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

Fiscal year ended March 31, 2022

		Millions of yen	
	Note	2021	2022
Revenue	6, 7	¥249,605	¥266,257
Cost of sales	8,29	(98,221)	(109,671)
Gross profit		151,384	156,586
Selling, general and administrative expenses	8,29	(79,554)	(84,499)
Research and development expenses	8,29	(24,112)	(26,377)
Amortization on intangible assets associated with products	16	(10,650)	(9,734)
Other income	9	16,007	1,043
Other expenses	10	(40,889)	(1,133)
Operating profit		12,187	35,886
Finance income	11	1,346	2,543
Finance expenses	11,29	(1,488)	(1,209)
Share of loss of investments accounted for using equity method	18	(358)	(1,604)
Profit before tax		11,688	35,616
Income tax expenses	12	(2,562)	(8,427)
Net profit for the year		9,126	27,189
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	1,573	449
Net gain or loss on financial assets measured at fair value through other comprehensive income	13	45	(1,067)
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation adjustments	13	7,061	11,235
Share of other comprehensive income of investments accounted for using equity method	13，18	170	744
Other comprehensive income	13	8,849	11,361
Total comprehensive income for the year		17,974	38,550
Profit attributable to			
Owners of the company		9,311	27,218
Non-controlling interests		(185)	(29)
Net profit for the year		9,126	27,189
Total comprehensive income attributable to			
Owners of the company		18,204	38,660
Non-controlling interests		(230)	(110)
Total comprehensive income for the year		17,974	¥38,550

Earnings per share		Yen	
		2021	2022
Basic earnings per share	14	¥23.30	¥68.07
Diluted earnings per share	14	23.26	67.97

Consolidated Statement of Financial Position

Santen Pharmaceutical Co., Ltd. and Its Consolidated Subsidiaries
As of March 31, 2022

	Note	2021	2022
		Millions of yen	
Assets			
Non-current assets			
Property, plant and equipment	15,29	¥39,489	¥56,287
Intangible assets	16	115,808	130,217
Financial assets	17	31,903	28,673
Retirement benefit asset	24	1,619	3,011
Investments accounted for using equity method	18	5,162	7,565
Deferred tax assets	12	2,824	3,103
Other non-current assets		2,249	1,695
Total non-current assets		199,054	230,551
Current assets			
Inventories	19	41,575	37,141
Trade and other receivables	20	95,992	99,591
Other financial assets	17	527	1,293
Other current assets		5,248	8,387
Cash and cash equivalents	27	62,888	83,014
Total current assets		206,231	229,426
Total assets		405,285	459,976
Equity and liabilities			
Equity			
Equity attributable to owners of the company			
Share capital	21	8,525	8,672
Capital surplus	21	8,954	9,370
Treasury shares	21	(934)	(718)
Retained earnings	21	273,238	290,477
Other components of equity	21, 22	20,398	29,688
Total equity attributable to owners of the company		310,181	337,488
Non-controlling interests		(535)	(645)
Total equity		309,646	336,844
Liabilities			
Non-current liabilities			
Financial liabilities	23	10,141	22,023
Net defined benefit liabilities	24	1,210	1,077
Provisions	25	600	738
Deferred tax liabilities	12	3,626	2,526
Other non-current liabilities		1,514	948
Total non-current liabilities		17,090	27,312
Current liabilities			
Trade and other payables	26	38,106	41,185
Other financial liabilities	23	23,739	38,533
Income tax payable		5,458	4,198
Provisions	25	819	939
Other current liabilities		10,428	10,965
Total current liabilities		78,549	95,821
Total liabilities		95,639	123,133
Total equity and liabilities		405,285	¥459,976

Consolidated Statement of Changes in Equity

Santen Pharmaceutical Co., Ltd. and Its Consolidated Subsidiaries

Fiscal year ended March 31, 2021

Millions of yen

	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, 2020		¥8,366	¥8,746	¥(1,033)	¥273,422	¥―	¥11,150
Comprehensive income							
Net profit for the year					9,311		
Other comprehensive income	13					1,573	45
Total comprehensive income for the year		―	―	―	9,311	1,573	45
Transactions with owners							
Issuance of new shares	21	160	160				
Acquisition of treasury shares	21			(4)			
Retirement of treasury shares	21		(20)	102			
Dividends	21				(11,187)		
Share-based payments	21, 22		68				
Other					1,692	(1,573)	(119)
Total transactions with owners		160	208	98	(9,495)	(1,573)	(119)
Balance at March 31, 2021		¥8,525	¥8,954	¥(934)	¥273,238	¥―	¥11,075

Millions of yen

	Note	Other components of equity				Total equity attributable to owners of the company	Non-controlling interests	Total equity
		Foreign currency translation adjustments	Share of other comprehensive income of investments accounted for using equity method	Subscription rights to shares	Total			
Balance at April 1, 2020		¥1,529	¥―	¥686	¥13,364	¥302,865	¥(305)	¥302,560
Comprehensive income								
Net profit for the year					―	9,311	(185)	9,126
Other comprehensive income	13	7,105	170		8,893	8,893	(45)	8,849
Total comprehensive income for the year		7,105	170	―	8,893	18,204	(230)	17,974
Transactions with owners								
Issuance of new shares	21			(167)	(167)	152		152
Acquisition of treasury shares	21				―	(4)		(4)
Retirement of treasury shares	21				―	82		82
Dividends	21				―	(11,187)		(11,187)
Share-based payments	21, 22				―	68		68
Other					(1,692)	―		―
Total transactions with owners		―	―	(167)	(1,859)	(10,888)	―	(10,888)
Balance at March 31, 2021		¥8,634	¥170	¥518	¥20,398	¥310,181	¥(535)	¥309,646

Santen Pharmaceutical Co., Ltd. and Its Consolidated Subsidiaries

Fiscal year ended March 31, 2022

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, 2021		¥8,525	¥8,954	¥(934)	¥273,238	¥—	¥11,075
Comprehensive income							
Net profit for the year					27,218		
Other comprehensive income	13					449	(1,067)
Total comprehensive income for the year		—	—	—	27,218	449	(1,067)
Transactions with owners							
Issuance of new shares	21	146	146				
Acquisition of treasury shares	21			(12)			
Retirement of treasury shares	21		(15)	228			
Dividends	21				(11,998)		
Share-based payments	21, 22		285				
Other					2,019	(449)	(1,570)
Total transactions with owners		146	416	216	(9,979)	(449)	(1,570)
Balance at March 31, 2022		¥8,672	¥9,370	¥(718)	¥290,477	¥—	¥8,438

Millions of yen

	Note	Other components of equity: Foreign currency translation adjustments	Other components of equity: Share of other comprehensive income of investments accounted for using equity method	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, 2021		¥8,634	¥170	¥518	¥20,398	¥310,181	¥(535)	¥309,646
Comprehensive income								
Net profit for the year					—	27,218	(29)	27,189
Other comprehensive income	13	11,316	744		11,442	11,442	(81)	11,361
Total comprehensive income for the year		11,316	744	—	11,442	38,660	(110)	38,550
Transactions with owners								
Issuance of new shares	21			(134)	(134)	159		159
Acquisition of treasury shares	21				—	(12)		(12)
Retirement of treasury shares	21				—	213		213
Dividends	21				—	(11,998)		(11,998)
Share-based payments	21, 22				—	285		285
Other					(2,019)	—		—
Total transactions with owners		—	—	(134)	(2,152)	(11,353)	—	(11,353)
Balance at March 31, 2022		¥19,950	¥914	¥384	¥29,688	¥337,488	¥(645)	¥336,844

Consolidated Statement of Cash Flows

Santen Pharmaceutical Co., Ltd. and Its Consolidated Subsidiaries

Fiscal year ended March 31, 2022

		Millions of yen	
	Note	2021	2022
Cash flows from operating activities			
Net profit for the year		¥9,126	¥27,189
Depreciation and amortization		17,498	17,055
Impairment losses		40,664	232
Shares of loss (profit) of Investments accounted for using equity method		358	1,604
Finance expenses (income)		(609)	(652)
Income tax expenses		2,562	8,427
Decrease (increase) in trade and other receivables		(7,514)	(1,965)
Decrease (increase) in inventories		(4,590)	5,383
Increase (decrease) in trade and other payables		4,948	2,491
Increase (decrease) in provisions and net defined benefit liabilities		(176)	(1,358)
Increase (decrease) in accounts payable-other		3,199	257
Increase (decrease) in long-term accounts payable-other		(17,344)	(102)
Other		2,993	(2,852)
Subtotal		51,115	55,709
Interest received		195	323
Dividends received		490	497
Interest paid		(159)	(240)
Income tax paid		(12,834)	(10,246)
Net cash flows from (used in) operating activities		38,808	46,043
Cash flows from investing activities			
Payments for acquisition of investments		(3,384)	(1,067)
Proceeds from sale of investments		3,070	3,870
Payments for acquisition of shares of subsidiaries	33	(23,834)	—
Payments for acquisition of investments accounted for using equity method		(5,349)	(2,969)
Payments for acquisition of property, plant and equipment		(4,139)	(17,344)
Payments for acquisition of intangible assets		(19,665)	(18,497)
Other		(55)	838
Net cash flows from (used in) investing activities		(53,355)	(35,169)
Cash flows from financing activities			
Proceeds from short-term loans		—	10,460
Proceeds from long-term loans		307	10,000
Repayments of long-term loans		(3,000)	(0)
Dividends paid	21	(11,188)	(11,994)
Repayments of lease liabilities		(2,952)	(3,056)
Other		148	147
Net cash flows from (used in) financing activities		(16,685)	5,557
Net increase (decrease) in cash and cash equivalents		(31,232)	16,432
Cash and cash equivalents at the beginning of period	27	91,430	62,888
Effect of exchange rate changes on cash and cash equivalents		2,690	3,694
Cash and cash equivalents at the end of period	27	¥62,888	¥83,014

Notes to Consolidated Financial Statements

1. Reporting Entity

Santen Pharmaceutical Co., Ltd., its consolidated subsidiaries and its associates accounted for by the equity method (”The Santen Group”) are primarily engaged in manufacture and sale of 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.

4) Approval of Consolidated Financial Statements

The Santen Group’s consolidated financial statements for the fiscal year ended March 31, 2022 were approved on September 16, 2022 by Chairman Akira Kurokawa, President and CEO Takeshi Ito.

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 and liabilities of the acquired entity are generally measured at fair value at the date of acquisition. 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 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 at year-end exchange rates, and nonmonetary assets and liabilities denominated in foreign currencies measured at fair value are translated at the exchange rates in effect at the date when the fair value was determined. Nonmonetary assets and liabilities denominated in foreign currencies measured at historical cost are translated into the functional currency at the spot exchange rate on the date of the initial transaction. Differences arising from the translation and settlement 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. Depending on the terms of the agreements, the Company is also obligated to accept returns, rebates and discounts, which are then measured on a net basis. The transaction price in this case is calculated as the consideration committed to the contract with the customer less these estimates, and the consideration expected to be refunded to the customer is recorded as a refund liability. The estimated liability for such refunds is calculated based on the terms of the agreements and historical experience. The Company uses the practical expedient and does not adjust for any significant financial factors as the consideration for the transaction is generally received within 120 days of satisfaction of performance obligations.

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 which does not meet the criteria of capitalization mentioned above 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 not be reversed in the foreseeable future or taxable profit will not 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 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, equipment 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 impairment losses. Goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the synergies of the business combination.

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 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 tested for impairment and assessed for recoverability annually regardless of whether there is an indication of impairment of the asset or cash-generating unit (CGU).

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. The value in use is the present value of the future cash flow that is expected to be generated by an asset, a cash-generating unit or a group of cash-generating units. If the carrying amount of the asset or cash-generating unit exceeds the recoverable amount, impairment losses are 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 losses were recognized in prior years is assessed at the end of the reporting period to determine whether there is any indication that the impairment losses 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 losses is reversed up to the lower of the estimated recoverable amount or the carrying amount that would have been determined if no impairment losses had been recognized in prior years.

