalmology products acquired from Merck. The carrying amount of these intangible assets was ¥41,384 million ($372,858 thousand) as of March 31, 2019 and ¥47,124 million as of March 31, 2018. The remaining amortization period for these intangible assets is 6 to 12 years.

In addition, the Santen Group recorded the rights associated with DE-128 (product name: PRESERFLO MicroShunt) that were recognized in conjunction with the acquisition of InnFocus, Inc., the rights associated with DE-076B (generic name: ciclosporin, development name: Cyclokat) that were recognized in conjunction with the acquisition of Santen S.A.S., and the rights associated with DE-109 (sirolimus) that were acquired by contract from U.S.-based MacuSight, Inc. as intangible assets associated with products.

as intangible assets associated with products. The carrying amounts of these intangible assets were ¥42,812 million ($385,728 thousand), ¥4,645 million ($41,851 thousand) and ¥6,982 ($62,907 thousand) million as of March 31, 2019, respectively, and ¥40,980 million, ¥5,607 million and ¥6,982 million as of March 31, 2018, respectively. The remaining amortization period of intangible assets associated with products for DE-076B was 7 years. DE-128 and DE-109 are not yet being amortized because these intangible assets are not yet available for use.

Impairment losses on intangible assets are recognized when the recoverable amount of these assets declines below their carrying amounts, and the carrying amounts of these intangible assets are written down to their recoverable amounts. Recoverable amounts are calculated based on value in use. Value in use is calculated as the present value of the projected amount of future cash flow based on past experience and external information, at a rate based on the weighted average cost of capital by the cash generating units. In the fiscal year ended March 31, 2019, value in use was higher than the carrying amount, so impairment losses were not recorded. The Company has concluded there is little likelihood of value in use declining below the carrying amount, assuming the discount rate and other factors fluctuate within a reasonable range.

iv. Commitments

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Research and development milestones *	¥25,487	¥32,429	$292,182
Sales target milestones *	31,631	30,764	277,177
Other	ー	1,373	12,370
Total	¥57,118	¥64,566	$581,728

Note: The amounts in the table above represent maximum payment amounts if all milestones are achieved, not discounted to present value, risks not considered. Since the achievement of the conditions for payment is highly uncertain, it is unlikely that they will all fall due and the amounts of the actual payments may vary considerably from those stated in the table.

17. Financial Assets (Non-current) and Other Financial Assets (Current)

1) Components

A. Non-current Assets

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Financial assets measured at amortized cost			
Other	¥977	¥1,151	$10,375
Financial assets measured at fair value through other comprehensive income			
Stock	34,713	28,786	259,361
Financial assets measured at fair value through profit or loss			
Golf membership rights, etc.	85	106	956
Total	¥35,775	¥30,044	$270,691

B. Current Assets

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Financial assets measured at amortized cost			
Other	¥472	¥267	$2,408
Total	¥472	¥267	$2,408

2) Financial Assets Measured at Fair Value through Other Comprehensive Income

Equities are held mainly for the purpose of strengthening business relationships with investees, and not for the purpose of obtaining gains through short-term trading. Accordingly, they are designated as financial assets measured at fair value through other comprehensive income.

A. Fair Value

The main components of financial assets measured at fair value through other comprehensive income and those fair values are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
ONO PHARMACEUTICAL CO., LTD.	¥17,083	¥11,248	$101,346
Eisai Co., Ltd.	6,439	5,899	53,151
Daiichi Sankyo Company, Ltd.	3,703	2,678	24,127
NIPPON SHINYAKU CO., LTD.	2,029	2,297	20,696
FUJIFILM Holdings Corporation	914	1,083	9,760
MEDIPAL HOLDINGS CORPORATION	815	983	8,858
KOBAYASHI Pharmaceutical Co., Ltd.	565	687	6,194
Others	3,166	3,910	35,229
Total	¥34,713	¥28,786	$259,361

B. Other

Dividend income related to financial assets measured at fair value through other comprehensive income held by the Company was ¥484 million ($4,363 thousand) as of March 31, 2019 and ¥530 million as of March 31, 2018.

Financial assets measured at fair value through other comprehensive income that were disposed of during the fiscal years ended March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Fair value at date of sale	¥2,879	¥2,156	$19,425
Cumulative gains (losses)	1,406	1,215	10,944
Dividend income	68	37	331

Note: These financial assets were sold for the purpose of liquidating certain assets held. Cumulative gains (net of tax) of ¥844 million ($7,604 thousand) in the fiscal year ended March 31, 2019 and ¥973 million in the fiscal year ended March 31, 2018 were reclassified from other components of equity to retained earnings.

18. Inventories

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Merchandise and finished goods	¥25,160	¥28,608	$257,751
Work in process	455	362	3,261
Raw materials and supplies	5,022	6,265	56,445
Total	¥30,636	¥35,235	$317,457

19. Trade and Other Receivables

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Notes and accounts receivables	¥76,318	¥82,173	$740,365
Allowance for doubtful receivables	(203)	(216)	(1,944)
Other	2,539	2,661	23,973
Total	¥78,654	¥84,618	$762,394

20. Equity and Other Equity Items

1) Share Capital and Treasury Shares

Stocks

	2018	2019
Type of shares*1	Ordinary shares	Ordinary shares
Number of authorized shares	1,100,000,000	1,100,000,000
Number of issued shares*2		
Beginning of year	406,173,015	406,847,515
Change during year*3	674,500	(7,065,161)
End of year	406,847,515	399,782,354
Treasury shares		
Beginning of year	6,646	7,411
Change during year*4	765	656,001
End of year*5	7,411	663,412

Notes:

1. The ordinary shares have no par value, and there are no restrictions on the rights of those shares.
2. The issued shares are fully paid.
3. Changes in the number of shares outstanding during the period were due to the exercise of subscription rights to shares, the issuance of new shares for the restricted stock-linked remuneration system, and the cancellation of treasury shares.
4. Changes in the number of treasury stock during the period were due to the acquisition of treasury stock (8,144,000 shares) based on a resolution passed by the Board of Directors on February 20, 2019, the cancellation of treasury shares (7,500,000 shares) based on a resolution passed by the Board of Directors on March 27, 2019, the acquisition of the Company's shares to be held in trust for the stock remuneration system, the free acquisition of restricted stock, and to comply with requests to purchase back odd lot shares.
5. The number of treasury stock at the end of the fiscal year ended March 31, 2019 included 5,642 shares of treasury stock held in trust for the stock-linked remuneration system.

2) Capital Surplus

Capital surplus consists of additional paid-in capital not included in share capital upon the ordinary issuance of new shares and the issuance of new shares due to the exercise of subscription rights to shares, as well as other capital surplus.

3) Other Components of Equity

A. Remeasurements of Defined Benefit Plans

These are changes caused by remeasurements of defined benefit plans.

B. Net Gain or Loss on Financial Assets Measured at Fair Value through Other Comprehensive Income

This includes the cumulative amount of net changes in the fair value of financial assets measured at fair value through other comprehensive income until the recognition of the asset is cancelled or an impairment loss on the asset is recognized.

C. Foreign Currency Translation Adjustments

These are exchange differences arising from the translation of the financial statements of foreign operations.

