Consolidated Financial Statements and Notes

Consolidated Financial Statements

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Santen Pharmaceutical Co., Ltd. and Its Consolidated Subsidiaries

For the year ended March 31, 2020

		Millions of yen	
	Note	2019	2020
Revenue	6, 7	¥234,026	¥241,555
Cost of sales	8	(90,764)	(94,831)
Gross profit		143,262	146,724
Selling, general and administrative expenses	8,28	(71,273)	(73,360)
Research and development expenses	8	(23,759)	(23,341)
Amortization on intangible assets associated with products	16	(6,988)	(9,898)
Other income	9	4,028	390
Other expenses	10	(172)	(6,980)
Operating profit		45,098	33,535
Finance income	11	901	950
Finance expenses	11,28	(2,881)	(2,393)
Profit before tax		43,117	32,091
Income tax expenses	12	(11,174)	(10,377)
Net profit for the year		31,943	21,714
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	9	(253)
Net gain or loss on financial assets measured at fair value through other comprehensive income	13	(3,289)	2,696
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation adjustments	13	794	(3,972)
Other comprehensive income	13	(2,486)	(1,529)
Total comprehensive income for the year		29,456	20,185
Profit attributable to			
Owners of the company		31,954	23,618
Non-controlling interests		(11)	(1,904)
Net profit for the year		31,943	21,714
Total comprehensive income attributable to			
Owners of the company		29,519	22,162
Non-controlling interests		(62)	(1,977)
Total comprehensive income for the year		¥29,456	¥20,185

Earnings per share		Yen	
		2019	2020
Basic earnings per share	14	¥78.67	¥59.16
Diluted earnings per share	14	78.43	59.01

Consolidated Statement of Financial Position

Santen Pharmaceutical Co., Ltd. and Its Consolidated Subsidiaries
As of March 31, 2020

		Millions of yen	
	Note	2019	2020
Assets			
Non-current assets			
Property, plant and equipment	15,28	¥31,699	¥35,601
Intangible assets	16,28	131,110	119,850
Financial assets	17	30,044	30,848
Deferred tax assets	12	1,771	2,100
Other non-current assets		1,819	1,813
Total non-current assets		196,444	190,212
Current assets			
Inventories	18	35,235	35,282
Trade and other receivables	19	84,618	86,999
Other financial assets	17	267	452
Other current assets		3,826	4,392
Cash and cash equivalents	26	70,796	91,430
Total current assets		194,742	218,556
Total assets		391,186	408,768
Equity and liabilities			
Equity			
Equity attributable to owners of the company			
Share capital	20	8,252	8,366
Capital surplus	20	8,661	8,746
Treasury shares	20	(1,131)	(1,033)
Retained earnings	20	258,659	273,422
Other components of equity	20, 21	16,461	13,364
Total equity attributable to owners of the company		290,900	302,865
Non-controlling interests		1,672	(305)
Total equity		292,572	302,560
Liabilities			
Non-current liabilities			
Financial liabilities	22,28	23,520	27,592
Net defined benefit liabilities	23	1,992	1,738
Provisions	24	1,255	570
Deferred tax liabilities	12	9,389	7,228
Other non-current liabilities		1,795	1,483
Total non-current liabilities		37,951	38,611
Current liabilities			
Trade and other payables	25	32,079	32,578
Other financial liabilities	22,28	12,116	18,777
Income tax payable		7,185	6,848
Provisions	24	717	633
Other current liabilities		8,566	8,761
Total current liabilities		60,663	67,597
Total liabilities		98,614	106,208
Total equity and liabilities		¥391,186	¥408,768

Consolidated Statement of Changes in Equity

Santen Pharmaceutical Co., Ltd. and Its Consolidated Subsidiaries

For the year ended March 31, 2019

Millions of yen

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

Millions of yen

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

Santen Pharmaceutical Co., Ltd. and Its Consolidated Subsidiaries
For the year ended March 31, 2020

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, 2019		¥8,252	¥8,661	¥(1,131)	¥258,659	¥−	¥10,230
Comprehensive income							
Net profit for the year					23,618		
Other comprehensive income	13					(253)	2,696
Total comprehensive income for the year		−	−	−	23,618	(253)	2,696
Transactions with owners							
Issuance of new shares	20	114	114				
Acquisition of treasury shares	20			(22)			
Retirement of treasury shares	20		(85)	(121)			
Dividends	20				(10,379)		
Share-based payments	20, 21		56				
Other					1,523	253	(1,776)
Total transactions with owners		114	85	99	(8,856)	253	(1,776)
Balance at March 31, 2020		¥8,366	¥8,746	¥(1,033)	¥273,422	¥−	¥11,150

Millions of yen

	Note	Other components of equity: Foreign currency translation adjustments	Other components of equity: Subscription rights to shares	Other components of equity: Total	Total equity attributable to owners of the company	Non-controlling interests	Total equity
Balance at April 1, 2019		¥5,428	¥802	¥16,461	¥290,900	¥1,672	¥292,572
Comprehensive income							
Net profit for the year				−	23,618	(1,904)	21,714
Other comprehensive income	13	(3,899)		(1,457)	(1,457)	(73)	(1,529)
Total comprehensive income for the year		(3,899)	−	(1,457)	22,162	(1,977)	20,185
Transactions with owners							
Issuance of new shares	20		(117)	(117)	112		112
Acquisition of treasury shares	20			−	(22)		(22)
Retirement of treasury shares	20			−	35		35
Dividends	20			−	(10,379)		(10,379)
Share-based payments	20, 21			−	56		56
Other				(1,523)	−		−
Total transactions with owners		−	(117)	(1,640)	(10,198)	−	(10,198)
Balance at March 31, 2020		¥1,529	¥686	¥13,364	¥302,865	¥(305)	¥302,560

Consolidated Statement of Cash Flows

Santen Pharmaceutical Co., Ltd. and Its Consolidated Subsidiaries

For the year ended March 31, 2020

		Millions of yen	
	Note	2019	2020
Cash flows from operating activities			
Net profit for the year		¥31,943	¥21,714
Depreciation and amortization		10,969	16,573
Impairment losses		—	5,825
Gain on disposal of non-current assets		(3,592)	(0)
Finance expenses (income)		(700)	(592)
Income tax expenses		11,174	10,377
Decrease (increase) in trade and other receivables		(6,303)	(3,054)
Decrease (increase) in inventories		(5,000)	(981)
Increase (decrease) in trade and other payables		2,445	717
Increase (decrease) in provisions and net defined benefit liabilities		(518)	(1,242)
Increase (decrease) in accounts payable-other		1,181	1,305
Increase (decrease) in long-term accounts payable-other		1,885	1,279
Other		2,116	1,584
Subtotal		45,601	53,506
Interest received		187	200
Dividends received		521	581
Interest paid		(8)	(190)
Income tax paid		(13,408)	(14,149)
Net cash flows from (used in) operating activities		32,894	39,947
Cash flows from investing activities			
Payments for acquisition of investments		(931)	(398)
Proceeds from sale of investments		2,156	3,503
Payments for acquisition of property, plant and equipment		(5,470)	(5,824)
Proceeds from sales of property, plant and equipment		4,338	0
Payments for acquisition of intangible assets		(2,863)	(3,404)
Other		(166)	949
Net cash flows from (used in) investing activities		(2,935)	(5,175)
Cash flows from financing activities			
Proceeds from long-term loans		567	1,477
Repayments of long-term loans		(4,098)	(500)
Purchase of treasury stock	20	(14,124)	(22)
Dividends paid		(10,580)	(10,379)
Repayments of lease liabilities		(4)	(2,859)
Other		132	(447)
Net cash flows from (used in) financing activities		(28,107)	(12,729)
Net increase (decrease) in cash and cash equivalents		1,852	22,044
Cash and cash equivalents at the beginning of period	26	69,283	70,796
Effect of exchange rate changes on cash and cash equivalents		(338)	(1,410)
Cash and cash equivalents at the end of period	26	¥70,796	¥91,430

Notes to Consolidated Financial Statements

1. Reporting Entity

Santen Pharmaceutical Co., Ltd. and its consolidated subsidiaries (the“Santen Group”) conduct businesses centered on the production and sale of prescription pharmaceuticals.
Santen Pharmaceutical Co., Ltd. (the“Company”) is a company incorporated in Japan. The addresses of the Company’s headquarters and its major operating sites are disclosed on its corporate website (http://www.santen.com/en/).
The shares of the Company are listed on the Tokyo Stock Exchange.

2. Basis of Preparation

(1) Compliance with IFRS

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

(2) Basis of Measurement

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

(3) Functional Currency and Presentation Currency

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

(4) New Standards and Interpretations - Adopted

The main standards and interpretations adopted by the Santen Group from the fiscal year ended March 31, 2020 are as follows.

Statement of Financial Accounting Standards		Time of compulsory application (from the beginning of the fiscal year)	Santen Pharmaceutical Group Period of application	Outline of new construction and revision
IFRS 16	Leases	January 1, 2019	Year ended March 31, 2020	Amendment to accounting for recognition of leases

IFRS 16 “Leases”
Santen Group had previously applied IAS 17, “Leases.” However, the Company has adopted IFRS 16 effective from the fiscal year ended March 31, 2020.

