

TRANSLATION

Following is an English translation of the Report pursuant to Article 24, Paragraph 1 of the Financial Instruments and Exchange Act. This Report is presented merely as supplemental information.

Securities Report

(For the 59th fiscal year,
from January 1, 2018 to December 31, 2018)

Unicharm Corporation

(E00678)

The 59th Fiscal Year (from January 1, 2018 to December 31, 2018)

Securities Report

1. This report is the Securities Report submitted pursuant to Article 24, Paragraph 1 of the Financial Instruments and Exchange Act via the Electronic Disclosure for Investors' Network ("EDINET") as set forth in Article 27-30-2 of the same Act, generated and printed with a Table of Contents and page numbers added.
2. The end of the report contains the Independent Auditor's Reports that were attached to the above Securities Report submitted via the above method and the Internal Control Report and Confirmation Note that were submitted with the Securities Report.

Unicharm Corporation

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【Cover】	
【Document Submitted】	Securities Report (“ <i>Yukashoken-Houkokusho</i> ”)
【Article of the Applicable Law Requiring Submission of This Document】	Article 24, Paragraph 1 of the Financial Instruments and Exchange Act
【Filed to】	Director-General of the Kanto Local Finance Bureau
【Date of Filing】	March 28, 2019
【Business Year】	The 59th Fiscal Year (From January 1, 2018 to December 31, 2018)
【Company Name】	Unicharm Kabushiki-Kaisha
【Company Name (in English)】	Unicharm Corporation
【Position and Name of Representative】	Takahisa Takahara, Representative Director, President and Chief Executive Officer
【Location of Head Office】	182, Shimobun, Kinsei-cho, Shikokuchuo-shi, Ehime, Japan (The above address is the official registered location of the head office. Actual operations are based as follows.) Sumitomo Fudosan Mita Twin Bldg., West Wing, 3-5-27, Mita, Minato-ku, Tokyo, Japan
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【Place Where Available for Public Inspection】	Head Office, Unicharm Corporation (Sumitomo Fudosan Mita Twin Bldg., West Wing, 3-5-27, Mita, Minato-ku, Tokyo, Japan) Unicharm Kyoshinkan (Resonance Hall), Unicharm Corporation (131, Shimobun, Kinsei-cho, Shikokuchuo-shi, Ehime, Japan) Osaka Office, Unicharm Corporation (Sumitomo Nakanoshima Bldg., 3-2-18, Nakanoshima, Kita-ku, Osaka-shi, Osaka, Japan) Tokyo Stock Exchange, Inc. (2-1, Nihonbashi Kabutocho, Chuo-ku, Tokyo, Japan)

Part 1. Information on the Company

I. Overview of the Company

1. Key financial data and trends

(1) Consolidated financial data

Fiscal year		IFRS			
		Date of transition	57th	58th	59th
Year ended		January 1, 2016	December 31, 2016	December 31, 2017	December 31, 2018
Net sales	Millions of Yen	—	604,653	641,647	688,290
Profit before tax	Millions of Yen	—	75,835	92,926	91,561
Profit attributable to owners of parent	Millions of Yen	—	46,971	52,772	61,353
Comprehensive income attributable to owners of parent	Millions of Yen	—	25,604	58,849	43,016
Equity attributable to owners of parent	Millions of Yen	349,714	352,098	387,567	441,456
Total assets	Millions of Yen	656,200	668,592	736,644	795,483
Equity attributable to owners of parent per share	Yen	579.50	587.61	652.91	736.39
Basic earnings per share	Yen	—	79.06	89.85	103.73
Diluted earnings per share	Yen	—	76.63	87.06	101.44
Ratio of equity attributable to owners of parent	%	53.3	52.7	52.6	55.5
Return on equity attributable to owners of parent	%	—	13.4	14.3	14.8
Price earnings ratio	Times	—	32.3	32.6	34.3
Cash flows from operating activities	Millions of Yen	—	103,604	98,086	110,867
Cash flows from investing activities	Millions of Yen	—	(42,612)	(38,778)	(113,400)
Cash flows from financing activities	Millions of Yen	—	(21,540)	(30,582)	(27,723)
Cash and cash equivalents at end of fiscal period	Millions of Yen	101,966	138,043	169,903	135,065
Employees () represents the average number of part-time employees not included in the above numbers	Persons	15,500 (4,309)	15,843 (1,796)	15,757 (1,802)	16,207 (1,794)

Notes: 1. Net sales are presented exclusive of consumption taxes.

2. The number of employees represents the number of full-time employees.

3. The Group's consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (hereafter "IFRS") starting from the 58th fiscal year.

Fiscal year		J-GAAP			
		55th	56th	57th	58th
Year ended		December 31, 2014	December 31, 2015	December 31, 2016	December 31, 2017
Net sales	Millions of Yen	553,661	738,707	710,965	748,256
Ordinary income	Millions of Yen	65,527	71,380	71,848	84,077
Profit attributable to owners of parent	Millions of Yen	32,731	40,511	44,134	48,172
Comprehensive income	Millions of Yen	74,428	32,710	24,634	62,655
Net assets	Millions of Yen	492,844	451,091	449,974	487,013
Total assets	Millions of Yen	699,108	702,601	711,541	772,629
Net assets per share	Yen	698.49	649.98	655.50	717.40
Earnings per share	Yen	54.33	67.55	74.29	82.02
Earnings per share-diluted	Yen	54.25	66.51	70.64	78.13
Ratio of shareholders' equity	%	60.0	55.1	54.4	54.4
Earnings to shareholders' equity	%	8.2	10.0	11.4	11.9
Price earnings ratio	Times	53.6	36.7	34.4	35.7
Cash flows from operating activities	Millions of Yen	68,892	85,009	103,604	98,086
Cash flows from investing activities	Millions of Yen	(36,741)	(68,166)	(42,612)	(38,778)
Cash flows from financing activities	Millions of Yen	(12,054)	(36,835)	(21,540)	(30,582)
Cash and cash equivalents at end of fiscal period	Millions of Yen	127,044	101,966	138,042	169,903
Employees () represents the average number of part-time employees not included in the above numbers	Persons	13,901 (7,164)	15,500 (4,309)	15,843 (1,796)	15,757 (1,802)

Notes: 1. Net sales are presented exclusive of consumption taxes.

2. The number of employees represents the number of full-time employees.

3. At the 54th Ordinary General Meeting of Shareholders held on June 25, 2014, the proposal of a “partial amendments of the articles of incorporation” was approved. As a result, from the fiscal year ended December 31, 2014, the last day of the fiscal year changed from March 31 to December 31. Consolidated companies whose fiscal year ended in March also changed to December. Accordingly, as the fiscal year ended December 31, 2014 was a transitional period, the reporting of accounts for this fiscal year is an anomaly, where the consolidated fiscal year for consolidated companies whose fiscal year ended in March was nine months from April 1, 2014 to December 31, 2014, and for consolidated companies whose fiscal year ends in December was twelve months from January 1, 2014 to December 31, 2014.

4. The Company carried out a stock split on October 1, 2014, at a ratio of three shares per one common share. Accordingly, the earnings per share and earnings per share-diluted have been calculated presuming that this stock split was carried out at the start of the 55th consolidated fiscal year.

5. The 58th fiscal year J-GAAP figures have not been audited based on the provision of Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act of Japan.

6. The Group previously rounded down amounts of less than one million yen. However, it rounds to the nearest million yen starting from the 58th fiscal year.

(2) Non-consolidated financial data

Fiscal year		55th	56th	57th	58th	59th
Year ended		December 31, 2014	December 31, 2015	December 31, 2016	December 31, 2017	December 31, 2018
Net sales	Millions of Yen	206,248	307,704	327,775	338,846	359,961
Ordinary income	Millions of Yen	32,043	36,928	38,741	43,056	61,545
Profit	Millions of Yen	19,254	17,318	16,036	35,554	43,774
Capital stock	Millions of Yen	15,992	15,992	15,992	15,993	15,993
Number of shares issued	Shares	620,834,319	620,834,319	620,834,319	620,834,319	620,834,319
Net assets	Millions of Yen	249,834	246,226	236,137	249,899	302,824
Total assets	Millions of Yen	329,618	384,018	370,713	407,899	435,350
Net assets per share	Yen	415.44	412.87	399.07	424.47	505.41
Cash dividends per share (Interim cash dividends included herein)	Yen (Yen)	25.4 (19)	14.8 (7.4)	16 (8)	20 (9)	24 (12)
Earnings per share	Yen	31.96	28.88	26.99	60.54	74.01
Diluted earnings per share	Yen	31.91	28.23	24.97	57.38	71.52
Ratio of shareholders' equity	%	75.7	64.0	63.6	61.0	69.3
Earnings to shareholders' equity	%	7.8	7.0	6.7	14.7	15.9
Price earnings ratio	Times	91.1	85.8	94.7	48.4	48.1
Dividend payout ratio	%	39.8	51.2	59.3	33.0	32.4
Employees () represents the average number of part-time employees not included in the above numbers	Persons	1,297 (297)	1,297 (295)	1,329 (291)	1,398 (280)	1,443 (269)

Notes: 1. Net sales are presented exclusive of consumption taxes.

2. The number of employees represents the number of full-time employees.

3. At the 54th Ordinary General Meeting of Shareholders held on June 25, 2014, the proposal of a "partial amendments of the articles of incorporation" was approved. As a result, from the fiscal year ended December 31, 2014, the last day of the fiscal year changed from March 31 to December 31.

4. The Company carried out a stock split on October 1, 2014, at a ratio of three shares per one common share. Accordingly, the earnings per share and diluted earnings per share have been calculated presuming that this stock split was carried out at the start of the 55th fiscal year. The cash dividends per share for the 55th fiscal year is ¥19 per share for the interim dividend (before the stock split), with the addition of year-end dividend of ¥6.4 at the end of the fiscal period (after the stock split).

5. The Company previously rounded down amounts of less than one million yen. However, it rounds to the nearest million yen starting from the 58th fiscal year.

6. The Company has adopted the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) from the fiscal year under review, and the key financial data, etc. for the 58th fiscal year is presented as data, etc. after retrospectively applying the accounting standards.

2. History

February 1961	Keiichiro Takahara established Taisei Kako Co., Ltd. Commenced the manufacture and sale of building materials
August 1963	Commenced manufacture and sale of feminine napkins
March 1974	The feminine napkin manufacturing business was transferred to Unicharm Industries Co., Ltd.
September 1974	Due to a change in the par value of shares, Okada Industries Co., Ltd. merged Taisei Kako Co., Ltd. by absorption, and changed the corporate name to Unicharm Corporation as surviving entity
August 1976	Listed stocks on the Second Section of the Tokyo Stock Exchange
August 1981	Launched disposable baby diapers
October 1984	Established United Charm Co., Ltd. (former United Charm Industries Co., Ltd.) in Taiwan
March 1985	Company stock designated to be listed on the First Section of the Tokyo Stock Exchange
July 1987	Established Uni-Charm (Thailand) Co., Ltd.
June 1993	Established Unicharm East Japan Corp.
November 1993	Established Uni.Charm Mölnlycke B.V.
December 1995	Established Shanghai Unicharm Co., Ltd.
June 1997	Established PT Uni-Charm Indonesia
October 1998	Transferred the pet businesses to Uni-Taisei Corp.
February 1999	Uni-Taisei Corp. changed its company name to Uni Heartous Corporation
May 1999	Established Unicharm Central Japan Corporation
October 1999	Transferred Central Japan Production Department to Unicharm Central Japan Corporation
November 2001	Established Unicharm Consumer Products (China) Co., Ltd.
January 2002	Unicharm East Japan Corp. and Unicharm Central Japan Corporation were merged by absorption, with Unicharm Industries Co., Ltd. as the surviving entity. The corporate name was changed to Unicharm Products Co., Ltd.
February 2002	Established Unicharm Consumer Products and Services (Shanghai) Co., Ltd.
October 2002	Uni Heartous Corporation changed its corporate name to Unicharm PetCare Corporation
October 2004	Unicharm PetCare Corporation stock listed on the Second Section of the Tokyo Stock Exchange
September 2005	Unicharm PetCare Corporation stock designated to be listed on the First Section of Tokyo Stock Exchange
December 2005	Acquired Unicharm Gulf Hygienic Industries Ltd.
February 2006	Launched joint venture business in South Korea at LG Unicharm Co., Ltd. (former Uni-Charm Co., Ltd.) with LG Household & Health Care Ltd.
July 2008	Established Unicharm India Private Ltd. (Unicharm India Hygienic Private Ltd. at time of establishment)
September 2008	After acquisition of all shares in APPP Parent Pty Ltd., corporate name was changed to Unicharm Australasia Holding Pty Ltd.
January 2009	Shanghai Unicharm Co., Ltd., Unicharm Consumer Products (China) Co., Ltd. and Unicharm Consumer Products and Services (Shanghai) Co., Ltd. merged to form Unicharm Consumer Products (China) Co., Ltd. as surviving entity
September 2010	Merged Unicharm PetCare Corporation by absorption
September 2011	Established Unicharm (China) Co., Ltd.
September 2011	Acquired 95% of the shares of Diana Unicharm Joint Stock Company (Diana Joint Stock Company at time of establishment)
December 2011	Acquired 51% of shares of The Hartz Mountain Corporation
July 2012	Established Unicharm Consumer Products (Jiangsu) Co., Ltd.
April 2013	Acquired all shares of CFA International Paper Products Pte. Ltd., holder of 88% of the shares of Myanmar Care Products Ltd.
August 2013	Acquired additional 10% of shares Myanmar Care Products Ltd. and the corporate name was changed to MYCARE Unicharm Co., Ltd.
September 2018	Acquired all shares of DSG (Cayman) Ltd.

3. Description of business

Unicharm Corporation (the “Company”), 57 subsidiaries and 3 affiliates (collectively, the “Group”) is engaged chiefly in the manufacture and sale of baby care business, feminine care business, and pet care business.

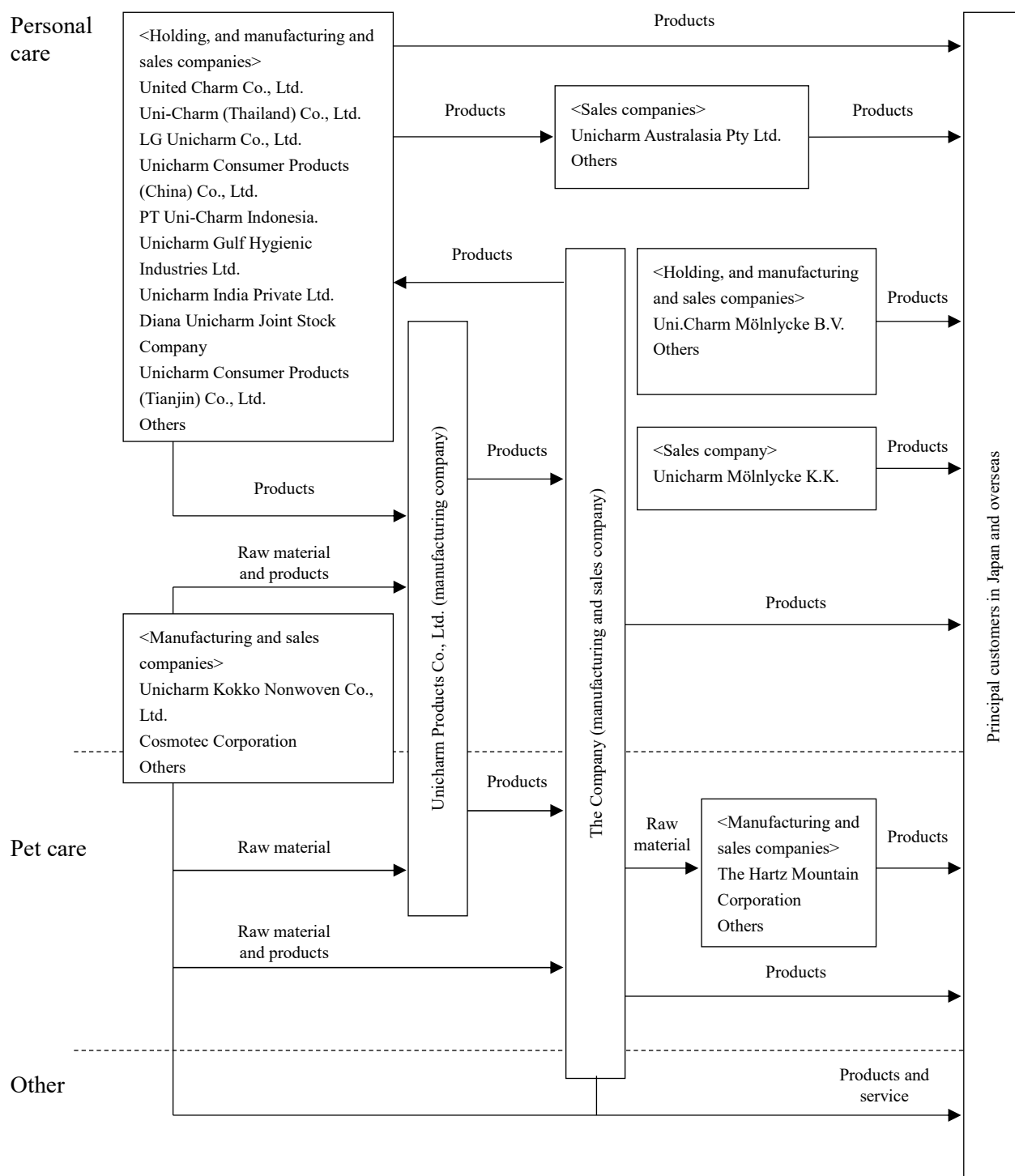
Organizational positioning and segment information of Group businesses are as follows.

The following business segmentation is harmonized with “V. Financial Information, 1. Consolidated Financial Statements (1) Consolidated Financial Statements, Notes to Consolidated Financial Statements.”

Business category	Description of principal business	Principal companies
Personal care	Baby care business Feminine care business Health care business Clean and fresh business	The Company Unicharm Products Co., Ltd. Unicharm Kokko Nonwoven Co., Ltd. Cosmotec Corporation Unicharm Mölnlycke K.K. United Charm Co., Ltd. Uni-Charm (Thailand) Co., Ltd. LG Unicharm Co., Ltd. PT Uni-Charm Indonesia Uni.Charm Mölnlycke B.V. Unicharm Consumer Products (China) Co., Ltd. Unicharm Consumer Products (Tianjin) Co., Ltd. Unicharm Gulf Hygienic Industries Ltd. Unicharm India Private Ltd. Unicharm Australasia Holding Pty Ltd. Diana Unicharm Joint Stock Company Other 32 companies Total 48 companies
Pet care	Pet care business	The Company Unicharm Products Co., Ltd. Unicharm Kokko Nonwoven Co., Ltd. Cosmotec Corporation The Hartz Mountain Corporation Other 9 companies Total 14 companies
Other		Unicharm Kokko Nonwoven Co., Ltd. Cosmotec Corporation Other 6 companies Total 8 companies

Note: In case a company operates several businesses, the company is included in each respective business category.

The organization chart of principal businesses is as follows.



4. Information on subsidiaries and affiliates

Name of company	Location	Capital	Principal businesses (Note 1)	Percentage of voting rights held (%)	Business relationship
(Consolidated subsidiaries)					
Unicharm Products Co., Ltd. (Note 2)	Shikokuchuo-shi, Ehime, Japan	Millions of JPY 2,606	Personal care	100.0	Sells products to Group companies Interlocking executives: 2 Cash loan relations: Yes
United Charm Co., Ltd. (Note 2)	Taiwan	Thousands of TWD 588,800	Personal care	52.6	Sells products to Group companies Interlocking executive: 1
Uni-Charm (Thailand) Co., Ltd. (Note 2)	Kingdom of Thailand	Thousands of THB 718,843	Personal care	94.2	Sells products to Group companies Cash loan relations: Yes
LG Unicharm Co., Ltd. (Note 2)	Republic of Korea	Millions of KRW 30,000	Personal care	51.0	Sells products to Group companies
Unicharm Consumer Products (China) Co., Ltd. (Notes 2, 3, 4)	People's Republic of China	Thousands of USD 117,127	Personal care	75.0 (75.0)	Sells products to Group companies Cash loan relations: Yes
PT Uni-Charm Indonesia (Note 2)	Republic of Indonesia	Millions of IDR 332,526	Personal care	74.0	Sells products to Group companies Financial assistance: Yes
Unicharm Gulf Hygienic Industries Ltd. (Note 2)	Kingdom of Saudi Arabia	Thousands of SAR 400,000	Personal care	95.0	Sells products to Group companies Interlocking executive: 1 Financial assistance: Yes
Unicharm India Private Ltd. (Note 2)	Republic of India	Millions of INR 15,168	Personal care	100.0	Financial assistance: Yes
Unicharm Australasia Holding Pty Ltd. (Note 2)	Commonwealth of Australia	Thousands of AUD 60,000	Personal care	100.0	Financial assistance: Yes
Unicharm Middle East & North Africa Hygienic Industries Company S.A.E. (Note 2)	Arab Republic of Egypt	Thousands of EGP 750,000	Personal care	95.0	Sells products to Group companies Interlocking executive: 1 Financial assistance: Yes
The Hartz Mountain Corporation (Note 2)	United States of America	Thousands of USD 267,533	Pet care	51.0	Sells products to Group companies Financial assistance: Yes
Unicharm (China) Co., Ltd. (Note 2)	People's Republic of China	Thousands of USD 280,346	Personal care	100.0	
UNICHARM DO BRASIL INDÚSTRIA E COMÉRCIO DE PRODUTOS DE HIGIENE LTDA. (Note 2)	Federative Republic of Brazil	Thousands of BRL 753,783	Personal care	80.1	
DSG International (Thailand) Public Co., Ltd. (Notes 2, 3)	Kingdom of Thailand	Thousands of THB 1,260,000	Personal care	99.3 (99.3)	Sells products to Group companies
Other 43 companies	—	—	—	—	—

Name of company	Location	Capital	Principal businesses (Note 1)	Percentage of voting rights held (%)	Business relationship
(Affiliates accounted for by the equity method) The Fun Co., Ltd.	Kita-ku, Sakai-shi, Osaka, Japan	Millions of JPY 200	Data storage and processing services	25.0	
Other 2 companies	—	—	—	—	—

Notes: 1. The “Principal businesses” column states the name of the segment in the segment information.

2. Companies indicated are specified subsidiaries.

3. The figures in parentheses in the “Percentage of voting rights held” column show the percentage of indirect voting interests, which is a part of the total voting interest.

4. Net sales (excluding intercompany sales within the Group) of Unicharm Consumer Products (China) Co., Ltd. exceeded 10% of consolidated net sales.

Principal financial data:

1) Net sales	¥103,981 million
2) Profit before tax	¥8,103 million
3) Profit for the period	¥6,020 million
4) Total equity	¥73,543 million
5) Total assets	¥100,872 million

5. There is one other affiliate company.

5. Employees

(1) Consolidated companies

(As of December 31, 2018)

Reporting segment	Number of employees (Persons)
Personal care	14,966 (1,519)
Pet care	647 (109)
Other	447 (153)
Corporate (common)	147 (13)
Total	16,207 (1,794)

- Notes: 1. The number of employees represents the number of full-time employees.
2. The figures in parentheses represent the average number of part-time employees during a year, and are not included in the number of full-time employees.
3. The figures in parentheses include the number of contract and part-time employees.

(2) The Company

(As of December 31, 2018)

Number of employees (Persons)	Average age (Years)	Average years of service (Years)	Average annual salary (Thousands of Yen)
1,443 (269)	41.7	16.3	8,530

Reporting segment	Number of employees (Persons)
Personal care	1,031 (237)
Pet care	265 (19)
Other	— (—)
Corporate (common)	147 (13)
Total	1,443 (269)

- Notes: 1. The number of employees represents the number of full-time employees.
2. The figures in parentheses represent the average number of part-time employees during a year, and are not included in the number of full-time employees.
3. The figures in parentheses include the number of contract and part-time employees.

(3) Trade union

Trade unions have been established at the Company and certain consolidated subsidiaries. There are no particular items concerning labor-management relations which require mentioning.

II. Business Overview

1. Management policies, management environment, and issues facing the Group

In the following, statements relating to the future are based on the judgment of the Group at the end of the fiscal year under review.

(1) Basic management policies

It is the Group's basic policy to conduct business activities with the aim of fulfilling its social responsibility and constantly striving for the creation of new value for stakeholders (customers, shareholders, clients, company employees and society). To achieve the aim, the Group has set forth a management philosophy "to contribute to creating a better quality of life for everyone by offering only the finest products and services to the market and customers, both at home in Japan and abroad."

(2) Target management indicators

The Group aims to build a highly capital-efficient management structure that can beat the global competition, by advancing the continuous growth of sales, profit and ROE.

The Group has applied IFRS from the fiscal year ended December 31, 2017 in order to improve the international comparability of financial information and the quality of business management.

(3) Medium- to long-term management strategy

The Group is currently carrying out the 10th Medium-term Management Plan, with a period of four years, from January 2017 to December 2020. The detail was provided in the Presentation Materials for the Fiscal Year Ended December 2016, which was released on February 15, 2017.

Said Presentation Materials can be viewed at the following URL.

The Company's website:

<http://www.unicharm.co.jp/english/ir/library/investors/index.html>

(4) Issues facing the Group

As for overseas operations, high levels of economic growth are expected to continue primarily in emerging countries in Asia. However, there are uncertainties such as the impact of the changes in US financial policies and Brexit, which may affect geopolitical risks, economy, finance and fluctuations of exchange rates in some countries where we are rolling out business; this may considerably impact business in these countries and cause stagnant sales, price fluctuations in imported raw materials and products. Meanwhile in Japan, in addition to a sense of uncertainty about the direction of the economy caused mainly by the consumption tax increase planned in the fiscal year ending December 31, 2019, the rising prices of imported raw materials resulting from exchange rates and the price of crude oil are causing anxiety in the fiercely competitive sales environment. The personal care business is also forecast to see a decline going forward in the target population for baby care and feminine care business.

In the midst of such issues, in accordance with the management philosophy of the Company and its group companies, the Company will strive to consistently create new markets and new value, and speedily promote the expansion of product line-ups to meet customer insights by such means as maximizing demand for Japanese-made goods as well as responding to rapid ageing in Asia. As for overseas operations, the Company will enhance its risk management while aggressively developing business areas and establishing a position as a category leader in growth markets; and in Japan, the Company will aim to realize a society where people and pets live symbiotically, and also expand total industrial assets by revitalizing the market. In these ways, the Company is striving to improve its business performance.

In order to further promote corporate reform in the future, in all businesses the Company will place greater emphasis on increasing value through continuous product innovation, and thoroughly pursue cost reduction and the efficient use of management resources.

Meanwhile, positioning environment (E), society (S), and governance (G) as important foundations for medium- to long-term sustainable improvement of corporate value, the Group will continue to promote policies, among other things, for environmental concerns and strengthening its governance system. Furthermore, to boost corporate management soundness and transparency, the Group will press forward with the improvement of procedures to verify the appropriateness of operation process concerning subsidiaries' internal controls in an effort to strengthen governance.

2. Business and other risks

In the future, there is a possibility that the financial standing and business performance of the Group (hereinafter referred to collectively as the Company in this section) will be affected by various factors that may occur. The main items that are expected to possibly pose a business risk to the Company are listed below. Items regarding the future in this report have been judged by the Company as of the filing date of this securities report (March 28, 2019), but risks are not limited to those presented here.

(1) Risks regarding the competitive sales environment

Competition in markets for the Company's core products both in Japan and overseas may possibly become even more severe in both price and product line, depending on the economy and market environment.

Given the nature of consumer products, the Company's core products are constantly exposed to fierce price competition and successive new product releases by competitors. The selling environment depends on changes in customer consumption activity and responses from competitors, in spite of the Company's efforts in marketing or reducing production costs and expenses, etc.

In the event that the Company cannot respond suitably to this sales environment, there is a possibility that sales and profits and losses will be negatively affected.

(2) Risks regarding demographics

Due to Japan's declining birth-rate which has been continuing for an extended period of time, the percentage of babies and menstruating women in the domestic population has been continuing to decrease. Such decrease is also seen in some overseas countries in which the Company operates. Due to these kinds of demographic changes, there is a possibility that demand will decrease in such countries for baby care related products and feminine care related products, which are the Company's core business.

(3) Risks regarding overseas business

The Company manufactures products in China, Indonesia, Thailand, the Middle East, and Brazil, etc. Expanding business overseas brings the possibility that raw material prices and equipment expenses will be considerably affected by changes in exchange rates. Depending on the regulations, economic environment, and situation for both society and politics in the related countries, there is a possibility that the markets will change greatly and the Company's business activity and values of assets held will be affected. In addition, the financial statements of overseas consolidated subsidiaries denominated in the currency of each country are translated into Japanese yen in the consolidated financial statements; as such, the financial standing and business performance of the Company will be negatively affected at the time of stronger yen.

(4) Risks regarding raw material price fluctuations

As a manufacturer, the Company directly faces fluctuation risks in the price of raw materials. The Company currently purchases raw materials from numerous outside suppliers and especially procures pulp and certain other raw materials predominantly from overseas sources. These transactions with overseas sources are generally conducted on a U.S. dollar basis. Despite the Company's efforts to minimize the effect of exchange rate fluctuations through other dollar transactions and currency hedges that take into account overall holding receivables and payables, depending on the extent of the exchange rate fluctuation, there is a risk that the Company's raw materials-related costs could significantly increase.