D. Subscription Rights to Shares

In the fiscal year ended March 31, 2019, the Company introduced a new stock remuneration system comprising a performance share unit system and a restricted stock-linked remuneration system or a restricted stock unit system, and therefore discontinued its stock option system with the exception of stock that was already granted. Amounts recorded for subscription rights to shares under other components of equity are assessed at fair value for those provided based on Article 361 and Article 238 of the Companies Act from the stock option system. The contractual terms and conditions are described in Note 21 "Share-based Payments."

4) Retained Earnings and Dividends

A. Retained Earnings

These are earnings recognized as profit or loss in or before the fiscal year ended March 31, 2019, and earnings reclassified from other comprehensive income.

B. Dividends

(i) Dividends paid

Year ended March 31, 2018

Resolution date	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Annual General Meeting of Shareholders (June 23, 2017)	¥5,280	¥13.00	Mar. 31, 17	Jun. 26, 17
Board of Directors Meeting (November 1, 2017)	5,283	13.00	Sep. 30, 17	Nov. 30, 17

Year ended March 31, 2019

Resolution date	Total dividends (Millions of yen)	Total dividends (Thousands of U.S. dollars)	Dividends per share (Yen)	Dividends per share (U.S. dollars)	Record date	Effective date
Annual General Meeting of Shareholders (June 26, 2018)	¥5,289	$47,652	¥13.00	$0.12	Mar. 31, 18	Jun. 27, 18
Board of Directors Meeting (November 7, 2018)	5,292	47,682	13.00	0.12	Sep. 30, 18	Nov. 30, 18

(ii) Dividends whose effective date is in the following fiscal year

Year ended March 31, 2018

Resolution date	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Annual General Meeting of Shareholders (June 26, 2018)	¥5,289	¥13.00	Mar. 31, 18	Jun. 27, 18

Year ended March 31, 2019

Resolution date	Total dividends (Millions of yen)	Total dividends (Thousands of U.S. dollars)	Dividends per share (Yen)	Dividends per share (U.S. dollars)	Record date	Effective date
Annual General Meeting of Shareholders (June 25, 2019)	¥5,189	$46,749	¥13.00	$0.12	Mar. 31, 19	Jun. 26, 19

21. Share-based Payments

Performance-Linked Stock Remuneration System

1) Contractual Terms and Conditions

A. Outline

The Company has introduced a performance-linked stock remuneration system consisting of a performance share unit system, which grants stock scaled to the rate of achievement of financial targets for the three-year fisical period from the fiscal year ended on March 31, 2019 to the fiscal year ending on March 31, 2021 (hereinafter, the "performance evaluation period"), a restricted stock-linked remuneration system, which grants restricted stock, and a restricted stock unit system, which grants the Company's stock after a certain period of time has passed.

B. Eligible Recipients

Directors and Corporate Officers of the Santen Group

C. Vesting Conditions

(Performance Share Unit System)

The stock grant ratio ranges from 0% to 200%, scaled to the rate of achievement of targeted performance indicators for sales growth (annualized growth rate for three years), core operating profit margin (three-year average), and full ROE (three-year average).

(Restricted stock-linked remuneration system and restricted stock unit system)

Transfer restrictions are lifted or stocks are granted after three years if conditions are fulfilled, such as the rank of the eligible director.

D. Settlement Method

Stock settlement and cash settlement

2) Fair value and method of estimating fair value

Fair value is the market value of the Company's shares or an adjusted amount that reflects projected dividends and the market value of the Company's shares. Fair value for the fiscal year ended March 31, 2019 was as follows.

Yen

	Stock settlement	Cash settlement
Performance share unit system	¥1,636	¥1,573
Restricted stock unit system	1,636	1,573
Restricted stock-linked remuneration system	1,822	−

3) Stock remuneration expenses

Stock remuneration expenses totaled ¥100 million ($901 thousand) for the fiscal year ended March 31, 2019. There were no such expenses in the fiscal year ended March 31, 2018

Stock option system

<u>1) Contractual Conditions for Share Options</u>

<u>A. Eligible Persons</u>

Directors and Corporate Officers of the Company

<u>B. Vesting Conditions</u>

No provisions

<u>C. Exercise Period for Share Options Granted</u>

For 10 years from grant date

<u>D. Settlement Method</u>

Settled in shares

2) Number and Weighted-Average Exercise Price of Share Options

	2018		2019		
	Number of shares (Stocks)	Weighted average exercise price	Number of shares (stocks)	Weighted average exercise price	
		(Yen)		(Yen)	(U.S. dollars)
Balance at the beginning of the year	2,113,300	¥461	1,579,900	¥356	$3.21
Granted	141,100	1	—	—	—
Exercised*	674,500	610	365,100	399	3.59
Expired	—	—	—	—	—
Balance at the end of the year	1,579,900	356	1,214,800	343	3.09
Balance of exercisable stock options, at the end of year	1,176,500	¥478	953,200	¥437	$3.94

Note: The weighted-average share price of stock options at the time of exercise was ¥1,688 ($15.21) in the fiscal year ended March 31, 2019 and ¥1,748 in the fiscal year ended March 31, 2018.

3) Range and Weighted-Average Remaining Contractual Life of Share Options at the Fiscal Year-End

The exercise price of share options ranged from ¥1 ($0.01) to ¥663 ($5.97) as of March 31, 2019 and ¥1 to ¥663 as of March 31, 2018. The weighted-average remaining life was 4.6 years as of March 31, 2019 and 5.3 years as of March 31, 2018.

4) Fair Value and Fair Value Measurement Method of Share Options Granted During the Year

A. Measurement method
Black-Scholes model

B. Fair Value and Primary Base Assumptions and Measurement Method

	2018	2019
Resolution date	August 1, 2017	—
Expected volatility* (%)	30.0	—
Option life (years)	6.5	—
Expected dividend yield (%)	1.52	—
Risk-free interest rate (%)	(0.105)	—

	Yen		U.S. dollars
	2018	2019	2019
Fair value	¥1,544.09	¥—	$—
Weighted-average share price	1,706	—	—
Exercise price	1	—	—

Note: The expected volatility is estimated by calculating the volatility of the share price at the end of each month relative to the end of the previous month, and determining the annualized standard deviation of the volatility for the previous 6.5 years.

5) Expenses Recognized in Consolidated Statement of Profit or Loss
In the fiscal year ended March 31, 2018, expenses related to the stock option system amounted to ¥218 million. There were no such expenses in the fiscal year ended March 31, 2019.

22. Financial Liabilities (Non-current) and Other Financial Liabilities (Current)

1) Components

A. Components of Non-current Liabilities

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Long-term loans payables (excluding the current portion of long-term loans payable)	¥3,500	¥3,563	$32,106
Long-term accounts payable - other	17,679	19,674	177,262
Long-term derivative obligations	—	255	2,293
Other	64	28	250
Total	¥21,244	¥23,520	$211,911

B. Components of Current Liabilities

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Current portion of long-term loans payable	¥4,098	¥500	$4,505
Other payables	7,268	8,377	75,471
Other	3,038	3,240	29,190
Total	¥14,404	¥12,116	$109,167

23. Post-employment Benefits

1) Outline of Post-employment Benefit Plans

In order to provide for post-employment benefits for employees, the Company and its consolidated subsidiaries have adopted funded and unfunded defined benefit plans and defined contribution plans.

