Santen

A Clear Vision For Life®

SANTEN PHARMACEUTICAL CO., LTD.

Annual Report **2017**

Ophthalmology Is Our Singular Focus

Annual Report 2017

Year Ended March 31, 2017

CONTENTS

Editorial Policy

The Santen Group has adopted a policy to integrate its Annual and CSR reports into an integrated report that provides a view of overall business activities based on Santen's Values. The new report is intended to provide customers and society an understanding of Company values and includes comprehensive coverage of financial information as well as non-financial information such as management strategies, review of operations and CSR activities.

Information Provided

Information contained in this report is selected in order of importance from both aspects of value creation for Santen and the impact on stakeholders.

Applicable Scope

Santen Pharmaceutical Co., Ltd. and consolidated subsidiaries
Reports on CSR activities may refer to Santen Pharmaceutical Co., Ltd., subsidiaries in Japan and certain overseas subsidiaries.

Reporting Period

April 1, 2016 to March 31, 2017 (includes some information from April 1, 2017 onward)

Reference Guidelines

- International Integrated Reporting Council,
  The International Integrated Reporting Framework
- Global Reporting Initiative,
  The GRI Sustainability Reporting Guidelines G4
- Ministry of the Environment,
  Environmental Reporting Guidelines 2012

Note on Accounting Standards

The Santen Group has adopted International Financial Reporting Standards (IFRS) from the fiscal year ended March 31, 2015, for the purpose of enhancing the international comparability of its financial information. Figures for the fiscal year ended March 31, 2014 have been restated to conform to IFRS for comparison and analysis purposes.

Note Concerning Graphs

Unless otherwise noted, graphs in this annual report are based on fiscal years ended March 31.

Note Concerning Data

Some information in this annual report is based on IMS data (JPM, MIDAS).
Source: Copyright 2017©QuintilesIMS.
Santen analysis based on IMS-JPM/MIDAS data from April 2012 to March 2017.
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Caution Concerning Forward-Looking Statements

This annual report contains forward-looking statements regarding the Company's plans, strategies and results for the future. All forward-looking statements are based on judgments derived from the information available to the Company at the time of publication. Certain risks and uncertainties could cause the Company's actual results to differ materially from any projections presented in this report. These risks and uncertainties include, but are not limited to, adverse economic conditions, delays in new products launch, currency exchange rate, legislative and regulatory developments.

〈Santen's Values〉

Tenki ni sanyo suru[1]

We think carefully about what is essential, decide clearly what we should do, and act quickly.

Mission Statement

**By focusing on ophthalmology,
Santen develops unique scientific knowledge and organizational capabilities that contribute to the well-being of patients, their loved ones and consequently to society.**

1. Santen's original interpretation of a passage from chapter 22 of Zhongyong (The Doctrine of the Mean) by Confucius, meaning "exploring the secrets and mechanisms of nature in order to contribute to people's health."

Santen's Values embody what the Company has continued to recognize as important since its foundation in 1890. Based on Santen's Values, we have put in place a virtuous cycle of creation and innovation while contributing to the protection and improvement of eyesight and health as a specialized pharmaceutical company. Building on the scientific knowledge and organizational capabilities that Santen has nurtured for nearly 130 years, the Company will continue to contribute to society, working primarily for the benefit of patients and their loved ones.

Value Creation

Santen will fully harness our strengths as a specialized pharmaceutical company to contribute to enhancing the Quality of Life (QOL) of patients around the world.

Guided by Santen's Values, we are engaged in research and development, product supply, sales and marketing, and quality compliance, fully harnessing our strengths of thorough customer focus, specialized expertise in the field of ophthalmology and accumulated knowledge and experience of nearly 130 years to provide products to approximately 60 countries around the world.

Santen's Values

Tenki ni sanyo suru

Santen's Vision　Long-Term Strategic Vision toward 2020

"Specialized Pharmaceutical Company with a Global Presence"

▶Further Information P.14 Strategic Vision

Santen's Value Chain

Research and Development | Product Supply | Sales and Marketing

Quality Compliance

Corporate Social Responsibility (CSR)

▶Further Information P.4 Value Chain

Base Supporting Value Creation

Corporate Governance

▶Further Information P.46 Corporate Governance

Santen's Strengths

Thorough customer focus

Specialized expertise in the field of ophthalmology

Accumulated knowledge and experience of nearly 130 years

Value Creation

Contributing to ophthalmic treatment

Enhancing QOL

for patients around the world

Value Chain

Santen will provide pharmaceutical products, information and services that satisfy our customers' needs as a specialized pharmaceutical company in the field of ophthalmology.

Santen is engaged in business activities specializing in the field of ophthalmology ranging from research and development to product supply, sales and marketing, and quality compliance. We create outstanding products that satisfy unmet medical needs. We assist medical professionals and contribute to the medical treatment of their patients through the provision of high-quality medical information.

Research and Development

- R&D Expertise in Ophthalmology
- Network Product Development with External Companies and Research Institutes
- A Global R&D Organization

Further Information P.24 Research and Development

Quality Compliance

- Global Quality Management and Safety Monitoring System

Further Information P.30 Quality Compliance

Related CSR Activities

Further Information P.25 Research and Development P.29 Product Supply
P.31 Quality Compliance P.36 Review of Operations

Product Supply

- Stable Supply of Products
- Strict Quality Control and High Productivity
- A Global Manufacturing and Supply Framework

▶ Further Information P.28 Product Supply

Sales and Marketing

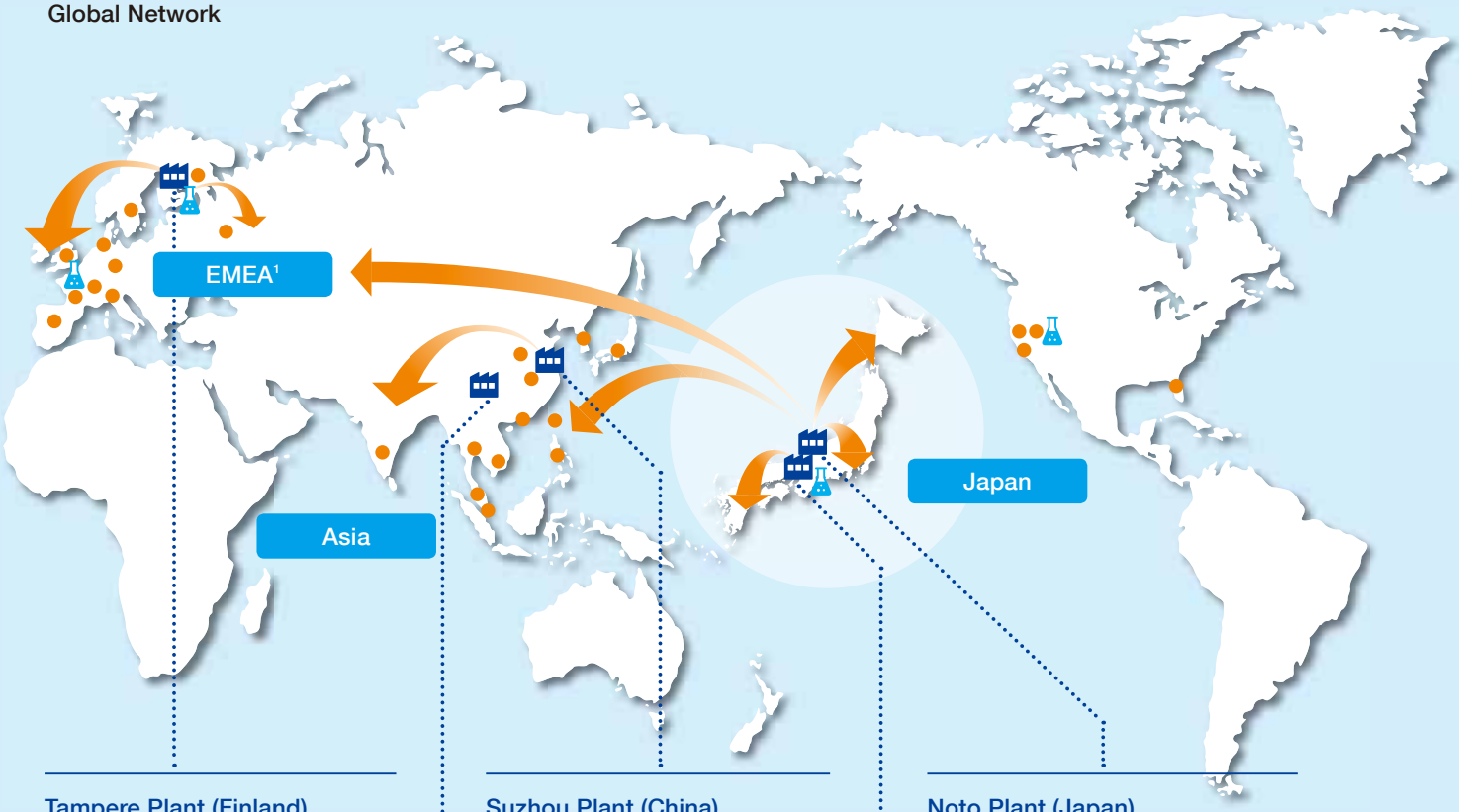
- A Rich Product Lineup
- Sold in Approximately 60 Countries
- High Presence in Japan

▶ Further Information P.32 Sales and Marketing

Please refer to P.40 CSR for Santen's basic CSR policies and initiatives.

Input

Global Network



Tampere Plant (Finland)

Production base mainly responsible for supplying products to EMEA

Suzhou Plant (China)

An integrated-production plant that responds to the rapidly growing Chinese medical needs, and backs up the stable supply to Japan and EMEA

Noto Plant (Japan)

One of the world's largest plants producing ophthalmic solutions, which produces over half of the annual over-400 million bottles of ophthalmic solution produced and supplied by Santen

Chongqing Santen Kerui Pharmaceutical Co., Ltd. (China)

Plant Under Construction

Shiga Product Supply Center (Japan)

Global core site (product supply core base) that integrates functions such as supply chain planning and management, production engineering, procurement, and plants

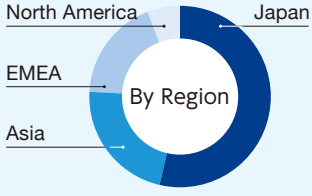
R&D Base　Production Base　Sales & Business Development Base

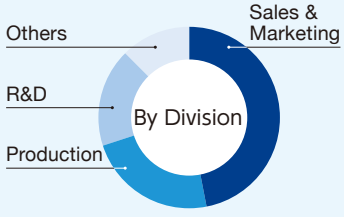
1. Europe, the Middle East and Africa

Number of Employees

3,667

Composition of Employees





R&D Expenses

¥22.8 billion

Ratio to Revenue **11%**

Output

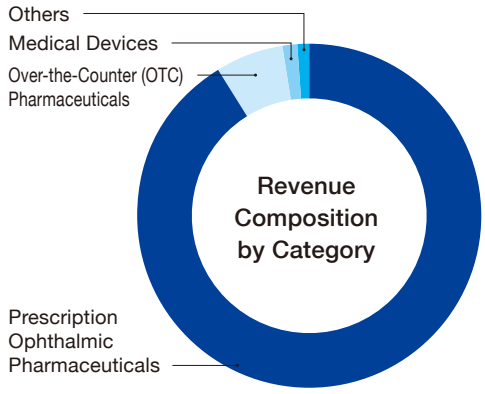
Results for the fiscal year ended March 31, 2017

Revenue

¥199.1 billion

Core Operating Profit

¥39.7 billion



Share in the Prescription Ophthalmic Pharmaceutical Market

Japan **46%** (#1)

China **13%** (#2)

Korea **14%** (#2)

Ratio of New Products

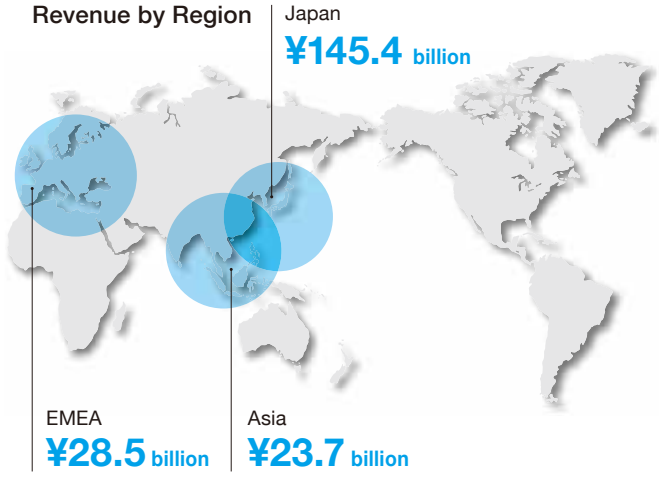
Overall **51%**

Ratio of consolidated revenues attributable to new products

Japan **71%**

Ratio of revenues from prescription ophthalmic pharmaceuticals in Japan attributable to new products

Revenue by Region



No. of Countries Selling Products

Approx. 60 countries

Annual Production Volume of Ophthalmic Solutions

Approx. 400 million bottles

Ophthalmic solutions packaged in single-dose disposable containers are aggregated by counting 10 single-dose containers as 1 bottle. All other ophthalmic solutions are counted based on the actual number of bottles.

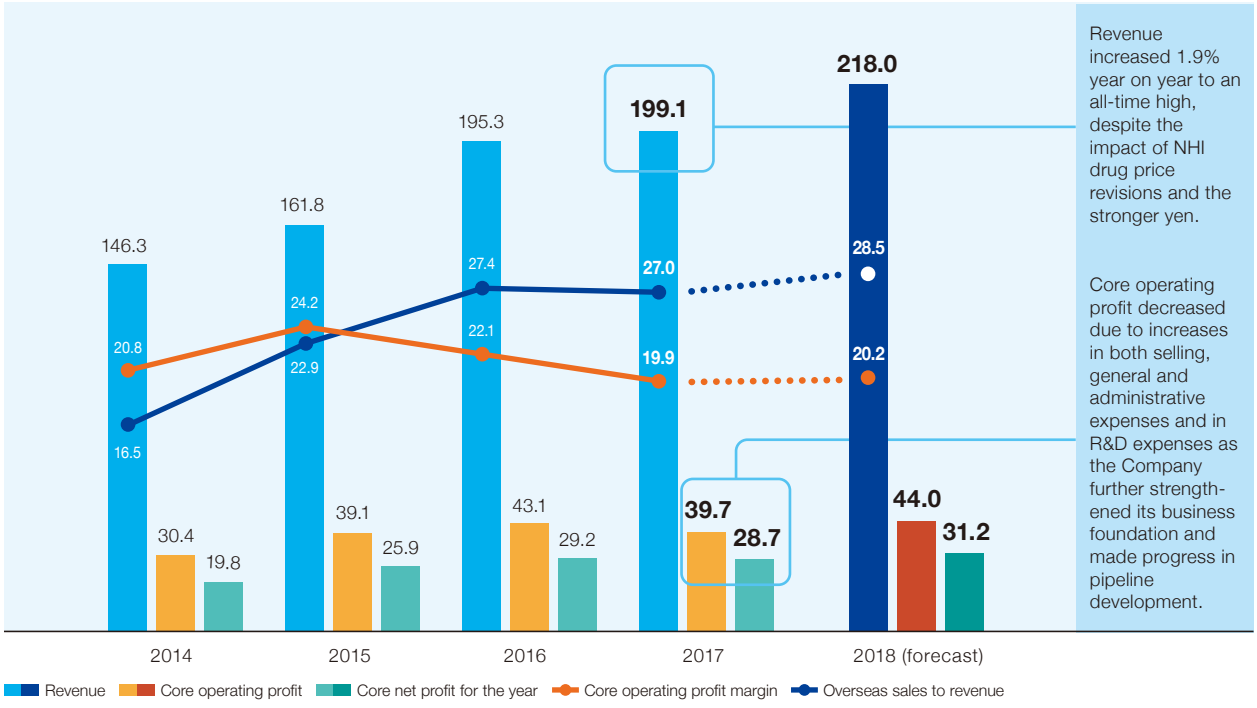
Financial and Non-Financial Highlights

Santen Pharmaceutical Co., Ltd. and Its Subsidiaries Years ended March 31

Financial Data

Revenue, Core Operating Profit, Core Net Profit for the Year, Core Operating Profit Margin, and Overseas Sales to Revenue

(¥ Billion) (%)



Revenue increased 1.9% year on year to an all-time high, despite the impact of NHI drug price revisions and the stronger yen.

Core operating profit decreased due to increases in both selling, general and administrative expenses and in R&D expenses as the Company further strengthened its business foundation and made progress in pipeline development.

Further Information P.56 Eleven-Year Summary of Selected Financial Data

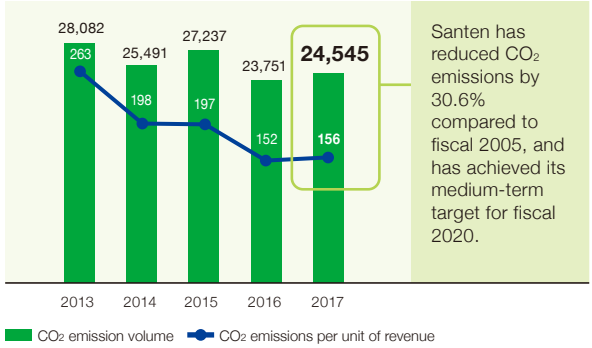
Core Basis Indicators

Santen discloses financial information on a core basis to better express its recurring business performance. Financial information on a core basis excludes certain gains and expenses from IFRS results on a reported (full) basis.

Non-Financial Data

CO_2 Emission Volumes (Japan)

(t-CO_2) (t-CO_2/billion yen)

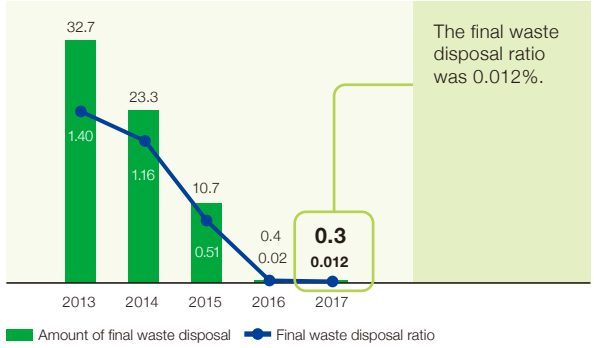


Santen has reduced CO_2 emissions by 30.6% compared to fiscal 2005, and has achieved its medium-term target for fiscal 2020.

Scope of aggregation: All operational bases including domestic offices

Amount of Final Waste Disposal and Final Waste Disposal Ratio (Japan)

(t) (%)

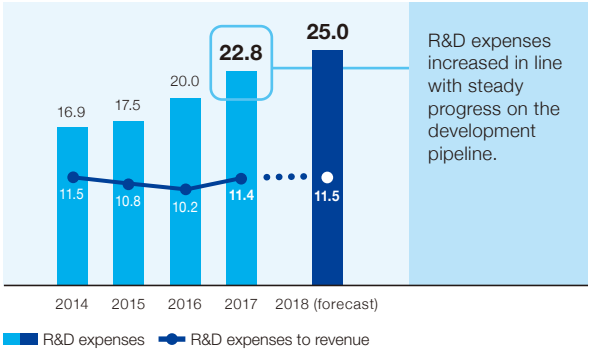


The final waste disposal ratio was 0.012%.

Scope of aggregation: Shiga Product Supply Center, Noto Plant, Nara Research and Development Center, Shimoshinjo Office (Osaka Plant)

R&D Expenses and R&D Expenses to Revenue

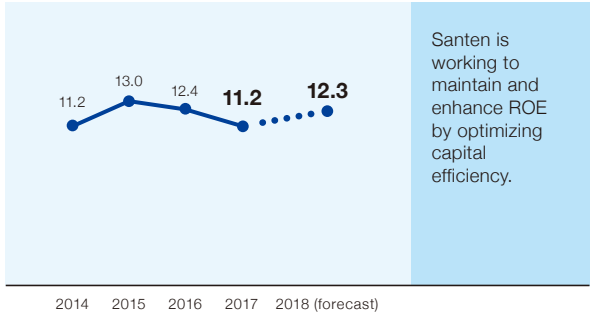
(¥ Billion) (%)



R&D expenses increased in line with steady progress on the development pipeline.

Core ROE

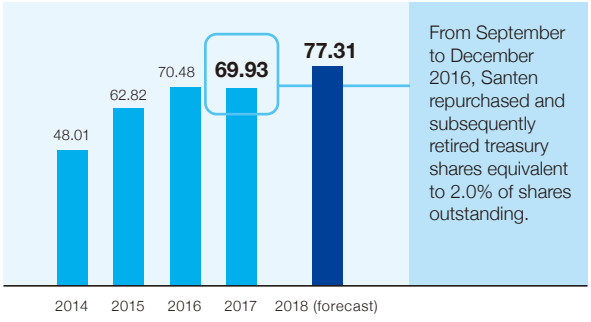
(%)



Santen is working to maintain and enhance ROE by optimizing capital efficiency.

Core EPS[1]

(¥)

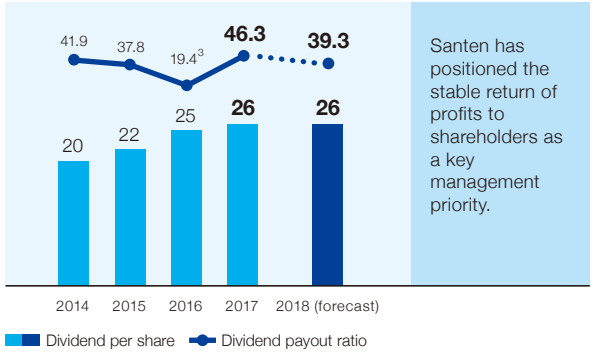


From September to December 2016, Santen repurchased and subsequently retired treasury shares equivalent to 2.0% of shares outstanding.

1. Core EPS is calculated under the assumption that the share split conducted on April 1, 2015 took effect at the beginning of the fiscal year ended March 31, 2014.

Dividend per Share[2] and Dividend Payout Ratio

(¥) (%)

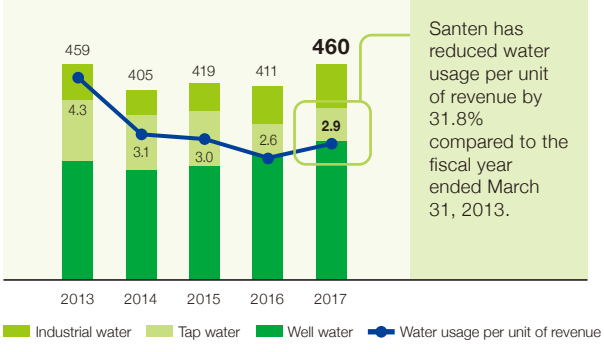


Santen has positioned the stable return of profits to shareholders as a key management priority.

2. Dividend per share has been retrospectively adjusted to reflect the impact of a share split conducted on the effective date of April 1, 2015.
3. The core dividend payout ratio for the fiscal year ended March 31, 2016 was 35.5%, excluding the contribution to revenue associated with the transfer of Santen's anti-rheumatic pharmaceutical business.

Total Water Usage (Japan)

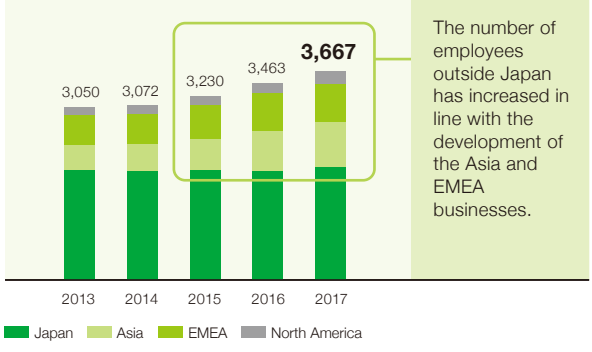
(km³) (km³/billion yen)



Santen has reduced water usage per unit of revenue by 31.8% compared to the fiscal year ended March 31, 2013.

Scope of aggregation: Shiga Product Supply Center, Noto Plant, Nara Research and Development Center, Shimoshinjo Office (Osaka Plant)

Number of Employees



The number of employees outside Japan has increased in line with the development of the Asia and EMEA businesses.

TOP MESSAGE

We will fully harness our strengths as a specialized pharmaceutical company to contribute to patient treatments around the world.

Akira Kurokawa
President and Chief Executive Officer

Pursuing Sustainable Growth

We will grasp ophthalmic treatment needs such as glaucoma and contribute to ophthalmic treatment around the world.

Santen, concentrating management resources on ophthalmology, is working globally on sales and marketing, quality compliance, manufacturing, and R&D of pharmaceuticals tailored to the needs of therapeutic frontlines in various regions such as Japan, Asia and EMEA[1]. Over the nearly 130 years since our establishment, we have maintained a thorough customer focus while building up specialized expertise, technological skills, knowledge and experience in ophthalmology. We see our key role, and even reason for existence, as the leveraging of our strengths in our business activities to enhance patients' Quality of Life (QOL) and contribute to ophthalmic treatment.

Currently, 285 million people[2] are said to suffer from ophthalmic disorders worldwide. As populations age, patient numbers are growing driven by afflictions such as glaucoma and retinal disorders. In addition, the prescription ophthalmic pharmaceutical market continues to expand at an average rate of around 6% per year as medical technology developments give rise to new diagnosis and treatment methods. Meanwhile, there are significant unmet medical needs in the field of ophthalmology and many patients worldwide await the development of new treatment methods and pharmaceuticals. Glaucoma is an especially serious chronic eye condition. It is among the leading causes of blindness in people with ophthalmic disorders worldwide. Early detection and treatment is critical. Further, ophthalmic treatment levels and social security systems underpinning diagnosis and medical care vary markedly by country and region. Accordingly, there is need for responses to diverse treatment needs.

By providing highly specialized information and distinctive products in the field of ophthalmology, Santen has firmly maintained the top share of the Japan prescription ophthalmic pharmaceutical market for over twenty years. Using this robust strength and presence, we are bolstering our business in Asia and EMEA and expanding into the U.S., with the aim to be an organization solving the problems that face people suffering from ophthalmic disorders around the globe and makes ongoing contributions to ophthalmic treatment.

Our vision toward 2020 is to become a "Specialized Pharmaceutical Company with a Global Presence." To that end, we will work in the Japan business to meet the sophisticated needs of this mature market and take our specialized ophthalmic expertise centered on the field of glaucoma higher still, aiming to grow operations and contribute to ophthalmic treatment. In the Asia and EMEA businesses, we will provide competitive, distinctive products and respond to various countries' diverse medical needs to broaden our presence and accelerate growth. Additionally, we will strive to deliver outstanding new products from the pipeline and expand growth opportunities in ophthalmology.

1. Europe, the Middle East and Africa
2. Number of patients worldwide with visual impairment due to ophthalmic disorders and so forth (not including ophthalmic patients without visual impairment, but including people with visual impairment due to ophthalmic disorders and other causes)

▶Further Information

P.2	Value Creation
P.4	Value Chain
P.14	Strategic Vision
P.18	Contributions to the World's Glaucoma Patients
P.40	Corporate Social Responsibility (CSR)

World population suffering from visual impairment (2010)

285 million people[2]

Source: United Nations, World Population Prospects: 2015 Revision

Global prescription ophthalmic pharmaceutical market forecast

Average annual growth rate 6% (2013-2020)

Approx. ¥3 trillion (2020)

Source: Santen analysis

Performance and Outlook

Revenue reached an all-time high on across the board growth. By advancing business activities rooted in customer needs, we aim for continued revenue and profit growth going forward.

During the fiscal year ended March 31, 2017, revenue rose 1.9% year on year to a record high of ¥199.1 billion. We moved ahead with our vision toward 2020 of becoming a "Specialized Pharmaceutical Company with a Global Presence." Despite a tough external environment with National Health Insurance (NHI) drug price revisions in Japan and generics making headway, we increased revenue across the board in the prescription pharmaceuticals, OTC pharmaceuticals, and medical device businesses in Japan, as well as Asia and EMEA businesses.

In the Japan prescription ophthalmic business, a key business growth driver, revenue rose 4.4% year on year as growth for core products outweighed the impact of about 7% from NHI drug price revisions. Further, Santen's market share in Japan prescription ophthalmic pharmaceuticals, climbed even higher to 45.5% and we captured the #1 spot in core domains. The Company's market share in Japan also increased in the OTC pharmaceuticals and medical device businesses, reaching new highs for revenue. In the overseas prescription pharmaceutical business, Santen outpaced market growth in the fast-growing Asian market by promoting product development and information provision targeting the needs of each country. In EMEA, the Company greatly expanded its local operations to approximately 45 countries with the ophthalmic products and new products acquired from U.S.-based Merck & Co., Inc. in 2014. Overseas business growth excluding foreign exchange impact surged 18.7% in Asia and 25.0% in EMEA.

In contrast, core operating profit decreased 7.8% year on year to ¥39.7 billion. However, we regard this decline as investments toward sustainable growth including higher SG&A expenses to shore up our business foundations overseas, as well as growth in R&D expenses from solid progress of our products in development.

In the fiscal year ended March 31, 2017, Santen was able to achieve well-balanced growth with increased revenue coming from new products such as *Tapros*, *Diquas*, *Alesion*, *Cosopt* and *Eylea* as well as progress on R&D upfront investments, particularly in our focus area of glaucoma.

We aim to maximize shareholder value by further growth of Japan, Asia and EMEA businesses and investment for mid- to long-term growth including preparations to enter the U.S. market as well as late stage pipeline development.

In the fiscal year ending March 31, 2018, we forecast revenue of ¥218.0 billion and core operating profit of ¥44.0 billion. These are approximately 10% year on year increases and represent all-time highs. Regarding the R&D expenses forecast, we believe it will exceed the previous year by about 10% due to important projects such as sirolimus (DE-109) for non-infectious uveitis of the posterior segment, the InnFocus MicroShunt (DE-128) glaucoma device and DE-117 glaucoma treatment.

▶Further Information

P.16 Financial Strategy
P.24 Research and Development
P.32 Sales and Marketing
P.46 Corporate Governance
P.56 Eleven-Year Summary of Selected Financial Data

Targets for the fiscal year ending March 31, 2018

Revenue
¥218.0 billion
9.5% increase YoY

Core operating profit
¥44.0 billion
10.9% increase YoY

Core ROE
12.3%
1.1pp increase YoY

We will strive to enhance corporate governance while accelerating growth toward realizing our long-term strategic vision.

Santen is working to enhance and bolster corporate governance to achieve sustainable growth. While ensuring transparent and sound management practices, we remain focused on improving our business performance in tandem with advancing steps to mitigate risk. In the fiscal year ended March 31, 2017, we analyzed and assessed the Board of Directors' overall effectiveness and established a basic policy for steps to enhance governance functions. In addition, we are emphasizing stronger compliance systems and continue to operate in keeping with the globalization of the business to fulfill our social mission of providing appropriate products and services to patients around the world as we develop globally.

Shareholder Returns

We strive to provide stable returns to shareholders.

Santen has positioned the stable return of profits to shareholders as a key management priority and targets a dividend payout ratio of about 40%. We paid annual dividends of ¥26 per share for the fiscal year ended March 31, 2017, a ¥1 increase, bringing the dividend payout ratio to 46.3%. From September to December 2016, Santen repurchased treasury shares equivalent to 2.0% of shares outstanding (at a total acquisition cost of ¥12.3 billion), and subsequently retired the shares (total number of retired shares: 8,300,000). As a result, the ratio of return to shareholders taking into account dividends and the repurchase of treasury shares (total return ratio) is over 100%.

Going forward, we remain committed to providing stable shareholder returns. At the same time, we will continue to retain funds primarily for R&D investments, while examining the adoption of a flexible stance that includes the acquisition of treasury shares, as necessary.

As a specialized pharmaceutical company, we will keep endeavoring to enhance QOL for patients around the world. We look forward to continued support from our stakeholders.

▶Further Information

P.16 Financial Strategy

Result for the fiscal year ended March 31, 2017

Dividend payout ratio

46.3%

August 2017

Akira Kurokawa
President and Chief Executive Officer

Strategic Vision

Santen is executing the Fiscal 2014-2017 Medium-Term Management Plan and accelerating growth, with a view to realizing its long-term strategic vision.

Long-Term Strategic Vision toward 2020

Santen is working to become a "Specialized Pharmaceutical Company with a Global Presence," in order to realize its long-term strategic vision toward 2020. In the prescription ophthalmic business, Santen's long-term growth targets are to become #1 in Japan and Asia and capture a top three position globally, and to increase the ratio of overseas sales to total sales to 40-50% in fiscal 2020. Guided by the five policies toward the achievement of our long-term strategic vision, the entire Company is working as one to drive its business activities forward.

Long-Term Strategic Vision toward 2020

Aiming to Become a "Specialized Pharmaceutical Company with a Global Presence"

A company possessing a deep understanding of true customer needs, together with a distinct advantage against competitors, and a global competitiveness and presence

5 Policies toward the Achievement of Our Long-Term Strategic Vision

1. Develop products that meet true customer needs swiftly
2. Transform Japan business for further growth
3. Accelerate business expansion in Asia and promote market entry in Western Europe/the U.S.
4. Establish competitive global product supply and quality assurance systems
5. Strengthen talents and organizational capabilities to promote creation and innovation

Long-Term Growth Targets toward 2020

• Prescription Ophthalmic Businesses

#1 in Japan and Asia

Top 3 position globally

• Overseas Sales Ratio in Fiscal 2020

40%–50% of total sales

Fiscal 2014-2017 Medium-Term Management Plan

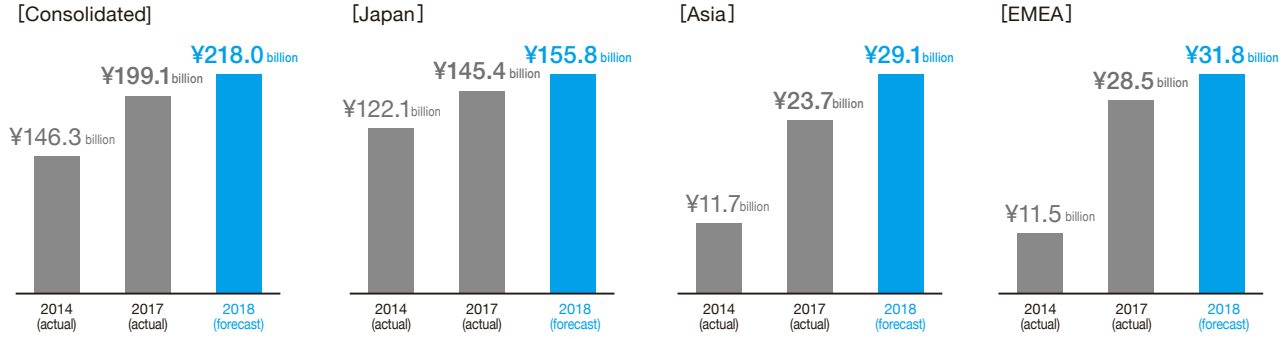
Under the Fiscal 2014-2017 Medium-Term Management Plan, we aim to increase Santen's presence in the global market in line with basic policies focused on the themes of Product Development, Business Expansion, and Organization and Talent.