11) Leases

At the time of signing a contract, the Santen Group determines whether the contract is a lease or includes a lease. The contract is considered to be a lease or include a lease when the right to control the use of the identified assets is conveyed for a period of time in exchange for consideration.

If the contract is determined to be a lease or include a lease, the right-of-use asset and the lease liability are recognized at the inception date of the lease. Right-of-use assets are initially measured at acquisition cost adjusted for initial direct costs and lease incentives, etc. to the initial measurement of lease liabilities.

When ownership of the underlying assets is transferred to the lessee by the end of the lease term, or when the acquisition cost of the right-of-use asset reflects the use of the purchase option, the right-of-use asset is depreciated from the inception date to the end of the useful life of the underlying asset, otherwise it is depreciated regularly over the shorter of the economic life or the lease term from the inception date. In addition, right-of-use assets are impaired (where applicable) by impairment losses and adjusted for remeasurement of the lease liabilities.

Lease liabilities are initially measured at the present value of outstanding lease payments discounted at the lessee’s incremental borrowing rate at the inception date of the lease. After the commencement date of the lease, the carrying amount of the lease liability is increased or decreased to reflect the lease interest on the lease liability and the lease payments. If the lease liability is revised or the lease terms are revised, the lease liability is remeasured and the right-of-use asset is modified. In the measurement of lease liabilities, the lease component and the related non-lease component are not separated but recognized as a single lease component.

The commencement date is the date when the right-of-use asset is acquired, and the lease term is calculated from the lease commencement date. The lease term is estimated to be the period in which it is reasonably certain that the lessee will exercise (or not exercise) the option to extend the lease during the non-cancellable period of the lease, including the free rent period.

In the consolidated statement of financial position, the right-of-use assets are included in “Property, plant and equipment” and lease liabilities are included in “Financial liabilities” or “Other financial liabilities.”

The Company has selected to apply the exemption of IFRS 16 for short-term leases with lease terms of 12 months or less and immaterial leases, not to recognize right-of-use assets and lease liabilities. The Santen Group recognizes lease payments associated with those assets as expenses over the lease term using the straight-line method.

12) Financial Instruments

<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 losses 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
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 fully written-off.
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.

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. Subsequent to initial recognition, derivatives are measured at fair value and the related transaction costs are recognized as expenses as incurred. However, for derivative transactions that are hedging instruments, hedge accounting is applied if the hedging criteria are met. 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 compensation expenses

The Company has adopted the Performance Share Unit System and the Restricted Stock Compensation System, or the Restricted Stock Unit Plan as equity compensation plans for directors (other than outside directors), executive officers and certain employees. Stock option plan has been abolished, except for those already granted.

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.

Prior service cost is recognized in profit or loss when incurred.

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:

1) Goodwill ¥13,715 million and intangible assets associated with products ¥103,838 million

Goodwill and intangible assets related to products that are not yet available for use are tested for impairment and assessed for recoverability annually regardless of whether there is an indication of impairment of the asset or cash-generating unit. As of the end of each reporting period intangible assets associated with products that are available for use are also assessed for indicators of possible impairment of an asset or cash-generating unit, and if indicators of impairment exist, they are tested for impairment to assess recoverability.

In the assessment of recoverability, the higher of fair value less costs of disposal or value in use is regarded as the recoverable amount. If the recoverable amount is less than the carrying amount, the carrying amount is written down to the recoverable amount, and the amount to be written down is recognized in profit or loss as impairment losses.

When calculating the recoverable amount as value in use, there is a high degree of uncertainty regarding the development success rate used to calculate value in use. Future cash flows, which are the basis for calculating value in use, are estimated based on the Santen Group's business plan. However, there is a high degree of uncertainty mainly with respect to the prospects for drug prices and market share expansion. In addition, the discount rate used to calculate value in use is based on the weighted average cost of capital, which requires a high degree of expertise in selecting calculation methods and input data. Unforeseeable changes in assumptions and other factors could materially affect the calculation of value in use and consequently materially affect the amount of goodwill and intangible assets associated with products.

Further information on intangible assets is provided in Note 16, "Intangible Assets."

2) Contingent consideration in business combination ¥2,989 million

Contingent consideration in a business combination is classified as "financial liabilities measured at fair value through profit or loss" and is measured at fair value after initial recognition, and the changes are recognized in profit or loss. The contingent consideration is calculated based on the development success rate and future sales plans to determine its fair value because the Company is obligated to make payments based on progress in the development of STN2000100（DE-128, PRESERFLO MicroShunt） and the achievement of milestones based on sales performance.
There is a high degree of uncertainty regarding the development success rate used to determine fair value. In addition, future sales plans, which are the basis for determining fair value, are estimated based on Santen's business plans. However, there is a high degree of uncertainty primarily with respect to estimated sales prices and anticipated market share. Unforeseeable changes in assumptions and other factors could materially affect the determination of the fair value of contingent consideration. Further information on contingent consideration is provided in Note 33 2), “Business Combination-Contingent consideration."

5. New Standards and Interpretations Not Yet Adopted

As of the approval date of the consolidated financial statements, no new or revised standards and interpretations having a significant impact on the Santen Group's consolidated financial statements had been issued.

6. Operating Segments

1) Reportable Segments

Segment information is omitted because the Santen Group has a single segment.

2) Products and Services Information

Fiscal year ended March 31, 2021

Millions of yen

	Prescription Pharmaceuticals	OTC Pharmaceu ticals	Medical Devices	Others	Total
Revenue from external customers	¥234,687	¥9,410	¥4,037	¥1,471	¥249,605

Fiscal year ended March 31, 2022

Millions of yen

	Prescription Pharmaceuticals	OTC Pharmaceu ticals	Medical Devices	Others	Total
Revenue from external customers	¥249,579	¥9,780	¥5,184	¥1,714	¥266,257

3) Geographical Areas Information

Fiscal year ended March 31, 2021

Millions of yen

	Japan	China	Asia	EMEA	Americas	Total
Revenue from external customers[*1]	¥169,133	¥23,349	¥17,216	¥37,896	¥2,011	¥249,605
Non-current assets[*2,*3]	92,030	7,245	637	15,373	42,262	157,547

Notes:

1. Revenue is classified into countries or regions based on customer location. China is not included in Asia.
2. Non-current assets are classified by country or region based on the location of the assets and do not include investments accounted for using the equity method, financial assets, retirement benefit assets and deferred tax assets. In addition, the Company reflects adjustments resulting from the finalization of the provisional accounting treatment for business combinations retrospectively.
3. Non-current assets in Switzerland included in EMEA are ¥10,174 million. In addition, non-current assets in the Americas are located in the United States. With the exception of Japan, China, Switzerland and the United States, there is no single country in which non-current assets are material.

Fiscal year ended March 31, 2022

Millions of yen

	Japan	China	Asia	EMEA	Americas	Total
Revenue from external customers[*1]	¥173,633	¥27,197	¥19,813	¥42,899	¥2,715	¥266,257
Non-current assets[*2,*3]	103,364	14,005	930	26,689	43,210	188,199

Notes:

1. Revenue is classified into countries or regions based on customer location. China is not included in Asia.
2. Non-current assets are classified by country or region based on the location of the assets and do not include investments accounted for using the equity method, financial assets, retirement benefit assets and deferred tax assets.
3. Non-current assets in Switzerland included in EMEA and the United States included in the Americas were ¥22,090 million and ¥43,066 million, respectively. With the exception of Japan, China, Switzerland and the United States, there is no single country in which non-current assets are material.

4) Information on Major Customers

Fiscal year ended March 31, 2021

Millions of yen

Major customers	Revenue
Suzuken Co., Ltd.	¥49,137
Mediceo Corporation	35,727

Fiscal year ended March 31, 2022

Millions of yen

Major customers	Revenue
Suzuken Co., Ltd.	¥51,284
Mediceo Corporation	35,867

7. Revenue

Disaggregated revenue recognized from the contracts with customers is as follows:

1) Breakdown of revenue

Fiscal year ended March 31, 2021 (April 1, 2020 to March 31, 2021)

Millions of yen

		Japan	China	Asia	EMEA	Americas	Total
Prescription Pharmaceuticals	Tapros tafluprost ophthalmic solution	¥8,709	¥602	¥1,907	¥6,696	¥—	¥17,915
	Tapcom tafluprost-timolol maleate combination ophthalmic solution	2,604	—	546	2,886	—	6,036
	Cosopt dorzolamide hydrochloride-timolol maleate combination ophthalmic solution	6,940	—	4,462	9,475	—	20,877
	Eybelis omidenepag isopropyl ophthalmic solution	2,516	—	20	—	—	2,536
	Trusopt dorzolamide hydrochloride ophthalmic solution	1,227	—	344	2,794	—	4,365
	Diquas diquafosol sodium ophthalmic solution	12,283	717	1,404	—	—	14,403
	Hyalein sodium hyaluronate ophthalmic solution	6,967	9,259	2,194	—	—	18,420
	Ikervis ciclosporin ophthalmic solution	—	—	890	3,638	—	4,529
	Alesion epinastine hydrochloride ophthalmic solution (* Including Alesion LX)	32,733	—	19	—	—	32,752
	EYLEA aflibercept solution for intravitreal injection	64,454	—	—	—	—	64,454
	Cravit levofloxacin ophthalmic solution	1,971	7,927	1,722	1,029	—	12,650
	Others	15,401	4,770	3,299	10,268	2,011	35,749
	Subtotal	155,807	23,275	16,808	36,786	2,011	234,687

Millions of yen

		Japan	China	Asia	EMEA	Americas	Total
Over-the-Counter (OTC) Pharmaceuticals	Sante FX Series	3,412	―	150	―	―	3,562
	Sante Medical Series	1,561	―	―	―	―	1,561
	Soft santear Series	2,048	―	69	―	―	2,117
	Others	2,036	―	133	―	―	2,169
	Subtotal	9,058	―	352	―	―	9,410
Medical Devices	Lentis Comfort	1,196	―	―	―	―	1,196
	PRESERFLO MicroShunt (Glaucoma implant device)	―	―	―	892	―	892
	Others	1,730	1	―	219	―	1,949
	Subtotal	2,926	1	―	1,110	―	4,037
Others		1,343	72	56	―	―	1,471
Total		¥169,133	¥23,349	¥17,216	¥37,896	¥2,011	¥249,605

Fiscal year ended March 31, 2022 (April 1, 2021 to March 31, 2022)

Millions of yen

		Japan	China	Asia	EMEA	Americas	Total
Prescription Pharmaceuticals	Tapros tafluprost ophthalmic solution	¥8,409	¥1,170	¥2,077	¥6,767	¥―	¥18,423
	Tapcom tafluprost-timolol maleate combination ophthalmic solution	2,738	―	815	3,417	―	6,971
	Cosopt dorzolamide hydrochloride-timolol maleate combination ophthalmic solution	5,650	―	5,157	10,945	―	21,752
	Eybelis omidenepag isopropyl ophthalmic solution	3,304	―	116	―	―	3,420
	Trusopt dorzolamide hydrochloride ophthalmic solution	1,108	―	382	2,883	―	4,374
	Diquas diquafosol sodium ophthalmic solution	13,342	4,074	1,419	―	―	18,835
	Hyalein sodium hyaluronate ophthalmic solution	6,466	8,943	2,370	―	―	17,779
	Ikervis ciclosporin ophthalmic solution	―	―	1,106	4,750	―	5,856
	Alesion epinastine hydrochloride ophthalmic solution (* Including Alesion LX)	29,286	―	106	―	―	29,392
	EYLEA aflibercept solution for intravitreal injection	72,484	―	―	―	―	72,484
	Cravit levofloxacin ophthalmic solution	1,754	6,966	1,866	1,126	―	11,712
	Others	15,163	5,980	3,759	11,363	2,317	38,582
	Subtotal	159,705	27,133	19,172	41,251	2,317	249,579

Millions of yen

		Japan	China	Asia	EMEA	Americas	Total
Over-the-Counter (OTC) Pharmaceuticals	Sante FX Series	3,355	3	230	—	—	3,588
	Sante Medical Series	1,805	—	57	—	—	1,862
	Soft santear Series	2,087	1	62	—	—	2,149
	Others	1,938	3	239	—	—	2,181
	Subtotal	9,185	7	588	—	—	9,780
Medical Devices	Lentis Comfort	1,422	—	—	—	—	1,422
	PRESERFLO MicroShunt (Glaucoma implant device)	—	—	—	1,612	—	1,612
	Others	1,716	—	—	36	398	2,149
	Subtotal	3,139	—	—	1,648	398	5,184
Others		1,604	57	53	—	—	1,714
Total		¥173,633	¥27,197	¥19,813	¥42,899	¥2,715	¥266,257

2) Contract balance

The balances of receivables and contractual liabilities arising from contracts with customers were as follows:

Millions of yen

	End of the fiscal year ended March 31, 2021 (March 31, 2021)	End of the fiscal year ended March 31, 2022 (March 31, 2022)
Receivables arising from contracts with customers	¥96,247	¥99,913
Contract liabilities	315	—

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. In addition, there were no amounts of revenue recognized from performance obligations that were satisfied (or partially satisfied) in prior periods during the prior fiscal year ended March 31, 2021 or March 31, 2022.