With defined benefit corporate pension plans (all constitute funded plans), a lump-sum payment and pension will be provided according to wage and service length. However, the Company and some of its consolidated subsidiaries have introduced cash balance plans to defined benefit corporate pension plans.

A retirement benefit trust has been set up for some defined benefit corporate pension plans. With post-employment lump-sum payment plans (unfunded, but some are funded as a result of setting up a retirement benefit trust), a lump-sum payment is provided as a post-employment benefit according to wage and service length.

2) Defined Benefit Plans

A. Net Defined Benefit Liabilities

Millions of yen

	Defined benefit obligations	Fair value of plan assets	Net defined benefit liabilities
Balance as of April 1, 2017	¥20,882	¥(18,982)	¥1,900
Current service cost	1,290	－	1,290
Interest (income) expense	98	(92)	6
Remeasurements of the net defined benefit liabilities			
Return on plan assets excluding amounts included in interest income on plan assets	－	(546)	(546)
Actuarial gains and losses arising from changes in demographic assumptions	(1)	－	(1)
Actuarial gains and losses arising from changes in financial assumptions	148	－	148
Experience adjustments	(25)	－	(25)
Total remeasurements of the net defined benefit liabilities	122	(546)	(424)
Foreign currency translation differences	34	(27)	7
Employer contributions to plans	－	(502)	(502)
Benefits paid by plans	(880)	406	(473)
Other	179	(179)	－
Balance as of March 31, 2018	¥21,725	¥(19,921)	¥1,804
Current service cost	1,322	－	1,322
Interest (income) expense	89	(84)	5
Remeasurements of the net defined benefit liabilities			
Return on plan assets excluding amounts included in interest income on plan assets	－	(111)	(111)
Actuarial gains and losses arising from changes in demographic assumptions	(113)	－	(113)
Actuarial gains and losses arising from changes in financial assumptions	187	－	187
Experience adjustments	(4)	－	(4)
Total remeasurements of the net defined benefit liabilities	69	(111)	(42)
Foreign currency translation differences	1	0	1
Employer contributions to plans	－	(533)	(533)
Benefits paid by plans	(978)	413	(565)
Other	72	(72)	－
Balance as of March 31, 2019	¥22,300	¥(20,308)	¥1,992

Thousands of U.S. dollars

	Defined benefit obligations	Fair value of plan assets	Net defined benefit liabilities
Balance as of March 31, 2018	$195,738	$(179,482)	$16,256
Current service cost	11,907	−	11,907
Interest (income) expense	801	(757)	44
Remeasurements of the net defined benefit liabilities			
Return on plan assets excluding amounts included in interest income on plan assets	−	(1,002)	(1,002)
Actuarial gains and losses arising from changes in demographic assumptions	(1,022)	−	(1,022)
Actuarial gains and losses arising from changes in financial assumptions	1,681	−	1,681
Experience adjustments	(36)	−	(36)
Total remeasurements of the net defined benefit liabilities	623	(1,002)	(379)
Foreign currency translation differences	10	2	12
Employer contributions to plans	−	(4,804)	(4,804)
Benefits paid by plans	(8,813)	3,723	(5,090)
Other	650	(650)	−
Balance as of March 31, 2019	$200,917	$(182,971)	$17,945

B. Components of Plan Assets

		Millions of yen		Thousands of U.S. dollars
	Presence of quoted market prices in active markets	2018	2019	2019
Equities	Yes	¥4,663	¥3,291	$29,649
Bonds	Yes	10,249	10,938	98,548
General accounts of life insurance companies	No	1,732	1,738	15,663
Other	No	3,276	4,341	39,112
Total		¥19,921	¥20,308	$182,971

Plan assets are invested with the aim of securing the required overall returns over the long term with an acceptable risk exposure, in order to ensure the payment of pensions and other benefits in the future. To achieve this goal, the Santen Group selects assets that are suitable for investment along with determining the optimal combination of assets for the future based on consideration of the expected rate of return, risk and other factors. In addition, the composition of the assets is revised as necessary.

C. Actuarial Assumptions

	2018	2019
Discount rate (%)	0.45	0.37

D. Sensitivity Analysis

A 0.5% change in significant actuarial assumption would affect the present value of defined benefit obligations by the amounts shown below:

	Millions of yen				Thousands of U.S. dollars	
	2018		2019		2019	
	0.5% Increase	0.5% Decrease	0.5% Increase	0.5% Decrease	0.5% Increase	0.5% Decrease
Discount rate (%)	(1,184)	1,301	(1,124)	1,229	(10,126)	11,070

Note: In this analysis, the other variables are assumed to be fixed.

E. Impact of the Defined Benefit Plans on Future Cash Flows

The estimated contribution amount for the fiscal year ended March 31, 2020 was ¥533 million ($4,804 thousand).

The weighted-average duration of the defined benefit obligation for the fiscal year ended March 31, 2019 was 12.1 years (for the fiscal year ended March 31, 2018, 13.1 years).

3) Defined Contribution Plan

The amounts recorded as costs in connection with defined contribution plans were ¥1,117 million ($10,064 thousand) in the fiscal year ended March 31, 2019 and ¥1,105 million in the fiscal year ended March 31, 2018.

24. Provisions

(1) Components of provisions

Components of provisions were as follows.

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Non-current liabilities			
Asset retirement obligations	¥235	¥165	$1,485
Provision for restructuring	716	677	6,097
Provision for paid absences	416	413	3,721
Total	¥1,367	¥1,255	$11,303
Current liabilities			
Provision for paid absences	¥727	¥717	$6,457
Provision for sales returns	152	—	—
Provision for sales rebates	525	—	—
Provision for fringe benefits	98	—	—
Others	7	—	—
Total	¥1,508	¥717	$6,457

(2) Statements of changes in provisions

The statements of changes in provisions were as follows.

Millions of yen

	Asset retirement obligations	Provision for restructuring	Provision for paid absences	Provision for fringe benefits	Total
Balance as of April 1, 2018	¥235	¥716	¥1,143	¥98	¥2,192
Additional provision made in the period	1	―	770	―	771
Amounts used during the period	1	―	769	97	867
Unused amounts reversed during the period	71	7	―	1	79
The increase during the period in the discounted amount arising from the passage of time	1	―	2	―	3
Foreign currency translation differences	―	(32)	(16)	―	(49)
Balance as of March 31, 2019	¥165	¥677	¥1,130	¥―	¥1,971

Note: The impact on provisions from the adoption of IFRS 15 is described in "2. Basis of Preparation (4) New Standards and Interpretations - Adopted." Discounts and refund liabilities for returned products, which had been included in "provisions" under current liabilities in the past, are now included in "trade and other payables."