Santen Group applied retrospectively IFRS 16 in accordance with the transitional provisions and recognized the cumulative effect of the adoption on the effective date, April 1, 2019. Upon the transition to IFRS 16, the Company selected the practical expedients under Paragraph C3 of IFRS 16 to determine whether a lease is included in the contract, and took over the judgment under IAS 17 and IFRIC Interpretation 4, “Determining whether a contract contains a lease.” The lease definition under IFRS 16 only applies to contracts entered or modified on or after the effective date.

Santen Group recognized right-of-use assets and lease liabilities on the effective date of IFRS 16 for leases previously classified as operating leases in accordance with IAS 17. The lease liability was measured at the present value of the remaining lease payments discounted using the lessee’s incremental borrowing rate at the effective date. The above right-of-use assets were measured at the amount calculated by adjusting items like prepaid lease payments, etc. to the measurement amount of lease liabilities at the start date of the application.
The weighted average lessee’s incremental borrowing rate applied to the lease liabilities recognized in the consolidated statement of financial position on the effective rate was 1.9%.
In applying IFRS 16, Santen Group adopted the practical expedients set forth in items (a) to (e) of IFRS 16 C10.
Right-of-use assets and lease liabilities for leases classified as finance leases in accordance with IAS 17 are measured at the carrying amounts of lease assets and lease obligations at the end of the previous consolidated fiscal year.

Reconciliations of lease liabilities recognized in the consolidated statement of financial position as of the beginning date of application and operating lease agreements disclosed by applying IAS 17 as of the end of the previous consolidated fiscal year are as follows:

(Millions of yen)

	Amount
Operating lease agreements disclosed at the end of the previous fiscal year	¥9,286
Amount discounted using the lessee's incremental borrowing rate as of the effective date	8,475
Finance lease obligations recognized at the end of the previous fiscal year	47
Exemptions from recognition	
Short-term leases	(87)
Immaterial lease assets	(63)
Extension or cancellation options reasonably certain to exercise	193
Lease liabilities as of the effective date	¥8,564

Right-of-use assets and lease liabilities recognized in the consolidated statement of financial position at the beginning of the fiscal year ended March 31, 2020 were JPY7,696 million and JPY8,564 million, respectively. Right-of-use assets are included in "Property, plant and equipment" and lease liabilities are included in "Financial liabilities" or "Other financial liabilities."

(5) Changes in Presentation

(Consolidated Cash Flow Statement)

The amount of "Repayment of lease liabilities," which was included in "Other" in "Cash flows from financing activities" in the previous consolidated fiscal year has been presented separately from the current consolidated fiscal year due to an increase in materiality impact, and the consolidated cash flows statement for the previous fiscal year has been reclassified.

As a result, JPY128 million presented as "Other" under "Cash flows from financing activities" in the previous fiscal year in the consolidated statement of cash flows has been reclassified of (JPY4 million) as "Repayment of lease liabilities" and JPY132 million as "Other."

(6) Approval of Consolidated Financial Statements

Santen Group's consolidated financial statements for the fiscal year ended March 31, 2020 were approved on September 4, 2020 by Chairman Akira Kurokawa, President and CEO Shigeo Taniuchi and Senior Corporate Officer, Corporate Administration, Chief Financial Officer (CFO), Head of Finance and Administration Division Kazuo Koshiji.

3. Significant Accounting Policies

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

1) Basis of Consolidation

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

A. Subsidiaries

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

B. Associates

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

2) Business Combinations

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

3) Foreign Currency Translation

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

4) Revenue

Revenue is recognized based on the following five-step approach.
Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

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

5) Research and Development Expenses

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

6) Government Grants

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

7) Income Taxes

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

8) Property, Plant and Equipment

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

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

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

9) Intangible Assets

Intangible assets are identifiable non-monetary assets without physical substance and have been acquired individually or through business combinations. The major intangible assets are goodwill, intangible assets associated with products, and software.
A. Goodwill
The measurement of goodwill on initial recognition is stated in"2) Business combinations."After initial recognition, goodwill is not amortized and is measured at cost less any accumulated impairment losses. Goodwill is allocated to the cash-generating units that are expected to benefit from synergies derived from business combinations.

B. Intangible Assets Other than Goodwill
Intangible assets other than goodwill that are acquired individually are recognized at cost, specifically any cost directly attributable to the acquisition of the asset. Intangible assets other than goodwill that are acquired through business combinations are recognized based on the fair value at the business combination date.
After recognition, intangible assets are measured using the cost model and are stated at cost less accumulated amortization and accumulated impairment losses.
These intangible assets are amortized using the straight-line method over the estimated useful lives (within approximately 20 years) from the date the assets are available for use. The estimated useful lives are calculated based on the term of legal protection or the economical life, and are regularly reviewed.
Impairment losses are shown in"10)Impairment of Property, Plant and Equipment and Intangible Assets."
The treatment of expenditures related to research and development incurred within the Santen Group is shown in"5) Research and Development Expenses."

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

At the end of each reporting period, the Santen Group assesses whether there is any indication of impairment that property, plant and equipment and intangible assets available for use may be impaired for each asset or cash-generating unit. If there is an indication of impairment, the Santen Group performs impairment test and assesses the recoverability of each asset or cash-generating unit.
Goodwill and intangible assets that are not yet available for use are performed impairment test annually, irrespective of whether there is any indication of impairment.
The cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflow from other assets or groups of assets.
The recoverable amount of an asset or a cash-generating unit is determined at the higher of its fair value less cost of disposal or its value in use. In determining the value in use, the estimated future cash flow is discounted to the present value using a discount rate that reflects the time value of money and the risks specific to the asset. If the carrying amount of the asset or cash-generating unit exceeds the recoverable amount, impairment loss is recognized in profit or loss and the carrying amount is reduced to the recoverable amount.
An asset or a cash-generating unit other than goodwill for which impairment loss was recognized in prior years is assessed at the end of the reporting period to determine whether there is any indication that the impairment loss recognized in prior periods may no longer exist or may have decreased. If any such indication exists, the recoverable amount of the asset or cash-generating unit is estimated. In cases in which the recoverable amount exceeds the carrying amount of the asset or cash-generating unit, the impairment loss is reversed up to the lower of the estimated recoverable amount or the carrying amount that would have been determined if no impairment loss had been recognized in prior years.

11) Leases

At the time of signing a contract, 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.

If ownership of the underlying asset is transferred to the lessee by the end of the lease period or if the acquisition cost of the rights-of-use asset reflects the use of the purchase option, the rights-of-use asset is depreciated from the inception date to the end of the useful life of the underlying assets. Otherwise, the asset is systematically depreciated over the shorter of the estimated useful life or the lease term from the inception date. In addition, right-of-use assets are impaired (where applicable) by impairment loss 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 aquired, 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 Compay 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. Santen Group recognizes lease payments associated with those assets as expenses over the lease term using the straight-line method.

In the previous consolidated fiscal year, Santen Group applied the following policies.

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

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

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

12) Financial Instruments

A. Financial Assets

i Initial recognition and measurement

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

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

(Financial assets measured at amortized cost)

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

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

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

(Financial assets measured at fair value through other comprehensive income)
(a) Debt instruments that are measured at fair value through other comprehensive income
Financial assets are classified as debt instruments that are measured at fair value through other comprehensive income if they meet the following conditions.
・The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
・The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
(b) Equity instruments measured at fair value through other comprehensive income
For all investments in equity instruments other than those held for trading among financial assets measured at amortized cost and debt instruments measured at fair value through other comprehensive income that are equity instruments, the Santen Group has irrevocably elected to present changes in fair value after initial recognition under other comprehensive income.

(Financial assets measured at fair value through profit and loss)
Financial assets not classified as financial assets measured at amortized cost or as financial assets measured at fair value through other comprehensive income are classified as financial assets measured at fair value through profit and loss.
No investments in debt instruments are designated for measurement at fair value through profit and loss so as to eliminate or significantly reduce mismatches in accounting.

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

ii Subsequent measurement
Measurement of financial assets after initial recognition is conducted in accordance with their classification as follows.
(Financial assets measured at amortized cost)
Financial assets measured at amortized costs are measured by the effective interest rate method.

(Financial assets measured at fair value through other comprehensive income)
(a) Debt instruments that are measured at fair value through other comprehensive income
Changes in the fair value of debt instruments measured at fair value through other comprehensive income are recognized as other comprehensive income until the financial asset is derecognized, except for impairment gain or impairment loss and foreign exchange gains and losses.
If the financial asset is derecognized, other comprehensive income recognized in the past is transferred to profit and loss.
(b) Equity instruments that are measured at fair value through other comprehensive income
Changes in the fair value of equity instruments measured at fair value through other comprehensive income are recognized as other comprehensive income.
If the financial asset is derecognized, or if the fair value has decreased markedly, other comprehensive income recognized in the past is transferred directly to retained earnings.

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

iii Impairment losses
Allowance for doubtful accounts is recognized for expected credit losses related to financial assets measured at amortized cost.
(Determination of significant increase in credit risk)
At the end of each fiscal year, the non-performance risk for financial assets at the end of the fiscal year is compared with the risk on the initial recognition date to evaluate whether there has been a significant increase in credit risk for the financial asset since initial recognition. In performing this evaluation, the Santen Group considers the financial status of the transaction counterparty, the overdue information, etc.
If all or part of a financial asset is deemed unrecoverable, or extremely difficult to recover, for example when the debtor is in serious financial difficulty, or has been delinquent for a long period after the due date, then the asset is deemed to be in default.
If a financial asset is in default, or if there is evidence for impairment, such as notable financial difficulty of the issuer or debtor, then the asset is deemed to be credit impaired.