(5) Risks regarding product reliability

As a manufacturer and purveyor of consumer products, the Company has set rigorous internal criteria in addition to adhering to related regulations when it comes to the quality and safety of the raw materials and products. The Company has set up a framework to promptly investigate and address the complaints from customers, if any, regardless of its impact, to ensure reliability of its products are not affected. Due to these efforts, ever since the Company was founded, it has not experienced any substantial compensation claims which would greatly affect the Company's business in terms of product quality and safety. However, in the event that an unforeseen, serious problem occurs regarding quality or safety at the time of product manufacture or sale, there is a possibility that the reliability of the Company's products will decline significantly.

(6) Risks regarding failure to comply with laws and regulations

The Company has established measures and frameworks to comply with antitrust laws, unfair competition prevention laws, tax laws and other laws and regulations in Japan and overseas and thoroughly implements them among its directors and employees with the aim of conducting fair transactions with high ethical standards. However, in spite of these measures, if any of the directors and employees of the Company, for example, makes improper demand in carrying out a transaction or offers bribe to facilitate administrative procedures in violation of laws and regulations and receives punishment, etc. from a competent authority, it may affect business performance and/or social credibility of the Company.

(7) Risks regarding intellectual property rights such as patents and trademarks

Regarding the intellectual property rights in the Company's possession, in the event that it receives some sort of infringement by a third party, there is a possibility that it will suffer large damages such as losing expected income. At the same time, there is also the possibility that the Company may be unknowingly infringing upon the intellectual property rights of a third party, which may lead to large compensation claims or limitations imposed on the Company's business.

(8) Environmental Risks

As a product manufacturer, the Company abides by certain environmental laws and regulations both in Japan and overseas, and works on pollution prevention and the efficient use of resources. It promotes medium- to long-term improvement of resource recycling, sustainable raw material procurement, and climate change adaption as key themes.

Although the Company believes there is no significant negative impact on its business performance or financial position from current laws and regulations, there is the possibility that future legal or regulatory restrictions may affect its business performance.

(9) Disaster and accident risk

To minimize losses due to interruption of production or marketing following a major earthquake or large-scale natural disaster, fire or accident, the Company lays out a system based on its business contingency plan for coordinating manufacturing and distribution bases and for rapid recovery of information systems and administration functions. To disperse risk and for an alternative site, construction of the new Kyushu Plant has been completed.

However, unexpectedly severe disasters or accidents could jeopardize continued production, securing of raw materials or a stable supply of products.

(10) Risks related to business acquisitions, tie-ups, divestitures, integrations, and other measures

The Company continuously aims to maximize corporate value through the effective use of management resources. Based on this goal, there is the possibility that in the course of its corporate activities, the Company will engage in business acquisitions and capital subscriptions, tie-ups with other companies, business divestitures and integrations, and/or rationalizations and spin-offs. However, after such an event, there is a risk of losses, etc., due to falling values of assets held such as goodwill due to unexpectedly adverse market changes or policy outcomes.

(11) Risks related to leakage of confidential information and knowhow

The Company is in possession of a variety of information that includes not only data generated within the Company but personal and other information acquired through confidentiality agreements or with the consent of customers and clients. Accordingly, the Company has established an information security policy and stipulated corporate behavioral guidelines and other rules to ensure a secure information environment while striving for full compliance by thoroughly disseminating such rules to officers and employees. However, in the event of information leakage that calls into question the Company's legal responsibility with regard to information management, the Company may lose credibility and its business performance may be affected.

3. Management's analysis of financial position, operating results and cash flows

(1) Overview of operating results, etc.

The Group has applied IFRS, replacing the previous Japanese accounting standards, in the fiscal year ended December 31, 2017, in order to improve the international comparability of financial information and the quality of business management.

Core operating income comprises gross profit less selling, general and administrative expenses. While this is not an indicator defined in IFRS, the Company voluntarily discloses this as it is believed to be a valuable benchmark for measuring the Company's recurring business performance.

1) Financial position and operating results

	Fiscal Year Ended Dec. 31, 2017 (Millions of Yen)	Fiscal Year Ended Dec. 31, 2018 (Millions of Yen)	Difference (Millions of Yen)	Rate of Difference (%)
Net sales	641,647	688,290	46,643	7.3
Core operating income	86,838	95,107	8,269	9.5
Profit before tax	92,926	91,561	(1,366)	(1.5)
Profit attributable to owners of parent	52,772	61,353	8,581	16.3
Basic earnings per share (Yen)	89.85	103.73	13.88	15.4

The Company's net sales, core operating income, profit before tax, profit for the period, and profit attributable to owners of parent in the fiscal year under review reached ¥688,290 million (up 7.3% year on year), ¥95,107 million (up 9.5% year on year), ¥91,561 million (down 1.5% year on year), ¥67,265 million (up 16.8% year on year), and ¥61,353 million (up 16.3% year on year), respectively.

Operating results by segment are as follows.

(a) Personal Care Business

	Fiscal Year Ended Dec. 31, 2017 (Millions of Yen)	Fiscal Year Ended Dec. 31, 2018 (Millions of Yen)	Difference (Millions of Yen)	Rate of Difference (%)
Net sales (Note)	555,388	599,290	43,902	7.9
Core operating income	77,177	84,833	7,656	9.9

Note: Net sales represent those to external customers.

● Baby Care Business

Overseas, the Company continued to strengthen its internet sales and worked to build name recognition for the *moony* series in China, where demand for high value-added imports from Japan, which meet the needs for safety and security, is high, as well as to promote pants-type disposable diapers. In addition, the Company acquired shares of DSG (Cayman) Ltd., which owns the *BabyLove*, *Fitti* and *PetPet* brands, and began initiatives to achieve high rates of growth in the Southeast Asia region, particularly in Thailand and Malaysia. In India, where the use of disposable diapers is still low even among emerging countries, the Company expanded its sales area and market share while promoting pants-type disposable diapers. In Vietnam, the Company endeavored to expand its market share of the *Bobby* brand by extending the distribution in local areas. The *moony Air Fit* diaper for low-weight newborns has also earned acclaim for its expansion into countries mainly in Asia (Japan, Thailand, Indonesia, Malaysia, Singapore, Vietnam, Myanmar, India, Taiwan, and Australia) as a revolutionary diaper that can be worn comfortably, winning the 2018 Outlook Asia Innovation Award, given to companies providing innovative products and services in Asian markets, at the Outlook Asia 2018 in Singapore Conference held by EDANA*¹.

In Japan, the Company updated the products in the *moony* series, which fits comfortably on the baby's skin while preventing leakage, by applying patented "covering high waist" technology*² to *moony man Air Fit*, L- and Big-sized products of *Natural moony man* that uses organic cotton for the top sheet, a sensible choice for baby's skin while preventing leakage, and *Oyasumi Man* series exclusive for nighttime wear. The new technology provides a firm fit to the rounded belly characteristic of infants, allowing clean coverage all the

way up to the navel preventing the diaper to slide down. In addition, the Company has relieved parents from worries about leaks with the *Mamy Poko* series, which has a charming Disney character design and an affordable price, as well as impressive performance. The absorber now uses a gel that quickly absorbs large volumes of urine repeatedly for a maximum of 12 hours*³ to prevent leaks for the long term even for babies that play and move around a lot. Together with the Graduate School of Kyoto University, the Company carried out research based on developmental psychology on actions that motivate parents and children, and launched *Trepanman* as a new diaper that makes toilet training enjoyable for both parents and children. These diapers come with the world's first*⁴ "Reward Stickers," "Find the Same Picture" game, and "Wakuwaku Drawing Space," which are patented technologies. We have given parents more enjoyment as they raise their babies.

*1: EDANA (European Disposables And Nonwovens Association)

*2: Constructed so that the edge of the waist area uses only stretchy, non-woven fabric, while the side edges of the waist area of the crotch use layers of stretchy, non-woven fabric and rubber threads.

*3: There are individual differences in the volume of urine a baby produces.

*4: Among pants-type disposable diapers manufactured by major global brands (survey by Unicharm Corporation, in February 2018)

● Feminine Care Business

For overseas, in China the Company's high-quality products featuring charming designs remain highly popular with the younger generation. In addition, the Company has been endeavoring to expand its sales area and further increase its market share for products tailored to customer needs in emerging countries such as Indonesia, Thailand, Vietnam and India.

In Japan, with the *SOFY* brand, which encourages women to spread their wings, the *SOFY Ultra Sound Sleep Guard* series that allows users to enjoy the happiness of sleep, now uses the world's first*¹ "scroll tape"*², a technology that allows the attached tape to be extended by twice its original length to easily and compactly wrap up the napkin after use for disposal*³. This is intended to eliminate any discontent with the disposal of nighttime napkins, which are longer and thicker than regular napkins, after use. In addition, the daytime napkins in the *SOFY Hada Omoi* series which is gentle on sensitive skin were given better absorption and made even softer on the skin. These refinements ensure that this napkin feels dry to the skin even after long use, as if nothing was being used at all*⁴. Furthermore, the Company launched the *SOFY Center-in Happy Catch* series in the *Center-in* series, familiar for its "IN the pouch, GO fashionable!" approach. This new product prevents leaks and has a charming "Oshaneke"*⁵ design tailored to the lifestyle and tastes of middle school and high school girls. The Company also launched the *SOFY* menstruation management application, available for free in the App Store and Google Play, so that young girls who are experiencing menstruation for the first time can learn to manage their cycle themselves and mothers can become familiar with their daughters' cycles to provide support. The Company has endeavored to ensure that young girls can go on with their regular lives with peace of mind. Furthermore, the Company has strived to free women from their physical and emotional constraints, while examining the structures of women's bodies and minds from a scientific perspective in the hopes that all women can lead healthier lives and express their individuality. This spirit is reflected in not only our support for such social causes as the pink ribbon movement, which encourages women to get breast cancer screening and aims to eliminate breast cancer, for 11 consecutive years since 2008, but also in our offering of high value-added products utilizing its proprietary non-woven technology.

*1: After rolling up the used napkin, the non-adhesive tape sticks to the napkin's adhesive face. Among pad-type menstrual napkins manufactured by major global brands (survey by Unicharm Corporation, in September 2017)

*2: Excluding the *SOFY Ultra Sound Sleep Guard 290* and the *SOFY Ultra Sound Sleep Fit 340*

*3: As before, after rolling up the pad, it is wrapped separately for disposal for improved sanitation.

*4: Excluding the *Hada Omoi Ultra Thin Slim 17.5 cm*

*5: This made-up Japanese word suggests a chic and cute cat.

● Health Care Business

In the overseas markets, populations in Taiwan, Indonesia, Thailand, Vietnam and China are aging even faster than in Japan, which will boost the demand for adult excretion care products. The Company moved ahead with preparations to spread the care model established in Japan to Asian regions. In Thailand, the Company acquired shares of DSG (Cayman) Ltd., the owner of the *Certainty* brand, in order to build a superior market position in the market for adult disposable diapers, and have begun various initiatives aimed at accelerating the spread of such products.

In the domestic market, which continues to grow as Japan's population of the elderly increases, the Company has been working to educate the public about products that enable elderly people to continue with their current lifestyle as before. In the light incontinence care products line, the *Charm Nap Absorbent Sarafi* series, which brings happiness to daily life with its absorbent care, introduced the "fast absorbing sheet"*¹, a patented

technology that instantly draws urine into the absorber, leaving no moisture behind on the surface. In addition to this significant improvement in performance, the Company developed the *Charm Nap Sarafi Active Pants* in collaboration with Okayama Prefectural University. These shorts absorb urine but look and feel like underwear and can be worn without any need to worry about slippage and twisting. With these products, the Company continued its activities aimed at removing resistance to using these products by conveying that anyone can have light incontinence. In the *Lifree* brand of adult disposable diapers and incontinence care products, the Company launched the *Lifree Comfortable Pads* series for women, which includes the world's first*² "speed in sheet" to instantly absorb urine containing impurities. Coupled with the *Lifree Comfortable Pads for Men* series, which is designed to prevent urine leakage and stains on trousers, these products are an example of the kind of product the Company develops so that users can enjoy their daily lives as usual. In addition, the Company offered a clean and pleasant incontinence care environment with the launch of the *Lifree Bottom Clean Shower*. This product can be used to wash bottoms to keep them clean and fresh, thus alleviating the burden for both home care workers and the person being cared for. The Company offers "NAVI for Adult Diapers," which uses an artificial intelligence chatbot*³ — the first in the adult diaper industry — to answer questions about excretion care 24 hours a day, 365 days a year. The Company is also working to combat social problems associated with an aging population, such as home confinement and dementia, by holding regular *Lifree* "Social Walking"*⁴ events that support a healthy mentality and body. The Company has also actively promoted its products through TV commercials, on its website, during over-the-counter consultations at shops, and by creating shelf space at retailers based on daily activities to take the lead in the market for excretion care products.

In the *Cho-kaiteki* mask brand, which protects daily health and supports a safe and comfortable lifestyle, following the increasing adoption of mask usage by kindergarteners and early elementary grades children, the Company launched *Cho-kaiteki Mask For Kids (for kindergartener)* and *Cho-kaiteki Mask For Kids (for early elementary grades)*, which provide a perfect fit for the smaller faces of kindergarten and early elementary grades children. In this way the Company strove to offer a range of masks suitable for comfortable year-round use by both children and adults, and to revitalize the market.

*1: Applicable sizes: 10 cc to 170 cc

*2: The structure uses a ribbed top sheet that allows the user to maintain bulkiness even when wet. Among light incontinence pads manufactured by major global brands. (survey by Unicharm Corporation, in February 2015)

*3: A program that engages in dialogue instead of a person (or a system that includes this function)

*4: "Social walking" is a coined word that means "social participation and walking," and it indicates a form of walking that helps preventing dementia in a manner that anyone can easily benefit from by walking while having a good time with other people (devised by the Company, under the supervision of Tokyo Metropolitan Geriatric Hospital and Institute of Gerontology).

● Clean and Fresh Business

In the domestic market for clean and fresh products, the Company developed products in line with the changes in living environments and lifestyle changes targeted at the increasing number of customers who wish to keep their living spaces always spick and span by cleaning their homes easily within the limited time they spend at home. The Company recommended ways to make daily life comfortable and implemented campaigns in an effort to invigorate the market with the *Silcot Wet Tissues* series, which is a box of wipes that enables users to clean quickly with just one hand, and the *Wave* brand, a single sheet of which can clean the entire house. The Company took steps to revitalize the increasingly diversified cosmetic cotton market and promote sales by implementing campaigns in the *Silcot Cotton* series, which maintains the health of the skin as it changes on a daily basis and which makes everyday maintenance easier and more effective, for the *Silcot Sponge Touch Moisturizing Cotton*, which makes skin amazingly moist using 50% less lotion*¹, and for the *Silcot Wiping Cotton Silky Cut* products, made from Japan's first superfine filament*², which easily removes even microscopic dirt, as well as actively worked to capture demand from foreign visitors to Japan.

*1: Compared to the Company's conventional products

*2: The sheet covering the puff has a double-layered structure. The outer layer touching the skin consists of superfine filaments that are less than 10 μm in size and the inner part is made up of coarse cellulose fibers. The survey covered cosmetic cotton from major brands in Japan. (survey by Unicharm Corporation, in October 2015)

As a result, net sales and segment profit (core operating income) for the personal care business for the fiscal year under review were ¥599,290 million (up 7.9% year on year) and ¥84,833 million (up 9.9% year on year), respectively.

(b) Pet Care Business

	Fiscal Year Ended Dec. 31, 2017 (Millions of Yen)	Fiscal Year Ended Dec. 31, 2018 (Millions of Yen)	Difference (Millions of Yen)	Rate of Difference (%)
Net sales (Note)	79,847	82,073	2,227	2.8
Core operating income	9,684	10,123	439	4.5

Note: Net sales represent those to external customers.

The Company has been working to develop products ranging from sanitary goods to food and create markets to support the lives of pets in an integrated manner in order to help create a “Cohesive Society” in which humans and pets can live together in comfort for a long time and in good health.

In the domestic pet toiletry business, for dogs, the Company launched and promoted a camouflage pattern for male dogs and a check pattern for female dogs in its *Manner Wear* brand of diapers that seem more like clothing, enabling pet owners to go anywhere with their dogs whenever they want. For cats, the Company launched the *Deo Toilet Kaiteki Wide* that enables even large cats to turn around freely and find a comfortable position for excretion. This was inspired by the fact that cat owners who install cat toilets in their living space in order to spend more time with their pets feel that the current toilet system is too narrow for their cats and by the rise in “multiple pet owners” owning more than one cat. In the *Deo Toilet* brand, the Company launched the *Deo Toilet Deodorizing Sheet High-Capacity 20-Sheet* and the *Deo Toilet Soft Scented Deodorizing Design Sheet with Natural Garden Fragrance*, to help create a pleasant living space.

In the domestic pet food market, in the *Grand Deli* brand of dog food, which focuses on high-quality ingredients with well-balanced colors and a balance of flavor, taste and nutrition, the Company launched the *Grand Deli Chicken White Meat with Broccoli and Pumpkin* pouch products, in both loose shredded and jelly-soaked types, which use 100% domestic chicken meat and promote healthy eating with a great flavor. In addition, the Company launched the *Grand Deli Cream Cheese* and the first fruit flavor, *Grand Deli Banana & Apple*, in its *Grand Deli Ottotto* brand series of dog snacks with a crispy texture, jointly developed with Morinaga & Co., Ltd.*1 to meet the needs of owners who want to enjoy their snack time with their pets

In cat food, in the *Silver Spoon* brand that uses plenty of the good-quality fish that cats love so that they are completely absorbed in their food until the very last bite, for both the “Kitten” products and the “Older Cat” products for cats of 15 years or so, the Company launched a *Silver Spoon Assorted Pack* with a blend of tuna, bonito and white chicken meat, broadening the line-up of products focused on maintaining health and nutritional balance. In addition, the *Silver Spoon Three-Star Gourmet* brand, a premium food featuring luxurious tastes and smells, launched the *Silver Spoon Three-Star Gourmet: Creamed Tuna and Bonito*, the first cat food that combines “fish cream” with dry kibble so that cats can enjoy different tastes and textures*2. In this way, the Company is working to provide the good taste that comes with high quality.

In the North American market, sales have remained steady in sheets for dogs with the use of Japanese technology and in wet-type snacks for cats, and preparations were made for future growth, including reinforcing internet sales, which have grown significantly in recent years, and making overtures to pet specialty stores and dollar stores, single-price store that is specific to US.

*1: Snacks for dogs jointly developed for the first time by Unicharm Corporation and Morinaga & Co., Ltd.

*2: A pet food in which the individual dry kibbles are topped with lines of fish cream. Among pet food manufactured by major global brands. (survey by Unicharm Corporation, in August 2018)

As a result, net sales and segment profit (core operating income) for the pet care business for the fiscal year under review were ¥82,073 million (up 2.8% year on year) and ¥10,123 million (up 4.5% year on year), respectively.

(c) Other Businesses

	Fiscal Year Ended Dec. 31, 2017 (Millions of Yen)	Fiscal Year Ended Dec. 31, 2018 (Millions of Yen)	Difference (Millions of Yen)	Rate of Difference (%)
Net sales (Note)	6,412	6,927	515	8.0
Core operating income	(23)	151	175	—

Note: Net sales represent those to external customers.

In the category of business-use products utilizing its core non-woven fabric and absorber processing and forming technology, the Company focused on promoting the sales of industrial materials.

As a result, net sales and segment profit (core operating income) in other businesses for the fiscal year under review were ¥6,927 million (up 8.0% year on year) and ¥151 million (segment profit (core operating income) was a loss of ¥23 million in the previous fiscal year), respectively.

The overview of the financial position for the fiscal year under review is as follows.

	As of December 31, 2017 (Millions of Yen)	As of December 31, 2018 (Millions of Yen)	Difference (Millions of Yen)
Total assets	736,644	795,483	58,839
Total liabilities	283,615	291,813	8,198
Total equity	453,029	503,670	50,641
Ratio of equity attributable to owners of parent (%)	52.6	55.5	—

Total assets as of the end of the fiscal year under review amounted to ¥795,483 million, up ¥58,839 million over the end of the previous fiscal year. The major increases were ¥53,558 million in intangible assets, ¥12,107 million in property, plant and equipment, ¥11,410 million in inventories and ¥10,760 million in other current financial assets mainly due to investment securities, and the main decrease was ¥34,837 million in cash and cash equivalents. Total liabilities were ¥291,813 million, up ¥8,198 million over the end of the previous fiscal year. The major increases were ¥15,014 million in trade and other payables and ¥6,958 million in other current liabilities mainly due to accrued expenses and ¥3,133 million in retirement benefit liabilities, ¥2,508 million in income tax payables, and the main decrease was ¥23,927 million in bonds and borrowings. Total equity amounted to ¥503,670 million, up ¥50,641 million over the end of the previous fiscal year. The major increases were ¥61,353 million in profit attributable to owners of parent and ¥14,876 million decrease in treasury shares, and the major decreases were ¥19,785 million in other components of equity mainly due to exchange differences on translation in foreign operations and ¥13,585 million in dividends paid to owners of parent.

Consequently, the ratio of equity attributable to owners of parent increased from 52.6% as of the end of the previous fiscal year to 55.5% as of the end of the fiscal year under review.

2) Cash flows

	Fiscal Year Ended Dec. 31, 2017 (Millions of Yen)	Fiscal Year Ended Dec. 31, 2018 (Millions of Yen)	Difference (Millions of Yen)
Cash flows from operating activities	98,086	110,867	12,781
Cash flows from investing activities	(38,778)	(113,400)	(74,622)
Cash flows from financing activities	(30,582)	(27,723)	2,859
Cash and cash equivalents at end of period	169,903	135,065	(34,837)

Net cash provided by operating activities totaled ¥110,867 million (up ¥12,781 million from the previous fiscal year). Net cash used in investing activities totaled ¥113,400 million mainly due to purchase of investments in subsidiaries

resulting in change in scope of consolidation (up ¥74,622 million from the previous fiscal year). Net cash used in financing activities amounted to ¥27,723 million, mainly attributable to purchase of treasury shares (down ¥2,859 million from the previous fiscal year).

As a result, cash and cash equivalents including effect of exchange rate changes at end of the fiscal year under review amounted to ¥135,065 million, down ¥34,837 million over the end of the previous fiscal year.

3) Actual production, orders received and sales

(a) Actual production

Reportable segment	Production amount (Millions of Yen)	Year-on-year change (%)
Personal care	616,106	9.7
Pet care	83,446	3.6
Other	7,008	9.3
Total	706,560	9.0

- Notes: 1. Intersegment transactions have been eliminated.
2. Production amount is based on selling prices.
3. Production amount is presented exclusive of consumption taxes.

(b) Actual orders received

Make-to-order-based production is not undertaken, so this item does not apply.

(c) Actual sales

Reportable segment	Sales amount (Millions of Yen)	Year-on-year change (%)
Personal care	599,290	7.9
Pet care	82,073	2.8
Other	6,927	8.0
Total	688,290	7.3

- Notes: 1. Intersegment transactions have been eliminated.
2. Sales amount is presented exclusive of consumption taxes.

(2) Analysis and assessment of operating results, etc. from a management's perspective

Recognition, analysis and assessment of the Group's operating results, etc. from a management's perspective are as follows.

In the following, statements relating to the future are based on the judgment at the end of the fiscal year under review.

1) Significant accounting policies and estimates

The Group's consolidated financial statements are prepared in accordance with IFRS.

Significant accounting policies and estimates are presented in "V. Financial Information, 1. Consolidated financial statements, (1) Consolidated financial statements, Notes to the consolidated financial statements."

2) Recognition, analysis and assessment of operating results, etc. of the fiscal year under review

(a) Analysis of operating results

In the fiscal year under review, against the backdrop of rising raw materials prices, as well as the impact of the US-China trade conflict and the US's monetary tightening measures on the global economy, for overseas, despite uncertainties over the outlook for the Chinese economy and currency depreciation in emerging economies, economies were generally stable in our key target countries such as Indonesia, Thailand, Vietnam and India, and the Group proactively carried out sales activities for personal care products tailored to consumer needs, with a view to achieving sustainable growth.

In Japan, although the economy was affected by a succession of natural disasters and other factors, the economy continued to recover and there were signs of recovery in personal spending as well. The Group continued to make proposals offering new value to stimulate demand for high value-added personal care products. These efforts resulted in stable growth.

In these environments and under the banner "we constantly provide the world's No. 1 and unprecedented products and services to everybody around the globe, and deliver comfort, impression, and satisfaction," the Group continued to develop unique non-woven fabric processing and forming technology, and products that meet the needs of consumers while working to create a "Cohesive Society" in which people from all generations can live while not feeling burdened by one another and with mutual respect for each other as people.

As a result, the Company's net sales, core operating income, profit before tax, profit for the period, and profit attributable to owners of parent in the fiscal year under review reached ¥688,290 million (up 7.3% year on year), ¥95,107 million (up 9.5% year on year), ¥91,561 million (down 1.5% year on year), ¥67,265 million (up 16.8% year on year), and ¥61,353 million (up 16.3% year on year), respectively.

(b) Risks materially affecting operating results

See "2. Business and other risks."

(c) Financial resources for capital and the liquidity of funds

Cash flows from operating activities are the key financial resources for the fiscal year under review. The Company is striving to secure sufficient liquidity of funds so that funding needs for investment may be covered with own funds. For example, the Company made the payment of the full amount of the consideration of acquisition of 100% shares in DSG (Cayman) Ltd. as of September 25, 2018 using cash and deposits held.

Please refer to "(1) Overview of operating results, etc. 2) Cash flows" for the cash flow analysis for the fiscal year under review.

Own funds will be appropriated for the funds for capital investment for the fiscal year ending December 31, 2019.

(d) Objective indicators, etc. to determine the achievement of management policies, strategies and targets

The status of key indicators targeted under the 10th Medium-term Management Plan which is currently underway are as follows. Each of the indicators for the fiscal year under review shows progress as compared with the previous fiscal year (fiscal year ended December 31, 2017) towards achievement of the plan.

	Fiscal Year Ended December 31, 2017	Fiscal Year Ended December 31, 2018	Target under the Medium-term Management Plan (Fiscal Year Ending December 31, 2020)
Net sales	¥641,647 million	¥688,290 million	¥800,000 million
Net sales growth rate	6.1% (YoY)	7.3% (YoY)	(Note) 7.0% Compound annual growth rate (CAGR)
Core operating income margin	13.5%	13.8%	15.0%
Return on equity attributable to owners of parent (ROE)	14.3%	14.8%	15.0%

Note: The target figure for the net sales compound annual growth rate (CAGR) of 7.0% in the Medium-term Management Plan is set excluding impacts from foreign exchange rate fluctuations.

(e) Current state of and prospects for management strategy

Regarding the operating environment of the Group, the outlook remains uncertain due to factors such as geopolitical risk, trends in emerging economies, and volatility in financial markets. Under these conditions, the Company expects growth driven by domestic demand to continue in the Asian countries where it operates its business. In Japan, personal spending is recovering amidst solid private-sector investment and overseas demand, and we expect the economic recovery to continue.

In overseas, within this environment, we intend to grow with a speed exceeding that of the market and strive for revitalization through offering products that meet individual needs in the target countries and aggressive sales activities. In Japan, we continue to offer high value-added products reflecting consumer needs and lead the revitalization of the domestic market in the personal care business. In the pet care business, the Company will work to develop products and revitalize the market linked to the four major trends among pet owners of “indoor pet keeping,” “popularity of small dogs,” “aging of pets,” and “personification of pets,” and achieve the creation of demand in response to a “Cohesive Society” in which humans and pets can live together and the trend of aging population and a decreasing birthrate.

(f) Recognition, analysis and assessment of the financial position and operating results by segment

Please refer to “3. Management’s analysis of financial position, operating results and cash flows (1) Overview of operating results, etc.”

(3) Information on differences in key items concerning overview of operating results, etc.

The following is differences between key items in consolidated financial statements prepared under IFRS and corresponding items in consolidated financial statements prepared under the Regulations for Consolidated Financial Statements (excluding Chapters 7 and 8, hereinafter “J-GAAP”).

(Goodwill)

Under J-GAAP, goodwill was amortized over the periods in which the economic benefits of the goodwill were reasonably expected to be realized. Under IFRS, goodwill is not amortized and impairment assessments are performed periodically.

Under J-GAAP, transaction costs related to business combinations that occurred prior to the early adoption, on December 31, 2015, of “Accounting Standards for Business Combinations” (Corporate Accounting Standards No. 21 of September 13, 2013; hereafter “Accounting Standards for Business Combination”) were recorded as assets for any portion for which consideration was recognized.

As the Group elected to apply IFRS 3 Business Combinations retrospectively to business combinations that occurred on or after September 1, 2010, transaction costs directly attributable to such business combinations are expensed as incurred.

With respect to the additional acquisition of equity in subsidiaries, under J-GAAP before early adoption of Accounting Standard for Business Combinations, the difference between additional investment and additional equity was recorded as goodwill. Under IFRS, the difference is recorded as share premium.

As a result, goodwill decreased by ¥29,419 million in the fiscal year under review. Selling, general and administrative expenses decreased by ¥4,882 million.

(Net sales)

Under J-GAAP, part of rebates, etc., were mainly presented as selling, general and administrative expenses. Under IFRS, the amount is deducted from net sales.

As a result, net sales decreased by ¥96,066 million in the fiscal year under review.

4. Important business contracts

Not applicable.