Thousands of U.S. dollars

	Asset retirement obligations	Provision for restructuring	Provision for paid absences	Provision for fringe benefits	Total
Balance as of April 1, 2018	$2,118	$6,452	$10,296	$885	$19,751
Additional provision made in the period	8	—	6,941	—	6,948
Amounts used during the period	14	—	6,926	873	7,812
Unused amounts reversed during the period	639	62	—	11	713
The increase during the period in the discounted amount arising from the passage of time	13	—	14	—	27
Foreign currency translation differences	—	(293)	(148)	—	(440)
Balance as of March 31, 2019	$1,485	$6,097	$10,178	$—	$17,760

(3) Details of provisions

ⅰ. Asset retirement obligations are recorded to provide for the removal of hazardous substances from plant equipment and other facilities and the fulfillment of obligations to restore leased buildings and other facilities to their original state. To this end, the amount expected to be payable in the future is discounted according to the expected period of use based on estimates and other information obtained from construction contractors.
The Santen Group predicts that the timing of the outflow of economic benefits will primarily be after over one year has passed from each fiscal year-end, but the timing will be affected by future business plans.

ⅱ. Provision for restructuring provides for expenditures to be incurred in the course of implementing business restructuring measures. It is provided for in the estimated amount of the related expenses. Furthermore, the Santen Group predicts that the timing of the outflow of economic benefits will primarily be after over one year has passed from each fiscal year-end, but the timing will be affected by future business plans.

ⅲ. Provision for paid absences recognizes a liability for the unused portion of paid absences granted to employees based on the paid absence system. The Santen Group predicts that the timing of the outflow of economic benefits will primarily be after over one year has passed from each fiscal year-end.

25. Trade and Other Payables

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Trade accounts payable	¥20,575	¥21,725	$195,738
Erectronically recorded monetary liabilities	1,896	1,376	12,401
Other payables	7,272	2,257	20,331
Refund liabilities	—	6,721	60,553
Total	¥29,743	¥32,079	$289,023

Refund liabilities are recognized as returned products, rebates and discounts expected to be paid to customers from among the consideration received from customers. Estimates of refund liabilities are based on past results and obtainable information as of the last day of the reporting period. Comparative information has not been revised and restated. Accordingly, accounts other payables in the fiscal year ended March 31, 2018 included ¥5,527 million in rebates expected to be paid to customers.

26. Cash and Cash Equivalents

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Cash on hand and balances with banks	¥69,283	¥70,796	$637,863
Time deposits over three months	—	—	—
Total cash and cash equivalents in consolidated statement of financial position	69,283	70,796	637,863
Bank overdrafts	—	—	—
Cash and cash equivalents in consolidated statement of cash flows	¥69,283	¥70,796	$637,863

27. Financial Instruments

1) Capital Management

The Santen Group considers the equity attributable to owners of the company ratio and profit ratio to equity attributable to owners of the company to be important management indicators. The Group monitors these indicators closely, and conducts purchases of treasury stock on the market and new share issuances as necessary. In doing so, the Group aims to maintain the trust of investors, creditors, and the markets and sustain a strong capital base to support continued development of its business into the future.

The Santen Group's equity attributable to owners of the company ratio and return on equity attributable to owners of the company are as follows.

	Fiscal Year Ended March 31, 2018	Fiscal Year Ended March 31, 2019
Equity attributable to owners of the company ratio (%)	73.6	74.4
Return on equity attributable to owners of the company (%)	13.0	11.1

The Santen Group is not subject to any significant capital regulations.

2) Classification of Financial Assets and Financial Liabilities

Financial assets and financial liabilities are classified as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Financial assets			
Financial assets measured at fair value through other comprehensive income			
Stock	¥34,713	¥28,786	$259,361
Financial assets measured at fair value through profit or loss			
Golf membership rights, etc.	85	217	1,956
Financial assets measured at amortized cost			
Other financial assets	1,449	1,308	11,783
Trade and other receivables	78,654	84,618	762,394
Cash and cash equivalents	69,283	70,796	637,863
Total financial assets	¥184,184	¥185,726	$1,673,357
Financial liabilities			
Financial liabilities measured at fair value through profit or loss			
Derivatives	18	255	2,293
Contingent consideration	17,679	19,674	177,262
Financial liabilities measured at amortized cost			
Other financial liabilities	17,950	15,708	141,522
Trade and other payables	29,743	32,079	289,023
Total financial liabilities	¥65,390	¥67,715	$610,100

3) Outline of Financial Risk Management

In pursuing its business activities, the Santen Group is exposed to credit risk, liquidity risk, market risk and other financial risks. In order to mitigate these risks, the Company carries out risk management based on certain policies.

A. Credit Risk

1) Outline

Credit risk is a risk of financial loss for the Santen Group in the event that a customer or financial institution does not fulfill their contractual obligations as a trading counterparty. This risk primarily manifests in credit extended to customers, guarantee deposits, and loans.

Trade and other receivables are managed by due dates and balances in accordance with credit management rules, and the credit status of key business partners is checked every period.

The percentage of the Santen Group's business conducted with the top 10 wholesalers in Japan reached 63% of consolidated revenue in the fiscal year ended March 31, 2019, compared with 65% in the fiscal year ended March 31, 2018. If the Santen Group's wholesale partners experience bankruptcy leading to credit losses, its business performance might be adversely affected.

Guarantee deposits are lease deposits, mainly for rented office space. The Company aims to quickly identify any collection concerns and reduce credit risk by gathering and evaluating information about the financial status of business partners.

For loans to investee companies, the Company aims to quickly identify any collection concerns and reduce credit risk by not only gathering and evaluating information about their financial status but also monitoring management by attending shareholder meetings held by the investees.

2) Credit exposure

The maximum amount of exposure to credit risks for financial assets is the carrying amount after considering impairment in the consolidated statement of financial position.

Regarding debt guarantees, the balance of debt guarantees shown in "31. (1) Contingent Liabilities" represents the maximum exposure to credit risk.

Regarding exposure to these credit risks, properties held as collateral and other credit enhancements amounted to ¥3 million ($23 thousand) in guarantees (¥3 million in the previous fiscal year) held for credit-impaired financial assets as of the end of the reporting period.

3) Aging analysis

Below is an aging analysis of trade and other receivables.

Fiscal year ended March 31, 2018

Millions of yen

	2018
Not past due	¥78,190
Past due	
30 days or less	369
Over 30 days but within 90 days	126
Over 90 days	172
Total past due	667
Allowance for doubtful receivables	(203)
Total trade and other receivables	¥78,654

Year ended March 31, 2019 (as of March 31, 2019)

Millions of yen

	Financial assets with allowance for doubtful accounts measured at an amount equal to 12-month expected credit losses	Financial assets with allowance for doubtful accounts measured at an amount equal to lifetime expected credit losses			Total
		Financial assets with significantly higher credit risk than initially recognized	Credit-impaired financial assets	Financial assets with allowance for doubtful accounts constantly measured at an amount equal to lifetime expected credit losses	
Prior to due date	¥—	¥—	¥—	¥83,904	¥83,904
Past due date					
Within 30 days	—	—	—	502	502
Over 30 and within 90 days	—	—	—	108	108
Over 90 days	—	—	178	141	319
Total past due date	—	—	178	751	929
Total	¥—	¥—	¥178	¥84,656	¥84,834

Thousands of U.S. dollars

	Financial assets with allowance for doubtful accounts measured at an amount equal to 12-month expected credit losses	Financial assets with allowance for doubtful accounts measured at an amount equal to lifetime expected credit losses			Total
		Financial assets with significantly higher credit risk than initially recognized	Credit-impaired financial assets	Financial assets with allowance for doubtful accounts constantly measured at an amount equal to lifetime expected credit losses	
Prior to due date	$—	$—	$—	$755,964	$755,964
Past due date					
Within 30 days	—	—	—	4,526	4,526
Over 30 and within 90 days	—	—	—	975	975
Over 90 days	—	—	1,604	1,268	2,872
Total past due date	—	—	1,604	6,770	8,374
Total	$—	$—	$1,604	$762,734	$764,338

(b) Analysis of change in allowance for doubtful accounts

The Santen Group records allowance for doubtful accounts based on an examination of the recoverability of trade and other receivables determined by the credit status of business partners. Significant individual financial assets are separately evaluated for impairment. Individual financial assets that are not significant are grouped together by similar types of risk, such as being past due dates, and evaluated for impairment as a whole.

