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, 2023

		Millions of yen	
	Note	2022	2023
Revenue	6, 7	¥266,257	¥279,037
Cost of sales	8,29	(109,671)	(112,950)
Gross profit		156,586	166,087
Selling, general and administrative expenses	8,29	(84,499)	(96,257)
Research and development expenses	8,29	(26,377)	(28,297)
Amortization on intangible assets associated with products	16	(9,734)	(9,518)
Other income	9	1,043	3,524
Other expenses	10	(1,133)	(38,629)
Operating profit (loss)		35,886	(3,090)
Finance income	11	2,543	1,153
Finance expenses	11,29	(1,209)	(1,499)
Share of loss of investments accounted for using equity method	18	(1,604)	(2,362)
Profit (loss) before tax		35,616	(5,799)
Income tax expenses	12	(8,427)	(9,184)
Net profit (loss) for the year		27,189	(14,983)
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	449	32
Net gain or loss on financial assets measured at fair value through other comprehensive income	13	(1,067)	589
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation adjustments	13	11,235	8,018
Share of other comprehensive income of investments accounted for using equity method	13， 18	744	648
Other comprehensive income	13	11,361	9,287
Total comprehensive income for the year		38,550	(5,696)
Profit (loss) attributable to			
Owners of the company		27,218	(14,948)
Non-controlling interests		(29)	(35)
Net profit (loss) for the year		27,189	(14,983)
Total comprehensive income attributable to			
Owners of the company		38,660	(5,658)
Non-controlling interests		(110)	(38)
Total comprehensive income for the year		¥38,550	¥(5,696)

Earnings per share		Yen	
		2022	2023
Basic earnings (loss) per share	14	¥68.07	¥(38.60)
Diluted earnings (loss) per share	14	67.97	(38.60)

Consolidated Statement of Financial Position

Santen Pharmaceutical Co., Ltd. and Its Consolidated Subsidiaries
As of March 31, 2023

	Note	Millions of yen 2022	2023
Assets			
Non-current assets			
Property, plant and equipment	15,29	¥56,287	¥66,173
Intangible assets	16	130,217	96,309
Financial assets	17	28,673	28,038
Retirement benefit asset	24	3,011	3,438
Investments accounted for using equity method	18	7,565	9,321
Deferred tax assets	12	3,103	2,810
Other non-current assets		1,695	1,763
Total non-current assets		230,551	207,853
Current assets			
Inventories	19	37,141	39,352
Trade and other receivables	20	99,591	107,165
Other financial assets	17	1,293	774
Income taxes receivable		—	60
Other current assets		8,387	8,072
Cash and cash equivalents	27	83,014	57,903
Total current assets		229,426	213,326
Total assets		459,976	421,179
Equity and liabilities			
Equity			
Equity attributable to owners of the company			
Share capital	21	8,672	8,702
Capital surplus	21	9,370	9,789
Treasury shares	21	(718)	(364)
Retained earnings	21	290,477	238,071
Other components of equity	21, 22	29,688	37,781
Total equity attributable to owners of the company		337,488	293,979
Non-controlling interests		(645)	(683)
Total equity		336,844	293,297
Liabilities			
Non-current liabilities			
Financial liabilities	23	22,023	33,513
Net defined benefit liabilities	24	1,077	1,271
Provisions	25	738	691
Deferred tax liabilities	12	2,526	1,592
Other non-current liabilities		948	1,312
Total non-current liabilities		27,312	38,378
Current liabilities			
Trade and other payables	26	41,185	44,945
Other financial liabilities	23	38,533	25,858
Income tax payable		4,198	6,745
Provisions	25	939	4,212
Other current liabilities		10,965	7,744
Total current liabilities		95,821	89,504
Total liabilities		123,133	127,883
Total equity and liabilities		¥459,976	¥421,179

Consolidated Statement of Changes in Equity

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	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 (loss) for the period					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				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, 2021		¥8,634	¥170	¥518	¥20,398	¥310,181	¥(535)	¥309,646
Comprehensive income								
Net profit (loss) for the period					—	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

Santen Pharmaceutical Co., Ltd. and Its Consolidated Subsidiaries
Fiscal year ended March 31, 2023

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, 2022		¥8,672	¥9,370	¥(718)	¥290,477	¥—	¥8,438
Comprehensive income							
Net profit (loss) for the period					(14,948)		
Other comprehensive income	13					32	589
Total comprehensive income for the year		—	—	—	(14,948)	32	589
Transactions with owners							
Issuance of new shares	21	31	31				
Acquisition of treasury shares	21		(51)	(26,007)			
Retirement of treasury shares	21		(2)	367			
Cancellation of treasury shares	21		(25,994)	25,994			
Transfer to Capital surplus from Retained earnings			25,990		(25,990)		
Dividends	21				(12,611)		
Share-based payments	21, 22		445				
Other					1,143	(32)	(1,111)
Total transactions with owners		31	419	354	(37,458)	(32)	(1,111)
Balance at March 31, 2023		¥8,702	¥9,789	¥(364)	¥238,071	¥—	¥7,917

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, 2022		¥19,950	¥914	¥384	¥29,688	¥337,488	¥(645)	¥336,844
Comprehensive income								
Net profit (loss) for the period					—	(14,948)	(35)	(14,983)
Other comprehensive income	13	8,021	648		9,290	9,290	(3)	9,287
Total comprehensive income for the year		8,021	648	—	9,290	(5,658)	(38)	(5,696)
Transactions with owners								
Issuance of new shares	21			(54)	(54)	7		7
Acquisition of treasury shares	21				—	(26,058)		(26,058)
Retirement of treasury shares	21				—	365		365
Cancellation of treasury shares	21				—	—		—
Transfer to Capital surplus from Retained earnings					—	—		—
Dividends	21				—	(12,611)		(12,611)
Share-based payments	21, 22				—	445		445
Other					(1,143)	—		—
Total transactions with owners		—	—	(54)	(1,197)	(37,851)	—	(37,851)
Balance at March 31, 2023		¥27,971	¥1,562	¥331	¥37,781	¥293,979	¥(683)	¥293,297

Consolidated Statement of Cash Flows

Santen Pharmaceutical Co., Ltd. and Its Consolidated Subsidiaries
Fiscal year ended March 31, 2023

	Note	Millions of yen	
		2022	2023
Cash flows from operating activities			
Net profit for the year		¥27,189	¥(14,983)
Depreciation and amortization		17,055	17,249
Impairment losses	10	232	34,560
Business structure improvement expenses	10	—	3,225
Shares of loss (profit) of Investments accounted for using equity method		1,604	2,362
Finance expenses (income)		(652)	(469)
Income tax expenses		8,427	9,184
Decrease (increase) in trade and other receivables		(1,965)	(6,443)
Decrease (increase) in inventories		5,383	(1,144)
Increase (decrease) in trade and other payables		2,491	3,689
Increase (decrease) in provisions and net defined benefit liabilities		(1,358)	113
Decrease (increase) in other current assets		(3,414)	725
Increase (decrease) in accounts payable-bonuses		(214)	(1,398)
Increase (decrease) in accounts payable-other		257	(601)
Other		674	(1,401)
Subtotal		55,709	44,668
Interest received		323	300
Dividends received		497	461
Interest paid		(240)	(465)
Income tax paid		(10,246)	(7,818)
Net cash flows from (used in) operating activities		46,043	37,147
Cash flows from investing activities			
Payments for acquisition of investments		(1,067)	(589)
Proceeds from sale of investments		3,870	2,149
Payments for acquisition of investments accounted for using equity method		(2,969)	(3,470)
Payments for acquisition of property, plant and equipment		(17,344)	(17,277)
Payments for acquisition of intangible assets		(18,497)	(7,311)
Other		838	(279)
Net cash flows from (used in) investing activities		(35,169)	(26,777)
Cash flows from financing activities			
Proceeds from short-term loans		10,460	—
Repayments of short-term loans		—	(11,278)
Proceeds from long-term loans		10,000	15,639
Purchase of treasury shares		(12)	(26,007)
Dividends paid	21	(11,994)	(12,607)
Repayments of lease liabilities		(3,056)	(3,412)
Other		159	445
Net cash flows from (used in) financing activities		5,557	(37,220)
Net increase (decrease) in cash and cash equivalents		16,432	(26,850)
Cash and cash equivalents at the beginning of period	27	62,888	83,014
Effect of exchange rate changes on cash and cash equivalents		3,694	1,739
Cash and cash equivalents at the end of period	27	¥83,014	¥57,903