5. Research and development activities

Based on the corporate philosophy of “Maintain our No. 1 position through continued and dedicated service” and focus on continued creation of new values from technology innovation, the research and development activities of the Group are centered on the Kagawa Technical Centre and Engineering Centre in Kanonji-shi, Kagawa. The Company is committed to fostering category-leading products and improving efficiency by shortening the time required from product development to market introduction, through steady development and improvement of expertise in non-woven fabric and super-absorbent polymer technologies as well as paper and pulp.

During the consolidated fiscal year under review, overall research and development expenses totaled ¥6,621 million (1.0 % of consolidated net sales). Principal achievements were as follows.

(1) Personal Care

● Baby Care Business

In tape-type disposable diapers, under the *moony* brand, the Company released an improved version of *moony Air Fit*, 4S, 5S, a diaper for low-weight newborns to create comfortability for babies by further enhancing the softness, for hospitals and maternity clinics nationwide.

In pants-type disposable diapers, the Company made significant improvements in performance of *Mamy Poko Pants (M/L)* by introducing a gel that quickly absorbs large volumes of urine repeatedly for a maximum of 12 hours and the shape that prevents leaks for the long term to relieve parents from worries about leaks. Likewise, the Company newly introduced “covering high waist” technology that provides a firm fit to the rounded belly characteristic of infants to *moony man Air Fit (L/B)* and *Oyasumi Man*. In such ways and others, the Company has strived to upgrade quality and functionality.

In overseas markets, centered on the development bases of Thailand, China, India, Indonesia, and Vietnam, product development is being carried out to suit local market needs, including those of neighboring countries.

In South Korea, the Company launched *Mamy Poko Leafganic (S/M/L)* and *Mamy Poko Pants Leafganic (M/L/XL)*, the first non-chlorinated organic diapers that are close to natural conditions and thus safe and free from worries about harm, as part of its efforts to strengthen the *Mamy Poko* brand.

The Company launched pants-type disposable diapers *Natural moony man (M/L/XL)* in China and released an improved version of pants-type disposable diapers, *Mamy Poko Pants Extra Dry Skin (S/M/L/XL/XXL/XXXL)* with increased comfortability, in Thailand.

The Company took measures to revitalize markets by improving quality and functionality and broadening lineups in all countries where the Company has a presence, including India, Indonesia, Taiwan, Vietnam, Australia, middle eastern countries including Egypt and Saudi Arabia, and Brazil.

● Feminine Care Business

In the sanitary napkins category, under the *SOFY* brand, the Company launched *SOFY Center-in Happy Catch*, which has a charming design tailored to the lifestyle and tastes of middle school and high school girls, while also offering functionalities for prevention against leaks. In the *SOFY Hada Omoi* series, which have enhanced gentleness on sensitive skin, the Company released *SOFY Hada Omoi (21/23/26cm)* and *SOFY Hada Omoi Ultra Thin Slim (21/26cm)*, improved napkins that are even more comfortable and gentle on skin and feel dry to the skin for a long time. In addition, in the *SOFY* nighttime series, the world’s first* “scroll tape” that makes disposal of used napkins easy was introduced to *SOFY Ultra Sound Sleep Guard (33/36/40/42cm)*, *SOFY Ultra Sound Sleep Fit (37/40cm)*, *SOFY Hada Omoi (33/40cm)* and *SOFY Hada Omoi Ultra Thin Slim (36cm)* to improve customer satisfaction.

In overseas markets, the Company launched *SOFY La Verte Plante (25/29cm)* that uses non-chlorinated materials and thus gentle on skin in South Korea to strengthen the brand. In addition, the Company launched *Cooling Fresh Natural (23/25/29cm)* with reduced sense of coolness in Thailand and released an improved version of pants-type napkins *SOFY Chao Shushui Anxin Ku (M/L)* in China.

The Company also took measures to expand the lineups and improve quality and functionality, to revitalize the sanitary napkin market in Asian and other countries, including Taiwan, India, Malaysia, and Singapore.

In addition, in the panty liner category, a growth market, the Company launched *SOFY Kiyora Luxury Absorption (fragrance free/with fragrance)* with better urinary absorption in the *SOFY Kiyora* series.

* After rolling up the used napkin, the non-adhesive tape sticks to the napkin’s adhesive face. Among pad-type menstrual napkins manufactured by major global brands (survey by Unicharm Corporation, in September 2017)

● Health Care Business

In the tape-type category, the Company released improved versions of *Lifree Elastic Thin-fit Adult Diaper with Light Tape Holds (S-M/L)* and *Lifree Elastic Thin-fit Adult Diaper with Tape Fasteners (S-M/L)* with elastic tape for close-fitting to the body.

In the light incontinence category, the Company made full-fledged improvements to *Lifree Comfortable Pads (for light fluids (20 cc)/feeling comfortable about regular fluids (45 cc)/feeling no worries about regular fluids (80 cc)/feeling no worries about even heavy fluids (120 cc)/feeling no worries even during longtime or nighttime use (170 cc)* which include the “speed in sheet” that instantly absorbs urine containing impurities. In addition, the Company released an improved version of the *Charm Nap Absorbent Sarafi* series, the top brand among the light incontinence care products for women, by including the “fast absorbing sheet” that instantly draws urine into the absorber, leaving no moisture behind on the surface through use of new technologies (applicable sizes: 10 cc to 170 cc). Through these efforts to improve quality and functionality, the Company has strived to revitalize the light incontinence market and improve customer satisfaction.

In the urine suction pad category, the Company launched *All Night Anshin Sarasara Pad for Skin Condition (Super/Ultra)*, a longtime pad with reduced frictions and skews that cause skin troubles, as a product for care homes and hospitals to strengthen the product lineup.

Furthermore, the Company launched *Charm Nap Sarafi Active Pants (for regular fluids/feeling no worries during longtime use; S-M/L-LL each)* in the *Charm Nap* series, an incontinence care pants product that uses stretchy materials (in 360 degrees) to the entire crotches, which fit to the leg movements and eliminate a sense of resistance when worn.

In the face mask category, the Company launched *Cho-kaiteki Mask For Kids (for kindergartener)* and *Cho-kaiteki Mask For Kids (for early elementary grades)*, face masks that provide a perfect fit for the smaller faces of kindergarten and early elementary grades children.

In overseas markets, the Company launched improved versions of *Lifree EXTRA ABSORB PANTS (M/L/XL)* in the pants-type category in India and *Powerful Slim Pants (M/L/XL)* in Malaysia. In the face mask category, the Company launched *Pollu Guard (M/L)* in India and *3D Mask* in Thailand. Through these efforts and others, the Company has strived to enhance product lineups in various countries.

● Clean and Fresh Business

In the *Wave* brand, the Company has worked to revitalize the handy wiper market by expanding the product lineup to incorporate both functionalities and design aesthetics targeting at young people.

In the cosmetic cotton category, the Company launched *Silcot Sponge Touch Moisturizing Cotton Luxury Touch Plus*, an organic cotton with the highest quality feel, in China, as part of its efforts to improve customer satisfaction.

● Research achievements

In the baby care *business*, the Company has discovered through joint research with each research institute, by NIRS measurement, wherein changes of babies’ cerebral blood flow are measured that babies are feeling comfort through their belly rather than back. The Company also carried out research based on developmental psychology on actions that motivate parents and children during the early stage of toilet training, and updated *Trepanman* based on the research results.

In the health care *business*, the Company discovered through research on urine components of healthy adults that glycoprotein contained in urine agglomerates and remains as impurities that are as large as over 1 mm. In addition, the Company’s research on ideal incontinence care pants that users can wear without feeling a sense of resistance confirmed that not only functionality and comfortability but also design is of great importance in terms of incontinence care products. The Company has been making use of the findings in improvements of its products, while at the same time, presented the findings to academic conferences, etc. and strived to publish the research results through technological public relations activities.

As a result of the above, research and development expenses for the consolidated fiscal year in the personal care field totaled ¥5,662 million.

(2) Pet Care

As for research and development activities in the pet-care field, based on a business philosophy of “Supporting pets’ healthy and happy days for life,” the Company develops pet food products at the Itami Plant of the Company in Hyogo, while pet toiletry products are developed in Kanonji-shi in Kagawa.

Development in pet food focused on the realization of products that feature the nutritional balance needed to meet the particular needs of individual pets, depending on age and physique, ensuring a long and healthy life and that the food is tasty making the pets happy.

In the dog food lines, the Company released four SKUs of *Grand Deli Soft and Easy-to-Eat Ultra-Small Morsels*, a half-dried-type gourmet food that is easy for ultra-small dogs and dogs of advanced age to eat. In the wet-type category, the Company released two SKUs of *Grand Deli Loose-shredded Chicken White Meat for Adult Dogs in a Pack of Four Pouches* as gourmet-type, which use domestic chicken meat. In side treats, the Company launched *Grand Deli Cream Cheese* and *Grand Deli Banana & Apple* in its *Grand Deli Ottotto* brand series of dog snacks with a pleasant crispy texture, jointly developed with Morinaga & Co., Ltd., and in addition, released five SKUs of *Pack of Four Pouches*. Furthermore, the Company released *Grand Deli Today’s Petit Treat Bread Three Assortments Selection*.

In the cat food lines, the Company released *Silver Spoon Three-Star Gourmet Fish Taste Cream*, the first^{*1} cat food that combines “fish taste cream” with dry kibble and two SKUs of *Silver Spoon Meal Regurgitation Suppression Food Luxury Tasty Gelée with Tuna, Bonito, Dried Sardine, Chicken White Meat and Green and Yellow Vegetables*, a dry food that reduces regurgitation typical of cats. In the wet-type category, the Company released two SKUs of *Silver Spoon Can Tasty Gelée*, seven SKUs of *Silver Spoon with 12 Pouches*, and two SKUs of *Silver Spoon Two Assortment in a Pack of Four Pouches* to meet diversified needs of customers. As for side treats, two SKUs of the *Silver Spoon Three-Star Gourmet Snacks Torori* small snack containing carefully selected raw materials from all around Japan and two SKUs of *Silver Spoon Three-Star Gourmet Snacks Torori Three Assortments* were released.

In the pet toiletry business, with more families seeing their dog as a family member, the Company newly introduced *Soft and Dry Absorption Sheet*, which offers improved softness to skin of female dogs, to *Manner Wear*, a diaper for pets, and updated the packages of both rolling-up-on-belly-type and disposable diapers for male dogs, which are incontinence care diapers for dogs of advanced age, to integrate them into the *Manner Wear* brand. In addition, the Company released new *Manner Wear* products, *Cool Camouflage Design* and *Fashionable Check Design* for male and female dogs, that are easy to match with dogs’ clothes so that the products can be used in many more situations. Our *Deo Sheet* brand boasts the top share^{*2} in the pet sheet market. Under this brand, the Company released renewed versions of *Floral Soap* and *Green Aroma* formulated with natural plant extract among the *Deo Sheet Deodorizing Fragrance* series which provide consumers who seek deodorizing through use of aroma with new aroma, and thereby contributed to creation of a new market.

In the growing market for cat excrement cleanup products, the *Deo Toilet* brand which boasts the top share^{*3} in the system toilet market, the Company released *Deo Toilet System Comfortably Wide* as a new product to provide large cats with an ample space for excretion^{*4}. In addition, the Company released additional products to the *Deo Toilet* series which provide consumers who seek deodorizing through use of aroma with new aroma, *Deo Toilet Soft Scented Deodorizing Design Sand with White Floral Fragrance* and *Deo Toilet Soft Scented Deodorizing Design Sheet with Natural Soap Fragrance*, and renewed the scent of *Cat Litter Deodorizer*.

*1: A pet food in which the individual dry kibbles are topped with lines of fish cream; among pet food manufactured by major global brands (survey by Unicharm Corporation, in August 2018)

*2: Intage SRI Pet Sheet Market cumulative sales amount for the period from January 2001 to June 2018

*3: Intage SRI Pet Supplies Market (Pet type: cat; Sand + deodorizing sheet + system toilet for cats) brand ranking in terms of cumulative sales amount for the period from January 2015 to October 2018

*4: About twice as wide toilet as half-cover type *Deo Toilet*

As a result of the above, research and development expenses in pet care operations for the consolidated fiscal year under review totaled ¥957 million.

(3) Other

The Company expanded product lines for business-use featuring non-woven fabric and absorbent material technologies.

As a result of the above, research and development expenses in other businesses for the consolidated fiscal year under review totaled ¥1 million.

III. Equipment and Facilities

1. Overview of capital investments

Capital investments by segment for the fiscal year under review are as follows.

Personal Care

Capital investments totaling ¥40,949 million were made for the purposes of strengthening and rationalizing production of disposable diapers and feminine sanitary items, etc.

No significant disposals or sales, etc. of major facilities took place.

Pet Care

Capital investments totaling ¥1,283 million were made for the purpose of strengthening and rationalizing production of pet care-related products.

No significant disposals or sales, etc. of major facilities took place.

Other

No significant capital investments or disposals or sales, etc. of major facilities took place.

2. Major facilities

(1) The Company

(As of December 31, 2018)

Facilities (Location)	Segment	Description	Carrying amount (Millions of Yen)					Number of employees (Persons)
			Buildings and structures	Machinery, equipment and vehicles	Land (Thousands of m ²)	Other	Total	
Kagawa Technical Centre Engineering Centre (Kanonji-shi, Kagawa)	Personal care Pet care	R&D facilities	1,042	2,079	285 (21)	138	3,544	413 (114)
Itami Plant (Itami-shi, Hyogo)	Pet care	Facilities for manufacture of pet foods, etc.	361	1,034	1,105 (13)	20	2,519	45 (16)
Mie Plant (Nabari-shi, Mie)	Pet care	Facilities for manufacture of pet toiletries, etc.	195	691	62 (17)	6	955	23 (3)
Saitama Plant (Kamisato-machi, Kodama-gun, Saitama)	Pet care	Facilities for manufacture of pet foods, etc.	437	746	146 (8)	3	1,331	20 (2)

Note: The figures in parentheses represent the average number of part-time employees during a year, and are not included in the number of full-time employees.

(2) Domestic subsidiaries

(As of December 31, 2018)

Company	Facilities (Location)	Segment	Description	Carrying amount (Millions of Yen)					Number of employees (Persons)
				Buildings and structures	Machinery, equipment and vehicles	Land (Thousands of m ²)	Other	Total	
Unicharm Products Co., Ltd.	Shikoku Plant (Kanonji-shi, Kagawa)	Personal care	Facilities for manufacture of disposable diapers and feminine sanitary products, etc.	4,441	10,628	1,541 (125)	181	16,792	581 (83)
	Fukushima Plant (Tanagura-cho, Higashi-shirakawa- gun, Fukushima)	Personal care	Facilities for manufacture of disposable diapers and feminine sanitary products, etc.	3,041	8,191	2,139 (128)	157	13,530	317 (15)
	Shizuoka Plant (Kakegawa-shi, Shizuoka) (Note 1)	Personal care	Facilities for manufacture of disposable diapers and feminine sanitary products, etc.	2,906	6,910	— (83)	38	9,854	261 (14)

Notes: 1. Land has been rented.

2. The figures in parentheses represent the average number of part-time employees during a year, and are not included in the number of full-time employees.

(3) Overseas subsidiaries

(As of December 31, 2018)

Company	Facilities (Location)	Segment	Description	Carrying amount (Millions of Yen)					Number of employees (Persons)
				Buildings and structures	Machinery, equipment and vehicles	Land (Thousands of m ²)	Other	Total	
Unicharm India Private Ltd.	(Republic of India)	Personal care	Facilities for manufacture of disposable diapers and feminine sanitary products, etc.	8,179	13,355	2,442 (540)	884	24,861	782 (-)
Unicharm Gulf Hygienic Industries Ltd.	(Kingdom of Saudi Arabia)	Personal care	Facilities for manufacture of disposable diapers and feminine sanitary products, etc.	6,101	14,410	193 (90)	920	21,623	2,362 (-)
PT Uni-Charm Indonesia	(Republic of Indonesia)	Personal care	Facilities for manufacture of disposable diapers and feminine sanitary products, etc.	7,461	11,064	1,198 (353)	87	19,809	1,703 (506)
Unicharm Consumer Products (China) Co., Ltd.	(People's Republic of China) (Note 1)	Personal care	Facilities for manufacture of disposable diapers and feminine sanitary products, etc.	4,546	8,726	747 (133)	1,492	15,512	1,354 (54)
Unicharm Consumer Products (Tianjin) Co., Ltd.	(People's Republic of China) (Note 1)	Personal care	Facilities for manufacture of disposable diapers and feminine sanitary products, etc.	7,370	6,115	707 (200)	646	14,839	197 (-)

Notes: 1. The company has land usage rights.

2. The figures in parentheses represent the average number of part-time employees during a year, and are not included in the number of full-time employees.

3. Plans for new additions or disposals

(1) New additions and renovations

With business operations in various countries, as of the end of the fiscal period under review, the Group has not made case-by-case decisions regarding construction and expansion of facilities per project. For this reason, figures are disclosed on a segment basis.

The Group's capital investment plans (new construction and expansion, etc.) for the following fiscal year as of December 31, 2018 are as follows.

Segment	Amount (Millions of Yen)	Description
Personal care	77,000	Facilities for manufacture of disposable diapers and feminine sanitary products, etc.
Pet care	2,000	Facilities for manufacture of pet foods and pet toiletries, etc.
Total	79,000	—

Notes: 1. The above amounts do not include consumption taxes, etc.

2. Own funds will be appropriated for the above plans.

(2) Disposals and sales

Except for disposals and sales for renewing equipment and facilities on a recurring basis, there is no plan for significant disposals or sales.

IV. Corporate Information

1. Information on the Company's shares

(1) Total number of shares and other

1) Total number of shares

Type	Number of shares authorized to be issued
Common shares	827,779,092
Total	827,779,092

2) Number of shares issued

	Number of shares issued		Stock exchanges on which the Company is listed	Description
	As of December 31, 2018	As of March 28, 2019 (filing date of this Securities Report)		
Common shares	620,834,319	620,834,319	First Section of the Tokyo Stock Exchange	The number of shares constituting a unit is 100
Total	620,834,319	620,834,319	—	—

(2) Status of the share acquisition rights

1) Stock option plans

Stock options

The Company issued share acquisition rights pursuant to the Companies Act as follows:

Date of resolution	April 16, 2015
Category and number of individuals covered by the stock options (Persons)	Directors who are not Audit and Supervisory Committee Members of the Company: 8 Employees of the Company: 1,783 Employees of the subsidiaries: 1,316
Number of share acquisition rights*	30,423 [30,396] units (Note 1)
Class, details and number of shares to be issued upon the exercise of the share acquisition rights*	Common shares: 3,042,300 [3,039,600] shares (Note 1)
Amount to be paid in upon the exercise of the share acquisition rights*	¥2,901 per share (Note 2)
Exercise period of the share acquisition rights*	From June 1, 2017 to May 31, 2022
Upon the exercise of the share acquisition rights, issue price and amount per share to be credited to capital stock*	Issue price: ¥2,901 Amount per share to be credited to capital stock: ¥1,451
Conditions for the exercise of the share acquisition rights*	(1) Any person who has been allotted the share acquisition rights may not exercise such rights unless the closing price of the Company's common shares at the Tokyo Stock Exchange is ¥4,030 per share ("condition price") or over on at least one occasion during the period from the allotment date through February 28, 2021. In cases where the exercise price is adjusted, the condition price shall be also adjusted in a uniform manner. (2) Any person who has been allotted the share acquisition rights must be, even at the time of exercise of such rights, a Director who is not an Audit and Supervisory Committee Member or an employee of the Company or a Director or an employee of the Company's subsidiary, except in cases where he or she has resigned from the position as Director who is not an Audit and Supervisory Committee Member of the Company or Director of the Company's subsidiary due to expiration of term of office or retired as employee of the Company or its subsidiary due to reaching the mandatory retirement age. (3) Notwithstanding (2) above, in the event that any person who has been allotted the share acquisition rights passed away, his/her successor may exercise the rights.
Matters relating to transfer of share acquisition rights*	Any and all transfers of share acquisition rights must be approved by the Board of Directors of the Company.
Matters relating to the issuance of share acquisition rights as a result of organizational restructuring action*	—

* Presented are the details as of the last day of the fiscal year under review (December 31, 2018). Changes during the period from the last day of the fiscal year under review to the end of the month prior to the filing date of this Securities Report (February 28, 2019) are stated in the parentheses with the details as of the end of the month prior to the filing date, and other matters have not changed since the last day of the fiscal year under review.

Notes: 1. Number of shares to be issued per share acquisition right is 100.

2. In the case that the Company conducts a share split or a reverse stock split after the allotment date, the exercise price shall be adjusted by applying the following formula with the resulting fractions of less than ¥1 to be rounded up.

$$\text{Adjusted exercise price} = \text{Exercise price before adjustment} \times \frac{1}{\text{Ratio of stock split / reverse stock split}}$$

If the Company issues shares or disposes of its treasury shares at prices less than the then-current market price (excluding cases of the exercise of share acquisition rights) after the allotment date, the exercise price shall be adjusted by applying the following formula with the resulting fractions of less than ¥1 to be rounded up.

$$\frac{\text{Paid-in amount after adjustment} = \text{Paid-in amount before adjustment} \times \frac{\text{Number of shares already issued} + \frac{\text{Number of shares to be issued} \times \text{Paid-in amount per share}}{\text{Market price per share}}}{\text{Number of shares already issued} + \text{Number of shares to be increased due to issuance}}$$

“Number of shares already issued” in the above formula is the figure after deduction of treasury shares from the total number of shares issued. In case of disposal of treasury shares, “Number of shares to be issued” is considered to be replaced by “Number of shares to be disposed of.”

In addition to the above, in any event adjustment to the exercise price is indispensable, including a merger or company split, the Company may adjust the exercise price within a reasonable range.

2) Right plans

Not applicable.

3) Status of other share acquisition rights

Bonds with share acquisition rights

The Company issued bonds with share acquisition rights pursuant to the Companies Act as follows:

Zero Coupon Convertible Bonds due 2020 (issued on September 25, 2015)

Date of resolution	September 8, 2015
Number of share acquisition rights*	1,261 units (Note 1)
Number of share acquisition rights held by the Company included in the share acquisition rights*	—
Class, details and number of shares to be issued upon the exercise of the share acquisition rights*	Common shares: 5,234,411 shares (Note 2)
Amount to be paid in upon the exercise of the share acquisition rights*	¥2,409 per share (Note 3)
Exercise period of the share acquisition rights*	From October 9, 2015 to September 11, 2020 (Local time at place of reception of exercise requests) (Note 4)
Upon the exercise of the share acquisition rights, issue price and amount per share to be credited to capital stock*	Issue price: ¥2,409 Amount per share to be credited to capital stock: ¥1,205 (Note 5)
Conditions for the exercise of the share acquisition rights*	Partial exercise of individual share acquisition rights is not possible.
Matters relating to transfer of share acquisition rights*	No separation and transfer of share acquisition rights attached to convertible bond-type bonds with share acquisition rights is permitted.
Matters relating to the issuance of share acquisition rights as a result of organizational restructuring action*	(Note 6)
Property to be contributed upon the exercise of the share acquisition rights and the amount thereof*	(Note 7)
Balance of bonds with share acquisition rights*	¥12,997 [12,958] million

* Presented are the details as of the last day of the fiscal year under review (December 31, 2018). Changes during the period from the last day of the fiscal year under review to the end of the month prior to the filing date of this Securities Report (February 28, 2019) are stated in the parentheses with the details as of the end of the month prior to the filing date, and other matters have not changed since the last day of the fiscal year under review.

Notes: 1. Par value of the bonds is ¥10 million per bond.

2. The number of shares to be issued upon exercise of share acquisition rights is the number gained by dividing the total par value of bonds subject to exercise request by the conversion price in Note 3. However, odd lots of less than one share arising from exercise are rounded down, and no cash adjustment is made.
3. (1) At the time of exercise of the individual share acquisition rights, the bond relating to the share acquisition right shall be contributed, and the price of the bond shall be the same as its par value. Please note that bonds contributed at exercise of share acquisition rights shall immediately be deemed cancelled.
- (2) The initial conversion price is ¥2,409.
- (3) After issue of bonds with share acquisition rights, the conversion price is adjusted based on the following formula in the event that the Company issues common shares of the Company with a paid-in amount lower than the then-current market price of the shares, or the Company's common shares held by the Company are disposed of. Please note that in the following formula, “Number of shares already issued” is the number of common shares already

issued by the Company (exclusive of those held by the Company).

$$\text{Adjusted conversion price} = \frac{\text{Conversion price before adjustment} \times \text{Number of shares already issued} + \frac{\text{Total of newly issued shares and shares disposed of} \times \text{Paid-in amount per share}}{\text{Market price per share}}}{\text{Number of shares already issued} + \text{Total of newly issued shares and shares disposed of}}$$

In line with the terms and conditions for bonds with share acquisition rights, the conversion price is duly subject to adjustment in the event of (1) stock split (including gratis allocation) or reverse stock split of common shares, (2) issue of share acquisition rights (including those attached to bonds with share acquisition rights) with which issuance may be requested at a price lower than the market price of common shares, (3) dividend payment over a certain level (including special dividends) or (4) other specified reasons.

4. (1) In the event of advanced redemption of the bonds, up to 3 business days prior to the redemption date in Tokyo (however, in the case of advanced redemption due to changes in the taxation system as laid down in matters relating to bonds with share acquisition rights, an exception is made for share acquisition rights relating to bonds for which the option of advanced redemption was not opted); (2) in the case of acquisition by the Company of bonds with share acquisition rights, up to the time of retirement of the bonds, or (3) in the event of loss of benefit of time of the bonds, up to the time of the loss of benefit of time. In all of the above cases, no exercise of share acquisition rights is possible after September 11, 2020 (local time at place of reception of exercise requests).

In addition, in the event that it is reasonably judged by the Company to be necessary for reasons of organizational restructuring, etc., the share acquisition rights may not be exercised within a 30-day period designated by the Company that ends within the 14-day period calculated from the day following the effective date of the organizational changes, etc.

Notwithstanding the above, if the calendar date in Japan on which the exercise period of the share acquisition rights takes effect (or in the case that such date is not a business day in Tokyo, the following business day in Tokyo) falls upon the period from the day that is 2 business days prior to the record date in Tokyo defined by the Company (or if such date is not a business day in Tokyo, the day that is 3 business days prior, including the same day) or other such date defined to determine the shareholders pertaining to Article 151, Paragraph 1 of the Act on Book-Entry of Company Bonds, Shares, etc. (hereafter, together with the record date defined by the Company, “the shareholder record date”), to the shareholder record date (or if the shareholder record date is not a business day in Tokyo, the following business day in Tokyo, including the same day), it shall not be possible to exercise share acquisition rights. However, in the case of changes to Japanese laws, regulations or enforcement practices relating to the share issue pertaining to the exercise of share acquisition rights through transfer systems based on Act on Book-Entry of Company Bonds, Shares, etc., the Company may revise the deadline for exercise of share acquisition rights laid down in this paragraph to reflect such changes.

5. The amount of capital stock to be increased in the event of share issue as a result of the exercise of share acquisition rights shall be an amount of the threshold for increase in capital, etc. calculated on the basis of provisions in Article 17 of the Ordinance on Company Accounting multiplied with 0.5. In the event that the resulting figure is less than one yen, such fractional sum shall be rounded up.
6. (1) In line with the terms and conditions of the bonds with share acquisition rights, in the event of organizational restructuring, etc., the Company shall arrange for a successor company, etc. (to be defined below) to assume the status of principal obligor for the bonds with share acquisition rights, and make its best efforts to ensure that new share acquisition rights shall be delivered in replacement of the original share acquisition rights. However, regarding such succession and delivery, the following preconditions shall apply: (i) they shall be feasible under applicable legal provisions at the time; (ii) mechanisms for such purposes are already in place or can be arranged; and (iii) succession and delivery can be accomplished without the Company or the successor company bearing unreasonable (in the judgment of the Company) costs (including taxes) relative to the overall organizational restructuring, etc. In such case, the Company shall do its best to ensure that the successor company, etc. is a listed company in Japan on the effective date of the organizational restructuring, etc. The obligations of the Company in this section (1) to make its best efforts shall not apply in the case that the Company issues an evidence to a trustee company stating that the Company does not expect that the successor company, etc. is a listed company in Japan, regardless of reason, on the effective date of the organizational restructuring, etc.

“Successor company, etc.” refers to a counterparty in the organizational restructuring, etc. which shall take over the Company’s obligations relating to bonds with share acquisition rights and/or share acquisition rights.

- (2) Details of the share acquisition rights of the successor company, etc. to be delivered in line with the provisions of (1) above are as follows.
 - 1) Number of share acquisition rights
The number shall be the same as the number of share acquisition rights relating to bonds with share acquisition rights remaining immediately prior to the effective date of the organizational restructuring, etc.
 - 2) Class of shares to be issued upon the exercise of the share acquisition rights
Common shares of the successor company, etc.
 - 3) Number of shares to be issued upon the exercise of the share acquisition rights
The number of common shares to be delivered by the exercise of share acquisition rights of the successor company, etc. shall be decided with reference to the terms and conditions for the bonds with share acquisition rights, after consideration by the successor company, etc. of the conditions of the organizational restructuring, etc., and also in line with (i) or (ii) below. The conversion price shall be subject to the same adjustment as in (3) above.