In terms of the Product Development theme, we are pushing ahead with research and development in fields where we can leverage our strengths, centered on glaucoma and ocular hypertension, keratoconjunctival disorders, and retinal and uveal disorders. In the process, we are working to transform product development to realize enhanced productivity and probability of success, and achieve sustained growth. Looking at the Business Expansion theme, we are promoting business activities that leverage our outstanding presence in Japan and our strengths as a specialized pharmaceutical company. In parallel, we are focused on growing business in Asia and EMEA and strengthening our market presence by entering into new markets. In the area of Organization and Talent, we are developing innovative leaders who will be responsible for sustained growth, in conjunction with steadily strengthening our global management systems in key capabilities such as research and development, product supply, and sales and marketing.

Fiscal 2014-2017 Medium-Term Management Plan Basic Policies and Results

	Basic Policies	Results
Product Development	Transform product development to realize enhanced productivity and achieve sustained growth	• Approval, launch: *Tapcom, Ikervis* • Development: Progress on DE-109, DE-117, DE-122 • In-licensing and acquisition of new pipeline candidates: DE-126, DE-128
Business Expansion	Grow business in Asia/EMEA and strengthen market presence by entering into new markets	• Japan prescription ophthalmic pharmaceuticals: Raised the new products sales ratio from 44% to 71% (from the fiscal years ended March 31, 2014 to 2017) • Japan OTC pharmaceuticals: Growth in market share driven by new products • Asian countries: Strengthened the direct sales platform • EMEA: Increased the number of sales countries
Organization and Talent	Develop talent and organization to realize sustained growth	• Introduced Santen Leadership Competencies, a new personnel system • Held training and nurtured human resources of the next generation

Revenue Results and Forecasts



Further Information P.24 Research and Development P.34 Japan Business P.38 Asia Business P.39 EMEA Business

Santen will invest in future growth, along with providing steady shareholder returns.

Financial Strategy

Basic View

By seeking to establish competitive superiority in the field of ophthalmology, Santen aims to enhance its profitability in tandem with maximizing its cash generation capability as well as shareholder value. Our basic policy is to maintain the right balance between securing sufficient internal reserves to implement growth strategies and returning profits to shareholders, in conjunction with pursuing an optimal capital structure for the Company in terms of capital efficiency, financial soundness and other factors. Santen is working to enhance ROE (Return on equity attributable to owners of the company) by optimizing the aforementioned elements of profitability, financial soundness, and shareholder returns.

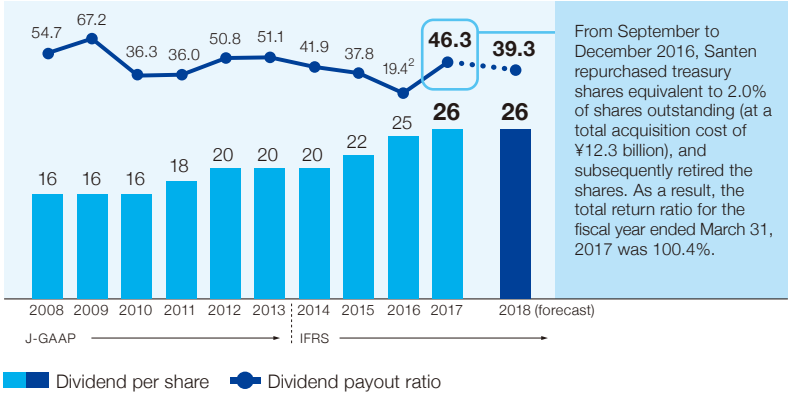
Notably, we will allocate resources from internal reserves to R&D, business development, capital expenditures and other areas to drive future growth. Giving top priority to enhancing product development, we will dynamically execute investments to upgrade and expand our business platforms in Japan, Asia and EMEA. In addition, we will continue deploying capital expenditures to enhance productivity, through such means as strengthening the supply of products and price competitiveness.

Shareholder Returns

Our basic policy on shareholder returns is to return profits to shareholders primarily through dividend payments, in tandem with repurchasing treasury shares as a supplemental measure, taking into consideration a comprehensive range of factors, including the medium- to long-term business environment, funding requirements and the level of internal reserves, and the capital structure.

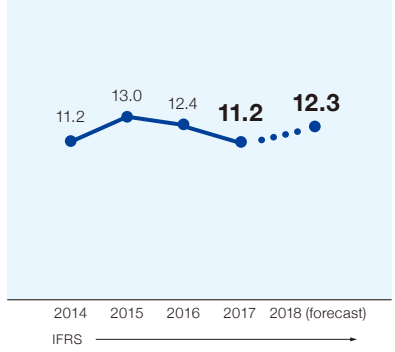
Under the Fiscal 2014-2017 Medium-Term Management Plan, we are targeting a dividend payout ratio of 40%. In the fiscal year ended March 31, 2017, the dividend payout ratio was 46.3% and the amount of share repurchases was ¥12.3 billion. As a result, in terms of the total return ratio, we returned 100.4% of profit to shareholders.

Dividend per Share[1] and Dividend Payout Ratio
(¥)(%)



From September to December 2016, Santen repurchased treasury shares equivalent to 2.0% of shares outstanding (at a total acquisition cost of ¥12.3 billion), and subsequently retired the shares. As a result, the total return ratio for the fiscal year ended March 31, 2017 was 100.4%.

Core ROE
(%)



1. Dividends per share have been retrospectively adjusted to reflect the impact of the share split conducted on the effective date of April 1, 2015.
2. The core dividend payout ratio for the fiscal year ended March 31, 2016 was 35.5%, excluding the contribution to revenue associated with the transfer of Santen's anti-rheumatic pharmaceutical business.

Santen is working to develop talent and strengthen organizational capabilities in order to achieve sustained growth.

Human Resource Development

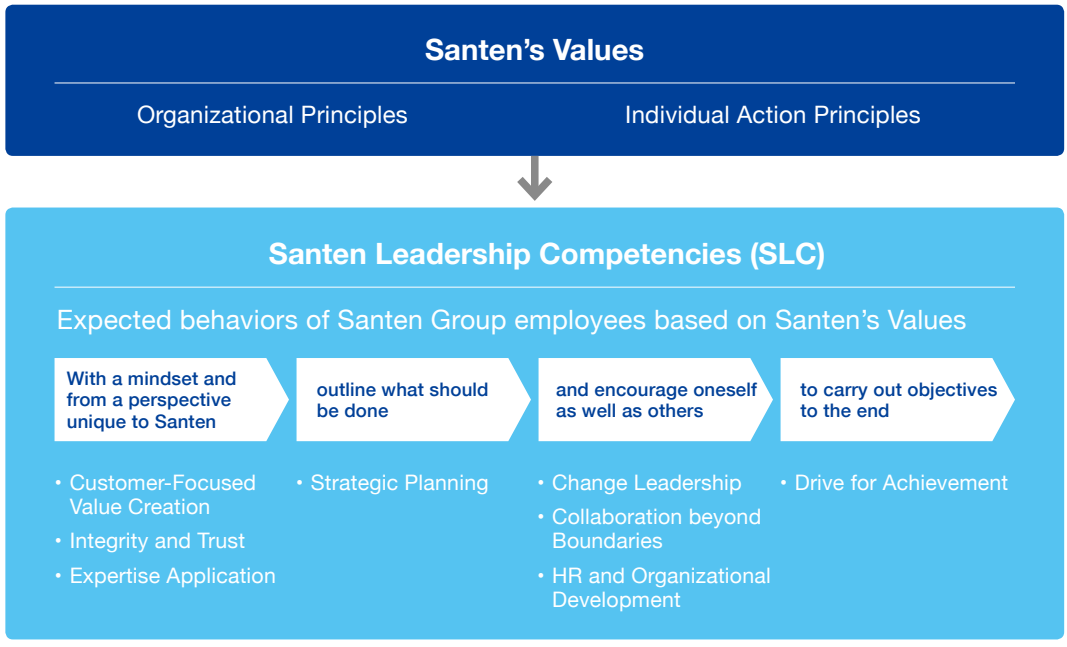
Strengthening Talent and Organizational Capabilities

Aiming to realize our long-term strategic vision toward 2020, we are working to establish an organization that will underpin sustained growth and to strengthen the development of talent.

In April 2015, we established Santen Leadership Competencies (SLC), a framework that conveys our expectations for personnel based on Santen's Values, along with a new personnel system based on SLC. SLC sets forth eight key elements that have been established as shared global priorities, with the aim of developing talent that is able to pursue true customer-focused value creation. SLC and the new personnel system based on it are being rolled out globally, in Asia, EMEA and the U.S., spearheaded by Santen Corporate Headquarters. As a basic guideline for developing the capabilities and formulating the career plans of each employee, SLC will support employees who are motivated to grow and provide them with growth opportunities.

To achieve sustained growth, Santen will continue the pursuit of each employee honing his or her specialization and true customer focus by leveraging Santen's strengths developed as a specialized pharmaceutical company. Moreover, we will push ahead with activities guided by Santen's Values. In doing so, we will bring together our employees as "One Santen, One Team," even as they become increasingly diverse. In this manner, we will further strengthen the Group's collective capabilities to achieve our strategic vision.

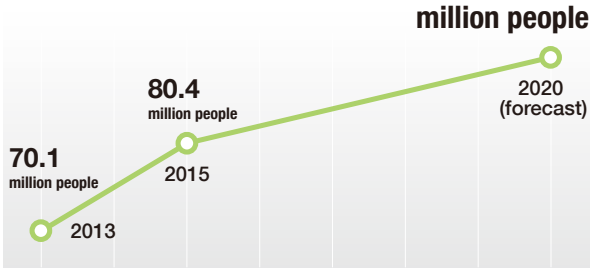
Personnel System Based on Santen's Values



Contributions to the World's Glaucoma Patients

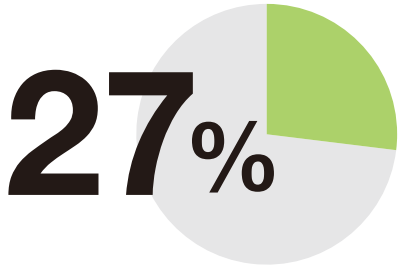
Santen will fully harness our strengths as a specialized pharmaceutical company to contribute to patients being identified early and receiving treatment and aims to make a greater contribution to the treatment of glaucoma, an area where the medical need is high.

Global Glaucoma Patient Population



Source: Market Scope, Santen analysis

Proportion of Revenue from Glaucoma Products
(Fiscal year ended March 31, 2017)



Current Glaucoma Treatment and Santen's Response to Therapeutic Needs

Santen is working to gain a deep understanding of the difficulties with current therapies and finding solutions.

The Global Rise in the Incidence of Glaucoma

The area of glaucoma accounts for about 30% of the global ophthalmics market, with the glaucoma patient population forecast to reach 90.6 million by 2020. No curative treatment exists today and disease progression can cause blindness.

There are several problematic issues with glaucoma. Most patients are unaware of the early changes and only notice symptoms once the disease is in the advanced stage. Further, many patients cease treatment. As a result, early detection and treatment are essential, as is improving the sustainability of any therapeutic regime. The development of more effective therapeutic options is needed to augment ophthalmic solutions and surgery, the current conventional approaches.

Contributing to Enhanced Patient Quality of Life (QOL) through Specialized Expertise in Ophthalmics

As a specialized pharmaceutical company, Santen regards helping the world's glaucoma patients as an important mission. We are actively tackling glaucoma as part of our global business activities.

Our broad lineup of products in the area of glaucoma includes prostaglandin analogues, nonselective beta-blockers and carbonic anhydrase inhibitors. Many years of experience in the field and specialized medical detailing capabilities have led to the glaucoma area contributing 27% of our overall revenue. We are the leading company in this sector in Japan. In 2014, we further reinforced our position in glaucoma by acquiring the rights to the ophthalmology assets of U.S.-based Merck & Co., Inc. (Merck) in Asia and EMEA. We are currently transferring production technology to enable us to deliver products acquired from Merck from our plants. Producing the products at own plants will enable us to use our patient-friendly Dimple Bottle[1] technology, which has been widely praised over the years.

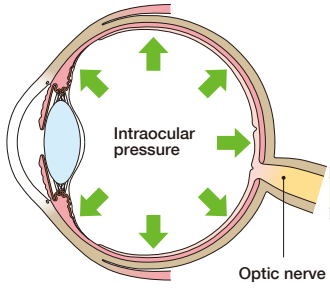
Our R&D and sales activities are based on the issues and needs in glaucoma treatment. Leveraging our specialized technical expertise, we have developed preservative-free eye drops, combination drugs, and new surgical methods to treat glaucoma, including medical devices that have generated high expectations among specialists in the field.

Going forward, we will contribute to better glaucoma patient care and ophthalmic treatment worldwide, through activities that meet patient and therapeutic frontline needs.

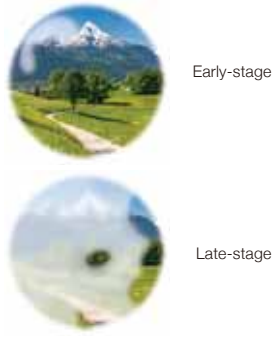
1. Developed for ease of use, the Dimple Bottle is a container for dispensing medical eye drops. Launched in 2002, the bottle design won a Good Design Award in 2008.

Glaucoma Causes and Treatment

In glaucoma, the field of vision is gradually reduced due to damage to the optic nerve caused by factors including elevated intraocular pressure. Disease onset is usually in middle or older ages. Most patients are unaware of gradual changes in vision, but early detection and treatment is vital as the condition can eventually cause blindness if left untreated. Lowering intraocular pressure is the basis of treatment, with the goal of long-term control.



Vision loss with glaucoma (right eye shown)



R&D Progress

Santen is accelerating development of new drugs and devices to satisfy unmet medical needs in the field of glaucoma.

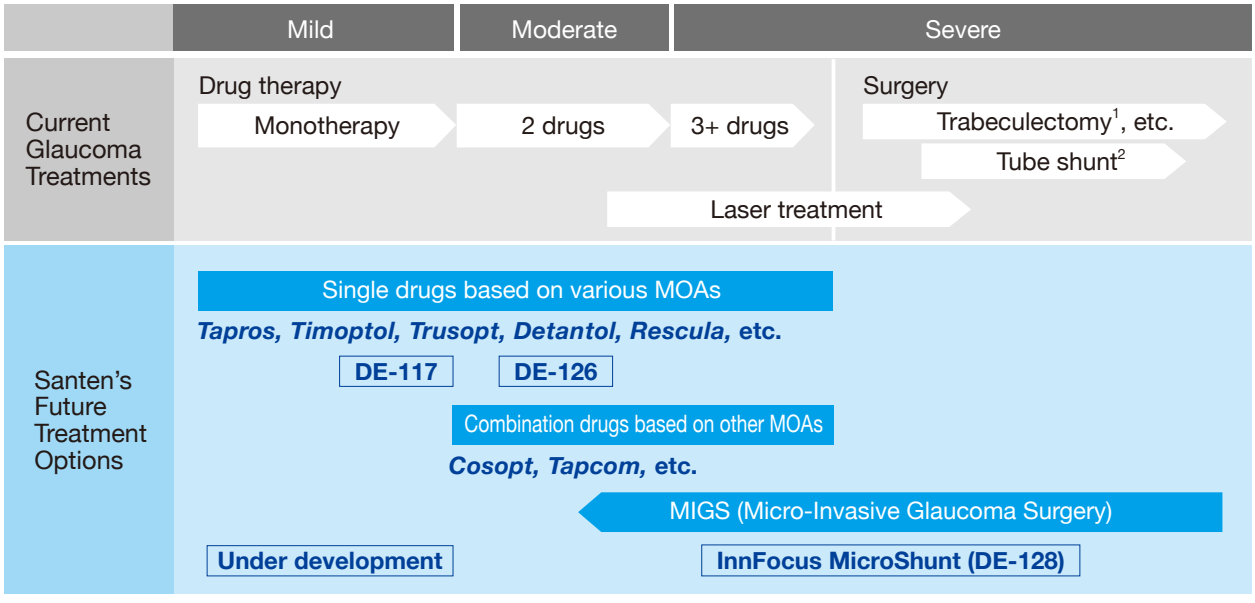
We are working to reinforce R&D in glaucoma to develop more effective therapies while also offering a broad selection of treatments. We are developing DE-117 (omidenepag isopropyl) and DE-126 (sepetaprost) as next-generation glaucoma and ocular hypertension treatments following on our key product *Tapros* (tafluprost). An EP2 receptor agonist DE-117, a novel mechanism of action differentiated from the prostaglandin analogues often prescribed as first-line therapies, has completed Phase 2 trials in the U.S., is in Phase 2b/3 trials in Japan, and is in Phase 3 trials in Asia. DE-126, a novel prostaglandin analogue and an FP/EP3 dual receptor agonist is expected to lower intraocular pressure more effectively than FP receptor agonist *Tapros*. Phase 2b trials for DE-126 are in progress in the U.S. and Japan.

We are also focusing on the development of products catering to specific medical needs as part of maximizing the value of our current portfolio. One example is the combination drug *Tapcom* (tafluprost/timolol maleate), which is available in Japan, Europe and Korea. Another is a preservative-free, single-dose formulation of *Tapros* currently available in Japan and Singapore, for which Santen is filing NDAs (New Drug Applications) across markets in Asia.

In addition, we are developing the InnFocus MicroShunt (DE-128) as a surgical implant for lowering intraocular pressure by promoting better drainage of aqueous humor from the eye. Designed using an innovative and bio-inert material, the device is implanted using minimally invasive surgery. DE-128 is expected to offer a new surgical option for treating glaucoma.

Looking ahead, we will continue to develop innovative new products and therapies to help enhance QOL for patients worldwide.

Current Status of Glaucoma Treatment and the Wide Range of Treatment Options Envisaged by Santen



Further Information P. 24 Research and Development

1. An operation to drain aqueous humor by removing a section inside the eye called the trabecular meshwork
2. A device placed inside the eye to improve the drainage of aqueous humor

Medical Contribution in the Japan Business

Santen aims to use its uniquely broad product lineup and specialist knowledge to contribute further to patient treatment.

Initiatives in Japan Business

Over 4 million Japanese are thought to have glaucoma, making it the single largest segment of the Japanese ophthalmic market. Santen's product lineup spans more than 10 different types of treatment for glaucoma and ocular hypertension, including *Tapros, Tapcom* and *Cosopt* (dorzolamide hydrochloride/timolol maleate). These offer a range of therapeutic options depending on the patient's symptoms and disease progression. In addition to supplying superior products, Santen has established trust with ophthalmologists by providing high-quality information about these drugs. We also seek to create opportunities for ophthalmologists to provide information, give talks or otherwise assist patients to understand the disease and related treatment options.

Lifetime efforts to control intraocular pressure are required once a patient is diagnosed with glaucoma. We are working to provide clinics with the necessary information for patients to help improve the sustainability of treatment. Going forward, by leveraging our specialist expertise and experience in the field, we will continue to address the challenge of making a contribution to glaucoma treatment.

Message

Tetsuya Yamamoto
M.D., Ph.D.
Professor, Department of Ophthalmology, Gifu University Graduate School of Medicine
President, Japan Glaucoma Society

High Hopes for Santen to Continue Developing Products Attuned to the Needs of Glaucoma Patients

In the past few years, innovation in glaucoma treatment in Japan and other developed countries has advanced tremendously. In drug treatments, we have seen progress in terms of an increase in the types of ophthalmic solutions available, greater market penetration of combination ophthalmic solutions, and enhanced convenience for patients. In surgical treatments, we are entering an era of minimally invasive glaucoma surgery using specialized devices. There has been an increase in surgical methods that are able to deliver sustained treatment efficacy and safety, and efforts are being made to expand the indications for treatment. This progress in glaucoma treatment is highly beneficial to maintaining the visual function of patients. Santen is Japan's leading company in marketing superior ophthalmic solutions that fit the needs of a wide range of glaucoma patients with medicines, such as *Tapros, Cosopt, Tapcom and Sanpilo*. I have learned that Santen is working to develop new drug treatments and an implant device for glaucoma. Glaucoma is a chronic disease that requires treatment over several decades. I have high hopes that Santen will continue to develop and market products from the point of view of patients.

Global Contribution to Treatment of Glaucoma

Santen provides a range of therapeutic options for glaucoma across Asian and EMEA markets tailored to regional customer needs.

Initiatives in the Asia Business

Led by the advanced countries in the region, Asia's rapidly aging population is increasing the need for glaucoma therapies. However, a wide disparity in healthcare levels has brought about significant differences in glaucoma treatment across the region. While some countries take advanced approaches, other countries have a need to provide ophthalmologists with more scientific findings on glaucoma. Santen tailors its approach across the region, using the experience and expertise gained in Japan to provide relevant services while also seeking to upgrade local product lineups.

In China, which is driving the growth of the ophthalmic market in Asia, we are working to increase the market penetration of *Tapros* after its March 2016 launch. In Korea, we are building Santen's market presence with the products *Taflotan* (tafluprost) and *Taptiqom* (tafluprost/timolol maleate), along with the ophthalmic lineup acquired from Merck.

In ASEAN countries, in addition to introducing *Taflotan/Saflutan, Taptiqom/Tapcom* and the Merck ophthalmics lineup, we are actively promoting educational activities to increase glaucoma awareness. These activities seek to maximize the strengths of Santen, including sharing information from Japan and Korea across the broader region.

Asia-Pacific Glaucoma Congress (APGC) 2016
(July 2016 in Chiang Mai, Thailand)

TOPICS

Helping Ophthalmologists Specializing in Glaucoma to Develop Expertise Supporting the Thailand Glaucoma Camp

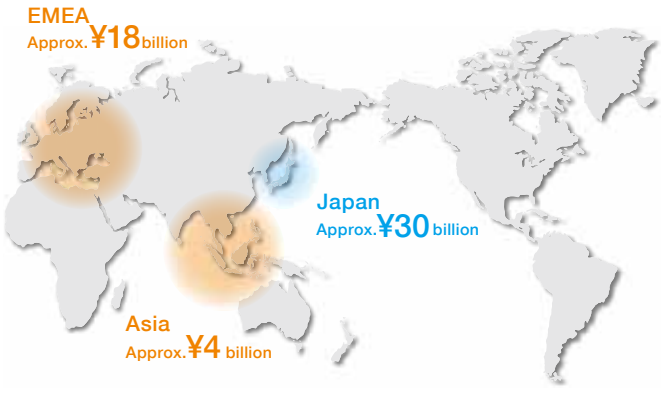
The glaucoma market is growing at an average 5% annually in Thailand, the largest prescription ophthalmic pharmaceutical market in the ASEAN region. Glaucoma is the leading segment of ophthalmic pharmaceuticals, accounting for about 40% of this market. Yet there are only around 160 ophthalmologists specialized in glaucoma, therefore they are facing challenges to nurture specialized doctors for the future. We organize the Thailand Glaucoma Camp as an opportunity for ophthalmologists to hear lectures from global opinion leaders in the field, and to participate in discussions with the aim of building their glaucoma specialty knowledge and technical expertise. Started in 2015, the three-day program is being held for the third time in September 2017. As the sponsor of this professional development initiative, we hope to contribute to the development of improved glaucoma treatment in Thailand.

The Thailand Glaucoma Camp
(November 2016 in Chiang Rai, Thailand)

Initiatives in the EMEA Business

The acquisition of the Merck ophthalmology portfolio in 2014 expanded Santen's business in the EMEA region to include approximately 45 countries. We are focused on increasing awareness of the Santen brand in new markets, including the U.K., Italy and Spain. In Northern and Eastern Europe, where we have been active since the second half of the 1990s, besides promoting new and existing products, we also provide opportunities for key opinion leaders to hold seminars and share the latest scientific findings in ophthalmology. Customer satisfaction is rising steadily as we broaden such activities.

In the EMEA markets for glaucoma therapies, many ophthalmologists expect products to be free of preservatives. This preference reflects the need to minimize side-effect risk since glaucoma treatment often requires the long-term administration of eye drops (many glaucoma patients also suffer from keratoconjunctival disorders such as dry eye). Santen has pioneered the development of preservative-free glaucoma and ocular hypertension treatments in EMEA, and we lead this market segment. Going forward, we will contribute to greater QOL for patients by trying to increase the market penetration of *Taflotan/Saflutan* and *Taptiqom*.



Revenue from Treatments for Glaucoma and Ocular Hypertension by Region

Message

What Is Expected from Santen in the Future?

Today the majority of the nearly 80 million glaucoma patients worldwide are managed with a lifelong form of medical therapy. So one should ask: how successful is this medical therapy in the real world? Sadly, in ophthalmology we hear a lot about successes, but seldom about failures… The alarming fact remains that global blindness due to glaucoma is increasing relentlessly, in major part due to a failure of adherence[1]. We have yet to deliver truly successful medical therapies that balance good efficacy with tolerability[2] and adherence. Santen must be applauded for supporting a novel preservative-free treatment paradigm. By making these preservative-free antiglaucoma drops easier to take, both adherence with the treatment and 24-hour efficacy are improved. However, preservative-free options comprise only a small fraction of the glaucoma medications prescribed today. What can be expected from a truly global ophthalmology company, like Santen, is assistance in gathering convincing evidence for the superiority of preservative-free medications. This will not only help transform glaucoma therapy into being 100% preservative-free, but in so doing will enhance the outcome of therapy, thereby diminishing the burden of blindness worldwide.

1. Whether patients continue to take their medications as prescribed by the treatment plan
2. The patient's ability to endure side effects

Anastasios G. Konstas M.D., Ph.D. (Glasg)
Professor in Ophthalmology
Aristotle University of Thessaloniki, Greece

R&D

Research and Development

Developing Products That Satisfy Unmet Medical Needs by Targeting Disease Areas That Leverage In-House Strengths

Santen is pushing ahead with R&D activities to fully harness our strengths as a specialized pharmaceutical company to contribute to ophthalmic treatment around the world. R&D resources are focused on creating differentiated drugs in those therapeutic areas with high unmet medical needs and strong growth prospects, notably glaucoma and ocular hypertension, kerato-conjunctival disorders, and retinal and uveal disorders. Santen has drawn up strategies for each therapeutic area where we can leverage Santen's strengths in conjunction with advancing product development to address the constantly changing treatment needs of patients and region-specific unmet medical needs.

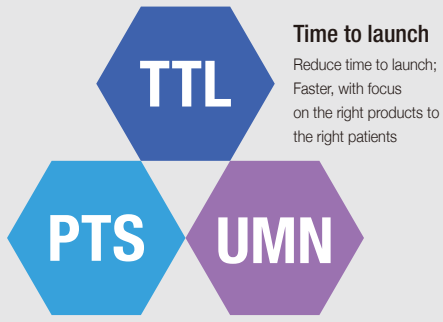
Message

We Are Accelerating the Development of Pharmaceuticals Eagerly Awaited by Patients Worldwide.

Guided by the Fiscal 2014–2017 Medium-Term Management Plan, we are accelerating reforms aimed at leveraging our global R&D network to support drug and device development. Our focus is to: (1) target and address unmet medical needs, (2) reduce time to launch, and (3) improve the probability of technical success, while stressing suitable cost control. To improve the probability of success with late-stage clinical development projects and achieve early approval, we are also promoting "Network Product Development[5]" while accelerating translational research[6], which targets productivity gains by linking basic and clinical research. These initiatives are generating positive outcomes in varied ways as we develop drugs such as DE-109 and DE-117. We remain focused on making a contribution to ophthalmic treatment by developing products to satisfy the unmet medical needs of patients worldwide.

5. An approach of proactive use of compounds and technologies from outside the company in product development
6. Multi-disciplinary research that links basic research, clinical research, and medical care and utilizes such findings for effective and efficient practical applications to contribute to healthcare advancement

Basic Strategies for Transforming Santen's Global R&D



Time to launch
Reduce time to launch; Faster, with focus on the right products to the right patients

Probability of technical success
Significantly improve probability of technical success in all target disease areas

Unmet medical needs
Target and address region-specific unmet medical needs

Santen has been accelerating global product development in tandem with strengthening collaboration among R&D bases in Japan, the U.S. and Europe. Moreover, by leveraging Santen's formulation technology such as the development of preservative-free medicines and drug delivery systems[1], we are caring out product life cycle management[2] to maximize our current product portfolio's market value. We are also actively exploring the use of biomarkers[3] to promote the development of optimized pharmaceuticals for patients.

Progress on Global R&D

Glaucoma and ocular hypertension is one of our targeted areas. The aim is to supplement our broad portfolio of current products through the development of differentiated products to offer treatment options for a wider range of patients. The current glaucoma pipeline includes DE-117, DE-126 and DE-128 (InnFocus Micro-Shunt). DE-117, an EP2 receptor agonist with a novel mechanism of action, is in Phase 2b/3 trials in Japan and is in Phase 3 trials in Asia. In the U.S., Phase 2 studies have finished. DE-126, an FP/EP3 dual receptor agonist, began Phase 2b trials in the U.S. and Japan in July 2017. DE-128, a surgical implant, has received a CE Mark[4] in Europe, and is currently in Phase 2/3 trials in the U.S. and Europe.

In keratoconjunctival disorders, Santen has successively launched *Ikervis* (generic name: ciclosporin, development name: Cyclokat) in European markets since July 2015 for the treatment of severe keratitis in adult patients with dry eye disease, which has not improved despite treatment with tear substitutes. *Ikervis* is the first prescription pharmaceutical for dry eye treatment marketed by Santen in Europe, and we are working to maximize its market value based on collaborative sales and marketing efforts to increase our regional market penetration. We have also submitted filings for marketing approval in Asia. Regulatory approval was granted in Thailand in November 2016, and in Korea in March 2017.

In the field of retinal and uveal disorders, we filed an NDA (New Drug Application) in the U.S. in February 2017 for DE-109 (sirolimus) for the treatment of non-infectious uveitis of the posterior segment, a major cause of blindness (PDUFA regulatory review deadline is December 24, 2017). A number of submissions for marketing approval have been filed in Asia since April 2015, and we also plan to make submissions in Europe in due course.

1. Formulation technologies engineered to deliver the right amount of the drug to the right target at the right time
2. Aligning one compound to treatment needs over the long term and augmenting through additional indication, dosage, formulation and combination products to increase product value
3. Indicators that objectively measure and evaluate biometric information to identify medical states including the onset or severity of disease
4. A symbol applied to products exported to EU countries to indicate compliance with EU health and safety directives

Naveed Shams M.D., Ph.D.
Senior Corporate Officer
Chief Scientific Officer (CSO)
Head of Global Research and Development

CSR Activities

Related CSR Activities

Respect for Human Rights in R&D

Establishment of Research Ethics Committee

We promote business activities with respect for human rights. In our R&D activities, we have established a Research Ethics Committee as a system to ensure that all R&D activities are appropriately conducted in scientific and ethical terms. The Research Ethics Committee deliberates whether the appropriateness of research in ethical terms, including the protection of privacy of trial participants and the validity of research contents, and the appropriateness of research in scientific terms is assured. To ensure that the deliberation is fairly conducted, the director in charge of compliance serves as the chairperson of the committee, and the committee members comprise employees as well as external members who are professionals in the medical or legal fields.

Please refer to the CSR section on the Company's website for details.
http://www.santen.com

Pipeline of Prescription Pharmaceuticals (Clinical Development)

Glaucoma

Dev. Code/Dev. Name	Generic Name	Indication	Original / Licensor	Region	Phase 1	Phase 2	Phase 3	NDA Filed	Approved
DE-085	Tafluprost	Glaucoma Ocular hypertension	Co-development with Asahi Glass	China					Launched, March 2016
DE-111	Tafluprost/ timolol maleate	Glaucoma Ocular hypertension	Co-development with Asahi Glass	Asia					Launched, April 2016
DE-117	Omidenepag isopropyl	Glaucoma Ocular hypertension	Co-development with Ube Industries	U.S.					
				Japan			Phase 2b/3		
				Asia					
DE-118	Tafluprost	Glaucoma Ocular hypertension	Co-development with Asahi Glass	Asia					Launched, April 2016
DE-126	Sepetaprost	Glaucoma Ocular hypertension	ONO PHARMACEUTICAL	U.S.			Phase 2b		
				Japan			Phase 2b		
Catioprost	Latanoprost	Glaucoma Ocular hypertension	Original	Europe					
DE-128 InnFocus MicroShunt	—	Glaucoma	Original	U.S.			Phase 2/3		
				Europe					

Keratoconjunctival Disorders

DE-089	Diquafosol sodium	Dry eye	Merck Sharp & Dohme Corp. (U.S.)	China					January 2012
				Asia					Launched, February 2016
DE-114A	Epinastine hydrochloride	Allergic conjunctivitis	Nippon Boehringer Ingelheim	Japan					
Cyclokat	Ciclosporin	Severe keratitis with dry eye	Original	Europe					Launched, July 2015
				U.S.					
				Asia					November 2016
				Other					April 2016
Vekacia	Ciclosporin	Vernal keratoconjunctivitis	Original	Europe					December 2016

Retinal and Uveal Disorders

Dev. Code/Dev. Name	Generic Name	Indication	Original / Licensor	Region	Phase 1 / 2 / 3 / NDA Filed / Approved
DE-109	Sirolimus	Uveitis	Original	U.S.	February 2017
				Japan	
				Europe	
				Asia	April 2015
DE-122	Carotuximab	Wet age-related macular degeneration	TRACON	U.S.	Phase 2a

As of August 1, 2017

About Research and Development

Discovery Research → Pre-Clinical Trials → Clinical Trials → Application for Approval → Launch

After passing pre-clinical trials for safety and efficacy, new drug candidates are put through the clinical trial phases outlined on the right. Upon receiving manufacturing and marketing approval, they can be sold as prescription pharmaceuticals.