Change in allowance for doubtful accounts for trade and other receivables is as follows.

Fiscal year ended March 31, 2019

Millions of yen

	Financial assets with allowance for doubtful accounts measured at an amount equal to 12-month expected credit losses	Financial assets with allowance for doubtful accounts measured at an amount equal to lifetime expected credit losses			Total
		Financial assets with significantly higher credit risk than initially recognized	Credit-impaired financial assets	Financial assets with allowance for doubtful accounts already measured at an amount equal to lifetime expected credit losses	
Balance at start of fiscal year	¥—	¥—	¥162	¥41	¥203
Increase during fiscal year	—	—	16	19	35
Decrease during fiscal year (intentional use)	—	—	—	—	—
Decrease during fiscal year (reversals)	—	—	—	△15	△15
Others	—	—	—	△8	△8
Balance at end of fiscal year	¥—	¥—	¥178	¥38	¥216

There are no ongoing collection activities for financial assets directly amortized during the fiscal year ended March 31, 2019.

Fiscal year ended March 31, 2019

Thousands of U.S. dollars

	Financial assets with allowance for doubtful accounts measured at an amount equal to 12-month expected credit losses	Financial assets with allowance for doubtful accounts measured at an amount equal to lifetime expected credit losses			Total
		Financial assets with significantly higher credit risk than initially recognized	Credit-impaired financial assets	Financial assets with allowance for doubtful accounts already measured at an amount equal to lifetime expected credit losses	
Balance at start of fiscal year	$−	$−	$1,459	$371	$1,830
Increase during fiscal year	−	−	145	170	316
Decrease during fiscal year (intentional use)	−	−	−	−	−
Decrease during fiscal year (reversals)	−	−	−	(134)	(134)
Others	−	−	−	(68)	(68)
Balance at end of fiscal year	$−	$−	$1,604	$340	$1,944

There are no ongoing collection activities for financial assets directly amortized during the fiscal year ended March 31, 2019.

B. Liquidity Risk

1) Outline

Liquidity risk is the risk that the Santen Group will encounter difficulty in fulfilling obligations related to the financial liabilities it must settle using cash or other financial assets. The main sources of liquidity risk are trade payables and loans payable.

The Santen Group manages liquidity risk primarily by monitoring monthly cash flows.

The Santen Group has commitment lines with banks in order to secure liquidity.

2) Maturity analysis

The balance of financial assets (including derivative financial instruments) by maturity date are as follows.

Year ended March 31, 2018 (as of March 31, 2018)

Millions of yen

	Carrying amount	Contractual cash flows	Within 1 year	Between 1 year and 2 years	Between 2 years and 3 years	Between 3 years and 4 years	Between 4 years and 5 years	Over 5 years
Trade and other payables	¥29,743	¥29,743	¥29,743	¥—	¥—	¥—	¥—	¥—
Other financial liabilities								
Loans payable	7,598	7,609	4,105	503	3,001	—	—	—
Other payables	7,268	7,268	7,268	—	—	—	—	—
Derivatives	18	18	18	—	—	—	—	—
Other	3,084	3,084	3,020	59	3	1	1	0
Total	¥47,711	¥47,722	¥44,154	¥562	¥3,004	¥1	¥1	¥0

Note: The table above does not include contingent consideration arising from business combinations. Details on contingent consideration are disclosed in Note 32 "Business Combination."

Year ended March 31, 2019 (as of March 31, 2019)

Millions of yen

	Carrying amount	Contractual cash flows	Within 1 year	Between 1 year and 2 years	Between 2 years and 3 years	Between 3 years and 4 years	Between 4 years and 5 years	Over 5 years
Trade and other payables	¥32,079	¥32,079	¥32,079	¥—	¥—	¥—	¥—	¥—
Other financial liabilities								
Loans payable	4,063	4,077	504	3,003	2	7	142	418
Other payables	8,377	8,377	8,377	—	—	—	—	—
Derivatives	255	255	—	—	—	—	255	—
Other	3,268	3,268	3,240	12	3	3	3	6
Total	¥48,041	¥48,054	¥44,199	¥3,015	¥5	¥11	¥400	¥425

Thousands of U.S. dollars

	Carrying amount	Contractual cash flows	Within 1 year	Between 1 year and 2 years	Between 2 years and 3 years	Between 3 years and 4 years	Between 4 years and 5 years	Over 5 years
Trade and other payables	$289,023	$289,023	$289,023	$—	$—	$—	$—	$—
Other financial liabilities								
Loans payable	36,611	36,735	4,543	27,058	15	66	1,283	3,769
Other payables	75,471	75,471	75,471	—	—	—	—	—
Derivatives	2,293	2,293	—	—	—	—	2,293	—
Other	29,440	29,440	29,190	107	31	31	24	57
Total	$432,838	$432,962	$398,227	$27,166	$46	$97	$3,600	$3,826

Note: The table above does not include contingent consideration arising from the business combination. Details on contingent consideration are disclosed in Note 32 "Business Combination."

3) Commitment line

As of March 31, 2019 and 2018, the total commitment line and the balance of unexecuted loans were as follows.

	(¥ million)		Thousands of U.S. dollars
	Fiscal Year Ended March 31, 2018 (Year Ended March 31, 2018)	Fiscal Year Ended March 31, 2019 (Year Ended March 31, 2019)	Fiscal Year Ended March 31, 2019 (Year Ended March 31, 2019)
Total commitment line	¥30,000	¥30,000	$270,295
Balanced of executed loans	—	—	—
Difference	¥30,000	¥30,000	$270,295

C. Market Risk

1) Outline

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

(a) Foreign currency exchange risk

With business operations around the world, the Santen Group’s capital is exposed to the risk of fluctuations in foreign currency exchange rates when it conducts transactions in currencies other than its functional currency and coverts the financial statements of foreign operations into yen for consolidation. Foreign currency exchange risk is addressed by adjusting the balance of financial assets and financial liabilities denominated in the same foreign currencies.

i. Foreign currency risk exposure

The following is a summary of the quantitative currency risk exposure data provided to the Santen Group’s management based on its risk management policy:

Thousands of each curency

	2018		2019	
	Euro	U.S. dollar	Euro	U.S. dollar
Trade and other receivables	€3,192	$14,113	€5,046	$13,701
Trade and other payables	(508)	(21,341)	(3,716)	(13,334)
Financial liabilities	—	(166,410)	—	—
Net exposure amount	€2,684	$(173,638)	€1,330	$366

ii. Sensitivity analysis of foreign currency risk
The table below shows the increase (decrease) in profit or loss for the year that would result from the yen's appreciation against the Euro or U.S. dollar at the rates indicated below at the fiscal year-end.
This analysis is based on foreign exchange rate variables that the Santen Group believes to be reasonably possible as of the fiscal year-end. The analysis assumes that all other variables (particularly interest rates) are held constant. It was conducted on the same basis as the analysis for the year ended March 31, 2018. The yen's appreciation at the same rate would have the opposite effect, in the same amount, on profit (loss) for the year.
This analysis does not include the effects of translating financial instruments denominated in the functional currency, as well as the income and expenses and assets and liabilities of foreign operations, into Japanese yen.