- (i) In the case of merger, share exchange or share transfer, the conversion price shall be determined so as to the holder of common shares of the Company in the number to be acquired by exercise of share acquisition rights directly before the effective date of the organizational restructuring, etc. can receive the same number of common shares of the successor company, etc. in the organizational restructuring, etc., at the time of exercise of share acquisition rights of the successor company, etc., directly after the effective date of the organizational restructuring, etc. In the event of delivery of securities or assets other than common shares of the successor company, etc., at the time of organizational restructuring, etc., receipt shall be arranged of an equivalent number of common shares of the successor company, etc. to the number obtained by dividing the value of such shares or assets by the market price of the common shares of the successor company, etc.
- (ii) In the event of organizational restructuring, etc. other than above, a conversion price shall be set that, in the event of exercise of the share acquisition rights directly before the effective date of the organizational restructuring, etc., enables receipt of economic benefits equivalent to the entitlement of the holder of bonds with share acquisition rights at the time of exercise of share acquisition rights of the successor company, etc. directly after the effective date of the organizational restructuring, etc.
- 4) Property to be contributed upon the exercise of the share acquisition rights and the amount thereof
At the time of exercise of share acquisition rights of the successor company, etc., the succeeded bonds shall be contributed and the price of the bonds shall be the same as the par value of the succeeded bonds.
- 5) Exercise period
The exercise period of the share acquisition rights shall be from the effective date of the organizational restructuring, etc. (in some cases within 14 days thereof), up to the termination day of exercise period of the share acquisition rights.
- 6) Other conditions for the exercise of the share acquisition rights
Partial exercise of the share acquisition rights of the successor company, etc., is not permitted.
- 7) Acquisition of bonds with share acquisition rights by the successor company, etc.
The successor company, etc. may acquire share acquisition rights of the successor company etc., or succeeded bonds in the same way that the Company acquires bonds with share acquisition rights.
- 8) Increase in capital stock and legal capital surplus capital in the case of issue of shares by exercise of share acquisition rights
The amount of capital stock to be increased in the event of share issue as a result of the exercise of share acquisition rights of the successor company, etc. shall be an amount of the threshold for increase in capital stock, etc. calculated on the basis of provisions in Article 17 of the Ordinance on Company Accounting multiplied with 0.5. In the event that the resulting figure is less than one yen, such fractional sum shall be rounded up. The amount of legal capital surplus to be increased shall be the amount of the threshold for increase in capital stock, etc. less the amount of the increase in capital stock.
- 9) Consequences of organizational restructuring, etc.
In the event of organizational restructuring, etc., at the successor company, etc., as well, the same procedures shall apply as the bonds with share acquisition rights.
- 10) Other
Fractional amounts of less than one share arising from exercise of share acquisition rights of the successor company, etc., shall be rounded down, and no cash adjustment shall be made.
Share acquisition rights of the successor company, etc., may not be separated from the succeeded bonds and transferred.
- (3) In the event that the obligations of the Company are underwritten by or transferred to the successor company, etc., based on the bonds and trust deed documents in accordance with the provisions of (1) above, in addition to providing guarantees in certain cases as provided in the terms and conditions of the bonds with share acquisition rights, the Company shall follow the terms and conditions of the bonds with share acquisition rights.
7. At the time of exercise of the share acquisition rights, the related bonds shall be contributed, and the price of the bonds shall be the same sum as the par value.

(3) Exercise status of bonds with share acquisition rights containing a clause for exercise price adjustment

Not applicable.

(4) Changes in the number of shares issued and the amount of capital stock and other

Period	Changes in the total number of shares issued (Shares)	Balance of the total number of shares issued (Shares)	Changes in capital stock (Millions of Yen)	Balance of capital stock (Millions of Yen)	Changes in legal capital surplus (Millions of Yen)	Balance of legal capital surplus (Millions of Yen)
October 1, 2014 (Note)	413,889,546	620,834,319	—	15,993	—	18,591

Note: The total number of shares issued increased by 413,889,546 shares with a three shares per one stock split of common shares undertaken on October 1, 2014.

(5) Details by shareholder classification

(As of December 31, 2018)

(As of December 31, 2016)

Classification	Status of shares (1 unit = 100 shares)								Shares less than one unit
	National and local governments	Financial institutions	Japanese financial instruments business operators	Other corporations	Foreign shareholders		Individuals and other	Total	
					Other than individuals	Individuals			
Number of shareholders (Persons)	—	108	34	261	779	17	31,145	32,344	—
Number of shares held (Units)	—	1,439,165	29,383	2,026,761	2,076,777	87	635,288	6,207,461	88,219
Shareholding ratio (%)	—	23.18	0.47	32.65	33.46	0.00	10.23	100.00	—

Note: Treasury shares of 24,151,251 shares are included in “Individuals and other” at 241,512 units, and in “Shares less than one unit” at 51 shares. The number of shares held by substantial shareholders as of the last day of the fiscal period is the same.

(6) Major shareholders

(As of December 31, 2018)

Name	Address	Number of shares held (Thousands of shares)	Number of shares held as a percentage of total shares issued (excluding treasury shares) (%)
Unitec Corporation	4087-24, Kawanoe-cho, Shikokuchuo-shi, Ehime	154,957	25.97
Takahara Kikin K.K.	1712, Kawanoe-cho, Shikokuchuo-shi, Ehime	28,080	4.71
The Master Trust Bank of Japan, Ltd. (Trust account)	2-11-3 Hamamatsucho, Minato-ku, Tokyo	27,759	4.65
Japan Trustee Services Bank, Ltd. (Trust Account)	1-8-11, Harumi, Chuo-ku, Tokyo	21,102	3.54
The Master Trust Bank of Japan, Ltd. (Retirement Benefit Account Trust/The Hiroshima Bank Account)	2-11-3 Hamamatsucho, Minato-ku, Tokyo	17,287	2.90
BNYMSANV Re MIL Re FSI ICVC-Stewart Inv Asia Pacific Leaders FD (Standing Proxy, MUFG Bank, Ltd.)	FINSBURY CIRCUS HOUSE, 15 FINSBURY CIRCUS LONDON EC2M 7EB (2-7-1 Marunouchi, Chiyoda-ku, Tokyo)	17,226	2.89
The Iyo Bank. Ltd. (standing proxy: Trust & Custody Services Bank, Ltd.)	1, Minamihoribata-cho, Matsuyama-shi, Ehime (Harumi Island Triton Square Office Tower Z, 1-8-12, Harumi, Chuo-ku, Tokyo)	15,300	2.56
Nippon Life Insurance Company (standing proxy: The Master Trust Bank of Japan, Ltd.)	1-6-6, Marunouchi, Chiyoda-ku, Tokyo (2-11-3 Hamamatsucho, Minato-ku, Tokyo)	12,189	2.04
JP MORGAN CHASE BANK (standing proxy: Settlement & Clearing Services Department, Mizuho Bank, Ltd.)	270 PARK AVENUE, NEW YORK, NY 10017, UNITED STATES OF AMERICA (SHINAGAWA INTERCITY A, 2-15-1, Konan, Minato-ku, Tokyo)	10,139	1.70
Japan Trustee Services Bank, Ltd. (Trust Account 5)	1-8-11, Harumi, Chuo-ku, Tokyo	8,320	1.39
Total	—	312,358	52.35

Note: The Company holds 24,151 thousand shares of treasury shares. As they have no voting rights, those shares are excluded from the above list of major shareholders.

(7) Status of voting rights

1) Shares issued

(As of December 31, 2018)

Classification	Number of shares (Shares)	Number of voting rights (Units)	Description
Non-voting shares	—	—	—
Shares with restricted voting rights (Treasury shares, etc.)	—	—	—
Shares with restricted voting rights (Other)	—	—	—
Shares with full voting rights (Treasury shares, etc.)	(Treasury shares) Common shares 24,151,200	—	Standard common shares of the Company without any restriction
Shares with full voting rights (Other)	Common shares 596,594,900	5,965,949	Same as above
Shares less than one unit	Common shares 88,219	—	Same as above
Total shares issued	620,834,319	—	—
Total voting rights held by all shareholders	—	5,965,949	—

Note: “Shares less than one unit” include 51 shares of treasury shares held by the Company.

2) Treasury shares, etc.

(As of December 31, 2018)

Shareholders	Addresses of shareholders	Number of shares held under own name (Shares)	Number of shares held under the names of others (Shares)	Total shares held (Shares)	% of interest in number of shares issued (%)
(Treasury shares) Unicharm Corporation	182, Shimobun, Kinsei-cho, Shikokuchuo-shi, Ehime	24,151,200	—	24,151,200	3.89
Total	—	24,151,200	—	24,151,200	3.89

2. Acquisition of treasury shares

Class of shares: Acquisition of common shares under Article 155, Item 3, and Article 155, Item 7 of the Companies Act

(1) Acquisition of treasury shares based on a resolution at the General Meeting of Shareholders

Not applicable.

(2) Acquisition of treasury shares based on a resolution by the Board of Directors

Acquisition under Article 155, Item 3 of the Companies Act

Classification	Number of shares (Shares)	Total amount (Yen)
Resolution at the Board of Directors meeting (November 5, 2018) (Period of acquisition: From November 6, 2018 to December 20, 2018)	5,500,000	15,500,000,000
Treasury shares acquired before the fiscal year under review	—	—
Treasury shares acquired during the fiscal year under review	4,574,200	15,499,760,563
Total number and value of remaining shares subject to the resolution	925,800	239,437
Percentage of un-exercised acquisition as of the last day of the fiscal year under review (%)	16.83	0.00
Treasury shares acquired during the period	—	—
Ratio of un-exercised acquisition as of the date of filing (%)	16.83	0.00

Classification	Number of shares (Shares)	Total amount (Yen)
Resolution at the Board of Directors meeting (February 14, 2019) (Period of acquisition: From February 15, 2019 to December 20, 2019)	5,000,000	15,000,000,000
Treasury shares acquired before the fiscal year under review	—	—
Treasury shares acquired during the fiscal year under review	—	—
Total number and value of remaining shares subject to the resolution	—	—
Percentage of un-exercised acquisition as of the last day of the fiscal year under review (%)	—	—
Treasury shares acquired during the period	—	—
Ratio of un-exercised acquisition as of the date of filing (%)	100.00	100.00

Notes: 1. Treasury shares acquired are stated on a transfer date basis.

2. Treasury shares acquired during the period does not include the number of shares acquired pursuant to the resolution during the period from March 1, 2019 to the filing date of this Securities Report.

(3) Acquisition of treasury shares not based on a resolution at the General Meeting of the Shareholders or on a resolution by the Board of Directors

Acquisition under Article 155, Item 7 of the Companies Act

Classification	Number of shares (Shares)	Total amount (Yen)
Treasury shares acquired during the fiscal year under review	72	221,328
Treasury shares acquired during the period	180	615,780

Note: Treasury shares acquired during the period does not include the number of shares less than one unit purchased during the period from March 1, 2019 to the filing date of this Securities Report.

(4) Current status of the disposition and holding of acquired treasury shares

Classification	Fiscal year under review		The Period	
	Number of shares (Shares)	Total disposition amount (Yen)	Number of shares (Shares)	Total disposition amount (Yen)
Treasury shares acquired for which subscribers were solicited	—	—	—	—
Treasury shares acquired that was cancelled	—	—	—	—
Treasury shares acquired for which transfer of shares was conducted in association with merger/share exchange/company split	—	—	—	—
Other (Note 1)	15,520,948	30,376,450,439	—	—
Number of treasury shares held (Note 2)	24,151,251	—	24,151,431	—

Notes: 1. The detail of the disposition for the fiscal year under review is exercise of rights (conversion) in the convertible bond-type bonds with share acquisition rights (number of shares: 15,520,948, total disposition amount: ¥30,376,450,439). Treasury shares disposed of during the period does not include the decrease in the number of shares due to transfer by sale of shares less than one unit during the period from March 1, 2019 to the filing date of this Securities Report.

2. Number of treasury shares held during the period does not include the increase and decrease in the number of shares due to acquisition of shares, and purchase and transfer by sale of shares less than one unit from March 1, 2019 to the filing date of this Securities Report.

3. Dividend policy

The Company recognizes that one of its most important management policies is to return profits to shareholders, and it is striving to increase corporate value by generating cash flows to achieve this goal. In addition, the Company aims for ROE (return on equity attributable to owners of parent) of 15% being achieved by 2020 by expanding the business size as a result of proactive capital investment and investment in research and development for sustainable growth as well as by improving the profitability. We will increase dividends in a stable and continuous manner using ongoing gains in free cash flow, and work to augment profit return with the goal of a total payout ratio (by dividends and share repurchase) of 50%.

Based on Article 459, Paragraph 1, Item 4 of the Companies Act, the details of distribution of surplus, etc., are decided by resolution of the Board of Directors, as provided in the Articles of Incorporation, and the Board of Directors handles decision-making regarding dividend payments. The basic policy of the Company is to pay dividends from surplus twice annually, at the end of the second quarter and the end of the fiscal year.

The annual dividend for the fiscal year under review will be ¥24, comprising a year-end dividend of ¥12 per share, in addition to a ¥12 per share dividend for the end of the second quarter. This will be the 17th consecutive period of an increase in dividends, with a dividend on equity attributable to owners of parent (DOE) of 3.5%.

Note: Dividends from surplus based on a resolution approved by the Board of Directors for which the record date belongs to the fiscal year ended December 31, 2018 are as follows:

Date of resolution	Total dividend amount (Millions of Yen)	Dividend per share (Yen)
August 6, 2018	7,141	12.0
February 25, 2019	7,160	12.0

4. Share prices

(1) Highest and lowest share prices during the past five years

Term	55th fiscal year	56th fiscal year	57th fiscal year	58th fiscal year	59th fiscal year
Fiscal year end	December 2014	December 2015	December 2016	December 2017	December 2018
Highest (Yen)	7,455 * 3,010	3,398	2,668	3,078	3,892
Lowest (Yen)	5,411 * 2,358.5	2,045	2,001	2,436.5	2,767.5

Notes: 1. The above prices are those quoted on the First Section of the Tokyo Stock Exchange.

2. * is the price after exercise of rights arising from the three shares per one stock split on October 1, 2014.

(2) Highest and lowest share prices during the past six months

Month	July 2018	August	September	October	November	December
Highest (Yen)	3,637	3,648	3,892	3,763	3,562	3,650
Lowest (Yen)	3,176	3,238	3,532	2,933	3,026	3,271

Note: The above prices are those quoted on the First Section of the Tokyo Stock Exchange.

5. Directors

5 males, 1 female (female ratio of 16.7%)

Function	Position	Name	Date of birth	Career profile		Term of office	Number of shares owned (Thousands)
Representative Director, President & CEO		Takahisa Takahara	July 12, 1961	April 1991 June 1995 April 1996 June 1997 April 1998 October 2000 June 2001 June 2004	Joined the Company Director Director General Manager of Procurement Division and Deputy General Manager of International Division Senior Director Senior Director General Manager of Feminine Hygiene Business Division Senior Director Responsible for Management Strategy Representative Director, President Representative Director, President & CEO (to present)	(Note 3)	3,700.0
Director, Vice President and Managing Executive Officer	Chief Quality Officer, General Manager of Global Research & Development Division, Representative Director President & CEO of Unicharm Products Co., Ltd.	Eiji Ishikawa	October 19, 1955	February 1980 October 1996 April 1998 June 1999 July 2003 July 2004 June 2005 April 2010 January 2018	Joined the Company Department Manager of Production Planning Office, Production Division General Manager of Production Division Executive Officer Senior Executive Officer Senior Executive Officer (Change in Japanese only; English unchanged) Director, Senior Executive Officer Director, Managing Executive Officer Director, Vice President and Managing Executive Officer Chief Quality Officer and General Manager of Global Research & Development Division Representative Director, President & CEO of Unicharm Products Co., Ltd. (to present)	(Note 3)	31.5
Director, Vice President and Managing Executive Officer	General Manager of Japan Sales Head Office	Shinji Mori	June 17, 1956	April 1979 April 1994 April 1998 June 1999 June 2000 July 2003 July 2004 June 2005 October 2005 April 2010 January 2014 October 2016 January 2017 January 2018	Joined the Company Branch Manager of the Hiroshima Branch, Sales Division Branch Manager of the Osaka Branch, Sales Division Deputy Executive Officer Executive Officer Senior Executive Officer Senior Executive Officer (Change in Japanese only; English unchanged) Director, Senior Executive Officer Director, Senior Executive Officer General Manager of Sales Division Director, Managing Executive Officer Director, Managing Executive Officer President of Unicharm PetCare Company Director, Managing Executive Officer President of Unicharm PetCare Company and General Manager of Japan Sales Head Office Director, Managing Executive Officer General Manager of Japan Sales Head Office Director, Vice President and Managing Executive Officer General Manager of Japan Sales Head Office (to present)	(Note 3)	62.3

Function	Position	Name	Date of birth	Career profile		Term of office	Number of shares owned (Thousands)
Director (Audit and Supervisory Committee Member)		Takashi Mitachi	January 21, 1957	April 1979 October 1993 January 1999 January 2005 January 2016 March 2017 October 2017	Joined Japan Airlines Co., Ltd. Joined the Boston Consulting Group Vice President Japan Co-chair Senior Partner & Managing Director Outside Director of the Company (Audit and Supervisory Committee Member) (to present) Senior Advisor of the Boston Consulting Group (to present)	(Note 4)	—
Director (Audit and Supervisory Committee Member)		Hiroko Wada	May 4, 1952	April 1977 February 1995 January 1998 March 2001 April 2004 November 2004 May 2009 March 2019	Joined Procter & Gamble Sun Home Co., Ltd. (currently Procter & Gamble Company of Japan) General Manager, responsible for paper products division and new business development of Procter & Gamble Far East Inc. (currently same as above) Vice President, Responsible for Corporate New Venture Asia of US Procter & Gamble Representative Director and President of Dyson KK President and Representative Director, and Chief Operating Officer of Toys“R”Us-Japan, Ltd. Established Office WaDa, Representative (to present) Outside Director of Aderans Holdings Company Limited (currently Aderans Company Limited) Outside Director of the Company (Audit and Supervisory Committee Member) (to present)	(Note 4)	—
Director (Audit and Supervisory Committee Member)		Gumpei Futagami	January 9, 1945	April 1968 December 1985 June 1991 June 2001 June 2010 September 2010 January 2014 March 2014 January 2017 March 2019	Joined Taisei Kako Co., Ltd. (currently the Company) Director of the Company Senior Director President & Representative Director of Unicharm PetCare Corporation Director of the Company Director, Vice President and Managing Executive Officer President of Unicharm PetCare Company Director, Vice President and Managing Executive Officer Chairman of Unicharm PetCare Company Director, Vice President and Managing Executive Officer Chairman of Unicharm PetCare Company Chairman, President and CEO of the Hartz Mountain Corporation Director, Vice President and Managing Executive Officer Chairman of the Hartz Mountain Corporation Director of the Company (Audit and Supervisory Committee Member) (to present)	(Note 4)	95.4
Total							3,889.2

Notes: 1. Directors (Audit and Supervisory Committee Members) Takashi Mitachi and Hiroko Wada are Outside Directors.

2. The Audit and Supervisory Committee of the Company is constituted as follows.

Director Gumpei Futagami is full-time Audit and Supervisory Committee Member. The reason for the appointment of a full-time Audit and Supervisory Committee Member is that the effectiveness of audits carried out by the Audit and Supervisory Committee will be enhanced based on information obtained through having somebody well-versed in internal matters participate in major meetings, etc. other than the Board of Directors meetings, and closely cooperate with the internal auditing department, etc.

3. The term of Directors (excluding Directors who are Audit and Supervisory Committee Members) is from the conclusion of the Ordinary General Meeting of Shareholders for the fiscal year ended December 31, 2018 up to the conclusion of the Ordinary General Meeting of Shareholders for the fiscal year ending December 31, 2019.
4. The term of the Directors (Audit and Supervisory Committee Members) is from the conclusion of the Ordinary General Meeting of Shareholders for the fiscal year ended December 31, 2018 up to the conclusion of the Ordinary General Meeting of Shareholders for the fiscal year ending December 31, 2020.
5. The Company has introduced an executive officer system to further invigorate the Board of Directors, clearly separate the Board of Directors' functions of decision-making and supervision of business execution from each division's functions of business execution, and improve the management efficiency.

6. Corporate governance

(1) Status of corporate governance

Basic corporate governance policy

The Group strives to achieve “sound corporate management” through its commitment to Unicharm Ideals. We aim to achieve sustainable growth and create medium and long-term corporate value through appropriate collaboration with stakeholders and secure the esteem and trust of society.

In order to realize these objectives, we have established a basic policy of corporate governance that achieves transparent, fair, expeditious and decisive management by conducting honest and active dialogue to obtain support from various stakeholders and work to improve ESG and a corporate environment where management can implement a system of checks and balances and eliminate mistakes.

1) Corporate governance system

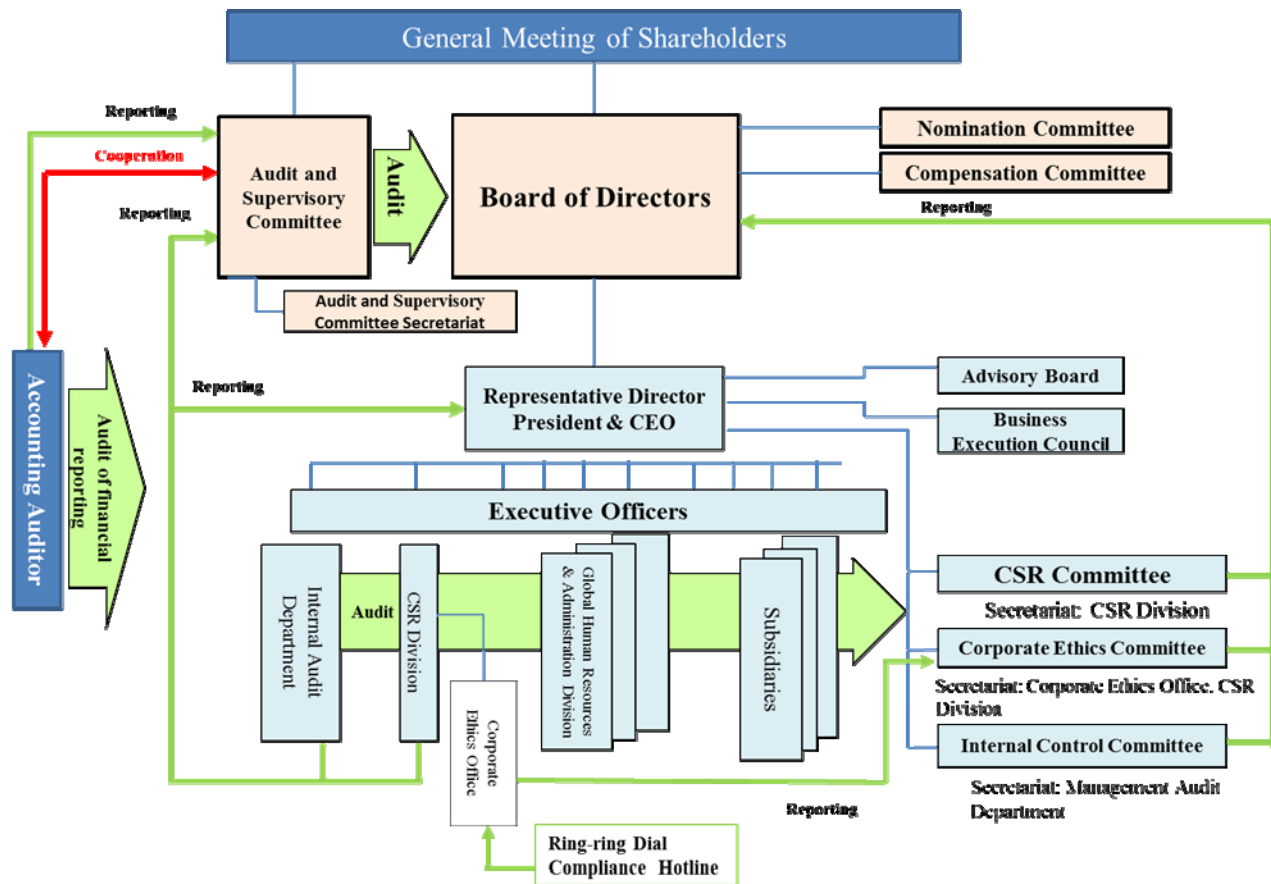
I Status of implementation of corporate governance measures

At the 55th Ordinary General Meeting of Shareholders held on March 27, 2015, the Company resolved to transition to a Company with Audit and Supervisory Committee on May 1, 2015, the date of enactment of the Act on Partial Revision to the Companies Act (June 27, 2014, Act No. 90). On May 1, 2015, it accordingly established an Audit and Supervisory Committee comprising one full-time Audit and Supervisory Committee Member who is a non-executive Director and two Audit and Supervisory Committee Members who are Independent Outside Directors (total three Audit and Supervisory Committee Members). Likewise, to ensure greater transparency in decision-making on appointments and remuneration of Directors and executive officers, a Nomination Committee and Compensation Committee were established on December 15, 2015 comprising one Representative Director, two Independent Outside Directors and another non-executive Director. By strengthening the supervising function of the Board of Directors regarding business execution and by improving transparency and efficiency in the process through the participation of Outside Directors in management, the Company aims to strengthen corporate governance, meeting the expectations of stakeholders in Japan and overseas from a global viewpoint.

In addition, the Company reviewed the structure of the Board of Directors with the aim of separating oversight from business execution even further, and passed a resolution at the 59th Ordinary General Meeting of Shareholders held on March 27, 2019 to change the system so that one-third (1/3) of the Board of Directors consists of Independent Outside Directors.

II Organization chart of corporate governance system

Indicated below is a diagram of the corporate governance system of the Company as of the filing date of this securities report.



III Status of establishment of internal control systems

Basic policy for establishment of internal control systems

The Company has in place the following internal control systems.

1. Compliance System

- In Unicharm Ideals and Action Guidelines (Corporate Principles), the policy for compliance shall be specified.
- Training shall be provided so that officers and employees can acquire necessary knowledge.
- Regular monitoring on compliance awareness shall be conducted.
- Audits by the Internal Audit Department independent of the audited department shall be conducted.
- Whistleblowing contacts shall be established for problem recognition at an early stage.
- The Company shall cut off any relationships with anti-social forces. The Company shall also strive to prevent any forms of corruption, including extortion and bribery.

2. System of Retention and Management of Information

- Information about the execution of duties of Directors shall be properly retained and managed, considering confidentiality, integrity and availability, and compliance with laws and regulations, if they are enacted.

3. Risk Management System

- Roles and responsibilities related to risk management shall be clarified.
- Proper consideration shall be made for assumed risks in decision-making.
- Regarding the material risks of management, the Company shall construct a system to handle countermeasures across the entire company.
- The Company shall prepare organizations and systems and plan for corresponding risks.
- Audits of risk management process shall be conducted.

4. System to Ensure Efficiency of Performance of Duties

- By clarifying the roles and responsibilities related to the performance of duties, duplication shall be eliminated and expeditious decision-making shall be realized.
- Management approaches ensuring efficiency of performance of duties shall be adopted and carried out.
- Consistent strategies and plans shall be developed at various levels from the entire Group to field sites.
- Management strategies shall be flexibly reviewed, corresponding to changes in the business environment.
- Streamlining of business shall be vigorously promoted.

5. Group Management System

- It shall be the basic policy for domestic and overseas Group companies to carry out autonomous management at their own responsibility.
- Regarding the compliance system, risk management system, system to ensure the efficiency of performance of duties, the matters to be commonly applied to the domestic and overseas Group companies shall be clarified and such systems shall be constructed.
- Matters to be reported to the Company by domestic and overseas Group companies and to obtain approval of the Company shall be clearly specified.
- Transactions among the Group companies shall be made properly.
- Proper monitoring and supervision of the domestic and overseas Group companies shall be conducted.
- Effective audits of the domestic and overseas Group companies shall be conducted.

6. Employee assigned to assist the Audit and Supervisory Committee

- An employee assisting the Audit and Supervisory Committee shall be assigned to assist the duties of the Audit and Supervisory Committee.
- Independence of the employee assisting the Audit and Supervisory Committee from Directors other than the Audit and Supervisory Committee Members shall be ensured.
- Effectiveness of instructions of the Audit and Supervisory Committee on the employee assisting the Audit and Supervisory Committee shall be ensured.

7. Systems of Reporting to the Audit and Supervisory Committee

- Systems in which the Audit and Supervisory Committee can receive reports from the related persons and the Audit and Supervisory Committee can obtain cooperation of the related persons when the Audit and Supervisory Committee Members investigate the status of business and assets, shall be established.
- Systems for reporting to the Audit and Supervisory Committee of facts which might cause significant damage to the Company shall be established.
- Systems for reporting to the Audit and Supervisory Committee by full-time Audit and Supervisory Committee Member shall be established.
- Systems for reporting to the Audit and Supervisory Committee by Accounting Auditor and Internal Audit Department shall be established.
- Systems which ensure that the person reporting to the Audit and Supervisory Committee shall not be unfairly treated shall be established.

8. Other Systems to Ensure the Effectiveness of Audit by the Audit and Supervisory Committee

- Access to the internal information by the Audit and Supervisory Committee Members shall be ensured.
- Collaboration among an Accounting Auditor, Internal Audit Department and Auditors of Group companies shall be ensured.
- Exchanges of information and opinions with officers other than the Audit and Supervisory Committee Members shall be conducted.
- Expenses required for performance of duties of the Audit and Supervisory Committee Members shall be borne by the Company.
- Collaboration with external experts shall be made possible as necessary.