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 (https://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) Changes in presentation
(Consolidated Statement of Cash Flows)
"Increase (decrease) in long-term accounts payable-other" under " Cash flows from operating activities," which was presented separately in the previous fiscal year, is included in "Other" in the current fiscal year. To reflect this change in presentation, the consolidated statements of cash flows for the previous fiscal year have been reclassified.
Consequently, ¥(102) million presented as "Increase (decrease) in long-term accounts payable-other" under "Cash flows from operating activities" in the Consolidated Statements of Cash Flows for the previous fiscal year has been reclassified as "Other."
"Decrease (increase) in other current assets" which was included in "Other" under "Cash flows from operating activities" in the previous fiscal year is presented separately from the current fiscal year.
To reflect this change in presentation, the consolidated statements of cash flows for the previous fiscal year have been reclassified.
Consequently, ¥(3,414) million, which was presented as "Other" under "Cash flows from operating activities" in the Consolidated Statements of Cash Flows for the previous fiscal year, has been reclassified as " Decrease (increase) in other current assets."
"Increase (decrease) in accounts payable-bonuses" which was included in "Other" under "Cash flows from operating activities" in the previous fiscal year is presented separately from the current fiscal year due to an increase in its monetary significance.
To reflect this change in presentation, the consolidated statements of cash flows for the previous fiscal year have been reclassified.
Consequently, ¥(214) million, which was presented as "Other" under "Cash flows from operating activities" in the Consolidated Statements of Cash Flows for the previous fiscal year, has been reclassified as "Increase (decrease) in accounts payable-bonuses."

5) Approval of Consolidated Financial Statements
The Santen Group’s consolidated financial statements for the fiscal year ended March 31, 2023 were approved on June 27, 2023 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 recovered 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.
The Company recognizes an asset or liability that reflects the effect of uncertainty in income taxes at the amount reasonably estimated for uncertain tax positions when it is probable, based on the Company's interpretation of tax laws and regulations, that the tax positions would result in a refund or payment of income taxes.
The Company applies a temporary mandatory relief from recognition and disclosure of deferred tax assets and liabilities for income taxes arising from tax legislation enacted in each jurisdiction in implementing the Pillar two model rules published by the Organization for Economic Co-operation and Development.

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 economic 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, cash-generating unit or group of cash-generating unit. If there is an indication of impairment, the Santen Group performs impairment test and assesses the recoverability of each asset, cash-generating unit or group of 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 are 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:

Goodwill ¥7,385 million and intangible assets associated with products ¥73,591 million

Goodwill and intangible assets associated with products are assessed for indicators of possible impairment of an asset, cash-generating unit or group of cash-generating unit as of the end of each reporting period, and if indicators of impairment exist, they are tested for impairment to assess recoverability. Goodwill and intangible assets associated with 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 an asset, cash-generating unit or group of cash-generating unit. The recoverable amount of an asset, cash-generating unit or group of cash-generating unit is determined at the higher of its fair value less cost of disposal or its value in use. If the carrying amount of the asset exceeds the recoverable amount, impairment losses are recognized in profit or loss and the carrying amount is reduced to the recoverable amount. Future cash flows, which are the basis for calculating the fair value less cost of disposal or its 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 the development success rate, drug prices, sales volume and market share expansion. In addition, the discount rate used to calculate fair value less costs of disposal or 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 fair value less costs of disposal and 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."

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, 2022

Millions of yen

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

Fiscal year ended March 31, 2023

Millions of yen

	Prescription Pharmaceuticals	OTC Pharmaceuticals	Medical Devices	Others	Total
Revenue from external customers	¥260,235	¥10,628	¥6,257	¥1,919	¥279,037

3) Geographical Areas Information

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 U.S. are ¥22,090 million and ¥43,066 million, respectively. With the exception of Japan, China, Switzerland and the U.S., there is no single country in which non-current assets are material.

Fiscal year ended March 31, 2023

Millions of yen

	Japan	China	Asia	EMEA	Americas	Total
Revenue from external customers[*1]	¥177,373	¥21,546	¥24,118	¥52,513	¥3,488	¥279,037
Non-current assets[*2,*3]	103,548	19,700	947	25,646	14,405	164,245

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 are ¥22,075 million. With the exception of Japan, China and Switzerland, there is no single country in which non-current assets are material.

4) Information on Major Customers

Fiscal year ended March 31, 2022

Millions of yen

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

Fiscal year ended March 31, 2023

Millions of yen

Major customers	Revenue
Suzuken Co., Ltd.	¥51,706
Mediceo Corporation	35,671

7. Revenue

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

1) Breakdown of revenue

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

Millions of yen

		Japan	China	Asia	EMEA	Americas	Total
Prescription Pharmaceuticals	Cosopt dorzolamide hydrochloride-timolol maleate combination ophthalmic solution	¥5,650	¥―	¥5,157	¥10,945	¥―	¥21,752
	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
	Trusopt dorzolamide hydrochloride ophthalmic solution	1,108	―	382	2,883	―	4,374
	Eybelis omidenepag isopropyl ophthalmic solution	3,304	―	116	―	―	3,420
	Diquas diquafosol sodium ophthalmic solution (* Including Diquas LX)	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
	Cationorm	―	―	467	2,078	685	3,230
	Alesion epinastine hydrochloride ophthalmic solution (* Including Alesion LX)	29,286	―	106	―	―	29,392
	Verkazia	―	―	―	585	49	633
	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	3,292	8,700	1,584	34,719
	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
	Sante Beauteye series	678	2	26	―	―	707
	Soft santear Series	2,087	1	62	―	―	2,149
	Others	1,260	1	213	―	―	1,474
	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

Fiscal year ended March 31, 2023 (April 1, 2022 to March 31, 2023)

Millions of yen

		Japan	China	Asia	EMEA	Americas	Total
Prescription Pharmaceuticals	Cosopt dorzolamide hydrochloride-timolol maleate combination ophthalmic solution	¥4,675	¥―	¥6,110	¥12,917	¥―	¥23,702
	Tapros tafluprost ophthalmic solution	7,761	1,045	2,277	7,660	―	18,744
	Tapcom tafluprost-timolol maleate combination ophthalmic solution	2,649	―	1,051	4,502	―	8,202
	Trusopt dorzolamide hydrochloride ophthalmic solution	980	―	454	3,448	―	4,882
	Eybelis omidenepag isopropyl ophthalmic solution	3,905	―	251	―	―	4,156
	Diquas diquafosol sodium ophthalmic solution	16,259	2,772	1,957	―	―	20,988
	Hyalein sodium hyaluronate ophthalmic solution	5,718	6,433	2,630	―	―	14,781
	Ikervis ciclosporin ophthalmic solution	―	―	1,549	5,290	―	6,839
	Cationorm	―	―	441	2,626	943	4,010
	Alesion epinastine hydrochloride ophthalmic solution (* Including Alesion LX)	33,400	―	149	―	―	33,550
	Verkazia	―	―	―	748	166	914
	EYLEA aflibercept solution for intravitreal injection	71,257	―	―	―	―	71,257
	Cravit levofloxacin ophthalmic solution	1,285	6,309	2,380	1,408	―	11,381
	Others	14,880	4,613	3,977	11,535	1,822	36,827
	Subtotal	162,770	21,172	23,226	50,136	2,931	260,235