Phase 1
Estimate initial safety and tolerability of drug on a small number of healthy volunteers

Phase 2[1]
Investigate and determine the appropriate dose and regimen for a specific treatment on a small number of patients

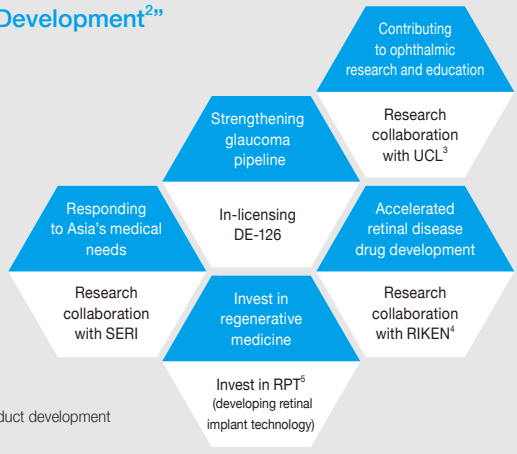
Phase 3
Confirm safety and efficacy relative to existing drugs and placebos on a large number of patients

1. In the initial stage of Phase 2, POC (Proof of Concept) is tested and safety and efficacy evaluated

TOPICS

Acceleration of Global R&D through "Network Product Development[2]"

In recent years, Santen has promoted "Network Product Development" to help reduce time to launch and improve success rates based on partnerships with external institutions specializing in certain technical fields. Joint R&D projects with the Singapore Eye Research Institute (SERI) are focused on developing treatments for ophthalmic disorders prevalent in Asia. Elsewhere, in-licensing DE-126 from ONO PHARMACEUTICAL CO., LTD. has strengthened Santen's glaucoma pipeline. Going forward, focusing on its targeted disease areas, Santen will seek to further strengthen its pipeline and accelerate development of products that satisfy region-specific unmet medical needs, based on combining in-house strengths with compounds and technologies from outside through co-development, investment and other approaches.



2. An approach of proactive use of compounds and technologies from outside the company in product development
3. University College London
4. National Research and Development Agency RIKEN
5. Regenerative Patch Technologies, LLC

For details on the status of the development pipeline, please refer to "Main Products in Pipeline" on the Company's website. **http://www.santen.com**

Product Supply

We fulfill global needs for ophthalmic treatment by ensuring a stable supply of reliable products.

Water
Ensure Water-for-Injection Quality

Air
Maintain Air Quality Fit for Operating Rooms

People
Stringent Quality Management Based on Thorough Training

Thorough Quality Management to Ensure the Delivery of Safe and Reliable Products

Santen pays meticulous attention to “water,” “air” and “people” in order to guarantee safety, efficacy and homogeneity in the manufacturing process for products centered on ophthalmic solutions.

Water is the lifeblood of all ophthalmic solutions. Santen purifies and only uses water of the highest purity that meets the exceptionally strict standards stipulated by the Good Manufacturing Practice (GMP) for water-for-injection products.

Regulations require that ophthalmic solutions are sterile products. Therefore, Santen sets the level of air quality appropriately according to contamination risk. Because the filling zone requires the highest cleanliness level of sterility, the air quality at such facilities is equivalent to the level mandated for operating rooms.

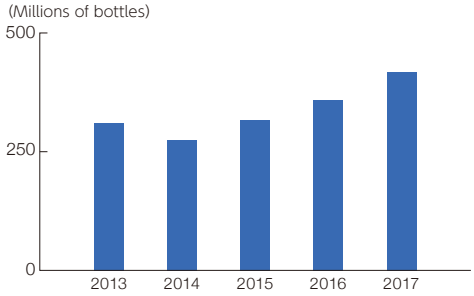
In addition, Santen is focusing on human resource development to continuously maintain stringent quality standards. Measures include establishing an in-house qualification system for work in sterile environments and conducting training and drills on correct work procedures, hygiene and sanitation control.

Establish Product Supply System with Global Competitiveness

Santen supplies over 700 products to markets in approximately 60 countries. Santen is focused on pursuing high product quality and enhancing globally competitive manufacturing cost, in order to achieve sustained growth in response to a variety of needs in the global pharmaceutical market. For this, Santen is working to build an even better product supply system. Our global production system is currently spread over four plants: (1) Noto Plant (Japan), one of the world’s largest plants of ophthalmic solutions; (2) Shiga Product Supply Center (Japan), our core global facility responsible for technological innovation and strategic planning; (3) Suzhou Plant (China), which meets the rapidly growing needs of the Chinese market; and (4) Tampere Plant (Finland), which serves as a supply center mainly for markets in the EMEA region.

With regard to the ophthalmology products transferred to Santen from U.S.-based Merck & Co., Inc. in 2014, Santen has been selling the products manufactured by Merck, but the related technologies are now being

Annual Production Volume of Ophthalmic Solutions



Ophthalmic solutions packaged in single-dose disposable containers are aggregated by counting 10 single-dose containers as 1 bottle. All other ophthalmic solutions are counted based on the actual number of bottles.

successively transferred to Santen. In October 2014, Santen started installing equipment compliant with EU GMP and has now built a framework for completing the transfer of the aforementioned technologies. In July 2017, Santen began production at the Noto Plant for supply to the Japanese market. In 2019, Santen plans to begin supplying products to the Asia and EMEA regions.

Going forward, Santen will continue to maintain and enhance quality, ensure stable supply to its market, and optimize the global supply chain, in order to fulfill customer needs around the world.

Establishment of Chongqing Santen Kerui Pharmaceutical Co., Ltd. and Construction of New Production Site

In August 2016, Santen established a joint venture through a collaboration with Chongqing Kerui Pharmaceutical (Group) Co., Ltd., a Chinese state-owned company with a history of over a century since its founding. The aim of the joint venture is to provide the highest-quality prescription ophthalmic products at a reasonable price to the most patients possible in China. Santen is now advancing the construction of a plant that will meet Santen's high quality requirements and standards, with the goal of supplying products that make the most of Santen's expertise and technical capabilities in the ophthalmic field.

CSR Activities

Related CSR Activities

Environmentally Friendly Production and Supply

Maintaining and Operating the Environmental Management System

Santen conducts environmentally friendly production and logistics operations. In Japan, we have ISO 14001 certification, the international standard for environmental management systems, as an integrated organization, including for the Shiga Product Supply Center, Noto Plant, and special subsidiary Claire Co., Ltd. Overseas, Santen Oy, a subsidiary in Finland, acquired and continuously maintains ISO 14001 certification also covering sales and marketing activities.

Fulfilling Social Responsibilities in the Supply Chain

Progress on Supplier Due Diligence[1]

Santen aims to fulfill its social responsibilities throughout the entire process of the production and supply of pharmaceuticals, including suppliers. Specifically, we conduct due diligence of pharmaceutical ingredient suppliers and manufacturing subcontractors with whom we currently or plan to conduct business, in order to confirm the status of their activities on areas including legal and regulatory compliance systems, environmental conservation, and occupational health and safety.

1. Due diligence in CSR is a process for identifying both actual and potential negative effects on society related to an organization's decisions and activities.

Please refer to the CSR section on the Company's website for details.
http://www.santen.com

Quality Compliance

We have established a system to ensure Company-wide quality compliance, which encompasses measures to enhance the reliability of Santen's products in terms of quality, efficacy, and safety, as well as the quality of its services, including after-sales care.

Established a Global Quality Compliance System

Santen's products are used in around 60 countries throughout the world. We believe that our business activities rest on the foundation of continuously supplying safe and reliable products to patients in those countries and regions. To achieve this goal, Santen has established the Quality Compliance Division under the direct control of the President and CEO. Under Quality Principle Policy, Santen has established a global quality compliance system. To guarantee the Santen brand reliability, this system adopts two approaches: quality assurance and pharmacovigilance.

Santen gathers information about quality compliance activities through the Global Quality Management Committee (GQMC) and the Pharmacovigilance Committee (PVC), and undertakes management reviews led by the management team. In these reviews, Santen evaluates the systems related to quality compliance, revises the Quality Principle Policy, and sets quality targets, among other activities, as part of efforts to ensure quality compliance from a global perspective.

Quality Compliance Division

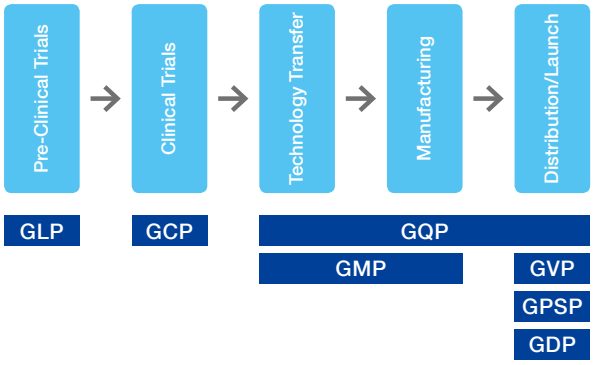
Global Quality Management Committee (GQMC)	Pharmacovigilance Committee (PVC)
Prepares global policies and criteria concerning quality management and auditing	Prepares global policies and criteria concerning pharmacovigilance

Assurance of Reliability throughout Product Life Cycle

Pharmaceutical manufacturers must observe rigorous quality control standards stipulated in various regulations. Simply observing these regulations, however, is not sufficient to maintain Santen's brand value and reputation. Santen must continuously supply pharmaceuticals and medical devices that meet changing user requirements as the pharmaceuticals environment evolves with the times. To do so, it is vital to establish "Company-wide quality compliance," encompassing collaborative measures by every division involved in products, such as R&D, production, and marketing, to enhance the reliability of Santen's products in terms of quality, efficacy and safety, and the quality of its services, including after-sales care. To this end, Santen's Quality Compliance Division conducts quality audits in R&D and production processes, along with supporting the quality compliance initiatives of each division.

In addition, in step with advances in Santen's global business activities, Santen is building a quality compliance system in Asia and EMEA while ensuring compliance with the different regulations in each country and region.

Product Life Cycle of Pharmaceuticals and Major Regulations



GLP (Good Laboratory Practice)
Standards for Conducting Nonclinical Safety Studies on Drugs

GCP (Good Clinical Practice)
Standards for the Conduct of Clinical Trials of Medicinal Products

GQP (Good Quality Practice)
Standards for Quality Assurance for Drugs, Quasi-Drugs, Cosmetics and Medical Devices

GMP (Good Manufacturing Practice)
Standards for Manufacturing Control and Quality Control for Drugs and Quasi-Drugs

GVP (Good Vigilance Practice)
Standards for Post-Marketing Safety Control of Medicinal Products, Quasi Medicinal Products, Cosmetics and Medical Devices

GPSP (Good Post-Marketing Study Practice)
Standards for Conducting Post-Marketing Studies on Drugs

GDP (Good Distribution Practice)
Standards for the Proper Distribution of Medicinal Products

CSR Activities

Related CSR Activities

Promotion of Activities to Ensure Patient Safety

Prevention of Medical Mistakes

To prevent confusion between different drugs, Santen is working to reduce medical staff burden required to identify drugs, and to make improvements that will help to ensure accurate drug handling, such as providing clearly identifiable packaging and information labels on containers. For example, for eye drops available in various concentrations with the same components, we provide highly visible information about the concentration on the shrink label that covers the eye drop container as well as on the top of the cap.

Examples of labeling for eye drops available in various concentrations with the same active ingredients (Side and top surface labels)

Measures against Counterfeit Medicines and Other Quality Compliance Measures

To prevent accidental confusion between prescription medicines in Japan, ensure traceability, and enhance the efficiency of distribution, Santen will print bar codes that indicate not only the product code but also the serial number and the expiration date on all product boxes and packages for transportation by the end of March 2021. Moreover, we are promoting Good Distribution Practice (GDP) measures to ensure highest quality compliance by maintaining and appropriately managing medicine quality during storage and transportation, and taking measures against counterfeit medicines.

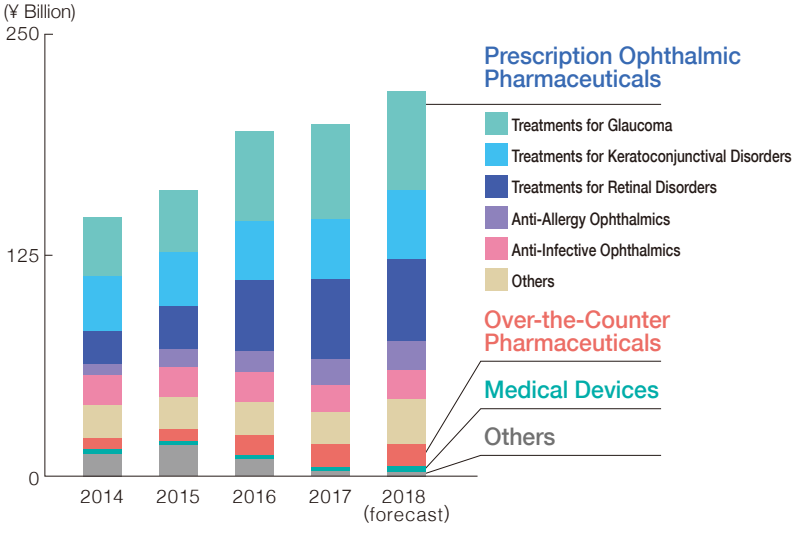
Please refer to the CSR section on the Company's website for details.
http://www.santen.com

Sales & Marketing

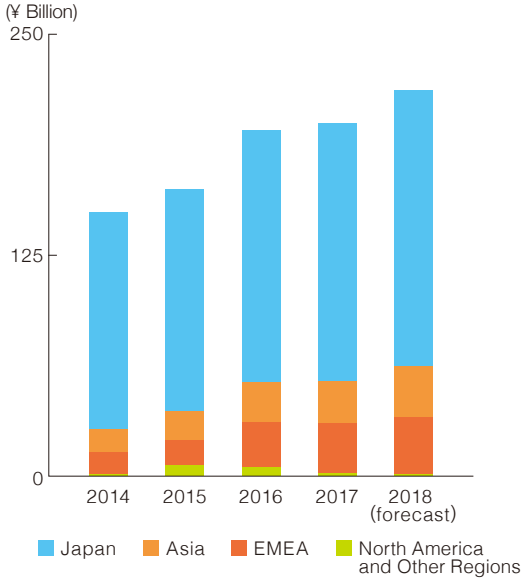
We will meet therapeutic needs in each country by providing specialist knowledge in the field of ophthalmology and valuable products and services.

Santen Revenue Trends and Forecast

Revenue by Category and Therapeutic Area



Revenue by Region



Specialization in Ophthalmology Field and Pursuit of Business Synergies

Santen Group uses its strengths as a specialized pharmaceutical company to promote its business in Japan, Asia and EMEA, supplying products in around 60 countries. We have a strong product lineup to meet different customer needs in each country and region, driving sales growth in all businesses in the fiscal year ended March 31, 2017.

In the Japan business, we have retained a strong hold on the top share in the prescription ophthalmic pharmaceutical market for over 20 years by providing differentiated products and highly specialized information in the field of ophthalmology. Building on the foundation of our strong presence and the strengths we have cultivated, we aim to expand our product lineup with new products and ophthalmology products taken over from U.S.-based Merck & Co., Inc., and to strengthen our business foundation in order to accelerate our growth in the overseas business in Asia and EMEA.

In October 2016 we held the First Santen Global Forum in Japan. Sales managers from countries around the world gathered to share factors supporting the Company's strong presence in the Japan business and insights into diverse operating environments in various countries.

We will continue to strengthen links between our businesses to become a "Specialized Pharmaceutical Company with a Global Presence."

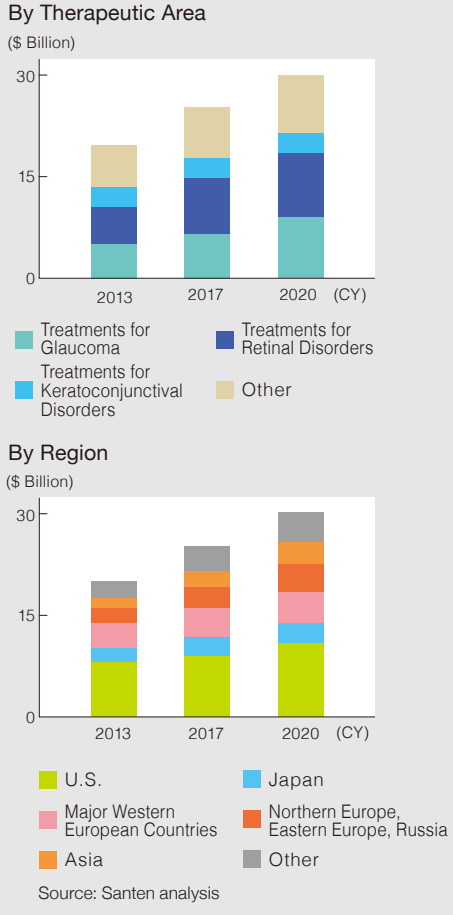
Environment for Ophthalmic Treatment and the Company's Businesses

The environment for global ophthalmic treatment and the Company's businesses is changing rapidly, with further aging of the population, increases in medical fees, advances in diagnostics through technological innovation, and diversification of therapies. Under these conditions, the global prescription ophthalmic pharmaceutical market continues to grow, mainly in the glaucoma and retinal disorders fields, and is projected to deliver an average annual growth rate of 6% through to 2020, reaching a market scale of ¥3 trillion.

Meanwhile, there is a high level of unmet medical needs among both patients and medical professionals in the field of ophthalmology overall, including prevention, diagnosis, treatment and follow-up. Many patients around the world are waiting for the development of new treatments and pharmaceutical products. The huge differences in the level of ophthalmic treatment and the social security systems that support it in each country and region, call for detailed responses based on diverse therapeutic needs.

The Company has anticipated these changes in the ophthalmology environment and is aiming to further strengthen its sales and marketing activities in Japan, Asia and EMEA operations, while starting to prepare for full-scale entry into the U.S. We are determined to contribute to better Quality of Life (QOL) for patients all over the world.

Global Prescription Ophthalmic Pharmaceutical Market Forecast



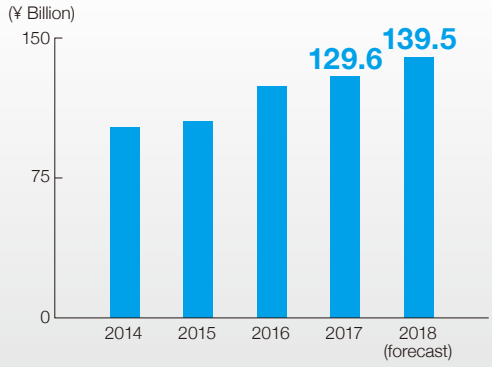
Source: Santen analysis

Prescription Ophthalmic Pharmaceuticals

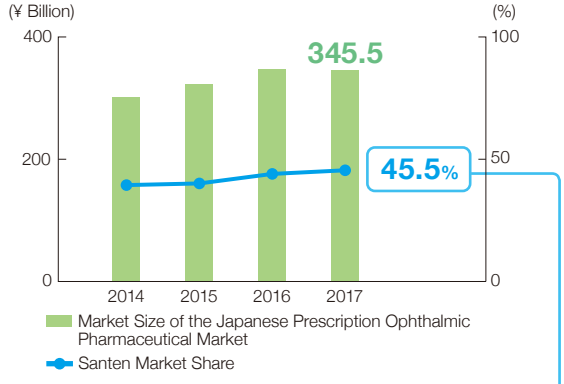
Revenue for the Fiscal Year Ended March 31, 2017

¥129,594 million +4.4%

Revenue from Prescription Ophthalmic Pharmaceuticals in Japan



Market Size and Santen Market Share[1] of the Japanese Prescription Ophthalmic Pharmaceutical Market



Santen Market Share[1] of the Japanese Prescription Ophthalmic Pharmaceutical Market

Prescription Ophthalmic Pharmaceuticals Overall	45.5%	#1
Treatments for Glaucoma	32.2%	#1
Treatments for Keratoconjunctival Disorders	62.7%	#1
Treatments for Retinal Disorders	72.4%	#1
Anti-Allergy Ophthalmics	42.9%	#1
Anti-Infective Ophthalmics	44.1%	#1

1. Including co-promoted products

Market Trends

The Japanese prescription ophthalmic pharmaceutical market contracted 0.6% to ¥345.5 billion in the fiscal year ended March 31, 2017, mainly due to National Health Insurance (NHI) drug price revisions and the market penetration of generic drugs. In Japan, Santen must ensure it has a solid understanding of the therapeutic frontlines, as needs surrounding ophthalmic treatment become increasingly sophisticated.

Revision of NHI Drug Prices

	2010	2012	2014[2]	2016
Industry average	mid -6%	-6.25%	-2.65%	-5.57%[3]
Ophthalmic drugs	low -3%	mid -4%	high -1%	low -6%
Santen	mid -5%	high -5%	high -1%	low -7%[4]

2. Price cuts excluding consumption taxes: Industry average: -5.6%; Ophthalmic drugs: high -4%; Santen: high -4%
3. Excluding market expansion re-pricing -0.9%
4. Mid -4% price cut excluding the impact of *Eylea*

Operating Results

Santen's Japan prescription ophthalmic pharmaceutical revenue increased 4.4%, to ¥129.6 billion. Santen's share of the Japan prescription ophthalmic pharmaceutical market expanded to 45.5%. As a result, Santen captured the #1 share in all major fields. Leveraging its thorough customer focus and competitive, expansive product lineup, Santen is concentrating on providing high-quality pharmaceutical information tailored to the needs of the frontlines of ophthalmic treatment. In addition, Santen is also undertaking activities to address therapeutic issues for various ophthalmic diseases.

Santen has been increasing the new products sales ratio to drive sustained sales growth. The new products sales ratio was 70.7% in the fiscal year ended March 31, 2017.

Treatments for Glaucoma

In the fiscal year ended March 31, 2017, revenue from mainstay products was as follows: *Tapros* revenue increased 4.6% year on year to ¥9.6 billion, *Cosopt* revenue rose 1.4% to ¥11.4 billion, and *Tapcom* revenue increased 63.4% to ¥2.3 billion.

In the glaucoma field, there are a large number of individuals with glaucoma who have not been diagnosed by doctors, including those who have not sought medical attention at hospitals or clinics because they have only noticed a few subjective symptoms. Going forward, patient numbers in the glaucoma field are expected to continue increasing in line with aging population and other factors. In the fiscal year ending March 31, 2018, Santen will continue to push ahead with efforts to maximize the market value and drive market penetration of mainstay products *Tapros*,

Cosopt, and *Tapcom*. Meanwhile, by leveraging its expansive product lineup, Santen will vigorously step up activities to provide medical information that meets the needs of medical professionals, such as the latest glaucoma-related information and advice on prescribing pharmaceuticals. Through these and other activities, Santen will continue working to enhance its presence in the glaucoma field.

Treatments for Keratoconjunctival Disorders

In the fiscal year ended March 31, 2017, revenue from mainstay products was as follows: *Diquas* (diquafosol sodium) revenue rose 24.1% to ¥11.0 billion, while *Hyalein* (sodium hyaluronate) revenue decreased 18.2% to ¥11.9 billion.

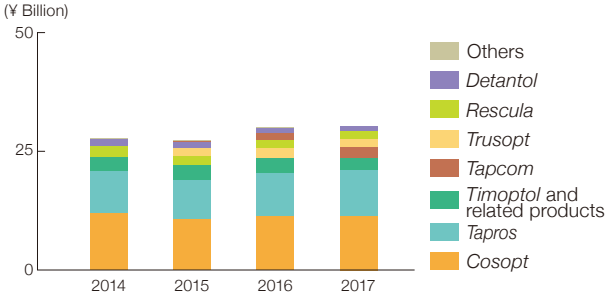
Dry eye is a disease for which many dry eye patients do not receive medical treatment despite the fact that they have noticed some symptoms. Accordingly, Santen will continue working to further enhance awareness toward the treatment of dry eye with aims to strengthen the Company's presence and standing further within the keratoconjunctival disorder field.

Treatments for Retinal Disorders

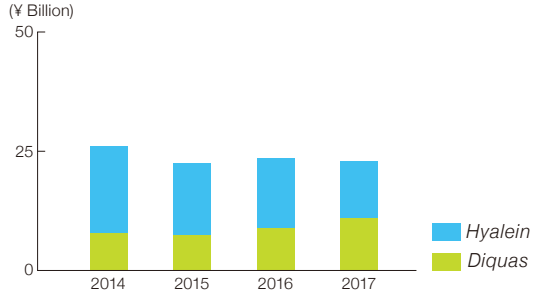
In the fiscal year ended March 31, 2017, revenue from intravitreal VEGF inhibitor *Eylea* (aflibercept [genetical recombination]) for wet age-related macular degeneration (wet AMD) and other disorders increased 12.9% year on year to ¥45.2 billion.

In the retinal disorders field, where there are a large number of patients with unmet medical needs, *Eylea*'s market share in the intravitreal VEGF inhibitor market reached 72.4%, spearheading market growth. In the fiscal year ending March 31, 2018, we will continue to vigorously provide high-quality pharmaceutical information, working together with our partner Bayer Yakuhin, Ltd. to penetrate the market further.

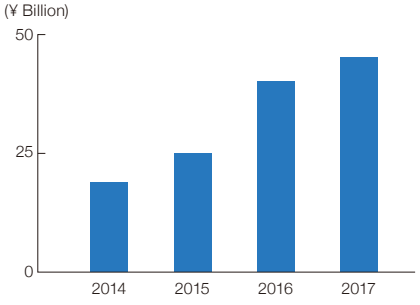
Revenue from Treatments for Glaucoma



Revenue from Major Treatments for Keratoconjunctival Disorders



Revenue from *Eylea*

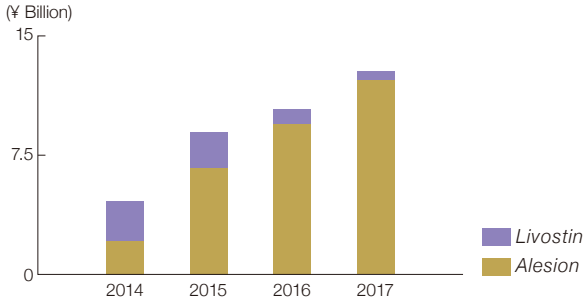


Anti-Allergy Ophthalmics

In the fiscal year ended March 31, 2017, revenue from Santen's mainstay product *Alesion* (epinastine hydrochloride) was up sharply by 29.0% to ¥12.2 billion.

In the fiscal year ending March 31, 2018, we will continue to focus on enhancing the market penetration of *Alesion*. *Alesion* provides relief from year-round and seasonal allergy symptoms such as itching and redness and thus contributes to an improved patient's QOL. By continuing to emphasize these product characteristics, we aim to expand both sales and market share of this product.

Revenue from Major Anti-Allergy Ophthalmics

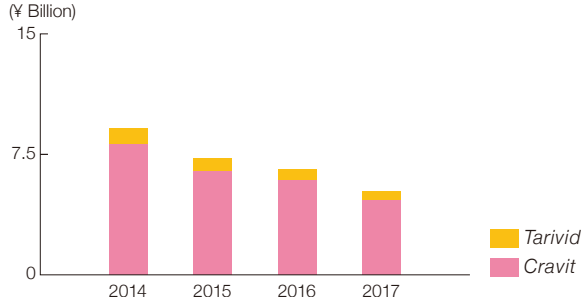


Anti-Infective Ophthalmics

In the fiscal year ended March 31, 2017, revenue from Santen's mainstay products *Cravit* (levofloxacin hydrate) and *Tarivid* (ofloxacin) decreased 20.8% year on year, to ¥5.2 billion.

In recent years, the anti-infective ophthalmic market has been contracting, mainly due to the market penetration of generic drugs and the shortening of the duration of treatment for anti-infective ophthalmic products after surgeries. However, Santen will continue to supply superior products to the therapeutic frontlines as the market leader in this field.

Revenue from Major Anti-Infective Ophthalmics



CSR Activities

Related CSR Activities

Contributing to the Development of Ophthalmic Treatment

Santen Co-Sponsors the "Light Up in Green" Campaign during World Glaucoma Week

Every March, the World Glaucoma Association launches various events and campaigns worldwide to raise awareness of glaucoma, including the necessity for early detection and treatment of glaucoma, as part of its World Glaucoma Week initiative. In Japan, the Japan Glaucoma Society once again organized the "Light Up in Green" illumination activities this year, making use of green, representing glaucoma. The activities were held at 44 landmark facilities in 32 locations throughout Japan, from Hokkaido to Okinawa, during World Glaucoma Week from March 12 to 18, 2017. Santen participated as a co-sponsor of the event.

Please refer to the CSR section on the Company's website for details.
http://www.santen.com

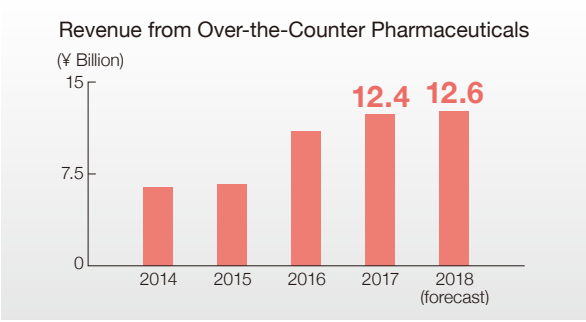
Illuminated MOSAIC Ferris Wheel in Kobe

Japan Business

Over-the-Counter Pharmaceuticals

Revenue for the Fiscal Year Ended March 31, 2017

¥12,421 million +13.8%



Market Trends

In the fiscal year ended March 31, 2017, the OTC pharmaceutical market contracted slightly by 0.6% year on year, to ¥64.7 billion, despite an increase in sales of products for eyestrain and blurred vision, plus expansion of the contact lens market, along with purchases by inbound tourists (foreign tourists visiting Japan).

Operating Results

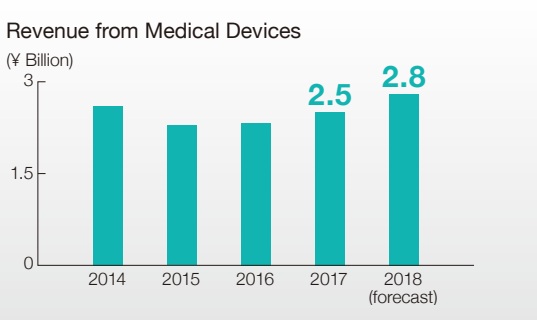
Aiming to win the support of consumers as the #1 eye care company, Santen supplies a range of products in the OTC business, led by the *Sante FX* series, one of Japan's top-selling ophthalmic solution brands in terms of sales volume[1], as well as high value-added products centered on *Sante Beautéye*. Recently, Santen has been focusing on promoting sales of core products, such as the new *Sante Medical* series, which was launched in 2016, and *Soft Santear*. As a result, in the fiscal year ended March 31, 2017, OTC pharmaceutical revenue remained on a growth track, increasing by 13.8% to ¥12.4 billion. This growth was driven by firm demand from inbound foreign tourists and a strong performance by higher priced products.
In the fiscal year ending March 31, 2018, Santen aims to carve out new markets and grow sales by vigorously implementing promotional campaigns to enhance the brand value, primarily through high value-added products, and to capture new users of OTC ophthalmic solutions.

1. Value and volume shares of the Japanese OTC pharmaceutical market in the fiscal year ended March 31, 2017
Source: Statistics compiled by Santen

Medical Devices

Revenue for the Fiscal Year Ended March 31, 2017

¥2,514 million +8.2%



Market Trends

Santen conducts a medical device business specializing in intraocular lenses (IOLs) in the cataract surgery field. In recent years, the market for IOLs has shifted primarily to foldable lenses that can be inserted through a small incision.

Operating Results

Since 2008, Santen has been selling the *Eternity* series of foldable IOLs, which are made of a new glistening-free hydrophobic acrylic material. Thereafter, Santen has worked to enhance its lineup of products. In addition to launching *Eternity Natural*, an IOL that should provide more natural visibility, and *Eternity Natural Uni*, a novel IOL with an original design, Santen unveiled *Eternity Natural Uni R* in April 2017, which features an upgraded lens design. Another priority has been injectors for the insertion of IOLs. Santen launched *Access Ease*, an injector that achieves a smaller incision size, as part of efforts to address customer needs and boost product competitiveness. Revenue from medical devices was up 8.2%, to ¥2.5 billion in the fiscal year ended March 31, 2017. Santen will continue aiming to contribute further to the ophthalmic surgery field centered on cataract surgeries by leveraging its strengths in the product concept of "high quality IOLs with outstanding transparency" in the *Eternity* series.

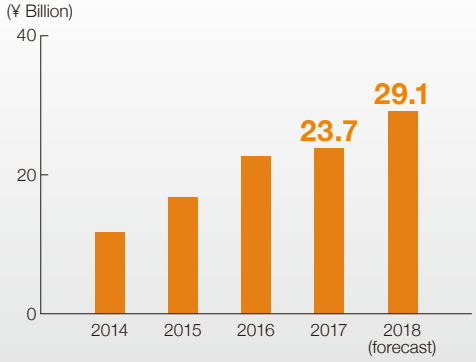
Asia Business

Asia Business

Revenue for the Fiscal Year Ended March 31, 2017

¥23,738 million **+5.0%**

Revenue from Asia Business



Market Trends

With nearly 60% of the world's total population, the market for prescription ophthalmic pharmaceuticals in Asia is expected to continue to grow rapidly, most notably in segments such as dry eye, glaucoma and retinal disorders. There are many patients suffering from ocular infections, too, notably in emerging countries. We are strengthening our sales and marketing capabilities at local subsidiaries so we can respond to the varied needs of customers across different countries.

Operating Results

Our goal is to be #1 in Asia in terms of contribution to ophthalmic treatment. We are working to expand our presence across the Asian market, such as China, Korea and Vietnam. Regional revenue rose 5.0% to ¥23.7 billion in the fiscal year ended March 31, 2017, and growth of revenue from prescription pharmaceuticals reached 18.7%, excluding the impact of foreign exchange rates.

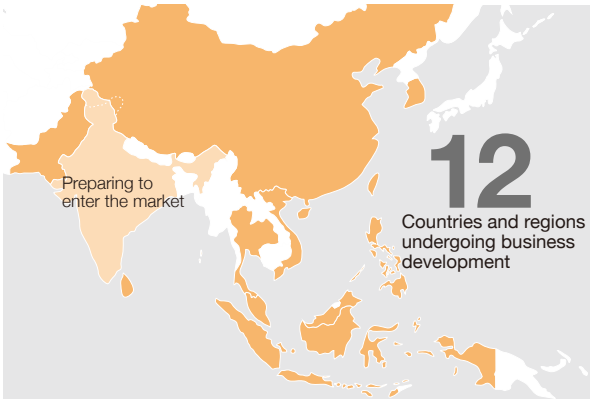
In China, which represents over half of Santen's sales in Asia, demand is high for treatments for dry eye and ocular infections, our two leading areas. We are working to increase the market penetration of glaucoma and ocular hypertension treatment *Tapros* following its March 2016 launch. In August 2016, we established Chongqing Santen Kerui Pharmaceutical Co., Ltd. as a joint venture with one of China's state-owned pharmaceutical companies to expand the supply of prescription ophthalmics to patients in China. A new manufacturing and sales facility is now under construction.