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
	Profit (loss)	Profit (loss)	Profit (loss)
Euro (5% appreciation)	¥(18)	¥(8)	$(75)
U.S. dollar (5% appreciation)	922	(2)	(18)

Note: The above negative amounts represent the negative impact on profit before tax in the event of a 5% appreciation in the Japanese yen.

(b) Share price risk
The Santen Group is exposed to the risk of fluctuations in the share prices of equity instruments (stocks). For equity instruments held, the Company periodically examines their fair market value and financial conditions at the issuer, and if the issuer is a business partner, Santen Pharmaceutical monitors the status of the holdings within the context of its relationship with the company.
Assuming all other variables remain constant, if the share prices of Santen Group's holdings of listed had stocks increased or decreased by 10% as of the end of the period, the impact on other comprehensive income (before tax effect considerations) would have been ¥3,343 million in the fiscal year ended March 31, 2018 and ¥2,650 million ($23,877 thousand) in the fiscal year ended March 31, 2019, respectively.

(c) Interest rate risk
Almost all borrowings have fixed interest rates. Accordingly, the impact of fluctuations in interest rates on profits and losses is limited. The Santen Group does not analyze sensitivity with basis point value or other methods because it has concluded there is little interest rate risk.

4) Fair Value of Financial Instruments

A. Method for calculating fair value and assessment techniques

<u>1) Financial assets and financial liabilities measured at fair value through profit and loss</u>

・Derivatives
The fair value of derivatives is calculated using key inputs based on observable market information, assessment techniques such as future cash flow discounted to present value, and market price data obtained from partner financial institutions.
・Contingent considerations
Contingent consideration for a business combination entails milestone payments that depend on development progress and sales performance for DE-128 (PRESERFLO MicroShunt), calculated with reference to the time value of money.

<u>2) Financial assets measured at amortized cost</u>

Financial assets measured at amortized cost are settled over the short term, so their carrying amount is a reasonable approximation of their fair value.

3) Equity instruments

The fair value of listed equity instruments is their market value or market price obtained from a partner financial institution.

The fair value of unlisted equity instruments is assessed using the book value per share method, comparable peer company multiple method , and other factors.

When using comparable peer company multiple method, similar companies are identified for comparison, and the fair values are calculated using the stock indicators of these similar companies.

4) Financial liabilities measured at amortized cost

・Loans

Loans with variable interest rates reflect short-term market interest rates, therefore their fair value approximates their carrying amount. The fair value of loans with fixed interest rates is measured with a discount applied for the likely interest rate if a similar loan was newly taken out in the total amount of the principal and interest.

For liabilities other than the aforementioned items, current liabilities are settled over the short term, and non-current liabilities have prevailing interest rates, so their carrying amounts are reasonable approximations of their fair values.

B. Fair Value and Carrying Amount

The carrying amount and fair value of financial instruments are shown below. Financial instruments measured at fair value, and financial instruments whose carrying amounts and fair values are a reasonable approximation, are not included in the following table.

	Millions of yen				Thousands of U.S. dollars	
	2018		2019		2019	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Loans payable	¥7,598	¥7,552	¥4,063	¥4,062	$36,610	$36,603

Notes: 1. Includes the balance of loans scheduled for repayment within one year.

2. The fair value of loans payable is categorized as Level 2.

C. Approaches and Valuation Techniques Applied to Measure Fair Value

The valuation techniques for measuring the fair value of financial instruments are as follows:

1) Loans payable

Loans payable with floating interest rates have fair values that approximate their carrying amounts because market interest rates are reflected in a short period. The fair value of loans payable with fixed interest rates are measured by the total sum of the principal and interest discounted by the interest rates that would apply if similar borrowings were conducted anew.

2) Contingent consideration

The fair value of contingent consideration arising from the business combination mainly comprises the milestone payment based on progress with the development of MicroShunt and sales performance. The fair value of this contingent consideration is calculated with consideration for the time value of money.

D. Fair Value Hierarchy

The following table is an analysis of financial instruments carried at fair value by valuation method.

The levels of the fair value hierarchy are defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as a price) or indirectly (i.e., derived from price)

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

The measurement of fair value is undertaken in accordance with the Santen Group’s valuation policies and procedures. Fair value is measured using the valuation model that most appropriately reflects the individual characteristics, features and risks of the financial instruments.

Any significant transfers of the financial instruments between levels are evaluated at each period end.

Year ended March 31, 2018

Millions of yen

	Level 1	Level 2	Level 3	Total
Assets				
Financial assets measured at fair value through other comprehensive income				
Stocks	¥33,427	¥−	¥1,285	¥34,713
Financial assets measured at fair value through profit or loss				
Golf membership rights, etc.	−	20	66	85
Liabilities				
Financial liabilities measured at fair value through profit or loss				
Derivatives	¥−	¥18	¥−	¥18
Contingent consideration	−	−	17,679	17,679

Note: There were no significant transfers of financial instruments between levels of the fair value hierarchy.

Year ended March 31, 2019

	Millions of yen				Thousands of U.S. dollars			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Financial assets measured at fair value through other comprehensive income								
Stocks	¥26,501	¥—	¥2,286	¥28,786	$238,767	$—	$20,594	$259,361
Financial assets measured at fair value through profit or loss								
Golf membership rights, etc.	—	28	189	217	—	253	1,703	1,956
Liabilities								
Financial liabilities measured at fair value through profit or loss								
Derivatives	—	255	—	255	—	2,293	—	2,293
Contingent consideration	—	—	19,674	19,674	—	—	177,262	177,262

Note: There were no significant transfers of financial instruments between levels of the fair value hierarchy.

The change in carrying values associated with Level 3 financial instruments using significant unobservable inputs.

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Balance, at the beginning of year	¥859	¥1,351	$12,172
Profits or losses	(27)	61	552
Other comprehensive income*2	(27)	61	552
Purchases	539	1,056	9,514
Other	(20)	6	59
Balance, at the end of year	¥1,351	¥2,475	$22,297

Notes:

1. The table above does not include contingent consideration arising from the business combination. Details on contingent consideration are disclosed in Note 32 "Business Combination."
2. Amounts are included in “Net gain or loss on financial assets measured at fair value through other comprehensive income” on the consolidated statement of profit or loss and other comprehensive income.
3. Measurement of fair value for Level 3 shares is performed in accordance with related internal rules. The measurement of fair value is performed using inputs and assessment techniques that appropriately reflect the qualities, characteristics and risks of the financial instrument being measured.
   The price earnings ratio and an illiquidity discount are used as key unobservable inputs for the measurement of fair value of stock classified as Level 3 that is routinely measured at fair value. Fair value increases (decreases) when the price earnings ratio rises (declines), and fair value decreases (increases) when the illiquidity discount increases (decreases).
   For Level 3 stocks, if unobservable inputs are switched to reasonable alternative assumptions, it is not important to increase or decrease their fair value.