(Measurement of expected credit loss)
Expected credit loss is the present value of the difference between the contractual cash flow that is supposed to be received based on the contract and the cash flow that is expected to be received.
If the credit risk of a financial asset has increased significantly since initial recognition, the allowance for doubtful accounts related to that financial asset is measured using an amount equal to the expected credit loss over the entire period. If it has not increased significantly, then it is measured using an amount equivalent to the expected credit loss over a 12-month period.
For trade receivables that do not include a significant financial element, allowance for doubtful accounts is measured using an amount equal to the expected credit loss over the entire period.
If all or part of a financial asset is reasonably deemed unrecoverable, the carrying amount of the financial asset is amortized directly.
The provision for allowance for doubtful accounts related to financial assets is recognized in profit and loss.
If an event occurs that reduces the allowance for doubtful accounts, a reversal of the allowance is recognized in profit and loss.

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

B. Financial Liabilities
i Initial recognition and measurement
Financial liabilities are classified as financial liabilities measured through amortized cost and financial liabilities measured at fair value through profit and loss. This classification is determined when the financial liability is initially recognized.
Financial liabilities are initially recognized on the transaction date upon which the Santen Group becomes a party to the contractual terms of the financial instrument.
All financial liabilities are initially measured at fair value; however, financial liabilities measured at amortized cost are measured using the amount net of directly incurred transaction expenses.

ii Subsequent measurement
Measurement of financial liabilities after initial recognition is dependent on their classification, as follows.
(a) Financial liabilities measured at amortized cost
Financial liabilities measured at amortized cost are measured at amortized cost by the effective interest rate method after initial recognition. Interest expense through the effective interest rate method and gain and loss upon derecognition are recognized in profit and loss.
(b) Financial liabilities measured at fair value through profit and loss
Financial liabilities measured at fair value through profit and loss are measured at fair value after initial recognition and changes in fair value are recognized as profit and loss.

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

C. Offsetting of Financial Assets and Financial Liabilities
Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Santen Group:
(a) Currently has a legally enforceable right to set off the recognized amounts;
(b) Intends either to settle on a net basis, or realize the asset and settle the liability simultaneously.

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

13) Inventories

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

14) Cash and Cash Equivalents

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

15) Assets Held for Sale

The Santen Group classifies a non-current asset or disposal group which must be available for immediate sale in its present condition and its sale must be highly probable as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.
The Santen Group measures a non-current asset or disposal group classified as held for sale at the lower of its carrying amount and fair value less costs to sell.

16) Capital

A. Ordinary Shares

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

B. Treasury Shares

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

17) Share-based compensation expenses

The Company has adopted the Performance Share Unit System, the Restricted Stock Compensation System and the Listed Stock Unit System as stock compensation plans for directors (excluding outside directors) and executive officers. 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.

ii Defined contribution plans

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

B. Short-term Employee Benefits

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

19) Provisions

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

4. Use of Judgments, Estimates and Assumptions

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

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

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

5. New Standards and Interpretations Not Yet Adopted

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

6. Operating Segments

(1) Reportable Segments

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

(2) Products and Services Information

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

Millions of yen

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

For the year ended March 31, 2020 (April 1, 2019 to March 31, 2020)

Millions of yen

	Prescription pharmaceuticals	OTC pharmaceuticals	Medical devices	Other	Total
Revenue from external customers	¥224,584	¥12,034	¥3,515	¥1,422	¥241,555

(3) Geographical Areas Information

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

Millions of yen

	Japan	China	Asia	EMEA	Americas	Total
Revenue from external customers*1	¥160,456	¥21,365	¥15,516	¥36,156	¥533	¥234,026
Non-current assets*2	104,563	6,897	146	8,598	44,425	164,629

Notes:

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

For the year ended March 31, 2020 (April 1, 2019 to March 31, 2020)

Millions of yen

	Japan	China	Asia	EMEA	Americas	Total
Revenue from external customers*1	¥165,024	¥22,321	¥16,496	¥36,979	¥735	¥241,555
Non-current assets*2	100,173	5,202	792	8,818	42,279	157,264

Notes:

1. Revenue is classified into countries or regions based on customer location.
2. Non-current assets are classified into countries or regions based on the asset location. Financial instruments and deferred tax assets are excluded. The non-current assets in the Americas are located in the U.S.A.
3. From the current consolidated fiscal year, the former “Asia” segment has been divided into “China” and “Asia,” from the perspective of the business management system.
   Revenue from external customers and non-current assets for the previous consolidated fiscal year have been reclassified according to the new classification.

(4) Information on Major Customers

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

Millions of yen

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

For the year ended March 31, 2020 (April 1, 2019 to March 31, 2020)

Millions of yen

Major customers	Revenue
Suzuken Co., Ltd.	¥46,984
Mediceo Corporation	33,263

7. Revenue

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

(1) Breakdown of revenue

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

Millions of yen

	Japan	China	Asia	EMEA	Americas	Total
Prescription Pharmaceuticals	¥142,950	¥21,323	¥15,176	¥36,053	¥527	¥216,030
Over-the-Counter (OTC) Pharmaceuticals	13,930	–	293	–	–	14,223
Medical Devices	2,600	–	–	103	6	2,709
Others	977	42	46	–	–	1,065
Total	¥160,456	¥21,365	¥15,516	¥36,156	¥533	¥234,026

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

Fiscal year ended March 31, 2020 (April 1, 2019 to March 31, 2020)

Millions of yen

	Japan	China	Asia	EMEA	Americas	Total
Prescription Pharmaceuticals	¥148,842	¥22,251	¥16,112	¥36,643	¥735	¥224,584
Over-the-Counter (OTC) Pharmaceuticals	11,722	–	312	–	–	12,034
Medical Devices	3,179	–	–	336	1	3,515
Others	1,281	70	71	–	–	1,422
Total	¥165,024	¥22,321	¥16,496	¥36,979	¥735	¥241,555

Note: From the current fiscal year, the former “Asia” segment has been divided into “China” and “Asia,” from the perspective of the business management system.

Revenue for the previous fiscal year is presented based on the new classification.

(2) Contract balance

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

Millions of yen

	End of the fiscal year ended March 31, 2019 (March 31, 2019)	End of the fiscal year ended March 31, 2020 (March 31, 2020)
Receivables arising from contracts with customers	¥84,834	¥87,204
Contract liabilities	6,721	6,461

Receivables arising from contracts with customers are included in trade and other receivables on the consolidated statement of financial position. Contract liabilities are included in trade and other payables. During the fiscal year ended March 31, 2020, there were no revenues recognized from performance of obligations satisfied (or partially satisfied) in past periods.

(3) Transaction price allocated to remaining performance obligations

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

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

(4) Assets recognized from the cost of acquiring and performing contracts with customers

The Santen Group has no incremental costs for acquiring contracts or costs related to performance that must be recognized as assets.

8. Nature of Major Expenses

Millions of yen

	2019	2020
Cost of sales (Merchandise)	¥49,895	¥52,899
Wages and bonuses	36,394	35,203
Advertising and sales promotion expenses	20,317	20,562
Raw material cost	14,681	13,234
Specialist expenses and commissions	9,455	11,252
Legal welfare expenses	4,973	4,676
Post-employment benefit cost	2,443	2,309
Depreciation and amortization	3,981	6,675
Others	43,656	44,725
Total	¥185,796	¥191,532

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

	2019	2020
Gains from sales of property, plant and equipment *	¥3,592	¥0
Government grants	162	131
Other	273	259
Total	¥4,028	¥390

Note: In the previous consolidated fiscal year, gain on disposal of fixed assets of JPY3,592 million was recorded in other income as a result of the transfer of fixed assets.

10. Other Expenses

Millions of yen

	2019	2020
Loss on disposal of non-current assets	¥46	¥12
Loss on transfer of business	—	619
Impairment losses *	—	5,825
Other	126	524
Total	¥172	¥6,980

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

11. Finance Income and Expenses

(1) Finance Income

Millions of yen

	2019	2020
Interest income		
Financial assets measured at amortized cost	¥186	¥205
Dividend income		
Financial assets measured at fair value through other comprehensive income	521	581
Life insurance	191	161
Total dividend income	712	742
Other	2	3
Total	¥901	¥950

(2) Finance Expenses

Millions of yen

	2019	2020
Interest expense		
Financial liabilities measured at amortized cost	¥7	¥18
Lease liabilities	1	173
Total interest expense	7	190
Loss on valuation of derivatives	255	165
Foreign exchange losses	1,412	488
Net interest related to post-employment benefits	5	4
Changes in the fair value of contingent consideration	1,203	984
Borrowing related commissions	―	559
Other	―	4
Total	¥2,881	¥2,393

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

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

Millions of yen

	As of April 1, 2019	Recognized through profit or loss	Recognized in other comprehensive income	As of March 31, 2020
Deductible temporary differences				
Retirement benefit liabilities	¥3,250	¥(214)	¥64	¥3,100
Inventories	1,016	461	−	1,477
Accrued bonuses	895	(1)	−	894
Depreciation and amortization	675	(454)	−	221
Research and development expenses	769	212	−	980
Accrued enterprise taxes	330	7	−	338
Paid absences	126	(3)	−	123
Impairment losses	80	−	−	80
Unearned revenue	30	(4)	−	26
Other	1,629	577	−	2,206
Subtotal	8,801	581	64	9,446
Taxable temporary differences				
Financial assets measured at fair value through other comprehensive income	(5,567)	−	(409)	(5,976)
Intangible assets associated with products	(14,887)	1,493	−	(13,394)
Other	(28)	3	−	(26)
Subtotal	(20,482)	1,496	(409)	(19,395)
Unused tax losses and tax credits				
Unused tax credits	1,746	410	−	2,157
Unused tax losses	2,317	349	−	2,666
Subtotal	4,063	759	−	4,822
Net amount	¥(7,618)	¥2,836	¥(345)	¥(5,127)