In Korea, we began our sales efforts in 2010, and provide pharmaceutical information through our own medical representatives. Mainstay products include *Taflotan* for glaucoma and ocular hypertension, and the dry eye treatment *Diquas*. The product lineup has also been supplemented by glaucoma and ocular hypertension treatments acquired from U.S.-based Merck & Co., Inc., as we further expand our market presence.

In the ASEAN region, we have already gained a high market share in Vietnam comparable to our presence in China and Korea. We have also initiated our own sales activities in Thailand, Malaysia, the Philippines, Taiwan and Singapore, marketing prescription ophthalmic pharmaceuticals such as treatments for glaucoma and dry eye, to match local market needs. We are working to increase market penetration based on providing high-quality pharmaceutical information through our local subsidiaries.

We will continue to accelerate activities with the aim of making even greater contributions to improving Quality of Life (QOL) for patients in Asia.

Geographic Reach of Asia Business



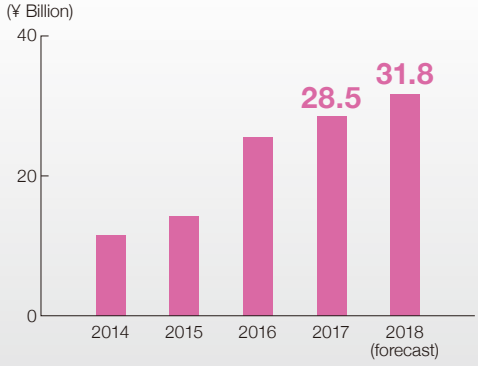
EMEA Business

EMEA Business

Revenue for the Fiscal Year Ended March 31, 2017

¥28,521 million **+11.6%**

Revenue from EMEA Business



Market Trends

The EMEA market for prescription ophthalmic pharmaceuticals, the second largest after the U.S., continues to grow. At the same time, the EMEA market is characterized by its diversity—each country in the region has a different health insurance system and different medical treatment practices. Under these circumstances, the Company is engaging in sales and marketing activities that capture the specific characteristics of each country, in conjunction with enhancing its organizational management systems for EMEA operations.

Operating Results

Revenue from the EMEA Business increased 11.6% to ¥28.5 billion in the fiscal year ended March 31, 2017, with revenue from prescription pharmaceuticals excluding the impact of foreign exchange movements reaching a substantial 25.0% increase. The business has expanded to include approximately 45 countries since the acquisition of the Merck ophthalmology portfolio in 2014.

We market several treatments for glaucoma and ocular hypertension in the EMEA region. *Taflotan/Saflutan,* the product driving our global business expansion, is available in over 35 countries in the region. After launching *Taptiqom* as a combination ophthalmic solution in 2015, we are focused on increasing its market penetration. Having also pioneered the development of preservative-free glaucoma and ocular hypertension treatments, we lead this market segment in the EMEA region. Preparations are underway to start manufacturing the ophthalmics acquired from Merck at our own production facilities from 2019.

Ikervis was launched successively in 2015 in Germany, the U.K. and other European markets as a treatment for severe keratitis in adult patients with dry eye disease, which has not improved despite treatment with tear substitutes. We aim to maximize the value of *Ikervis* by leveraging the know-how we have developed as a pioneer of dry eye treatments in Japan.

Looking ahead, Santen will supply an expansive range of products that match local needs, along with expanding activities to provide high-quality pharmaceutical information. By doing so, Santen will accelerate its activities to best contribute to ophthalmic treatment in EMEA.

Countries and regions undergoing business development in EMEA

Approx. 45

Preservative-free glaucoma and ocular hypertension treatment *Taflotan*

European Society of Ophthalmology Congress (SOE2017)

CSR

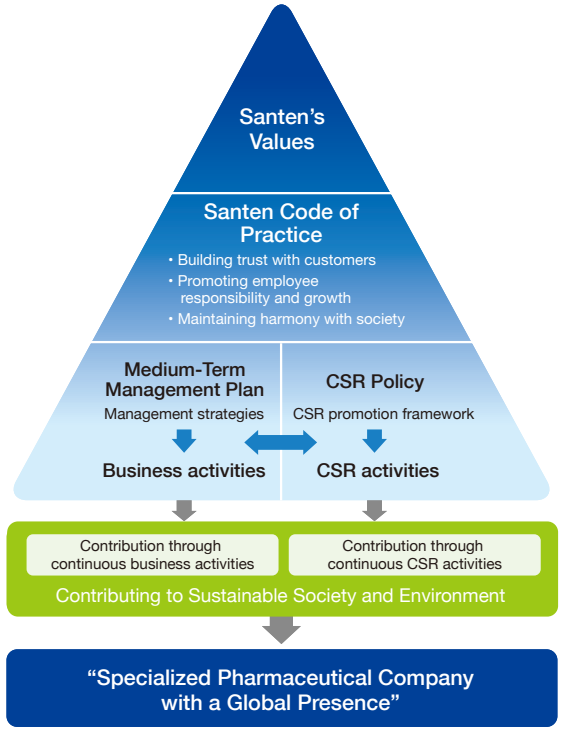
Corporate Social Responsibility (CSR)

Santen will endeavor to enhance its CSR activities on a global basis, aiming to be a company that fully responds to the needs and expectations of patients worldwide.

CSR Management

CSR Integrated into Business Conduct

Based on Santen's Values, Santen believes that contributing to global ophthalmic treatment is fundamental to creating value. We also believe that achieving sustainable growth as a company depends on promoting corporate management, namely business activities, and CSR activities in an integrated manner with highly ethical standards. The Santen Code of Practice was established to provide a specific model for conduct, and focusing on the three perspectives of "customers," "employees" and "society," requires all employees to not only comply with all applicable laws and regulations, but also to observe the highest standards of ethics and integrity in their conduct. By contributing to a sustainable society and the environment through "CSR Integrated into Business Conduct," we aim to achieve our long-term strategic vision toward 2020 of becoming a "Specialized Pharmaceutical Company with a Global Presence."



Basic Policy and the 7 Core Subjects

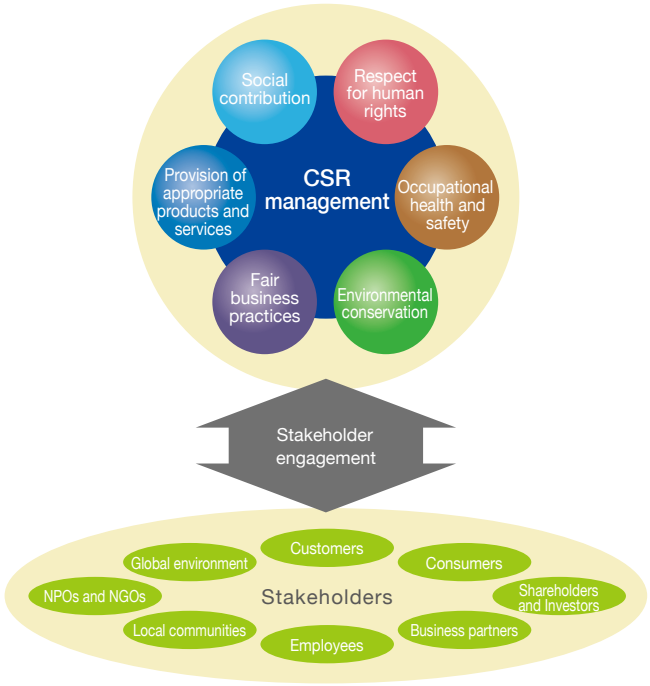
Our basic policy on CSR activities is to continue our contributions to improve Quality of Life (QOL) of patients around the world by providing valuable products and services that reflect Santen's Values. To achieve this, we have defined 7 Core Subjects of CSR to promote our CSR activities, based on the three perspectives of "customers," "employees" and "society" stated in the Santen Code of Practice, as well as the core subjects of ISO 26000[1].

Emphasizing Dialogue with Stakeholders

In advancing its CSR activities, Santen believes stakeholder engagement is critical. Such engagement should include close dialogue aimed at gaining valuable opinions and utilizing such feedback to improve CSR activities. We are promoting a variety of initiatives designed to put this into practice, while also working to enhance information disclosure.

1. ISO 26000 was issued by the International Organization for Standardization (ISO) to provide guidance on social responsibility. It is applicable not only to corporations but also to all organizations, including governments, schools and NGOs.

7 Core Subjects of CSR



Message

Based on Santen's Values, Contribute to the Achievement of a Sustainable Society

Since its founding in 1890, Santen has contributed to improving the QOL of patients around the world as a specialized company in the field of ophthalmology, based on Santen's Values. By promoting CSR initiatives integrated with our business conduct, we continue to contribute to achieving a sustainable society.

To further enhance our CSR activities, we believe that it is most important that all our employees, including a wide variety of diverse histories and cultural backgrounds, have a deep understanding of Santen's Values and conduct themselves in accordance with the highest ethical standards. As the globalization of our business continues to accelerate, we will work to share Santen's Values, ensure compliance across the Group as a whole, and seriously and continuously address issues such as global warming and human rights abuses.

Masamichi Sato
Senior Corporate Officer
Chief Compliance Officer (CCO)
Head of CSR & Internal Control Division

CSR Activities

Respect for Human Rights

Raising Human Rights Awareness

In accordance with the Universal Declaration of Human Rights and other international norms, and the spirit behind them, Santen believes in the importance of respecting the rights of each of its employees and acting with the highest ethical standards, and is working to strengthen awareness of these issues.

Our Code of Conduct as part of the Santen Code of Practice, which defines how every Santen employee should act, firmly declares, "We do not engage in discrimination against or harassment of individuals based on their nationality, race, skin color, religion, creed, sexual orientation, age, education, family background, place of birth, disability, health problems, social position, etc. We respect individual personalities and do not engage in sexual, moral or any other kind of harassment in the workplace." Also, we are addressing human rights issues in our supply chains, such as child labor and forced labor.

As global expansion brings increasing diversity to our workforce, we are working to ensure each employee is familiar with and can put beliefs into practice by translating the Santen Code of Practice into 13 languages. In a worldwide campaign held in February 2017, we established the Santen Code of Practice Awareness Month, part of an effort to encourage understanding among all Santen Group employees.

▶ Please refer to P.25 for information on efforts to respect human rights in R&D.

Occupational Health and Safety

Organizational and Human Resource Development Based on Santen's Values

Based on Santen's Values, we have defined Santen Leadership Competencies ("SLC"), a set of competencies we expect all organizations and employees to obtain. We aim to provide opportunities for employees who demonstrate the competencies at work, in order to reward them for their achievements and develop a corporate culture that enables employees to enhance their capabilities together based on shared values and diversity. We position and utilize SLC as the basic global guideline for employee capability development and career plan formulation in order to support career enhancement and self-growth.

In Japan, we offer "job grade based training" and "skill training" for the purpose of employee capability development. Job grade based training is aimed at allowing trainees to recognize their expected roles according to their rank and clearly define their improvement goals through becoming aware of gaps between their expected roles and their current situation. The aggregate length of job grade based training sessions in the fiscal year ended March 31, 2017 was 8,985 hours in total. Skill training has a wide lineup of subjects that employees can select according to the SLC items and business skills that they wish to enhance, along with a favorable training environment including online classes, e-learning, etc.

▶ Please refer to P.17 for more information on SLC.

External Assessment of Efforts in the Areas of Labor, Health and Safety

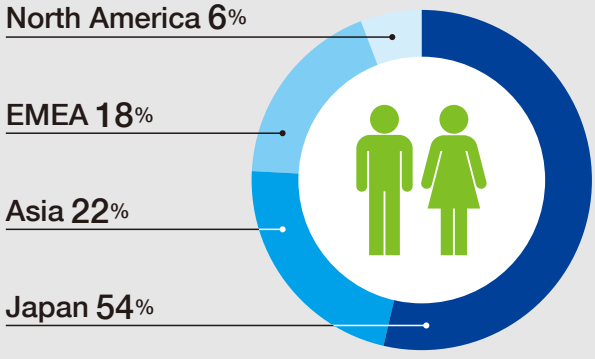
2017 Certified Health and Productivity Management Organization

Recognized as a Certified Health and Productivity Management Organization 2017 ("White 500") by the Ministry of Economy, Trade and Industry and the Nippon Kenko Kaigi (February 2017)

MSCI Japan Empowering Women Index

Selected for inclusion in the MSCI Japan Empowering Women Index (WIN), adopted by the Government Pension Investment Fund (GPIF) for fund investment operations (July 2017)

Ratio of Employees by Region (As of March 31, 2017)



▶ Please refer to P.9 for information on changes in employee ratios by region.

Promoting Diversity

Santen is working to build an organization and develop its human resources in a manner that enables each of its employees, with their varied histories and cultural backgrounds, to recognize one another's values and achieve their maximum potential, regardless of gender, nationality, disability or life stage. We have accelerated the pace of our global expansion, and as of the end of March 2017, the ratio of overseas employees stood at 46%. Further, overseas employees are being actively promoted to corporate officer and other management positions. The ratio of our female managers in Japan had risen to 10.2% as of the end of March 2017, and the employment rate of people with disabilities as of June 2017 stood at 2.19%, above the statutory requirement.

Programs for Achieving Work-Life Balance

We believe that achieving work-life balance will lead to the growth of human resources and thus the company itself. In Japan, Santen launched a "Project for the Advancement of Measures to Support the Raising of the Next-Generation of Children" in the fiscal year ended March 31, 2006, under a collaboration between labor and management. Systems introduced support child rearing, including child care leave and shortened working hours for child care. As a result of our efforts to date, the number of employees taking advantage of these programs has risen, and this has led to improved employee satisfaction levels.

Ensuring Employee Health and Safety

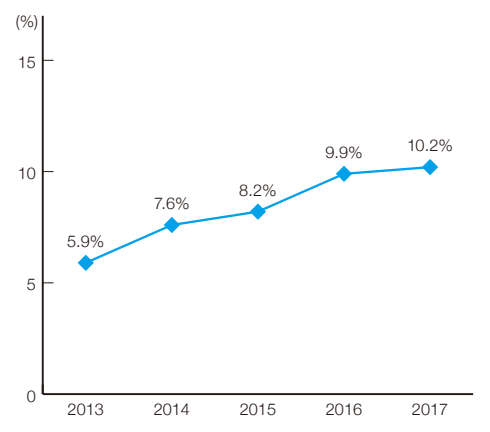
Santen has established health and safety management systems in Japan, China (Suzhou Plant) and Finland (Tampere Plant), according to the characteristics and scales of each business site, with the goal of achieving zero occupational accidents. When occupational accidents occur, we undertake countermeasures such as determining the cause, inspecting similar areas, and strengthening safety education, in our efforts to prevent recurrences.

Occupational Accidents

		2015	2016	2017
All domestic operational sites (Japan)	Number of lost-worktime accidents[1]	0	3	**2**
	Frequency rate of occupational accidents[2]	0.00	0.80	**0.57**
	Severity rate of occupational accidents[3]	0.000	0.036	**0.002**
Suzhou Plant (China)	Number of lost-worktime accidents	0	0	**0**
	Frequency rate of occupational accidents	0.00	0.00	**0.00**
	Severity rate of occupational accidents	0.000	0.000	**0.000**
Tampere Plant (Finland)	Number of lost-worktime accidents	3	2	**6**
	Frequency rate of occupational accidents	6.37	4.04	**12.30**
	Severity rate of occupational accidents	0.039	0.032	**0.164**

1. For Japan and China, the number of accidents associated with lost worktime. For Finland, the number of accidents associated with lost worktime of more than three days.
2. Number of deaths and injuries resulting from occupational accidents for every one million actual hours worked, an indicator of accident frequency.
3. Number of lost workdays for every 1,000 hours actually worked, an indicator of accident severity.

Ratio of Female Managers (Japan)



Child Care and Nursing Care Support Systems (Excerpt) and Number of Users (Japan)

System		2015	2016	2017
Special leave (paid)	Maternity leave	17	18	**25**
	Leave to care for pre-school-age children	7	5	**11**
	Nursing care leave	2	2	**2**
Child care leave system		21	16	**37**
Child care short work hour system		6	8	**27**
Nursing care leave system	Nursing care leave	1	0	**1**
	Nursing care short work hour system	0	0	**0**
Annual paid vacation accumulation system[4]	Family care leave	63	73	**81**
	Child care leave for children under elementary school age	40	36	**44**

4. A system allowing for the accumulation of up to 40 days of unused paid annual leave, which can be used for prescribed reasons.

Please refer to the CSR section on the Company's website for details. **http://www.santen.com**

CSR Activities

Environmental Conservation

Measures Against Global Warming

Santen actively strives to reduce CO_2 emissions, and has reduced CO_2 emissions per unit of revenue by 40.7% in Japan, from 263 tons per billion yen in the fiscal year ended March 31, 2013 to 156 tons per billion yen in the fiscal year ended March 31, 2017. Since the fiscal year ended March 31, 2014 we have participated in the low-carbon society action plan of the Federation of Pharmaceutical Manufacturers' Association of Japan, and have been striving to achieve our medium-term target of reducing CO_2 emissions in fiscal 2020 by 23% from fiscal 2005. Santen's CO_2 emissions in the fiscal year ended March 31, 2017 were 24,545 tons, 30.6% lower than fiscal 2005, a reduction exceeding the medium-term target.

▶ Please refer to P.8 for information on changes in CO_2 emissions (Japan).

Zero-Emission Activities

In Japan, Santen has set a medium-term target of achieving a final waste disposal ratio of 0% by fiscal 2020, and is working to reduce waste by promoting "3R" activities centered on waste reduction, reuse, and recycling. Our final disposal ratio in the fiscal year ended March 31, 2017 was 0.012%.

▶ Please refer to P.8 for information on changes in the final waste disposal ratio (Japan).

Preventing Environmental Pollution

Santen regularly measures and analyzes a variety of indices at each business site, including air pollution, water contamination, noise levels and vibration, in order to appropriately control and identify pollution levels according to the regulatory standards stipulated in laws and local regulations. In particular, business sites that handle chemical substances work to maintain strict control over atmospheric emissions and to prevent leaks of waste liquids. Accordingly, systems have been put in place to ensure neighboring areas and the greater environment are not impacted.

Water Resource Safety and Forest Protection

Viewing water as a precious resource, Santen strives to reduce environmental burden by restricting water consumption and other means. The Santen Group's consolidated water usage per unit of revenue in Japan in the fiscal year ended March 31, 2017 was 2.9 km^3 per billion yen, a reduction of 31.8% from the fiscal year ended March 31, 2013. Santen also engages in forest conservation activities, which not only facilitate the absorption of CO_2 but also maintain the rich natural environment and headwater conservation capacity, leading to the protection of biodiversity.

▶ Please refer to P.9 for changes in water usage (Japan).

Global Warming Countermeasures: Targets and Results

Medium-term target (Japan)

Reduce CO_2 emissions for fiscal 2020 **by 23%** from fiscal 2005 level

Results for the fiscal year ended March 31, 2017

Reduced **by 30.6%** from fiscal 2005 level

Zero-Emission Activities: Targets and Results

Medium-term target (Japan)

Achieve a **0%** final waste disposal ratio by fiscal 2020

Results for the fiscal year ended March 31, 2017

Final waste disposal ratio **0.012%**

Social Contribution

Contributing to Welfare in the Field of Ophthalmology

Santen is working to enhance welfare in its business field of ophthalmology. We provide assistance for research institutions such as universities and academic associations, as well as specialist research associations. At the same time, we provide continuous support for medical professionals and organizations involved in activities to raise patient awareness and prevent loss of eyesight.

Support for Improving Access to Healthcare in Developing Countries

In developing countries, there are many people suffering from healthcare access limitations due to poverty, inadequate insurance systems or insufficient medical information. To help provide improved access to healthcare for such people, Santen donates to the ICO Foundation[1], the largest ophthalmic foundation in the world, as well as supplying pharmaceuticals to organizations that promote ophthalmic care activities in developing countries. The ICO particularly focuses on addressing the shortage of ophthalmologists in developing countries, and offers a "Teaching the Teachers" support program for ophthalmology teachers, which Santen has supported through continual donations since 2012.

1. International Council of Ophthalmology Foundation

Donation Basic Policy

Santen has formulated Donation Regulations, to clarify the basic policy on donations in accordance with Santen's Values and the procedures to be followed in making donations, and to continuously make social contribution as a corporate citizen. The regulations set the target for the annual total amount of donations at 1% or more of non-consolidated pretax profits, and the upper limit at about 2%.

Activities as a Corporate Citizen

Santen is working to be a corporation that is trusted by local communities and society by promoting activities as a good corporate citizen. We are working to deepen our ongoing dialogue and connections with local communities and build relationships of trust by participating in community events, holding tours of our plants, and other activities. We also work to support the recovery of regions affected by disasters, and in 2016, made donations to disaster victims of the Kumamoto and Taiwan earthquakes and others. With regards to the 2011 Great East Japan Earthquake, our employee union continues to conduct volunteer activities, with four such activities held through 2016.

Main Recipients of Pharmaceuticals for Ophthalmic Care Activities in Developing Countries (Fiscal year ended March 31, 2017)

Association for Ophthalmic Cooperation in Asia
Association for Ophthalmic Support in Africa
Japan Tanzania Eye Medical Support Team
Japan-Philippines Volunteer Medical Service Activities
Association for Ophthalmic support in South Pacific

Initiatives to Support Sports for People with Visual Impairment

Santen supports sports for people with visual impairment in order to promote understanding and interest in ophthalmic disorders and to foster an awareness of patient perspectives through employee volunteer and other means. In March 2017, Santen entered into a partnership agreement with the NPO Japan Blind Football Association. The agreement includes provision of opportunities for children with visual impairment to encounter sports and engage in them outside of school, as well as sponsorship of diversity education programs for elementary and junior high school students. Through sports, we hope to create a unified, borderless society for all.

Santen Blind Soccer Kids Camp 2017 in Kansai, Japan (July 2017)

Please refer to the CSR section on the Company's website for details. **http://www.santen.com**

Corporate Governance

Santen will work to enhance and strengthen its corporate governance, and promote business activities based on Santen's Values.

Overview of the Corporate Governance System

Basic Views on Corporate Governance

The Santen Group believes it is vital to upgrade and strengthen its corporate governance system in order to maximize corporate value, and thus returns to shareholders.

Santen has adopted a "Company with Board of Corporate Auditors" system as defined in Japan's Companies Act. Santen works to continuously to upgrade and strengthen its corporate governance systems in place.

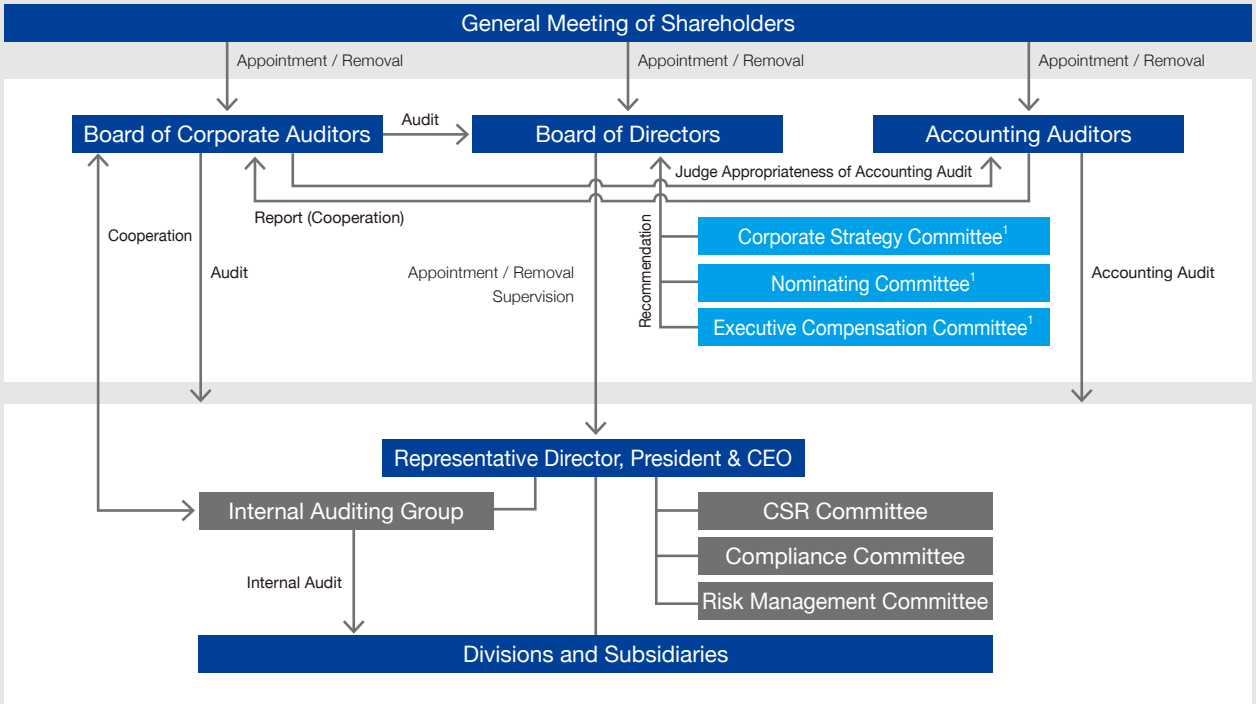
First, the function of the Board of Directors is to make decisions concerning the vital execution of the business as well as to monitor the execution of the business by the Officers and Directors. Santen operates with focus on swift and appropriate managerial decision-making.

Santen expects its Outside Directors to be actively involved in Board of Director decision-making on managerial issues, taking advantage of their wide range of experience and knowledge. Santen also seeks their opinions from the perspective of strengthening management monitoring function.

Furthermore, Santen has taken specific steps such as establishing the Corporate Strategy Committee, the Nominating Committee and the Executive Compensation Committee, which are all voluntary committees comprised of Inside and Outside Directors, and introduced a corporate officer system to strengthen management and improve the speed of business execution. Santen will continue to improve management transparency and objectivity.

Corporate Auditors audit the Board of Directors and operating divisions by collaborating with the Accounting Auditors and the Internal Auditing Group and utilizing the Corporate Auditor's Group, bringing into view not only the legality but also the appropriateness and effectiveness of the performance of their duties, and Santen endeavors to strengthen their function.

Santen Internal Governance System (As of June 2017)



1. These committees are voluntary and not part of the statutory "Company with a Nominating Committee, etc., System" under Japan's Companies Act.

Status of Management Supervision Structure

Santen has created structures that enable accurate decision-making and business execution in accordance with the issues facing management.

Santen's Board of Directors features well-balanced knowledge, experience and the ability to effectively fulfill its roles and responsibilities with a structure that satisfies both diversity and an appropriate number of members. Moreover, Santen has appointed Corporate Auditors with the expertise necessary to properly perform audits, including finance and accounting issues.

To promote meaningful discussions and important agenda items resolutions at Board of Director Meetings, materials for the meetings and the relevant information are provided to the Outside Directors and Outside Corporate Auditors in advance followed by sufficient explanations concerning the background, purpose and other agenda details of said meetings.

Purpose of the Voluntary Committees

Committee	Purpose
Corporate Strategy Committee	• The Corporate Strategy Committee deliberates on key strategic issues such as business strategies.
Nominating Committee	• The Nominating Committee deliberates on the selection of candidates for Directors and submits recommendations. • This committee also submits recommendations in response to consultations concerning the selection of candidates as Corporate Officers and Corporate Auditors.
Executive Compensation Committee	• The Executive Compensation Committee deliberates on the compensation of Directors and Corporate Officers and submits recommendations to the Board of Directors. • This committee also submits recommendations to the Board of Corporate Auditors with respect to the policy on determining the compensation of Corporate Auditors with reference to market levels.

Corporate Governance Meeting Composition (As of August 2017)

Position	Name	Board of Directors	Board of Corporate Auditors	Corporate Strategy Committee	Nominating Committee	Executive Compensation Committee
Directors	Akira Kurokawa	○		○	○	○
	Takeshi Ito	○		○		
	Akihiro Tsujimura	○		○		
	Shigeo Taniuchi	○		○		
	Takayuki Katayama Outside Director	○		○	○	○
	Kanoko Oishi Outside Director	○		○	○	○
	Yutaro Shintaku Outside Director	○		○	○	○
Corporate Auditors	Masashi Murata	○	○			
	Yutaka Mizuno Outside Corporate Auditor	○	○			
	Koichi Matsuzawa Outside Corporate Auditor	○	○			
	Seiichiro Adachi Outside Corporate Auditor	○	○			

TOPICS Analysis and Assessment of Effectiveness of the Board of Directors

As a part of ongoing efforts to improve corporate governance, the Santen Group conducted an analysis and assessment of the effectiveness of the Board of Directors for the purpose of further improving the roles and functions played by the Board of Directors.

Summary of Analysis and Assessment

An evaluation of the effectiveness of the Board of Directors was conducted for the fiscal year ended March 31, 2017, based on the outcome of evaluation surveys and individual interviews of all Directors and Corporate Auditors, and discussed at the Board of Directors.

The assessment concluded that the Board of Directors is operating effectively. The Board of Directors was shown to have an adequate atmosphere for facilitating discussions and the exchange of opinions in a relaxed and constructive manner. As an area that could be improved, the importance of augmenting governance functions was recognized in light of the Company's global business expansion, and the following policies were decided as initiatives going forward.

- Enhance ongoing monitoring of important matters decided by the Board of Directors to strengthen oversight functions
- Strengthen discussions from the perspective of risk management

The Company intends to continue improving the functions of the Board of Directors, such as by increasing opportunities to share information and opinions among the Inside and Outside Directors and Corporate Auditors, so that decision-making is accelerated.

For details, please refer to the Corporate Governance Report on the Company's website. **http://www.santen.com**

Reasons for Selecting the Current Corporate Governance System

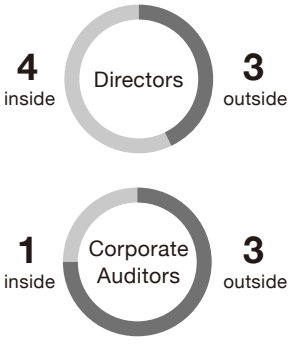
Santen's governance is based on the corporate organizational form of a "Company with Board of Corporate Auditors" as defined in Japan's Companies Act. This structure enables the Company to have objective audits by Corporate Auditors who are in independent positions of the execution of the business by the Directors. Furthermore, to secure transparency, objectivity and appropriateness of management, Santen believes that making the most of systems such as the voluntary committees on business strategy, nomination of officers, executive compensation, etc. will contribute to the strengthening of the current corporate governance system. As a material management matter, Santen commits to continuously review the improvement and strengthening of the said system.

Ensuring Independence of Outside Directors and Outside Corporate Auditors

Santen has made a concerted effort to nominate Outside Directors and Corporate Auditors, with Outside Directors serving on its Board since June 2003. In a bid to strengthen and enhance management supervision functions, a number of highly independent Outside Directors and Outside Corporate Auditors have been appointed. All of its Outside Directors and Outside Corporate Auditors satisfy the requirements of independent officers as defined by the Companies Act and the Tokyo Stock Exchange, and are registered with the Tokyo Stock Exchange.

For details about the criteria of independence, please refer to convocation notices on the Company's website.
http://www.santen.com

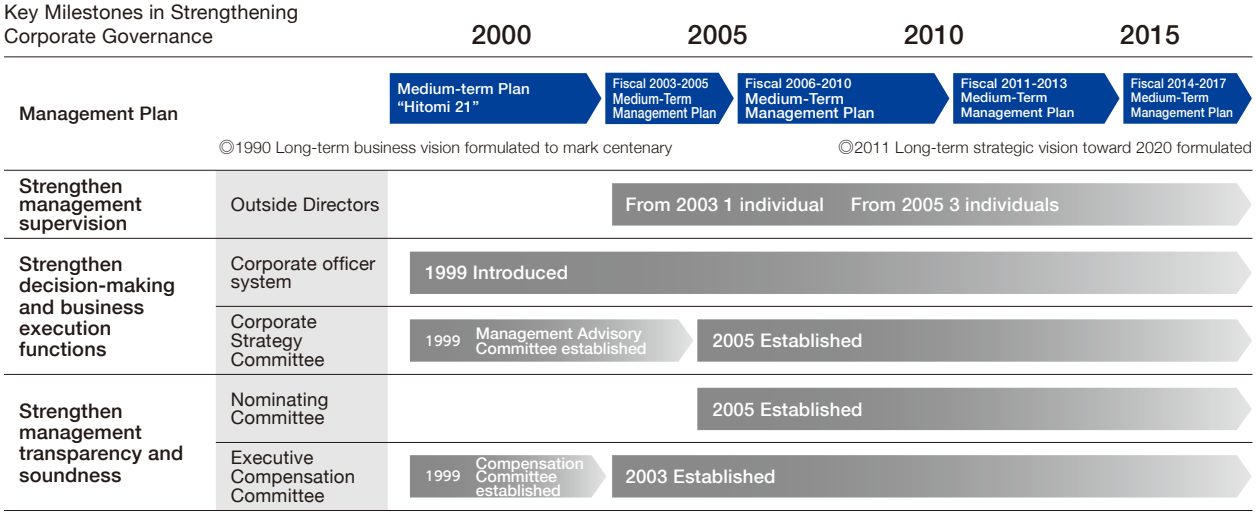
Composition of Directors and Corporate Auditors



Attendance of Outside Directors and Outside Corporate Auditors

Position	Name	Independent Officers	Attendance at Board of Directors Meetings	Attendance at Board of Corporate Auditors Meetings
Outside Directors	Takayuki Katayama	○	Attended 16 out of 16 meetings	—
	Kanoko Oishi	○	Attended 15 out of 16 meetings	—
	Yutaro Shintaku	○	Appointed June 2017	—
Outside Corporate Auditors	Yutaka Mizuno	○	Attended 16 out of 16 meetings	Attended 10 out of 10 meetings
	Koichi Matsuzawa	○	Attended 16 out of 16 meetings	Attended 10 out of 10 meetings
	Seiichiro Adachi	○	Attended 16 out of 16 meetings	Attended 10 out of 10 meetings

Key Milestones in Strengthening Corporate Governance



Director and Corporate Auditor Compensation

Amount of Director and Corporate Auditor Compensation, Policy for Deciding Calculation of Compensation, and Decision Methodology

Santen has established an Executive Compensation Committee as one of the voluntary committees (albeit these committees are not part of the statutory "Company with a Nominating Committee, etc., System"), which is also attended by the Outside Directors. Compensation and other payments to be received by Directors, Corporate Auditors and Corporate Officers are determined based on the basic policy as follows:

1. Provide a competitive level of compensation allowing the recruitment of excellent human resources.
2. Aim for a compensation system that achieves accountability to shareholders and employees.
3. Establish definite corporate and individual goals as well as compensation based thereon, which raise the motivation and morale of Directors and Corporate Officers upon the performance of their duties.
4. Classify into four (4) categories of systems i.e., those for Directors and Corporate Officers, Outside Directors, Standing Corporate Auditors and Outside Corporate Auditors.