2) Internal auditing and Audit and Supervisory Committee audits

The Company has established the Internal Audit Department comprising six members directly under the Representative Director, President & CEO as its internal auditing department. The Internal Audit Department, in cooperation with the Audit and Supervisory Committee, conducts internal audits of business divisions and creates internal audit reports in which findings and necessary remedial measures are described. These reports are submitted to the Company's Representative Director, President & CEO, the Audit and Supervisory Committee, and the business divisions that have been audited. In the event that issues requiring remediation and/or deficiencies are identified, remedial measures are formulated and implemented. The Internal Audit Department monitors the outcomes of the remedial measures.

The Audit and Supervisory Committee of the Company comprises three members, one full-time Audit and Supervisory Committee Member who is a non-executive Director and two Audit and Supervisory Committee Members who are Outside Directors.

Chairman of the Audit and Supervisory Committee, Outside Director Takashi Mitachi has long-standing experience in the use of corporate finance and accounting knowledge over the course of his 24-year career such as serving as Japan Co-chair of the Boston Consulting Group, a leading foreign consulting firm, and has ample insight into financial and accounting matters.

Audit and Supervisory Committee Member, Outside Director Hiroko Wada has years of experience in the use of financial and accounting knowledge such as serving as an officer at the headquarters of major foreign firm Procter & Gamble, as well as the president of Japanese subsidiaries of foreign-owned enterprises, and has ample insight into financial and accounting matters.

Full-time Audit and Supervisory Committee Member Gumpei Futagami has served as Director of the Company since 1985 and has long served as the representative of Unicharm PetCare Corporation since 2001, and has ample insight into finance and accounting matters.

Based on reporting from the Internal Audit Department and other internal control systems, the Audit and Supervisory Committee systematically organizes audits, including requests for separate reports and expressions of opinions.

The Internal Audit Department, Audit and Supervisory Committee and Accounting Auditor hold regular meetings for exchange of information and opinions, etc. Audits carried out by these units also cover establishment and operational status of internal control systems by internal control departments.

3) Outside Directors

The Company appoints two Outside Directors. No interpersonal, capital- or transaction-based, or any other noteworthy conflicts of interest exist between these Outside Directors or any other company where these Outside Directors may serve as executives.

The Outside Directors of the Company are Audit and Supervisory Committee Members and carry out their role as auditors, etc. as part of Audit and Supervisory Committee. In addition, the Outside Directors of the Company play a role in supervising the performance of duties by Directors and in major decision-making, etc. in business execution, as members of the Board of Directors.

The Company appoints Independent Outside Directors who meet the “Standards for Appointment of Independent Directors” stipulated by the Company as Outside Directors who are Audit and Supervisory Committee Members.

The Company has appointed Outside Directors with insight into and experience of corporate management, and believes that they play an effective role.

4) Remuneration paid to Executives

I Total amount of remuneration and remuneration by type and number of recipients, by class of executive at the filing company

Category	Total remuneration (Millions of Yen)	Total remuneration by remuneration type (Millions of Yen)	Number of Executives (Persons)
		Basic remuneration	
Directors (excluding Directors who are Audit and Supervisory Committee Members) (excluding Outside Directors)	584	584	8
Directors (Audit and Supervisory Committee Members) (excluding Outside Directors)	10	10	1
Outside Directors	19	19	2

Notes: 1. The above includes Directors who resigned during the fiscal year under review.

2. At the 47th Ordinary General Meeting of Shareholders held on June 26, 2007, in line with the enactment of the Companies Act, a resolution was passed to incorporate executive bonuses within remuneration, with abolition of retirement benefits for Directors, and to only pay an annual remuneration total.

II Total amount of remuneration to individuals whose remuneration is ¥100 million or more

Name	Category	Company	Total remuneration by remuneration type (Millions of Yen)	Total amount of consolidated remuneration (Millions of Yen)
			Basic remuneration	
Takahisa Takahara	Representative Director, President & CEO	The Company	195	195

Note: At the 47th Ordinary General Meeting of Shareholders held on June 26, 2007, in line with the enactment of the Companies Act, a resolution was passed to incorporate executive bonuses within remuneration, with abolition of retirement benefits for Directors, and to only pay an annual remuneration total.

III Policies for the determination of the amount of or calculation method for executive remuneration

Remuneration, etc. for Directors and Executive Officers of the Company and policies thereof shall be determined, comprehensively considering the motivation for improvement of performance and corporate value and securing excellent human resources, etc., which shall be a level appropriate to their roles and responsibilities

In addition, with the objective of ensuring transparency and objectivity of the determination process, the deliberations and determinations shall be made by the Compensation Committee comprising Representative Director and all non-executive Directors and Independent Outside Directors, a majority of which is comprising Independent Outside Directors and chaired by an Independent Outside Director.

At the 47th Ordinary General Meeting of Shareholders held on June 26, 2007, in line with the enactment of the Companies Act, a resolution was passed to incorporate executive bonuses within remuneration, with abolition of retirement benefits for Directors, and to only pay an annual remuneration total.

Basic policies on remuneration to promote growth-oriented management and to accomplish management strategy and fulfill management plan are as follows.

[Basic executive remuneration policies]

1)	Remuneration contributable to the sustainable growth and medium to long-term creation of corporate value
2)	Results-linked remuneration structure that motivates the fulfilment of management plans and the achievement of results of the Company
3)	Remuneration standard which attracts and retains “talented personnel” who are capable of company management
4)	Highly transparent and objective determination process

[Executive remuneration standard]

In order to swiftly cope with the changes in external and market circumstances, the Company benchmarks the remuneration standards of executive members of other companies in the same and different industries with the size equivalent to the Company and sets remuneration standard of the Company.

Note: The executive remuneration of the Company comprises basic remuneration and performance-linked remuneration, and the standard of amounts is established based on comparison with other companies in the same industry and of the equivalent size in other industries in Japan and overseas and the financial position of the Company.

In addition, the basic remuneration is determined for each managerial position according to the magnitude of their job responsibilities, and the performance-linked remuneration is determined based on the annual results for each year (single fiscal year).

Remuneration for non-executive Directors and Independent Outside Director who are independent from business execution comprises fixed remuneration only.

[Evaluation indicators for determining executive remuneration]

No.	Evaluation indicator	Accountability
1	Company-level performance (management plan)	1-1 Company-level sales plan
		1-2 Company-level operating income
		1-3 Profit
2	Department-level performance	2-1 Department-level sales
		2-2 Department-level income
3	Company-level focal strategies	3 Priority strategies executed by officers themselves
4	Department-level focal strategies	4 Highest priority strategies of departments

* Reference: In addition to the existing stock option as a medium- to long-term incentive, the Compensation Committee is currently discussing the possibility of introducing the new “medium- to long-term performance-linked share-based remuneration” which is determined based on the degree or estimate of fulfillment of the medium- to long-term management plan.

5) Status of shares held

I Shares for investment held for any purposes other than pure investment purposes

Number of securities: 37

Total amount recorded in the balance sheet: ¥11,747 million

II Holding shares, classification, number of shares held, amount recorded in the balance sheet and holding purpose of the shares for investment held for any purposes other than pure investment purposes

(Fiscal year ended December 31, 2017)

Specific shares for investment

Shares	Number of shares held by the Company (Shares)	Amount recorded in the balance sheet (Millions of Yen)	Holding purpose
Sumitomo Realty & Development Co., Ltd.	1,219,000	4,514	Maintain and strengthen trade relations
ARATA CORPORATION	225,545	1,385	Maintain and strengthen trade relations
ZUIKO CO., LTD.	245,100	947	Maintain and strengthen trade relations
THE IYO BANK, Ltd.	1,017,640	919	Maintain and strengthen trade relations
Mitsui Chemicals, Inc.	237,800	862	Maintain and strengthen trade relations
The Hiroshima Bank, Ltd.	837,550	822	Maintain and strengthen trade relations
Mitsubishi UFJ Financial Group, Inc.	904,050	747	Maintain and strengthen trade relations
PLANET, INC.	300,800	609	Maintain and strengthen trade relations
FP Corporation	79,003	478	Maintain and strengthen trade relations
AEON CO., LTD.	226,773	431	Maintain and strengthen trade relations
TSURUHA HOLDINGS INC.	20,000	306	Maintain and strengthen trade relations
Izumi Co., Ltd.	32,000	225	Maintain and strengthen trade relations
Seven & i Holdings Co., Ltd.	44,640	209	Maintain and strengthen trade relations
CREATE SD HOLDINGS CO., LTD.	60,000	182	Maintain and strengthen trade relations
Sanyo Chemical Industries, Ltd.	27,720	164	Maintain and strengthen trade relations
Valor Holdings Co., Ltd.	59,504	157	Maintain and strengthen trade relations
RETAIL PARTNERS CO., LTD.	57,300	76	Maintain and strengthen trade relations
cocokara fine Inc.	10,000	73	Maintain and strengthen trade relations
HARIMA-KYOWA CO., LTD.	26,400	70	Maintain and strengthen trade relations
CB GROUP MANAGEMENT Co., Ltd.	16,635	67	Maintain and strengthen trade relations
FamilyMart UNY Holdings Co., Ltd.	8,142	64	Maintain and strengthen trade relations
The Hyakujushi Bank, Ltd.	152,250	57	Maintain and strengthen trade relations

Shares	Number of shares held by the Company (Shares)	Amount recorded in the balance sheet (Millions of Yen)	Holding purpose
CAWACHI LTD.	20,000	56	Maintain and strengthen trade relations
ECHO TRADING CO., LTD.	55,000	40	Maintain and strengthen trade relations
MEDIPAL HOLDINGS CORPORATION	16,500	36	Maintain and strengthen trade relations
FUJI CO., LTD.	13,000	32	Maintain and strengthen trade relations
United Super Markets Holdings Inc.	21,903	25	Maintain and strengthen trade relations
Heiwado Co., Ltd.	7,000	16	Maintain and strengthen trade relations
Mr Max Holdings Ltd.	13,834	12	Maintain and strengthen trade relations
ARCS COMPANY, LIMITED	4,609	12	Maintain and strengthen trade relations

Shares subject to deemed holding

Not applicable.

(Fiscal year ended December 31, 2018)

Specific shares for investment

Shares	Number of shares held by the Company (Shares)	Amount recorded in the balance sheet (Millions of Yen)	Holding purpose
Sumitomo Realty & Development Co., Ltd.	1,219,000	4,908	Maintain and strengthen trade relations
ARATA CORPORATION	225,545	983	Maintain and strengthen trade relations
ZUIKO CO., LTD.	245,100	630	Maintain and strengthen trade relations
Mitsui Chemicals, Inc.	237,800	591	Maintain and strengthen trade relations
THE IYO BANK, Ltd.	1,017,640	590	Maintain and strengthen trade relations
PLANET, INC.	300,800	555	Maintain and strengthen trade relations
FP Corporation	79,443	534	Maintain and strengthen trade relations
AEON CO., LTD.	230,792	496	Maintain and strengthen trade relations
The Hiroshima Bank, Ltd.	837,550	488	Maintain and strengthen trade relations
Mitsubishi UFJ Financial Group, Inc.	904,050	486	Maintain and strengthen trade relations
TSURUHA HOLDINGS INC.	20,000	188	Maintain and strengthen trade relations
CREATE SD HOLDINGS CO., LTD.	60,000	158	Maintain and strengthen trade relations
Valor Holdings Co., Ltd.	59,504	157	Maintain and strengthen trade relations
Sanyo Chemical Industries, Ltd.	27,720	141	Maintain and strengthen trade relations
cocokara fine Inc.	10,000	54	Maintain and strengthen trade relations
CB GROUP MANAGEMENT Co., Ltd.	17,015	50	Maintain and strengthen trade relations
The Hyakujushi Bank, Ltd.	15,225	40	Maintain and strengthen trade relations
HARIMA-KYOWA CO., LTD.	26,400	38	Maintain and strengthen trade relations
CAWACHI LTD.	20,000	36	Maintain and strengthen trade relations
ECHO TRADING CO., LTD.	55,000	32	Maintain and strengthen trade relations
MINISTOP Co., Ltd.	5,069	10	Maintain and strengthen trade relations
Encho Co., Ltd.	6,724	5	Maintain and strengthen trade relations

Shares subject to deemed holding

Not applicable.

III Shares for investment held for pure investment purposes

(Prior and current fiscal year)

Classification	Prior fiscal year (Millions of Yen)	Fiscal year under review (Millions of Yen)			
	Total amount recorded in the balance sheet	Total amount recorded in the balance sheet	Total amount of dividend income	Total amount of gain (loss) on sale	Total amount of gain (loss) on valuation
Unlisted equity securities	—	—	—	—	—
Other equity securities	4,559	19,549	145	—	3,551

6) Audit of financial statements

The Company has appointed PricewaterhouseCoopers Aarata LLC as its Accounting Auditor. The Company receives proposals leading to operational improvements through the accounting audits carried out by PricewaterhouseCoopers Aarata. No particular conflicts of interest exist between the Company and the above-named accounting company and its operational personnel engaged in audits at the Company.

The Certified Public Accountants engaged in the audit of financial statements

Designated Limited Liability and Engagement Partner: Hisashi Shirahata

Designated Limited Liability and Engagement Partner: Tsuyoshi Saito

Designated Limited Liability and Engagement Partner: Yusuke Yaguchi

Assistants to the audit of the financial statements

Certified Public Accountants: 10

Others: 12

7) Matters at the General Meeting of Shareholders that can be decided by the Board of Directors

To ensure flexible capital and dividend policy, the Company stipulates in its Articles of Incorporation that dividends from surplus and other matters laid down in Article 459, Paragraph 1 of Companies Act are subject to resolution of the Board of Directors, not of the General Meeting of Shareholders, except where special provisions laid down by laws and regulations apply.

8) Number of Directors

The Company stipulates in its Articles of Incorporation that the number of Directors of the Company (excluding Audit and Supervisory Committee Members) shall be fifteen or less and Directors who are Audit and Supervisory Committee Members of the Company shall be three or less.

9) Requirement of a resolution for electing Directors

The Company stipulates in its Articles of Incorporation that a resolution for the election of Directors shall be adopted by a majority vote of shareholders present holding not less than one-third (1/3) of the shares with voting rights held by shareholders entitled to exercise their voting rights. In addition, the Company stipulates in its Articles of Incorporation that a resolution for the election of Directors shall not be adopted by a cumulative vote.

10) Requirement of a special resolution at the General Meeting of Shareholders

For the purpose of ensuring that the General Meeting of Shareholders is operated smoothly, the Company stipulates in its Articles of Incorporation that a special resolution at the General Meeting of Shareholders, stipulated in Article 309, Paragraph 2 of the Companies Act, shall be adopted by a two-thirds (2/3) vote of shareholders present holding not less than one-third (1/3) of the shares with voting rights held by shareholders entitled to exercise their voting rights.

(2) Content of audit fees

1) Content of the remuneration to the Certified Public Accountants engaged in the financial statements audit

(Millions of Yen)

Category	Prior fiscal year		Fiscal year under review	
	Remuneration for audit certification work	Remuneration for non-audit services	Remuneration for audit certification work	Remuneration for non-audit services
The Company	114	8	116	2
Consolidated subsidiaries	8	—	8	7
Total	122	8	125	8

2) Content of other significant remuneration

In the previous consolidated fiscal year, a total remuneration of ¥205 million was paid based on audit certification work to member firms of PricewaterhouseCoopers belonging to the same network as the Audit Certified Public Accountants of the Company, with regard to overseas consolidated subsidiaries other than Unicharm Gulf Hygienic Industries Ltd., etc.

In the consolidated fiscal year under review, a total remuneration of ¥207 million was paid based on audit certification work to member firms of PricewaterhouseCoopers belonging to the same network as the Audit Certified Public Accountants of the Company, with regard to overseas consolidated subsidiaries other than Unicharm Gulf Hygienic Industries Ltd., etc.

3) Content of the non-audit services provided by the Certified Public Accountants engaged in the financial statement audit of the Company

In the previous consolidated fiscal year and the consolidated fiscal year under review, the non-audit services for which the Audit Certified Public Accountants were paid by the Company comprised accounting advisory services related to the International Financial Reporting Standards.

4) Policy on determining the audit fee

None existed in the previous consolidated fiscal year and the consolidated fiscal year under review, but the fee is decided after consideration of audit scale, characteristics and number of days needed for audits, etc.

V. Financial Information

1. Basis of preparation of the consolidated and non-consolidated financial statements

- (1) The consolidated financial statements of the Company are prepared in conformity with IFRS in accordance with Article 93 of the Ministry of Finance Ordinance No. 28, 1976 “Regulations Concerning the Terminology, Forms and Preparation Methods of Consolidated Financial Statements” (hereafter “Regulations for Consolidated Financial Statements”).
- (2) The non-consolidated financial statements of the Company are prepared in accordance with the Ministry of Finance Ordinance No. 59, 1963 “Regulations Concerning the Terminology, Forms and Preparation Methods of Non-Consolidated Financial Statements” (hereafter “Regulations for Non-Consolidated Financial Statements”).

In addition, the non-consolidated financial statements for the fiscal year under review (January 1, 2018 – December 31, 2018) are prepared in accordance with the revised Regulations for Non-Consolidated Financial Statements pursuant to the proviso to Article 2, Paragraph 1 of the Supplementary Provisions of the Cabinet Office Ordinance No. 7, March 23, 2018 “Cabinet Office Ordinance for Partial Revision of the Regulations Concerning the Terminology, Forms and Preparation Methods of Non-Consolidated Financial Statements, etc.”

As the Company falls under the category of a company filing financial statements prepared in accordance with special provisions, the non-consolidated financial statements of the Company are prepared in accordance with Article 127 of the Regulations for Non-Consolidated Financial Statements.

2. Auditing and certification

The consolidated and the non-consolidated financial statements for the fiscal year ended December 31, 2018 (January 1, 2018 – December 31, 2018) were audited by PricewaterhouseCoopers Aarata LLC, in accordance with Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act.

3. Particular efforts to secure the appropriateness of the consolidated financial statements and establishment of system that enables preparation of appropriate consolidated financial statements in conformity with IFRS

The Company is making particular efforts to ensure the appropriateness of the consolidated financial statements while developing systems to prepare those documents in conformity with IFRS as follows.

- (1) The Company has become a member of the Financial Accounting Standards Foundation (hereafter “Foundation”) and participates in seminars and other programs sponsored by the Foundation in order to have an appropriate understanding about the contents of the accounting standards, etc., and establish a system so that the Company might be able to properly respond to the changes in the accounting standards, etc.
- (2) In order to prepare appropriate consolidated financial statements, the Company develops group accounting policies and guidelines in conformity with IFRS and applies them in its accounting treatment.

1. Consolidated financial statements

(1) Consolidated financial statements

1) Consolidated statement of financial position

(Millions of Yen)

	Notes	Fiscal Year Ended December 31, 2017 (as of December 31, 2017)	Fiscal Year Ended December 31, 2018 (as of December 31, 2018)
Assets			
Current assets			
Cash and cash equivalents	7, 29	169,903	135,065
Trade and other receivables	8, 29	98,821	100,159
Inventories	9	60,529	71,939
Other current financial assets	29	59,119	53,520
Other current assets		18,805	23,758
Total current assets		407,176	384,441
Non-current assets			
Property, plant and equipment	10	228,521	240,628
Intangible assets	11	46,563	100,121
Deferred tax assets	12	9,451	9,418
Investments accounted for using equity method		733	778
Other non-current financial assets	29	33,631	49,991
Other non-current assets	16	10,568	10,106
Total non-current assets		329,467	411,042
Total assets		736,644	795,483

(Millions of Yen)

	Notes	Fiscal Year Ended December 31, 2017 (as of December 31, 2017)	Fiscal Year Ended December 31, 2018 (as of December 31, 2018)
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	15, 29	138,480	153,494
Bonds and borrowings	13, 29	6,189	18,834
Income tax payables		11,070	13,579
Other current financial liabilities	29	239	633
Other current liabilities	17	38,001	44,959
Total current liabilities		193,979	231,498
Non-current liabilities			
Bonds and borrowings	13, 29	58,000	21,428
Deferred tax liabilities	12	18,227	21,084
Retirement benefit liabilities	16	8,225	11,358
Other non-current financial liabilities	29	2,111	1,212
Other non-current liabilities		3,073	5,233
Total non-current liabilities		89,636	60,316
Total liabilities		283,615	291,813
Equity			
Equity attributable to owners of parent			
Capital stock	18	15,993	15,993
Share premium	18	421	13,058
Retained earnings	18	434,298	480,457
Treasury shares	18	(67,652)	(52,776)
Other components of equity	18	4,509	(15,276)
Total equity attributable to owners of parent		387,567	441,456
Non-controlling interests		65,461	62,214
Total equity		453,029	503,670
Total liabilities and equity		736,644	795,483

2) Consolidated statements of income and comprehensive income

Consolidated statement of income

(Millions of Yen)

	Notes	Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)
Net sales	5, 20	641,647	688,290
Cost of sales	22	(393,101)	(423,005)
Gross profit		248,546	265,286
Selling, general and administrative expenses	21, 22	(161,707)	(170,178)
Other income	23	2,163	1,783
Other expenses	23	(2,662)	(4,364)
Financial income	24	8,750	3,310
Financial costs	24	(2,163)	(4,275)
Profit before tax		92,926	91,561
Income tax expenses	12	(35,355)	(24,295)
Profit for the period		57,571	67,265
Profit attributable to			
Owners of parent		52,772	61,353
Non-controlling interests		4,800	5,913
Profit for the period		57,571	67,265
Earnings per share attributable to owners of parent			
Basic earnings per share (Yen)	26	89.85	103.73
Diluted earnings per share (Yen)	26	87.06	101.44

Reconciliation of changes from gross profit to core operating income

(Millions of Yen)

Gross profit	248,546	265,286
Selling, general and administrative expenses	(161,707)	(170,178)
Core operating income (*)	86,838	95,107

* Core operating income comprises gross profit less selling, general and administrative expenses. While it is not an indicator defined in IFRS, the Company voluntarily discloses this in the consolidated statement of income and Note 5 “Segment information” as the Company’s Board of Directors evaluates the performance of business segments based on core operating income, and it is believed to be a valuable benchmark for measuring the Group’s recurring business performance.

Consolidated statement of comprehensive income

(Millions of Yen)

	Notes	Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)
Profit for the period		57,571	67,265
Other comprehensive income, net of tax			
Items that will not be reclassified to profit or loss			
Net changes in equity instruments measured at fair value through other comprehensive income	25	–	120
Remeasurements related to net defined benefit liabilities (assets)	25	(281)	(2,208)
Subtotal		(281)	(2,089)
Items that may be reclassified to profit or loss			
Changes in fair value of available-for-sale financial assets	25	1,376	–
Changes in fair value of cash flow hedges	25	(53)	50
Exchange differences on translation in foreign operations	25	6,337	(19,916)
Subtotal		7,659	(19,866)
Total other comprehensive income, net of tax		7,378	(21,955)
Total comprehensive income		64,949	45,311
Total comprehensive income attributable to			
Owners of parent		58,849	43,016
Non-controlling interests		6,101	2,294
Total comprehensive income		64,949	45,311

3) Consolidated statement of changes in equity

Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)

(Millions of Yen)

	Notes	Equity attributable to owners of parent						Non-controlling interests	Total equity
		Capital stock	Share premium	Retained earnings	Treasury shares	Other components of equity	Total		
Balance at January 1, 2017		15,993	–	391,800	(53,652)	(2,042)	352,098	62,289	414,387
Profit for the period	25	–	–	52,772	–	–	52,772	4,800	57,571
Other comprehensive income		–	–	–	–	6,077	6,077	1,301	7,378
Total comprehensive income		–	–	52,772	–	6,077	58,849	6,101	64,949
Purchase of treasury shares	18	–	–	–	(14,000)	–	(14,000)	–	(14,000)
Dividends	19	–	–	(9,998)	–	–	(9,998)	(2,715)	(12,714)
Change of scope of consolidation		–	–	(34)	–	–	(34)	–	(34)
Equity transactions with non-controlling interests		–	421	–	–	–	421	(213)	208
Share-based payments	18, 28	–	–	–	–	233	233	–	233
Transfer from other components of equity to retained earnings	18	–	–	(241)	–	241	–	–	–
Total transactions with owners		–	421	(10,274)	(14,000)	474	(23,379)	(2,928)	(26,308)
Balance at December 31, 2017		15,993	421	434,298	(67,652)	4,509	387,567	65,461	453,029

Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)

(Millions of Yen)

	Notes	Equity attributable to owners of parent						Non-controlling interests	Total equity
		Capital stock	Share premium	Retained earnings	Treasury shares	Other components of equity	Total		
Balance at January 1, 2018		15,993	421	434,298	(67,652)	4,509	387,567	65,461	453,029
Profit for the period	25	–	–	61,353	–	–	61,353	5,913	67,265
Other comprehensive income		–	–	–	–	(18,336)	(18,336)	(3,618)	(21,955)
Total comprehensive income		–	–	61,353	–	(18,336)	43,016	2,294	45,311
Purchase of treasury shares	18	–	–	–	(15,500)	–	(15,500)	–	(15,500)
Conversion of convertible bond-type bonds with share acquisition rights	18	–	10,250	–	30,376	(3,057)	37,569	–	37,569
Dividends	19	–	–	(13,585)	–	–	(13,585)	(8,162)	(21,747)
Change of scope of consolidation		–	–	–	–	–	–	179	179
Equity transactions with non-controlling interests		–	2,388	–	–	–	2,388	2,442	4,830
Transfer from other components of equity to retained earnings	18	–	–	(1,609)	–	1,609	–	–	–
Total transactions with owners		–	12,637	(15,193)	14,876	(1,448)	10,872	(5,542)	5,330
Balance at December 31, 2018		15,993	13,058	480,457	(52,776)	(15,276)	441,456	62,214	503,670

4) Consolidated statement of cash flows

(Millions of Yen)

	Notes	Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)
Cash flows from operating activities			
Profit before tax		92,926	91,561
Depreciation and amortization expenses		29,345	30,353
Impairment losses		886	2,182
Interest and dividend income		(2,869)	(3,309)
Interest expenses		928	2,280
Foreign exchange loss (gain)		(547)	728
Loss (gain) on sale and retirement of fixed assets		898	598
Loss (gain) on sale of available-for-sale financial assets		(4,937)	–
Decrease (increase) in trade and other receivables		(7,583)	(85)
Decrease (increase) in inventories		(5,241)	(9,872)
Increase (decrease) in trade and other payables		8,388	15,994
Increase (decrease) in other current liabilities		6,826	4,434
Other		(3,023)	(3,281)
Subtotal		115,999	131,582
Interest and dividends received		2,721	3,224
Interest paid		(708)	(571)
Income taxes refund		8	1,283
Income taxes paid		(19,934)	(24,652)
Net cash provided by (used in) operating activities		98,086	110,867

(Millions of Yen)

	Notes	Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)
Cash flows from investing activities			
Payments into time deposits		(65,952)	(21,697)
Proceeds from withdrawal of time deposits		46,937	28,607
Purchase of property, plant and equipment, and intangible assets		(32,598)	(43,303)
Proceeds from sale of property, plant and equipment, and intangible assets		64	313
Purchase of available-for-sale financial assets		(17)	–
Purchase of financial assets measured at amortized cost		–	(1,004)
Purchase of financial assets measured at fair value through profit or loss		–	(8,500)
Purchase of equity instruments measured at fair value through other comprehensive income		–	(13,931)
Proceeds from sale of available-for-sale financial assets		11,363	–
Proceeds from sale and redemption of financial assets measured at fair value through profit or loss		–	1,500
Proceeds from sale and redemption of equity instruments measured at fair value through other comprehensive income		–	802
Purchase of investments in subsidiaries resulting in change in scope of consolidation	6	–	(56,606)
Proceeds from sale of investments in subsidiaries resulting in change in scope of consolidation		1,424	411
Other		1	7
Net cash provided by (used in) investing activities		(38,778)	(113,400)

(Millions of Yen)

	Notes	Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)
Cash flows from financing activities			
Net increase (decrease) in short-term borrowings	13	(3,334)	7,434
Proceeds from long-term borrowings	13	–	1,223
Repayments of long-term borrowings	13	(602)	(3,530)
Proceeds from sale of investments in subsidiaries not resulting in change in scope of consolidation		100	4,746
Payments for purchase of treasury shares	18	(14,000)	(15,500)
Dividends paid to owners of parent		(9,986)	(13,592)
Dividends paid to non-controlling interests		(2,715)	(8,455)
Other		(45)	(49)
Net cash provided by (used in) financing activities		(30,582)	(27,723)
Effect of exchange rate changes on cash and cash equivalents		3,135	(4,582)
Net increase (decrease) in cash and cash equivalents		31,860	(34,837)
Cash and cash equivalents at beginning of period	7	138,043	169,903
Cash and cash equivalents at end of period	7	169,903	135,065

Notes to the consolidated financial statements

1. Reporting entity

The Group is engaged in the manufacture and sale of baby care, feminine care, and other products of personal care business, and pet care products, which are its mainstay business lines, with core operations in the Asian markets. The Group is strengthening its global production facilities in response to growing demand for feminine napkins and disposable diapers for babies in emerging regions, notably in Asia, the Middle East, North Africa, and Latin America.

The Company is headquartered in Japan and is listed on the Tokyo Stock Exchange. The registered location of its head office is Shikokuchuo-Shi in Ehime Prefecture.

2. Basis of preparation

(1) Conformity with IFRS

The Group's consolidated financial statements meet the requirements for a "Specified Company under Designated International Accounting Standards" as stipulated in Article 1-2 of the Regulations for Consolidated Financial Statements. Hence, they are prepared in conformity with IFRS in accordance with Article 93 of the Regulations.