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, there are no important amounts not included in the transaction price in connection with consideration arising from contracts with customers. In addition, the Santen Group has applied the practical expedient measure of IFRS 15 Paragraph 121, and doesn't disclose information regarding remaining performance obligations whose initial expected remaining period is within one year.

4) Assets recognized from the cost of acquiring contracts with customers or satisfying performance obligations in the contracts.

The Santen Group has no incremental costs for acquiring contracts or satisfying performance obligations that must be capitalized as assets.

8. Nature of Major Expenses

Millions of yen

	2021	2022
Cost of sales (Merchandise)	¥56,494	¥63,289
Wages and bonuses	37,663	42,740
Advertising and sales promotion expenses	21,464	22,468
Raw material cost	13,369	12,162
Specialist expenses and commissions	14,492	12,218
Legal welfare expenses	4,827	5,628
Post-employment benefit cost	2,632	2,395
Depreciation and amortization	7,272	7,321
Others	43,673	52,325
Total	¥201,886	¥220,546

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

	2021	2022
Gain on sale of fixed assets	¥7	¥490
Government grants	174	169
Changes in the fair value of contingent consideration *	15,223	—
Other	604	383
Total	¥16,007	¥1,043

Note: Changes in the fair value of contingent consideration are described in Note 33 2), "Business Combination-Contingent Consideration."

10. Other Expenses

Millions of yen

	2021	2022
Litigation expenses	¥—	¥338
Impairment losses *1	40,664	232
Changes in the fair value of contingent consideration *2	—	102
Loss on disposal of fixed assets	109	78
Other	116	384
Total	¥40,889	¥1,133

Note:

1. Impairment losses are stated in Note 15 2) “Property, Plant and Equipment” and Note 16 2) “Intangible Assets.”
2. Changes in the fair value of contingent consideration are described in Note 33 2), "Business Combination-Contingent Consideration."

11. Finance Income and Expenses

1) Finance Income

Millions of yen

	2021	2022
Interest income		
Financial assets measured at amortized cost	¥178	¥271
Financial assets measured at fair value through profit or loss	104	130
Total interest income	282	402
Gain on valuation of derivatives	414	477
Dividend income		
Financial assets measured at fair value through other comprehensive income	490	497
Life insurance	156	165
Total dividend income	646	661
Changes in the fair value of contingent consideration	—	204
Gain on valuation of financial assets measured at fair value through profit or loss	—	800
Other	4	0
Total	¥1,346	¥2,543

2) Finance Expenses

Millions of yen

	2021	2022
Interest expense		
Financial liabilities measured at amortized cost	¥4	¥72
Lease liabilities	155	177
Total interest expense	159	249
Foreign exchange losses	910	959
Changes in the fair value of contingent consideration	287	—
Loss on valuation of financial assets measured at fair value through profit or loss	119	—
Other	13	1
Total	¥1,488	¥1,209

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, 2020	Recognized through profit or loss	Recognized in other comprehensive income	As of March 31, 2021
Deductible temporary differences				
Retirement benefit liabilities	¥3,100	¥157	¥(612)	¥2,644
Inventories	1,477	454	—	1,932
Accrued bonuses	894	29	—	923
Depreciation and amortization	221	(40)	—	181
Research and development expenses	980	(579)	—	401
Accrued enterprise taxes	338	46	—	383
Paid absences	123	9	—	131
Accounts payable - other	968	801	—	1,770
Other	1,344	131	—	1,475
Subtotal	9,446	1,008	(612)	9,842
Taxable temporary differences				
Financial assets measured at fair value through other comprehensive income	(5,976)	—	27	(5,949)
Intangible assets associated with products	(13,394)	2,084	—	(11,310)
Other	(26)	(1)	—	(27)
Subtotal	(19,395)	2,083	27	(17,286)
Unused tax losses and tax credits				
Unused tax credits	2,157	441	—	2,597
Unused tax losses	2,666	1,379	—	4,045
Subtotal	4,822	1,819	—	6,642
Net amount	¥(5,127)	¥4,911	¥(586)	¥(802)

Note: Recognition through profit or loss includes the translation differences of foreign operations and the effects of business combinations.

The difference between the net temporary differences recognized through profit or loss in the table above and the deferred income tax subtotal described in "2) Income Tax Expenses i. Income Taxes Recognized through Profit or Loss" is due to the above.

In addition, the provisional accounting treatment for business combinations of Eyevance Pharmaceuticals Holdings Inc (U.S.) was finalized in the fiscal year ended March 31, 2022 and the figures for the fiscal year ended March 31, 2021 have been adjusted retrospectively.

Millions of yen

	As of April 1, 2021	Recognized through profit or loss	Recognized in other comprehensive income	As of March 31, 2022
Deductible temporary differences				
Retirement benefit liabilities	¥2,644	¥(227)	¥(125)	¥2,292
Inventories	1,932	246	—	2,178
Accrued bonuses	923	52	—	976
Depreciation and amortization	181	20	—	201
Research and development expenses	401	177	—	578
Accrued enterprise taxes	383	(187)	—	197
Paid absences	131	(1)	—	130
Accounts payable - other	1,770	553	—	2,323
Other	1,475	(225)	—	1,250
Subtotal	9,842	409	(125)	10,125
Taxable temporary differences				
Financial assets measured at fair value through other comprehensive income	(5,949)	—	1,168	(4,781)
Intangible assets associated with products	(11,310)	(496)	—	(11,806)
Other	(27)	27	—	—
Subtotal	(17,286)	(470)	1,168	(16,588)
Unused tax losses and tax credits				
Unused tax credits	2,597	(1,146)	—	1,451
Unused tax losses	4,045	1,544	—	5,588
Subtotal	6,642	398	—	7,040
Net amount	¥(802)	¥337	¥1,042	¥577

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

	2021	2022
Deductible temporary differences	¥1,697	¥1,125
Carry-forwards of unused tax losses	6,857	7,271
Carry-forwards of unused tax credits	1,378	3,451

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

	2021	2022
1st year	¥1	¥—
2nd year	—	—
3rd year	—	—
4th year	—	—
5th year onward	6,857	7,271
Total	¥6,857	¥7,271

iv. In the fiscal years ended March 31, 2022 and 2021, 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 ¥34,189 million as of March 31, 2022 and ¥21,916 million as of March 31, 2021.

v. In the fiscal years ended March 31, 2022 and 2021, there were subsidiaries that recognized carry-forwards of unused tax losses. In the fiscal year ended March 31, 2022, deferred tax assets of ¥5,588 million were recognized to the extent that future taxable profit was expected (¥4,045 million as of March 31, 2021). 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.

2) Income Tax Expenses

i. Income Taxes Recognized through Profit or Loss

Millions of yen

	2021	2022
Current income taxes Current	¥10,689	¥8,465
Subtotal	10,689	8,465
Deferred income taxes Occurrence and reversal of temporary differences	(8,127)	(38)
Subtotal	(8,127)	(38)
Total income tax expenses	¥2,562	¥8,427

Current income taxes include tax benefits arising from previously unrecognized carry-forwards of unused tax losses, tax credits or temporary differences incurred in prior periods. As a result of these tax benefits, current income taxes were reduced by ¥20 million in the fiscal year ended March 31, 2022 and ¥55 million in the fiscal year ended March 31, 2021.

ii. Reconciliation of Applicable Income Tax Rate

In the fiscal years ended March 31, 2022 and March 31, 2021, 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, 2022 and 30.5% for the fiscal year ended March 31, 2021, respectively. However, foreign subsidiaries are subject to taxes in their respective countries.

	2021	2022
Effective statutory income tax rate	30.5%	30.5%
Non-deductible items / non-taxable income	0.7%	0.1%
Tax credit for research and development expenses	(21.5%)	(5.8%)
Differences in tax rates applied to subsidiaries	14.1%	(2.6%)
Movements in unrecognized deferred tax assets	(3.8%)	4.0%
Effect of changes in contingent consideration	(26.8%)	(0.1%)
Goodwill impairment	28.4%	—
Effect of tax incentives for subsidiaries	(0.0%)	(1.1%)
Other	0.2%	(1.4%)
Actual tax rate	21.9%	23.7%

13. Other Comprehensive Income

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

Millions of yen

	2021	2022
Remeasurements of defined benefit plans		
Amounts arising during the year	¥2,185	¥574
Reclassification adjustments to profit or loss	—	—
Before tax effects	2,185	574
Tax effects	(612)	(125)
Remeasurements of defined benefit plans	1,573	449
Net gain or loss on financial assets measured at fair value through other comprehensive income		
Amounts arising during the year	661	(1,536)
Reclassification adjustments to profit or loss	—	—
Before tax effects	661	(1,536)
Tax effects	(616)	469
Net gain or loss on financial assets measured at fair value through other comprehensive income	45	(1,067)
Foreign currency translation adjustments		
Amounts arising during the year	7,061	11,237
Reclassification adjustments to profit or loss	—	(2)
Before tax effects	7,061	11,235
Tax effects	—	—
Foreign currency translation adjustments	7,061	11,235
Share of other comprehensive income of investments accounted for using equity method		
Amounts arising during the year	170	744
Reclassification adjustments to profit or loss	—	—
Before tax effects	170	744
Tax effects	—	—
Share of other comprehensive income of investments accounted for using equity method	170	744
Total other comprehensive income	¥8,849	¥11,361

Note: During the fiscal year ended March 31, 2022, the Company finalized the provisional accounting treatment for business combinations of Eyevance Pharmaceuticals Holdings Inc (U.S.). Values for the fiscal year ended March 31, 2021 have been adjusted retrospectively.

14. Earnings Per Share

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

Millions of yen

	2021	2022
Basis of calculating basic earnings per share		
Profit attributable to owners of the Company	¥9,311	¥27,218
Profit not attributable to ordinary shareholders of the Company	4	6
Profit used to calculate basic earnings per share	9,307	27,212
Basis of calculating diluted earnings per share		
Profit used to calculate basic earnings per share	¥9,307	¥27,212
Adjustment	4	6
Profit used to calculate diluted earnings per share	9,311	27,218

Thousands of shares

	2021	2022
Weighted average number of shares during the year	399,456	399,775
Increase in ordinary shares for stock remuneration transactions (1,000 shares)	931	682
Weighted average number of diluted ordinary shares during the year	400,387	400,457

Yen

	2021	2022
Earnings per share (attributable to owners of the Company)		
Basic	¥23.30	¥68.07
Diluted	23.26	67.97

Notes:

1. As company shares held in trust for the stock remuneration system are included in treasury shares, the calculation of earnings per share is performed after deducting these shares from the weighted average number of shares outstanding during the period.
2. During the fiscal year ended March 31, 2022, the Company finalized the provisional accounting treatment for business combinations of Eyevance Pharmaceuticals Holdings Inc (U.S.). Values for the fiscal year ended March 31, 2021 have been adjusted retrospectively.