■ Director Compensation and Calculation Methodology

1. Director compensation (excluding Outside Directors) consists of basic compensation, an annual bonus and stock options.
2. Basic compensation is decided according to rank and based on job evaluations.
3. Annual bonuses are determined according to company performance and individual performance.
4. Stock options are awarded to Directors (excluding Outside Directors) and determined based on the amount of rank-based compensation.
5. Outside Director compensation is decided with consideration given to prevailing market standards.

■ Corporate Auditor Compensation and Calculation Methodology

Corporate Auditor compensation is decided based on discussions among the Corporate Auditors while referring to market standards based on advice received from the Executive Compensation Committee. The compensation paid to each Corporate Auditor is fixed based on their status as full-time or part-time, in accordance with the principles of the statutory auditor system.

Director and Corporate Auditor Compensation

Position	Total Compensation (Millions of yen)	Total Compensation by Category (Millions of yen)			Number of Eligible People
		Basic Compensation (Annual)	Stock Compensation-Type Stock Options	Retirement Benefits	
Directors (Excluding Outside Directors)	178	141	37	—	2
Corporate Auditors (Excluding Outside Corporate Auditors)	25	25	—	—	2
Outside Directors	39	39	—	—	3
Outside Corporate Auditors	28	28	—	—	3

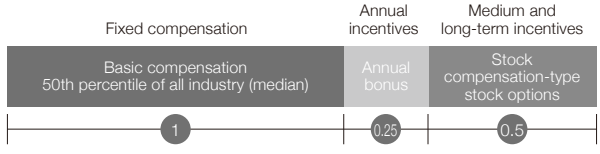
Note: The number of Directors and Corporate Auditors shown above represents the total number of individuals appointed in the fiscal year ended March 31, 2017, including one Corporate Auditor whose term of office ended at the Annual General Meeting of Shareholders held on June 24, 2016.

Limits to Director Compensation

Directors	Basic Compensation (Annual)	¥430 million (maximum set by resolution of the General Meeting of Shareholders on June 23, 2010)
	Stock Compensation-Type Stock Options (Annual)	¥160 million (maximum set by resolution of the General Meeting of Shareholders on June 25, 2013)
Corporate Auditors	Basic Compensation (Annual)	¥80 million (maximum set by resolution of the General Meeting of Shareholders on June 27, 2006)

Breakdown of Director Compensation

Director compensation (excluding Outside Directors) consists of a fixed basic compensation, an annual bonus tied to company performance and individual evaluation, and stock options. Assuming basic compensation is 1, annual bonuses and stock options are typically 0.25 and 0.5, respectively, of the amount.



Addressing the Corporate Governance Code

Santen implements all of the principles of the Corporate Governance Code of the Tokyo Stock Exchange. In November 2015, Santen stated the Basic Policy on Corporate Governance based on the five General Principles of the Corporate Governance Code (Ensuring the Right and Equality of Shareholders, Cooperation with Stakeholders Other Than Shareholders, Ensuring Appropriate Disclosure of Information and Transparency, Responsibilities of the Board of Directors, etc., Dialogue with Shareholders and Other Persons), and discloses the policy on its corporate website.

For details, please refer to the Basic Policy on Corporate Governance and the Corporate Governance Report on the Company's website.
http://www.santen.com

Internal Control System

Development of the Internal Control System

In accordance with Japan's Companies Act and the Ordinance of Enforcement of the Companies Act, Santen has passed a resolution regarding the development of a system to ensure appropriate operations (Basic Policy on Internal Control). The operating divisions regularly report on the status of the development and implementation of the system to the Board of Directors, while the Board of Directors gives instructions and makes course corrections as necessary, in order to qualitatively enhance the development and implementation of the internal control system and expand its scope.

Furthermore, in May 2015, Santen revised the internal control system in line with amendments to the Companies Act. At a meeting held on June 24, 2016, the Board of Directors passed a resolution regarding the partial amendment of the Basic Policy on Internal Control to develop and promote an appropriate internal control system for the entire Group in response to the globalization of Santen's management.

For details and information on operational status, please refer to the Corporate Governance Report on the Company's website.
http://www.santen.com

Compliance

Compliance Committee

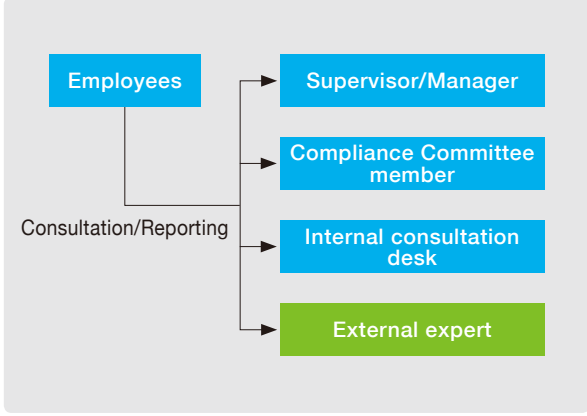
In October 2016, the Santen Group appointed a Chief Compliance Officer (CCO) and set up a Compliance Committee to establish a system for promoting globalization-compatible compliance activities. In December 2016, Santen also held a Meeting of the Global Compliance Committee, which brought together executives in charge of regions and functional organizations, and a Global Meeting of Compliance Administrators, which was attended by in-house compliance administrators in charge of regions and functional organizations.

Compliance Consultation & Reporting Desk

The Santen Group strives to ensure compliance, formulating as the concrete code of conduct in our business activities, the Santen Code of Practice, which provides for desirable ways of action for Santen workers, not to mention compliance with laws and regulations.

Santen has established in each country and region in-house compliance consultation and reporting desks to facilitate employee consultation and reporting on behavior and questions considered suspect in terms of compliance. For instance, in Japan, Santen has established compliance consultation and reporting desks as well as harassment consultation desks. The Company has also adopted measures to prevent consultation or reporting employees from suffering disadvantages, by formulating in-house regulations based on the Whistleblower Protection Act. Additionally, an external helpline with the cooperation of external lawyers has been established.

Example of Compliance Consultation & Reporting Desk in Japan



Risk Management

Risk Management Promotion Framework

Santen has built a system for responding appropriately to major risks related to its global business activities, in accordance with its risk management rules. Santen has established a Risk Management Committee as a system to manage risks in normal circumstances. The Committee cooperates with operating divisions and headquarters to avoid or minimize risk by gathering information and preparing risk management policies and countermeasures for their operations. Further, the Risk Evaluation Committee discusses risk management policies and countermeasures for significant risks that transcend several divisions. An emergency situation affecting Santen beyond a certain level triggers the operation of the Crisis Response Committee headed by a representative director. Based on Santen's risk management rules, the committee coordinates efforts to minimize any losses or damages and ensure a quick recovery, and institutes measures to prevent a recurrence. As regards the status of such risk management efforts, the Company has a permanent secretariat in place with designated executives. The secretariat checks the status of risk management efforts from a Company-wide viewpoint, while the Internal Auditing Group examines them from an independent standpoint. The Company has also stipulated rules for officers and employees to report in the event of an incident that could become a major crisis and established crisis report regulations with the objective of enabling a rapid response to such issues.

Information Security

Regarding information control systems, Santen conducts technological and physical protection and training based on in-house rules for basic information security and document control to safely store and control information. Furthermore, Santen has established personal information protection guidelines and a compliance program regarding personal information protection, which is explained to corporate officers and employees at training events. The Company also works to ensure that they are working properly.

Risk Assessment

The Santen Group conducts risk assessments every two years to comprehensively ascertain risks facing the Group as a whole, while also working to develop an optimal risk management system in line with advances in the globalization of its businesses. Recently, an assessment was conducted by an outside research company of subsidiaries and key business bases worldwide in 2015. The survey did not identify any evidence of serious compliance violations or misconduct, and it confirmed that Santen's corporate culture and environment for preventing those contingencies were largely satisfactory.

Information Disclosure

Ensuring Proactive Information Disclosure and Transparency

The Santen Group discloses information as required by law and regulations, and also makes concerted efforts to fairly disclose accurate information that is easy to understand and not required by law from the standpoint of ensuring transparency and fairness in its decision-making process as well as effective corporate governance. In the Santen Code of Practice, the basic policy on information disclosure states that corporate information shall be properly disclosed in a timely fashion, and that procedures for applying for approval from government entities, filing reports and other applications shall be conducted in a manner that avoids misunderstandings and the appearance of deceit.

Santen aggressively discloses information to shareholders and investors based on its Disclosure Policy. The Company has also created rules for transparency in relationships with medical institutions, and rules for transparency in relationships with patient organizations. Information about the provision of funding to medical institutions and relationships with patient groups is broadly disseminated through its website.

For details, please refer to the Disclosure Policy on the Company's website.
http://www.santen.com

Investor Relations Activities

Santen holds quarterly financial results meeting presentations or conference calls for securities analysts and institutional investors after results are announced. Furthermore, Santen conducts individual meetings and small meetings with domestic and overseas investors. Santen actively participates in conferences hosted by securities companies in Japan and overseas as well as conducts presentations for individual investors in Japan.

Santen's website carries a host of information, including performance reports, data books, financial result meeting presentations, and financial result meeting presentation videos. The website also carries annual Japan FSA filings (Japanese language), annual reports, and convocation notices, resolution notices, and other materials for the general meetings of shareholders.

Board of Directors, Corporate Auditors and Corporate Officers

As of August 2017

(Front row, from left) Takayuki Katayama, Shigeo Taniuchi, Takeshi Ito, Akira Kurokawa, Akihiro Tsujimura, Kanoko Oishi, Yutaro Shintaku
(Back row, from left) Masashi Murata, Yutaka Mizuno, Koichi Matsuzawa, Seiichiro Adachi

(Front row, from left) Kenji Morishima, Kazuo Koshiji, Masamichi Sato, Naveed Shams, Atsutoshi Ota, Akio Kimura
(Back row, from left) Satoshi Suzuki, Noriaki Yamamoto, Ye Liu, Takahiro Morita

Directors

Akira Kurokawa
President and Chief Executive Officer

1977 Joined the Company
1997 Director, General Manager, Head of the Office of Sales and Marketing Division, Prescription Pharmaceuticals
2001 Corporate Officer, Head of Sales and Marketing Division, Prescription Pharmaceuticals
2004 Senior Corporate Officer, Head of Sales and Marketing Division, Prescription Pharmaceuticals
2006 President & COO
2008 President & CEO (incumbent)

Shigeo Taniuchi
Director, Senior Corporate Officer
Head of Santen EMEA
President of Santen Holdings EU B. V.

1996 Joined the Company
2015 Corporate Officer, Head of Santen Europe (currently EMEA), and President of Santen Holdings EU B.V.
2016 Senior Corporate Officer, Head of Santen Europe (currently EMEA), and President of Santen Holdings EU B.V.
2017 Director, Senior Corporate Officer Head of Santen EMEA, President of Santen Holdings EU B. V. (incumbent)

Yutaro Shintaku
Outside Director

2010 Representative Director, President and CEO,Terumo Corporation
2017 Outside Director, J-OIL MILLS, Inc. (incumbent)
2017 Outside Director of the Company (incumbent)
2017 Corporate Advisor, Terumo Corporation (incumbent)

Takeshi Ito
Director, Executive Corporate Officer
Japan Business, Head of Japan Sales and Marketing, Prescription Pharmaceuticals

1982 Joined the Company
2012 Corporate Officer, Head of Prescription Pharmaceuticals Sales Department, Sales and Marketing Division, Prescription Pharmaceuticals
2014 Senior Corporate Officer, Head of Japan Sales and Marketing, Prescription Pharmaceuticals
2016 Executive Corporate Officer, Japan Business, Head of Japan Sales and Marketing, Prescription Pharmaceuticals
2017 Director, Executive Corporate Officer Japan Business, Head of Japan Sales and Marketing, Prescription Pharmaceuticals (incumbent)

Takayuki Katayama
Outside Director

2006 Executive Vice-President and Representative Director, Teijin Limited
2011 Senior Advisor to CEO, Teijin Limited (incumbent)
2012 Outside Director of the Company (incumbent)
2012 Outside Corporate Auditor, Toyo Seikan Group Holdings, Ltd.
2016 Outside Director, Olympus Corporation (incumbent)

Akihiro Tsujimura
Director, Executive Corporate Officer
Asia and North America Businesses
Head of Asia Division
President & CEO of Santen Inc.

2004 Joined the Company
2011 Corporate Officer, COO of Santen Inc.
2015 Senior Corporate Officer, Head of Asia Division
2016 Executive Corporate Officer, Head of Corporate Development Division, Asia and North America Businesses, and President & CEO of Santen Inc.
2017 Director, Executive Corporate Officer, Asia and North America Businesses, Head of Asia Division, President & CEO of Santen Inc. (incumbent)

Kanoko Oishi
Outside Director

1993 Partner, McKinsey & Company, Inc.
2000 Established Mediva, Inc. Chief Executive Officer (incumbent)
2004 Established Platanus Medical Corporation, COO (incumbent)
2015 Outside Director of the Company (incumbent)
2015 External Board Member, Ezaki Glico Co., Ltd. (incumbent)
2015 Outside Director, SURUGA bank Ltd. (incumbent)
2016 External Director, Shiseido Company, Limited (incumbent)

Corporate Auditors

Masashi Murata
Standing Corporate Auditor

1999 Joined the Company
2007 General Manager, Corporate Planning Group
2011 Chief Administrative Officer (CAO), Santen Inc.
2014 General Manager, Corporate Auditor's Group
2016 Standing Corporate Auditor (incumbent)

Yutaka Mizuno
Outside Corporate Auditor

2004 Executive Officer, Matsushita Electric Industrial Co., Ltd. (currently, Panasonic Corporation)
2011 Outside Corporate Auditor of the Company (incumbent)
2013 Outside Audit & Supervisory Board Member, KOKUYO Co., Ltd.

Koichi Matsuzawa
Outside Corporate Auditor

1996 President & CEO, Kirin Europe GmbH
2008 Representative Director & Managing Director, Kirin Holdings Company, Limited
2009 President & CEO, Kirin Brewery Company, Limited
2014 Outside Corporate Auditor of the Company (incumbent)
2017 President & CEO, Meidi-Ya Co., Ltd. (incumbent)

Seiichiro Adachi
Outside Corporate Auditor

2008 Managing Director, Toyota Tsusho Corporation
2010 President, NV Toyota Tsusho Europe SA
2013 Full-time Audit & Supervisory Board Member, Toyota Tsusho Corporation
2015 Advisor, Toyota Tsusho Corporation
2015 Outside Corporate Auditor of the Company (incumbent)
2016 Special Appointed Professor Yokohama College of Commerce (incumbent)

Corporate Officers (Not including directors who also serve as corporate officers)

Masamichi Sato
Senior Corporate Officer
Chief Compliance Officer (CCO)
Head of CSR & Internal Control Division
CEO of Santen Business Service Co., Ltd.

Kenji Morishima
Corporate Officer
Head of Pharmaceutical Technology Development

Ye Liu
Corporate Officer
General Manager
Santen Pharmaceutical (China) Co., Ltd.

Naveed Shams, M.D., Ph.D.
Senior Corporate Officer
Chief Scientific Officer (CSO)
Head of Global Research and Development

Akio Kimura
Corporate Officer
Head of Global Product Supply

Takahiro Morita
Corporate Officer
Head of Japan Prescription Pharmaceuticals Sales

Atsutoshi Ota
Senior Corporate Officer
Head of Human Resources Development Division

Noriaki Yamamoto
Corporate Officer
Chief Information Officer (CIO)
Head of Information Systems Division

Kazuo Koshiji
Senior Corporate Officer
Chief Financial Officer (CFO)
Head of Finance Division

Satoshi Suzuki
Corporate Officer
Head of Corporate Development Division

Message Achieving Sustainable Value Creation

Yutaro Shintaku
Outside Director

Yutaka Mizuno
Outside Corporate Auditor

Governance Supporting Sustainable Growth

A company needs three key elements to keep growing sustainably and creating value: values establishing its reason for being; a strategic vision setting out its aspirations; and the ability to get things done.

Santen has unwavering values embodied in the phrase "*Tenki ni sanyo suru.*" That means "exploring the secrets and mechanisms of nature to contribute to people's health." It also has a strategic vision brimming with creativity. Namely, to become a "Specialized Pharmaceutical Company with a Global Presence."

The ability to get things done is critical. Management and employees must be united in their efforts. Looking at business performance in recent years, employees have worked tirelessly to carry out strategies one by one based on various management decisions. In this sense, Santen is advancing with solid footing as a company that satisfies the conditions necessary for sustaining growth and creating value.

Going forward, I look to continue to assist with governance as an Outside Director by providing useful advice for corporate development with an eye to the future while keeping stakeholders in mind so that Santen stays on a growth track and generates value.

Governance Amid Globalization and Responding to Change

Six years have passed since I was appointed as an Outside Corporate Auditor of Santen. Reflecting back over that time, globalization's rapid advance stands out the most in my memory.

In the fiscal year ended March 31, 2012, about 15% of sales were generated overseas. That ratio has grown to nearly 30% recently, and the target for 40%-50% by 2020 is clearly within sight. I believe this is the result of top management's strong commitment and Company-wide initiatives to deal with globalization. Every year I conduct overseas audits, and I strongly feel that Santen's employees at overseas subsidiaries are building up expertise and achievements and approaching their work with growing confidence.

Moving ahead, I think maintaining that momentum while stepping up the response to change will be required. I look forward to continuing to work as an Outside Corporate Auditor to ensure effective and expeditious corporate governance at Santen as globalization advances.

Business Risks: Main Factors

The Santen Group's future performance or financial condition may be adversely affected by risks and uncertainties, including those mentioned below. The Company takes steps to avoid risks before they occur and to thoroughly manage risks with the understanding that these risks could arise. If a risk materializes, the Company will take appropriate response measures.

External Factors	• Regulatory Controls • Social and Economic Conditions and Changes in Laws • Foreign Exchange
Competitive Factors	• Generic Products
Dependency on Specific Products and Business Partners	• Dependency on Mainstay Products • Dependency on In-Licensed Products • Dependency on Specific Business Partners
R&D Activities	• Uncertainties in New Product Development • Potentially Insufficient Returns on R&D Investment • Issues with Alliances
Other Factors	• Intellectual Property Rights • Production Interruptions or Delays • Cancellation of Sales and Product Withdrawals • Litigation • Risk Related to Global Business Expansion

Eleven-Year Summary of Selected Financial Data

Years ended March 31

	Millions of yen			
	2007	2008	2009	2010
	J-GAAP	J-GAAP	J-GAAP	J-GAAP
For the year:				
Net sales/Revenue	¥100,486	¥103,394	¥101,619	¥110,594
Cost of sales	35,484	36,513	35,947	34,710
Selling, general and administrative expenses[2]	30,926	33,569	31,720	32,121
Research and development expenses	13,663	12,942	18,458	14,123
Operating profit	20,412	20,371	15,494	29,640
Core operating profit	—	—	—	—
Income taxes/Income tax expenses	7,891	7,832	5,701	9,887
Net income/Net profit for the year	13,148	12,651	10,123	18,723
Core net profit for the year	—	—	—	—
Capital expenditures/Payments for acquisition of property, plant and equipment, and intangible assets	3,556	3,151	2,953	1,315
Depreciation and amortization	4,761	4,593	4,210	3,421
At year-end:				
Total assets	¥159,099	¥156,547	¥151,012	¥166,878
Net assets/Total equity	128,646	127,118	125,369	137,603
Liabilities	30,453	29,429	25,643	29,275
Per share data (yen and U.S. dollars)**:**				
EPS (Net income – basic/Basic earnings)[3]	¥ 151.58	¥ 146.15	¥ 119.08	¥ 220.10
Core EPS[3]	—	—	—	—
Equity/Equity attributable to owners of the company[3, 4]	1,481.83	1,494.48	1,472.32	1,614.08
Cash dividends, applicable to the period[3]	13.00	16.00	16.00	16.00
Cash flows:				
Net cash flows from (used in) operating activities	¥ 14,959	¥ 15,468	¥ 11,849	¥ 26,110
Net cash flows from (used in) investing activities	(5,846)	(2,083)	(5,619)	(829)
Net cash flows from (used in) financing activities	(5,691)	(11,415)	(11,373)	(6,753)
Free cash flow[5]	11,403	12,317	8,896	24,795
Interest coverage ratio (times)	164.3	163.6	165.5	558.1
Financial data:				
ROE (Return (Net income) on equity/Return (Net profit for the year) on equity attributable to owners of the company) (%)[4]	10.6	9.9	8.0	14.3
Core ROE (%)	—	—	—	—
ROA (Return (Net income/Net profit for the year) on total assets) (%)	8.5	8.0	6.6	11.8
Equity ratio/Equity attributable to owners of the company ratio (%)[4]	80.8	81.1	82.9	82.3
Debt equity ratio (Interest-bearing debt to equity ratio/Interest-bearing debt to equity attributable to owners of the company ratio) (times)[4]	0.0	0.0	0.0	0.0
PER (Price earnings ratio) (times)	20.0	15.9	23.0	12.7
Dividend payout ratio (%)	42.9	54.7	67.2	36.3
Issued shares (thousands)	86,825	86,867	86,916	86,992
Number of employees	2,409	2,483	2,690	2,756

1. U.S. dollar amounts have been translated from yen, solely for the convenience of the reader, at the rate of ¥112.19 to U.S.$1.00, the exchange rate prevailing on March 31, 2017.
2. Research and development expenses are excluded under J-GAAP.
3. The Company conducted a five-for-one share split of ordinary shares on the effective date of April 1, 2015. Per share data other than cash dividends, applicable to the period for the fiscal year ended March 31, 2014 and the subsequent fiscal years are calculated under the assumption that the share split took effect at the beginning of the fiscal year ended March 31, 2014. Cash dividends, applicable to the period have been retrospectively adjusted to reflect the impact of the share split.
4. Equity is calculated by deducting stock subscription rights from net assets under J-GAAP.
5. Free cash flow = (Net cash flows from operating activities) - (Capital expenditures/Payments for acquisition of property, plant and equipment, and intangible assets)

							Thousands of U.S. dollars[1]
2011	2012	2013	2014	2015	2016	2017	2017
J-GAAP	J-GAAP	J-GAAP	IFRS	IFRS	IFRS	IFRS	IFRS
¥110,812	¥114,416	¥119,066	¥146,260	¥161,831	¥195,291	**¥199,096**	**$1,774,628**
34,437	35,385	41,501	57,353	56,373	72,829	**74,966**	**668,204**
32,415	35,073	36,164	41,642	48,893	59,406	**62,193**	**554,354**
13,221	17,225	16,720	16,862	17,477	19,990	**22,786**	**203,099**
30,739	26,732	24,681	29,878	35,374	80,180	**32,479**	**289,501**
—	—	—	30,403	39,088	43,067	**39,687**	**353,748**
9,741	10,630	9,071	10,643	11,831	26,097	**8,768**	**78,151**
21,333	17,161	16,521	19,718	24,032	53,373	**23,054**	**205,495**
—	—	—	19,813	25,948	29,163	**28,688**	**255,708**
1,651	3,281	3,609	5,879	66,440	9,092	**9,500**	**84,678**
2,976	2,949	3,291	2,841	6,958	9,338	**9,882**	**88,082**
¥184,801	¥198,801	¥199,641	¥237,640	¥304,200	¥355,399	**¥322,778**	**$2,877,069**
156,404	164,861	165,132	187,210	211,779	260,009	**253,884**	**2,262,984**
28,397	33,940	34,509	50,430	92,421	95,391	**68,894**	**614,085**
¥ 249.71	¥ 196.96	¥ 195.81	¥ 47.78	¥ 58.18	¥ 128.99	**¥ 56.20**	**$ 0.50**
—	—	—	48.01	62.82	70.48	**69.93**	**0.62**
1,793.15	1,887.81	1,998.44	452.43	511.14	627.78	**623.06**	**5.55**
18.00	20.00	20.00	20.00	22.00	25.00	**26.00**	**0.23**
¥ 17,768	¥ 21,483	¥ 9,943	¥ 26,686	¥ 25,386	¥ 22,525	**¥ 10,843**	**$ 96,644**
(7,676)	(10,273)	(4,596)	(7,847)	(61,709)	37,052	**(28,201)**	**(251,365)**
(1,570)	(8,559)	(21,557)	(7,954)	28,960	(24,066)	**(28,657)**	**(255,429)**
16,117	18,202	6,334	20,807	(41,054)	13,433	**1,342**	**11,966**
488.5	1,285.0	3,037.8	2,855.4	309.8	230.9	**206.6**	
14.5	10.7	10.0	11.1	12.0	22.6	**9.0**	
—	—	—	11.2	13.0	12.4	**11.2**	
12.1	8.9	8.3	8.9	8.9	16.2	**6.8**	
84.5	82.8	82.6	78.8	69.6	73.2	**78.4**	
0.0	0.0	0.0	0.0	0.2	0.1	**0.1**	
13.3	17.9	22.7	19.2	30.1	13.1	**28.7**	
36.0	50.8	51.1	41.9	37.8	19.4	**46.3**	
87,053	87,147	82,469	82,583	82,653	414,192	**406,173**	
2,867	3,053	3,050	3,072	3,230	3,463	**3,667**	

Financial Section

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Santen Pharmaceutical Co., Ltd. and Its Consolidated Subsidiaries
For the year ended March 31, 2017

	Note	Millions of yen		Thousands of U.S. dollars
		2016	2017	2017
Revenue	6, 7	¥195,291	**¥199,096**	**$1,774,628**
Cost of sales	9	(72,829)	**(74,966)**	**(668,204)**
Gross profit		122,463	**124,130**	**1,106,424**
Selling, general and administrative expenses	8, 9	(59,406)	**(62,193)**	**(554,354)**
Research and development expenses	9	(19,990)	**(22,786)**	**(203,099)**
Amortization on intangible assets associated with products	17	(6,205)	**(6,412)**	**(57,150)**
Other income	10	44,999	**468**	**4,173**
Other expenses	11	(1,681)	**(728)**	**(6,493)**
Operating profit		80,180	**32,479**	**289,501**
Finance income	12	782	**909**	**8,098**
Finance expenses	12	(1,492)	**(1,565)**	**(13,953)**
Profit before tax		79,470	**31,822**	**283,646**
Income tax expenses	13	(26,097)	**(8,768)**	**(78,151)**
Net profit for the year		53,373	**23,054**	**205,495**
Other comprehensive income for the year, net of tax				
Items that will not be reclassified subsequently to profit or loss				
Remeasurements of defined benefit plans	14	(1,007)	**297**	**2,648**
Net gain or loss on financial assets measured at fair value through other comprehensive income	14	7,395	**(8,020)**	**(71,490)**
Items that may be reclassified subsequently to profit or loss				
Foreign currency translation adjustments	14	(2,389)	**535**	**4,771**
Other comprehensive income	14	4,000	**(7,188)**	**(64,071)**
Total comprehensive income for the year		57,373	**15,866**	**141,424**
Profit attributable to				
Owners of the company		53,373	**23,061**	**205,553**
Non-controlling interests		—	**(7)**	**(58)**
Net profit for the year		53,373	**23,054**	**205,495**
Total comprehensive income attributable to				
Owners of the company		57,373	**15,879**	**141,536**
Non-controlling interests		—	**(13)**	**(112)**
Total comprehensive income for the year		¥ 57,373	**¥ 15,866**	**$ 141,424**

Earnings per share		Yen		U.S. dollars
		2016	2017	2017
Basic earnings per share	15	¥ 128.99	**¥ 56.20**	**$ 0.50**
Diluted earnings per share	15	128.41	**55.99**	**0.50**

Consolidated Statement of Financial Position

Santen Pharmaceutical Co., Ltd. and Its Consolidated Subsidiaries
As of March 31, 2017

Assets	Note	Millions of yen 2016	Millions of yen 2017	Thousands of U.S. dollars 2017
Non-current assets				
Property, plant and equipment	16	¥ 27,991	**¥ 28,550**	**$ 254,480**
Intangible assets	17	83,681	**102,807**	**916,368**
Financial assets	18	44,535	**29,889**	**266,416**
Deferred tax assets	13	2,345	**2,396**	**21,356**
Other non-current assets		2,109	**2,124**	**18,935**
Total non-current assets		160,660	**165,767**	**1,477,556**
Current assets				
Inventories	19	24,996	**28,502**	**254,053**
Trade and other receivables	20	65,998	**70,970**	**632,591**
Other financial assets	18	234	**333**	**2,966**
Other current assets		3,714	**3,909**	**34,843**
Cash and cash equivalents	27	99,798	**53,297**	**475,060**
Total current assets		194,739	**157,011**	**1,399,513**
Total assets		355,399	**322,778**	**2,877,069**
Equity and liabilities				
Equity				
Equity attributable to owners of the company				
Share capital	21	7,695	**7,792**	**69,451**
Capital surplus	21	8,389	**8,417**	**75,025**
Treasury shares	21	(24)	**(10)**	**(88)**
Retained earnings	21	221,945	**223,418**	**1,991,424**
Other components of equity	21, 22	22,003	**13,448**	**119,869**
Total equity attributable to owners of the company		260,009	**253,065**	**2,255,681**
Non-controlling interests		—	**819**	**7,303**
Total equity		260,009	**253,884**	**2,262,984**
Liabilities				
Non-current liabilities				
Financial liabilities	23	12,944	**7,619**	**67,910**
Net defined benefit liabilities	24	2,556	**1,900**	**16,935**
Provisions	25	1,629	**1,426**	**12,708**
Deferred tax liabilities	13	3,988	**2,596**	**23,142**
Other non-current liabilities		1,043	**1,919**	**17,107**
Total non-current liabilities		22,161	**15,460**	**137,801**
Current liabilities				
Trade and other payables	26	24,504	**23,937**	**213,365**
Other financial liabilities	23	19,881	**17,603**	**156,900**
Income tax payable		20,431	**3,279**	**29,228**
Provisions	25	1,276	**1,372**	**12,226**
Other current liabilities		7,138	**7,244**	**64,566**
Total current liabilities		73,230	**53,434**	**476,284**
Total liabilities		95,391	**68,894**	**614,085**
Total equity and liabilities		¥355,399	**¥322,778**	**$2,877,069**

Consolidated Statement of Changes in Equity

Santen Pharmaceutical Co., Ltd. and Its Consolidated Subsidiaries
For the year ended March 31, 2016

		Millions of yen					
						Other components of equity	
	Note	Share capital	Capital surplus	Treasury shares	Retained earnings	Remeasurements of defined benefit plans	Net gain or loss on financial assets measured at fair value through other comprehensive income
Balance at April 1, 2015		¥7,383	¥8,077	¥(18)	¥178,840	¥ —	¥11,944
Comprehensive income							
Net profit for the year					53,373		
Other comprehensive income	14					(1,007)	7,395
Total comprehensive income for the year		—	—	—	53,373	(1,007)	7,395
Transactions with owners							
Issuance of new shares	21	312	312				
Acquisition of treasury shares	21			(5)			
Dividends	21				(9,925)		
Share-based payments	21, 22						
Other					(343)	1,007	(664)
Total transactions with owners		312	312	(5)	(10,268)	1,007	(664)
Balance at March 31, 2016		¥7,695	¥8,389	¥(24)	¥221,945	¥ —	¥18,676

		Millions of yen					
		Other components of equity					
	Note	Foreign currency translation adjustments	Subscription rights to shares	Total	Total equity attributable to owners of the company	Non-controlling interests	Total equity
Balance at April 1, 2015		¥ 5,000	¥553	¥17,497	¥211,779	¥—	¥211,779
Comprehensive income							
Net profit for the year				—	53,373		53,373
Other comprehensive income	14	(2,389)		4,000	4,000		4,000
Total comprehensive income for the year		(2,389)	—	4,000	57,373	—	57,373
Transactions with owners							
Issuance of new shares	21		(86)	(86)	538		538
Acquisition of treasury shares	21			—	(5)		(5)
Dividends	21			—	(9,925)		(9,925)
Share-based payments	21, 22		249	249	249		249
Other				343	—		—
Total transactions with owners		—	163	506	(9,143)	—	(9,143)
Balance at March 31, 2016		¥ 2,611	¥716	¥22,003	¥260,009	¥—	¥260,009

Consolidated Statement of Changes in Equity

Santen Pharmaceutical Co., Ltd. and Its Consolidated Subsidiaries
For the year ended March 31, 2017

		Millions of yen					
						Other components of equity	
	Note	Share capital	Capital surplus	Treasury shares	Retained earnings	Remeasurements of defined benefit plans	Net gain or loss on financial assets measured at fair value through other comprehensive income
Balance at April 1, 2016		¥7,695	¥8,389	¥ (24)	¥221,945	¥ —	¥18,676
Comprehensive income							
Net profit for the year					23,061		
Other comprehensive income	14					297	(8,020)
Total comprehensive income for the year		—	—	—	23,061	297	(8,020)
Transactions with owners							
Issuance of new shares	21	97	97				
Acquisition of treasury shares	21		(69)	(12,311)			
Disposal of treasury shares	21		(0)	0			
Cancellation of treasury shares	21		(0)	12,325	(12,325)		
Dividends	21				(10,751)		
Establishment of subsidiary with non-controlling interests							
Share-based payments	21, 22						
Other					1,487	(297)	(1,186)
Total transactions with owners		97	28	14	(21,588)	(297)	(1,186)
Balance at March 31, 2017		¥7,792	¥8,417	¥ (10)	¥223,418	¥ —	¥ 9,470

		Millions of yen					
		Other components of equity					
	Note	Foreign currency translation adjustments	Subscription rights to shares	Total	Total equity attributable to owners of the company	Non-controlling interests	Total equity
Balance at April 1, 2016		¥2,611	¥716	¥22,003	¥260,009	¥ —	¥260,009
Comprehensive income							
Net profit for the year				—	23,061	(7)	23,054
Other comprehensive income	14	541		(7,182)	(7,182)	(6)	(7,188)
Total comprehensive income for the year		541	—	(7,182)	15,879	(13)	15,866
Transactions with owners							
Issuance of new shares	21		(24)	(24)	169		169
Acquisition of treasury shares	21			—	(12,380)		(12,380)
Disposal of treasury shares	21			—	0		0
Cancellation of treasury shares	21			—	—		—
Dividends	21			—	(10,751)		(10,751)
Establishment of subsidiary with non-controlling interests				—	—	832	832
Share-based payments	21, 22		138	138	138		138
Other			(4)	(1,487)	—		—
Total transactions with owners		—	110	(1,373)	(22,823)	832	(21,991)
Balance at March 31, 2017		¥3,153	¥825	¥13,448	¥253,065	¥819	¥253,884