Millions of yen

		Japan	China	Asia	EMEA	Americas	Total
Over-the-Counter (OTC) Pharmaceuticals	Sante FX Series	3,547	121	260	—	—	3,928
	Sante Medical Series	2,207	—	103	—	—	2,310
	Sante Beauteye series	668	109	35	—	—	812
	Soft santear Series	2,138	9	107	—	—	2,254
	Others	1,035	23	266	—	—	1,324
	Subtotal	9,595	262	771	—	—	10,628
Medical Devices	Lentis Comfort	1,331	—	—	—	—	1,331
	PRESERFLO MicroShunt (Glaucoma implant device)	94	—	9	2,326	—	2,429
	Others	1,839	50	—	50	557	2,496
	Subtotal	3,264	50	9	2,377	557	6,257
Others		1,744	62	112	—	—	1,919
Total		¥177,373	¥21,546	¥24,118	¥52,513	¥3,488	¥279,037

Note: Revenues of Cationorm, Verkazia and Sante Beauteye series have been separately stated from the current fiscal year. As a result, revenues of these products are also stated in the previous fiscal year.

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, 2022 (March 31, 2022)	End of the fiscal year ended March 31, 2023 (March 31, 2023)
Receivables arising from contracts with customers	¥99,913	¥107,635
Contract liabilities	—	—

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, 2022 or March 31, 2023.

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

	2022	2023
Cost of sales (Merchandise)	¥63,289	¥62,253
Wages and bonuses	42,740	47,715
Advertising and sales promotion expenses	22,468	23,319
Raw material cost	12,162	14,073
Specialist expenses and commissions	12,218	15,538
Legal welfare expenses	5,628	6,487
Post-employment benefit cost	2,395	2,861
Depreciation and amortization	7,321	7,731
Others	52,325	57,529
Total	¥220,546	¥237,505

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

	2022	2023
Changes in the fair value of contingent consideration	¥—	¥3,061
Gain on sale of fixed assets	490	5
Government grants	169	—
Other	383	458
Total	¥1,043	¥3,524

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

	2022	2023
Impairment losses *1	¥232	¥34,560
Business structure improvement expenses *2	—	3,225
Loss on disposal of fixed assets	78	559
Litigation expenses	338	51
Changes in the fair value of contingent consideration *3	102	—
Other	384	235
Total	¥1,133	¥38,629

Notes:

1. Impairment losses are stated in Note 15 2) “Property, Plant and Equipment” and Note 16 2) “Intangible Assets.”
2. Business structure improvement expenses are expenses incurred in implementing structural reform to maximize rationalization of pharmaceutical sales operations in the Americas with the aim of improving profitability. The amount for the current fiscal year includes an additional retirement benefit of ¥1,223 million, lease termination fee of ¥1,001 million, and impairment losses of ¥361 million.
3. 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

	2022	2023
Interest income		
Financial assets measured at amortized cost	¥271	¥292
Financial assets measured at fair value through profit or loss	130	177
Total interest income	402	469
Gain on valuation of derivatives	477	52
Dividend income		
Financial assets measured at fair value through other comprehensive income	497	461
Life insurance	165	155
Total dividend income	661	617
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	0	15
Total	¥2,543	¥1,153

2) Finance Expenses

Millions of yen

	2022	2023
Interest expense		
Financial liabilities measured at amortized cost	¥72	¥293
Lease liabilities	177	183
Total interest expense	249	476
Foreign exchange losses	959	663
Changes in the fair value of contingent consideration	—	122
Loss on valuation of financial assets measured at fair value through profit or loss	—	228
Other	1	10
Total	¥1,209	¥1,499

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, 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 subtotal stated in "2) Income Tax Expenses i. Income Taxes Recognized through Profit or Loss" is attributable to foreign exchange fluctuations.

Millions of yen

	As of April 1, 2022	Recognized through profit or loss	Recognized in other comprehensive income	As of March 31, 2023
Deductible temporary differences				
Retirement benefit liabilities	¥2,292	¥(135)	¥(34)	¥2,123
Inventories	2,178	(226)	—	1,952
Accrued bonuses	976	(346)	—	630
Depreciation and amortization	201	28	—	230
Research and development expenses	578	251	—	830
Accrued enterprise taxes	197	69	—	266
Paid absences	130	(14)	—	116
Accounts payable - other	2,323	438	—	2,760
Other	1,250	36	—	1,286
Subtotal	10,125	102	(34)	10,193
Taxable temporary differences				
Financial assets measured at fair value through other comprehensive income	(4,781)	—	211	(4,571)
Intangible assets associated with products	(11,806)	4,672	—	(7,134)
Subtotal	(16,588)	4,672	211	(11,705)
Unused tax losses and tax credits				
Unused tax credits	1,451	(1,451)	—	—
Unused tax losses	5,588	(2,858)	—	2,730
Subtotal	7,040	(4,309)	—	2,730
Net amount	¥577	¥464	¥177	¥1,218

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 subtotal 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

	2022	2023
Deductible temporary differences	¥1,125	¥2,069
Carry-forwards of unused tax losses	7,271	17,318
Carry-forwards of unused tax credits	¥3,451	¥6,037

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

	2022	2023
1st year	¥―	¥―
2nd year	―	―
3rd year	―	―
4th year	―	―
5th year onward	7,271	17,318
Total	¥7,271	¥17,318

iv. In the fiscal years ended March 31, 2023 and 2022, 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 ¥44,683 million as of March 31, 2023 and ¥34,189 million as of March 31, 2022.

v. In the fiscal years ended March 31, 2023 and 2022, there were subsidiaries that recognized carry-forwards of unused tax losses. In the fiscal year ended March 31, 2023, deferred tax assets of ¥2,730 million were recognized to the extent that future taxable profit was expected (¥5,588 million as of March 31, 2022). 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

	2022	2023
Current income taxes		
Current fiscal year	¥8,465	¥7,318
Prior fiscal years	—	2,231
Subtotal	8,465	9,550
Deferred income taxes		
Occurrence and reversal of temporary differences	(38)	(366)
Subtotal	(38)	(366)
Total income tax expenses	¥8,427	¥9,184

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 ¥82 million in the fiscal year ended March 31, 2023 and ¥20 million in the fiscal year ended March 31, 2022.

ii. Reconciliation of Applicable Income Tax Rate

In the fiscal years ended March 31, 2022 and March 31, 2023, 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 the fiscal year ended March 31, 2023. However, foreign subsidiaries are subject to taxes in their respective countries.

	2022	2023
Effective statutory income tax rate	30.5%	30.5%
Non-deductible items / non-taxable income	0.1%	(1.3)%
Tax credit for research and development expenses	(5.8)%	35.6%
Differences in tax rates applied to subsidiaries	(2.6)%	(11.6)%
Movements in unrecognized deferred tax assets	4.0%	(142.1)%
Effect of changes in contingent consideration	(0.1)%	12.7%
Goodwill impairment	—	(32.0)%
Structural reforms expenses	—	(17.1)%
Income taxes for prior years	—	(40.6)%
Effect of tax incentives for subsidiaries	(1.1)%	8.4%
Other	(1.4)%	(0.9)%
Actual tax rate	23.7%	(158.4)%

In the previous fiscal year, since the Company recognized profit before tax, positive values represent tax expense and negative values represent tax benefits. In the current fiscal year, due to the Company recognized loss before tax, positive values represent tax benefits and negative values represent tax expense.