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

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

Millions of yen

	2019	2020
Deductible temporary differences	¥242	¥1,040
Carry-forwards of unused tax losses	5,963	6,314
Carry-forwards of unused tax credits	1,212	1,317

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

	2019	2020
1st year	¥6	¥7
2nd year	41	32
3rd year	42	40
4th year	18	2
5th year onward	5,856	6,233
Total	¥5,963	¥6,314

iv. In the fiscal years ended March 31, 2020 and 2019, 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 ¥22,579 million as of March 31, 2020 and ¥16,573 million as of March 31, 2019.

v. In the fiscal years ended March 31, 2020 and 2019, there were subsidiaries that recognized carry-forwards of unused tax losses. In the fiscal year ended March 31, 2020, deferred tax assets of ¥2,666 million were recognized to the extent that future taxable profit was expected (¥2,317 million as of March 31, 2019). 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

	2019	2020
Current income taxes		
Current	¥12,599	¥13,167
Subtotal	12,599	13,167
Deferred income taxes		
Occurrence and reversal of temporary differences	(1,425)	(2,790)
Subtotal	(1,425)	(2,790)
Total income tax expenses	¥11,174	¥10,377

Current income taxes include tax benefits arising from previously unrecognized carry-forwards of unused tax losses, tax credits or temporary differences of prior period. As a result of these tax benefits, current income taxes were reduced by ¥8 million in the fiscal year ended March 31, 2020 and ¥12 million in the fiscal year ended March 31, 2019.

Deferred corporation income taxes include tax benefits arising from previously unrecognized carry-forwards of tax losses and tax credits or temporary differences of past periods. Accordingly, the increase in deferred income taxes for the fiscal year ended March 31, 2019 was ¥861 million and not applicable in the fiscal year ended March 31, 2020.

ii. Reconciliation of Applicable Income Tax Rate

In the fiscal years ended March 31, 2020 and March 31, 2019, 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, 2020 and 30.5% for the fiscal year ended March 31, 2019, respectively. However, foreign subsidiaries are subject to taxes in their respective countries.

	2019	2020
Effective statutory income tax rate	30.5%	30.5%
Non-deductible items / non-taxable income	1.3%	1.8%
Tax credit for research and development expenses	(3.9)%	(4.4)%
Differences in tax rates applied to subsidiaries	(1.6)%	0.8%
Movements in unrecognized deferred tax assets	(2.5)%	1.9%
Effect of changes in contingent consideration	1.5%	0.8%
Other	0.6%	0.9%
Actual tax rate	25.9%	32.3%

13. Other Comprehensive Income

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

Millions of yen

	2019	2020
Remeasurements of defined benefit plans		
Amounts arising during the year	¥42	¥(317)
Reclassification adjustments to profit or loss	—	—
Before tax effects	42	(317)
Tax effects	(33)	64
Remeasurements of defined benefit plans	9	(253)
Net gain or loss on financial assets measured at fair value through other comprehensive income		
Amounts arising during the year	(4,734)	3,880
Reclassification adjustments to profit or loss	—	—
Before tax effects	(4,734)	3,880
Tax effects	1,445	(1,184)
Net gain or loss on financial assets measured at fair value through other comprehensive income	(3,289)	2,696
Foreign currency translation adjustments		
Amounts arising during the year	794	(3,972)
Reclassification adjustments to profit or loss	—	—
Before tax effects	794	(3,972)
Tax effects	—	—
Foreign currency translation adjustments	794	(3,972)
Total other comprehensive income	¥(2,486)	¥(1,529)

14. Earnings Per Share

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

Millions of yen

	2019	2020
Basis of calculating basic earnings per share		
Profit attributable to owners of the Company	¥31,954	¥23,618
Profit not attributable to ordinary shareholders of the Company	1	2
Profit used to calculate basic earnings per share	31,953	23,616
Basis of calculating diluted earnings per share		
Profit used to calculate basic earnings per share	¥31,953	¥23,616
Adjustment	1	2
Profit used to calculate diluted earnings per share	31,954	23,618

Thousands of shares

	2019	2020
Weighted average number of shares during the year	406,167	399,157
Increase in ordinary shares for stock remuneration transactions (1,000 shares)	1,229	1,095
Weighted average number of diluted ordinary shares during the year	407,396	400,253

Yen

	2019	2020
Earnings per share (attributable to owners of the Company)		
Basic	¥78.67	¥59.16
Diluted	78.43	59.01

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

15. Property, Plant and Equipment

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

A. Acquisition Cost

Millions of yen

	Buildings and structures	Machinery, equipment and vehicles	Tools, fixtures and fittings	Land	Construction in progress	Total
Balance as of April 1, 2018	¥47,740	¥17,474	¥14,394	¥6,940	¥3,185	¥89,732
Additions	389	1,786	509	–	3,345	6,029
Transfers	100	515	189	–	(804)	–
Disposals	(8,148)	(721)	(808)	(0)	(44)	(9,720)
Foreign currency translation differences	(176)	(290)	(99)	(3)	(68)	(636)
Balance as of March 31, 2019	¥39,905	¥18,763	¥14,185	¥6,937	¥5,614	¥85,405
Change in accounting policy	6,372	1,082	17	225	–	7,696
Additions	1,718	940	766	–	3,650	7,074
Transfers	306	965	185	–	(1,455)	–
Disposals	(3,483)	(1,985)	(1,232)	(55)	(9)	(6,764)
Foreign currency translation differences	(577)	(419)	(193)	(17)	(391)	(1,598)
Balance as of March 31, 2020	¥44,240	¥19,347	¥13,728	¥7,090	¥7,408	¥91,813

B. Accumulated Depreciation and Impairment Losses

Millions of yen

	Buildings and structures	Machinery, equipment and vehicles	Tools, fixtures and fittings	Land	Construction in progress	Total
Balance as of April 1, 2018	¥(34,733)	¥(13,162)	¥(12,106)	¥–	¥(24)	¥(60,026)
Depreciation	(1,050)	(852)	(896)	–	–	(2,798)
Disposals	7,373	715	810	–	–	8,897
Foreign currency translation differences	50	97	80	–	(5)	221
Others	–	–	(3)	–	3	–
Balance as of March 31, 2019	¥(28,361)	¥(13,203)	¥(12,115)	¥–	¥(27)	¥(53,706)
Depreciation	(2,947)	(1,561)	(874)	(1)	–	(5,383)
Impairment loss	–	(69)	(8)	(175)	(3,415)	(3,667)
Disposals	2,869	1,723	1,109	–	–	5,701
Foreign currency translation differences	297	273	197	(8)	83	842
Balance as of March 31, 2020	¥(28,142)	¥(12,838)	¥(11,690)	¥(183)	¥(3,359)	¥(56,212)

C. Carrying Amount

Millions of yen

	Buildings and structures	Machinery, equipment and vehicles	Tools, fixtures and fittings	Land	Construction in progress	Total
As of April 1, 2018	13,006	4,312	2,288	6,940	3,161	29,706
As of March 31, 2019	11,544	5,560	2,070	6,937	5,588	31,699
As of March 31, 2020	16,098	6,509	2,037	6,907	4,049	35,601

2) Impairment Losses

An impairment loss of JPY3,667 million was recorded in the fiscal year ended March 31, 2020 and included in "Other expenses" in the consolidated statements of income and other comprehensive income.

The impairment losses recognized in the fiscal year ended March 31, 2020 were calculated by reducing the carrying amount of the factories currently under construction (mainly construction in progress) owned by the consolidated subsidiary, Chongqing Santen Zuina Pharmaceutical Co., Ltd. up to the recoverable amount because the previously expected profits were no longer expected.

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

3) Other Disclosures

The Santen Group has contractual commitments for the acquisition of property, plant and equipment as of March 31, 2020 totaling ¥1,973 million and ¥2,841 million as of March 31, 2020 and 2019, respectively.