Santen Pharmaceutical Co., Ltd. and Its Consolidated Subsidiaries
For the year ended March 31, 2017

	Note	Thousands of U.S. dollars					
						Other components of equity	
		Share capital	Capital surplus	Treasury shares	Retained earnings	Remeasurements of defined benefit plans	Net gain or loss on financial assets measured at fair value through other comprehensive income
Balance at April 1, 2016		$68,590	$74,779	$ (217)	$1,978,299	$ —	$166,471
Comprehensive income							
Net profit for the year					205,553		
Other comprehensive income	14					2,648	(71,490)
Total comprehensive income for the year		—	—	—	205,553	2,648	(71,490)
Transactions with owners							
Issuance of new shares	21	862	862				
Acquisition of treasury shares	21		(616)	(109,730)			
Disposal of treasury shares	21		(0)	0			
Cancellation of treasury shares	21		(0)	109,859	(109,859)		
Dividends	21				(95,825)		
Establishment of subsidiary with non-controlling interests							
Share-based payments	21, 22						
Other					13,256	(2,648)	(10,570)
Total transactions with owners		862	245	129	(192,427)	(2,648)	(10,570)
Balance at March 31, 2017		$69,451	$75,025	$ (88)	$1,991,424	$ —	$ 84,412

	Note	Thousands of U.S. dollars					
		Other components of equity					
		Foreign currency translation adjustments	Subscription rights to shares	Total	Total equity attributable to owners of the company	Non-controlling interests	Total equity
Balance at April 1, 2016		$23,275	$6,379	$196,125	$2,317,576	$ —	$2,317,576
Comprehensive income							
Net profit for the year				—	205,553	(58)	205,495
Other comprehensive income	14	4,825		(64,017)	(64,017)	(54)	(64,071)
Total comprehensive income for the year		4,825	—	(64,017)	141,536	(112)	141,424
Transactions with owners							
Issuance of new shares	21		(217)	(217)	1,507		1,507
Acquisition of treasury shares	21			—	(110,346)		(110,346)
Disposal of treasury shares	21			—	0		0
Cancellation of treasury shares	21			—	—		—
Dividends	21			—	(95,825)		(95,825)
Establishment of subsidiary with non-controlling interests				—	—	7,414	7,414
Share-based payments	21, 22		1,233	1,233	1,233		1,233
Other			(39)	(13,256)	—		—
Total transactions with owners		—	978	(12,240)	(203,431)	7,414	(196,016)
Balance at March 31, 2017		$28,100	$7,357	$119,869	$2,255,681	$7,303	$2,262,984

Consolidated Statement of Cash Flows

Santen Pharmaceutical Co., Ltd. and Its Consolidated Subsidiaries
For the year ended March 31, 2017

	Note	Millions of yen		Thousands of U.S. dollars
		2016	2017	2017
Cash flows from operating activities				
Net profit for the year		¥ 53,373	**¥ 23,054**	**$ 205,495**
Depreciation and amortization		9,338	**9,882**	**88,082**
Impairment losses		395	**475**	**4,236**
Finance expenses (income)		(545)	**1,180**	**10,517**
Income tax expenses		26,097	**8,768**	**78,151**
Gain on transfer of disposal group	34	(44,477)	**—**	**—**
Decrease (increase) in trade and other receivables		(4,799)	**(5,489)**	**(48,929)**
Decrease (increase) in inventories		(5,388)	**(4,120)**	**(36,721)**
Increase (decrease) in trade and other payables		4,376	**(425)**	**(3,784)**
Increase (decrease) in provisions and net defined benefit liabilities		(3,974)	**(200)**	**(1,780)**
Other		653	**913**	**8,141**
Subtotal		35,049	**34,039**	**303,408**
Interest received		67	**74**	**664**
Dividends received		573	**681**	**6,071**
Interest paid		(98)	**(52)**	**(468)**
Income tax paid		(13,067)	**(23,900)**	**(213,031)**
Net cash flows from (used in) operating activities		22,525	**10,843**	**96,644**
Cash flows from investing activities				
Payments into time deposits		(21)	**—**	**—**
Proceeds from withdrawal of time deposits		21	**19**	**169**
Payments for acquisition of investments		(2,210)	**(478)**	**(4,258)**
Proceeds from sale of investments		2,682	**1,364**	**12,155**
Payments for acquisition of subsidiary	28	—	**(19,064)**	**(169,927)**
Payments for acquisition of property, plant and equipment		(4,299)	**(4,145)**	**(36,943)**
Proceeds from sales plant and equipment		696	**4**	**34**
Payments for acquisition of intangible assets		(4,793)	**(5,355)**	**(47,735)**
Proceeds from transfer of disposal group	34	45,000	**—**	**—**
Other		(25)	**(545)**	**(4,860)**
Net cash flows from (used in) investing activities		37,052	**(28,201)**	**(251,365)**
Cash flows from financing activities				
Proceeds from long-term loans		500	**3,000**	**26,740**
Repayments of long-term loans		(15,133)	**(9,524)**	**(84,895)**
Payments for acquisition of treasury shares	21	(5)	**(12,380)**	**(110,346)**
Capital contribution from non-controlling interests		—	**832**	**7,414**
Dividends paid		(9,923)	**(10,751)**	**(95,825)**
Other		495	**167**	**1,484**
Net cash flows from (used in) financing activities		(24,066)	**(28,657)**	**(255,429)**
Net increase (decrease) in cash and cash equivalents		35,510	**(46,015)**	**(410,150)**
Cash and cash equivalents at the beginning of period	27	65,923	**99,798**	**889,540**
Effect of exchange rate changes on cash and cash equivalents		(1,636)	**(1,501)**	**(13,376)**
Cash and cash equivalents at the end of period	27	¥ 99,798	**¥ 52,282**	**$ 466,015**

1. Reporting Entity

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

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

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

2. Basis of Preparation

1) Compliance with IFRS

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

2) Basis of Measurement

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

3) Functional Currency and Presentation Currency

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

For the convenience of readers outside Japan, the accompanying consolidated financial statements are also presented in U.S. dollars by translating Japanese yen amounts at the exchange rate of ¥112.19 to US $1.00, the approximate rate of exchange at the end of March 31, 2017. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at the above or any other rate.

4) Newly Adopted of Standards and Interpretations

The standards and interpretations the Santen Group has adopted from this fiscal year are set forth in the table below. The application of these standards and interpretations did not have a material impact on the consolidated financial statements.

	IFRS	Mandatory adoption (From the fiscal year beginning on or after)	To be adopted by the Santen Group	Description of new standards, interpretations and amendments
IAS 16	Property, Plant and Equipment	January 1, 2016	Fiscal year ended March 2017	Amendment to the clarification of acceptable methods of depreciation
IAS 38	Intangible Assets	January 1, 2016	Fiscal year ended March 2017	Amendment to the clarification of acceptable methods of amortization

5) Early Adoption of New Standards

The Santen Group has early adopted IFRS 9 *Financial Instruments* ("IFRS 9") (amended in October 2010 and December 2011) since the transition date (April 1, 2013).

IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement* and divides financial instruments into two classifications: those measured at amortized cost and those measured at fair value. Changes in the fair value of financial assets measured at fair value are recognized in profit or loss. Changes in fair value with respect to investments in equity instruments are recognized in other comprehensive income, except for equity instruments held for trading purposes.

6) Approval of Consolidated Financial Statements

The Santen Group's consolidated financial statements for the fiscal year ended March 31, 2017 were approved by President and CEO Akira Kurokawa and Senior Corporate Officer, Chief Financial Officer (CFO) and Head of Finance Division Kazuo Koshiji on August 4, 2017.

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. When the end of the reporting period of a subsidiary is different from that of the Company, the subsidiary prepares its financial statements for consolidation purpose based on the provisional accounting as of the Company's closing date.

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. Any difference between the adjustment to the non-controlling interests and the fair value of the consideration transferred or received is recognized directly in equity attributable to owners of the company.

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

A. Revenue

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

i. Sale of goods

Revenue from the sale of goods is recognized when all the following conditions have been satisfied:

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

ii. Intellectual property

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

B. Other Income

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

C. Finance Income

i. Interest

Interest is recognized using the effective interest method.

ii. Dividends

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

5) Research and Development Expenses

Internally generated development expenses are recognized as an intangible asset only if capitalization criteria under IAS 38 *Intangible Assets* ("IAS 38") are satisfied.

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 recovered from the taxation authorities using the tax rates enacted or substantively enacted at the end of the reporting period. Current income tax is recognized in profit or loss, except for taxes that arise from transactions or events that are recognized in other comprehensive income or directly in equity as well as those that arise from business combinations.

Deferred taxes are calculated based on the temporary differences between the carrying amounts for financial reporting purposes and the amounts used for taxation purposes at the end of the reporting period. Deferred tax assets are recognized for deductible temporary differences, unused tax credits and unused tax losses to the extent that it is probable that future taxable profit will be available against which they can be utilized. Deferred tax liabilities are basically recognized for taxable temporary differences.

Deferred tax assets and deferred tax liabilities are not recognized for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and affects neither accounting profit nor taxable profit on the transaction date. Deferred tax liabilities are not recognized for taxable temporary differences on initial recognition of goodwill.

Deferred tax liabilities are not recognized for taxable temporary differences associated with investments in subsidiaries and associates when the parent company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not be reversed within the foreseeable future. Moreover, deferred tax assets are not recognized for deductible temporary differences when the temporary difference will be reversed in the foreseeable future or taxable profit will be available against which the temporary difference can be utilized.

Deferred tax assets and liabilities are calculated based on the tax rates that are expected to apply to the period when the deferred tax assets will be realized or the deferred tax liabilities will be settled.

Deferred tax assets and deferred tax liabilities are offset when there is a legally enforceable right to offset current tax assets and current tax liabilities and the deferred tax assets and liabilities are related to income taxes levied by the same taxation authority on the same taxable entity.

8) Property, Plant and Equipment

Property, plant and equipment is recognized at cost, which includes any costs directly attributable to the acquisition of the asset and dismantlement, removal and restoration costs, as well as borrowing costs eligible for capitalization.

After recognition, property, plant, and equipment is measured by using the cost model and is stated at cost less accumulated depreciation and accumulated impairment losses.

Property, plant and equipment other than land are depreciated using the straight-line method over the estimated useful lives of each item from the date the assets are available for use. The estimated useful lives of major property, plant and equipment are as follows:

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

The depreciation methods, residual values and estimated useful lives are reviewed annually and adjusted as necessary.

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

9) Intangible Assets

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

A. Goodwill

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

B. Intangible Assets Other than Goodwill

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

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

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

Impairment losses are shown in "10) Impairment of Property, Plant and Equipment and Intangible Assets." The treatment of expenditures related to research and development incurred within the Santen Group is shown in "5) Research and Development Expenses."

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

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

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

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

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

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

11) Leases

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

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

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

12) Financial Instruments

A. Financial Assets

i. Initial recognition and measurement

The Santen Group recognizes financial assets on the trade date when the Group becomes party to the contractual provisions of the financial asset.

If the following conditions (a) and (b) are met, the financial assets that have been initially recognized are classified as financial assets measured at amortized cost; otherwise, they are classified as financial assets measured at fair value. Equity investment other than held for trading is measured at fair value through other comprehensive income.

(a) The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows;

(b) The contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets are initially measured at fair value plus transaction costs directly attributable to the financial assets, except for financial assets measured at fair value through profit or loss.

ii. Subsequent measurement

The financial assets measured at amortized cost are calculated using the effective interest method.

The financial assets measured at fair value are measured with any changes in fair value recognized through profit or loss. In addition, changes in the fair value of equity instruments other than held for trading are recognized through other comprehensive income and presented as "Financial assets measured at fair value through other comprehensive income" in other components of equity. The amount of other components of equity is transferred directly to retained earnings, not to profit or loss, when the equity investment is derecognized or the decline in its fair value compared to its acquisition cost is significant and other than temporary.

iii. Impairment losses

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

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

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

The Santen Group recognizes financial liabilities on the trade date when the Group becomes a party to the contractual provisions of the financial liability.

Financial liabilities that have been initially recognized are classified as financial liabilities measured at amortized cost, except for financial liabilities measured at fair value through profit or loss.

Financial liabilities except for financial liabilities at fair value through profit or loss are initially measured at fair value less transaction costs that are directly attributable to the issuance.

ii. Subsequent measurement

The financial liabilities measured at amortized cost are measured using the effective interest method.

The financial liabilities measured at fair value through profit or loss are measured at fair value and any gains or losses arising on remeasurement are recognized in profit or 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.

E. Hedge Accounting

The Santen Group designates certain derivatives as cash flow hedges and adopts hedge accounting for the derivatives.

At the inception of the hedge, the Santen Group documents the relationship between the hedging instrument and the hedged item, and the risk management objectives and strategies for undertaking the hedge. The Santen Group also assesses whether the derivatives used in hedging transactions are highly effective in achieving offsetting changes in cash flows of hedged items both at the hedge inception and on an ongoing basis. When a hedging instrument is designated as a cash flow hedge and meets the criteria for hedge accounting, the effective portion of the gains or losses on the hedging instrument is recognized in other comprehensive income. The ineffective portion of gains or losses on the hedging instrument is recognized in profit or loss.

The cumulative gain or loss that was previously recognized in other comprehensive income is reclassified to profit or loss in the same period when the cash flows of the hedged items are recognized in profit or loss and at the same line item in the consolidated statement of profit or loss and other comprehensive income.

Hedge accounting is discontinued when the Santen Group revokes the hedge designation, when the hedging instrument expires or is sold, terminated or exercised, or when the hedge no longer qualifies for hedge accounting.

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 cost (net of tax) of equity transactions is deducted from capital surplus.

B. Treasury Shares

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

17) Share-based Payments

The Santen Group has a share option plan as equity-settled share-based payments for its directors and corporate officers. Share options are measured at fair value on the grant date and the fair value is calculated using the Black-Scholes model. The fair value of share options are recognized as expenses and the corresponding amount as an increase in equity on the grant date.

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
- Share-based payments

5. New Standards and Interpretations Not Yet Adopted

The new standards, interpretations and amendments that have been issued for the consolidated financial statements, which the Santen Group has not yet adopted as of the approval date of the consolidated financial statements are set forth in the table below. The Santen Group is currently estimating the possible impact the application will have on the consolidated financial statements.

IFRS		Mandatory adoption (From the fiscal year beginning on or after)	To be adopted by the Santen Group	Description of new standards, interpretations and amendments
IFRS 15	Revenue from Contracts with Customers	January 1, 2018	Fiscal year ending March 2019	New revenue standards which supersedes IAS 18 "Revenue," IAS 11 "Construction Contracts" and a number of revenue-related interpretations
IFRS 9	Financial Instruments	January 1, 2018	Fiscal year ending March 2019	Amendment to classification, measurement, impairment and hedge accounting of financial instruments
IFRS 16	Lease	January 1, 2019	Fiscal year ending March 2020	Amendments to accounting treatment for lease arrangements

6. Operating Segments

1) Reportable Segments

The reportable segment of the Santen Group brings together the components of the Group that are related to the Group's pharmaceuticals segment, which is centered on the manufacturing and distribution of prescription pharmaceuticals. These components of the Group are those for which separate financial information is available, and are evaluated regularly by the Board of Directors in order to decide on resource allocation and assess performance.

The pharmaceuticals segment conducts research and development, the manufacturing and distribution of prescription and OTC pharmaceuticals and related products. Performance is measured based on segment operating profit. Transfer pricing between reportable segments is determined on an arm's length basis.

Millions of yen

For the year ended March 31, 2016 (April 1, 2015 to March 31, 2016)	Reportable segment: Pharmaceuticals	Other*1	Total	Adjustments	Consolidated financial statements
Revenue from external customers	¥192,554	¥2,737	¥195,291	¥ —	¥195,291
Revenue from other operating segments	—	655	655	(655)	—
Total	192,554	3,392	195,946	(655)	195,291
Segment profit (loss)	81,159	(979)	80,180	—	80,180
				Finance income	782
				Finance expenses	(1,492)
				Profit before tax	¥ 79,470

Millions of yen

Segment assets and other items	Reportable segment: Pharmaceuticals	Other*1	Total	Adjustments*2	Consolidated financial statements
Segment assets	¥226,779	¥3,416	¥230,196	¥125,204	¥355,399
Other items:					
Depreciation and amortization	9,325	13	9,338	—	9,338
Impairment losses	234	160	395	—	395
Additions to non-current assets*3	¥ 8,255	¥ 852	¥ 9,107	¥ —	¥ 9,107

Notes: 1. "Other" comprises operating segments other than the reportable segment, including the medical device operating segments.
2. "Adjustments" of ¥125,204 million for segment assets refer to corporate assets unallocated to the reportable segment, and principally comprise the Company's surplus operating capital (stocks, cash and cash equivalents).
3. "Additions to non-current assets" exclude increases in financial assets and deferred tax assets.

For the year ended March 31, 2017 (April 1, 2016 to March 31, 2017)	Millions of yen				
	Reportable segment: Pharmaceuticals	Other*1	Total	Adjustments	Consolidated financial statements
Revenue from external customers	¥196,023	¥3,073	¥199,096	¥ —	¥199,096
Revenue from other operating segments	—	676	676	(676)	—
Total	196,023	3,749	199,771	(676)	199,096
Segment profit (loss)	33,020	(541)	32,479	—	32,479
				Finance income	909
				Finance expenses	(1,565)
				Profit before tax	¥ 31,822

Segment assets and other items	Millions of yen				
	Reportable segment: Pharmaceuticals	Other*1	Total	Adjustments*2	Consolidated financial statements
Segment assets	¥258,792	¥4,036	¥262,828	¥59,950	¥322,778
Other items:					
Depreciation and amortization	9,868	13	9,882	—	9,882
Impairment losses	307	169	475	—	475
Additions to non-current assets*3	¥ 33,639	¥ 169	¥ 33,808	¥ —	¥ 33,808

For the year ended March 31, 2017 (April 1, 2016 to March 31, 2017)	Thousands of U.S. dollars				
	Reportable segment: Pharmaceuticals	Other*1	Total	Adjustments	Consolidated financial statements
Revenue from external customers	$1,747,239	$27,390	$1,774,628	$ —	$1,774,628
Revenue from other operating segments	—	6,025	6,025	(6,025)	—
Total	1,747,239	33,414	1,780,653	(6,025)	1,774,628
Segment profit (loss)	294,323	(4,822)	289,501	—	289,501
				Finance income	8,098
				Finance expenses	(13,953)
				Profit before tax	$ 283,646

Segment assets and other items	Thousands of U.S. dollars				
	Reportable segment: Pharmaceuticals	Other*1	Total	Adjustments*2	Consolidated financial statements
Segment assets	$2,306,729	$35,977	$2,342,705	$534,364	$2,877,069
Other items:					
Depreciation and amortization	87,962	120	88,082	—	88,082
Impairment losses	2,733	1,503	4,236	—	4,236
Additions to non-current assets*3	$ 299,844	$ 1,503	$ 301,346	$ —	$ 301,346

Notes: 1. "Other" comprises operating segments other than the reportable segment, including the medical device operating segments.
2. "Adjustments" of ¥59,950 million ($534,364 thousand) for segment assets refer to corporate assets unallocated to the reportable segment, and principally comprise the Company's surplus operating capital (stocks, cash and cash equivalents).
3. "Additions to non-current assets" exclude increases in financial assets and deferred tax assets.

2) Products and Services Information

Millions of yen

For the year ended March 31, 2016 (April 1, 2015 to March 31, 2016)	Pharmaceuticals				Other		Total
	Prescription pharmaceuticals						
	Ophthalmic	Anti-rheumatic pharmaceuticals	Other	OTC pharmaceuticals	Medical devices	Other	
Revenue from external customers	¥172,545	¥3,495	¥5,510	¥11,004	¥2,394	¥343	¥195,291

Note: The Company assigned its anti-rheumatic pharmaceuticals business to AYUMI Pharmaceutical Corporation in August 2015.

Millions of yen

For the year ended March 31, 2017 (April 1, 2016 to March 31, 2017)	Pharmaceuticals			Other		Total
	Prescription pharmaceuticals					
	Ophthalmic	Other	OTC pharmaceuticals	Medical devices	Other	
Revenue from external customers	**¥181,859**	**¥1,610**	**¥12,553**	**¥2,536**	**¥537**	**¥199,096**

Thousands of U.S. dollars

For the year ended March 31, 2017 (April 1, 2016 to March 31, 2017)	Pharmaceuticals			Other		Total
	Prescription pharmaceuticals					
	Ophthalmic	Other	OTC pharmaceuticals	Medical devices	Other	
Revenue from external customers	**$1,620,991**	**$14,353**	**$111,894**	**$22,606**	**$4,784**	**$1,774,628**

3) Geographical Areas Information

Millions of yen

For the year ended March 31, 2016 (April 1, 2015 to March 31, 2016)	Japan	Europe	U.S.A.	Asia	Other	Total
Revenue from external customers*1	¥141,849	¥25,562	¥5,265	¥22,601	¥14	¥195,291
Non-current assets*2	99,452	10,207	475	3,647	—	113,781

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.

Millions of yen

For the year ended March 31, 2017 (April 1, 2016 to March 31, 2017)	Japan	Europe	U.S.A.	Asia	Other	Total
Revenue from external customers*1	**¥145,358**	**¥28,521**	**¥ 1,433**	**¥23,738**	**¥46**	**¥199,096**
Non-current assets*2	**96,189**	**8,405**	**25,409**	**3,479**	**—**	**133,482**

Thousands of U.S. dollars

For the year ended March 31, 2017 (April 1, 2016 to March 31, 2017)	Japan	Europe	U.S.A.	Asia	Other	Total
Revenue from external customers*1	**$1,295,639**	**$254,219**	**$ 12,775**	**$211,584**	**$412**	**$1,774,628**
Non-current assets*2	**857,376**	**74,917**	**226,486**	**31,006**	**—**	**1,189,784**

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.
3. The amount in U.S.A. contains the provisional amount of Goodwill from the acquisition of InnFocus, Inc.

4) Information on Major Customers

For the year ended March 31, 2016 (April 1, 2015 to March 31, 2016)	Millions of yen Revenue	Reportable segment
Major customers		
Suzuken Co., Ltd.	¥37,592	Pharmaceuticals
Mediceo Corporation	30,850	Pharmaceuticals

For the year ended March 31, 2017 (April 1, 2016 to March 31, 2017)	Millions of yen Revenue	Reportable segment
Major customers		
Suzuken Co., Ltd.	**¥38,506**	Pharmaceuticals
Mediceo Corporation	**31,411**	Pharmaceuticals

For the year ended March 31, 2017 (April 1, 2016 to March 31, 2017)	Thousands of U.S. dollars Revenue	Reportable segment
Major customers		
Suzuken Co., Ltd.	**$343,219**	Pharmaceuticals
Mediceo Corporation	**279,978**	Pharmaceuticals

7. Revenue

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Sale of goods	¥190,343	**¥197,939**	**$1,764,317**
Other	4,948	**1,157**	**10,311**
Total	¥195,291	**¥199,096**	**$1,774,628**

8. Selling, General and Administrative Expenses

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Wages and bonuses	¥17,447	**¥18,753**	**$167,154**
Advertising and sales promotion expenses	15,238	**15,950**	**142,166**
Legal welfare expenses	2,521	**2,486**	**22,154**
Post-employment benefit cost	1,161	**1,079**	**9,621**
Depreciation and amortization	1,024	**1,259**	**11,225**

9. Employee Benefit Expenses

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Wages and bonuses	¥29,205	**¥30,726**	**$273,873**
Legal welfare expenses	4,179	**4,279**	**38,141**
Post-employment benefit cost (defined contribution plan)	989	**943**	**8,403**
Post-employment benefit cost (defined benefit plan)	1,186	**1,269**	**11,310**
Share-based payment	249	**138**	**1,233**
Other	1,148	**1,496**	**13,337**
Total	¥36,955	**¥38,851**	**$346,297**

Note: Employee Benefit Expenses are included in “Cost of sales,” “Selling, general and administrative expenses” and “Research and development expenses.”

10. Other Income

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Gain on disposal of non-current assets	¥ 2	¥ 4	$ 34
Government grants	260	176	1,569
Gain on transfer of disposal group*1	44,477	—	—
Other	260	288	2,570
Total	¥44,999	¥468	$4,173

Note 1: Gain on transfer of disposal group is a gain recognized in conjunction with the assignment of the Company's anti-rheumatic pharmaceuticals business to AYUMI Pharmaceutical Corporation.

11. Other Expenses

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Loss on disposal of non-current assets	¥ 495	¥130	$1,162
Impairment losses*1	395	475	4,236
Extraordinary expense in connection with the transfer of disposal groups	431	—	—
Other	360	123	1,095
Total	¥1,681	¥728	$6,493

Note 1: Impairment losses are stated in Note "16. Property, Plant and Equipment 2)" and Note "17. Intangible Assets 2)."

12. Finance Income and Expenses

1) Finance Income

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Interest income			
Financial assets measured at amortized cost	¥ 70	¥ 81	$ 718
Dividends income			
Financial assets measured at fair value through other comprehensive income	573	684	6,093
Life insurance	140	144	1,285
Total dividend income	712	828	7,378
Other	—	0	3
Total	¥782	¥909	$8,098

2) Finance Expenses

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Interest expense			
Financial liabilities measured at amortized cost	¥ 94	¥ 50	$ 448
Other	1	0	3
Total interest expense	96	51	450
Foreign exchange losses	1,352	1,497	13,342
Net interest related to post-employment benefits	43	8	72
Other	2	10	89
Total	¥1,492	¥1,565	$13,953

13. 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, 2015	Recognized through profit or loss	Recognized in other comprehensive income	As of March 31, 2016
Deductible temporary differences				
Retirement benefit liabilities	¥ 3,014	¥(192)	¥ 420	¥ 3,243
Inventories	444	2	—	447
Accrued bonuses	866	(78)	—	788
Depreciation and amortization	1,304	(187)	—	1,116
Research and development expenses	1,729	205	—	1,934
Accrued enterprise taxes	485	792	—	1,277
Paid absences	146	(10)	—	136
Impairment losses	88	(15)	—	73
Unearned revenue	242	(143)	—	100
Other	1,138	84	—	1,221
Subtotal	9,456	457	420	10,334
Taxable temporary differences				
Financial assets measured at fair value through other comprehensive income	(5,809)	—	(2,526)	(8,335)
Intangible assets associated with products	(4,903)	307	—	(4,596)
Reserve for special depreciation	(5)	5	—	—
Other	(34)	1	—	(33)
Subtotal	(10,751)	312	(2,526)	(12,965)
Unused tax losses and tax credits				
Unused tax credits	804	129	—	933
Unused tax losses	595	(541)	—	54
Subtotal	1,399	(412)	—	987
Net amount	¥ 104	¥ 358	¥(2,106)	¥ (1,643)

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 March 31, 2016	Recognized through profit or loss	Recognized in other comprehensive income	As of March 31, 2017
Deductible temporary differences				
Retirement benefit liabilities	¥ 3,243	¥ 72	¥ (141)	¥ 3,173
Inventories	447	415	—	862
Accrued bonuses	788	41	—	829
Depreciation and amortization	1,116	(390)	—	726
Research and development expenses	1,934	(1,303)	—	631
Accrued enterprise taxes	1,277	(1,088)	—	188
Paid absences	136	(4)	—	132
Impairment losses	73	(5)	—	69
Unearned revenue	100	(71)	—	29
Other	1,221	360	—	1,581
Subtotal	10,334	(1,973)	(141)	8,219
Taxable temporary differences				
Financial assets measured at fair value through other comprehensive income	(8,335)	—	3,620	(4,715)
Intangible assets associated with products	(4,596)	47	—	(4,550)
Reserve for special depreciation	—	—	—	—
Other	(33)	5	—	(28)
Subtotal	(12,965)	52	3,620	(9,292)
Unused tax losses and tax credits				
Unused tax credits	933	(93)	—	840
Unused tax losses	54	(21)	—	33
Subtotal	987	(114)	—	873
Net amount	¥ (1,643)	¥(2,035)	¥3,478	¥ (200)

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

	Thousands of U.S. dollars			
	As of March 31, 2016	Recognized through profit or loss	Recognized in other comprehensive income	As of March 31, 2017
Deductible temporary differences				
Retirement benefit liabilities	$ 28,903	$ 637	$(1,260)	$ 28,281
Inventories	3,981	3,700	—	7,681
Accrued bonuses	7,026	364	—	7,390
Depreciation and amortization	9,950	(3,480)	—	6,470
Research and development expenses	17,237	(11,613)	—	5,624
Accrued enterprise taxes	11,380	(9,700)	—	1,680
Paid absences	1,209	(32)	—	1,178
Impairment losses	653	(42)	—	611
Unearned revenue	888	(634)	—	254
Other	10,880	3,213	—	14,092
Subtotal	92,108	(17,586)	(1,260)	73,262
Taxable temporary differences				
Financial assets measured at fair value through other comprehensive income	(74,290)	—	32,264	(42,026)
Intangible assets associated with products	(40,970)	416	—	(40,554)
Reserve for special depreciation	—	—	—	—
Other	(295)	48	—	(247)
Subtotal	(115,554)	465	32,264	(82,826)
Unused tax losses and tax credits				
Unused tax credits	8,317	(833)	—	7,484
Unused tax losses	481	(186)	—	295
Subtotal	8,798	(1,019)	—	7,780
Net amount	$ (14,648)	$(18,140)	$31,004	$ (1,785)

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

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

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Deductible temporary differences	¥ 574	¥ 642	$ 5,722
Carry-forwards of unused tax losses	7,093	8,667	77,255
Carry-forwards of unused tax credits	1,114	1,261	11,241

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

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
1st year	¥ 39	**¥ 2**	**$ 17**
2nd year	2	**6**	**53**
3rd year	18	**53**	**472**
4th year	46	**7**	**59**
5th year onward	6,989	**8,600**	**76,654**
Total	¥7,093	**¥8,667**	**$77,255**

iv. In the fiscal years ended March 31, 2017 and 2016, there were subsidiaries that recognized carry-forwards of unused tax losses. In the fiscal year ended March 31, 2017, deferred tax assets of ¥33 million ($295 thousand) were recognized to the extent that future taxable profit is expected (¥54 million as of March 31, 2016). The recoverability of deferred tax assets depends on future taxable profit. The future taxable profit used to recognize these deferred tax assets has been projected in line with business plans approved by management, and is highly likely to be achieved based on a comparison of actual performance trends against previous plans. Accordingly, management believes that the recoverability of deferred tax assets presents no particular issues.

v. In the fiscal years ended March 31, 2017 and 2016, the Company did not recognize deferred tax liabilities related to the taxable temporary differences associated with investment in subsidiaries, because the Company was able to control the timing of the reversal of the temporary differences and it was probable that such 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 ¥9,342 million ($83,273 thousand) as of March 31, 2017 and ¥4,480 million as of March 31, 2016.

2) Income Tax Expenses

i. Income Taxes Recognized through Profit or Loss

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Current income taxes			
Current	¥26,506	**¥6,667**	**$59,430**
Subtotal	26,506	**6,667**	**59,430**
Deferred income taxes			
Occurrence and reversal of temporary differences	(708)	**2,100**	**18,721**
Change in tax rate	299	**—**	**—**
Subtotal	(409)	**2,100**	**18,721**
Total income tax expenses	¥26,097	**¥8,768**	**$78,151**

Current income taxes include tax benefits arising from previously unrecognized carry-forwards of unused tax losses, tax credits or temporary differences of a prior period. As a result of these tax benefits, current income taxes were reduced by ¥105 million ($934 thousand) in the fiscal year ended March 31, 2017 and ¥666 million in the fiscal year ended March 31, 2016.

Deferred taxes include tax benefits arising from previously unrecognized carry-forwards of tax losses, tax credits or temporary differences of a prior period, as well as deferred tax expenses arising from the write-down, or reversals of previous write-down of deferred tax asset. As a result, deferred taxes did not have any impact in the fiscal year ended March 31, 2017 and decreased by ¥11 million in the fiscal year ended March 31, 2016.

ii. Reconciliation of Applicable Income Tax Rate

The Company is subject mainly to corporate tax, inhabitant tax and enterprise tax, and the effective statutory tax rate calculated on those taxes was 30.8% and 32.9% for the fiscal years ended March 31, 2017 and 2016, respectively. Foreign subsidiaries are subject to income taxes in their respective countries.