28. Operating Leases

(1) The Total of Future Minimum Lease Payments under Non-cancellable Operating Leases

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Not later than 1 year	¥1,801	¥3,075	$27,702
Later than 1 year but not later than 5 years	2,440	5,432	48,940
Later than 5 years	480	779	7,022
Total	¥4,721	¥9,286	$83,664

(2) Lease Payments Recognized as Expenses

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Lease payments	¥2,337	¥2,805	$25,270

29. Subsidiaries

Structure of the Santen Group

Name	Location	Main business	Percentage of voting equity	
			2018	2019
Claire Co., Ltd.	Japan	Cleaning services	100.0	100.0
Santen Business Services Co., Ltd.	Japan	Indirect support services	100.0	100.0
Santen Eye Care Co., Ltd.	Japan	Manufacturing and sales of prescription pharmaceuticals	100.0	100.0
Santen Holdings U.S. Inc.	U.S.A.	Regional headquarters and management of North American subsidiaries	100.0	100.0
Santen Inc.	U.S.A.	Clinical development of prescription pharmaceuticals and related business development	100.0 (100.0)	100.0 (100.0)
Advanced Vision Science, Inc.	U.S.A.	Development, manufacturing and sales of medical devices	100.0 (100.0)	100.0 (100.0)
Phacor Inc.	U.S.A.	-	100.0 (100.0)	100.0 (100.0)
InnFocus, Inc.	U.S.A.	Development, manufacturing and sales of medical devices	100.0	100.0 (100.0)
Santen Ventures, Inc.	U.S.A.	Investment in startup companies	100.0 (100.0)	100.0 (100.0)
Santen Canada, Inc.	Canada	Sales of prescription pharmaceuticals	—	100.0 (100.0)
Santen Holdings EU B.V.	Netherlands	Financing headquarters for EMEA business	100.0	100.0
Santen Oy	Finland	Manufacturing, sales, contract manufacturing, and clinical development of prescription pharmaceuticals	100.0 (100.0)	100.0 (100.0)
Santen S.A.S.	France	Clinical development and sales of prescription pharmaceuticals	100.0 (100.0)	100.0 (100.0)
Santen GmbH	Germany	Sales of prescription pharmaceuticals and related business development	100.0 (100.0)	100.0 (100.0)
SantenPharma AB	Sweden	Sales support for prescription pharmaceuticals	100.0 (100.0)	100.0 (100.0)

Name	Location	Main business	Percentage of voting equity	
			2018	2019
Santen SA	Switzerland	EMEA regional headquarters and management, and manufacturing and sales of prescription pharmaceuticals	100.0 (100.0)	100.0 (100.0)
Santen Italy S.r.l.	Italy	Sales of prescription pharmaceuticals	100.0 (100.0)	100.0 (100.0)
Santen UK Limited	UK	Sales of prescription pharmaceuticals	100.0 (100.0)	100.0 (100.0)
Santen Pharmaceutical Spain, S.L.	Spain	Sales of prescription pharmaceuticals	100.0 (100.0)	100.0 (100.0)
SANTEN LIMITED LIABILITY COMPANY	Russia	Sales support for prescription pharmaceuticals	100.0 (100.0)	100.0 (100.0)
Santen Pharmaceutical (China) Co., Ltd.	China	Manufacturing, sales and clinical development of prescription pharmaceuticals	100.0	100.0
Santen Pharmaceutical Sales and Marketing (Suzhou) Co., Ltd.	China	Sales of prescription pharmaceuticals	100.0 (100.0)	100.0 (100.0)
Chongqing Santen Kerui Pharmaceutical Co., Ltd.	China	Manufacturing and sales of prescription pharmaceuticals	49.0 (49.0)	49.0 (49.0)
Santen Pharmaceutical Korea Co., Ltd.	Korea	Sales and clinical development of prescription pharmaceuticals	100.0	100.0
Taiwan Santen Pharmaceutical Co., Ltd.	Taiwan	Sales of pharmaceuticals	100.0	100.0
Santen India Private Limited	India	Market research and clinical development of pharmaceuticals	100.0 (0.1)	100.0 (0.1)
Santen Pharmaceutical Asia Pte. Ltd.	Singapore	Oversight and management of Asia region, production and sale of ethical pharmaceuticals	100.0	100.0
SANTEN (THAILAND) CO., LTD.	Thailand	Sales of prescription pharmaceuticals	100.0 (100.0)	100.0 (100.0)
SANTEN PHARMA MALAYSIA SDN. BHD.	Malaysia	Sales of prescription pharmaceuticals	100.0 (100.0)	100.0 (100.0)

Name	Location	Main business	Percentage of voting equity	
			2018	2019
SANTEN PHILIPPINES INC.	Philippines	Sales of prescription pharmaceuticals	100.0 (100.0)	100.0 (100.0)
SANTEN PHARMACEUTICAL (HONG KONG) LIMITED	China	Sales of prescription pharmaceuticals	100.0 (100.0)	100.0 (100.0)

Notes:

1. Numbers included in parentheses at "Percentage of voting equity" represent the ratio of the equity through indirect ownership to the total voting equity.
2. The percentage of voting equity with Chongqing Santen Kerui Pharmaceutical Co., Ltd. represents the ratio of the contribution. Chongqing Santen Kerui Pharmaceutical Co., Ltd. became a consolidated subsidiary since Santen Pharmaceutical (China) Co., Ltd. has a majority of the voting rights.
3. Santen Canada Inc. has been newly established and included in the scope of consolidation from the fiscal year ended March 31, 2019.
4. In addition to the aforementioned, trusts related to the stock remuneration system introduced during the fiscal year ended March 31, 2019 are included in the scope of consolidation.

30. Related Parties

1) Related Party Transactions

Year ended March 31, 2018 (April 1, 2017 to March 31, 2018)
There were no transactions to report.

Year ended March 31, 2019 (April 1, 2018 to March 31, 2019)
There were no transactions to report.

2) Compensation for Key Management Personnel

The key management personnel of the Company refers to all of its directors, including outside directors.

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Compensation	¥156	¥241	$2,174
Restricted stock-linked remuneration	—	11	96
Performance share units	—	25	223
Stock options	110	—	—
Total	¥266	¥277	$2,493

31. Contingencies
(1) Contingent Liabilities

A. Guarantees
The Company has provided guarantees to financial institutions covering employee loans.
These are not recognized as liabilities in the consolidated statement of financial position because the possibility of loss from contingent liabilities was remote.

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Employees (debt obligations)	¥23	¥17	$152

32. Business Combination

1) Business Combination
For the year ended March 31, 2018
There are no business conbination to report.

For the year ended March 31, 2019
There were no business combinations during the fiscal year ended March 31, 2019.

2) Contingent consideration

Contingent consideration for a business combination entails milestone payments that depend on development progress and sales performance for DE-128 (PRESERFLO MicroShunt). The Company expects US$409 million (before discounts) in total future payments in accordance with the contingent consideration contract.
The fair value hierarchy level of the contingent consideration is Level 3.
Of the changes in the fair values related to contingent consideration, the components based on changes in the time value of money are recorded as “Finance expenses,” while the components based on changes in factors other than the time value of money are recorded as “Other income” or “Other expenses.”