16. Intangible Assets

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

A. Acquisition Cost

Millions of yen

	Goodwill	Intangible assets associated with products	Software	Other	Total
Balance as of April 1, 2018	¥22,295	¥138,630	¥11,558	¥1,335	¥173,819
Additions	—	1,219	858	726	2,803
Transfers	—	—	765	(765)	—
Disposals	—	—	(91)	(0)	(91)
Foreign currency translation differences	417	1,497	(61)	3	1,857
Balance as of March 31, 2019	¥22,713	¥141,347	¥13,028	¥1,300	¥178,388
Additions	—	506	976	2,293	3,775
Transfers	—	—	323	(323)	—
Disposals	—	—	(387)	(44)	(431)
Foreign currency translation differences	(585)	(1,133)	(93)	(60)	(1,871)
Balance as of March 31, 2020	¥22,127	¥140,720	¥13,847	¥3,166	¥179,860

B. Accumulated Amortization and Accumulated Impairment Losses

Millions of yen

	Goodwill	Intangible assets associated with products	Software	Other	Total
Balance as of April 1, 2018	¥—	¥(29,812)	¥(8,761)	¥(751)	¥(39,324)
Amortization	—	(6,988)	(1,180)	(3)	(8,171)
Disposals	—	—	75	0	76
Foreign currency translation differences	—	124	33	(14)	142
Balance as of March 31, 2019	¥—	¥(36,676)	¥(9,833)	¥(768)	¥(47,277)
Amortization	—	(9,898)	(1,285)	(7)	(11,190)
Impairment loss	—	(2,158)	—	—	(2,158)
Disposals	—	—	375	44	418
Foreign currency translation differences	—	122	55	20	197
Balance as of March 31, 2020	¥—	¥(48,610)	¥(10,689)	¥(711)	¥(60,010)

C. Carrying Amount

Millions of yen

	Goodwill	Intangible assets associated with products	Software	Other	Total
As of April 1, 2018	22,295	108,819	2,796	585	134,495
As of March 31, 2019	22,713	104,671	3,195	532	131,110
As of March 31, 2020	22,127	92,111	3,157	2,455	119,850

2) Impairment Losses

No impairment loss was recorded in the previous consolidated fiscal year.
In the fiscal year ended March 31, 2020, JPY2,158 million of impairment loss was recorded and included in “Other expenses” in the consolidated statements of income and other comprehensive income.
The impairment loss recognized in the fiscal year ended March 31, 2020 was the full impairment of the carrying amount of the intangible property related to the DE-122 for the treatment of exudative age-related macular degeneration, which was in joint development with TRACON Pharmaceuticals, Inc. (U.S.). Due to the discontinuation of the development, revenue was no longer expected.

3) Impairment Test for Goodwill

In the fiscal year ended March 31, 2020, the Santen Group recorded goodwill of ¥22,127 million for that period, along with ¥22,713 million as of March 31, 2019. The goodwill was recognized as a result of the acquisitions of Santen S.A.S. and InnFocus, Inc. Impairment testing of goodwill is performed annually. The recoverable amount in the impairment test for goodwill was measured using the market value of the share price of the Company. In the fiscal year ended March 31, 2020, the Santen Group did not recognize an impairment loss on goodwill, because the recoverable amount exceeded the carrying amount.
The Company has concluded there is little likelihood of additional significant impairment losses, assuming stock market prices fluctuate within a reasonable range.

4) Other Disclosures

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

ii. The Santen Group did not recognize any internally generated intangible assets as of March 31, 2020, and as of March 31 2019.

iii. Significant Intangible Assets

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

Millions of yen

	Carrying amount		Remaining useful life
	End of the previous consolidated fiscal year	End of the consolidated fiscal year	
DE-128 recognized in connection with the acquisition of InnFocus, Inc. (Product name: PRESERFLO MicroShunt)	¥42,812	¥39,180	14 years
Patents, trademarks, domain names, manufacturing and marketing rights for ophthalmic medicine acquired from Merck & Co., Inc.	41,384	35,643	5 to 11 years
DE-76B recognized in connection with the acquisition of Santen S.A.S. (Product name: cyclocut, generic name: cyclospoline)	4,645	3,781	6 years
DE-109 acquired through a contract with MacuSight., Inc. (Generic name: Sirolimus)	6,982	6,982	—

Note: Amortization for the intangible assets related to DE-128 has started in the fiscal year ended March 31, 2020. Intangible assets related to DE-109 have not been amortized yet as they are not yet available for use.

Impairment losses on intangible assets are recognized when the recoverable amount of these assets declines below their carrying amounts, and the carrying amounts of these intangible assets are written down to their recoverable amounts. Recoverable amounts are calculated based on value in use. Value in use is calculated as the present value of the projected amount of future cash flow based on past experience and external information, which is discounted by a rate based on the weighted average cost of capital by the cash generating units (7.0% to 8.7% and 8.7% to 11.4%, respectively). In the fiscal year ended March 31, 2020, value in use was higher than the carrying amount, so impairment losses were not recorded. The Company has concluded there is little likelihood of value in use declining below the carrying amount, assuming the discount rate and other factors fluctuate within a reasonable range.

iv. Commitments

Millions of yen

	2019	2020
Research and development milestones *	¥32,429	¥33,971
Sales target milestones *	30,764	31,947
Other	1,373	1,792
Total	¥64,566	¥67,710

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

	2019	2020
Financial assets measured at amortized cost		
Other	¥1,041	¥1,068
Financial assets measured at fair value through other comprehensive income		
Stock	28,786	29,345
Financial assets measured at fair value through profit or loss		
Golf membership rights, etc.	217	436
Total	¥30,044	¥30,848

B. Current Assets

Millions of yen

	2019	2020
Financial assets measured at amortized cost		
Other	¥267	¥452
Total	¥267	¥452

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

	2019	2020
ONO PHARMACEUTICAL CO., LTD.	¥11,248	¥12,892
Eisai Co., Ltd.	5,899	7,530
Daiichi Sankyo Company, Ltd.	2,678	—
NIPPON SHINYAKU CO., LTD.	2,297	2,417
Regenerative Patch Technologies, LLC	1,265	1,241
FUJIFILM Holdings Corporation	1,083	1,170
MEDIPAL HOLDINGS CORPORATION	983	754
KOBAYASHI Pharmaceutical Co., Ltd.	687	736
Others	2,645	2,604
Total	¥28,786	¥29,345

B. Other

Dividend income related to financial assets measured at fair value through other comprehensive income held by the Company was ¥572 million as of March 31, 2020 and ¥484 million as of March 31, 2019.

Financial assets measured at fair value through other comprehensive income that were disposed of during the fiscal years ended March 31, 2020 and 2019 were as follows:

Millions of yen

	2019	2020
Fair value at date of sale	¥2,156	¥3,503
Cumulative gains (losses)	1,215	2,557
Dividend income	37	9

Note: These financial assets were sold for the purpose of liquidating certain assets held. Cumulative gains (net of tax) of ¥1,776 million in the fiscal year ended March 31, 2020 and ¥844 million in the fiscal year ended March 31, 2019 were reclassified from other components of equity to retained earnings.

18. Inventories

Millions of yen

	2019	2020
Merchandise and finished goods	¥28,608	¥28,328
Work in process	362	432
Raw materials and supplies	6,265	6,522
Total	¥35,235	¥35,282

19. Trade and Other Receivables

Millions of yen

	2019	2020
Notes and accounts receivables	¥82,173	¥84,429
Allowance for doubtful receivables	(216)	(204)
Other	2,661	2,775
Total	¥84,618	¥86,999

20. Equity and Other Equity Items

1) Share Capital and Treasury Shares

Stocks

	2019	2020
Type of shares*1	Ordinary shares	Ordinary shares
Number of authorized shares	1,100,000,000	1,100,000,000
Number of issued shares*2		
Beginning of year	406,847,515	399,782,354
Change during year*3	(7,065,161)	245,900
End of year	399,782,354	400,028,254
Treasury shares		
Beginning of year	7,411	663,412
Change during year*4	656,001	(55,347)
End of year*5	663,412	608,065

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 period were due to the exercise of subscription rights to shares and the cancellation of treasury shares in the fiscal year ended March 31, 2019 and the exercise of subscription rights to shares in the fiscal year ended March 31, 2020.
4. The changes in the number of treasury stock during the period were due to the acquisition of treasury stock (8,144,000 shares) based on a resolution passed by the Board of Directors on February 20, 2019, the cancellation of treasury shares (7,500,000 shares) based on a resolution passed by the Board of Directors on March 27, 2019, the disposal of treasury shares as restricted stock compensation, the acquisition of the Company's shares to be held in trust for the stock remuneration system, the free acquisition of restricted stock, and the compliance with requests to purchase back odd lot shares in the fiscal year ended March 31, 2019. They were due to the disposal of treasury shares as restricted stock compensation, the acquisition of the Company's shares to be held in trust for the stock remuneration system, the free acquisition of restricted stock, and the compliance with requests to purchase back odd lot shares in the fiscal year ended March 31, 2020.
5. The number of treasury stock at the end of the period includes 16,430 shares of treasury stock held in trust for the stock-linked remuneration system in the fiscal year ended March 31, 2020, and 5,642 shares in the fiscal year ended March 31, 2019.

2) Capital Surplus

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

3) Other Components of Equity

A. Remeasurements of Defined Benefit Plans

These are changes caused by remeasurements of defined benefit plans.

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

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

C. Foreign Currency Translation Adjustments

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

D. Subscription Rights to Shares

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 21 "Share-based Payments."

4) Retained Earnings and Dividends

A. Retained Earnings

These are earnings recognized as profit or loss in or before the fiscal year ended March 31, 2020, and earnings reclassified from other comprehensive income.