13. Other Comprehensive Income

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

Millions of yen

	2022	2023
Remeasurements of defined benefit plans		
Amounts arising during the year	¥574	¥66
Reclassification adjustments to profit or loss	—	—
Before tax effects	574	66
Tax effects	(125)	(34)
Remeasurements of defined benefit plans	449	32
Net gain or loss on financial assets measured at fair value through other comprehensive income		
Amounts arising during the year	(1,536)	848
Reclassification adjustments to profit or loss	—	—
Before tax effects	(1,536)	848
Tax effects	469	(259)
Net gain or loss on financial assets measured at fair value through other comprehensive income	(1,067)	589
Foreign currency translation adjustments		
Amounts arising during the year	11,237	8,018
Reclassification adjustments to profit or loss	(2)	—
Before tax effects	11,235	8,018
Tax effects	—	—
Foreign currency translation adjustments	11,235	8,018
Share of other comprehensive income of investments accounted for using equity method		
Amounts arising during the year	744	648
Reclassification adjustments to profit or loss	—	—
Before tax effects	744	648
Tax effects	—	—
Share of other comprehensive income of investments accounted for using equity method	744	648
Total other comprehensive income	¥11,361	¥9,287

14. Earnings Per Share

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

Millions of yen

	2022	2023
Basis of calculating basic earnings per share		
Profit attributable to owners of the Company (loss)	¥27,218	¥(14,948)
Profit not attributable to ordinary shareholders of the Company	6	7
Profit used to calculate basic earnings per share (loss)	27,212	(14,955)
Basis of calculating diluted earnings per share		
Profit used to calculate basic earnings per share (loss)	¥27,212	¥(14,955)
Adjustment	6	—
Profit used to calculate diluted earnings per share (loss)	27,218	(14,955)

Thousands of shares

	2022	2023
Weighted average number of shares during the year	399,775	387,420
Increase in ordinary shares for stock remuneration transactions (1,000 shares)	682	-
Weighted average number of diluted ordinary shares during the year	400,457	387,420

Yen

	2022	2023
Earnings per share (attributable to owners of the Company)		
Basic (loss)	¥68.07	¥(38.60)
Diluted (loss)	67.97	(38.60)

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. In the fiscal year ended March 31, 2023, stock options and other instruments have antidilutive effect and therefore, they are not included in the calculation of diluted loss per share.

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, 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
Additions	1,678	1,262	579	—	15,204	18,724
Transfers	384	629	309	—	(1,321)	—
Disposals	(3,967)	(399)	(1,273)	—	—	(5,640)
Foreign currency translation differences	567	204	153	6	(45)	886
Balance as of March 31, 2023	¥48,313	¥24,730	¥13,779	¥8,125	¥39,839	¥134,786

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, 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)
Depreciation	(3,165)	(2,027)	(770)	(24)	—	(5,986)
Impairment losses	(578)	(231)	(58)	—	(695)	(1,562)
Disposals	2,613	351	1,145	—	—	4,109
Foreign currency translation differences	(234)	(304)	(106)	0	—	(644)
Balance as of March 31, 2023	¥(34,169)	¥(17,965)	¥(11,804)	¥(253)	¥(4,422)	¥(68,613)

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, 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
As of March 31, 2023	14,144	6,765	1,975	7,872	35,417	66,173

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

	2022	2023
Impairment Losses	82	1,562

The impairment losses recognized in the fiscal year ended March 31, 2022 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.
Impairment losses recognized in the fiscal year ended March 31, 2023 consisted mainly of impairment losses of ¥402 million (buildings and structures of ¥177 million, machinery, equipment and vehicles of ¥223 million, and tools, furniture and fixtures of ¥1 million) associated with the impairment tests conducted for Eyevance Pharmaceuticals Holdings Inc. (U.S.) and Eyevance Pharmaceuticals LLC.(U.S.) (hereafter collectively referred to as “Eyevance”). Additional impairment losses of ¥807 million (buildings and structures of ¥88 million, tools, furniture and fixtures of ¥24 million, and construction in progress of ¥695 million) was recognized for idle assets that are not expected to be used in the future at Santen Pharmaceutical Co., Ltd. Furthermore, an impairment losses of ¥354 million (buildings and structures of ¥313 million, machinery, equipment and vehicles of ¥8 million and tools, furniture and fixtures of ¥33 million) was recognized associated with the implementation of structural reform to maximize rationalization of pharmaceutical sales operations in the Americas with the aim of improving profitability.
Impairment of Eyevance is described in "16. Intangible Assets." For assets impaired due to idle assets, etc. and the implementation of structural reform, the recoverable amount is measured by value in use. Since the future cash flows are expected to be negative, the value in use is evaluated as zero. In addition, for a plant currently under construction (construction in progress) held by Chongqing Santen Kerui Pharmaceutical (China) Co., Ltd, the consolidated subsidiary, the carrying amount of the plant is written down to the recoverable amount and an impairment loss of ¥0 million is recorded because the anticipated revenue is no longer expected. The recoverable amount is measured at fair value less costs of disposal, and the hierarchy of this 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

	2022	2023
Acquisition of property, plant and equipment	21,770	11,219

The main components of the commitment for the fiscal year ended March 31, 2022, were related to the expansion of the third building for manufacturing prescription eye drops at the Shiga Product Supply Center located in Shiga Prefecture and the construction of a new plant in Suzhou, China at Santen Pharmaceutical (China) Co., Ltd.
The main component of the commitment for the fiscal year ended March 31, 2023, was the construction of the new plant in Suzhou mentioned above.

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, 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
Additions	—	832	98	4,983	5,913
Transfers	—	—	7,143	(7,143)	—
Disposals	—	—	(1,599)	(43)	(1,642)
Foreign currency translation differences	2,740	8,303	202	192	11,438
Balance as of March 31, 2023	¥34,563	¥212,903	¥23,930	¥7,832	¥279,227

B. Accumulated Amortization and Impairment Losses

Millions of yen

	Goodwill	Intangible assets associated with products	Software	Other	Total
Balance as of April 1, 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)
Amortization	—	(9,518)	(1,694)	(51)	(11,263)
Impairment losses	(7,418)	(25,934)	(7)	—	(33,358)
Disposals	—	—	1,088	48	1,135
Foreign currency translation differences	(1,652)	(3,930)	(371)	(177)	(6,130)
Balance as of March 31, 2023	¥(27,178)	¥(139,312)	¥(14,583)	¥(1,845)	¥(182,918)

C. Carrying Amount

Millions of yen

	Goodwill	Intangible assets associated with products	Software	Other	Total
As of April 1, 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
As of March 31, 2023	7,385	73,591	9,347	5,987	96,309

Note: Among the intangible assets associated with products, those that are in the research and development stage and have not obtained regulatory authorities' approval for sale are classified as indefinite-lived intangible assets, as they are not ready for use, and the period for the inflow of future economic benefits cannot be reliably determined. The book value of these intangible assets is ¥27,633 million at the end of the current fiscal year (¥40,883 million at the end of the previous fiscal year).