The Group's consolidated financial statements for the fiscal year under review were approved at the Board of Directors meeting held on March 27, 2019.

(2) Basis of measurement

The Group's consolidated financial statements are prepared using the historical cost basis except for financial instruments and other items measured at fair value, as presented in Note 3 "Significant accounting policies."

(3) Functional currency and presentation currency

Items in the financial statements of each of the Group companies are measured using the currency of the primary economic environment where the companies operate (hereafter "functional currency"). The Group's consolidated financial statements are presented in Japanese yen, which is the Company's functional currency. Amounts of less than one million yen are rounded to the nearest million yen.

(4) Changes in accounting policies

The following are the accounting standards adopted from the fiscal year ended December 31, 2018.

IFRS	Title	Outline of new standards and amendments
IFRS 9	Financial Instruments	Amendments to classification and measurement of financial instruments, impairment, and hedge accounting
IFRS 15	Revenue from Contracts with Customers	Amendments to accounting treatment for the recognition of revenues

The adoption of other new standards and interpretations has no material impact on the consolidated financial statements.

In accordance with the transitional provisions of IFRS 9 "Financial Instruments" (hereafter "IFRS 9") and IFRS 15 "Revenue from Contracts with Customers" (hereafter "IFRS 15"), the Group has not restated the consolidated financial statements for the previous fiscal year.

1) Adoption of IFRS 9

The Group has adopted IFRS 9 from the fiscal year under review and revised the accounting policies pertaining to non-derivative financial assets as follows:

(a) Initial recognition and measurement

The Group classifies financial assets which it holds into the following categories: (i) financial assets measured at amortized cost, (ii) equity instruments measured at fair value through other comprehensive income, and (iii) financial assets measured at fair value through profit or loss. This classification is determined at initial recognition of the financial assets.

The Group initially recognizes trade and other receivables on the date of occurrence. Other financial assets are recognized initially on the trade date at which the Group becomes a party to the contract. At initial recognition, all financial assets are measured at fair value. However, in the case of a financial asset that is not classified as a financial asset measured at fair value through profit or loss, it is measured at the fair value plus any transaction costs directly attributable to the acquisition of the financial asset. The transaction costs of financial assets measured at fair value through profit or loss are recognized in profit or loss.

(i) Financial assets measured at amortized cost

Of the financial assets held by the Group, those that meet both of the following conditions are classified as financial assets measured at amortized cost:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, financial assets are measured at amortized cost using the effective interest method, less any impairment losses. Amortization using the effective interest method and gains or losses arising in the event of derecognition are recognized in profit or loss of the reporting period.

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

Of the financial assets other than those measured at amortized cost, equity instruments for which the Group made an irrevocable election at initial recognition to present subsequent changes in the fair value in other comprehensive income are classified as equity instruments measured at fair value through other comprehensive income.

Subsequent to initial recognition, the financial assets are measured at fair value and changes in the fair value are recognized in other comprehensive income. In the event of derecognition of the relevant financial asset, the cumulative amount of gains or losses recognized through other comprehensive income is directly transferred to retained earnings.

Dividends from the relevant financial asset are recognized in profit or loss.

(iii) Financial assets measured at fair value through profit or loss

Financial assets, other than those measured at amortized cost and equity instruments measured at fair value through other comprehensive income, are classified as financial assets measured at fair value through profit or loss.

Subsequent to initial recognition, the financial assets are measured at fair value and changes in the fair value are recognized in profit or loss.

(b) Impairment of financial assets

With respect to impairment of financial assets, etc. that are measured at amortized cost, allowance for doubtful accounts are recognized for expected credit losses on the relevant financial assets.

At the end of each reporting period, the Group assesses whether there has been any significant increase in credit risk associated with the financial assets since initial recognition.

If credit risk of a financial instrument has not increased significantly since initial recognition, the allowance for doubtful accounts associated with the relevant financial instrument is measured at an amount equal to twelve-month expected credit losses. If credit risk of a financial instrument has increased significantly since initial recognition, the allowance for doubtful accounts associated with the relevant financial instrument is measured at an amount equal to lifetime expected credit losses.

However, with respect to trade receivables etc. that do not contain significant financing component, allowance for doubtful accounts are always measured at an amount equal to lifetime expected credit losses.

Estimation of expected credit losses on financial instruments is calculated using a method that reflects the following:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money;
- Reasonable and supportable information about past events, current conditions and forecasts of future economic conditions, where such information is available without undue cost or effort at the end of a reporting period

The amount relating to such measurement is recognized in profit or loss. If an event occurs after recognition of an impairment loss that results in a decrease of the impairment loss, such decrease is reversed in profit or loss.

The impact of reclassification of financial assets due to the adoption of IFRS 9 is as shown below.

(Millions of Yen)

IAS 39 (as of December 31, 2017)		Reclassification	IFRS 9 (as of January 1, 2018)	
Cash and cash equivalents	169,903	—	169,903	Financial assets measured at amortized cost Cash and cash equivalents
Loans and receivables				
Trade and other receivables	98,821	—	98,821	Trade and other receivables
Other current financial assets	58,925	—	58,925	Other current financial assets
Other non-current financial assets	14,390	—	14,390	Other non-current financial assets
Financial assets measured at fair value through profit or loss				Financial assets measured at fair value through profit or loss
Other current financial assets	195	—	195	Other current financial assets
	—	130	130	Other non-current financial assets
Available-for-sale financial assets				Equity instruments measured at fair value through other comprehensive income
Other non-current financial assets	19,242	(130)	19,112	Other non-current financial assets
Total	361,474	—	361,474	Total

2) Adoption of IFRS 15

The Group has adopted IFRS 15 from the fiscal year under review and changed its accounting policies relating to revenue recognition as follows.

The Group recognizes revenue based on the following five step approach.

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when the entity satisfies a performance obligation

The Group is mainly engaged in the manufacture and sale of products for personal care, which includes baby care business and feminine care business, and for pet care. For the sale of such products, because the customer obtains control of the products at the time of delivery, the Group judges that its performance obligation is satisfied and recognizes revenue at the time of product delivery. Revenue is recognized at the amount of consideration to which the entity expects to be entitled in exchange for transfer of goods to customers, and is measured at the amount after deduction of trade discounts, rebates, value-added tax, or other taxes.

The impact of the application of IFRS 15 is insignificant.

(5) Early adoption of new accounting standards

There are no accounting standards, etc. early adopted.

(6) Accounting standards and guidelines not yet adopted

New accounting standards and guidelines that have been published by the date of approval for the consolidated financial statements and that have not been adopted by the Group as of December 31, 2018 are mainly as follows.

IFRS	Title	Mandatory adoption (From the year beginning)	To be adopted by the Group from the year ending:	Outline of new standards and amendments
IFRS 16	Leases	January 1, 2019	December 31, 2019	Amendments to accounting treatment for lease transactions

Distinction of operating leases and finance leases previously made is eliminated following the adoption of IFRS 16 "Leases," and all leases are, in principle, recorded in consolidated statement of financial position. The Company estimates that this would result in increases of ¥43,078 million in assets and ¥43,839 million in liabilities and a decrease of ¥761 million in equity (retained earnings) as of the beginning of the fiscal year ending December 31, 2019. The impact to the consolidated statement of income for the fiscal year ending December 31, 2019 is insignificant.

3. Significant accounting policies

Significant accounting policies applied to the consolidated financial statements are as follows. Unless otherwise noted, the policies are applied continuously to all the periods presented.

(1) Basis of consolidation

1) Subsidiaries

Subsidiaries are entities over which the Group has control.

The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to influence those returns through its power over the entity. Decisions as to whether or not the Group has power are based on a consideration of various elements, including the existence of potential voting rights that are exercisable at the present point in time. Financial statements of the subsidiaries are consolidated into the Group's consolidated financial statements from the date of acquisition of control to the date of loss of control. Adjustments to the financial statements of subsidiaries are made as necessary to bring them into conformity with the Group's accounting policies. When the fiscal closing date of subsidiaries is different from that of the Company for consolidation, provisional closing is made at the consolidated closing date for such subsidiaries.

When the ownership interest in a subsidiary changes and the control over the subsidiary is maintained, any difference between the amount by which non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized as equity transactions directly in equity attributable to owners of the parent.

All intra-group transactions, balances, and unrealized gains and losses are eliminated in consolidation.

2) Associates

An associate is an entity over which the Group has significant influence on the entity's decisions related to operational and financial policies, but does not have control. Significant influence is presumed to exist when the Group has 20% or more but 50% or less of the voting rights of the entity concerned.

Investments in associates are initially recognized at cost on acquisition and are subsequently accounted for using the equity method from the date when the Company obtains significant influence to the date when such influence is lost.

(2) Business combinations

The Group applies the acquisition method to business combinations. The consideration transferred in a business combination includes the fair value of the assets transferred by the Company to former owners of the acquiree, the liabilities incurred, the equity interests issued by the Company, and the liabilities resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. The identifiable assets acquired and

the liabilities assumed as a result of the business combination are measured at fair value on the acquisition date. The amount of non-controlling interests in the acquiree is recognized either at fair value or based on the proportionate share of the non-controlling interests in the identifiable net asset amounts for each business combination transaction.

(3) Foreign currency translation

1) Transactions denominated in foreign currencies

Transactions denominated in foreign currencies are translated into the functional currency of the Group using the exchange rate as of the date of the transaction, or in cases in which items in the financial statements are to be remeasured, the exchange rate at the date of such evaluation. Exchange differences arising from the settlement of these transactions, exchange differences arising from translation of monetary assets and liabilities denominated in foreign currencies at the closing rate at the end of the fiscal period, and exchange differences arising from translation into functional currency of non-monetary assets and liabilities carried at fair value at the rate prevailing on the date when the fair value was measured, are largely recognized in profit or loss.

2) Foreign operations

Assets and liabilities of foreign operations are translated into Japanese yen at the closing rate at the end of the fiscal period. Revenues and expenses are translated into Japanese yen using the average rate for the fiscal period unless there are significant changes in the exchange rate. Resulting exchange differences are recognized in other comprehensive income.

(4) Financial instruments

1) Non-derivative financial assets

(a) Initial recognition and measurement

The Group classifies financial assets which it holds into the following categories: (i) financial assets measured at amortized cost, (ii) equity instruments measured at fair value through other comprehensive income, and (iii) financial assets measured at fair value through profit or loss. This classification is determined at initial recognition of the financial assets.

The Group initially recognizes trade and other receivables on the date of occurrence. Other financial assets are recognized initially on the trade date at which the Group becomes a party to the contract. At initial recognition, all financial assets are measured at fair value. However, in the case of a financial asset that is not classified as a financial asset measured at fair value through profit or loss, it is measured at the fair value plus any transaction costs directly attributable to the acquisition of the financial asset. The transaction costs of financial assets measured at fair value through profit or loss are recognized in profit or loss.

(i) Financial assets measured at amortized cost

Of the financial assets held by the Group, those that meet both of the following conditions are classified as financial assets measured at amortized cost:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, financial assets are measured at amortized cost using the effective interest method, less any impairment losses. Amortization using the effective interest method and gains or losses arising in the event of derecognition are recognized in profit or loss of the reporting period.

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

Of the financial assets other than those measured at amortized cost, equity instruments for which the Group made an irrevocable election at initial recognition to present subsequent changes in the fair value in other comprehensive income are classified as equity instruments measured at fair value through other comprehensive income.

Subsequent to initial recognition, the financial assets are measured at fair value and changes in the fair value are recognized in other comprehensive income. In the event of derecognition of the relevant financial asset, the cumulative amount of gains or losses recognized through other comprehensive income is directly transferred to retained earnings.

Dividends from the relevant financial asset are recognized in profit or loss.

(iii) Financial assets measured at fair value through profit or loss

Financial assets, other than those measured at amortized cost and equity instruments measured at fair value through other comprehensive income, are classified as financial assets measured at fair value through profit or loss.

Subsequent to initial recognition, the financial assets are measured at fair value and changes in the fair value are recognized in profit or loss.

(b) Derecognition of financial assets

The Group derecognizes financial assets when the contractual rights to the cash flows from the financial assets expire, or when the contractual rights to receive the cash flows from the financial assets are assigned and substantially all the risks and rewards of ownership of the financial assets are transferred.

(c) Impairment of financial assets

With respect to impairment of financial assets, etc. that are measured at amortized cost, allowance for doubtful accounts are recognized for expected credit losses on the relevant financial assets.

At the end of each reporting period, the Group assesses whether there has been any significant increase in credit risk associated with the financial assets since initial recognition.

If credit risk of a financial instrument has not increased significantly since initial recognition, the allowance for doubtful accounts associated with the relevant financial instrument is measured at an amount equal to twelve-month expected credit losses. If credit risk of a financial instrument has increased significantly since initial recognition, the allowance for doubtful accounts associated with the relevant financial instrument is measured at an amount equal to lifetime expected credit losses.

However, with respect to trade receivables etc. that do not contain significant financing component, allowance for doubtful accounts are always measured at an amount equal to lifetime expected credit losses.

Estimation of expected credit losses on financial instruments is calculated using a method that reflects the following:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money;
- Reasonable and supportable information about past events, current conditions and forecasts of future economic conditions, where such information is available without undue cost or effort at the end of a reporting period

The amount relating to such measurement is recognized in profit or loss. If an event occurs after recognition of an impairment loss that results in a decrease of the impairment loss, such decrease is reversed in profit or loss.

2) Non-derivative financial liabilities

Non-derivative financial liabilities that the Group holds include interest-bearing debts and trade and other payables, which are initially recognized on the transaction date on which the Group becomes a party to the contract. These financial liabilities are initially recognized at fair value net of direct transaction costs, and subsequent to initial recognition, are measured at amortized cost using the effective interest method.

The Group derecognizes financial liabilities when the obligation is satisfied, or when the contractual obligation is discharged, canceled, or expires.

3) Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount is presented in the consolidated statement of financial position when the Group has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

4) Derivatives and hedge accounting

(a) Derivatives

The Group utilizes primarily foreign exchange forward contracts, non-deliverable forwards and currency swaps for hedging foreign exchange fluctuation risk. Derivatives are initially recognized at fair value on the date when the derivative contracts are entered into and are subsequently measured at fair value at the end of each fiscal period. Changes in the fair value of a derivative are recognized in profit or loss immediately unless the derivative is designated as a hedging instrument or the hedging is effective.

(b) Hedge accounting

The Group designates certain derivative transactions as hedging instruments and accounts for them as cash flow hedges.

At the inception of the hedge, the Group documents the hedge relationship qualifying for hedge accounting, as well as its risk management objectives and strategies for undertaking hedge transactions. Additionally, at the inception of the hedge and on an ongoing basis, the Group evaluates whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the relevant hedged item during the underlying period.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income and accumulated in other components of equity. The amounts related to hedging instruments that are recognized in other components of equity are reclassified to profit or loss in the same period when the hedged items affect profit or loss.

When the hedged forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the associated gains or losses previously recognized in accumulated other comprehensive income are reclassified and included in measuring the cost of the non-financial asset or the non-financial liability at initial recognition.

The application of hedge accounting is discontinued in cases where the Group cancels designation as a hedging instrument, in cases where the hedging instrument expires, is sold, terminated, or exercised, or in cases where the hedge ceases to meet the hedge effectiveness requirement. When hedge accounting is discontinued, any gains or losses recognized in accumulated other comprehensive income remain in equity and are reclassified to profit or loss when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the amount related to the hedging instrument recognized in other components of equity is immediately recognized in profit or loss.

5) Compound financial instruments

Compound financial instruments that the Group issues are convertible bond-type bonds with share acquisition rights, which is a type of bond that may be converted into shareholders' equity at the option of the bondholders. The number of shares to be issued will not change even if the fair value of the relevant bonds changes.

The liability portion of the compound financial instrument is initially posted at the fair value of similar liabilities without equity conversion options. The equity portion is initially recognized as the total fair value of the instrument less the fair value of the liability portion. Costs directly related to bond issuance are prorated according to the ratio of the initial carrying amounts of liability and equity portions.

Subsequent to initial recognition, the liability portion of the instrument is measured at amortized cost using the effective interest method. The equity portion of the instrument is not remeasured subsequent to initial recognition, except on the conversion or due date.

(5) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, demand deposits, and other highly liquid short-term investments with original maturities of three months or less.

(6) Inventories

Inventories are stated at the lower of cost or net realizable value. Costs are calculated by the gross average method for merchandise, finished goods, work in process, and supplies, and by the moving-average method for raw materials. The cost of finished goods and work in process is comprised of costs of raw materials, direct labor and other direct costs, and related manufacturing overhead (based on normal capacity of production facilities). Net realizable value is the estimated selling price in the ordinary course of business less related estimated selling expenses.

(7) Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses. Cost includes costs directly attributable to the acquisition of qualifying assets and borrowing costs directly attributable to acquisition, construction, and production of qualifying assets.

Expenses subsequent to acquisition are included in the carrying amount of the relevant asset or are separately recognized as an asset where appropriate, if it is highly probable that associated future economic benefits will flow into the Group and if such expenditures can be estimated reasonably. The carrying amount of the replaced portion is derecognized.

Except for land and other assets that are not depreciated, depreciation is calculated using the straight-line method, with the depreciable amount, which is the cost less its residual value, allocated over the asset's useful life as given below.

Buildings and structures	2 – 53 years
Machinery, equipment and vehicles	2 – 20 years

The depreciation method, residual value, and useful life of an asset are reviewed at the end of each fiscal year and revised as necessary.

(8) Goodwill and intangible assets

1) Goodwill

Goodwill is the excess of the cost of acquisition over the fair value, on the acquisition date, of the Group's share of the identifiable net assets of the acquiree. Goodwill arising from acquisition of subsidiaries is included in intangible assets and is recorded at cost less accumulated impairment losses. Goodwill is not amortized and is allocated to each cash-generating unit that is identified based on the region or category of operations.

2) Intangible assets

Intangible assets acquired separately are measured at cost at initial recognition.

Development expenditures directly related to designing and testing of identifiable original software products managed by the Group are recognized as intangible assets only if they can be reliably measured, it is technically and commercially feasible to complete the product or the process, it is highly probable that future economic benefits will be generated, and the Group has the intention and adequate resources to complete the development and to use or sell the assets.

Intangible assets acquired in a business combination and recognized separately from goodwill at initial recognition are measured at fair value on the acquisition date.

Major intangible assets with finite useful lives are amortized using the straight-line method over the estimated useful lives as given below.

Software	5 years
Trademarks (with finite useful lives)	10 – 30 years
Customer-related assets (with finite useful lives)	20 years

The amortization method, residual value, and useful life of an asset are reviewed at the end of each fiscal year and revised as necessary.

(9) Leases

Leases are classified as finance leases whenever all the risks and economic benefits of the ownership are substantially transferred to the Group, as per the terms of the lease contract. In finance leases, leased assets are recognized as the lower of the fair value of leased assets at inception or the present value of the total minimum lease payments. Recognized leased assets are depreciated over the shorter of the lease term or their economic useful lives and the costs are recognized in profit or loss.

All other leases are classified as operating leases, and lease payments are recognized in profit or loss over the relevant lease term using the straight-line method.

(10) Impairment of non-financial assets

An impairment assessment is performed for property, plant and equipment and intangible assets when there are any events or changes in circumstances indicating that the carrying amount may not be recoverable. The excess of the carrying amount of an asset over its recoverable amount is recognized as impairment losses. The recoverable amount is the higher of the fair value less costs to sell or value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects the time value of money and the risks specific to the asset. In performing impairment assessments, the assets are grouped together into the smallest identifiable group of assets that can generate cash flows (cash-generating unit).

Goodwill, intangible assets with indefinite useful lives, and intangible assets that are not yet available for use are not amortized, but are assessed for impairment annually or whenever there is an indication of impairment by estimating the recoverable amount of the asset and comparing it to the carrying amount.

For non-financial assets other than goodwill for which impairment losses were recognized in prior periods, a re-assessment is performed at the end of each fiscal period for any possibility that the impairment may be reversed.

Any impairment losses for goodwill are recognized in profit or loss and are not reversed in subsequent periods.

(11) Employee benefits

1) Short-term employee benefits

Short-term employee benefits are recognized as an expense when the employees render the related service. For bonus payments and cost of compensated absences, a liability is recognized for the amount expected to be paid under the relevant benefit plan if the Group has legal or constructive obligations to make the payments as a result of past service rendered by the employees, and if the obligations can be estimated reliably.

2) Retirement benefits

The Group has adopted defined contribution plans and defined benefit plans for its current and retired employees.

Defined contribution plans are retirement benefit plans under which an employer pays fixed contributions into an independent entity and will have no legal or constructive obligations to pay further contributions. For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans. As long as the contributions are paid, the Group will not be subject to any additional obligations. Contributions are recognized as employee benefit expenses during the period in which the employees render the related service.

Defined benefit plans are retirement benefit plans other than defined contribution plans. Liabilities recognized in respect of the defined benefit plans are the present value of the defined benefit obligations less the fair value of plan assets after adjusting for the effect of asset ceiling, as necessary, considering available economic benefits. The defined benefit obligations are calculated each year using independent actuaries and the projected unit credit method. The discount rate used in the calculation is determined by reference to market yields of high quality corporate bonds at the end of each fiscal year consistent with the discount period. The discount period is determined based on the term to the estimated dates of future benefit payments.

Of retirement benefit expenses, service cost and net interest on net defined benefit liabilities (assets) are recognized in profit or loss. Remeasurements, which include actuarial gains and losses in experience adjustments as well as actuarial gains and losses due to changes in actuarial assumptions, are recognized in other comprehensive income for the period of occurrence and are transferred to retained earnings immediately from other components of equity. Past service cost is recognized in net profit or loss at the earlier of the date when a plan amendment or curtailment occurs and when the Group recognizes any related restructuring costs or termination benefits.

(12) Share-based payments

The Group operates an equity-settled share-based compensation scheme. Under this scheme, the Group receives services from its directors and employees in return for the Group's equity instruments (options). Options are estimated at fair value as of the grant date, and are recognized as expenses over the vesting period. The fair value of stock options is calculated using the Black-Scholes model.

(13) Equity

Common shares are classified as equity.

Costs directly attributable to the issuance of new shares (common shares) or stock options, net of tax effects, are recognized as a deduction from equity.

In case of purchasing treasury shares, the consideration paid, including any directly attributable transaction costs (net of tax), is deducted from equity until disposal or cancellation of the shares. The difference between the carrying amount and the consideration at sale is recognized as share premium.

(14) Revenue recognition

The Group recognizes revenue based on the following five step approach.

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when the entity satisfies a performance obligation

The Group is mainly engaged in the manufacture and sale of products for personal care, which includes baby care business and feminine care business, and for pet care. For the sale of such products, because the customer obtains control of the products at the time of delivery, the Group judges that its performance obligation is satisfied and recognizes revenue at the time of product delivery. Revenue is recognized at the amount of consideration to which the entity expects to be entitled in exchange for transfer of goods to customers, and is measured at the amount after deduction of trade discounts, rebates, value-added tax, or other taxes.

(15) Income taxes

Income tax expenses comprise current tax expenses and deferred tax expenses. These are recognized in the consolidated statement of income except for those recognized in relation to business combinations, recognized in other comprehensive income, or recognized directly in equity.

Current income tax expenses are measured at the amount expected to be paid to or refunded from the tax authorities, using the tax laws that have been enacted or substantively enacted as of the end of each fiscal period in the country in which the Company and its subsidiaries operate and in which taxable profit is generated.

Temporary differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements, based on the asset liability approach, and tax loss and tax credit carry-forwards, are recognized as deferred tax assets and liabilities.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the relevant deferred tax asset is realized or the deferred tax liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each fiscal period. A deferred tax asset is recognized only if it is likely to generate future taxable profit. However, deferred tax assets and liabilities are not recognized in the following circumstances.

- Temporary difference arising from the initial recognition of an asset or liability in a transaction other than a business combination which, on the transaction date, affects neither the accounting profit and loss nor the taxable profit (loss);
- Taxable temporary difference arising from the initial recognition of goodwill;
- Taxable temporary difference associated with investments in subsidiaries and associates of which the Group is able to control the timing of the reversal and which is unlikely to reverse in the foreseeable future;
- Deductible temporary difference associated with investments in subsidiaries and associates that is not likely to generate sufficient future taxable profit against which the temporary difference may be utilized, or that is not likely to reverse in the foreseeable future

Deferred tax assets and liabilities are offset if the Group has a legally enforceable right to offset current tax assets against current tax liabilities, and if the deferred tax assets and liabilities relate to income taxes imposed by the same tax authorities on the same taxable entity or different taxable entities that intend to make a settlement on a net basis.

(16) Earnings per share

Basic earnings per share are calculated by dividing profit or loss attributable to owners of parent by the weighted-average number of common shares outstanding for the period, after adjusting for treasury shares. Diluted earnings per share are calculated by adjusting for the impact of all dilutive potential shares.

4. Significant accounting estimates and judgments

In preparing the Group's consolidated financial statements, the management makes judgments, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues, and expenses. However, actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Impacts of the revisions to accounting estimates are recognized in the period in which the estimate is revised and the future periods affected by such revisions.

Estimates and judgments made by the management as having a significant effect on the amounts reported in the Group's consolidated financial statements are as follows:

(1) Impairment of non-financial assets

The Group performs an impairment assessment of non-financial assets where there are indications of impairment.

The impairment assessment is performed by comparing the carrying amount of an asset with its recoverable amount. If the recoverable amount is less than the carrying amount, an impairment loss is recognized.

In the calculation of the recoverable amount, estimates are conducted on future cash flows to be generated from use of the asset and estimated future cash flows from final disposal, discounted to the present value. While these estimates are made using the management's best judgment, they may differ from actual results due to changes in economic conditions given future uncertainties.

(2) Income taxes

The Group is engaged in business operations in many countries around the world. Amounts that are estimated to be paid to the respective country's tax authorities are assessed reasonably in accordance with the related laws and regulations, and are recorded as income tax payables and income tax expenses.

In the calculation of income tax payables and income tax expenses, estimates and judgments are required on various factors, including interpretation of the provisions of tax statutes by both the entities subject to taxation and the tax authorities, as well as circumstances of past tax examinations.

Consequently, the amounts of income tax payables and income tax expenses that have been recorded may differ from the actual payment amounts.

Also, deferred tax assets are provided within the extent of taxable profit likely to be generated against which temporary differences may be utilized. In the judgment on the possibility of taxable profit, the timing at which such taxable profit will be generated and the amount are estimated based on the business plans. Whilst these estimates are made using the management's best judgment, they may differ from actual results due to changes in economic conditions given future uncertainties.

(3) Retirement benefits

The Group operates defined contribution plans and defined benefit plans for its current and retired employees. The present values of defined benefit obligations, service cost, and other items are calculated based on various actuarial assumptions. The actuarial assumptions include estimates based on various factors, such as the discount rate, future payments, future plan leavers, and the average life expectancy of plan participants. While these estimates are made using the management's best judgment, they may differ from actual results due to such factors as changes in economic conditions given future uncertainties, and amendments to and publication of related laws and regulations.

5. Segment information

(1) Overview of reportable segments

The Group's reportable segments are part of its organizational units whose financial information is individually available, and are subject to regular review by its Board of Directors, the chief operating decision maker, for the purpose of deciding the allocation of its management resources and evaluating its business performance.

The Group is composed of three businesses, namely the personal care business, the pet care business, and other businesses as its basic units, and has been engaged in its business activities by comprehensively developing domestic and overseas strategies by business unit.

Therefore, the "personal care business," the "pet care business," and "other businesses" constitute the Group's reportable segments.

The personal care segment comprises the four core businesses of baby care products, feminine care products, health care products, and clean and fresh products, but is reported collectively given the similarities in the nature of the products, manufacturing processes, and shipping methods and similarities also of the market characteristics of their respective marketing areas. In the pet care business, the Group manufactures and sells pet food products and pet toiletry products. In other businesses, the Group manufactures and sells business-use products, etc.

The accounting policies for the reportable segments are the same as for the consolidated financial statements. Segment profit is core operating income (comprising gross profit less selling, general and administrative expenses), based on which the Board of Directors evaluates the performance of business segments.

(2) Sales and results by reportable segment

Sales and results by reportable segment are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)					
	Reportable segment				Adjustments	Amounts reported in consolidated financial statements
	Personal care	Pet care	Other	Total		
Sales to external customers	555,388	79,847	6,412	641,647	–	641,647
Sales across segments (Note)	–	–	30	30	(30)	–
Total segment sales	555,388	79,847	6,442	641,677	(30)	641,647
Segment profit (Core operating income)	77,177	9,684	(23)	86,838	–	86,838
Other income						2,163
Other expenses						(2,662)
Financial income						8,750
Financial costs						(2,163)
Profit before tax						92,926
Others						
Depreciation and amortization expenses	26,249	2,964	131	29,345	–	29,345
Impairment losses	817	69	–	886	–	886
Increase in property, plant and equipment and intangible assets	31,629	1,545	222	33,397	–	33,397

(Millions of Yen)

	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)					
	Reportable segment				Adjustments	Amounts reported in consolidated financial statements
	Personal care	Pet care	Other	Total		
Sales to external customers	599,290	82,073	6,927	688,290	–	688,290
Sales across segments (Note)	–	–	29	29	(29)	–
Total segment sales	599,290	82,073	6,956	688,319	(29)	688,290
Segment profit (Core operating income)	84,833	10,123	151	95,107	–	95,107
Other income						1,783
Other expenses						(4,364)
Financial income						3,310
Financial costs						(4,275)
Profit before tax						91,561
Others						
Depreciation and amortization expenses	27,358	2,841	154	30,353	–	30,353
Impairment losses	2,167	15	–	2,182	–	2,182
Increase in property, plant and equipment and intangible assets	72,101	1,283	304	73,688	–	73,688

Note: Sales across segments are based on prevailing market prices.