B. Dividends

(i) Dividends paid

Year ended March 31, 2019

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

Year ended March 31, 2020

Resolution date	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Annual General Meeting of Shareholders (June 25, 2019)	¥5,189	¥13.00	Mar. 31, 19	Jun. 26, 19
Board of Directors Meeting (November 6, 2019)	5,190	13.00	Sep. 30, 19	Nov. 29, 19

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

Year ended March 31, 2019

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

Year ended March 31, 2020

Resolution date	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Annual General Meeting of Shareholders (June 24, 2020)	¥5,592	¥14.00	Mar. 31, 20	Jun. 25, 20

21. Share-based Payments

Performance-Linked Stock Remuneration System

1) Contractual Terms and Conditions

A. Outline

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

B. Eligible Recipients

Directors and Corporate Officers of the Santen Group

C. Vesting Conditions

(Performance Share Unit System)

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

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

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

D. Settlement Method

Stock settlement and cash settlement

2) Fair value and method of estimating fair value

Fair value is the market value of the Company's shares or an adjusted amount that reflects projected dividends and the market value of the Company's shares. Fair values for the fiscal year ended March 31, 2020 and 2019 are as follows:

Yen

	Stock settlement		Cash settlement
	Granted for the fiscal year ended March 31, 2019	Granted for the fiscal year ended March 31, 2020	
Performance share unit system	¥1,636	¥1,785	¥1,782
Restricted stock unit system	1,636	1,785	1,782
Restricted stock-linked remuneration system	1,822	1,790	−

3) Share-based compensation expenses

Stock remuneration expenses totaled ¥118 million for the fiscal year ended March 31, 2020 and ¥100 million for the fiscal year ended March 31, 2019.

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

	2019		2020	
	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	1,579,900	¥356	1,214,800	¥343
Granted	—	—	—	—
Exercised*	365,100	399	245,900	455
Expired	—	—	—	—
Balance at the end of the year	1,214,800	343	968,900	329
Balance of exercisable stock options, at the end of year	953,200	¥437	827,800	¥384

Note: The weighted-average share price of stock options at the time of exercise was ¥1,916 in the fiscal year ended March 31, 2020 and ¥1,688 in the fiscal year ended March 31, 2019.

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

The exercise price of share options ranged from ¥1 to ¥663 as of March 31, 2020 and ¥1 to ¥663 as of March 31, 2019. The weighted-average remaining life was 3.8 years as of March 31, 2020 and 4.6 years as of March 31, 2019.

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 year ended March 31, 2020 and 2019.

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

1) Components

A. Components of Non-current Liabilities

Millions of yen

	2019	2020
Long-term loans payables (excluding the current portion of long-term loans payable)	¥3,563	¥1,965
Long-term accounts payable - other	19,674	20,571
Long-term derivative obligations	255	419
Long-term lease liabilities	28	4,637
Total	¥23,520	¥27,592

B. Components of Current Liabilities

Millions of yen

	2019	2020
Current portion of long-term loans payable	¥500	¥3,000
Other payables	8,377	9,855
Lease liabilities	19	2,726
Other	3,220	3,195
Total	¥12,116	¥18,777

23. Post-employment Benefits

1) Outline of Post-employment Benefit Plans

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

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

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

2) Defined Benefit Plans

A. Net Defined Benefit Liabilities

Millions of yen

	Defined benefit obligations	Fair value of plan assets	Net defined benefit liabilities
Balance as of April 1, 2018	¥21,725	¥(19,921)	¥1,804
Current service cost	1,322	−	1,322
Interest (income) expense	89	(84)	5
Remeasurements of the net defined benefit liabilities			
Return on plan assets excluding amounts included in interest income on plan assets	−	(111)	(111)
Actuarial gains and losses arising from changes in demographic assumptions	(113)	−	(113)
Actuarial gains and losses arising from changes in financial assumptions	187	−	187
Experience adjustments	(4)	−	(4)
Total remeasurements of the net defined benefit liabilities	69	(111)	(42)
Foreign currency translation differences	1	0	1
Employer contributions to plans	−	(533)	(533)
Benefits paid by plans	(978)	413	(565)
Other	72	−	−
Balance as of March 31, 2019	¥22,300	¥(20,308)	¥1,992
Current service cost	1,384	−	1,384
Interest (income) expense	74	(70)	4
Remeasurements of the net defined benefit liabilities			
Return on plan assets excluding amounts included in interest income on plan assets	−	−	−
Actuarial gains and losses arising from changes in demographic assumptions	(242)	−	(242)
Actuarial gains and losses arising from changes in financial assumptions	(325)	−	(325)
Experience adjustments	232	652	884
Total remeasurements of the net defined benefit liabilities	(335)	652	317
Foreign currency translation differences	(44)	4	(39)
Employer contributions to plans	−	(1,321)	(1,321)
Benefits paid by plans	(1,050)	452	(598)
Other	154	(154)	−
Balance as of March 31, 2020	¥22,483	¥(20,745)	¥1,738

B. Components of Plan Assets

Millions of yen

	Presence of quoted market prices in active markets	2019	2020
Equities	Yes	¥3,291	¥3,238
Bonds	Yes	10,938	7,294
General accounts of life insurance companies	No	1,738	1,774
Other	No	4,341	8,439
Total		¥20,308	¥20,745

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

C. Actuarial Assumptions

	2019	2020
Discount rate (%)	0.37	0.52

D. Sensitivity Analysis

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

Millions of yen

	2019		2020	
	0.5% Increase	0.5% Decrease	0.5% Increase	0.5% Decrease
Discount rate (%)	(1,124)	1,229	(1,026)	1,116

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

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

The estimated contribution amount for the fiscal year ended March 31, 2021 was ¥941 million.

The weighted-average duration of the defined benefit obligation for the fiscal year ended March 31, 2020 was 11.3 years (for the fiscal year ended March 31, 2019, 12.1 years).

3) Defined Contribution Plan

The amounts recorded as costs in connection with defined contribution plans were ¥920 million in the fiscal year ended March 31, 2020 and ¥1,117 million in the fiscal year ended March 31, 2019.

24. Provisions

(1) Components of provisions

Components of provisions were as follows.

Millions of yen

	2019	2020
Non-current liabilities		
Asset retirement obligations	¥165	¥168
Provision for restructuring	677	―
Provision for paid absences	413	402
Total	¥1,255	¥570
Current liabilities		
Provision for paid absences	¥717	¥633
Total	¥717	¥633

(2) Statements of changes in provisions

The statements of changes in provisions were as follows.

Millions of yen

	Asset retirement obligations	Provision for restructuring	Provision for paid absences	Total
Balance as of April 1, 2019	¥165	¥677	¥1,130	¥1,971
Additional provision made in the period	8	―	662	670
Amounts used during the period	(5)	―	(735)	(740)
Unused amounts reversed during the period	―	(670)	―	(670)
The increase during the period in the discounted amount arising from the passage of time	1	―	1	2
Foreign currency translation differences	―	(7)	(23)	(29)
Balance as of March 31, 2020	¥168	―	¥1,035	¥1,204

(3) Details of provisions

ⅰ. Asset retirement obligations are recorded to provide for the removal of hazardous substances from plant equipment and other facilities and the fulfillment of obligations to restore leased buildings and other facilities to their original state. To this end, the amount expected to be payable in the future is discounted according to the expected period of use based on estimates and other information obtained from construction contractors.

The Santen Group predicts that the timing of the outflow of economic benefits will primarily be after over one year has passed from each fiscal year-end, but the timing will be affected by future business plans.

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

In addition, the entire amount was withdrawn from the scope of consolidation due to the transfer of operations in Santen Oy.

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

25. Trade and Other Payables

Millions of yen

	2019	2020
Trade accounts payable	¥21,725	¥20,335
Erectronically recorded monetary liabilities	1,376	1,552
Other payables	7,982	9,812
Refund liabilities	995	879
Total	¥32,079	¥32,578

Refund liabilities are recognized as returned products, rebates and discounts expected to be paid to customers from among the consideration received from customers. Estimates of refund liabilities are based on past results and obtainable information as of the last day of the reporting period.

26. Cash and Cash Equivalents

Millions of yen

	2019	2020
Cash on hand and balances with banks	¥70,796	¥91,430
Time deposits over three months	—	—
Total cash and cash equivalents in consolidated statement of financial position	70,796	91,430
Bank overdrafts	—	—
Cash and cash equivalents in consolidated statement of cash flows	¥70,796	¥91,430

27. Financial Instruments

1) Capital Management

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

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

	Fiscal Year Ended March 31, 2019	Fiscal Year Ended March 31, 2020
Equity attributable to owners of the company ratio (%)	74.4	74.1
Return on equity attributable to owners of the company (%)	11.1	8.0

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

	2019	2020
Financial assets		
Financial assets measured at fair value through other comprehensive income		
Stock	¥28,786	¥29,345
Financial assets measured at fair value through profit or loss		
Golf membership rights, etc.	217	436
Financial assets measured at amortized cost		
Other financial assets	1,308	1,520
Trade and other receivables	84,618	86,999
Cash and cash equivalents	70,796	91,430
Total financial assets	¥185,726	¥209,730
Financial liabilities		
Financial liabilities measured at fair value through profit or loss		
Derivatives	255	419
Contingent consideration	19,674	20,571
Financial liabilities measured at amortized cost		
Other financial liabilities	15,708	25,378
Trade and other payables	32,079	32,578
Total financial liabilities	¥67,715	¥78,946

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

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

Trade and other receivables are managed by due dates and balances in accordance with credit management rules, and the credit status of key business partners is checked every period.
The percentage of the Santen Group's business conducted with the top 10 wholesalers in Japan reached 62% of consolidated revenue in the fiscal year ended March 31, 2020, compared with 63% in the fiscal year ended March 31, 2019. If the Santen Group's wholesale partners experience bankruptcy leading to credit losses, its business performance might be adversely affected.
Guarantee deposits are lease deposits, mainly for rented office space. The Company aims to quickly identify any collection concerns and reduce credit risk by gathering and evaluating information about the financial status of business partners.
For loans to investee companies, the Company aims to quickly identify any collection concerns and reduce credit risk by not only gathering and evaluating information about their financial status but also monitoring management by attending shareholder meetings held by the investees.