2) Impairment Losses

The Company recorded impairment losses of ¥33,358 million for the fiscal year ended March 31, 2023 (¥150 million for the previous fiscal year), which is included in "Other expenses" in the consolidated statements of profit or loss and other comprehensive income.
The impairment losses recognized in the fiscal year ended March 31, 2022 represents loss on intangible assets associated with products, which were impaired as revenues were no longer expected due to the discontinuation of development.
In the fiscal year ended March 31, 2023, the recognized impairment losses mainly pertain to intangible assets associated with product, goodwill and property, plant and equipment related to Eyevance Pharmaceuticals Holdings Inc. (U.S.) and Eyevance Pharmaceuticals LLC.(U.S.) (hereafter collectively referred to as “Eyevance”) as well as intangible assets associated with products for STN1010904(generic name: sirolimus) and STN1010905 (generic name: sirolimus) (hereafter collectively referred to as "STN10109").
For Eyevance, regardless of significant efforts made to establish its business foundation in the U.S. early on, revenue in Eyevance is anticipated to remain below the business forecast envisioned at the time of the acquisition. After reviewing the business plan, it was determined that achieving expected earnings would be difficult and as a result, the carrying amount of assets, including goodwill recognized from the past acquisition, has been reduced to their recoverable amounts. An impairment loss of ¥30,115 million (¥22,296 million from intangible assets associated with products, ¥7,418 million from goodwill, ¥402 million from property, plant and equipment) was recognized. For intangible assets associated with products, including development, manufacturing and marketing rights, the recoverable amount for each product is measured by value in use. The pre-tax discount rate used to determine the value in use ranges from 13.4% to 13.5%. The recoverable amount of the CGU group to which the goodwill belongs is measured at value in use. The value in use is calculated based on past experiences and external information, considering a planning period of over five years that takes into account factors such as product patent periods. For the calculation of their value in use, the estimation of future cash flows are discounted to their present value using the discount rate of the CGU group. The future cash flows are based on Santen's business plans prepared by management, that includes key assumption such as sales prices and sales volume forecasts. The discount rate used in the calculation is based on the pre-tax weighted average cost of capital. The pre-tax discount rate used to determine the value in use is 13.4%.
With regard to STN10109, the development of STN1010900 (DE-109), which had been prolonged since its licensing, was discontinued in April 2022. Additionally, the results of the Phase II clinical trial of STN1010905 (generic name: sirolimus), which targeted meibomian gland dysfunction as the applicable disease, did not achieve the primary and secondary endpoints. This led to a revision of the business plan. As a result, the recoverable amount fell below the carrying amount of the intangible assets associated with the product, and an impairment loss of ¥3,141 million was recorded. The recoverable amount is measured at fair value less costs of disposal, and the fair value hierarchy is Level 3. Fair value less costs of disposal is determined using a discounted cash flow method, which is calculated by discounting the estimated cash flows based on future projections to their present value, less estimated costs of disposal. Estimated future cash flows based on future projections are calculated based on past experiences and external information, considering a planning period of over five years that takes into account factors such as product patent periods. Estimated future cash flows are discounted to present value using discount rates applicable to each product. The future cash flows used as the basis for the calculation are based on the probability of development success and future business plans, and the key assumptions are the probability of development success, drug price and expectation of market share expansion. The pre-tax discount rate used to determine the fair value less costs of disposal ranges from 15.5% to 16.0%.
The impairment losses other than explained above recorded in the current fiscal year are mainly related to intangible assets associated with products. These impairment losses are recognized due to decisions to terminate contracts or other factors that result in a decrease in the recoverable amount. The recoverable amount is based on value in use, and its value is assessed at zero.

3) Impairment Test for Goodwill

The Santen Group recorded goodwill of ¥7,385 million for the fiscal year ended March 31, 2023 (¥13,715 million for the previous fiscal year).

The goodwill resulted from the acquisition of Santen S.A.S (France) and Eyevance Pharmaceuticals Holdings Inc. In the fiscal year ended March 31, 2022, ¥6,912 million in goodwill related to Santen S.A.S was allocated to the "Company-wide Group," which is a group of cash-generating units. ¥6,803 million in goodwill related to Eyevance Pharmaceuticals Holdings Inc., was allocated to the "Americas", which is a group of cash-generating units.

In the fiscal year ended March 31, 2023, the Group of Cash-Generating Units, which is expected to benefit from the synergies of business combinations, was reviewed for goodwill related to the acquisition of Eyevance, and the allocation was changed from the cash-generating unit group "Americas," to the cash-generating unit group "Eyevance". The carrying amount of goodwill allocated to the Company-wide Group was ¥7,385 million. The carrying amount of goodwill allocated to the cash-generating unit group of Eyevance was fully impaired after testing for impairment in the current fiscal year.

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. Company-wide 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, 2022 or March 31, 2023. 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. Americas

The recoverable amount is measured at value in use, and it is calculated by discounting future cash flows at an appropriate discount rate. In the fiscal year ended March 31, 2022, no impairment losses were recognized as the recoverable amount exceeded the carrying amount. The pre-tax discount rate used in the calculation of value in use for the previous fiscal year was 11.3%. 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 was considered. The growth rate used to calculate value in use was 2.0%.

For the fiscal year ended March 31, 2023, the allocation of goodwill was reviewed, and it has been changed from the cash-generating unit group “Americas”, to the cash-generating unit group “Eyevance”.

iii. Eyevance

The recoverable amount is measured at value in use, and it is calculated by discounting future cash flows at an appropriate discount rate. In the fiscal year ended March 31, 2023, the entire carrying amount was impaired as a result of the impairment test.

4) Other Disclosures

i. Amortization of intangible assets associated with products is recorded as amortization of 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, 2022 or March 31, 2023.

iii. Significant Intangible Assets

The major components of intangible assets associated with products are as follows:

Millions of yen

Contents	Items	Carrying amount		Remaining useful life
		End of the fiscal year ended March 31, 2022	End of the fiscal year ended March 31, 2023	
Patents, trademarks, domain names, manufacturing and marketing rights for ophthalmic medicine acquired from Merck & Co., Inc.	Development, manufacturing and marketing rights	¥24,163	¥18,422	2 to 8 years
DE-128 STN2000100 recognized in connection with the acquisition of InnFocus, Inc. (Product name: PRESERFLO MicroShunt)	Development, manufacturing and marketing rights	11,427	11,334	10 years
DE-76B recognized in connection with the acquisition of Santen S.A.S. (Product name: cyclocut, generic name: cyclospoline)	Development, manufacturing and marketing rights	2,774	2,132	3 years
Development, manufacturing and marketing rights recognized in connection with the acquisition of Eyevance Pharmaceuticals Holdings Inc, etc.*1	Development, manufacturing and marketing rights	21,479	—	—
Exclusive development/sales agreement for Rhopressa ®/Rhokiinsa ®, Rocklatan ®/Roclanda ® with Alcon Pharmaceuticals, Inc.*2	Development, manufacturing and marketing rights	—	11,317	10 years
	In-process research and development	16,818	6,319	—*4
STN1010904/ STN1010905 acquired through a contract with MacuSight., Inc. (Generic name: Sirolimus) *3	In-process research and development	6,982	3,841	—*4

Notes:

1. In the fiscal year ended March 31, 2023, a full impairment loss was recorded for all the development, manufacturing and marketing rights, etc. recognized in connection with the acquisition of Eyevance Pharmaceuticals Holdings Inc.
2. There are two types of exclusive development and distribution agreements for Rhopressa®/Rhokiinsa®, Rocklatan®/Roclanda® : exclusive development and distribution agreements for the product in Asian countries other than Japan and China, and exclusive development and distribution agreements for the product in Europe and China. The development, manufacturing and sales rights are exclusive to the development and distribution of the product in Europe, China and other countries. In addition, Aerie was acquired by Alcon, which resulted in a change in the name of the partner.
3. A decision was made in April 2022 to discontinue the development of STN1010900 (DE-109). Currently, Sirolims is developing STN1010904/STN1010905. As a result, in the fiscal year ended March 31, 2023, an impairment loss of ¥3,141 million was recorded.
4. Amortization has not started because it is not yet available for use.

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 fair value less costs of disposal or value in use. Fair value 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 (-% for the previous fiscal year and 12.3% to 16.0% for the current fiscal year, respectively). And then, it is calculated by less estimated costs of disposal.