A. Changes

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Opening balance	¥18,669	¥17,679	$159,288
Profits and losses			
Net profit or loss *1	(990)	2,343	21,107
Other comprehensive income *2	—	(348)	(3,132)
Closing balance	¥17,679	¥19,674	$177,262

Notes: 1. Amounts are included in finance income and finance expenses on the consolidated statement of profit or loss and other comprehensive income.

2.Amounts are included in foreign currency translation adjustments on the consolidated statement of profit or loss and other comprehensive income.

3. Measurement of fair value related to Level 3 contingent considerations is performed in accordance with assessment methods and procedures with the relevant department choosing the assessment method and measuring fair value. Appropriate managers approve the results of measurements of fair value.

Contingent consideration entails milestone payments that depend on development progress and sales performance for DE-128 (PRESERFLO MicroShunt). Its fair value is calculated with considerations made for the program's potential for success and the time value of money. In the event that the program's potential for success increases as a key unobservable input, the fair value will increase.

For Level 3 contingent considerations, if unobservable inputs are replaced by reasonable alternative assumptions, it is not important to increase or decrease the fair value.

B. Scheduled payments by maturity

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
One year or less	¥1,730	¥12,648	$113,954
One to five years	12,779	4,417	39,794
More than five years	5,477	4,216	37,985

C. Sensitivity analysis

If the significant assumptions that affect the fair value of contingent consideration were to change, the fair value of contingent consideration would be impacted as follows:

		Millions of yen		Thousands of U.S. dollars
		2018	2019	2019
Discount rate	1.0% increase	¥(480)	¥(402)	$(3,618)
	1.0% decrease	577	502	4,522

33. Significant subsequent events

Not applicable.

Internal Control Report

1 Framework of Internal Control Over Financial Reporting

We, as Chairman and CEO of Santen Pharmaceutical Co., Ltd. (the Company), President and COO of the Company and CFO of the Company, are responsible for the design and operation of internal controls over financial reporting ("ICOFR") and for establishing and maintaining an ICOFR based on the framework of ICOFR in Japan in accordance with "On the Setting of the Standards and Practice Standards for Management Assessment and Audit concerning Internal Control Over Financial Reporting (Business Accounting Council (Council Opinions), February 15, 2007)."

Internal control aims at achieving the objectives to a reasonable extent with the organized and integrated function of individual component as a whole. Therefore ICOFR does not provide an absolute assurance for preventing and detecting all errors to consolidated financial statements.

2 Assessment Scope, Timing and Procedures

Basis of Presenting Internal Control Report

The report on ICOFR of the consolidated financial statements of the Company ("Internal Control Report") is prepared on the basis of generally accepted assessment standards of internal control over financial reporting in Japan ("Assessment Standards") and is compiled from the Internal Control Report prepared by the Company as required by the Financial Instruments and Exchange Law of Japan ("Law").

The Assessment Standards require management to assess ICOFR, which consists of the internal controls over the consolidated financial statements included in the Annual Securities Report filed under the Law and the internal control over disclosure information and others included in the Annual Securities Report that materially affects the reliability of the financial statements.

The scope of management's assessment of ICOFR in this annual report is different from the scope required by the Assessment Standards. Management assessment of ICOFR in this annual report covers the ICOFR with respect to the accompanying consolidated financial statements only. In addition, the accompanying consolidated financial statements are reclassified and modified from the consolidated financial statements prepared for the purpose of the Law. Supplementary information is also added to the consolidated financial statements. The process of making reclassifications and modifications and the addition of certain information is for the convenience of readers outside Japan. Management voluntarily includes the process in its assessment of ICOFR, even though it is outside the scope of the Assessment Standards.

Scope of Assessment

Management's assessment of ICOFR was conducted as of March 31, 2019 in accordance with the Assessment Standards.

In evaluating internal controls, management first assessed internal controls that have a material impact on overall consolidated financial reporting ("company-level controls") and, based on the results, selected business processes to be assessed. For assessment of process level controls management analyzed the selected business processes, identified a key control that would have a material impact on the reliability of financial reporting, and assessed effectiveness of internal controls through assessing design and operation of the key controls.

Management assessed the effectiveness of the ICOFR applicable for the Company and its subsidiaries, to extent necessary in light of their degree of impact on the reliability of financial reporting. Management determined materiality for reliability of financial reporting in light of their degree of quantitative and qualitative impact on financial reporting. From the results of the company-level controls assessment of the Company and 9 subsidiaries, management determined a reasonable scope for process level controls to be assessed.

Management selected the Company as the significant business unit for assessing process level controls, as its revenue was more than 2/3 of the previous fiscal year's consolidated revenue. The process related to revenue, account receivables and inventories from the Company were selected for process level control assessment as they have significant relation to the business objectives of the Company. Apart from selected significant business units, including other business units, processes whose accounts were determined to have a high risk of misstatement and involves significant use of management estimate and projection, and processes whose businesses or operations included high risk transactions were additionally selected for controls assessment.

3 Results of assessment

Based on our assessment procedures noted above, we concluded the Company's internal control over financial reporting was effective as of March 31, 2019.

4 Supplementary information

No subsequent events have arisen that has caused to materially effect our evaluation of the effectiveness on the internal control over financial reporting as of March 31, 2019.

5 Other

Nothing to report.

Akira Kurokawa	Shigeo Taniuchi	Kazuo Koshiji
Chairman & CEO	President & COO	CFO

September 6, 2019

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Santen Pharmaceutical Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated statement of profit or loss and other comprehensive income, statement of financial position, statement of changes in equity and statement of cash flows for the year then ended March 31, 2019, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Santen Pharmaceutical Co., Ltd. and its consolidated subsidiaries as at March 31, 2019, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2019 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2 to the consolidated financial statements.

Report on the Internal Control Report

We also have audited the accompanying report on internal control over financial reporting of the consolidated financial statements of Santen Pharmaceutical Co., Ltd. as at March 31, 2019 (“Internal Control Report”).

Management’s Responsibility for the Internal Control Report

Management is responsible for the design and operation of internal control over financial reporting and the preparation and fair presentation of the internal control report in conformity with assessment standards for internal control over financial reporting generally accepted in Japan. Internal control over financial reporting may not completely prevent or detect financial statement misstatements.

Auditor’s Responsibility

Our responsibility is to express an opinion on the internal control report based on our internal control audit. We conducted our internal control audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Internal Control Report is free from material misstatement.

An internal control audit involves performing procedures to obtain audit evidence about the assessment of internal control over financial reporting in the Internal Control Report. The procedures selected depend on the auditor’s judgement, including significance of effect on the reliability of financial reporting. Also, an internal control audit includes evaluating the appropriateness of the scope, procedures and result of the assessment determined and presented by management, and the overall internal control report presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Internal Control Report, in which Santen Pharmaceutical Co., Ltd. states that internal control over financial reporting was effective as at March 31, 2019, presents fairly, in all material respects, the assessment of internal control over financial reporting in conformity with assessment standards for internal control over financial reporting generally accepted in Japan.

KPMG AZSA LLC

September 6, 2019
Osaka, Japan