15. Property, Plant and Equipment

The following table summarizes the cost, accumulated depreciation and impairment losses and net book value of property, plant and equipment:

The right-of-use assets are included in each item. Details of the right-of-use assets included in the carrying amount of property, plant and equipment are provided in "29. Leases."

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

A. Acquisition Cost

Millions of yen

	Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Total
Balance as of April 1, 2020	¥44,240	¥19,347	¥13,728	¥7,090	¥7,408	¥91,813
Additions	1,851	1,005	567	966	4,231	8,619
Transfers	324	1,324	228	—	(1,876)	—
Acquisition by business combination	173	90	7	—	—	269
Disposals	(184)	(404)	(1,049)	—	(13)	(1,650)
Foreign currency translation differences	533	457	203	3	180	1,376
Balance as of March 31, 2021	¥46,938	¥21,818	¥13,682	¥8,058	¥9,931	¥100,428
Additions	2,429	1,204	478	—	15,840	19,951
Transfers	45	395	186	—	(626)	—
Disposals	(2,291)	(985)	(625)	(84)	—	(3,986)
Foreign currency translation differences	1,094	601	290	145	857	2,987
Other	1,436	—	—	—	—	1,436
Balance as of March 31, 2022	¥49,651	¥23,034	¥14,011	¥8,119	¥26,001	¥120,816

Note: The amount of "Other" reflects the change in the lease term in the right-of-use asset.

B. Accumulated Depreciation and Impairment Losses

Millions of yen

	Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Total
Balance as of April 1, 2020	¥(28,142)	¥(12,838)	¥(11,690)	¥(183)	¥(3,359)	¥(56,212)
Depreciation	(2,910)	(1,692)	(810)	(19)	—	(5,431)
Impairment losses	—	(19)	(21)	—	(259)	(299)
Disposals	79	379	1,041	—	—	1,499
Foreign currency translation differences	(154)	(180)	(141)	(1)	(20)	(496)
Balance as of March 31, 2021	(31,127)	(14,349)	(11,621)	(203)	(3,638)	(60,939)
Depreciation	(3,201)	(1,803)	(787)	(21)	—	(5,812)
Impairment losses	—	—	—	—	(82)	(82)
Disposals	1,874	737	616	—	—	3,228
Foreign currency translation differences	(351)	(339)	(222)	(5)	(8)	(925)
Balance as of March 31, 2022	¥(32,805)	¥(15,754)	¥(12,014)	¥(229)	¥(3,728)	¥(64,530)

C. Carrying Amount

Millions of yen

	Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Total
As of April 1, 2020	16,098	6,509	2,037	6,907	4,049	35,601
As of March 31, 2021	15,811	7,469	2,061	7,855	6,293	39,489
As of March 31, 2022	16,846	7,280	1,997	7,890	22,274	56,287

2) Impairment Losses

The impairment losses recorded in "Other expenses" in the Consolidated Statement of Profit or Loss and Other Comprehensive Income for the current and previous fiscal years were as follows:

Millions of yen

	2021	2022
Impairment Losses	299	82

The impairment losses recognized in the fiscal year ended March 31, 2022 and the previous fiscal year were due to the reduction of the book value to the recoverable amount of the plant under construction (mainly Construction in progress) held by Chongqing Santen Kerui Pharmaceutical (China) Co., Ltd, the consolidated subsidiary because the anticipated revenue was no longer expected.

The recoverable amount is measured at fair value less costs to sell (such as the estimated selling price), and the hierarchy of the fair value is Level 3.

3) Other Disclosures

Significant commitments to acquire property, plant and equipment subsequent to the fiscal year-end are as follows:

Millions of yen

	2021	2022
Acquisition of property, plant and equipment	16,768	21,770

The main component of the commitment for the fiscal year ended March 31, 2021 was related to the expansion of the third building for manufacturing prescription eye drops at the Shiga Product Supply Center located in Shiga Prefecture.

The main components of the commitments for the fiscal year ended March 31, 2022 were the expansion of the new Shiga building mentioned above and the construction of a new plant in Suzhou, China at Santen Pharmaceutical (China) Co., Ltd.

16. Intangible Assets

1) Statements of Changes in Acquisition Cost, Accumulated Amortization and 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, 2020	¥22,127	¥140,720	¥13,847	¥3,166	¥179,860
Additions	—	15,276	1,320	4,737	21,332
Transfers	—	—	1,089	(1,089)	—
Acquisition by business combination	5,857	21,159	—	—	27,017
Disposals	—	—	(449)	(4)	(453)
Foreign currency translation differences	403	2,736	200	(119)	3,219
Balance as of March 31, 2021	¥28,388	¥179,891	¥16,007	¥6,690	¥230,976
Additions	—	16,304	432	4,471	21,207
Transfers	—	—	1,155	(1,155)	—
Disposals	—	—	(73)	(617)	(690)
Foreign currency translation differences	3,435	7,573	563	456	12,026
Balance as of March 31, 2022	¥31,823	¥203,767	¥18,085	¥9,844	¥263,519

B. Accumulated Amortization and Impairment Losses

Millions of yen

	Goodwill	Intangible assets associated with products	Software	Other	Total
Balance as of April 1, 2020	¥—	¥(48,610)	¥(10,689)	¥(711)	¥(60,010)
Amortization	—	(10,650)	(1,375)	(466)	(12,491)
Impairment losses	(15,684)	(24,681)	—	—	(40,365)
Disposals	—	—	154	—	154
Foreign currency translation differences	—	(2,190)	(93)	(174)	(2,457)
Balance as of March 31, 2021	¥(15,684)	¥(86,130)	¥(12,003)	¥(1,351)	¥(115,169)
Amortization	—	(9,734)	(1,368)	(141)	(11,243)
Impairment losses	—	(150)	—	—	(150)
Disposals	—	—	71	—	71
Foreign currency translation differences	(2,424)	(3,916)	(299)	(172)	(6,811)
Balance as of March 31, 2022	¥(18,108)	¥(99,930)	¥(13,599)	¥(1,665)	¥(133,302)

C. Carrying Amount

Millions of yen

	Goodwill	Intangible assets associated with products	Software	Other	Total
As of April 1, 2020	22,127	92,111	3,157	2,455	119,850
As of March 31, 2021	12,704	93,761	4,004	5,339	115,808
As of March 31, 2022	13,715	103,838	4,486	8,179	130,217

Note: During the fiscal year ended March 31, 2022, the Company finalized the provisional accounting treatment for business combinations of Eyevance Pharmaceuticals Holdings Inc (U.S.). Values for the fiscal year ended March 31, 2021 have been adjusted retrospectively.

2) Impairment Losses

The Company recorded an impairment losses of ¥150 million for the fiscal year ended March 31, 2022 (¥40,365 million for the previous fiscal year), which is included in "Other expenses" in the consolidated statements of profit or losss and other comprehensive income.

The impairment losses for the previous fiscal year were mainly due to the impairment losses of ¥40,312 million (¥24,628 million for intangible assets related to products and ¥15,684 million for goodwill) recognized by reducing the carrying amount of intangible assets related to STN2000100 (DE-128, PRESERFLO MicroShunt) and goodwill related to InnFocus, Inc. (U.S.A.) that develops the product to its recoverable amount. The recoverable amount is measured at value in use, which is calculated by discounting future cash flows using an appropriate discount rate. Future cash flows were estimated based on the development success rate and the business plan, which had been revised assuming a delay in the approval in the U.S. which had previously been anticipated to be obtained in the first half of the fiscal year ending March 31, 2022, because the company received feedback on the review from the U.S. Food and Drug Administration (FDA) at the end of February 2021 for STN2000100 (DE-128, PRESERFLO MicroShunt) regarding the company's pre-marketing approval (PMA) application in the U.S. in June 2020, and the company have been conducting discussions since then, and it is possible that discussions will take time in the future.

The impairment losses recognized in the fiscal year ended March 31, 2022 represents loss on intangible assets related to products, which were impaired as revenues were no longer expected due to the discontinuation of development.

3) Impairment Test for Goodwill

Santen recorded goodwill of ¥13,715 million for the fiscal year ended March 31, 2022 (¥12,704 million for the previous fiscal year). The goodwill resulted from the acquisition of Santen S.A.S (France) and Eyevance Pharmaceuticals Holdings Inc. Goodwill related to Santen S.A.S is allocated to the "Company-wide Group," which is a group of cash-generating units. Goodwill related to InnFocus, Inc., is allocated to the "InnFocus, Inc.", which is a cash-generating unit. and goodwill related to Eyevance Pharmaceuticals Holdings Inc., is allocated to the "Americas", which is a cash-generating unit.The book values for the current fiscal year are "Corporate Group" ¥6,912 million (¥6,550 million in the previous fiscal year) and "Americas" ¥6,803 million (¥6,153 million in the previous fiscal year). The goodwill allocated to InnFocus, Inc was fully impaired as a result of the previous fiscal year's impairment test.

During the fiscal year ended March 31, 2022, the Company finalized the provisional accounting treatment for business combination of Eyevance Pharmaceuticals Holdings Inc, and the goodwill for the previous fiscal year has been adjusted retrospectively. Details of the completed allocation of the purchase consideration are described in Note 33, "Business Combination."

Goodwill is tested for impairment annually and whenever indicators of impairment exist to assess recoverability. The summary of goodwill impairment test is as follows:

i. Corporate Group

The recoverable amount in the goodwill impairment test is the fair value less the cost of disposal measured using Santen Pharmaceutical Co., Ltd.'s market share price. Since the recoverable amount of goodwill exceeded the carrying amount, no impairment losses were recognized for the fiscal year ended March 31, 2021 or March 31, 2022. The Company does not believe that it is probable that a material impairment will occur if market stock prices change to a reasonable extent.

ii. InnFocus, Inc.

The recoverable amount is measured at value in use, which is calculated by discounting future cash flows using an appropriate discount rate. As a result of the impairment test for the previous fiscal year, the entire book value was determined to be impaired, and an impairment losses of ¥15,684 million were recorded.

iii. Americas

The recoverable amount is measured at value in use, and is calculated by discounting future cash flows at an appropriate discount rate. Since the recoverable amount exceeds the carrying amount, no impairment losses are recognized.

There is a high degree of uncertainty in the development success rate used to calculate value in use. Future cash flows, which are the basis for calculating value in use, are estimated based on the Santen Group's business plan and there is a high degree of uncertainty mainly with respect to the prospects for drug prices and market share expansion. The discount rate used to determine value in use is based on the weighted average cost of capital, but the selection of the methods used to calculate it and the input data requires a high degree of valuation expertise. The discount rate used in the calculation of value in use for the current fiscal year was 8.5%. In calculating the continuing value beyond the forecast period, the growth rate determined by taking into account the status in the market to which the cash-generating unit belongs is considered. The growth rate used to calculate value in use for the current fiscal year ended March 31, 2022 was 2.0%. The value in use was sufficiently greater than the carrying amount, and the Company does not believe that the value in use was less than the carrying amount even if the key assumptions used in the calculation of value in use change to a reasonable extent.

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 significant internally generated intangible assets as of March 31, 2021 or March 31, 2022.

iii. Significant Intangible Assets

The major components of intangible assets related to products are as follows:

Millions of yen

Contents	Carrying amount		Remaining useful life
	End of the fiscal year ended March 31, 2021	End of the fiscal year ended March 31, 2022	
Patents, trademarks, domain names, manufacturing and marketing rights for ophthalmic medicine acquired from Merck & Co., Inc.	¥29,903	¥24,163	3 to 9 years
Marketing authorization rights recognized in connection with the acquisition of Eyevance Pharmaceuticals Holdings Inc, etc.	21,297	21,479	9 to 16 years
DE-128 STN2000100 recognized in connection with the acquisition of InnFocus, Inc. (Product name: PRESERFLO MicroShunt)	11,276	11,427	11 years
DE-76B recognized in connection with the acquisition of Santen S.A.S. (Product name: cyclocut, generic name: cyclospoline)	3,370	2,774	4 years
Exclusive development/sales agreement for Rhopressa®/Rhokiinsa®, Rocklatan®/Roclanda® with Aerie Pharmaceuticals, Inc.	5,238	16,818	—*2
STN1010904/ STN1010905 acquired through a contract with MacuSight., Inc. (Generic name: Sirolimus) *1	6,982	6,982	—*2

Notes:

1. A decision was made in April 2022 to discontinue the development of STN1010900 (DE-109). Sirolims is now developing a STN1010904/STN1010905.
2. Amortization has not started because it is not yet available for use.
3. During the fiscal year ended March 31, 2022, the provisional accounting treatment for business combination of Eyevance Pharmaceuticals Holdings Inc was finalized. Figures for the previous fiscal year have been adjusted retrospectively. Details of the

completed allocation of the purchase consideration are described in Note 33, "Business Combination."