	2016	2017
Effective statutory income tax rate	32.9%	**30.8%**
Non-deductible items / non-taxable income	0.6%	**1.3%**
Tax credit for research, development expenses	(2.4%)	**(5.5%)**
Differences in tax rates applied to subsidiaries	(0.2%)	**(1.6%)**
Effect of changes in tax rates	0.4%	**—**
Movements in unrecognized deferred tax assets	1.0%	**2.3%**
Other	0.5%	**0.3%**
Actual tax rate	32.8%	**27.6%**

14. Other Comprehensive Income

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Remeasurement of defined benefit plans			
Amounts arising during the year	¥(1,428)	**¥ 438**	**$ 3,907**
Reclassification adjustments to profit or loss	—	**—**	**—**
Before tax effects	(1,428)	**438**	**3,907**
Tax effects	420	**(141)**	**(1,260)**
Remeasurement of defined benefit plans	(1,007)	**297**	**2,648**
Net gain or loss on financial assets measured at fair value through other comprehensive income			
Amounts arising during the year	10,247	**(11,542)**	**(102,883)**
Reclassification adjustments to profit or loss	—	**—**	**—**
Before tax effects	10,247	**(11,542)**	**(102,883)**
Tax effects	(2,852)	**3,522**	**31,393**
Net gain or loss on financial assets measured at fair value through other comprehensive income	7,395	**(8,020)**	**(71,490)**
Foreign currency translation adjustments			
Amounts arising during the year	(2,389)	**535**	**4,771**
Reclassification adjustments to profit or loss	—	**—**	**—**
Before tax effects	(2,389)	**535**	**4,771**
Tax effects	—	**—**	**—**
Foreign currency translation adjustments	(2,389)	**535**	**4,771**
Total other comprehensive income	¥ 4,000	**¥ (7,188)**	**$ (64,071)**

15. Earnings Per Share

Basis of calculating basic earnings per share

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Profit attributable to owners of the company	¥ 53,373	**¥ 23,061**	**$205,553**
Profit not attributable to ordinary shareholders of the company	—	**—**	**—**
Profit used to calculate basic earnings per share	53,373	**23,061**	**205,553**

Basis of calculating diluted earnings per share

Profit used to calculate basic earnings per share	¥ 53,373	**¥ 23,061**	**$205,553**
Adjustment	—	**—**	**—**
Profit used to calculate diluted earnings per share	53,373	**23,061**	**205,553**

	Thousands of shares	
	2016	2017
Weighted average number of shares during the year	413,786	**410,343**
Subscription rights to shares	1,864	**1,537**
Weighted average number of diluted ordinary shares during the year	415,650	**411,880**

Earnings per share (attributable to owners of the company):

	Yen		U.S. dollars
	2016	2017	2017
Basic	¥ 128.99	**¥ 56.20**	**$ 0.50**
Diluted	128.41	**55.99**	**0.50**

16. 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, 2015	¥45,136	¥14,217	¥13,337	¥ 8,073	¥ 3,037	¥83,800
Additions	217	180	664	—	2,077	3,137
Transfers	1,010	645	199	—	(1,854)	—
Disposals	(54)	(169)	(929)	(1,133)	—	(2,284)
Foreign currency translation differences	(437)	(204)	(163)	(1)	(154)	(959)
Balance as of March 31, 2016	¥45,872	¥14,669	¥13,107	¥ 6,939	¥ 3,106	¥83,693
Additions	**844**	**143**	**1,006**	**—**	**2,050**	**4,043**
Business combinations	**6**	**5**	**1**	**—**	**—**	**13**
Transfers	**100**	**701**	**148**	**—**	**(949)**	**—**
Disposals	**(269)**	**(358)**	**(354)**	**—**	**(307)**	**(1,287)**
Foreign currency translation differences	**(341)**	**(139)**	**(167)**	**(4)**	**(203)**	**(854)**
Balance as of March 31, 2017	**¥46,212**	**¥15,022**	**¥13,741**	**¥ 6,935**	**¥ 3,698**	**¥85,609**

	Thousands of U.S. dollars					
	Buildings and structures	Machinery, equipment and vehicles	Tools, fixtures and fittings	Land	Construction in progress	Total
Balance as of March 31, 2016	$408,880	$130,754	$116,829	$61,847	$27,687	$745,997
Additions	**7,520**	**1,275**	**8,966**	**—**	**18,276**	**36,038**
Business combinations	**57**	**47**	**11**	**—**	**—**	**115**
Transfers	**893**	**6,245**	**1,318**	**—**	**(8,456)**	**—**
Disposals	**(2,396)**	**(3,188)**	**(3,151)**	**—**	**(2,733)**	**(11,469)**
Foreign currency translation differences	**(3,042)**	**(1,235)**	**(1,489)**	**(32)**	**(1,812)**	**(7,609)**
Balance as of March 31, 2017	**$411,912**	**$133,897**	**$122,484**	**$61,815**	**$32,964**	**$763,073**

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, 2015	¥(31,756)	¥(11,775)	¥(11,135)	¥—	¥ (30)	¥(54,696)
Depreciation	(1,113)	(567)	(708)	—	—	(2,388)
Impairment losses	(15)	(47)	(65)	—	(0)	(127)
Disposals	33	139	913	—	—	1,085
Foreign currency translation differences	185	153	86	—	0	423
Balance as of March 31, 2016	¥(32,666)	¥(12,098)	¥(10,909)	¥—	¥ (31)	¥(55,703)
Depreciation	**(1,111)**	**(582)**	**(829)**	**—**	**—**	**(2,523)**
Impairment losses	**(14)**	**(55)**	**(54)**	**—**	**(328)**	**(452)**
Disposals	**256**	**337**	**343**	**—**	**307**	**1,243**
Foreign currency translation differences	**165**	**115**	**96**	**—**	**(0)**	**375**
Others	**—**	**—**	**(27)**	**—**	**27**	**—**
Balance as of March 31, 2017	**¥(33,370)**	**¥(12,283)**	**¥(11,380)**	**¥—**	**¥ (26)**	**¥(57,059)**

	Thousands of U.S. dollars					
	Buildings and structures	Machinery, equipment and vehicles	Tools, fixtures and fittings	Land	Construction in progress	Total
Balance as of March 31, 2016	$(291,166)	$(107,832)	$ (97,234)	$—	$ (273)	$(496,504)
Depreciation	**(9,907)**	**(5,192)**	**(7,394)**	**—**	**—**	**(22,493)**
Impairment losses	**(128)**	**(488)**	**(483)**	**—**	**$(2,927)**	**(4,026)**
Disposals	**2,286**	**3,000**	**3,059**	**—**	**2,733**	**11,077**
Foreign currency translation differences	**1,473**	**1,029**	**855**	**—**	**(4)**	**3,353**
Others	**—**	**—**	**(237)**	**—**	**237**	**—**
Balance as of March 31, 2017	**$(297,442)**	**$(109,484)**	**$(101,433)**	**$—**	**$ (233)**	**$(508,593)**

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, 2015	¥13,380	¥2,442	¥2,202	¥8,073	¥3,007	¥29,104
As of March 31, 2016	13,206	2,572	2,198	6,939	3,076	27,991
As of March 31, 2017	**¥12,842**	**¥2,739**	**¥2,362**	**¥6,935**	**¥3,672**	**¥28,550**

	Thousands of U.S. dollars					
	Buildings and structures	Machinery, equipment and vehicles	Tools, fixtures and fittings	Land	Construction in progress	Total
As of March 31, 2017	**$114,470**	**$24,414**	**$21,051**	**$61,815**	**$32,731**	**$254,480**

2) Impairment Losses

In the fiscal year ended March 31, 2017, the Santen Group recorded impairment losses of ¥452 million ($4,026 thousand) for that period, along with ¥127 million for the period ended March 31, 2016. Impairment losses are included in other expense in the statements of income and comprehensive income.

The major assets for which impairment losses were recognized for the year ended March 31, 2016 were mainly “Tools, fixtures and fittings” in the “Other” segment. The carrying amounts of these assets were written down to the recoverable amounts due to the decline in expected profitability. Those recoverable amounts were measured at the value in use.

The major assets for which impairment losses were recognized for the year ended March 31, 2017 were mainly “Construction in progress” in the “Pharmaceuticals” segment. The carrying amounts of these assets were written down to the recoverable amounts due to the significant decline in expected profitability. Those recoverable amounts were measured at the value in use.

3) Other Disclosures

The Santen Group has contractual commitments for the acquisition of property, plant and equipment as of March 31, 2017 totaling ¥487 million ($4,340 thousand) and ¥1,380 million as of March 31, 2016.

17. 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, 2015	¥ 6,578	¥85,542	¥ 8,447	¥ 1,252	¥101,819
Additions	—	5,401	344	993	6,738
Transfers	—	—	1,018	(1,018)	—
Disposals	—	—	(55)	(3)	(58)
Foreign currency translation differences	(137)	(161)	(28)	(45)	(371)
Balance as of March 31, 2016	¥ 6,440	¥90,782	¥ 9,726	¥ 1,181	¥108,128
Additions	**—**	**2,253**	**445**	**728**	**3,427**
Business combinations	**21,400**	**—**	**—**	**34**	**21,434**
Transfers	**—**	**—**	**904**	**(904)**	**—**
Disposals	**—**	**(75)**	**(260)**	**(12)**	**(347)**
Foreign currency translation differences	**2,077**	**(487)**	**(47)**	**187**	**1,729**
Balance as of March 31, 2017	**¥29,917**	**¥92,473**	**¥10,768**	**¥ 1,213**	**¥134,371**

	Thousands of U.S. dollars				
	Goodwill	Intangible assets associated with products	Software	Other	Total
Balance as of March 31, 2016	$ 57,405	$809,176	$86,692	$10,524	$ 963,797
Additions	**—**	**20,086**	**3,970**	**6,489**	**30,544**
Business combinations	**190,745**	**—**	**—**	**299**	**191,046**
Transfers	**—**	**—**	**8,054**	**(8,054)**	**—**
Disposals	**—**	**(669)**	**(2,316)**	**(111)**	**(3,096)**
Foreign currency translation differences	**18,512**	**(4,343)**	**(423)**	**1,668**	**15,414**
Balance as of March 31, 2017	**$266,664**	**$824,251**	**$95,977**	**$10,814**	**$1,197,706**

B. Accumulated Amortization and Accumulated Impairment Losses

	Millions of yen				
	Goodwill	Intangible assets associated with products	Software	Other	Total
Balance as of April 1, 2015	¥—	¥(10,042)	¥(6,527)	¥(817)	¥(17,386)
Amortization	—	(6,205)	(740)	(5)	(6,951)
Impairment losses	—	(234)	(31)	(2)	(268)
Disposals	—	—	55	3	58
Foreign currency translation differences	—	30	32	37	99
Balance as of March 31, 2016	¥—	¥(16,452)	¥(7,212)	¥(784)	¥(24,447)
Amortization	**—**	**(6,412)**	**(941)**	**(5)**	**(7,358)**
Impairment losses	**—**	**—**	**(21)**	**(2)**	**(24)**
Disposals	**—**	**—**	**257**	**5**	**262**
Foreign currency translation differences	**—**	**(43)**	**38**	**8**	**4**
Balance as of March 31, 2017	**¥—**	**¥(22,906)**	**¥(7,880)**	**¥(778)**	**¥(31,563)**

	Thousands of U.S. dollars				
	Goodwill	Intangible assets associated with products	Software	Other	Total
Balance as of March 31, 2016	$—	$(146,640)	$(64,280)	$(6,991)	$(217,911)
Amortization	**—**	**(57,150)**	**(8,392)**	**(46)**	**(65,589)**
Impairment losses	**—**	**—**	**(190)**	**(19)**	**(210)**
Disposals	**—**	**—**	**2,288**	**48**	**2,336**
Foreign currency translation differences	**—**	**(379)**	**339**	**75**	**35**
Balance as of March 31, 2017	**$—**	**$(204,170)**	**$(70,235)**	**$(6,934)**	**$(281,339)**

C. Carrying Amount

	Millions of yen				
	Goodwill	Intangible assets associated with products	Software	Other	Total
As of April 1, 2015	¥ 6,578	¥75,500	¥1,920	¥435	¥ 84,433
As of March 31, 2016	6,440	74,330	2,514	396	83,681
As of March 31, 2017	**¥29,917**	**¥69,567**	**¥2,888**	**¥435**	**¥102,807**

	Thousands of U.S. dollars				
	Goodwill	Intangible assets associated with products	Software	Other	Total
As of March 31, 2017	**$266,664**	**$620,081**	**$25,742**	**$3,881**	**$916,368**

2) Impairment Losses

In the fiscal year ended March 31, 2017, the Santen Group recorded impairment losses of ¥24 million ($210 thousand) for that period, along with ¥268 million for the period ended March 31, 2016. Impairment losses are recognized in other expense in the consolidated statement of profit or loss and other comprehensive income.

The intangible assets for which impairment losses were recognized for the year ended March 31, 2016 were mainly "Intangible assets associated with products" in the Pharmaceuticals segment. The carrying amounts of these intangible assets were written down to the recoverable amounts due to the decline in expected profitability. Those recoverable amounts were measured at the value in use.

The intangible assets for which impairment losses were recognized for the year ended March 31, 2017 were mainly "Software" in the "Other" segment. The carrying amounts of these intangible assets were written down to the recoverable amounts due to the decline in expected profitability. Those recoverable amounts were measured at the value in use.

3) Impairment Test for Goodwill

In the fiscal year ended March 31, 2017, the Santen Group recorded goodwill of ¥29,917 million ($266,664 thousand) for that period, along with ¥6,440 million as of March 31, 2016.

The goodwill was recognized as a result of the acquisition of Santen S.A.S. for the period ended March 31, 2016 and the acquisition of Santen S.A.S. and InnFocus, Inc. for the fiscal year ended March 31, 2017.

The goodwill of ¥6,026 million ($53,712 thousand) as of March 31, 2017 and ¥6,440 million as of March 31, 2016 recognized as a result of the acquisition of Santen S.A.S. was allocated to the Pharmaceuticals segment and impairment testing has been 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, 2017, the Santen Group did not recognize an impairment loss on goodwill, because the recoverable amount exceeded the carrying amount.

The goodwill of ¥23,891 million ($212,951 thousand) recognized as a result of the acquisition of InnFocus, Inc. was the provisional amounts, because the measurement process had not been completed, and has not yet been allocated to cash-generating units, or groups of cash-generating units.

4) Other Disclosures

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

ii. The Santen Group did not recognize any internally generated intangible assets as of March 31, 2017 and as of March 31, 2016.

iii. Significant Intangible Assets

The significant product marketing and distribution rights recognized in the consolidated statement of financial position were mainly composed of the patents, trademarks, domain names, health registrations and others related to Merck's ophthalmology products. The carrying amount of these intangible assets was ¥50,740 million ($452,264 thousand) as of March 31, 2017 and ¥54,158 million as of March 31, 2016.

The Santen Group recorded rights associated with Cyclokat (ciclosporin) that were recognized in conjunction with the acquisition of Santen S.A.S., and the rights associated with DE-109 (sirolimus) that were acquired by contract from MacuSight, Inc. as intangible assets associated with products. The carrying amount of these intangible assets was ¥5,824 million ($51,909 thousand) and ¥6,420 million ($57,233 thousand), respectively, as of March 31, 2017 and ¥6,932 million and ¥6,420 million, respectively, as of March 31, 2016.

The remaining amortization period for product marketing and distribution rights associated with Merck's ophthalmology products is mainly 8 to 14 years. The remaining amortization period of rights of Cyclokat product is 9 years. DE-109 is not yet being amortized because this intangible asset is not yet available for use.

iv. Commitments

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Research and development milestone	¥33,009	**¥32,762**	**$292,020**
Sales target milestone	39,310	**36,394**	**324,396**
Total	¥72,319	**¥69,156**	**$616,416**

The amounts shown in the table above represent the maximum payments to be made when all milestones are achieved, and they are undiscounted and not risk adjusted. 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.

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

1) Components

A. Non-current Assets

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Financial assets measured at amortized cost			
Other	¥ 962	**¥ 1,189**	**$ 10,595**
Financial assets measured at fair value through other comprehensive income			
Stock	43,413	**28,615**	**255,060**
Financial assets measured at fair value through profit or loss			
Golf membership rights, etc.	160	**85**	**762**
Total	¥44,535	**¥29,889**	**$266,416**

B. Current Assets

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Financial assets measured at amortized cost			
Other	¥234	**¥333**	**$2,966**
Total	¥234	**¥333**	**$2,966**

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

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

A. Fair Value

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

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
ONO PHARMACEUTICAL CO., LTD.	¥24,711	**¥11,951**	**$106,526**
Eisai Co., Ltd.	6,428	**5,473**	**48,783**
Daiichi Sankyo Company, Ltd.	5,255	**3,949**	**35,196**

Note: 525,000 shares of Daiichi Sankyo Company, Ltd. were sold in the fiscal year ended March 31, 2017. The remaining number of shares is 1,575,066 shares as of March 31, 2017.

B. Other

Dividend income related to financial assets measured at fair value through other comprehensive income held by the Company was ¥411 million ($3,667 thousand) as of March 31, 2017 and ¥534 million as of March 31, 2016.

Financial assets measured at fair value through other comprehensive income that were disposed of during the fiscal years ended March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Fair value at date of sale	¥2,682	**¥1,364**	**$12,155**
Cumulative gains (losses)	990	**318**	**2,830**
Dividend income	39	**272**	**2,425**

Note: These financial assets were sold for the purpose of liquidating certain assets held. Cumulative gains (net of tax) of ¥220 million ($1,960 thousand) in the fiscal year ended March 31, 2017 and ¥664 million in the fiscal year ended March 31, 2016 were reclassified from other components of equity to retained earnings.

Due to the acquisitions during the fiscal year, financial assets measured at fair value through other comprehensive income of ¥2,349 million ($20,940 thousand) were reclassified from financial assets to shares of subsidiaries. Cumulative gains of ¥966 million ($8,610 thousand), net of tax, due to the reclassification in the fiscal year ended March 31, 2017 were reclassified from other components of equity to retained earnings. The fair value is the provisional amounts because the measurement process had not been completed in the fiscal year ended March 31, 2017.

19. Inventories

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Merchandise and finished goods	¥20,036	**¥23,205**	**$206,835**
Work in process	516	**484**	**4,318**
Raw materials and supplies	4,443	**4,813**	**42,900**
Total	¥24,996	**¥28,502**	**$254,053**

20. Trade and Other Receivables

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Notes and accounts receivables	¥63,954	**¥68,829**	**$613,503**
Other	2,048	**2,171**	**19,353**
Allowance for doubtful receivables	(4)	**(30)**	**(265)**
Total	¥65,998	**¥70,970**	**$632,591**

21. Equity and Other Equity Items

1) Share Capital and Treasury Shares

	Stocks	
	2016	2017
Type of shares[*1]	Ordinary shares	**Ordinary shares**
Number of authorized shares[*5]	1,100,000,000	**1,100,000,000**
Number of issued shares[*2]		
Beginning of year	82,653,103	**414,191,515**
Change during year[*3*5]	331,538,412	**(8,018,500)**
End of year	414,191,515	**406,173,015**
Treasury shares		
Beginning of year	3,845	**22,369**
Change during year[*4*5]	18,524	**(15,723)**
End of year	22,369	**6,646**

Notes: 1. The ordinary shares have no par value.
2. The issued shares are fully paid.
3. The changes in the number of issued shares during the fiscal years were attributable to the issuance of new shares upon the exercise of subscription rights to shares, share split, and the cancellation of the treasury shares.
4. The change in the number of treasury shares during the fiscal year was due to the purchase of the shares (8,284,000 shares) and the cancellation of the shares (8,300,000 shares) based on the resolutions made by the Board of Directors on September 12, 2016 and December 14, 2016, respectively, and the fulfillment of the request to additionally purchase and sell such shares.
5. The Company conducted a five-for-one share split of ordinary shares on the effective date of April 1, 2015. As a result, the number of authorized shares rose by 880,000,000 to 1,100,000,000, the number of issued shares rose by 330,612,412 to 413,265,515, and the number of treasury shares rose by 15,380 to 19,225.

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 booked.

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 has adopted a stock option plan based on subscription rights to shares. In accordance with rules set forth primarily by Article 361 and Article 238 of the Japanese Companies Act, the Company grants subscription rights to shares. The amount of subscription rights to shares recorded in other components of equity is based on the fair value thereof. In addition, the contractual conditions and other details of the subscription rights to shares are stated in “22. Share-based Payments.”

4) Retained Earnings and Dividends

A. Retained Earnings

These are earnings recognized as profit or loss in or before the fiscal year ended March 31, 2017, and earnings reclassified from other comprehensive income.

B. Dividends

i. Dividends paid

Year ended March 31, 2016 Resolution date	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Annual General Meeting of Shareholders (June 24, 2015)	¥4,959	¥60.00	Mar. 31, 15	Jun. 25, 15
Board of Directors Meeting (November 4, 2015)	4,966	12.00	Sep. 30, 15	Nov. 30, 15

Note: The Company completed a five-for-one share split with an effective date of April 1, 2015. "Dividends per share" whose record date is on or before March 31, 2015 shows the amount of dividends paid before the share split.

Year ended March 31, 2017 Resolution date	Total dividends (Millions of yen)	Total dividends (Thousands of U.S. dollars)	Dividends per share (Yen)	Dividends per share (U.S. dollars)	Record date	Effective date
Annual General Meeting of Shareholders (June 24, 2016)	**¥5,384**	**$47,992**	**¥13.00**	**$0.12**	**Mar. 31, 16**	**Jun. 27, 16**
Board of Directors Meeting (November 2, 2016)	**5,366**	**47,833**	**13.00**	**0.12**	**Sep. 30, 16**	**Nov. 30, 16**

ii. Dividends whose effective date is in the following fiscal year

Year ended March 31, 2016 Resolution date	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Annual General Meeting of Shareholders (June 24, 2016)	¥5,384	¥13.00	Mar. 31, 16	Jun. 27, 16

Year ended March 31, 2017 Resolution date	Total dividends (Millions of yen)	Total dividends (Thousands of U.S. dollars)	Dividends per share (Yen)	Dividends per share (U.S. dollars)	Record date	Effective date
Annual General Meeting of Shareholders (June 23, 2017)	**¥5,280**	**$47,064**	**¥13.00**	**$0.12**	**Mar. 31, 17**	**Jun. 26, 17**

22. Share-based Payments

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

	2016		2017		
	Number of shares (stocks)	Weighted-average exercise price (Yen)	Number of shares (stocks)	Weighted-average exercise price (Yen)	Weighted-average exercise price (U.S. dollars)
Balance at the beginning of the year	3,144,000	¥549	**2,311,800**	**¥503**	**$4.48**
Granted	141,800	1	**120,500**	**1**	**0.01**
Exercised*1	926,000	581	**281,500**	**600**	**5.35**
Expired	48,000	496	**37,500**	**543**	**4.84**
Balance at the end of the year	2,311,800	503	**2,113,300**	**461**	**4.11**
Balance of exercisable stock options, end of year	1,844,500	630	**1,678,500**	**580**	**5.17**

Note 1: The weighted-average share price of stock options at the time of exercise was ¥1,517 ($13.52) in the fiscal year ended March 31, 2017 and ¥1,748 in the fiscal year ended March 31, 2016.

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

The exercise price of share options ranged from ¥1 ($0.01) to ¥663 ($5.91) as of March 31, 2017 and ¥1 to ¥663 as of March 31, 2016. The weighted-average remaining life was 5.1 years as of March 31, 2017 and 5.4 years as of March 31, 2016.

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

A. Measurement Method

Black-Scholes model

B. Fair Value and Primary Base Assumptions and Measurement Method

	2016	2017
Resolution date	August 4, 2015	**August 2, 2016**
Expected volatility*1 (%)	24.2	**29.4**
Option life (years)	6.5	**6.5**
Expected dividend yield (%)	1.16	**1.92**
Risk-free interest rate (%)	0.120	**(0.205)**

	Yen		U.S. dollars
	2016	2017	2017
Fair value	¥1,756.27	**¥1,148.21**	**$10.23**
Weighted-average share price	1,895	**1,302**	**11.61**
Exercise price	1	**1**	**0.01**

Note 1: The expected volatility is estimated by calculating the volatility of the share price at the end of each month relative to the end of the previous month, and determining the annualized standard deviation of the volatility for the previous 6.5 years.

5) Expenses Recognized in Consolidated Statement of Income

Expenses related to share-based payments were ¥138 million ($1,233 thousand) in the fiscal year ended March 31, 2017, and ¥249 million in the fiscal year ended March 31, 2016.

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

1) Components

A. Components of Non-current Liabilities

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Long-term loans payables (excluding the current portion of long-term loans payable)	¥12,914	**¥7,598**	**$67,724**
Finance lease obligations	30	**21**	**185**
Total	¥12,944	**¥7,619**	**$67,910**

B. Components of Current Liabilities

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Current portion of long-term loans payable	¥ 9,524	**¥ 9,331**	**$ 83,169**
Finance lease obligations	16	**13**	**119**
Other payables	8,511	**6,162**	**54,922**
Other	1,830	**2,097**	**18,690**
Total	¥19,881	**¥17,603**	**$156,900**

24. Post-employment Benefits

1) Outline of Post-employment Benefit Plans

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

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

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

2) Defined Benefit Plans

A. Net Defined Benefit Liabilities

	Millions of yen		
	Defined benefit obligations	Fair value of plan assets	Net defined benefit liabilities
Balance as of April 1, 2015	¥18,739	¥(13,280)	**¥ 5,459**
Current service cost	1,143	—	**1,143**
Interest (income) expense	163	(120)	**43**
Remeasurement of the net defined benefit liabilities			
Return on plan assets excluding amounts included in interest income on plan assets	—	282	**282**
Actuarial gains and losses arising from changes in demographic assumptions	(61)	—	**(61)**
Actuarial gains and losses arising from changes in financial assumptions	1,272	—	**1,272**
Experience adjustments	(66)	—	**(66)**
Total remeasurement of the net defined benefit liabilities	1,145	282	**1,428**
Foreign currency translation differences	(34)	16	**(18)**
Employer contributions to plan	—	(4,795)	**(4,795)**
Benefits paid by plan	(1,104)	401	**(703)**
Other	341	(341)	**—**
Balance as of March 31, 2016	¥20,394	¥(17,837)	**¥ 2,556**
Current service cost	1,261	—	**1,261**
Interest (income) expense	79	(70)	**8**
Remeasurement of the net defined benefit liabilities			
Return on plan assets excluding amounts included in interest income on plan assets	—	(273)	**(273)**
Actuarial gains and losses arising from changes in demographic assumptions	(6)	—	**(6)**
Actuarial gains and losses arising from changes in financial assumptions	(251)	—	**(251)**
Experience adjustments	91	—	**91**
Total remeasurement of the net defined benefit liabilities	(165)	(273)	**(438)**
Foreign currency translation differences	(55)	25	**(30)**
Employer contributions to plan	—	(974)	**(974)**
Benefits paid by plan	(822)	339	**(483)**
Other	192	(192)	**—**
Balance as of March 31, 2017	¥20,882	¥(18,982)	**¥ 1,900**

	Thousands of U.S. dollars		
	Defined benefit obligations	Fair value of plan assets	Net defined benefit liabilities
Balance as of March 31, 2016	$181,780	$(158,993)	**$22,787**
Current service costs	11,238	—	**11,238**
Interest (income) cost	700	(628)	**72**
Remeasurement of the net defined benefit liabilities			
Return on plan assets excluding amounts included in interest income on plan assets	—	(2,432)	**(2,432)**
Actuarial gains and losses arising from changes in demographic assumptions	(50)	—	**(50)**
Actuarial gains and losses arising from changes in financial assumptions	(2,241)	—	**(2,241)**
Experience adjustments	815	—	**815**
Total remeasurement of the net defined benefit liabilities	(1,475)	(2,432)	**(3,907)**
Foreign currency translation differences	(495)	225	**(270)**
Employer contributions to plan	—	(8,678)	**(8,678)**
Benefits paid by plan	(7,331)	3,025	**(4,306)**
Other	1,710	(1,710)	**—**
Balance as of March 31, 2017	$186,127	$(169,192)	**$16,935**

B. Components of Plan Assets

	Presence of quoted market prices in active markets	Millions of yen		Thousands of U.S. dollars
		2016	2017	2017
Equities	Yes	¥ 3,450	**¥ 5,505**	**$ 49,070**
Bonds	Yes	9,853	**9,567**	**85,278**
General accounts of life insurance companies	No	1,681	**1,725**	**15,373**
Other	No	2,854	**2,184**	**19,470**
Total		¥17,837	**¥18,982**	**$169,192**

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

	2016	2017
Discount rate (%)	0.41	**0.51**

D. Sensitivity Analysis

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

	Millions of yen				Thousands of U.S. dollars	
	2016		2017		2017	
Discount rate (%)	0.5% Increase	0.5% Decrease	0.5% Increase	0.5% Decrease	0.5% Increase	0.5% Decrease
	¥(1,226)	¥1,352	**¥(1,187)**	**¥1,307**	**$(10,585)**	**$11,650**

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

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

The estimated contribution amount for the fiscal year ending March 31, 2018 is ¥474 million ($4,221 thousand).
The weighted-average duration of the defined benefit obligation for the fiscal year ended March 31, 2017 is 13.5 years (for the fiscal year ended March 31, 2016, 13.9 years).

25. Provisions

1) Statements of Changes in Provisions

	Millions of yen						
	Asset retirement obligations (Note A)	Provision for restructuring (Note B)	Provision for paid absence (Note C)	Other	Total	Breakdown on consolidated statement of financial position	
						Non-current	Current
Balance as of April 1, 2016	¥228	¥751	¥1,160	¥765	¥2,905	¥1,629	¥1,276
Additional provision made in the period	2	—	749	601	1,352	—	—
Amounts used during the period	1	—	767	403	1,171	—	—
Unused amounts reversed during the period	—	45	—	260	305	—	—
The increase during the period in the discounted amount arising from the passage of time	3	—	1	—	4	—	—
Foreign currency translation differences	—	(47)	10	50	13	—	—
Balance as of March 31, 2017	**¥232**	**¥659**	**¥1,154**	**¥752**	**¥2,797**	**¥1,426**	**¥1,372**

	Thousands of U.S. dollars						
	Asset retirement obligations (Note A)	Provision for restructuring (Note B)	Provision for paid absence (Note C)	Other	Total	Breakdown on consolidated statement of financial position	
						Non-current	Current
Balance as of April 1, 2016	$2,035	$6,694	$10,340	$6,820	$25,889	$14,520	$11,369
Additional provision made in the period	17	—	6,677	5,354	12,048	—	—
Amounts used during the period	12	—	6,833	3,593	10,438	—	—
Unused amounts reversed during the period	—	404	—	2,317	2,721	—	—
The increase during the period in the discounted amount arising from the passage of time	26	—	11	—	37	—	—
Foreign currency translation differences	—	(417)	92	443	118	—	—
Balance as of March 31, 2017	**$2,067**	**$5,872**	**$10,287**	**$6,707**	**$24,933**	**$12,708**	**$12,226**

Note A

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.

Note B

The 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.

Note C

The provision for paid absence recognizes a liability for the unused portion of paid absence 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.

26. Trade and Other Payables

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Trade accounts payable	¥17,225	**¥16,570**	**$147,699**
Electronically recorded monetary liabilities	—	**1,313**	**11,703**
Other payables	7,279	**6,054**	**53,963**
Total	¥24,504	**¥23,937**	**$213,365**

27. Cash and Cash Equivalents

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Cash on hand and balances with banks	¥99,817	**¥53,297**	**$475,060**
Time deposits over three months	(20)	**—**	**—**
Total cash and cash equivalents in consolidated statement of financial position	99,798	**53,297**	**475,060**
Bank overdrafts	—	**(1,015)**	**(9,045)**
Cash and cash equivalents in consolidated statement of cash flows	¥99,798	**¥52,282**	**$466,015**

28. Payments for Acquisition of Subsidiary

Each Major Classes of Assets Acquired and Liabilities Assumed of Companies That Became Newly Consolidated Subsidiary in the Year Ended March 31, 2017

Major classes of assets acquired and liabilities assumed due to the acquisition of share of InnFocus, Inc. and the related consideration transferred and payments made during the year ended March 31, 2017 were as follows:

	Millions of yen	Thousands of U.S. dollars
Non-current assets	¥ 46	$ 414
Goodwill	21,400	190,745
Current assets	2,586	23,047
Current liabilities	(111)	(992)
Cost of shares	¥23,921	$213,216
Fair value of the previously held equity interest	(2,349)	(20,940)
Cash and cash equivalents	(2,507)	(22,347)
Net : Payments for acquisition of subsidiary	¥19,064	$169,927

The Group reported the provisional amounts of Goodwill, because the measurement process had not been completed.

29. 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.

2) Outline of Financial Risk Management

The risks arising from financial instruments held by the Santen Group are as follows:

A. Credit Risk

1) Outline

Credit risk is the risk of financial loss borne by the Santen Group if a customer or a counterparty to a financial instrument is unable to meet its contractual obligations. The main sources of credit risk are customer receivables and investments.

i. Trade and other receivables

The Santen Group performs due date and credit limit controls in accordance with its credit management rules and periodically assesses the financial reliability of each customer taking into account the customer's financial position and other factors.

The percentage of the Santen Group's business conducted with the top 10 wholesalers in Japan reached 65% of consolidated revenue in the fiscal year ended March 31, 2017, compared with 65% in the fiscal year ended March 31, 2016. If the Santen Group's wholesale partners experience bankruptcy leading to credit losses, its business performance might be adversely affected.

ii. Financial assets (investments)

The Santen Group purchases bonds issued only by issuers that have high credit ratings.

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.

3) Aging analysis

The analysis of the aging of trade and other receivables that were not impaired as of the end of the reporting period is as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Not past due	¥64,764	**¥70,103**	**$624,863**
Past due			
30 days or less	604	**532**	**4,743**
Over 30 days but within 90 days	404	**101**	**903**
Over 90 days	229	**263**	**2,348**
Total past due	1,237	**897**	**7,993**
Allowance for doubtful receivables	(4)	**(30)**	**(265)**
Total trade and other receivables	¥65,998	**¥70,970**	**$632,591**

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.

2) Maturity analysis

The contractual maturities of financial liabilities are as follows.

Year ended March 31, 2016 (as of March 31, 2016)	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	¥24,504	¥24,504	¥24,504	¥ —	¥ —	¥ —	¥—	¥—
Other financial liabilities								
Loans payable	22,438	22,519	9,574	8,340	4,104	501	—	—
Other payables	8,511	8,511	8,511	—	—	—	—	—
Other	1,876	1,876	1,846	15	10	3	3	—
Total	¥57,329	¥57,411	¥44,435	¥8,355	¥4,114	¥504	¥ 3	¥—

Year ended March 31, 2017 (as of March 31, 2017)	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	¥23,937	¥23,937	¥23,937	¥ —	¥ —	¥ —	¥—	¥—
Other financial liabilities								
Loans payable	16,929	16,964	9,355	4,105	503	3,001	—	—
Other payables	6,162	6,162	6,162	—	—	—	—	—
Other	2,131	2,131	2,111	11	4	4	1	1
Total	¥49,159	¥49,194	¥41,565	¥4,116	¥506	¥3,005	¥ 1	¥ 1

	Thousands of U.S. dollars							
	Carrying amount	Contractual cash flows	Within 1 year	Between 1 year and 2 years	Between 2 years and 3 years	Between 3 years and 4 years	Between 4 years and 5 years	Over 5 years
Trade and other payables	$213,365	$213,365	$213,365	$ —	$ —	$ —	$—	$—
Other financial liabilities								
Loans payable	150,893	151,211	83,385	36,594	4,479	26,754	—	—
Other payables	54,922	54,922	54,922	—	—	—	—	—
Other	18,994	18,994	18,816	95	35	32	8	8
Total	$438,175	$438,493	$370,488	$36,688	$4,514	$26,786	$ 8	$ 8

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. Market risk comprises foreign currency risk, interest rate risk and other price risks.

The Santen Group responds to currency risk by adjusting the balance of outstanding foreign currency denominated financial assets and liabilities in the same currency.

With no floating interest rate financial instruments in its portfolio, the Santen Group has judged that it has no exposure to significant interest rate risk.

Other price risks primarily have an impact on stocks of companies with which the Company has business relationships. The Company periodically reviews the fair market values of these stocks and reports on them at the Company's Board of Directors meeting.

2) Foreign currency risk

i. Foreign currency risk exposure

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

	Thousands of each currency			
	2016		2017	
	EURO	U.S. dollar	EURO	U.S. dollar
Trade and other receivables	€208	$ 9,872	**€ 457**	**$10,976**
Trade and other payables	(64)	(2,403)	**(1,287)**	**(5,121)**
Net exposure amount	€143	$ 7,469	**€ (829)**	**$ 5,855**

ii. Sensitivity analysis of foreign currency risk

The tables below show the increase (decrease) in profit or loss for the year that would result from the yen's depreciation 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, 2016. The yen's appreciation at the same rate would have the opposite effect, in the same amount, on profit (loss) for the year.