(3) Information on products and services

Information on products and services is omitted, since it is the same as reportable segments.

(4) Geographical information

Sales to external customers by region are as follows. Sales are classified by country or region based on the location of consolidated companies.

(Millions of Yen)

	Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)
Japan	266,010	279,589
China	83,058	87,145
Asia	192,254	215,721
Other	100,326	105,835
Total	641,647	688,290

The details of non-current assets by region (excluding financial instruments, deferred tax assets, and net defined benefit asset, etc.) are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2017 (as of December 31, 2017)	Fiscal Year Ended December 31, 2018 (as of December 31, 2018)
Japan	68,564	80,291
China	53,904	45,644
Asia	100,663	166,571
Other	62,131	58,349
Total	285,262	350,854

Note: Major countries or regions which belong to Asia are Indonesia, Thailand, Vietnam, and India.

(5) Information about major customers

Information about major customers is omitted, since there is no particular external customer to whom sales are 10% or more of the net sales recorded in the consolidated statement of income.

6. Business combinations

Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)

Not applicable.

Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)

(1) Overview of business combinations

On September 25, 2018, the Company acquired 100% shares of DSG (Cayman) Ltd. (hereafter “DSGCL”).

The Company has proactively expanded its business especially in high growth markets in Asia, as an important part of its strategy to concentrate on priority countries and regions.

DSGCL Group is a corporate group manufacturing and distributing disposable diapers for babies and adults, with business locations in Thailand, Malaysia, Indonesia and Singapore. DSGCL’s baby diaper brands include *BabyLove*, *Fitti* and *PetPet*, while its adult diaper brands include *Certainty*. The Group has a solid market share and a high level of recognition in Southeast Asia. Especially in Thailand, where its population aging is expected to outpace that of Japan in the future, the Group has built a leading position.

The Company has decided on the acquisition this time based on conviction that the addition of DSGCL Group to the Group will help (i) expand and improve our product lineup, enhance our market position and realize the economies of scale in the Southeast Asia region, particularly in Thailand and Malaysia, and (ii) generate cost and other synergies through integration of logistics and other functions. In the years ahead, the Company would like to pursue those synergies to further drive growth in the Southeast Asia region.

(2) The fair values of the consideration paid, assets acquired and liabilities assumed as of the acquisition date

(Millions of Yen)	
	Amount
The fair value of the consideration paid in cash	59,901
The fair values of assets acquired and liabilities assumed	
Current assets	13,285
Non-current assets	42,186
Current liabilities	(10,547)
Non-current liabilities	(10,323)
The fair values of assets acquired and liabilities assumed (net)	34,124
Goodwill	25,776

In the third quarter of the fiscal year under review, calculation was made based on provisional accounting procedure. The allocation of acquisition cost was completed during the fiscal year under review and as a result, goodwill decreased by ¥25,359 million from the provisional estimate. This was mainly due to an increase of ¥31,152 million in non-current assets and an increase of ¥5,970 million in non-current liabilities.

The acquisition-related costs for the business combination amounted to ¥558 million, and were recorded in other expenses in the consolidated statement of income for the fiscal year under review.

The main components of goodwill are the synergies with the existing business, and the excess earnings power, that are expected to be generated by the acquisition.

(3) Fair value of acquired receivables, contractual amounts receivable and estimated uncollectable accounts

(Millions of Yen)			
	Fair value of receivables	Contractual amounts receivable	Estimated uncollectable accounts
Trade and other receivables	6,473	6,490	16

(4) Cash flow associated with acquisition

(Millions of Yen)	
	Amount
Consideration of acquisition of subsidiary	59,901
Accounts payable - other	(2,260)
Cash and cash equivalents paid for the acquisition	57,640
Cash and cash equivalents held by the acquired company at the time of acquisition	(1,034)
Purchase of investments in subsidiaries resulting in change in scope of consolidation	56,606

(5) Impact on performance

Net sales and profit for the period of the acquired company after the acquisition date that are recognized in the consolidated statement of income for the fiscal year under review are not significant. Meanwhile, the amount of impact on the consolidated statement of income for the fiscal year under review assuming that the business combination occurred as of the beginning of the year is calculated to be ¥21,426 million in net sales and ¥494 million in profit attributable to owners of parent (unaudited information).

7. Cash and cash equivalents

The details of cash and cash equivalents are as follows.

(Millions of Yen)		
	Fiscal Year Ended December 31, 2017 (as of December 31, 2017)	Fiscal Year Ended December 31, 2018 (as of December 31, 2018)
Cash and deposits	228,827	184,419
Time deposits with maturities over three months	(58,925)	(49,354)
Total	169,903	135,065

The balance of cash and cash equivalents as of the end of the previous fiscal year and the end of the fiscal year under review in the consolidated statement of financial position is identical to the balance of cash and cash equivalents presented in the consolidated statement of cash flows.

8. Trade and other receivables

The details of trade and other receivables are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2017 (as of December 31, 2017)	Fiscal Year Ended December 31, 2018 (as of December 31, 2018)
Notes and accounts receivable - trade	96,721	100,048
Accounts receivable - other	3,389	1,660
Allowance for doubtful accounts	(1,290)	(1,548)
Total	98,821	100,159

9. Inventories

The details of inventories are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2017 (as of December 31, 2017)	Fiscal Year Ended December 31, 2018 (as of December 31, 2018)
Merchandise and finished goods	35,756	39,512
Raw materials and supplies	24,031	31,624
Work in process	742	803
Total	60,529	71,939

The write-down of inventories recognized as an expense totaled ¥691 million and ¥576 million for the previous fiscal year and the fiscal year under review, respectively, which is included in cost of sales.

10. Property, plant and equipment

Cost and changes in accumulated depreciation and accumulated impairment losses of property, plant and equipment are as follows.

(Millions of Yen)

Cost	Buildings and structures	Machinery, equipment and vehicles	Land	Construction in progress	Other	Total
Balance at January 1, 2017	121,610	297,579	10,159	15,333	19,720	464,401
Purchase	329	2,140	–	28,729	1,009	32,207
Reclassification, etc.	9,268	13,138	3,429	(32,708)	405	(6,469)
Disposal	(4,293)	(13,435)	(6)	(435)	(504)	(18,673)
Decrease due to change in scope of consolidation	(586)	(1,674)	–	(17)	(23)	(2,300)
Effect of exchange rate changes	1,272	3,862	349	43	254	5,780
Balance at December 31, 2017	127,599	301,611	13,931	10,944	20,860	474,946
Purchase	1,024	1,654	–	39,100	1,459	43,237
Acquisition through business combinations	2,652	12,232	–	896	299	16,079
Reclassification, etc.	4,862	23,624	–	(27,951)	773	1,308
Disposal	(351)	(8,849)	(17)	(57)	(1,372)	(10,646)
Effect of exchange rate changes	(4,779)	(11,920)	(286)	(530)	(941)	(18,457)
Balance at December 31, 2018	131,008	318,352	13,628	22,402	21,078	506,467

(Millions of Yen)

Accumulated depreciation and accumulated impairment losses	Buildings and structures	Machinery, equipment and vehicles	Land	Construction in progress	Other	Total
Balance at January 1, 2017	48,528	164,485	15	301	14,443	227,772
Depreciation	4,759	19,458	–	–	2,041	26,258
Impairment losses	22	849	–	–	15	886
Reclassification, etc.	(402)	(3,775)	(5)	–	(241)	(4,423)
Disposal	(1,191)	(7,611)	(6)	–	(495)	(9,303)
Decrease due to change in scope of consolidation	195	813	–	–	10	1,019
Effect of exchange rate changes	440	3,583	11	10	172	4,216
Balance at December 31, 2017	52,352	177,802	15	311	15,945	246,424
Depreciation	4,833	20,060	–	–	1,842	26,734
Impairment losses	300	1,720	–	–	161	2,182
Acquisition through business combinations	496	6,100	–	800	168	7,564
Reclassification, etc.	(18)	(123)	–	(289)	(36)	(465)
Disposal	(293)	(8,322)	–	–	(1,354)	(9,968)
Effect of exchange rate changes	(1,040)	(4,818)	–	(149)	(625)	(6,632)
Balance at December 31, 2018	56,630	192,421	15	673	16,101	265,839

(Millions of Yen)

Carrying amount	Buildings and structures	Machinery, equipment and vehicles	Land	Construction in progress	Other	Total
Balance at January 1, 2017	73,082	133,094	10,144	15,031	5,277	236,629
Balance at December 31, 2017	75,248	123,809	13,916	10,633	4,915	228,521
Balance at December 31, 2018	74,378	125,931	13,613	21,728	4,977	240,628

Depreciation is recorded in “Cost of sales” and “Selling, general and administrative expenses.”

Disposal for the previous fiscal year includes facilities, etc. of the Neemrana Plant of Unicharm India Private Ltd., the Company’s subsidiary, which were destroyed by a fire accident on October 24, 2017 (local time). The impact of the fire on profit or loss is presented in Note 23 “Other income and other expenses.”

There are no property, plant and equipment which are subject to restrictions on their ownership or pledged as collateral for liabilities.

Impairment losses

As for cash-generating units, the Group’s property, plant and equipment are grouped into minimum units where individually identifiable cash flows exist, while its idle assets are grouped by individual asset.

In the previous fiscal year, the carrying amount of assets which the Group will stop using in the future mainly due to changes in the business structure in China was reduced to their recoverable amount, and the reduction of ¥886 million was recorded as impairment losses in “Other expenses.” While the recoverable amount of these asset groups is measured based on value in use, the value in use is based on future cash flows estimated under the business plans approved by the Board of Directors.

In the fiscal year under review, the carrying amount of assets which are not expected to be used in the future mainly due to changes in the business structure in China was reduced to their recoverable amount, and the reduction of

¥2,182 million was recorded as impairment losses in “Other expenses.” While the recoverable amount of these asset groups is measured based on value in use, the value in use is based on future cash flows estimated under the business plans approved by the Board of Directors.

The details of impairment losses by segment are presented in Note 5 “Segment information.”

11. Intangible assets

Cost and changes in accumulated amortization and accumulated impairment losses of goodwill and other intangible assets are as follows.

(Millions of Yen)

Cost	Goodwill	Trademarks	Customer-related assets	Other	Total
Balance at January 1, 2017	23,150	29,047	10,940	11,684	74,821
Purchase	—	—	—	1,426	1,426
Reclassification, etc.	322	—	—	157	479
Disposal	—	—	—	(100)	(100)
Effect of exchange rate changes	(341)	(682)	(328)	(100)	(1,451)
Balance at December 31, 2017	23,131	28,364	10,612	13,068	75,175
Purchase	—	—	—	1,176	1,176
Acquisition through business combinations	25,776	9,124	22,747	1,240	58,886
Reclassification, etc.	—	—	—	(223)	(223)
Disposal	—	—	—	(171)	(171)
Effect of exchange rate changes	(970)	(890)	(773)	(226)	(2,859)
Balance at December 31, 2018	47,937	36,598	32,586	14,864	131,984

(Millions of Yen)

Accumulated amortization and accumulated impairment losses	Goodwill	Trademarks	Customer-related assets	Other	Total
Balance at January 1, 2017	—	13,696	3,792	8,738	26,226
Amortization	—	1,407	678	1,003	3,087
Reclassification, etc.	—	—	—	(1)	(1)
Disposal	—	—	—	(100)	(100)
Effect of exchange rate changes	—	(369)	(110)	(121)	(600)
Balance at December 31, 2017	—	14,734	4,359	9,519	28,612
Amortization	—	1,533	945	1,142	3,619
Acquisition through business combinations	—	—	—	368	368
Reclassification, etc.	—	—	—	(62)	(62)
Disposal	—	—	—	(165)	(165)
Effect of exchange rate changes	—	(267)	(76)	(166)	(509)
Balance at December 31, 2018	—	15,999	5,228	10,636	31,863

(Millions of Yen)

Carrying amount	Goodwill	Trademarks	Customer-related assets	Other	Total
Balance at January 1, 2017	23,150	15,351	7,148	2,946	48,595
Balance at December 31, 2017	23,131	13,631	6,253	3,548	46,563
Balance at December 31, 2018	47,937	20,598	27,358	4,228	100,121

“Customer-related assets” were included in “Other” in the previous fiscal year; however, the item is individually stated starting from the fiscal year under review because it has become more important in terms of the amount. The item for the previous fiscal year is reclassified to reflect the change in the presentation method.

Amortization is recorded in “Cost of sales” and “Selling, general and administrative expenses.”

There are no intangible assets which are subject to restrictions on their ownership or pledged as collateral for liabilities.

Some of the trademarks are deemed to have indefinite useful lives since they will basically remain as long as the business is continued. The carrying amounts of trademarks with indefinite useful lives were ¥1,510 million and ¥1,339 million as of the end of the previous fiscal year and the end of the fiscal year under review, respectively.

Impairment assessments on goodwill and intangible assets with indefinite useful lives

The details of goodwill and intangible assets with indefinite useful lives by cash-generating unit are as follows. They are allocated to the personal care segment.

(Millions of Yen)

	Fiscal Year Ended December 31, 2017 (as of December 31, 2017)		Fiscal Year Ended December 31, 2018 (as of December 31, 2018)	
	Goodwill	Intangible assets with indefinite useful lives	Goodwill	Intangible assets with indefinite useful lives
Thailand	—	—	20,163	—
Vietnam	13,357	—	13,121	—
Australia	6,366	1,510	6,366	1,339
Malaysia	—	—	4,944	—
Other	3,407	—	3,343	—
Total	23,131	1,510	47,937	1,339

Recoverable amounts used for impairment assessments on goodwill and intangible assets with indefinite useful lives are calculated based on value in use. Value in use is calculated by discounting estimated future cash flows, which are based on the business plans approved by the management, to their present value at a discount rate calculated based on weighted-average capital cost (previous fiscal year: 5.2%-12.9%, fiscal year under review: 5.2%-13.0%). Cash flows for a period exceeding the period of business plans are estimated by taking into account past results, average growth rates forecast in each market, and other factors.

Impairment losses on goodwill or intangible assets with indefinite useful lives were not recognized in the previous fiscal year or the fiscal year under review. The Group considers that significant impairment losses are unlikely to be incurred even if major assumptions used for impairment assessments change within a reasonably foreseeable range.

12. Income taxes

(1) Deferred tax assets and deferred tax liabilities

The major details of deferred tax assets and liabilities are as follows.

Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)

(Millions of Yen)

	January 1, 2017	Recognized as profit or loss	Recognized as other comprehensive income	Other	December 31, 2017
Deferred tax assets					
Accrued bonuses	1,308	4	—	—	1,312
Accrued sales promotion expenses	4,868	843	—	—	5,710
Retirement benefit liabilities	2,972	(690)	(119)	—	2,164
Tax loss carryforwards	11,216	(6,439)	—	—	4,777
Other	6,446	1,363	(21)	—	7,788
Total deferred tax assets	26,810	(4,918)	(140)	—	21,752
Deferred tax liabilities					
Depreciation and amortization expenses	(2,535)	(1,436)	—	—	(3,971)
Net defined benefit asset	(88)	(38)	7	—	(120)
Available-for-sale financial assets	(2,870)	(1,525)	607	—	(3,788)
Undistributed earnings	(8,771)	(9,715)	—	—	(18,485)
Convertible bond-type bonds with share acquisition rights	(1,308)	359	—	—	(948)
Intangible assets	(2,215)	439	—	—	(1,777)
Other	(2,940)	1,502	—	—	(1,439)
Total deferred tax liabilities	(20,727)	(10,414)	614	—	(30,528)
Net deferred tax assets (liabilities)	6,082	(15,333)	474	—	(8,776)

Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)

(Millions of Yen)

	January 1, 2018	Recognized as profit or loss	Recognized as other comprehensive income	Other	December 31, 2018
Deferred tax assets					
Accrued bonuses	1,312	81	—	12	1,405
Accrued sales promotion expenses	5,710	(286)	—	143	5,567
Retirement benefit liabilities	2,164	(458)	1,019	18	2,744
Tax loss carryforwards	4,777	(307)	—	—	4,470
Other	7,788	2,623	(17)	21	10,415
Total deferred tax assets	21,752	1,653	1,003	194	24,601
Deferred tax liabilities					
Depreciation and amortization expenses	(3,971)	(1,858)	—	—	(5,829)
Net defined benefit asset	(120)	119	(0)	—	(0)
Equity instruments measured at fair value through other comprehensive income	(3,788)	—	215	—	(3,573)
Undistributed earnings	(18,485)	(206)	—	—	(18,691)
Convertible bond-type bonds with share acquisition rights	(948)	241	—	564	(143)
Intangible assets	(1,777)	749	—	(5,970)	(6,998)
Other	(1,439)	406	1	—	(1,032)
Total deferred tax liabilities	(30,528)	(549)	216	(5,406)	(36,267)
Net deferred tax assets (liabilities)	(8,776)	1,104	1,219	(5,212)	(11,666)

Differences between total amounts recognized as profit or loss and deferred tax expenses are attributable to the effect of exchange rate changes.

In evaluating the recoverability of deferred tax assets, the Group takes into account the scheduled reversal of deferred tax liabilities, estimated future taxable profit, and tax planning. As a result of evaluation on the recoverability of deferred tax assets, deferred tax assets are not recorded for part of deductible temporary differences and tax loss carryforwards.

Deductible temporary differences, tax loss carryforwards, and foreign tax credits for which deferred tax assets are not recognized are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2017 (as of December 31, 2017)	Fiscal Year Ended December 31, 2018 (as of December 31, 2018)
Deductible temporary differences	188	5,761
Tax loss carryforwards	20,303	21,161
Foreign tax credits	2,017	—
Total	22,508	26,923

The details of expiration of tax loss carryforwards for which deferred tax assets are not recognized are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2017 (as of December 31, 2017)	Fiscal Year Ended December 31, 2018 (as of December 31, 2018)
In one year or less	364	74
After one year through five years	4,998	4,550
After five years	14,941	16,538
Total	20,303	21,161

The details of expiration of foreign tax credits for which deferred tax assets are not recognized are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2017 (as of December 31, 2017)	Fiscal Year Ended December 31, 2018 (as of December 31, 2018)
In one year or less	1,303	—
After one year through three years	714	—
Total	2,017	—

Total temporary differences associated with investments in subsidiaries which are not recognized as deferred tax liabilities were ¥1,214 million and ¥29 million at the end of the previous fiscal year and the end of the fiscal year under review, respectively.

Deferred tax liabilities are not recognized for these temporary differences since the Group is able to control the timing of the reversal of the temporary differences and the reversal is unlikely to occur in the foreseeable future.

(2) Income tax expenses

The details of income tax expenses are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)
Current tax expenses	21,299	25,758
Deferred tax expenses	14,057	(1,462)
Total income tax expenses	35,355	24,295

Current tax expenses include benefits arising from previously unrecognized tax losses, tax credits, and temporary differences for prior periods. A decrease in current tax expenses due to the above factor was ¥135 million and ¥2,239 million for the previous fiscal year and the fiscal year under review, respectively.

The relationship between the effective statutory tax rate and the actual effective tax rate of the Group is as follows. The effective statutory tax rate is calculated based on a national corporate tax, an inhabitant tax, and an enterprise tax of Japan. Overseas subsidiaries are subject to local corporate and other taxes.

	Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)
Effective statutory tax rate	30.9%	30.9%
Changes in unrecognized deferred tax assets	0.3%	0.7%
Dividend income, etc.	0.7%	0.5%
Lower income tax rates applicable to income in certain foreign countries	(4.7)%	(3.2)%
Effect of tax reforms	(0.8)%	0.3%
Tax credits	(1.0)%	(3.6)%
Tax effects on undistributed earnings	11.1%	0.2%
Other	1.5%	0.8%
Actual effective tax rate	38.0%	26.5%

13. Bonds and borrowings

The details of bonds and borrowings are as follows.

(Millions of Yen)

	Short-term borrowings	Current portion of long-term borrowings	Subtotal of current items	Bonds	Long-term borrowings	Subtotal of non-current items	Total
Balance at January 1, 2017	6,478	275	6,753	49,106	12,084	61,190	67,943
New borrowings	2,469	—	2,469	—	—	—	2,469
Transfer	—	3,265	3,265	—	(3,265)	(3,265)	—
Repayment or redemption	(5,802)	(265)	(6,067)	—	(337)	(337)	(6,404)
Effect of exchange rate changes	(221)	(9)	(231)	—	170	170	(61)
Other	—	—	—	242	—	242	242
Balance at December 31, 2017	2,923	3,265	6,189	49,348	8,652	58,000	64,189
New borrowings	14,801	—	14,801	—	1,223	1,223	16,024
Transfer	—	4,407	4,407	—	(4,407)	(4,407)	—
Repayment or redemption	(7,368)	(3,492)	(10,859)	—	(38)	(38)	(10,898)
Conversion of convertible bond-type bonds with share acquisition rights	—	—	—	(37,005)	—	(37,005)	(37,005)
Increase due to business combinations	3,521	1,303	4,823	—	4,031	4,031	8,854
Effect of exchange rate changes	(475)	(52)	(527)	—	(539)	(539)	(1,066)
Other	—	—	—	164	—	164	164
Balance at December 31, 2018	13,402	5,432	18,834	12,507	8,921	21,428	40,262
Average interest rate (Note 1)	4.55%	1.87%	—	(Note 3)	4.29%	—	—
Maturity (Note 2)	—	—	—	(Note 3)	2020 – 2023	—	—

Notes: 1. The average interest rate represents the weighted-average interest rate applicable to the balance at the end of the fiscal year under review.

2. The maturity represents the maturity applicable to the balance at the end of the fiscal year under review.

3. The terms and conditions of bond issuance are summarized as follows.

(Millions of Yen)

Company	Series	Date of issuance	Fiscal Year Ended December 31, 2017 (as of December 31, 2017)	Fiscal Year Ended December 31, 2018 (as of December 31, 2018)	Interest rate	Maturity
Unicharm Corporation	Zero Coupon Convertible Bonds due 2020	September 25, 2015	49,348	12,507	—	September 25, 2020

The “130% call option provision” is affixed to the above bonds. If the closing price of the Company’s common shares is 130% or more of the conversion price applicable to each transaction date for 30 consecutive transaction dates on or after September 25, 2018, the Company may make advanced redemption of all (not part) of the outstanding bonds at 100% of face value upon prior written notice.

14. Operating leases

The Group has rented multiple offices and vehicles, etc. as cancelable or non-cancelable operating leases. Lease payments recognized as an expense were ¥4,848 million and ¥4,916 million for the previous fiscal year and the fiscal year under review, respectively.

Future minimum lease payments based on non-cancelable operating leases are as follows.

	(Millions of Yen)	
	Fiscal Year Ended December 31, 2017 (as of December 31, 2017)	Fiscal Year Ended December 31, 2018 (as of December 31, 2018)
In one year or less	976	906
After one year through five years	3,120	3,074
After five years	547	1,149
Total	4,643	5,130

15. Trade and other payables

The details of trade and other payables are as follows.

	(Millions of Yen)	
	Fiscal Year Ended December 31, 2017 (as of December 31, 2017)	Fiscal Year Ended December 31, 2018 (as of December 31, 2018)
Notes and accounts payable - trade	98,295	111,629
Accounts payable - other	40,186	41,865
Total	138,480	153,494

16. Employee benefits

(1) Overview of retirement benefit plans

The Company and some of its subsidiaries have defined benefit corporate pension plans and lump-sum benefit plans (funded and unfunded) as defined benefit plans. The amounts of benefits are determined based on evaluation factors, including the number of years of service, ability and job grades, and position.

The Company's defined benefit corporate pension plans are managed by the Unicharm corporate pension fund (hereafter "pension fund") that is separate from the Company in accordance with relevant laws and regulations. The administrative board of the pension fund and the pension management entrusted organization are required by laws and regulations to take actions by giving top priority to the interests of plan participants, and bear the responsibility to manage plan assets based on given policies. Employers are obliged to make contributions to the fund.

The pension fund outsources the management of plan assets to a financial institution and prepares a portfolio for the purpose of securing stable returns under acceptable risks in order to ensure future payments based on retirement benefit corporate pension plans. The portfolio is reviewed if necessary when the original premises or other items change significantly.

The Company's lump-sum benefit plans may pay retirement benefits from trust assets mainly based on retirement benefit trust contracts. They outsource liquid and low risk management centered on debt securities to a financial institution in order to make payments according to funding needs for future lump-sum benefit payments.

Plan assets are exposed to investment risk relating to financial instruments, and defined benefit obligations, which are measured based on various actuarial assumptions, such as discount rates, are exposed to risk resulting from changes in these assumptions.

In addition to defined benefit plans, the Company and some of its subsidiaries have defined contribution plans.

(2) Defined benefit plans

1) Amounts recognized in the consolidated statement of financial position

The relationship between defined benefit obligations and plan assets, and amounts recognized in the consolidated statement of financial position is as follows.

	(Millions of Yen)	
	Fiscal Year Ended December 31, 2017 (as of December 31, 2017)	Fiscal Year Ended December 31, 2018 (as of December 31, 2018)
Present value of funded defined benefit obligations	49,527	51,259
Fair value of plan assets	(47,457)	(47,263)
Subtotal	2,070	3,996
Effect of asset ceiling (Note 1)	1,833	3,084
Present value of unfunded defined benefit obligations	3,931	4,276
Net retirement benefit liabilities (defined benefit asset)	7,834	11,357
Amounts in the consolidated statement of financial position		
Retirement benefit liabilities	8,225	11,358
Net defined benefit asset (Note 2)	(391)	(1)

Notes: 1. Asset ceiling is calculated based on the present value of economic benefits available in the form of a decrease in future contributions to plans, taking into account minimum fund requirements.

2. Net defined benefit asset is included in other non-current assets in the consolidated statement of financial position.

2) Reconciliation of the present value of defined benefit obligations

Changes in the present value of defined benefit obligations are as follows.

	(Millions of Yen)	
	Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)
Present value of defined benefit obligations at beginning of period	50,290	53,458
Current service cost	3,078	2,994
Interest expenses	519	603
Remeasurements		
Actuarial differences arising from changes in demographic assumptions	11	118
Actuarial differences arising from changes in financial assumptions	(1,257)	(129)
Actuarial differences arising from performance adjustments	1,766	362
Past service cost	(28)	11
Retirement benefits paid	(1,372)	(1,687)
Increase due to business combinations	–	224
Effect of exchange rate changes	451	(428)
Other	–	8
Present value of defined benefit obligations at end of period	53,458	55,536

Note: Weighted-average duration of defined benefit obligations was 18.1 years and 17.8 years for the previous fiscal year and the

fiscal year under review, respectively.

3) Reconciliation of the fair value of plan assets

Changes in the fair value of plan assets are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)
Fair value of plan assets at beginning of period	42,918	47,457
Interest income	412	439
Remeasurements		
Gain on plan assets	1,960	(1,641)
Contribution from employers	2,312	1,977
Retirement benefits paid	(644)	(711)
Effect of exchange rate changes	500	(258)
Fair value of plan assets at end of period	47,457	47,263

Note: Employers are expected to contribute ¥1,547 million to defined benefit plans in the following fiscal year.

4) Reconciliation of the effect of asset ceiling

Changes in the effect of asset ceiling are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)
Effect of asset ceiling at beginning of period	–	1,833
Restrictions on interest income	–	15
Remeasurements		
Changes in the effect of asset ceiling	1,833	1,236
Effect of asset ceiling at end of period	1,833	3,084

5) Details of plan assets

The details of plan assets are as follows.

Fiscal Year Ended December 31, 2017 (as of December 31, 2017)

(Millions of Yen)

	Quoted in an active market	Unquoted in an active market	Total
Debt instruments	2,628	19,822	22,451
Equity instruments	1,939	11,024	12,962
Cash and cash equivalents	134	1,278	1,412
Life insurance company general account	—	4,366	4,366
Other	408	5,859	6,266
Total plan assets	5,108	42,349	47,457

Fiscal Year Ended December 31, 2018 (as of December 31, 2018)

(Millions of Yen)

	Quoted in an active market	Unquoted in an active market	Total
Debt instruments	2,650	22,251	24,901
Equity instruments	1,493	7,587	9,080
Cash and cash equivalents	134	742	876
Life insurance company general account	—	4,568	4,568
Other	815	7,023	7,838
Total plan assets	5,093	42,170	47,263

Note: Debt instruments mainly consist of domestic debt securities, and equity instruments mainly consist of domestic shares.

6) Actuarial assumptions

Major actuarial assumptions used are as follows.

	Fiscal Year Ended December 31, 2017 (as of December 31, 2017)	Fiscal Year Ended December 31, 2018 (as of December 31, 2018)
Discount rate	Mainly 1.1%	Mainly 1.0%

7) Sensitivity analysis

The effect of a change in actuarial assumptions on the present value of defined benefit obligations is as follows. This analysis assumes that the other variables are constant. There are no changes from the method and assumptions used for preparing the sensitivity analysis for the previous fiscal year.