Intangible assets that are available for use are tested for impairment and assessed for recoverability at the end of each reporting period if there is an indication that the asset or cash-generating unit may be impaired. Intangible assets that are not yet available for use are tested for impairment annually and whenever indicators of impairment exist to assess recoverability.

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 by discounting the projected amount of future cash flow based on past experience and external information, using a discount rate based on the weighted average cost of capital by the cash generating units (4.9% to 11.3% for the previous fiscal year and 5.0% to 10.3% for the current fiscal year, respectively)."

As a result of the impairment test, an impairment losses of ¥24,681 million for the previous fiscal year and ¥150 million for the current fiscal year were recorded.

There is a high degree of uncertainty in the development success rate used to calculate value in use. Future cash flows, which are the basis for calculating value in use, are estimated based on the Santen Group's business plan and there is a high degree of uncertainty mainly with respect to the prospects for drug prices and market share expansion. In addition, the discount rate used to calculate value in use is based on the weighted average cost of capital, which requires a high degree of expertise in selecting the methods used to calculate it and the input data.

Unforeseeable changes in assumptions and other factors could materially affect the calculation of value in use and materially affect the amount of intangible assets related to products.

iv. Commitments

Millions of yen

	2021	2022
Research and development milestones *	¥42,387	¥45,684
Sales target milestones *	42,150	76,506
Other	562	—
Total	¥85,098	¥122,189

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

	2021	2022
Financial assets measured at amortized cost		
Other	¥1,059	¥1,173
Financial assets measured at fair value through other comprehensive income		
Stock	28,547	23,472
Financial assets measured at fair value through profit or loss		
Convertible bonds	2,098	2,358
Investment in limited partnerships	3	1,538
Golf membership rights, etc.	96	132
Derivatives	98	—
Total	¥31,903	¥28,673

B. Current Assets

Millions of yen

	2021	2022
Financial assets measured at amortized cost		
Other	¥527	¥1,246
Financial assets measured at fair value through profit and loss		
Derivatives	—	47
Total	¥527	¥1,293

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

	2021	2022
ONO PHARMACEUTICAL CO., LTD.	¥14,155	¥13,251
Eisai Co., Ltd.	7,044	5,384
FUJIFILM Holdings Corporation	1,414	—
MEDIPAL HOLDINGS CORPORATION	794	753
KOBAYASHI Pharmaceutical Co., Ltd.	760	—
Others	4,380	4,084
Total	¥28,547	¥23,472

B. Other

Dividend income related to financial assets measured at fair value through other comprehensive income held by the Company was ¥442 million in the fiscal year ended March 31, 2022 and ¥451 million in the fiscal year ended March 31, 2021.

Financial assets measured at fair value through other comprehensive income that were disposed of during the fiscal years ended March 31, 2022 and 2021 were as follows:

Millions of yen

	2021	2022
Fair value at date of sale	¥3,070	¥3,870
Cumulative gains (losses)	2,300	2,265
Dividend income	¥39	¥55

Note: These financial assets were sold for the purpose of liquidating certain assets held. Cumulative gains (net of tax) of ¥1,574 million in the fiscal year ended March 31, 2022 and ¥1,598 million in the fiscal year ended March 31, 2021 were reclassified from other components of equity to retained earnings.

18.Investments to which equity method has been applied

Summarized financial information for individually immaterial associates is as follows:

Millions of yen

	2021	2022
Santen's equity of net income (loss) from continuing operations	¥(358)	¥(1,604)
Santen's equity in other comprehensive income	170	744
Santen's equity in comprehensive income	¥(187)	¥(860)

Note: There are no affiliated companies whose stock prices are publicly available.

19. Inventories

Millions of yen

	2021	2022
Merchandise and finished goods	¥34,175	¥29,724
Work in process	317	467
Raw materials and supplies	7,083	6,950
Total	¥41,575	¥37,141

20. Trade and Other Receivables

Millions of yen

	2021	2022
Notes and accounts receivables	¥93,284	¥96,314
Other	2,964	3,599
Allowance for doubtful receivables	(255)	(322)
Total	¥95,992	¥99,591

21. Equity and Other Equity Items

1) Share Capital and Treasury Shares

Stocks

	2021	2022
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	400,028,254	400,368,954
Change during year*3	340,700	325,800
End of year	400,368,954	400,694,754
Treasury shares		
Beginning of year	608,065	549,909
Change during year*4	(58,156)	(126,241)
End of year*5	549,909	423,668

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. The changes in the number of shares issued during the fiscal year ended March 31, 2021 and March 31, 2022 were due to the exercise of subscription rights to shares.
4. The change in the number of treasury shares during the previous fiscal year was due to the disposal of treasury shares as restricted stock awards, the acquisition of treasury shares by a trust related to stock compensation plans, requests for the purchase of odd-lot shares, and requests for additional purchases. In the current fiscal year, the change was due to the disposal of treasury shares as restricted stock awards and ex-post performance-linked stock awards, the acquisition and disposal of treasury shares by trusts related to stock compensation plans, requests for the purchase of odd-lot shares, and requests for additional purchases.
5. The number of treasury shares at the end of the period includes 16,271 shares of treasury shares held in trust for the stock-linked remuneration system in the fiscal year ended March 31, 2022, and 18,230 shares in the fiscal year ended March 31, 2021.

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 losses 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. Share of other comprehensive income of investments accounted for using equity method

Share of other comprehensive income of investments accounted for using the equity method consists of foreign currency translation differences arising from the translation of the financial statements of foreign operations of affiliates accounted for by the equity method.

E. Subscription Rights to Shares

The Company introduced a 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 22 "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, 2022, and earnings reclassified from other comprehensive income.

B. Dividends

(i) Dividends paid

Year ended March 31, 2021

Resolution date	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Annual General Meeting of Shareholders (June 24, 2020)	¥5,592	¥14.00	March 31, 2020	June 25, 2020
Board of Directors Meeting (November 6, 2020)	5,595	14.00	September 30, 2020	November 30, 2020

Year ended March 31, 2022

Resolution date	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Annual General Meeting of Shareholders (June 25, 2021)	¥5,598	¥14.00	March 31, 2021	June 28, 2021
Board of Directors Meeting (November 8, 2021)	6,400	16.00	September 30, 2021	November 30, 2021

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

Year ended March 31, 2021

Resolution date	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Annual General Meeting of Shareholders (June 25, 2021)	¥5,598	¥14.00	March 31, 2021	June 28, 2021

Year ended March 31, 2022

Resolution date	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Annual General Meeting of Shareholders (June 24, 2022)	¥6,405	¥16.00	March 31, 2022	June 27, 2022

22. Share-based Payments

Performance-Linked Stock Remuneration System

1) Contractual Terms and Conditions

A. Outline

The company have introduced a performance share unit plan, which varies the number of shares to be delivered based on the achievement of the objective performance indicators set forth in the three fiscal years beginning with the fiscal year ended March 31, 2022 and ending March 31, 2024 (the "Performance Evaluation Period"), and a performance based stock compensation plan, which consists of a restriction stock award plan that grants restricted stock, or a restricted stock unit plan that grants the company's stock after a certain period of time.

B. Eligible Recipients

The company's directors (excluding outside directors), the company's executive officers and certain employees of the Santen Group

C. Vesting Conditions

(Performance Share Unit System)

The stock issuance rate is determined in the range of 0% to 200%, depending on the degree of achievement of the relative TSR (weight of 80%) and ESG-related indicators (weight of 20%) set by in comparison with other global life science companies are designated as peer groups.

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

By meeting the required conditions, such as being in the position of targeted director, the restrictions on transfer will be lifted three years after granting, or the stock will be supplied 1 to 3 years after granting.

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 values for the fiscal year ended March 31, 2022 and 2021 are as follows:

Yen

	Stock settlement		Cash settlement
	Granted for the fiscal year ended March 31, 2021	Granted for the fiscal year ended March 31, 2022	
Performance share unit system	¥1,939	¥1,588	¥1,140
Restricted stock-linked remuneration system	1,865	1,507	—
Restricted Stock Unit Plan (for executive officers)	1,939	1,588	1,140
Restricted Stock Unit Plan (for employees)	—	1,594	—

3) Share-based compensation expenses

Stock remuneration expenses totaled ¥515 million for the fiscal year ended March 31, 2022 and ¥147 million for the fiscal year ended March 31, 2021.

Stock option system

1) Contractual Conditions for Share Options

A. Eligible Persons

Directors and Corporate Officers of the Company

B. Vesting Conditions

No provisions

C. Exercise Period for Share Options Granted

For 10 years from grant date

D. Settlement Method

Settled in shares

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

	2021		2022	
	Number of shares (Stocks)	Weighted average exercise price (Yen)	Number of shares (stocks)	Weighted average exercise price (Yen)
Balance at the beginning of the year	968,900	¥329	628,200	¥265
Granted	—	—	—	—
Exercised*	340,700	446	325,800	488
Expired	—	—	—	—
Balance at the end of the year	628,200	265	302,400	25
Balance of exercisable stock options, at the end of year	628,200	¥265	302,400	¥25

Note: The weighted-average share price of stock options at the time of exercise was ¥1,359 in the fiscal year ended March 31, 2022 and ¥1,772 in the fiscal year ended March 31, 2021.

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 to ¥663 as of March 31, 2022 and ¥1 to ¥663 as of March 31, 2021. The weighted-average remaining life was 3.5 years as of March 31, 2022 and 3.3 years as of March 31, 2021.

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

Not applicable.

5) Share-based compensation expenses

Not applicable in the fiscal years ended March 31, 2022 and 2021.

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

1) Components

A. Components of Non-current Liabilities

Millions of yen

	2021	2022
Long-term loans payables	¥2,400	¥12,677
Long-term accounts payable - other	2,804	2,989
Derivatives	104	68
Long-term lease liabilities	4,834	6,290
Total	¥10,141	¥22,023

B. Components of Current Liabilities

Millions of yen

	2021	2022
Short-term loans payables	¥—	¥10,936
Other payables	15,986	18,692
Derivatives	—	6
Lease liabilities	2,912	3,029
Other	4,841	5,871
Total	¥23,739	¥38,533

24. 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, 2020	¥22,483	¥(20,745)	¥1,738
Current service cost	1,643	—	1,643
Interest (income) expense	103	(99)	4
Remeasurements of the net defined benefit liabilities			
Actuarial gains and losses arising from changes in demographic assumptions	(85)	—	(85)
Actuarial gains and losses arising from changes in financial assumptions	240	—	240
Experience adjustments	(528)	(1,813)	(2,341)
Total remeasurements of the net defined benefit liabilities	(372)	(1,813)	(2,185)
Foreign currency translation differences	95	30	125
Employer contributions to plans	—	(998)	(998)
Benefits paid by plans	(1,447)	711	(736)
Other	85	(85)	—
Balance as of March 31, 2021	¥22,590	¥(22,999)	¥(409)
Current service cost	1,265	—	1,265
Interest (income) expense	78	(84)	(6)
Remeasurements of the net defined benefit liabilities			
Actuarial gains and losses arising from changes in demographic assumptions	(201)	—	(201)
Actuarial gains and losses arising from changes in financial assumptions	(162)	—	(162)
Experience adjustments	166	(377)	(212)
Total remeasurements of the net defined benefit liabilities	(197)	(377)	(574)
Prior service cost	(571)	—	(571)
Foreign currency translation differences	428	(295)	133
Employer contributions to plans	—	(1,019)	(1,019)
Benefits paid by plans	(1,022)	214	(807)
Other	178	(124)	55
Balance as of March 31, 2022	¥22,751	¥(24,684)	¥(1,934)

B. Components of Plan Assets

Millions of yen

	Presence of quoted market prices in active markets	2021	2022
Equities	Yes	¥5,828	¥4,495
Bonds	Yes	11,452	10,825
General accounts of life insurance companies	No	1,742	1,758
Other	No	3,977	7,607
Total		¥22,999	¥24,684

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

	2021	2022
Discount rate (%)	0.40	0.49

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

	2021		2022	
	0.5% Increase	0.5% Decrease	0.5% Increase	0.5% Decrease
Discount rate (%)	(971)	1,055	(859)	929

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 ending March 31, 2023 is ¥610 million.