The fair value hierarchy is classified as Level 3. Value in use is calculated by discounting estimated future cash flows based on historical experience and external information to present value using a pre-tax discount rate (6.1% to 13.5% for the previous fiscal year and 12.3% to 14.8% for the current fiscal year) calculated based on the pre-tax weighted average cost of capital for each cash-

generating unit.
As a result of the impairment test, impairment losses of ¥150 million for the previous fiscal year and ¥25,934 million for the current fiscal year were recorded.
There is a high degree of uncertainty in the development success rate used to calculate the fair value less costs of disposal and value in use. Future cash flows, which are the basis for calculating such estimates, 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 the development success rate, drug prices and market share expansion. In addition, the discount rate used to calculate fair value less costs of disposal or 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 fair value less costs of disposal or value in use and materially affect the amount of intangible assets associated with products.

iv. Commitments

Millions of yen

	2022	2023
Research and development milestones *	¥45,684	¥29,060
Sales target milestones *	76,506	77,186
Total	¥122,189	¥106,246

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

	2022	2023
Financial assets measured at amortized cost		
Other	¥1,173	¥1,062
Financial assets measured at fair value through other comprehensive income		
Stock	23,472	23,186
Financial assets measured at fair value through profit or loss		
Convertible bonds	2,358	2,152
Investment in limited partnerships	1,538	1,511
Golf membership rights, etc.	132	126
Total	¥28,673	¥28,038

B. Current Assets

Millions of yen

	2022	2023
Financial assets measured at amortized cost		
Other	¥1,246	¥723
Financial assets measured at fair value through profit and loss		
Derivatives	47	52
Total	¥1,293	¥774

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

	2022	2023
ONO PHARMACEUTICAL CO., LTD.	¥13,251	¥10,354
Eisai Co., Ltd.	5,384	7,125
MEDIPAL HOLDINGS CORPORATION	753	674
Others	4,084	5,033
Total	¥23,472	¥23,186

B. Other

Dividend income related to financial assets measured at fair value through other comprehensive income held by the Company was ¥430 million in the fiscal year ended March 31, 2023 and ¥442 million in the fiscal year ended March 31, 2022.

Financial assets measured at fair value through other comprehensive income that were disposed of during the fiscal years ended March 31, 2023 and 2022 were as follows:

Millions of yen

	2022	2023
Fair value at date of sale	¥3,870	¥2,148
Cumulative gains (losses)	2,265	1,598
Dividend income	¥55	¥31

Note: These financial assets were sold for the purpose of liquidating certain assets held. Cumulative gains (net of tax) of ¥1,111 million in the fiscal year ended March 31, 2023 and ¥1,574 million in the fiscal year ended March 31, 2022 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

	2022	2023
Santen's equity of net income (loss) from continuing operations	¥(1,604)	¥(2,362)
Santen's equity in other comprehensive income	744	648
Santen's equity in comprehensive income	¥(860)	¥(1,714)

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

19. Inventories

Millions of yen

	2022	2023
Merchandise and finished goods	¥29,724	¥32,160
Work in process	467	778
Raw materials and supplies	6,950	6,414
Total	¥37,141	¥39,352

Note: Inventories, which are recognized as expenses and included in cost of sales in the previous fiscal year and the current fiscal year, are generally the same as "Cost of sales" in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

20. Trade and Other Receivables

Millions of yen

	2022	2023
Notes and accounts receivables	¥96,314	¥104,078
Other	3,599	3,557
Allowance for doubtful receivables	(322)	(470)
Total	¥99,591	¥107,165

21. Equity and Other Equity Items

1) Share Capital and Treasury Shares

Stocks

	2022	2023
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	400,368,954	400,694,754
Change during year[*3]	325,800	(24,808,900)
End of year	400,694,754	375,885,854
Treasury shares		
Beginning of year	549,909	423,668
Change during year[*4]	(126,241)	(78,603)
End of year[*5]	423,668	345,065

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, 2022 were due to the exercise of subscription rights to shares. The changes in the number of shares issued during the fiscal year ended March 31, 2023 were due to the exercise of subscription rights to shares and the cancellation of treasury 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 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.
   In the current fiscal year, the change was due to repurchase of treasury stock (12,500,000 shares) based on a resolution of the Board of Directors meeting held on May 10, 2022, repurchase of treasury stock (12,369,700 shares) based on a resolution of the Board of Directors meeting held on November 8, 2022, cancellation of treasury stock (12,500,000 shares) based on a resolution of the Board of Directors meeting held on October 4, 2022, cancellation of treasury stock (12,369,700 shares) based on a resolution of the Board of Directors meeting held on March 22, 2023, disposal of treasury shares as restricted stock awards, acquisition and disposal of treasury shares by trusts related to stock compensation plans, and 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 41,909 shares of treasury shares held in trust for the stock-linked remuneration system in the fiscal year ended March 31, 2023, and 16,271 shares in the fiscal year ended March 31, 2022.

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 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, 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

Year ended March 31, 2023

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
Board of Directors Meeting (November 8, 2022)	6,206	16.00	September 30, 2022	November 30, 2022

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

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

Year ended March 31, 2023

Resolution date	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Annual General Meeting of Shareholders (June 27, 2023)	¥6,009	¥16.00	March 31, 2023	June 28, 2023

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, 2023 and 2022 are as follows:

Yen

	Stock settlement		Cash settlement
	Granted for the fiscal year ended March 31, 2022	Granted for the fiscal year ended March 31, 2023	
Performance share unit system	¥1,588	¥894	¥1,038
Restricted stock-linked remuneration system	1,507	1,104	—
Restricted Stock Unit Plan (for executive officers)	1,588	894	1,038
Restricted Stock Unit Plan (for employees)	1,594	924	—

3) Share-based compensation expenses

Stock remuneration expenses totaled ¥859 million for the fiscal year ended March 31, 2023 and ¥515 million for the fiscal year ended March 31, 2022.

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

	2022		2023	
	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	628,200	¥265	302,400	¥25
Granted	—	—	—	—
Exercised*	325,800	488	60,800	121
Expired	—	—	—	—
Balance at the end of the year	302,400	25	241,600	1
Balance of exercisable stock options, at the end of year	302,400	25	241,600	1

Note: The weighted-average share price of stock options at the time of exercise was ¥1,072 in the fiscal year ended March 31, 2023 and ¥1,359 in the fiscal year ended March 31, 2022.

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

The exercise price of share options is ¥1 as of March 31, 2023 and ¥1 to ¥663 as of March 31, 2022. The weighted-average remaining life was 3.0 years as of March 31, 2023 and 3.5 years as of March 31, 2022.

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, 2023 and 2022.

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

1) Components

A. Components of Non-current Liabilities

Millions of yen

	2022	2023
Long-term loans payables	¥12,677	¥28,198
Long-term accounts payable - other	2,989	362
Derivatives	68	—
Long-term lease liabilities	6,290	4,953
Total	¥22,023	¥33,513

B. Components of Current Liabilities

Millions of yen

	2022	2023
Short-term loans payables	¥10,936	¥245
Other payables	18,692	15,345
Derivatives	6	78
Lease liabilities	3,029	2,811
Other	5,871	7,379
Total	¥38,533	¥25,858

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, 2021	¥22,590	¥(22,999)	¥(409)
Current service cost	1,265	—	1,265
Interest (income) expense	78	(84)	(6)

Millions of yen

	Defined benefit obligations	Fair value of plan assets	Net defined benefit liabilities
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)
Current service cost	1,421	—	1,421
Interest (income) expense	133	(146)	(13)
Remeasurements of the net defined benefit liabilities			
Actuarial gains and losses arising from changes in demographic assumptions	(45)	—	(45)
Actuarial gains and losses arising from changes in financial assumptions	(622)	—	(622)
Experience adjustments	(713)	1,313	601
Total remeasurements of the net defined benefit liabilities	(1,379)	1,313	(66)
Foreign currency translation differences	364	(298)	66
Employer contributions to plans	—	(812)	(812)
Benefits paid by plans	(987)	158	(830)
Other	167	(167)	—
Balance as of March 31, 2023	¥22,469	¥(24,636)	¥(2,167)

B. Liabilities and assets associated with defined benefit plans

	2022	2023
Present Value of defined benefit plan obligations	¥22,751	¥22,469
Fair value of plan assets	(24,684)	(24,636)
Net amount of defined benefit liabilities and assets	(1,934)	(2,167)
The amount in consolidated statement of financial position		
Net defined benefit liabilities	1,077	1,271
Retirement benefit asset	(3,011)	(3,438)
Net defined benefit liabilities and assets recognized in the consolidated statement of financial position	¥(1,934)	¥(2,167)

C. Components of Plan Assets

Millions of yen

	Presence of quoted market prices in active markets	2022	2023
Equities	Yes	¥4,495	¥4,739
Bonds	Yes	10,825	7,786
General accounts of life insurance companies	No	1,758	1,799
Other	No	7,607	10,312
Total		¥24,684	¥24,636

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.