2) Credit exposure
The maximum amount of exposure to credit risks for financial assets is the carrying amount after considering impairment in the consolidated statement of financial position.
Regarding debt guarantees, the balance of debt guarantees shown in "31. (1) Contingent Liabilities" represents the maximum exposure to credit risk.
Regarding exposure to these credit risks, properties held as collateral and other credit enhancements amounted to ¥3 million in guarantees held for credit-impaired financial assets in the fiscal year ended March 31, 2020, compared with ¥3 million in the fiscal year ended March 31, 2019.

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

Fiscal year ended March 31, 2019

Millions of yen

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

Year ended March 31, 2020 (as of March 31, 2020)

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	¥—	¥—	¥—	¥86,288	¥86,288
Past due date					
Within 30 days	—	—	—	587	587
Over 30 and within 90 days	—	—	—	121	121
Over 90 days	—	—	177	30	207
Total past due date	—	—	177	738	915
Total	¥—	¥—	¥177	¥87,026	¥87,204

(b) Analysis of change in allowance for doubtful accounts

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

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

Fiscal year ended March 31, 2019

Millions of yen

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

Fiscal year ended March 31, 2020

Millions of yen

	Financial assets with allowance for doubtful accounts measured at an amount equal to 12-month expected credit losses	Financial assets with allowance for doubtful accounts measured at an amount equal to lifetime expected credit losses			Total
		Financial assets with significantly higher credit risk than initially recognized	Credit-impaired financial assets	Financial assets with allowance for doubtful accounts already measured at an amount equal to lifetime expected credit losses	
Balance at start of fiscal year	¥−	¥−	¥178	¥38	¥216
Increase during fiscal year	−	−	0	18	18
Decrease during fiscal year (intentional use)	−	−	−	(15)	(15)
Decrease during fiscal year (reversals)	−	−	(1)	(5)	(7)
Others	−	−	−	(8)	(8)
Balance at end of fiscal year	¥−	¥−	¥177	¥27	¥204

There are no ongoing collection activities for financial assets directly amortized during the fiscal year ended March 31, 2020.

B. Liquidity Risk

1) Outline

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

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

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

2) Maturity analysis

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

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

Millions of yen

	Carrying amount	Contractual cash flows	Within 1 year	Between 1 year and 2 years	Between 2 years and 3 years	Between 3 years and 4 years	Between 4 years and 5 years	Over 5 years
Trade and other payables	¥32,079	¥32,079	¥32,079	¥—	¥—	¥—	¥—	¥—
Other financial liabilities								
Loans payable	4,063	4,077	504	3,003	2	7	142	418
Other payables	8,377	8,377	8,377	—	—	—	—	—
Lease liabilities	47	47	19	12	3	3	3	6
Derivatives	255	255	—	—	—	—	255	—
Other	3,220	3,220	3,220	—	—	—	—	—
Total	¥48,041	¥48,054	¥44,199	¥3,015	¥5	¥11	¥400	¥425

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

Year ended March 31, 2020 (as of March 31, 2020)

Millions of yen

	Carrying amount	Contractual cash flows	Within 1 year	Between 1 year and 2 years	Between 2 years and 3 years	Between 3 years and 4 years	Between 4 years and 5 years	Over 5 years
Trade and other payables	¥32,578	¥32,578	¥32,578	¥—	¥—	¥—	¥—	¥—
Other financial liabilities								
Loans payable	4,965	5,302	3,052	51	61	288	506	1,345
Other payables	9,855	9,855	9,855	—	—	—	—	—
Lease liabilities	7,363	7,765	2,889	1,972	1,382	633	377	512
Derivatives	419	419	—	—	—	419	—	—
Other	3,195	3,195	3,195	—	—	—	—	—
Total	¥58,375	¥59,114	¥51,570	¥2,023	¥1,442	¥1,339	¥882	¥1,857

3) Commitment line

As of March 31, 2020 and 2019, the total commitment line and the balance of unexecuted loans were as follows.

Millions of yen

	Fiscal Year Ended March 31, 2019 (Year Ended March 31, 2019)	Fiscal Year Ended March 31, 2020 (Year Ended March 31, 2020)
Total commitment line	¥30,000	¥30,000
Balanced of executed loans	—	—
Difference	¥30,000	¥30,000

C. Market Risk

1) Outline

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

(a) Foreign currency exchange risk

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

i. Foreign currency risk exposure

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

Thousands of each curency

	2019		2020	
	Euro	U.S. dollar	Euro	U.S. dollar
Trade and other receivables	€5,046	$13,701	€391	$19,216
Trade and other payables	(3,716)	(13,334)	(631)	(10,235)
Net exposure amount	€1,330	$366	€(239)	$8,981

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

Millions of yen

	2019	2020
	Profit (loss)	Profit (loss)
Euro (5% appreciation)	¥(8)	¥1
U.S. dollar (5% appreciation)	(2)	(49)

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

(b) Share price risk
The Santen Group is exposed to the risk of fluctuations in the share prices of equity instruments (stocks). For equity instruments held, the Company periodically examines their fair market value and financial conditions at the issuer, and if the issuer is a business partner, Santen Pharmaceutical monitors the status of the holdings within the context of its relationship with the company.
Assuming all other variables remain constant, if the share prices of Santen Group's holdings of listed had stocks increased or decreased by 10% as of the end of the period, the impact on other comprehensive income (before tax effect considerations) would have been ¥2,650 million in the fiscal year ended March 31, 2019 and ¥2,684 million in the fiscal year ended March 31, 2020, respectively.

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

4) Fair Value of Financial Instruments

A. Method for calculating fair value and assessment techniques

1) Financial assets and financial liabilities measured at fair value through profit and loss

・Derivatives
The fair value of derivatives is calculated using key inputs based on observable market information, assessment techniques such as future cash flow discounted to present value, and market price data obtained from partner financial institutions.

・Contingent considerations
The contingent consideration for a business combination is primarily a milestone payment based on the progress in developments and sales performance of DE-128 (PRESERFLO MicroShunt), calculated considering the possibility of success of the program and the time value of money.

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) Equity instruments

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

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

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

4) Financial liabilities measured at amortized cost

・Loans

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

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

B. Fair Value and Carrying Amount

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

Millions of yen

	2019		2020	
	Carrying amount	Fair value	Carrying amount	Fair value
Loans payable	¥4,063	¥4,062	¥4,965	¥5,006

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

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

C. Approaches and Valuation Techniques Applied to Measure Fair Value

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

1) Loans payable

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

2) Contingent consideration

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

D. Fair Value Hierarchy

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

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

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

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

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

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

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

Year ended March 31, 2019

Millions of yen

	Level 1	Level 2	Level 3	Total
Assets				
Financial assets measured at fair value through other comprehensive income				
Stocks	¥26,501	¥—	¥2,286	¥28,786
Financial assets measured at fair value through profit or loss				
Golf membership rights, etc.	—	28	189	217
Liabilities				
Financial liabilities measured at fair value through profit or loss				
Derivatives	—	255	—	255
Contingent consideration	—	—	19,674	19,674

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

Year ended March 31, 2020

Millions of yen

	Level 1	Level 2	Level 3	Total
Assets				
Financial assets measured at fair value through other comprehensive income				
Stocks	¥26,840	¥−	¥2,504	¥29,345
Financial assets measured at fair value through profit or loss				
Golf membership rights, etc.	−	27	409	436
Liabilities				
Financial liabilities measured at fair value through profit or loss				
Derivatives	−	419	−	419
Contingent consideration	−	−	20,571	20,571

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

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

Millions of yen

	2019	2020
Balance, at the beginning of year	¥1,351	¥2,475
Profits or losses		
Other income	−	32
Other comprehensive income*2	68	8
Purchases	1,056	399
Balance, at the end of year	¥2,475	¥2,914

Notes:

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

28. Lease

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

	2020
The depreciation of the right-of-use assets	
Buildings and structures as underlying assets	¥1,917
Machinery, equipment and vehicles as underlying assets	463
Tools, furniture and fixtures as underlying assets	29
Land as underlying assets	1
Total depreciation/amortization	2,410
Interest expense on lease liabilities	173
Lease costs under the exemptions for short-term leases	90
Lease costs under the exemptions for immaterial leases	¥64

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

	2020
Total cash outflows from leases	¥3,186

(3) The right-of-use assets

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

Millions of yen

	2020
Breakdown of right-of-use asset balance	
Buildings and structures as underlying assets	¥5,470
Machinery, equipment and vehicles as underlying assets	818
Tools, furniture and fixtures as underlying assets	31
Land as underlying assets	26
Total right-of-use assets	¥6,346

The increase in right-of-use assets for the fiscal year ended March 31, 2020 was JPY1,430 million.