The weighted-average duration of the defined benefit obligation for the fiscal year ended March 31, 2022 was 9.9 years (for the fiscal year ended March 31, 2021, 10.7 years).

3) Defined Contribution Plan

The amounts recorded as costs in connection with defined contribution plans were ¥1,136 million in the fiscal year ended March 31, 2022 and ¥985 million in the fiscal year ended March 31, 2021.

25. Provisions

1) Components of provisions

Components of provisions were as follows.

Millions of yen

	2021	2022
Non-current liabilities		
Asset retirement obligations	¥169	¥311
Provision for paid absences	430	426
Total	¥600	¥738
Current liabilities		
Provision for paid absences	¥819	¥939
Total	¥819	¥939

2) Details of changes in provisions

The details of changes in provisions were as follows.

Millions of yen

	Asset retirement obligations	Provision for paid absences	Total
Balance as of April 1, 2021	¥169	¥1,249	¥1,419
Additional provision made in the period	240	926	1,166
Amounts used during the period	(99)	(877)	(976)
Unused amounts reversed during the period	—	—	—
The increase during the period in the discounted amount arising from the passage of time	2	2	4
Foreign currency translation differences	—	65	65
Balance as of March 31, 2022	¥311	¥1,365	¥1,677

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, which is based on estimates and other information obtained from construction contractors, is discounted according to the expected period of use.

ii. Provision for paid absences is a liability for the unused portion of paid absences granted to employees based on the paid absence system.

26. Trade and Other Payables

Millions of yen

	2021	2022
Trade accounts payable	¥22,923	¥23,026
Other payables	13,575	16,390
Erectronically recorded monetary liabilities	1,336	1,394
Other	273	375
Total	¥38,106	¥41,185

27. Cash and Cash Equivalents

Millions of yen

	2021	2022
Cash on hand and balances with banks	¥62,888	¥83,014
Time deposits over three months	—	—
Total cash and cash equivalents in consolidated statement of financial position	62,888	83,014
Cash and cash equivalents in consolidated statement of cash flows	¥62,888	¥83,014

28. 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 shares 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.

	2021	2022
Equity attributable to owners of the company ratio (%)	76.5	73.4
Return on equity attributable to owners of the company (%)	3.0	8.4

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

	2021	2022
Financial assets		
Financial assets measured at fair value through other comprehensive income		
Stock	¥28,547	¥23,472
Financial assets measured at fair value through profit or loss		
Convertible bonds	2,098	2,358
Investment in limited partnerships	3	1,538
Golf membership rights, etc.	96	132
Derivatives	98	47
Financial assets measured at amortized cost		
Other financial assets	1,587	2,419
Trade and other receivables	95,992	99,591
Cash and cash equivalents	62,888	83,014
Total financial assets	¥191,310	¥212,571
Financial liabilities		
Financial liabilities measured at fair value through profit or loss		
Derivatives	104	73
Contingent consideration	2,804	2,989
Lease liabilities	7,746	9,319
Financial liabilities measured at amortized cost		
Other financial liabilities	23,226	48,175
Trade and other payables	38,106	41,185
Total financial liabilities	¥71,986	¥101,741

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 reached 60% of consolidated revenue in the fiscal year ended March 31, 2022, compared with 62% in the fiscal year ended March 31, 2021. 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 Note 32 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 ¥4 million in guarantees held for credit-impaired financial assets in the fiscal year ended March 31, 2022, compared with ¥5 million in the fiscal year ended March 31, 2021.

(a) Aging analysis
Below is an aging analysis of trade and other receivables.

Fiscal year ended March 31, 2021

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	¥−	¥−	¥−	¥95,462	¥95,462
Past due date					
Within 30 days	−	−	−	457	457
Over 30 and within 90 days	−	−	−	65	65
Over 90 days	−	−	178	86	264
Total past due date	−	−	178	607	786
Total	¥−	¥−	¥178	¥96,069	¥96,247

Year ended March 31, 2022 (as of March 31, 2022)

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	¥—	¥—	¥—	¥99,209	¥99,209
Past due date					
Within 30 days	—	—	—	108	108
Over 30 and within 90 days	—	—	—	243	243
Over 90 days	—	—	182	171	352
Total past due date	—	—	182	522	704
Total	¥—	¥—	¥182	¥99,731	¥99,913

(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, 2021

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 as of April 1, 2020	¥—	¥—	¥177	¥27	¥204
Increase during fiscal year	—	—	1	58	60
Decrease during fiscal year (intentional use)	—	—	—	—	—
Decrease during fiscal year (reversals)	—	—	(0)	(24)	(24)
Others	—	—	—	15	15
Balance as of Marxh 31, 2021	¥—	¥—	¥178	¥77	¥255

Fiscal year ended March 31, 2022

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 as of April 1, 2020	¥—	¥—	¥178	¥77	¥255
Increase during fiscal year	—	—	4	74	78
Decrease during fiscal year (intentional use)	—	—	—	—	—
Decrease during fiscal year (reversals)	—	—	(18)	(41)	(59)
Others	—	—	17	30	47
Balance as of March 31, 2021	¥—	¥—	¥182	¥140	¥322

There are no ongoing collection activities for financial assets fully written off during the fiscal year ended March 31, 2022.

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 that must be settled 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 also established bank lines of credit (Commitment line) to ensure liquidity.

2) Maturity analysis

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

Year ended March 31, 2021 (as of March 31, 2021)

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	¥38,106	¥38,106	¥38,106	¥—	¥—	¥—	¥—	¥—
Other financial liabilities								
Loans payable	2,400	2,802	70	80	310	544	571	1,228
Other payables	15,986	15,986	15,986	—	—	—	—	—
Lease liabilities	7,746	8,361	3,145	2,175	952	597	443	1,049
Derivatives	104	104	—	—	104	—	—	—
Other	4,841	4,841	4,841	—	—	—	—	—
Total	¥69,182	¥70,200	¥62,148	¥2,254	¥1,365	¥1,141	¥1,015	¥2,276

Note: The table above does not include contingent consideration arising from business combinations. Details on contingent consideration are disclosed in Note 33 “Business Combination.”

Year ended March 31, 2022 (as of March 31, 2022)

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	¥41,185	¥41,185	¥41,185	¥—	¥—	¥—	¥—	¥—
Other financial liabilities								
Loans payable	23,613	24,137	10,936	455	589	634	577	10,946
Other payables	18,692	18,692	18,692	—	—	—	—	—
Lease liabilities	9,319	9,932	3,384	2,091	1,326	1,044	862	1,224
Derivatives	73	73	6	68	—	—	—	—
Other	5,871	5,871	5,871	—	—	—	—	—
Total	¥98,752	¥99,890	¥80,074	¥2,614	¥1,915	¥1,678	¥1,439	¥12,170

Note: The table above does not include contingent consideration arising from business combinations. Details on contingent consideration are disclosed in Note 33 “Business Combination.”

3) Commitment line

As of March 31, 2022 and 2021, the total commitment line and the balance of unexecuted loans were as follows.

Millions of yen

	2021	2022
Total commitment line	¥30,000	¥30,000
Balance of executed loans	—	10,000
Balance of unexcuted loans	¥30,000	¥20,000

C. Market Risk

1) Outline

The risk is 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

	2021		2022	
	Euro	U.S. dollar	Euro	U.S. dollar
Trade and other receivables	€2,870	$21,115	€0	$25,975
Trade and other payables	(1,822)	(8,145)	(1,955)	(10,580)
Net exposure amount	€1,048	$12,970	€(1,955)	$15,395

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 in the fiscal year ended March 31, 2021. 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

	2021	2022
	Profit (loss)	Profit (loss)
Euro (5% appreciation)	¥(7)	¥11
U.S. dollar (5% appreciation)	(72)	(78)

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 fluctuation risk
The Santen Group is exposed to Share price fluctuation risk arising from financial assets (stocks) measured at fair value through other comprehensive income. Financial assets measured at fair value through other comprehensive income are monitored for fair value and the financial condition of the issuer. When the issuer is a business partner, the Company regularly reviews the status of the holdings considering the relationship with the entity.

Assuming all other variables remain constant, if the share prices of the 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 ¥2,610 million in the fiscal year ended March 31, 2021 and ¥2,087 million in the fiscal year ended March 31, 2022, 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
1) Financial assets and financial liabilities measured at fair value through profit and loss
・Investment in limited partnerships
Equity investments in limited partnerships are measured at the fair value of partnership assets. Equity investments in limited partnerships are shares of the fair value of limited partnerships which are measured at the fair value of partnership assets.
・Derivatives
The fair value of derivatives is based on market price data obtained from partner financial institutions which is calculated using key inputs based on observable market information, assessment techniques such as future cash flows discounted to present value.
・Contingent considerations
The contingent consideration in business combinations is primarily a milestone payment based on the progress in developing and sales performance of STN2000100(DE-128, PRESERFLO MicroShunt) and is calculated at the present value of all future payments that the company could be required to make under the contingent consideration arrangement, adjusted for their probability of occurrence.

2) Financial assets measured at amortized cost
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) Financial assets measured at fair value through other comprehensive income

The fair values of financial assets, which are listed, measured at fair value through other comprehensive income are based on quoted market prices or market value information obtained from counterparty financial institutions. Financial assets, which are unlisted, measured at fair value through other comprehensive income are valued using the net asset method, comparable company method or other methods. Under the comparable company method, the company select comparable publicly traded companies of the target company and use stock indicators of the comparable company to determine fair value.

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 other liabilities, the fair value is deemed to be the same as the carrying amount because the liabilities are settled in a short period of time and the fair value approximates the carrying amount.

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

	2021		2022	
	Carrying amount	Fair value	Carrying amount	Fair value
Loans payable	¥2,400	¥2,408	¥12,677	¥12,515

Notes:

1. The fair value of loans payable is categorized as Level 2.
2. Short-term financial assets and short-term financial liabilities are not included in the table above because their carrying amounts approximate the fair value.

C. 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, 2021

Millions of yen

	Level 1	Level 2	Level 3	Total
Assets				
Financial assets measured at fair value through other comprehensive income				
Stocks	¥26,098	¥―	¥2,449	¥28,547
Financial assets measured at fair value through profit or loss				
Convertible bonds	―	―	2,098	2,098
Investment in limited partnerships	―	―	3	3
Golf membership rights, etc.	―	18	78	96
Derivatives	―	98	―	98
Liabilities				
Financial liabilities measured at fair value through profit or loss				
Derivatives	―	104	―	104
Contingent consideration	―	―	2,804	2,804

Note: There was a transfer from Level 3 to Level 1. The transfer resulted from the listing of the share held which had not been previously listed and had not been traded in active market that is observable. As the company's share is currently traded in an active market and has a trading price in an active market, the Company has reclassified its fair value measurements from Level 3 to Level 1 on the fair value hierarchy.

Year ended March 31, 2022

Millions of yen

	Level 1	Level 2	Level 3	Total
Assets				
Financial assets measured at fair value through other comprehensive income				
Stocks	¥20,866	¥―	¥2,606	¥23,472
Financial assets measured at fair value through profit or loss				
Convertible bonds	―	―	2,358	2,358
Investment in limited partnerships	―	―	1,538	1,538
Golf membership rights, etc.	―	54	78	132
Derivatives	―	47	―	47
Liabilities				
Financial liabilities measured at fair value through profit or loss				
Derivatives	―	73	―	73
Contingent consideration	―	―	2,989	2,989

Note: There was no significant transfers between Level 1 and 2 of the fair value hierarchy.