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
	Profit (loss)	Profit (loss)	Profit (loss)
EURO (5% appreciation)	¥ (1)	**¥ 5**	**$ 44**
U.S. dollar (5% appreciation)	(42)	**(33)**	**(293)**

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

3) Fair Value of Financial Instruments

A. 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 reasonable approximation, are not included in the following table.

	Millions of yen				Thousands of U.S. dollars	
	2016		2017		2017	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Loans payable	¥22,438	¥22,452	**¥16,929**	**¥16,856**	**$150,893**	**$150,245**

B. Approaches and Valuation Techniques Applied to Measure Fair Value

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

i. 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.

C. Fair Value Hierarchy

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

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

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

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

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

The presence of any significant transfers of financial instruments between levels of the fair value hierarchy is determined at the end of every quarter fiscal year.

	Millions of yen			
Year ended March 31, 2016	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value through other comprehensive income				
Stock	¥41,206	¥—	¥2,207	¥43,413
Financial assets measured at fair value through profit or loss				
Golf membership rights, etc.	—	20	141	160

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

	Millions of yen				Thousands of U.S. dollars			
Year ended March 31, 2017	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value through other comprehensive income								
Stock	**¥27,822**	**¥ —**	**¥793**	**¥28,615**	**$247,989**	**$ —**	**$7,070**	**$255,060**
Financial assets measured at fair value through profit or loss								
Golf membership rights, etc.	**—**	**20**	**66**	**85**	**—**	**178**	**584**	**762**

Note: There were no significant transfers of financial instruments between Level 1 and Level 2.

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

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Balance, beginning of year	¥1,112	**¥2,348**	**$20,926**
Purchases	1,205	**359**	**3,200**
Other comprehensive income	32	**1,200**	**10,695**
Sales	(1)	**(188)**	**(1,673)**
Transfers from Level 3	—	**(2,858)**	**(25,472)**
Other	(1)	**(2)**	**(22)**
Balance, end of year	¥2,348	**¥ 859**	**$ 7,654**

Notes: 1. Securities categorized into Level 3 are measured using the market values of comparable companies, valuation models based on net assets of investees, and other valuation approaches.

2. Transfers from Level 3 were made due to the listing of financial instruments held by the Company and the acquisition of a subsidiary.

30. Operating Leases

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

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Not later than 1 year	¥1,907	**¥1,835**	**$16,360**
Later than 1 year and not later than 5 years	1,299	**1,781**	**15,872**
Later than 5 years	10	**913**	**8,136**
Total	¥3,217	**¥4,529**	**$40,369**

2) Lease Payments Recognized as Expenses

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Lease payments	¥2,329	**¥2,387**	**$21,279**

31. Subsidiaries

Structure of the Santen Group

			Percentage of voting equity	
Name	Location	Main business	2016	2017
Claire Co., Ltd.	Japan	Other	100.0	**100.0**
Santen Business Services Co., Ltd.	Japan	Pharmaceuticals	—	**100.0**
Santen Eye Care Co., Ltd.	Japan	Pharmaceuticals	—	**100.0**
Santen Holdings U.S. Inc.	U.S.A.	Pharmaceuticals	100.0	**100.0**
Santen Inc.	U.S.A.	Pharmaceuticals	100.0 (100.0)	**100.0** **(100.0)**
Advanced Vision Science, Inc.	U.S.A.	Other	100.0 (100.0)	**100.0** **(100.0)**
Phacor Inc.	U.S.A.	Other	100.0 (100.0)	**100.0** **(100.0)**
InnFocus, Inc.	U.S.A.	Pharmaceuticals	9.6	**100.0**
Santen Holdings EU B.V.	Netherlands	Pharmaceuticals	100.0	**100.0**
Santen Oy	Finland	Pharmaceuticals	100.0 (100.0)	**100.0** **(100.0)**
Santen S.A.S.	France	Pharmaceuticals	100.0 (100.0)	**100.0** **(100.0)**
Santen GmbH	Germany	Pharmaceuticals	100.0 (100.0)	**100.0** **(100.0)**
SantenPharma AB	Sweden	Pharmaceuticals	100.0 (100.0)	**100.0** **(100.0)**
Santen Switzerland SA	Switzerland	Pharmaceuticals	100.0 (100.0)	**100.0** **(100.0)**
Santen Italy S.r.l.	Italy	Pharmaceuticals	100.0 (100.0)	**100.0** **(100.0)**
Santen UK Limited	UK	Pharmaceuticals	100.0 (100.0)	**100.0** **(100.0)**

Name	Location	Main business	Percentage of voting equity 2016	Percentage of voting equity 2017
Santen Pharmaceutical Spain, S.L.	Spain	Pharmaceuticals	100.0 (100.0)	**100.0** **(100.0)**
SANTEN LIMITED LIABILITY COMPANY	Russia	Pharmaceuticals	—	**100.0** **(100.0)**
Santen Pharmaceutical (China) Co., Ltd.	China	Pharmaceuticals	100.0	**100.0**
Santen Pharmaceutical Sales and Marketing (Suzhou) Co., Ltd.	China	Pharmaceuticals	100.0 (100.0)	**100.0** **(100.0)**
Chongqing Santen Kerui Pharmaceutical Co., Ltd.	China	Pharmaceuticals	—	**49.0** **(49.0)**
Santen Pharmaceutical Korea Co., Ltd.	Korea	Pharmaceuticals	100.0	**100.0**
Taiwan Santen Pharmaceutical Co., Ltd.	Taiwan	Pharmaceuticals	100.0	**100.0**
Santen India Private Limited	India	Pharmaceuticals	100.0 (0.1)	**100.0** **(0.1)**
Santen Pharmaceutical Asia Pte. Ltd.	Singapore	Pharmaceuticals	100.0	**100.0**
SANTEN (THAILAND) CO., LTD.	Thailand	Pharmaceuticals	100.0 (100.0)	**100.0** **(100.0)**
SANTEN PHARMA MALAYSIA SDN. BHD.	Malaysia	Pharmaceuticals	100.0 (100.0)	**100.0** **(100.0)**
SANTEN PHILIPPINES INC.	Philippines	Pharmaceuticals	100.0 (100.0)	**100.0** **(100.0)**
SANTEN PHARMACEUTICAL (HONG KONG) LIMITED	Hong Kong	Pharmaceuticals	—	**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 the consolidated subsidiary since Santen Pharmaceutical (China) Co., Ltd. has a majority of the voting rights.
3 From the fiscal year ended March 31, 2017, Santen Business Services Co., Ltd., Santen Eye Care Co., Ltd., SANTEN PHARMACEUTICAL (HONG KONG) LIMITED, Chongqing Santen Kerui Pharmaceutical Co., Ltd. and SANTEN LIMITED LIABILITY COMPANY were newly established and InnFocus, Inc. was acquired by the Company. Accordingly, those companies have been included in the scope of consolidation.

32. Related Parties

1) Related Party Transactions

Year ended March 31, 2016 (April 1, 2015 to March 31, 2016)
There were no transactions to report.

Year ended March 31, 2017 (April 1, 2016 to March 31, 2017)
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 2016	Millions of yen 2017	Thousands of U.S. dollars 2017
Compensation	¥193	**¥179**	**$1,597**
Share-based payment	53	**37**	**331**
Total	¥246	**¥216**	**$1,928**

33. Contingencies

1) Contingent Liabilities

A. Guarantees

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

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Employees (loan guarantees)	¥43	**¥30**	**$266**

34. Disposal Group Held for Sale

Year ended March 31, 2016 (April 1, 2015 to March 31, 2016)
The Company has resolved at its Board of Directors meeting held on May 12, 2015 to assign its anti-rheumatic pharmaceuticals business to AYUMI Pharmaceutical Corporation (formerly Hyperion Pharma Co., Ltd.) ("AYUMI Pharmaceutical") ("Transaction"). On the same date, the Company entered into an absorption-type company split agreement in connection with the Transaction. On August 3, 2015, the Company completed an absorption-type company split (simplified absorption-type company split) based on the agreement.

1) Outline of the Transaction

A. Purpose of the Transaction

As a result of the Transaction, the Company will focus completely on the ophthalmic pharmaceutical business and become much more specialized to meet patients' needs for advanced medical care, and by doing so, the Company is aiming to become one of the top three ophthalmic pharmaceutical companies in the world by 2020. At the same time, the Company has established a strong presence in the field of the anti-rheumatic pharmaceuticals business by gaining the largest share in the market in Japan for disease-modifying anti-rheumatic drugs (DMARDs). The Company believes that the Transaction, through which its anti-rheumatic pharmaceuticals business is succeeded to by AYUMI Pharmaceutical, which aims to become a pharmaceutical company specializing in orthopedics and rheumatism, will make a further contribution to the improvement of patients' quality of life.

B. Overview of the Transaction

1) Counterparty to the Company Split
AYUMI Pharmaceutical Corporation

2) Overview of Business to Be Split Off
Business relating to distribution, marketing, research, and development of anti-rheumatic pharmaceuticals

3) Date of the Company Split
August 3, 2015

4) Method of the Company Split
The Company Split was an absorption-type company split (simplified absorption-type company split) in which the Company is the splitting company and AYUMI Pharmaceutical is the succeeding company.

5) Consideration Pertaining to the Company Split
As consideration for the succession of rights and obligations regarding the anti-rheumatic pharmaceuticals business, the Company, which is the splitting company, received ¥45 billion in cash from AYUMI Pharmaceutical, the succeeding company.

2) Outline of Accounting Treatment

A. Amount of Gain on Business Transfer

¥44,477 million

B. Appropriate Carrying Amounts of Assets and Liabilities related to the Transferred Business and the Main Components

The carrying amounts of the assets and liabilities split off from the Company through the Transaction are immaterial.

C. Accounting Treatment

The difference between the consolidated carrying amount of the anti-rheumatic pharmaceuticals business and the amount of cash received by the Company as consideration for the Transaction, after deducting the amount of remuneration paid to external advisors, is recorded as a gain on business transfer under other income.

3) Name of the Reportable Segment in Which the Split-off Business Was Included

Pharmaceuticals segment

4) Estimate of Profit or Loss Associated with the Split-off Business That Was Recorded in the Consolidated Statement of Profit or Loss and Other Comprehensive Income

- Revenue: ¥3,495 million
- Operating Profit: ¥1,916 million

35. Business Combination

For the year ended March 31, 2017

Acquisition of InnFocus, Inc.

1) Outline of the Business Combinations

A. The name and a description of the acquiree

Company name : InnFocus, Inc.

Main business : Development and provision of next generation products for glaucoma surgery

B. The primary reasons for the business combination

InnFocus, Inc. is developing the MicroShunt implant to lower and sustain intraocular pressure (IOP) for the treatment of primary open-angle glaucoma (mild to severe stage disease). The MicroShunt has shown significant and sustainable lowering of IOP when used alone or in combination with cataract surgery in clinical trials outside of the U.S. Late stage clinical studies are underway in the U.S. and Europe in advance of PMA (Pre-Market Approval) application to the U.S. Food and Drug Administration (FDA) planned in the near future. The MicroShunt has received CE Mark in Europe.

With this acquisition, the Company will strengthen its glaucoma pipeline and stay at the forefront of innovation in ophthalmology. This agreement is in line with the Company's long-term vision to become a "Specialized Pharmaceutical Company with a Global Presence." The Company is excited about the MicroShunt as a new and effective treatment option that should significantly improve patient outcomes.

C. Acquisition date

August 19, 2016 (U.S. time)

D. Acquisition method

The Company acquired all of the voting equity interests of InnFocus, Inc. for consideration in cash.

And it stated by contract of milestone payment based on the progress of development for the MicroShunt and sales performance.

E. The percentage of voting equity interests acquired

Percentage of voting equity owned before acquisition : 9.56%

Percentage of voting rights additionally acquired : 90.44%

Percentage of voting equity after acquisition :100.00%

2) The Fair Values of Assets Acquired, Liability Assumed and Purchase Consideration Transferred as at the Date of the Acquisition

	Millions of yen	Thousands of U.S. dollars
	Provisional fair value	Provisional fair value
Non-current assets	¥ 46	$ 414
Other current assets	79	704
Cash and cash equivalents	2,507	22,347
Current liabilities	(111)	(992)
Goodwill	21,400	190,745
Total	¥23,921	$213,216
Cash	21,571	192,275
Fair value of the held equity interest previously	2,349	20,940
Total consideration for transferred	¥23,921	$213,216

The Group reported the provisional amounts because the measurement process had not been completed.

Acquisition-related costs are included in ¥562 million ($5,007 thousand) in "Selling, general and administrative expenses."

3) Contingent Consideration

The fair value of contingent consideration arising from the business combination, mainly the milestone payment based on the progress of development for the MicroShunt and sales performance.

The estimated amount which the Company could be required to pay as contingent consideration is $409 million, without consideration for the time value.

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

The evaluation of the fair value of the contingent consideration has not yet been completed.

4) The Impact on the Companies' Business Results

Business results of InnFocus, Inc. for the post-acquisition period, which were recognized in the consolidated statement of profit or loss and other comprehensive income for the year ended March 31, 2017 were as follows.

	Millions of yen	Thousands of U.S. dollars
Revenue	¥ —	$ —
Profit before tax	(1,151)	(10,263)

The impact on the Companies' business results of the InnFocus, Inc. for the period ended March 31, 2017 of assuming the acquisition date had been as of the beginning of the annual reporting period was as follows (out of scope of audit).

	Millions of yen	Thousands of U.S. dollars
Revenue	¥ —	$ —
Profit before tax	(640)	(5,702)

36. Subsequent Events

Not applicable

Internal Control Report

1 Framework of internal control over financial reporting

We, as President and CEO of Santen Pharmaceutical Co., Ltd. (the Company) and CFO of the Company, are responsible for the design and operation of internal controls over financial reporting ("ICOFR") and 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 Report (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, 2017 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 two subsidiaries, management determined a reasonable scope for process level controls to be assessed.

Management selected the Pharmaceuticals business unit of 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 Pharmaceuticals business unit of 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, 2017.

4 Supplementary information

No subsequent events have arisen that has caused to materially affect our evaluation of the effectiveness on the internal control over financial reporting as of March 31, 2017.

5 Other

None.

Akira Kurokawa
President & CEO

Kazuo Koshiji
CFO

August 4, 2017

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Santen Pharmaceutical Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated statement of profit or loss and other comprehensive income, statement of financial position, statement of changes in equity and statement of cash flows for the year ended March 31, 2017, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Santen Pharmaceutical Co., Ltd. and its consolidated subsidiaries as at March 31, 2017, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2017 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2 to the consolidated financial statements.

Report on the Internal Control Report

We also have audited the accompanying report on internal control over financial reporting of the consolidated financial statements of Santen Pharmaceutical Co., Ltd. as at March 31, 2017 ("Internal Control Report").

Management's Responsibility for the Internal Control Report

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the Internal Control Report, in which Santen Pharmaceutical Co., Ltd. states that internal control over financial reporting was effective as at March 31, 2017, presents fairly, in all material respects, the assessment of internal control over financial reporting in conformity with assessment standards for internal control over financial reporting generally accepted in Japan.

KPMG AZSA LLC

August 4, 2017
Osaka, Japan

Business Bases

As of August 2017

Corporate Headquarters and Group Companies	Location
① Corporate Headquarters	Japan
② Claire Co., Ltd.	
③ Santen Business Services Co., Ltd.	
④ Santen Eye Care Co., Ltd.	
⑤ Santen Holdings U.S. Inc.	U.S.A.
⑥ Santen Inc.	
⑦ Advanced Vision Science, Inc.	
⑧ InnFocus, Inc.	
⑨ Santen Holdings EU B.V.	Netherlands
⑩ Santen Oy	Finland
⑪ Santen S.A.S.	France
⑫ Santen GmbH	Germany
⑬ SantenPharma AB	Sweden
⑭ Santen Switzerland SA	Switzerland
⑮ Santen Italy S.r.l.	Italy
⑯ Santen UK Limited	U.K.
⑰ Santen Pharmaceutical Spain, S.L.	Spain
⑱ SANTEN LIMITED LIABILITY COMPANY	Russia
⑲ Santen Pharmaceutical (China) Co., Ltd.	China
⑳ Santen Pharmaceutical Sales and Marketing (Suzhou) Co., Ltd.	
㉑ Chongqing Santen Kerui Pharmaceutical Co., Ltd.	
㉒ Santen Pharmaceutical Korea Co., Ltd.	Korea
㉓ Taiwan Santen Pharmaceutical Co., Ltd.	Taiwan
㉔ Santen India Private Limited	India
㉕ Santen Pharmaceutical Asia Pte. Ltd.	Singapore
㉖ SANTEN (THAILAND) CO., LTD.	Thailand
㉗ SANTEN PHARMA MALAYSIA SDN. BHD.	Malaysia
㉘ SANTEN PHILIPPINES INC.	Philippines
㉙ SANTEN PHARMACEUTICAL (HONG KONG) LIMITED	Hong Kong

Other Office	
㉚ Ho Chi Minh City Representative Office	Vietnam

Plants and Laboratories

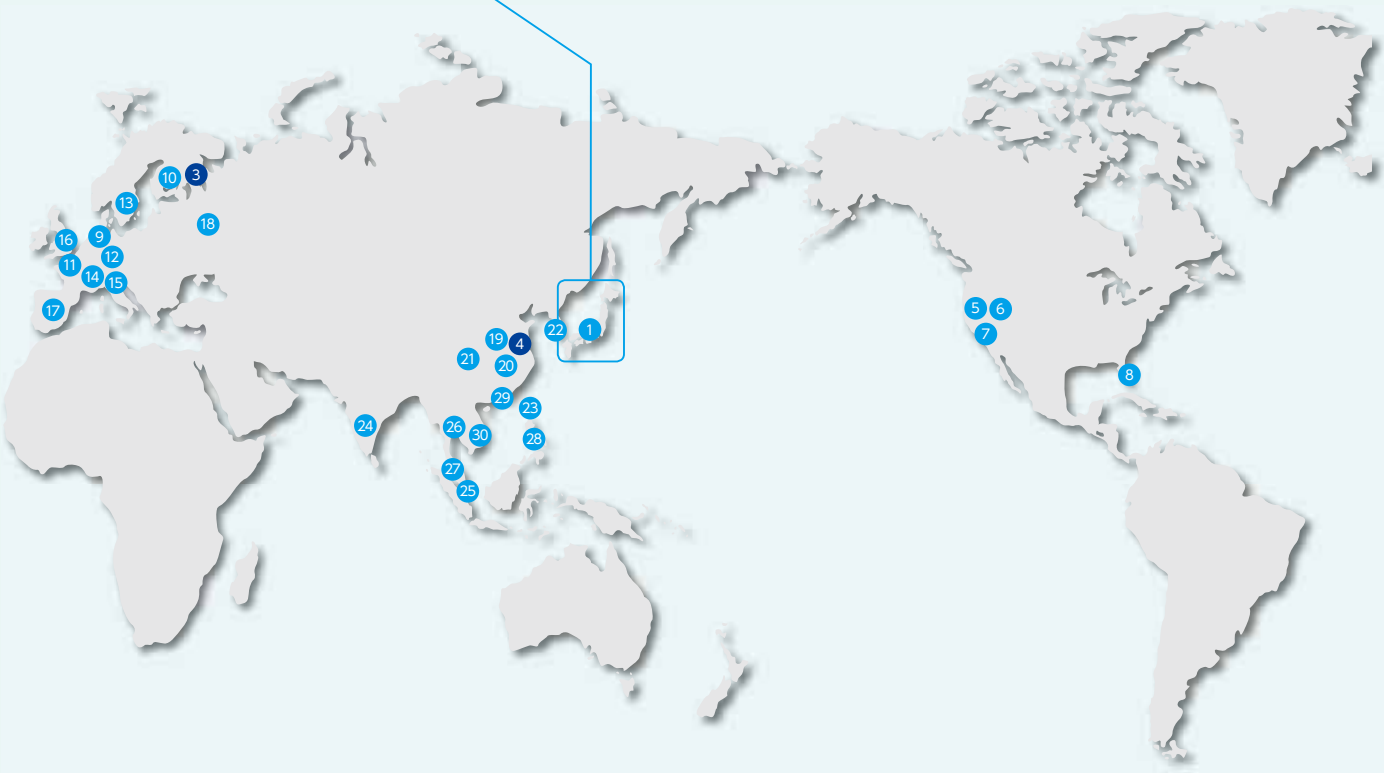
❶ Noto Plant (Japan)

❷ Shiga Product Supply Center (Japan)

❸ Tampere Plant (Finland)

❹ Suzhou Plant (China)

❺ Nara Research and Development Center (Japan)



Company History

1890
Founder Kenkichi Taguchi opened Taguchi Santendo in Kitahama, Osaka

1925
Operations incorporated as Santendo Co., Ltd.

1935
Yodogawa Plant established in Higashiyodogawa-ku, Osaka

1944
Head Office transferred to Yodogawa Plant (Higashiyodogawa-ku, Osaka)

1945
Company name changed to Santendo Pharmaceutical Co., Ltd.

1958
Company name changed to current form of Santen Pharmaceutical Co., Ltd.

Santen entered prescription pharmaceutical business

1977
Stock listed on First Section of Tokyo Stock Exchange and Osaka Securities Exchange

Production system introduced to allow filling of solution into molded containers to make bottle-packed eye drops

1982
Central Research Laboratories established

1985
Noto Plant established

1990
Long-term business vision formulated to mark centenary

1993
Subsidiary Santen Inc. established in the U.S.

1994
Subsidiary Santen GmbH established in Germany

1996
Representative office established in Beijing, China

Nara Research and Development Center and Shiga Plant (currently Shiga Product Supply Center) established

1997
Finnish ophthalmics pharmaceutical company acquired and Santen Oy established

Subsidiary Taiwan Santen Pharmaceutical Co., Ltd. established

1998
Medium-term Plan “Hitomi 21” formulated

2000
Subsidiary Santen Pharmaceutical Korea Co., Ltd. established

Representative office established in Guangzhou, China

2001
U.S.-based Advanced Vision Science, Inc. acquired

2002
Developed Dimple Bottle, an innovative patient oriented container for ophthalmic solutions

2003
Fiscal 2003-2005 Medium-Term Management Plan formulated

ISO 14001 certification acquired by Noto Plant

2004
U.S. sales partnership with Johnson & Johnson Vision Care, Inc. (currently VISTAKON Pharmaceuticals, LLC) started

1900 1990 2000

Product History

1890s
Launch of *Heburin-gan*, a cold medicine

1899
Launch of *Daigaku Eye Drops*

1952
Launch of *Daigaku Penicillin Eye Drops*

1953
Launch of *Daigaku Mycillin Eye Drops*

1954
Launch of *Daigaku Super Eye Drops*

1962
Launch of *Mydrin-P*, a mydriatic drug (for pupil dilation)

1962
Launch of *Super Sante* marks first use of plastic eye drop containers in Japan

1963
Launch of *Thiola*, an original liver detoxification agent

1965
Launch of *Sante de U*

1970
Launch of antibiotic ophthalmic *Ecolicin*

1975
Launch of anti-inflammatory ophthalmic *Flumetholon*

1978
Santen commenced sales of medical devices

1981
Launch of *Timoptol*, a treatment for glaucoma and ocular hypertension

1985
Launch of *Sante 40 NE*

1986
Santen commenced sales of intraocular lenses

1987
Launch of anti-rheumatic *Rimatil*

Launch of anti-infective ophthalmic *Tarivid*

1991
Launch of *Sante FX*

1992
Launch of *BSS PLUS*, an ophthalmic perfusion and bathing solution

Launch of *Kary Uni*, a treatment for early-stage senile cataracts

1995
Launch of *Hyalein*, a treatment for keratoconjunctival disorders

Launch of anti-allergy ophthalmic *Alegysal*

Launch of anti-rheumatic *Azulfidine EN*

Launch of *Opegan Hi*, an adjuvant for ophthalmic operations

1999
Launch of *Timoptol XE*, a treatment for glaucoma and ocular hypertension

Launch of *Sante FX Neo*

2000
Launch of anti-infective ophthalmic solution *Cravit*

2001
Launch of *Detantol*, a treatment for glaucoma and ocular hypertension

Launch of anti-allergy ophthalmic *Livostin*

2002
Launch of *Sante de U Plus E Alpha*

Launch of *Sante 40*

2003
Launch of *ClariFlex* foldable intraocular lenses

2005
Subsidiary Santen Pharmaceutical (China) Co., Ltd. established

2006
Fiscal 2006-2010 Medium-Term Management Plan formulated

2007
Santen Pharmaceutical (China) Co., Ltd. established Suzhou Plant

2008
Completion of pharmaceutical development building and ancillary building at Nara Research and Development Center

2009
Santen Pharmaceutical (China) Co., Ltd. commenced direct marketing

2010
Santen Pharmaceutical Korea Co., Ltd. commenced direct marketing

2011
Fiscal 2011-2013 Medium-Term Management Plan formulated

Subsidiary Santen India Private Limited established in India

2012
Acquired Novagali Pharma S.A.S. of France (currently Santen S.A.S.) and made it a wholly owned subsidiary

Established Santen Holdings EU B.V. in the Netherlands as a holding company

Started integrated production at the Suzhou Plant

2013
Head Office transferred to Kita-ku, Osaka

Representative office established in Ho Chi Minh City, Vietnam

Established Santen Pharmaceutical Asia Pte. Ltd. in Singapore

2014
Took over ophthalmology assets from U.S.-based Merck & Co., Inc.

Fiscal 2014-2017 Medium-Term Management Plan formulated

Established subsidiaries in Switzerland, Italy, the U.K., Spain, Thailand, Malaysia and the Philippines

2015
Assigned anti-rheumatic pharmaceutical business to AYUMI Pharmaceutical Corporation

2016
Established Santen Business Services Co., Ltd.

Established Santen Eye Care Co., Ltd.

Established SANTEN PHARMACEUTICAL (HONG KONG) LIMITED

Acquired U.S.-based InnFocus, Inc.

Established Chongqing Santen Kerui Pharmaceutical Co., Ltd.

2017
Established SANTEN LIMITED LIABILITY COMPANY in Russia

2010

2004
Launch of *Rescula*, a treatment for glaucoma and ocular hypertension

Launch of anti-rheumatic *Metolate*

2006
Launch of *Papilock Mini*, a treatment for vernal keratoconjunctivitis

Launch of *Sante Medical 10*

Launch of *Sante AL Cool II*

2007
Launch of *Sante Uruoi Contact a*

2008
Launch of nutritional supplement *Sante Lutax* series

Launch of *Sante 40i*

Launch of *Eternity* foldable intraocular lens

Launch of *Tapros*, a treatment for glaucoma and ocular hypertension

2009
Launch of *Sante FX V Plus*

Launch of *Eternity Natural* foldable intraocular lens

2010
Launch of *Cosopt*, a treatment for glaucoma and ocular hypertension

Launch of *Diquas*, a treatment for dry eye

2012
Launch of *Sante Medical Guard*

Launch of Intravitreal VEGF Inhibitor *Eylea*

Launch of *Sante 40* series

2013
Launch of *Eternity Natural Uni*

Launch of *Sante Beautéye*

Launch of *Sante PC*

Launch of *Tapros Mini*, a treatment for glaucoma and ocular hypertension

Launch of anti-allergy ophthalmic solution *Alesion*

2014
Launch of *Tapcom*, a treatment for glaucoma and ocular hypertension

Launch of *Soft Santear Hitomi Stretch*

2015
Launch of nutritional supplement *Sante Lutax 20 +Vitamin & Mineral*

Launch of *New Sante de U α*

Launch of *Cosopt Mini*, a treatment for glaucoma and ocular hypertension

Launch of *Ikervis*, a treatment for severe keratitis in adult patients with dry eye disease

2016
Launch of new *Sante Medical* series

2017
Launch of *Eternity Natural Uni R* foldable intraocular lens

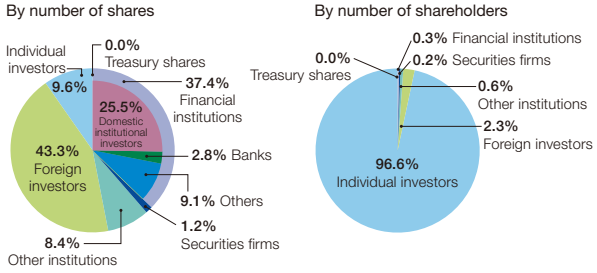
Note: Based on the years when sales were launched by Santen Pharmaceutical.

Corporate Information / Stock Information

As of March 31, 2017

Corporate Headquarters	Santen Pharmaceutical Co., Ltd. Grand Front Osaka Tower A, 4-20 Ofuka-cho, Kita-ku, Osaka 530-8552, Japan URL: http://www.santen.com TEL: +81-6-6321-7000 (Main) +81-6-4802-9360 (PR and IR) E-MAIL: ir@santen.com
Established	1890
Paid-in Capital	¥7,792 million
Number of Employees	3,667 (non-consolidated: 1,844)
Number of Shares Issued	406,173,015
Number of Shareholders	23,650
Stock Exchange Listings	Tokyo
Ticker Code	4536
Transfer Agent	Osaka Corporate Agency Division, Mitsubishi UFJ Trust and Banking Corporation 6-3, Fushimi-cho 3-chome, Chuo-ku, Osaka 541-8502, Japan

Composition of Shareholders

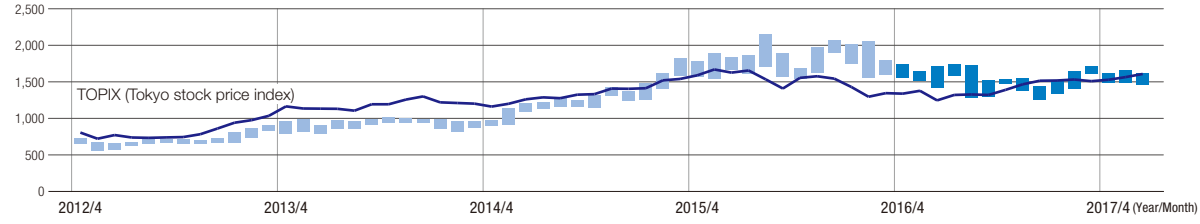


Major Shareholders

Name	Number of shares held	Percentage of ownership
Japan Trustee Service Bank, Ltd. (Trust Account)	30,908 Thousands of shares	7.6%
State Street Bank and Trust Company 505223	30,279	7.5
The Master Trust Bank of Japan, Ltd. (Trust Account)	20,840	5.1
Nippon Life Insurance Company	10,662	2.6
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	10,605	2.6
Ono Pharmaceutical Co., Ltd.	9,307	2.3
Development Bank of Japan Inc.	8,275	2.0
National Mutual Insurance Federation of Agricultural Cooperatives	7,121	1.8
Japan Trustee Service Bank, Ltd. (Trust Account 5)	6,948	1.7
Daiichi Sankyo Company, Ltd.	6,885	1.7

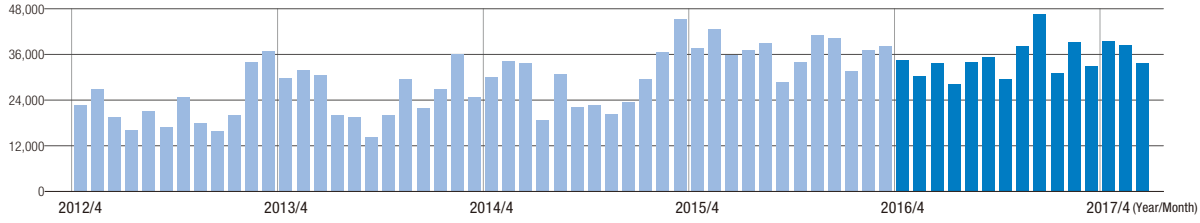
Stock Price Range (Yen)

Monthly basis



Trading Volume (Thousands of shares)

Monthly basis



Yearly High and Low Prices

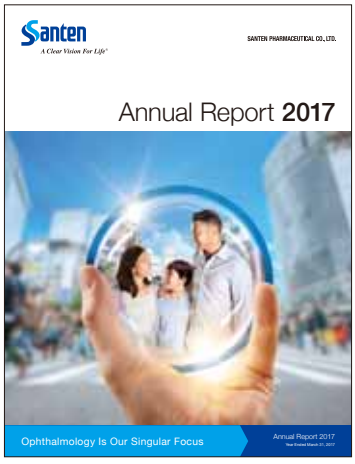
	2013	2014	2015	2016	**2017**
High (yen)	1,010	1,426	2,163	2,064	**1,713**
Low (yen)	668	813	1,262	1,251	**1,343**

Notes: 1. Calendar years.
2. Stock prices for 2017 are for the period to the end of June.
3. Stock price and trading volume from July 16, 2013 are those listed on the Tokyo Stock Exchange; prior to this date are those listed on the Osaka Securities Exchange.
4. Santen conducted a five-for-one share split of ordinary shares on the effective date of April 1, 2015. Figures for stock price and trading volume from before the share split have been adjusted using the share split ratio.

Santen's Disclosure Materials

Santen strives to widely disclose information to a broad range of stakeholders through various disclosure materials.

Annual Report 2017 (Integrated)



Comprehensive Disclosure of Value Creation Initiatives Based on Santen's Values

The Santen Group has adopted a policy to integrate its Annual and CSR reports into an integrated report that provides a view of overall business activities based on Santen's Values. The new report is intended to provide customers and society an understanding of Company values and includes comprehensive coverage of financial information as well as non-financial information such as management strategies, review of operations and CSR activities. Santen strives to supply clear and concise content based on the International Integrated Reporting Council (IIRC)'s integrated reporting framework, in order to facilitate the understanding from a broad range of stakeholders, beginning with shareholders and other investors.

Corporate Website

Disclosure of Corporate Information and Useful Information on Eye Health

Santen presents detailed financial and non-financial information on its corporate website in order to foster a deeper understanding of its business activities as a specialized pharmaceutical company. The Company's website for shareholders and other investors also provides various materials useful to investors, including financial reports and presentation materials.

Moreover, Santen is also working to enhance the disclosure of useful information on eye health for the general public and information on ophthalmic treatment for medical professionals.

http://www.santen.com

CSR Website ("CSR" on Santen's Corporate Website)

Detailed Disclosure of Santen's CSR Initiatives

Santen's CSR website provides detailed information on CSR activities based on Santen's Values. CSR initiatives are presented based on the "7 Core Subjects of CSR," including environmental conservation, respect for human rights, diversity, compliance, and social contribution.

The CSR website also presents information related to the environment, as well as employment and human resources.

http://www.santen.com/en/csr

SANTEN PHARMACEUTICAL CO., LTD.

http://www.santen.com

VEGETABLE OIL INK

This report is printed with vegetable oil ink.

Printed in Japan