The Information for the previous consolidated fiscal year is as follows:

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

Millions of yen

	2019
Not later than 1 year	¥3,075
Later than 1 year but not later than 5 years	5,432
Later than 5 years	779
Total	¥9,286

(5) Lease Payments Recognized as Expenses

Millions of yen

	2019
Lease payments	¥2,805

29. Subsidiaries

Structure of the Santen Group

Name	Location	Main business	Percentage of voting equity	
			2019	2020
Claire Co., Ltd.	Japan	Cleaning services	100.0	100.0
Santen Business Services Co., Ltd.	Japan	Indirect support services	100.0	100.0
Santen Eye Care Co., Ltd.	Japan	Manufacturing and sales of prescription pharmaceuticals	100.0	100.0
Santen Pharmaceutical (China) Co., Ltd.	China	Manufacturing, sales and clinical development of prescription pharmaceuticals	100.0	100.0
Santen Pharmaceutical Sales and Marketing (Suzhou) Co., Ltd.	China	Sales of prescription pharmaceuticals	100.0 (100.0)	100.0 (100.0)
Chongqing Santen Kerui Pharmaceutical Co., Ltd.	China	Manufacturing and sales of prescription pharmaceuticals	49.0 (49.0)	49.0 (49.0)
Santen Pharmaceutical Korea Co., Ltd.	Korea	Sales and clinical development of prescription pharmaceuticals	100.0	100.0
Taiwan Santen Pharmaceutical Co., Ltd.	Taiwan	Sales of pharmaceuticals	100.0	100.0 (100.0)
SANTEN PHARMACEUTICAL (HONG KONG) LIMITED	Hong Kong	Sales of prescription pharmaceuticals	100.0 (100.0)	100.0 (100.0)
Santen India Private Limited	India	Sales of prescription pharmaceuticals	100.0 (0.1)	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)	100.0 (100.0)
SANTEN PHILIPPINES INC.	Philippines	Sales of prescription pharmaceuticals	100.0 (100.0)	100.0 (100.0)
SANTEN PHARMA MALAYSIA SDN. BHD.	Malaysia	Sales of prescription pharmaceuticals	100.0 (100.0)	100.0 (100.0)
Santen Holdings EU B.V.	Netherlands	Regional headquarters and management of EMEA subsidiaries	100.0	100.0
Santen Oy	Finland	Sales and clinical development of prescription pharmaceuticals	100.0 (100.0)	100.0 (100.0)

Name	Location	Main business	Percentage of voting equity	
			2019	2020
Santen S.A.S.	France	Clinical development and sales of prescription pharmaceuticals	100.0 (100.0)	100.0 (100.0)
Santen GmbH	Germany	Sales of prescription pharmaceuticals and related business development	100.0 (100.0)	100.0 (100.0)
SantenPharma AB	Sweden	Sales support for prescription pharmaceuticals	100.0 (100.0)	100.0 (100.0)
Santen SA	Switzerland	EMEA regional headquarters and management, and finance, and manufacturing and sales of prescription pharmaceuticals	100.0 (100.0)	100.0 (100.0)
Santen Italy S.r.l.	Italy	Sales of prescription pharmaceuticals	100.0 (100.0)	100.0 (100.0)
Santen UK Limited	UK	Sales of prescription pharmaceuticals	100.0 (100.0)	100.0 (100.0)
Santen Pharmaceutical Spain, S.L.	Spain	Sales of prescription pharmaceuticals	100.0 (100.0)	100.0 (100.0)
SANTEN LIMITED LIABILITY COMPANY	Russia	Sales support for prescription pharmaceuticals	100.0 (100.0)	100.0 (100.0)
Santen Holdings U.S. Inc.	U.S.A.	Regional headquarters and management of North American subsidiaries	100.0	100.0 (100.0)
Santen Inc.	U.S.A.	Clinical development of prescription pharmaceuticals and related business development	100.0 (100.0)	100.0 (100.0)
Advanced Vision Science, Inc.	U.S.A.	Development, manufacturing and sales of medical devices	100.0 (100.0)	100.0 (100.0)
Phacor Inc.	U.S.A.	-	100.0 (100.0)	100.0 (100.0)
InnFocus, Inc.	U.S.A.	Development, manufacturing and sales of medical devices	100.0 (100.0)	100.0 (100.0)
Santen Ventures, Inc.	U.S.A.	Investment in startup companies	100.0 (100.0)	100.0 (100.0)
Santen Canada, Inc.	Canada	Sales of prescription pharmaceuticals	100.0 (100.0)	100.0 (100.0)

Notes:
1. Numbers included in parentheses at “Percentage of voting equity” represent the ratio of the equity through indirect ownership to the total voting equity.
2. The percentage of voting equity with Chongqing Santen Kerui Pharmaceutical Co., Ltd. represents the ratio of the contribution. Chongqing Santen Kerui Pharmaceutical Co., Ltd. became a consolidated subsidiary since Santen Pharmaceutical (China) Co., Ltd. has a majority of the voting rights.
3. In addition to the aforementioned, trust related to the stock remuneration system are included in the scope of consolidation.

30. Related Parties

1) Related Party Transactions

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

Year ended March 31, 2020 (April 1, 2019 to March 31, 2020)
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

	2019	2020
Compensation	¥241	¥316
Share-based payments	35	38
Total	¥277	¥355

31. Contingencies

(1) Contingent Liabilities

A. Guarantees

The Company has provided guarantees to financial institutions covering employee loans.

These are not recognized as liabilities in the consolidated statement of financial position because the possibility of loss from contingent liabilities was remote.

Millions of yen

	2019	2020
Employees (debt obligations)	¥17	¥14

32. Business Combination

1) Business Combination

For the year ended March 31, 2019

There are no business conbination to report.

For the year ended March 31, 2020

There were no business combinations during the fiscal year ended March 31, 2020.

2) Contingent consideration

Contingent consideration for a business combination entails milestone payments that depend on development progress and sales performance for DE-128 (PRESERFLO MicroShunt). The Company expects US$409 million (before discounts) in total future payments in accordance with the contingent consideration contract.

The fair value hierarchy level of the contingent consideration is Level 3.

Of the changes in the fair values related to contingent consideration, the components based on changes in the time value of money are recorded as “Finance expenses,” while the components based on changes in factors other than the time value of money are recorded as “Other income” or “Other expenses.”

A. Changes

Millions of yen

	2019	2020
Opening balance	¥17,679	¥19,674
Profits and losses		
Other expenses	1,140	295
Finance expenses	1,203	984
Other comprehensive income *1	(348)	(383)
Closing balance	¥19,674	¥20,571

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.

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

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

B. Scheduled payments by maturity

Millions of yen

	2019	2020
One year or less	¥12,648	¥12,402
One to five years	4,417	4,134
More than five years	4,216	5,118

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

		2019	2020
Discount rate	1.0% increase	¥(402)	¥(492)
	1.0% decrease	502	394

33. Significant subsequent events

Not applicable.

Internal Control Report

1 Framework of Internal Control Over Financial Reporting

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

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

2 Assessment Scope, Timing and Procedures

Basis of Presenting Internal Control Report

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

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

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

Scope of Assessment

Management's assessment of ICOFR was conducted as of March 31, 2020 in accordance with the Assessment Standards.

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

Management assessed the effectiveness of the ICOFR applicable for the Company and its subsidiaries, to extent necessary in light of their degree of impact on the reliability of financial reporting. Management determined materiality for reliability of financial reporting in light of their degree of quantitative and qualitative impact on financial reporting. From the results of the company-level controls assessment of the Company and 12 subsidiaries, management determined a reasonable scope for process level controls to be assessed. Management selected the Company as the significant business unit for assessing process level controls, as its revenue was more than 2/3 of the previous fiscal year's consolidated revenue. The process related to revenue, account receivables and inventories from the Company was selected for process level control assessment as they have significant relation to the business objectives of the Company. Apart from selected significant business units, including other business units, processes whose accounts were determined to have a high risk of misstatement and involves significant use of management estimate and projection, and processes whose businesses or operations included high risk transactions were additionally selected for controls assessment.

3 Results of assessment

Based on our assessment procedures noted above, we concluded the Company's internal control over financial reporting was effective as of March 31, 2020.

4 Supplementary information

No subsequent events have arisen that has caused to materially effect our evaluation of the effectiveness on the internal control over financial reporting as of March 31, 2020.

5 Other

Nothing to report.

Akira Kurokawa	Shigeo Taniuchi	Kazuo Koshiji
Chairman	President & CEO	CFO

September 4, 2020

Independent Auditor’s Report

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Santen Pharmaceutical Co., Ltd. (“the Company”) and its consolidated subsidiaries (collectively referred to as “the Group”), which comprise the consolidated statement of profit or loss and other comprehensive income, statement of financial position, statement of changes in equity and statement of cash flows for the year then ended March 31, 2020, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

Responsibilities of Management and Corporate auditors and the board of corporate auditors for the Consolidated Financial Statements

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

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

Corporate auditors and the board of corporate auditors are responsible for overseeing the directors’ performance of their duties including the design, implementation and maintenance of the Group’s financial reporting process.

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our

auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with IFRS, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with corporate auditors and the board of corporate auditors regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

Report on the Audit of the Internal Control Report

Opinion

We also have audited the accompanying internal control report of Santen Pharmaceutical Co., Ltd. ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group") as at March 31, 2020.

In our opinion, the accompanying internal control report, which states that the internal control over financial reporting was effective as at March 31, 2020, presents fairly, in all material respects, the results of the assessments of internal control over financial reporting in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

Basis for Opinion

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

Responsibilities of Management and Corporate auditors and the board of corporate auditors for the Internal Control Report

Management is responsible for the design and operation of internal control over financial reporting and the preparation and fair presentation of the internal control report in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

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

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

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

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

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

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

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

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

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

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

Tsuyoshi Takeuchi
Designated Engagement Partner
Certified Public Accountant

Kenta Tsujii
Designated Engagement Partner
Certified Public Accountant

Takehiro Nakamura
Designated Engagement Partner
Certified Public Accountant

KPMG AZSA LLC
Osaka Office, Japan
September 4, 2020

Notes to the Reader of Independent Auditor's Report:

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