The following table provides reconciliation of the beginning and ending balances of fair value measurements that are categorized within Level 3 on the fair value hierarchy:

Millions of yen

	2021	2022
Balance, at the beginning of year	¥2,914	¥4,629
Profits or losses		
Other comprehensive income*2	(1,469)	208
Purchases	3,420	2,031
Transfer from Level 3*3	(200)	(288)
Other	(36)	0
Balance, at the end of year	¥4,629	¥6,580

Notes:

1. The table above does not include contingent consideration arising from the business combination. Details on contingent consideration are disclosed in Note 33 "Business Combination."
2. Amounts are included in "Net gain or loss on financial assets measured at fair value through other comprehensive income" and "Foreign currency translation adjustments" on the consolidated statement of profit or less and other comprehensive income.
3. Transfers from Level 3 were made due to the aforementioned listing of shares held in the previous fiscal year, and becoming an affiliated company as a result of having significant influence in the current fiscal year.
4. 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, the impact on their fair value would not be material if unobservable inputs are switched to reasonable alternative assumptions.

29. Leases

As lessee, the Santen Group leases offices and other assets.

1) Gains and losses on lease transactions

Amounts recognized in profit or loss in connection with lease transactions are as follows:

Millions of yen

	2021	2022
The depreciation of the right-of-use assets		
Buildings and structures as underlying assets	¥1,947	¥2,010
Machinery, equipment and vehicles as underlying assets	484	572
Tools, furniture and fixtures as underlying assets	14	14
Land as underlying assets	19	21
Total depreciation/amortization	2,464	2,617
Interest expense on lease liabilities	155	177
Lease costs under the exemptions for short-term leases	147	95
Lease costs under the exemptions for immaterial leases	¥63	¥76

There are no variable lease payments or sale-leaseback transactions within the Group.

2) Cash outflows from lease transactions

The amounts of cash outflows related to lease transactions are as follows:

Millions of yen

	2021	2022
Total cash outflows from leases	¥3,316	¥3,404

3) The right-of-use assets

The carrying amounts of right-of-use assets are as follows:

Millions of yen

	2021	2022
Breakdown of right-of-use asset balance		
Buildings and structures as underlying assets	¥5,546	¥7,110
Machinery, equipment and vehicles as underlying assets	1,012	1,101
Tools, furniture and fixtures as underlying assets	37	19
Land as underlying assets	975	1,094
Total right-of-use assets	¥7,569	¥9,323

The increase in right-of-use assets for the fiscal year ended March 31, 2022 and March 31, 2021 were ¥4,254 million and ¥3,556 million respectively.

30. Subsidiaries and associates

Structure of the Santen Group in the fiscal year ended March 31, 2022 is as follows.

Name	Location	Main business	Percentage of voting equity
(Subsidiaries) Claire Co., Ltd.	Japan	Cleaning services	100.0
Santen Business Services Co., Ltd.	Japan	Indirect support services	100.0
Santen Eye Care Co., Ltd.	Japan	Manufacturing and sales of prescription pharmaceuticals	100.0
Santen China Investment Co., Ltd.	China	Investment in group companies in China, supervision of fund management and support of business management operations for group companies in China	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)
Chongqing Santen Kerui Pharmaceutical Co., Ltd.	China	Manufacturing and sales of prescription pharmaceuticals	49.0 (49.0)
Santen Pharmaceutical Korea Co., Ltd.	Korea	Sales and clinical development of prescription pharmaceuticals	100.0
Taiwan Santen Pharmaceutical Co., Ltd.	Taiwan	Sales of pharmaceuticals	100.0 (100.0)
SANTEN PHARMACEUTICAL (HONG KONG) LIMITED	Hong Kong	Sales of prescription pharmaceuticals	100.0 (100.0)
Santen India Private Limited	India	Sales of prescription pharmaceuticals	100.0 (100.0)
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)
SANTEN PHILIPPINES INC.	Philippines	Sales of prescription pharmaceuticals	100.0 (100.0)
SANTEN PHARMA MALAYSIA SDN. BHD.	Malaysia	Sales of prescription pharmaceuticals	100.0 (100.0)
Santen Pharmaceutical Vietnam Co., Ltd.	Vietnam	Sales of prescription pharmaceuticals	100.0 (100.0)
Santen Holdings EU B.V.	Netherlands	Holding company of Santen SA	100.0
Santen Oy	Finland	Sales and clinical development of prescription pharmaceuticals	100.0 (100.0)
Santen S.A.S.	France	Sales and clinical development of prescription pharmaceuticals	100.0 (100.0)

Name	Location	Main business	Percentage of voting equity
Santen GmbH	Germany	Sales of prescription pharmaceuticals and related business development	100.0 (100.0)
Santen SA	Switzerland	EMEA regional headquarters and management, and finance, and manufacturing and sales of prescription pharmaceuticals	100.0 (100.0)
Santen Italy S.r.l.	Italy	Sales of prescription pharmaceuticals	100.0 (100.0)
Santen UK Limited	UK	Sales of prescription pharmaceuticals	100.0 (100.0)
Santen Pharmaceutical Spain, S.L.	Spain	Sales of prescription pharmaceuticals	100.0 (100.0)
SANTEN LIMITED LIABILITY COMPANY	Russia	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)
Advanced Vision Science, Inc.	U.S.A.	Development, manufacturing and sales of medical devices	100.0 (100.0)
InnFocus, Inc.	U.S.A.	Development, manufacturing and sales of medical devices	100.0 (100.0)
Santen Ventures, Inc.	U.S.A.	Investment in startup companies	100.0 (100.0)
Santen Canada, Inc.	Canada	Sales of prescription pharmaceuticals	100.0 (100.0)
Eyevance Pharmaceuticals Holdings Inc.	U.S.A.	Holding company of Eyevance Pharmaceuticals LLC	100.0 (100.0)
Eyevance Pharmaceuticals LLC	U.S.A.	Development and sales of prescription pharmaceuticals	100.0 (100.0)
Other one subsidiary			
(Associates accounted for using the equity method) Twenty Twenty Therapeutics LLC	U.S.A.	Development of medical devices	49.4 (49.4)
Other one associate accounted for using the equity method			

(NOTE)

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 Pharma AB is excluded from the scope of consolidation as it was liquidated after the business was transferred to Santen Oy in the fiscal year ended March 31, 2022.

4. Affiliates accounted for using equity method increased by one in the fiscal year ended March 31, 2022.
5. In addition to the aforementioned, trusts related to the stock remuneration system are included in the scope of consolidation.

31. Related Parties

1) Related Party Transactions
Year ended March 31, 2021 (April 1, 2020 to March 31, 2021)
There were no transactions to report.

Year ended March 31, 2022 (April 1, 2021 to March 31, 2022)
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

	2021	2022
Compensation	¥319	¥320
Share-based payments	53	69
Total	¥371	¥389

32. 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

	2021	2022
Employees (debt obligations)	¥10	¥5

33. Business Combination

1) Business Combination
Fiscal year ended March 31, 2021
(Acquisition of Eyevance Pharmaceuticals Holdings Inc. and Eyevance Pharmaceuticals LLC)

A.Outline of Business Combinations

i. The name and description of the acquiree
Company name：Eyevance Pharmaceuticals Holdings Inc.
Eyevance Pharmaceuticals LLC
Main business：Advancing ocular health through the development and commercialization of innovative and impactful topical ophthalmic products that enable optimal vision and better quality of life

ii. Primary reasons for the business combination
Eyevance develops and commercializes topical ophthalmic products targeting the ocular surface and anterior segment. Within this area of focus, Eyevance currently offers, anti-inflammatory, anti-allergic, antifungal,and anti-infective/anti-inflammatory fixed combination, and tear lubricant products. Eyevance’s current commercialization strategy is supported by a national sales team targeting ophthalmologists, optometrists, and allergists throughout the U.S.

Through this purchase, the Santen Group will quickly establish a business base in the U.S. and aims to provide more value by sincerely tackling and addressing the needs of a greater number of patients. At the same time, the Santen Group will accelerate its global business rollout by gaining access to the U.S. and raising its presence in the market, aiming for even further corporate growth and to contribute to ophthalmic treatments for people around the world.

iii. Acquisition date
September 16, 2020 (U.S. time)

iv. Acquisition Method
For consideration in cash, the Company acquired 100% of the outstanding shares of Eyevance Pharmaceuticals Holdings Inc (U.S.) and made it and its operating subsidiary, Eyevance Pharmaceuticals LLC (U.S.), wholly owned subsidiary.

v. Percentage of voting equity interests acquired
100%

B.The Amount of Assets Acquired, Liabilities Assumed and the Fair Values of Purchase Consideration Transferred as at the Date of the Acquisition

The allocation of the purchase consideration was completed in the fiscal year ended March 31, 2022, while the Company had previously accounted for the business combination on a provisional basis because the allocation of the purchase consideration was not completed in the previous fiscal year.

Recognized amounts of assets acquired and liabilities assumed at the date of acquisition and the acquisition date fair value of the purchase consideration were as follows:

Millions of yen

	Amount
Non-current assets	¥21,428
Current assets	838
Cash and cash equivalents	1,099
Non-current liabilities	(3,725)
Current liabilities	(564)
Goodwill*	5,857
Total	24,933
Cash	24,933
Total consideration transferred	¥24,933

Note: Goodwill arose primarily from reasonable estimates of expected future excess profitability. The goodwill is not deductible for tax purposes.

In the fiscal year ended March 31, 2022, the Company adjusted the initial provisional amounts retrospectively due to completing the allocation of the purchase consideration. As a result, at the acquisition date, intangible assets and deferred tax liabilities increased by ¥17,063 million and ¥3,550 million, respectively, and goodwill decreased by ¥13,705 million. In the consolidated statements of profit or loss and other comprehensive income for the previous fiscal year, net income increased by ¥2,481 million, due mainly to the recording of deferred tax assets associated with participation in U.S. consolidated tax payments and the impact of changes in amortization related to intangible assets.

In addition, the consolidated statements of financial position for the previous fiscal year have been adjusted retrospectively due to completing the allocation of the above purchase consideration. Intangible assets increased by ¥17,086 million, deferred tax liabilities increased by ¥336 million, and goodwill decreased by ¥14,154 million.

Acquisition-related costs are included in “Selling, general and administrative expenses” in the amount of ¥853 million.

C. Cash flow

Millions of yen

	Amount
Total fair values of the consideration paid	¥24,933
Cash and cash equivalents held by the acquiree	(1,099)
Payments for acquisition of shares of subsidiaries	¥23,834

D. Impact on the Company's Business Results

Income (loss) from Eyevance Pharmaceuticals Holdings Inc. and Eyevance Pharmaceuticals LLC subsequent to the date of acquisition included in Consolidated Statement of Profit or Loss and Other Comprehensive Income are as follows.

Revenue :¥988 million

Net profit for the year :¥(1,422 million)

The impact on the Company's business results, assuming the acquisition date had been at the beginning of the annual reporting period were as follows (excluded from scope of audit).

Revenue :¥ 1,740 million

Net profit for the year :¥(3,619 million)

Fiscal year ended March 31, 2022

There were no business combinations to report.

2) Contingent consideration

Contingent consideration in a business combination entails milestone payments that depend on development progress and sales performance for STN2000100（DE-128、PRESERFLO MicroShunt）. The maximum future payments the Company could be required to make in accordance with the contingent consideration contract is US $386 million (before discounts).
The fair value hierarchy level of the contingent consideration is Level 3.
The portion of the change in fair value related to contingent consideration that is based on changes in time value is recorded in "Finance income" or "Finance costs," while the portion based on changes other than time value is recorded in "Other income" or "Other expenses."

The following table presents a reconciliation of the beginning and ending balances of the Level 3 contingent consideration.