D. Actuarial Assumptions

	2022	2023
Discount rate	0.49	0.87

E. 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

	2022		2023	
	0.5% Increase	0.5% Decrease	0.5% Increase	0.5% Decrease
Discount rate	(859)	929	(766)	826

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

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

The estimated contribution amount for the fiscal year ending March 31, 2024 is ¥810 million.

The weighted-average duration of the defined benefit obligation for the fiscal year ended March 31, 2023 was 9.5 years (for the fiscal year ended March 31, 2022, 9.9 years).

3) Defined Contribution Plan

The amounts recorded as costs in connection with defined contribution plans were ¥1,440 million in the fiscal year ended March 31, 2023 and ¥1,136 million in the fiscal year ended March 31, 2022.

25. Provisions

1) Components of provisions
Components of provisions were as follows.

Millions of yen

	2022	2023
Non-current liabilities		
Asset retirement obligations	¥311	¥311
Provision for paid absences	426	380
Total	¥738	¥691
Current liabilities		
Provision for business structure improvement expenses	—	2,792
Provision for paid absences	939	1,420
Total	¥939	¥4,212

2) Details of changes in provisions
The details of changes in provisions were as follows.

Millions of yen

	Asset retirement obligations	Provision for business structure improvement expenses	Provision for paid absences	Total
Balance as of April 1, 2022	¥311	¥—	¥1,365	¥1,677
Additional provision made in the period	1	2,833	1,441	4,275
Amounts used during the period	(6)	—	(1,082)	(1,088)
Unused amounts reversed during the period	—	—	—	—
The increase during the period in the discounted amount arising from the passage of time	4	—	2	6
Foreign currency translation differences	—	(41)	74	32
Balance as of March 31, 2023	¥311	¥2,792	¥1,800	¥4,903

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 business structure improvement expenses is recorded to provide for the estimated amount of expenses related to the implementation of restructuring measures. The timing of the outflow of economic benefits, which is expected to be mainly paid in the following fiscal year, may be influenced by future business plans and other factors.
iii.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

	2022	2023
Trade accounts payable	¥23,026	¥23,976
Other payables	16,390	19,273
Electronically recorded monetary liabilities	1,394	1,306
Other	375	390
Total	¥41,185	¥44,945

27. Cash and Cash Equivalents

Millions of yen

	2022	2023
Cash on hand and balances with banks	¥83,014	¥57,903
Time deposits over three months	—	—
Total cash and cash equivalents in consolidated statement of financial position	83,014	57,903
Cash and cash equivalents in consolidated statement of cash flows	¥83,014	¥57,903

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.

	2022	2023
Equity attributable to owners of the company ratio (%)	73.4	69.8
Return on equity attributable to owners of the company (%)	8.4	(4.7)

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

	2022	2023
Financial assets		
Financial assets measured at fair value through other comprehensive income		
Stock	¥23,472	¥23,186
Financial assets measured at fair value through profit or loss		
Convertible bonds	2,358	2,152
Investment in limited partnerships	1,538	1,511
Golf membership rights, etc.	132	126
Derivatives	47	52
Financial assets measured at amortized cost		
Other financial assets	2,419	1,785
Trade and other receivables	99,591	107,165
Cash and cash equivalents	83,014	57,903
Total financial assets	¥212,571	¥193,881
Financial liabilities		
Financial liabilities measured at fair value through profit or loss		
Derivatives	73	78
Contingent consideration	2,989	362
Lease liabilities	9,319	7,764
Financial liabilities measured at amortized cost		
Other financial liabilities	24,563	22,724
Loans payable	23,613	28,443
Trade and other payables	41,185	44,945
Total financial liabilities	¥101,741	¥104,316

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 58% of consolidated revenue in the fiscal year ended March 31, 2023, compared with 60% in the fiscal year ended March 31, 2022. 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, 2023, compared with ¥4 million in the fiscal year ended March 31, 2022.

(a) Trade and other receivables

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 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

Year ended March 31, 2023 (as of March 31, 2023)

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	¥—	¥—	¥—	¥104,471	¥104,471
Past due date					
Within 30 days	—	—	—	1,163	1,163
Over 30 and within 90 days	—	—	—	1,114	1,114
Over 90 days	—	—	189	697	886
Total past due date	—	—	189	2,975	3,164
Total	¥—	¥—	¥189	¥107,445	¥107,635

(b) Financial assets (non-current) and other financial assets (current)

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 (non-current)	¥1,173	¥—	¥—	¥1,173
Other financial assets (current)	¥1,246	¥—	¥297	¥1,542

Year ended March 31, 2023 (as of March 31, 2023)

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 (non-current)	¥1,062	¥—	¥—	¥1,062
Other financial assets (current)	¥723	¥—	¥378	¥1,101

(c) 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, 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, 2021	¥—	¥—	¥463	¥77	¥540
Increase during fiscal year	—	—	19	74	93
Decrease during fiscal year (intentional use)	—	—	—	—	—
Decrease during fiscal year (reversals)	—	—	(18)	(41)	(59)
Others	—	—	15	30	45
Balance as of March 31, 2022	¥—	¥—	¥478	¥140	¥618

Fiscal year ended March 31, 2023

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, 2022	¥—	¥—	¥478	¥140	¥618
Increase during fiscal year	—	—	22	179	201
Decrease during fiscal year (intentional use)	—	—	—	—	—
Decrease during fiscal year (reversals)	—	—	(4)	(18)	(22)
Others	—	—	70	(20)	50
Balance as of March 31, 2023	¥—	¥—	¥567	¥280	¥847

There are no ongoing collection activities for financial assets fully written off during the fiscal year ended March 31, 2023.

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, 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.”

Year ended March 31, 2023 (as of March 31, 2023)

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	¥44,945	¥44,945	¥44,945	¥—	¥—	¥—	¥—	¥—
Other financial liabilities								
Loans payable	28,443	30,382	611	857	902	846	6,722	20,444
Other payables	15,345	15,345	15,345	—	—	—	—	—
Lease liabilities	7,764	8,105	3,045	1,737	1,092	943	465	823
Derivatives	78	78	78	—	—	—	—	—
Other	7,379	7,379	7,379	—	—	—	—	—
Total	¥103,954	¥106,234	¥71,403	¥2,593	¥1,994	¥1,789	¥7,187	¥21,268

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, 2023 and 2022, the total commitment line and the balance of unexecuted loans were as follows.

Millions of yen

	2022	2023
Total commitment line	¥30,000	¥48,694
Balance of executed loans	10,000	20,000
Balance of unexecuted loans	¥20,000	¥28,694

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 currency

	2022		2023	
	Euro	U.S. dollar	Euro	U.S. dollar
Trade and other receivables	€0	$25,975	€104	$17,377
Trade and other payables	(1,955)	(10,580)	(2,701)	(1,678)
Net exposure amount	€(1,955)	$15,395	€(2,597)	$15,699

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, 2022. 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

	2022	2023
	Profit (loss)	Profit (loss)
Euro (5% appreciation)	¥11	¥16
U.S. dollar (5% appreciation)	(78)	(87)

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 ¥2,087 million in the fiscal year ended March 31, 2022 and ¥1,942 million in the fiscal year ended March 31, 2023, respectively.