A. Changes

Millions of yen

	2021	2022
Opening/Beginning balance	¥20,571	¥2,804
Profits and losses		
Other income *3	(15,223)	－
Other expenses	－	102
Finance income	－	(204)
Finance expenses	287	－
Other comprehensive income *1	(316)	287
Settlement amount during the period	(2,517)	－
Ending balance	¥2,804	¥2,989

Notes: 1. Amounts are included in foreign currency translation adjustments on the consolidated statement of profit or loss and other comprehensive income.

2. 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.
The fair value of contingent consideration is based on the present value of all future payments that the company could be required to make under the contingent consideration arrangement, adjusted for their probability of occurrence. If the program's success, which is a significant unobservable input, becomes more likely than not, the fair value will increase. For the contingent consideration classified as Level 3, the increase or decrease in fair value that would result if the inputs that were not observable were changed to reflect alternative assumptions that were reasonably possible is described in "C. Sensitivity Analysis."

3. The company received feedback on the review process from the U.S. Food and Drug Administration (FDA) at the end of February 2021 regarding STN2000100(DE-128, PRESERFLO MicroShunt) for which the company filed a pre-market approval (PMA) application in the U.S. in June 2020. Consultations have been hold since then, and it is possible that the consultations may continue further. Accordingly, the Company revised the development success rate and future sales plans assuming a delay in the timing of the approval in the U.S., which had been anticipated to be obtained for the first half of FY2021, and the changes in the fair value of contingent consideration have resulted in other income.

B. Scheduled payments by maturity

Millions of yen

	2021	2022
One year or less	¥－	¥－
One to five years	1,302	3,321
More than five years	¥1,702	¥111

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

		2021	2022
Discount rate	1.0% increase	¥(100)	¥(111)
	1.0% decrease	100	111

34. Significant Subsequent Events

1)Determination of matters related to the acquisition of treasury shares (acquisition of treasury shares pursuant to the provisions of the Articles of Incorporation and Paragraph 2 of Article 165 of the Companies Act)

At the meeting of the Board of Directors held on May 10, 2022, the company resolved the matters related to the acquisition of treasury shares in accordance with Article 156 of the Companies Act as applied by replacing certain terms pursuant to Paragraph 3 of Article 165 of the same Act.

①Reason for conducting the share acquisition

The share acquisition is aimed at reinforcing returns to shareholders and further improving capital efficiency.

② Matters pertaining to the acquisition

(i)	Type of shares to be acquired	The Company's common stock
(ii)	Total number of shares that can be acquired	Up to 12.5 million shares (3.1% of the total number of issued shares, excluding treasury shares)
(iii)	Total value of shares acquired	Up to ¥15,000 million
(iv)	Acquisition period	May 11-September 30, 2022
(v)	Acquisition method	Market purchase based on discretionary investment contracts
(vi)	Others	The treasury shares acquired will be retired by a resolution of the Board of Directors pursuant to Article 178 of the Companies Act during the fiscal year ended March 31, 2023.

2)Discontinuation of the transition to a holding company structure through a single transfer of shares and the change in the fiscal year-end (the last day of the fiscal year)

The company planned to shift to a holding company structure on April 1, 2022 and to change the fiscal year-end (the last day of the fiscal year) on January 1, 2022. The Board of Directors' meeting held on May 11, 2021 resolved to postpone the transition to a holding company structure as well as the change in the fiscal year-end. However, the Board of Directors resolved to discontinue these matters at the meeting held on May 10, 2022.

① Reason for discontinuation

The company had been preparing for these matters in order to realize the company's long-term vision of Santen 2030, however, after taking into account short-term changes in the business environment and other factors at the Board of Directors meeting held on May 11, 2021, the company decided to postpone them. Following further discussions, the Company decided to suspend the transition to a holding company structure and change of its fiscal year-end in order to improve profitability for sustainable growth, which is outlined in the Medium-Term Management Plan (MTP2025), and concluded that it is necessary to maintain the current structure.

In April 2022, the company revamped the company's executive management team ("EMT") structure to reflect the importance of strengthening the executive management system. Through this renovation, the company intend to strengthen the governance system for business execution by establishing a global management system in which heads of businesses expanding in both regions and domains and Centers of Excellence who lead strategies and operations from a global perspective flexibly collaborate and make optimal decisions speedily from a company-wide perspective. Going forward, the company will strengthen the company's competitiveness and strategy execution capabilities as a global company under an executive system centered on EMT.

② Effect on business result

This matter had no impact on the results of operations for the following fiscal year.

Internal Control Report

1 Framework of Internal Control Over Financial Reporting

We, as Chairman of Santen Pharmaceutical Co., Ltd. (the Company), President and CEO 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, 2022 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 process 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, its subsidiaries and affiliates, 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 12 subsidiaries, management determined a reasonable scope for process level controls to be assessed.

Management selected the business unit as the significant one 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 was 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, 2022.

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, 2022.

5 Other

Nothing to report.

Akira Kurokawa	Takeshi Ito	Kazuo Koshiji
Chairman	President & CEO	CFO

September 16, 2022

Independent Auditor's Report

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Santen Pharmaceutical Co., Ltd. ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at March 31, 2022, consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

As stated in Note 34, "Significant Subsequent Events", at the meeting of the Board of Directors held on May 10, 2022, the Company resolved the matters related to the acquisition of treasury shares in accordance with Article 156 of the Companies Act as applied by replacing certain terms pursuant to Paragraph 3 of Article 165 of the same Act. Our opinion is not modified in respect of this matter.

Key Audit Matters

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

<table>
<tr><th colspan="2">The estimate of the recoverable amount in the impairment test of the intangible asset related to Sirolimus acquired through a contract with MacuSight, Inc.</th></tr>
<tr><th>The key audit matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>As described in Note 16, "Intangible Assets" to the consolidated financial statements, intangible assets of ¥130,217 million recognized in the consolidated statement of financial position included an intangible asset of ¥6,982 million related to Sirolimus, which was acquired through a contract with MacuSight., Inc., as intangible assets not yet available for use.

As described in Note 3, "Significant Accounting Policies, 10) Impairment of Property, Plant and Equipment and Intangible Assets" to the consolidated financial statements, intangible assets not yet available for use are tested for impairment annually, irrespective of whether there is any indication of impairment for the asset or CGU. In the impairment testing, when the recoverable amount is less than the carrying amount, the carrying amount is reduced to the recoverable amount, and the resulting decrease in the carrying amount is recognized as an impairment loss in profit or loss.

Sirolimus is a compound introduced through the contract with MacuSight, Inc. in 2008 and the following developments are currently underway:</td><td>The primary procedures we performed to assess whether the estimate of the recoverable amount in the impairment testing of the intangible asset related to Sirolimus was reasonable included the following:
(1) Internal control testing
We tested the design and operating effectiveness of certain of the Company's internal controls relevant to estimating the recoverable amount in the impairment testing of the intangible asset, including the determination of key assumptions.
(2) Assessment of the reasonableness of the estimated value in use
① We verified whether the future cash flows were consistent with the business plan approved by the board of directors.
②In order to assess whether the key assumptions used were appropriate, we:
(i) compared the development success rate with statistical development success rates in each development phase published by an external organization;</td></tr>
</table>

The key audit matter	How the matter was addressed in our audit
Development code : STN1010904 Applicable disease : Fuchs endothelial corneal dystrophy Development status : under the Phase II clinical trial Development code : STN1010905 Applicable disease : Meibomian gland dysfunction Development status : under the Phase II clinical trial The following development previously being carried out was determined to be discontinued in April 2022. Development code : STN1010900 Applicable disease : Uveitis As a long time has passed since its introduction and the development for which the applicable disease was uveitis has been discontinued, the estimate of the recoverable amount of the intangible asset related to Sirolimus is deemed highly uncertain compared to other development pipelines owned by the Company. In the current fiscal year, since the recoverable amount exceeded the carrying amount, an impairment loss on the intangible asset related to Sirolimus was not recognized. The Company used the value in use as the recoverable amount in the annual impairment testing of the intangible asset related to Sirolimus. The future cash flows that formed the basis for calculating the value in use were based on the development success rate and the business plan developed by management. The estimated development success rate, drug prices and market shares expansion were used as key assumptions, and management's judgment thereon had a significant effect on the estimated value in use. In addition, estimating the discount rate used to measure the value in use of the asset requires a high degree of expertise. We, therefore, determined that the estimate of the recoverable amount in the impairment testing of the intangible asset related to Sirolimus was of most significance in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.	(ii) understood the development progress and the impact on the development success rate by inspecting the minutes of the board of directors' meetings and the management meetings; (iii) compared the estimated drug price with the drug prices of benchmark competing products based on the extent of differentiation from those competing products, which we understood by inspecting internal documents such as the materials for the board of directors' meetings and available external information; and (iv) verified whether the expected market share growth was consistent with the extent of differentiation from benchmark competing products mentioned above and the information on the trends of the competing products. ③ We performed the following procedures by using a valuation specialist within our domestic network firms: (i) assessment of the reasonableness of the discount rate in light of the subject valuation items and the requirements of accounting standards; and (ii) assessment of whether the input data used to estimate the discount rate was appropriate through comparison with data published by external organizations.

Other Information

The other information comprises the information included in the "Consolidated Financial Statements and Notes", but does not include the consolidated financial statements and our auditor's report thereon.

We do not perform any work on the other information as we determine such information does not exist.

Responsibilities of Management and Corporate Auditors and the Board of Corporate Auditors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.
In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with IFRS and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.
Corporate auditors and the board of corporate auditors are responsible for overseeing the directors' performance of their duties with regard to the design, implementation and maintenance of the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with IFRS, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with corporate auditors and the board of corporate auditors regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
We also provide corporate auditors and the board of corporate auditors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
From the matters communicated with corporate auditors and the board of corporate auditors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Audit of the Internal Control Report

Opinion

We also have audited the accompanying internal control report of Santen Pharmaceutical Co., Ltd. (“the Company”) and its consolidated subsidiaries (collectively referred to as “the Group”) as at March 31, 2022.

In our opinion, the accompanying internal control report, which states that the internal control over financial reporting was effective as at March 31, 2022, presents fairly, in all material respects, the results of the assessments of internal control over financial reporting in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

Basis for Opinion

We conducted our audit of the internal control report in accordance with auditing standards for internal control over financial reporting generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Internal Control Report section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the internal control report in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Corporate Auditors and the Board of Corporate Auditors 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 accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

Corporate auditors and the board of corporate auditors are responsible for overseeing and examining the design and operation of internal control over financial reporting.

Internal control over financial reporting may not completely prevent or detect financial statement misstatements.

Auditor’s Responsibilities for the Audit of the Internal Control Report

Our objectives are to obtain reasonable assurance about whether the internal control report is free from material misstatement based on our audit of the internal control report and to issue an auditor’s report that includes our opinion.

As part of our audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Perform procedures to obtain audit evidence about the results of the assessments of internal control over financial reporting in the internal control report. The procedures for the audit of the internal control report are selected and performed, depending on the auditor’s judgment, based on significance of effect on the reliability of financial reporting.
- Evaluate the overall presentation of the internal control report, including the appropriateness of the scope, procedures and results of the assessments that management presents.
- Obtain sufficient appropriate audit evidence about the results of the assessments of internal control over financial reporting in the internal control report. We are responsible for the direction, supervision and performance of the audit of the internal control report. We remain solely responsible for our audit opinion.

We communicate with corporate auditors and the board of corporate auditors regarding, among other matters, the planned scope and timing of our audit of the internal control report, the results thereof, material weaknesses in internal control identified during our audit of internal control report, and those that were remediated.

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

Interest required to be disclosed by the Certified Public Accountants Act of Japan

We do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan

Takuya Obata
Designated Engagement Partner
Certified Public Accountant

Takehiro Nakamura
Designated Engagement Partner
Certified Public Accountant

KPMG AZSA LLC
Osaka Office, Japan
September 16, 2022

Notes to the Reader of Independent Auditor's Report:
This is a copy of the Independent Auditor's Report and the original copies are kept separately by the Company and KPMG AZSA LLC.