(c) Interest rate risk
・Description and management policy of interest rate fluctuation risk
Part of Santen Group's borrowings are based on variable interest rates.
Accordingly, interest-bearing debt is exposed to interest rate fluctuation risk. In order to mitigate the risk, the Santen Group optimizes its procurement through a combination of fixed and floating interest rates, considering the nature of funding requirements, financial conditions, and the financial environment, and judging the amount, duration, and method of funding.
・Interest Rate Sensitivity Analysis
The impact of a 1% increase in interest rates on Santen Group's net income for the fiscal year ended March 31, 2023 is as follows:
The analyses are calculated by multiplying the balance of floating-rate financial instruments held by the Santen Group at the end of the respective reporting periods by 1%, assuming all other variables remain constant.

Millions of yen

	2022	2023
Impact on net income/loss	(112)	(66)

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

	2022		2023	
	Carrying amount	Fair value	Carrying amount	Fair value
Loans payable	¥12,677	¥12,515	¥28,443	¥28,259

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.
3. Includes the amount due within one year.

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, 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 were no significant transfers between Level 1 and 2 of the fair value hierarchy.

Year ended March 31, 2023

Millions of yen

	Level 1	Level 2	Level 3	Total
Assets				
Financial assets measured at fair value through other comprehensive income				
Stocks	¥19,425	¥－	¥3,762	¥23,186
Financial assets measured at fair value through profit or loss				
Convertible bonds	－	－	2,152	2,152
Investment in limited partnerships	－	－	1,511	1,511
Golf membership rights, etc.	－	48	79	126
Derivatives	－	52	－	52
Liabilities				
Financial liabilities measured at fair value through profit or loss				
Derivatives	－	78	－	78
Contingent consideration	－	－	362	362

Note: There were 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	
	2022	2023
Balance, at the beginning of year	¥4,629	¥6,580
Profits or losses		
Financial expense	―	(228)
Other comprehensive income*2	208	573
Purchases	2,031	582
Sales	―	(1)
Transfer from Level 3*3	(288)	―
Other	0	(2)
Balance, at the end of year	¥6,580	¥7,504

Notes:

1. 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.
2. Transfers from Level 3 were made due to becoming an affiliated company as a result of having significant influence in the previous fiscal year.
3. Measurement of fair value for Level 3 shares is performed in accordance with related internal rules. The measurement of fair value is performed using inputs and assessment techniques that appropriately reflect the qualities, characteristics and risks of the financial instrument being measured.
   The price earnings ratio and an illiquidity discount are used as key unobservable inputs for the measurement of fair value of stock classified as Level 3 that is routinely measured at fair value. Fair value increases (decreases) when the price earnings ratio rises (declines), and fair value decreases (increases) when the illiquidity discount increases (decreases).
   For Level 3 stocks, 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

	2022	2023
The depreciation of the right-of-use assets		
Buildings and structures as underlying assets	¥2,010	¥2,115
Machinery, equipment and vehicles as underlying assets	572	602
Tools, furniture and fixtures as underlying assets	14	24
Land as underlying assets	21	24
Total depreciation/amortization	2,617	2,765
Interest expense on lease liabilities	177	183
Lease costs under the exemptions for short-term leases	95	80
Lease costs under the exemptions for immaterial leases	¥76	¥107

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

	2022	2023
Total cash outflows from leases	¥3,404	¥3,781

3) The right-of-use assets

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

Millions of yen

	2022	2023
Breakdown of right-of-use asset balance		
Buildings and structures as underlying assets	¥7,110	¥5,227
Machinery, equipment and vehicles as underlying assets	1,101	1,295
Tools, furniture and fixtures as underlying assets	19	77
Land as underlying assets	1,094	1,076
Total right-of-use assets	¥9,323	¥7,676

The increase in right-of-use assets for the fiscal year ended March 31, 2022 and March 31, 2023 were ¥4,254 million and ¥2,028 million respectively.

30. Subsidiaries and associates

Structure of the Santen Group in the fiscal year ended March 31, 2023 is as follows. There were no significant changes during the previous fiscal year or the current fiscal year.

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[*6]	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[*6]	U.S.A.	Development of medical devices	49.5 (49.5)
Other one associate accounted for using the equity method			

Notes:

1. Numbers included in parentheses at "Percentage of voting equity" represent the ratio of the equity through indirect ownership to the total voting equity.
2. The percentage of voting equity with Chongqing Santen Kerui Pharmaceutical Co., Ltd. represents the ratio of the contribution. Chongqing Santen Kerui Pharmaceutical Co., Ltd. became a consolidated subsidiary since Santen Pharmaceutical (China) Co., Ltd. has a majority of the voting rights.
3. Limited liability company under U.S. law, and no capital is stated as there is no exact match to the concept of capital.
4. 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, 2022 (April 1, 2021 to March 31, 2022)
There were no transactions to report.

Year ended March 31, 2023 (April 1, 2022 to March 31, 2023)
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

	2022	2023
Compensation	¥320	¥307
Share-based payments	69	83
Total	¥389	¥390

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

	2022	2023
Employees (debt obligations)	¥5	¥3

2) Arbitration
For the fiscal year ended March 31, 2022
Not applicable

For the fiscal year ended March 31, 2023
On November 17, 2022, the Company was served with a Demand for Arbitration filed by representative of the former shareholders of InnFocus, Inc. with JAMS seeking over $400 million in damages for breach of contract and other claims in connection with the Merger Agreement regarding the acquisition of InnFocus, Inc. (U.S.) in 2016. The Company believes it has complied with the terms of the Merger Agreement and will vigorously defend the allegations based on the relevant facts through the forthcoming arbitration procedures

33. Business Combination

1) Business Combination
Year ended March 31, 2022 (April 1, 2021 to March 31, 2022)
There were no business combinations to report.
Year ended March 31, 2023 (April 1, 2022 to March 31, 2023)
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 $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 expenses", 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

	2022	2023
Opening/Beginning balance	¥2,804	¥2,989
Profits and losses		
Other income *3	—	(3,061)
Other expenses	102	—
Finance income	(204)	—
Finance expenses	—	122
Other comprehensive income *1	287	313
Ending balance	¥2,989	¥362

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. For STN2000100 (DE-128, PRESERFLO MicroShunt), the fair value of the conditional consideration changed during the current fiscal year due to a review of the development success rate and future sales plans, resulting in other income.

B. Scheduled payments by maturity

Millions of yen

	2022	2023
One year or less	¥—	¥—
One to five years	3,321	483
More than five years	¥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

		2022	2023
Discount rate	1.0% increase	¥(111)	¥(36)
	1.0% decrease	111	45

34. Significant Subsequent Events

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 11, 2023, 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.

1) Reasons for repurchase of own shares

Based on the capital allocation policy of the new medium-term management plan (FY2023-2025) announced on April 13, 2023, the share acquisition is aimed at reinforcing returns to shareholders and further improving capital efficiency by comprehensively taking into account the improvement of profitability and the business environment.

2) Details of repurchase

(i)	Class of shares to be acquired	Common shares
(ii)	Total number of shares to be acquired	18,750,000 shares (maximum) *Representing 5.0% of the total number of shares outstanding (excluding treasury shares)
(iii)	Total amount of acquisition	24.5 billion yen (maximum)
(iv)	Period of acquisition	May 12, 2023 to March 22, 2024
(v)	Method of acquisition	Open-market repurchase by the discretionary trading method

Santen plans to cancel the repurchased shares by the resolution of its Board of Directors in accordance with Article 178 of the Companies Act (Japan). There is a possibility that some of the purchases may not be made depending on investment opportunities or market conditions.