	Change	Fiscal Year Ended December 31, 2017 (as of December 31, 2017)	Fiscal Year Ended December 31, 2018 (as of December 31, 2018)
Discount rate	0.5% increase	¥3,752 million decrease	¥3,833 million decrease
	0.5% decrease	¥4,299 million increase	¥4,397 million increase

(3) Defined contribution plans

Expenses for defined contribution plans are recognized as an expense during the period in which the employees render the related service, and contributions payable are recognized as obligations. The expenses were ¥3,787 million and ¥3,849 million for the previous fiscal year and the fiscal year under review, respectively.

17. Other current liabilities

The details of other current liabilities are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2017 (as of December 31, 2017)	Fiscal Year Ended December 31, 2018 (as of December 31, 2018)
Accrued expenses	23,670	26,592
Accrued bonuses	6,239	6,978
Accrued consumption taxes, etc.	4,680	4,266
Accrued compensated absences	1,926	1,903
Other	1,485	5,220
Total	38,001	44,959

18. Equity

(1) Capital stock and share premium

Changes in the total number of shares authorized and the number of outstanding shares are as follows.

	Total number of shares authorized (Thousands of Shares)	Number of outstanding shares (Thousands of Shares)
Balance at January 1, 2017	827,779	620,834
Increase during the period	—	—
Decrease during the period	—	—
Balance at December 31, 2017	827,779	620,834
Increase during the period	—	—
Decrease during the period	—	—
Balance at December 31, 2018	827,779	620,834

All shares issued by the Company are no-par common shares. All outstanding shares were fully paid in.

Share premium consists of legal capital surplus and other capital surplus. The Companies Act of Japan prescribes that at least 50% of the payment in or delivery relating to the issuance of shares must be incorporated into capital stock and the remaining amount must be incorporated into legal capital surplus.

The Act also prescribes that legal capital surplus may be incorporated into capital stock upon resolution at the General Meeting of Shareholders.

If share premium is negative due to a difference between additional equity in subsidiaries and additional investment, share premium is treated as zero and the remaining amount is reduced from retained earnings.

(2) Retained earnings

Retained earnings consist of legal retained earnings and other retained earnings. The Companies Act prescribes that 10% of any appropriation to shareholders from retained earnings must be set aside as legal capital surplus or legal retained earnings until the total amount of legal capital surplus and legal retained earnings reaches 25% of capital stock.

Legal retained earnings set aside may be appropriated for deficit disposition. Moreover, legal retained earnings may be reversed upon resolution at the General Meeting of Shareholders.

(3) Treasury shares

Changes in treasury shares are as follows.

	Number of shares (Thousands of Shares)	Amount (Millions of Yen)
Balance at January 1, 2017	29,983	53,652
Increase due to purchase of treasury shares based on a resolution by the Board of Directors	5,115	14,000
Increase due to purchase of shares of less than one unit	0	0
Balance at December 31, 2017	35,098	67,652
Increase due to purchase of treasury shares based on a resolution by the Board of Directors	4,574	15,500
Increase due to purchase of shares of less than one unit	0	0
Decrease due to conversion of convertible bond-type bonds with share acquisition rights	(15,521)	(30,376)
Balance at December 31, 2018	24,151	52,776

(4) Other components of equity

Changes in other components of equity are as follows.

(Millions of Yen)

	Net changes in equity instruments measured at fair value through other comprehensive income	Changes in fair value of available-for-sale financial assets	Changes in fair value of cash flow hedges	Exchange differences on translation in foreign operations	Remeasurements related to net defined benefit liabilities (assets)	Share acquisition rights	Total
Balance at January 1, 2017	—	7,474	5	(14,430)	—	4,908	(2,042)
Other comprehensive income	—	1,376	(29)	4,977	(247)	—	6,077
Share-based payments	—	—	—	—	—	233	233
Transfer from other components of equity to retained earnings	—	—	—	—	247	(6)	241
Balance at December 31, 2017	—	8,851	(24)	(9,453)	—	5,136	4,509
Cumulative amount of impact from application of new accounting standards	8,851	(8,851)	—	—	—	—	—
Balance at January 1, 2018	8,851	—	(24)	(9,453)	—	5,136	4,509
Other comprehensive income	120	—	29	(16,243)	(2,242)	—	(18,336)
Conversion of convertible bond-type bonds with share acquisition rights	—	—	—	—	—	(3,057)	(3,057)
Transfer from other components of equity to retained earnings	(618)	—	—	—	2,242	(15)	1,609
Balance at December 31, 2018	8,352	—	4	(25,696)	—	2,064	(15,276)

19. Dividends

Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)

(1) Dividends paid

Resolution	Class of shares	Total dividends (Millions of Yen)	Dividends per share (Yen)	Record date	Effective date
Board of Directors meeting on February 27, 2017	Common shares	4,727	8.0	December 31, 2016	March 9, 2017
Board of Directors meeting on August 10, 2017	Common shares	5,272	9.0	June 30, 2017	September 4, 2017

(2) Dividends whose record date is in the fiscal year ended December 31, 2017 and whose effective date is in the fiscal year ended December 31, 2018

Resolution	Class of shares	Total dividends (Millions of Yen)	Dividends per share (Yen)	Record date	Effective date
Board of Directors meeting on February 27, 2018	Common shares	6,443	11.0	December 31, 2017	March 7, 2018

Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)

(1) Dividends paid

Resolution	Class of shares	Total dividends (Millions of Yen)	Dividends per share (Yen)	Record date	Effective date
Board of Directors meeting on February 27, 2018	Common shares	6,443	11.0	December 31, 2017	March 7, 2018
Board of Directors meeting on August 6, 2018	Common shares	7,141	12.0	June 30, 2018	September 3, 2018

(2) Dividends whose record date is in the fiscal year ended December 31, 2018 and whose effective date is in the fiscal year ending December 31, 2019

Resolution	Class of shares	Total dividends (Millions of Yen)	Dividends per share (Yen)	Record date	Effective date
Board of Directors meeting on February 25, 2019	Common shares	7,160	12.0	December 31, 2018	March 6, 2019

20. Revenue

Net sales of the Group comprise revenue generated from goods transferred to a customer at a certain point in time. Net sales of each reportable segment are broken down based on the locations of consolidated companies. The breakdown of the net sales is as follows.

	(Millions of Yen)
	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)
Personal care	
Japan	216,589
China	86,672
Asia	215,350
Other	80,679
Subtotal	599,290
Pet care (Note 1)	82,073
Other (Note 2)	6,927
Total	688,290

Notes: 1. Net sales for the pet care business are mainly those in Japan and the North American region (the region categorized into Other).

2. Net sales for the other businesses are mainly those in Japan.

21. Selling, general and administrative expenses

The details of selling, general and administrative expenses are as follows.

	(Millions of Yen)	
	Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)
Freight-out expenses	41,923	46,538
Promotion expenses	23,817	22,574
Advertising expenses	22,830	24,324
Employee benefits expenses	33,514	35,514
Depreciation and amortization expenses	5,075	5,853
Research and development expenses	6,554	6,621
Others	27,995	28,754
Total	161,707	170,178

22. Employee benefits expenses

The details of employee benefits expenses included in cost of sales and selling, general and administrative expenses are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)
Salaries and bonuses	46,632	49,503
Employee and legal benefits expenses	5,711	6,188
Retirement benefit expenses	6,630	6,689
Other	1,092	1,477
Total	60,065	63,857

23. Other income and other expenses

The details of other income and other expenses are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)
Other income		
Gain on insurance adjustment (Note 1)	978	—
Subsidy income	92	44
Gain on sales of scraps	294	403
Other	799	1,336
Total other income	2,163	1,783
Other expenses		
Loss on disposal of non-current assets	928	689
Impairment losses (Note 2)	886	2,182
Other	848	1,493
Total other expenses	2,662	4,364

Notes: 1. In relation to a fire accident which occurred at the Neemrana Plant of Unicharm India Private Ltd., the Company's subsidiary, on October 24, 2017 (local time), ¥11,393 million in the total carrying amount of destroyed inventories, buildings, machinery and equipment, and other assets was reduced, ¥12,371 million in insurance which is expected to be paid from fire insurance was recorded as financial assets, and the net amount of these items was recorded as gain on insurance adjustment.

2. Impairment losses are presented in Note 10 "Property, plant and equipment."

24. Financial income and financial costs

The details of financial income and financial costs are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)
Financial income		
Interest income (Note 1)	2,458	2,965
Dividend income (Note 2)	411	344
Gain on sales of available-for-sale financial assets	4,937	–
Foreign exchange gains	945	–
Other	–	1
Total financial income	8,750	3,310
Financial costs		
Interest expenses (Note 3)	928	2,280
Foreign exchange losses	–	1,266
Loss on valuation of derivatives	1,126	503
Other	109	227
Total financial costs	2,163	4,275

- Notes: 1. Interest income was generated from financial assets measured at amortized cost, cash and cash equivalents, loans, and receivables.
2. Dividend income was generated from equity instruments measured at fair value through other comprehensive income and available-for-sale financial assets.
3. Interest expenses were generated from financial liabilities measured at amortized cost.

25. Other comprehensive income

Amounts arising during the period, reclassification adjustments, and tax effects concerning other comprehensive income are as follows.

Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)

(Millions of Yen)

	Amount arising during the period	Reclassification adjustment	Before tax effect adjustment	Tax effects	After tax effect adjustment
Items that will not be reclassified to profit or loss					
Remeasurements related to net defined benefit liabilities (assets)	(393)	–	(393)	112	(281)
Subtotal	(393)	–	(393)	112	(281)
Items that may be reclassified to profit or loss					
Changes in fair value of available-for-sale financial assets	6,920	(4,937)	1,983	(607)	1,376
Changes in fair value of cash flow hedges	(74)	(1)	(74)	21	(53)
Exchange differences on translation in foreign operations	6,337	–	6,337	–	6,337
Subtotal	13,183	(4,937)	8,246	(586)	7,659
Total other comprehensive income	12,790	(4,937)	7,852	(474)	7,378

Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)

(Millions of Yen)

	Amount arising during the period	Reclassification adjustment	Before tax effect adjustment	Tax effects	After tax effect adjustment
Items that will not be reclassified to profit or loss					
Net changes in equity instruments measured at fair value through other comprehensive income	(96)	–	(96)	215	120
Remeasurements related to net defined benefit liabilities (assets)	(3,228)	–	(3,228)	1,019	(2,208)
Subtotal	(3,323)	–	(3,323)	1,235	(2,089)
Items that may be reclassified to profit or loss					
Changes in fair value of cash flow hedges	32	34	67	(16)	50
Exchange differences on translation in foreign operations	(19,916)	–	(19,916)	–	(19,916)
Subtotal	(19,884)	34	(19,850)	(16)	(19,866)
Total other comprehensive income	(23,208)	34	(23,173)	1,219	(21,955)

26. Earnings per share

(1) Basic earnings per share

Basic earnings per share and the calculation basis therefor are as follows.

	Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)
Profit attributable to owners of parent (Millions of Yen)	52,772	61,353
Weighted-average number of common shares (Thousands of Shares)	587,322	591,476
Basic earnings per share (Yen)	89.85	103.73

(2) Diluted earnings per share

Diluted earnings per share and the calculation basis therefor are as follows.

	Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)
Profit attributable to owners of parent (Millions of Yen)	52,772	61,353
Adjustment of profit used to calculate diluted earnings per share (Millions of Yen)	167	113
Profit used to calculate diluted earnings per share (Millions of Yen)	52,939	61,466
Weighted-average number of common shares (Thousands of Shares)	587,322	591,476
Impact of dilutive potential common shares		
Increase in the number of common shares from exercise of convertible bond-type bonds with share acquisition rights (Thousands of Shares)	20,755	14,473
Weighted-average number of diluted common shares (Thousands of Shares)	608,077	605,949
Diluted earnings per share (Yen)	87.06	101.44
Outline of potential shares which, due to the absence of any dilutive effect, were not included in the calculation of diluted earnings per share	Stock options resolved by the Board of Directors on April 16, 2015	Stock options resolved by the Board of Directors on April 16, 2015

27. Cash flow information

Significant non-cash transactions (investment and financial transactions that do not require use of cash and cash equivalents) are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)
Conversion of convertible bond-type bonds with share acquisition rights	–	41,411

28. Share-based payments

(1) Details of stock options

The Company offers a stock option plan, the details of which are as follows.

Company	Unicharm Corporation
Date of resolution	April 16, 2015
Category and number of persons granted (Persons)	Directors who are not Audit and Supervisory Committee Members of the Company: 8 Employees of the Company: 1,783 Employees of the subsidiaries: 1,316
Class and number of shares granted (Note)	3,202,500 common shares
Date of grant	June 1, 2015
Conditions for vesting	- Any person who has been allotted the share acquisition rights may not exercise such rights unless the closing price of the Company's common shares at the Tokyo Stock Exchange is ¥4,030 per share ("condition price") or over on at least one occasion during the period from the allotment date through February 28, 2021. In cases where the exercise price is adjusted, the condition price shall be also adjusted in a uniform manner. - Any person who has been allotted the share acquisition rights must be, even at the time of exercise of such rights, a Director who is not an Audit and Supervisory Committee Member or an employee of the Company or a Director or an employee of the Company's subsidiary, except in cases where he or she has resigned from the position as Director who is not an Audit and Supervisory Committee Member of the Company or Director of the Company's subsidiary due to expiration of term of office or retired as employee of the Company or its subsidiary due to reaching the mandatory retirement age. - Notwithstanding 2) above, in the event that any person who has been allotted the share acquisition rights passed away, his/her successor may exercise the rights.
Service period	June 1, 2015 – May 31, 2017
Exercise period	June 1, 2017 – May 31, 2022

Note: The number of stock options is presented by converting into the number of shares.

(2) Size and changes of stock options

The number and weighted-average exercise price of stock options are as follows. The number of stock options is presented by converting into the number of shares.

	Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)		Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)	
	Number of shares (Shares)	Weighted-average exercise price (Yen)	Number of shares (Shares)	Weighted-average exercise price (Yen)
Non-vested:				
January 1 - Outstanding	3,122,400	2,901	–	–
Granted	–	–	–	–
Forfeited	(24,300)	2,901	–	–
Vested	3,098,100	2,901	–	–
December 31 - Outstanding	–	–	–	–
Vested:				
January 1 - Outstanding	–	–	3,082,800	2,901
Vested	3,098,100	2,901	–	–
Exercised	–	–	–	–
Forfeited	(15,300)	2,901	(40,500)	2,901
December 31 - Outstanding	3,082,800	2,901	3,042,300	2,901

The weighted-average remaining contract period of outstanding stock options was 4.4 years and 3.4 years at the end of the previous fiscal year and the fiscal year under review, respectively.

(3) Share-based payment expenses

Share-based payment expenses recorded in the consolidated statement of income are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)
Cost of sales	61	–
Selling, general and administrative expenses	172	–
Total	233	–

(4) Method for calculating the fair value of stock options granted during the period

None.

29. Financial instruments

(1) Categorization of financial instruments

The details of financial instruments by category are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2017 (as of December 31, 2017)
<Financial assets>	
Cash and cash equivalents	169,903
Financial assets measured at fair value through profit or loss (derivatives)	
Other financial assets (current)	195
Loans and receivables	
Trade and other receivables	98,821
Other financial assets (current)	58,925
Other financial assets (non-current)	14,390
Available-for-sale financial assets	
Other financial assets (non-current)	19,242
Total	361,474
<Financial liabilities>	
Financial liabilities measured at fair value through profit or loss (derivatives)	
Other financial liabilities (current)	196
Financial liabilities measured at amortized cost	
Trade and other payables	138,480
Bonds and borrowings	64,189
Other financial liabilities (current)	43
Other financial liabilities (non-current)	2,111
Total	205,019

(Millions of Yen)

	Fiscal Year Ended December 31, 2018 (as of December 31, 2018)
<Financial assets>	
Financial assets measured at amortized cost	
Cash and cash equivalents	135,065
Trade and other receivables	100,159
Other financial assets (current)	49,364
Other financial assets (non-current)	14,725
Financial assets measured at fair value through profit or loss	
Other financial assets (current)	4,156
Other financial assets (non-current)	3,121
Equity instruments measured at fair value through other comprehensive income	
Other financial assets (non-current)	32,144
Total	338,735
<Financial liabilities>	
Financial liabilities measured at amortized cost	
Trade and other payables	153,494
Bonds and borrowings	40,262
Other financial liabilities (current)	47
Other financial liabilities (non-current)	1,212
Financial liabilities measured at fair value through profit or loss	
Other financial liabilities (current)	586
Total	195,601

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

Equity instruments held by the Group are mainly shares related to businesses or capital alliances with business partners and shares acquired as part of management of surplus funds under the low interest rate environment, and include no equity instruments held for short-term trading. As such, they are designated as equity instruments measured at fair value through other comprehensive income.

1) Fair value of major shares

Fair value of major shares is as follows.

Fiscal Year Ended December 31, 2018 (as of December 31, 2018)

(Millions of Yen)	
Shares	Fair value
Kao Corporation	12,269
Pigeon Corporation	7,280
Sumitomo Realty & Development Co., Ltd.	4,908
ARATA CORPORATION	983
OK Corporation	757

2) Derecognized equity instruments measured at fair value through other comprehensive income

The Group has disposed of equity instruments measured at fair value through other comprehensive income through sale due to revisions to relationships with business partners, etc. and derecognized them. Fair value as of the date of derecognition of equity instruments measured at fair value through other comprehensive income derecognized during the period and their cumulative gains or losses are as follows.

(Millions of Yen)	
	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)
Fair value	802
Cumulative gains (losses)	618

The Group transfers cumulative gains or losses due to changes in fair value of equity instruments measured at fair value through other comprehensive income, when derecognizing them, directly from other components of equity to retained earnings. Cumulative gains or losses of other comprehensive income directly transferred to retained earnings during the fiscal year under review were ¥618 million.

3) Dividend income

The details of dividend income pertaining to equity instruments measured at fair value through other comprehensive income are as follows.

(Millions of Yen)	
	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)
Financial assets derecognized during the period	11
Financial assets held as of the last day of the period	333
Total	344

(3) Capital management

The Group's basic policy on capital management is to maintain its optimum capital structure which secures financial soundness and flexibility while improving capital efficiency in order to achieve sustainable corporate value improvement and stably distribute dividends of surplus to owners of parent through the aforementioned improvement.

The Group appropriately monitors equity attributable to owners of parent and return on equity attributable to owners of parent (ROE) as significant management guidelines indicating profitability and investment efficiency in businesses.

	Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)
Equity attributable to owners of parent (Millions of Yen)	387,567	441,456
Return on equity attributable to owners of parent (ROE) (%)	14.3	14.8

(4) Financial risk management

The Group's activities are exposed to various financial risks, such as market risk (including foreign exchange risk, price risk, and interest rate risk), credit risk, and liquidity risk. The Group uses derivative transactions in order to hedge certain risk exposures. Derivative transactions consist of foreign exchange forward contracts, non-deliverable forwards and currency swaps for hedging exchange rate change risk related to foreign currency-denominated receivables and obligations. These transactions are executed and managed in accordance with internal rules and limited to transactions based on actual demand.

The Group is not exposed to material concentration risk in relation to financial instruments.

1) Market risk

(a) Foreign exchange risk

The Group conducts international business activities and manufactures and sells products in overseas. Due to overseas business development, the Group is exposed to foreign exchange risk relating to various currency exposures, mainly the U.S. dollar and the Chinese yuan. Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities.

The Group uses foreign exchange forward contracts, non-deliverable forwards and currency swaps for hedging exchange rate change risk captured by currency.

Derivatives

The outline of major derivatives executed by the Group for controlling exchange rate change risk is as follows. Derivative assets or liabilities are included in other financial assets or liabilities in the consolidated statement of financial position.

Derivatives to which hedge accounting is not applied

(Millions of Yen)

	Fiscal Year Ended December 31, 2017 (as of December 31, 2017)			Fiscal Year Ended December 31, 2018 (as of December 31, 2018)		
	Contract amount		Fair value	Contract amount		Fair value
		Contract amount due after one year			Contract amount due after one year	
Foreign exchange forward contracts: Selling USD	5,488	—	10	6,189	—	(1)
Foreign exchange forward contracts: Buying USD	1,826	—	(10)	1,469	—	0
Foreign exchange forward contracts: Buying EUR	87	—	(0)	69	—	1
Foreign exchange forward contracts: Buying SEK	38	—	(0)	35	—	0
Foreign exchange forward contracts: Buying JPY	—	—	—	0	—	0
Foreign exchange forward contracts: Selling JPY	8,253	—	161	15,677	—	(185)
Foreign exchange forward contracts: Buying THB	1,271	—	13	803	—	23
Foreign exchange forward contracts: Selling AUD	691	—	(0)	586	—	(0)
Non-deliverable forwards: Buying USD	—	—	—	2,336	—	9
Non-deliverable forwards: Buying JPY	—	—	—	9,052	—	82
Currency swaps: Received in CNY Paid in JPY	12,103	12,103	(136)	11,312	11,312	(388)
Total	29,756	12,103	38	47,529	11,312	(460)

Derivatives to which hedge accounting is applied

(Millions of Yen)

	Major hedged item	Fiscal Year Ended December 31, 2017 (as of December 31, 2017)			Fiscal Year Ended December 31, 2018 (as of December 31, 2018)		
		Contract amount		Fair value	Contract amount		Fair value
			Contract amount due after one year			Contract amount due after one year	
Foreign exchange forward contracts: Buying EUR	Trade payables	—	—	—	1,067	—	3
Foreign exchange forward contracts: Buying JPY	Trade payables	374	—	(48)	—	—	—
Foreign exchange forward contracts: Buying USD	Trade payables	—	—	—	403	—	1
Foreign exchange forward contracts: Selling CAD	Trade payables	416	—	9	519	—	26
Total		790	—	(39)	1,989	—	30

Foreign exchange sensitivity analysis

The foreign exchange sensitivity analysis indicates the impact of a 1% appreciation of the Japanese yen on profit before tax in the consolidated statement of income with respect to net foreign exchange risk exposures as of the reporting date. This analysis assumes that all the other variables are constant.

(Millions of Yen)

	Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)
USD	10	45
CNY	121	115
Total	131	160

(b) Price risk

Equity instruments held by the Group are mainly shares related to businesses or capital alliances with business partners and shares acquired as part of management of surplus funds under the low interest rate environment, and include no equity instruments held for short-term trading. Equity instruments include listed and unlisted shares and are exposed to market price fluctuation risk. Price risk is small since the Group periodically captures fair values, financial conditions of issuers, and other factors, and reviews the holding status, taking into account the relationships with business partners.

(c) Interest rate risk

In conducting business activities, the Group pays interest accrued for raising working capital and funds necessary for capital investments and others. Part of the interest is exposed to interest rate fluctuation risk because it is subject to variable interest rates. However, cash and cash equivalents exceeding interest-bearing debts are maintained. Interest rate risk is small since the impact of interest payments on the Group is currently immaterial.

2) Credit risk

Credit risk is financial loss risk to be taken by the Group if a customer or a financial instruments business partner fails to perform its contractual obligations.

The credit risk of cash and cash equivalents and derivatives is small as the Company enters into relevant transactions only with financial institutions which are deemed by the Company to have a high credit rating.

Trade and other receivables are exposed to customer credit risk. With respect to such risk, the sales administration department is monitoring major business partners' status periodically, controlling collection due dates and outstanding balances per business partner in order to identify and reduce doubtful receivables resulting from deterioration of business partners' financial positions at an early stage in accordance with the Sales Administration Regulations. Credit risk is not concentrated on any particular business partner.

The carrying amount of financial assets presented in the consolidated financial statements after impairment is the Group's maximum credit risk exposures without considering the valuation of collateral acquired.

(a) Unimpaired overdue trade and other receivables

The maturity analysis of unimpaired overdue trade and other receivables as of the end of the previous fiscal year is as follows.

(Millions of Yen)

After maturity	Fiscal Year Ended December 31, 2017 (as of December 31, 2017)
In 30 days or less	4,787
After 30 days through 60 days	1,056
After 60 days through 90 days	467
After 90 days through 120 days	643
After 120 days	844
Total	7,799

(b) Credit risk exposure

Credit risk exposure of trade and other receivables as of the last day of the fiscal year under review is as follows.

Fiscal Year Ended December 31, 2018 (as of December 31, 2018)

(Millions of Yen)

Periods before and after maturity	Financial assets for which allowance for doubtful accounts is measured at an amount equal to twelve-month expected credit losses	Financial assets for which allowance for doubtful accounts is measured at an amount equal to lifetime expected credit losses		Total
		Financial assets for which credit risk has significantly increased since initial recognition	Financial assets for which allowance for doubtful accounts is always measured at an amount equal to lifetime expected credit losses	
Before maturity	1,601	—	89,633	91,233
In 30 days or less	6	—	6,555	6,561
After 30 days through 60 days	1	—	1,098	1,099
After 60 days through 90 days	0	—	254	254
After 90 days through 120 days	3	—	437	440
After 120 days	46	—	526	572
Total	1,657	—	98,502	100,159

(c) Analysis of changes in allowance for doubtful accounts

When financial assets are impaired, the Group records allowance for doubtful accounts, rather than a direct decrease from the carrying amount of the financial assets. Changes in allowance for doubtful accounts are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)
Balance at beginning of period	766	1,381
Increase during the period due to provision	798	480
Decrease during the period resulting from settlement	(22)	(7)
Decrease during the period due to reversal	(140)	(122)
Increase due to business combinations	–	16
Decrease due to change in scope of consolidation	(0)	–
Effect of exchange rate changes	(21)	(114)
Balance at end of period	1,381	1,633

There were no significant financial assets which were individually determined that they were impaired during the previous fiscal year and the fiscal year under review.

3) Liquidity risk

Liquidity risk is the risk which the Group faces when performing its obligations related to financial liabilities settled in cash or other financial assets.

With respect to fund management, the Group invests temporary cash surpluses in low risk financial assets. It raises funds through measures selected based on financial conditions and market environments. Moreover, the Group manages liquidity risk by maintaining liquidity on hand, as well as having the Accounting Control & Finance Division timely prepare and update cash management plans based on reports, etc. from each department.

Financial liabilities by maturity are as follows. The amounts presented are contractual non-discounted cash flows.

Fiscal Year Ended December 31, 2017 (as of December 31, 2017)

(Millions of Yen)

	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years	Total
Trade and other payables	138,303	171	7	–	–	–	138,480
Bonds and borrowings	6,189	7,591	50,265	265	265	265	64,841
Lease obligations (Note)	43	39	35	30	14	17	177
Other financial liabilities	–	–	–	–	–	1,977	1,977
Derivative liabilities							
Cash inflows	(423)	(423)	(423)	(423)	(12,526)	–	(14,217)
Cash outflows	60	–	–	–	11,806	–	11,865
Total	144,172	7,378	49,884	(128)	(441)	2,259	203,123

Note: The maturities of lease obligations for the previous fiscal year are up to 2031. Lease obligations are included in “Other financial liabilities” in the consolidated statement of financial position.

Fiscal Year Ended December 31, 2018 (as of December 31, 2018)

(Millions of Yen)

	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years	Total
Trade and other payables	153,303	188	2	—	—	—	153,494
Bonds and borrowings	18,834	17,347	2,883	998	303	—	40,365
Lease obligations (Note)	47	43	34	17	6	14	160
Other financial liabilities	—	—	—	—	—	1,098	1,098
Derivative liabilities							
Cash inflows	(397)	(397)	(397)	(11,709)	—	—	(12,901)
Cash outflows	586	—	—	11,806	—	—	12,392
Total	172,373	17,181	2,522	1,112	309	1,112	194,609

Note: The maturities of lease obligations for the fiscal year under review are up to 2031. Lease obligations are included in “Other financial liabilities” in the consolidated statement of financial position.

(5) Fair value of financial instruments

1) Financial assets and financial liabilities measured at fair value

The Group categorizes the fair value hierarchy into the following three levels according to the observability of inputs used for fair value measurements in the market.

Level 1: Unadjusted quoted price of identical assets or identical liabilities in an active market

Level 2: Directly or indirectly observable input which does not belong to Level 1

Level 3: Unobservable input

Financial assets and financial liabilities measured at fair value on a recurring basis by the Group are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2017 (as of December 31, 2017)			
	Level 1	Level 2	Level 3	Total
<Financial assets>				
Financial assets measured at fair value through profit or loss				
Derivative assets	—	195	—	195
Available-for-sale financial assets				
Shares	18,234	5	849	19,088
Other	—	130	23	153
Total	18,234	330	872	19,437
<Financial liabilities>				
Financial liabilities measured at fair value through profit or loss				
Derivative liabilities	—	196	—	196
Total	—	196	—	196

(Millions of Yen)

	Fiscal Year Ended December 31, 2018 (as of December 31, 2018)			
	Level 1	Level 2	Level 3	Total
<Financial assets>				
Financial assets measured at fair value through profit or loss				
Debt securities	—	—	5,496	5,496
Derivative assets	—	156	—	156
Other	—	126	1,500	1,626
Equity instruments measured at fair value through other comprehensive income				
Shares	30,720	6	1,395	32,120
Other	—	—	23	23
Total	30,720	287	8,413	39,421
<Financial liabilities>				
Financial liabilities measured at fair value through profit or loss				
Derivative liabilities	—	586	—	586
Total	—	586	—	586

The Group transfers the fair value hierarchy between levels when it recognizes an event or a change in conditions which causes the transfer.

There were no transfers among Level 1, Level 2, and Level 3 in the previous fiscal year and the fiscal year under review.

Fair value calculation methods are as follows.

Debt securities

The fair value of debt securities is calculated using valuations presented by creditor financial institutions.

Significant unobservable input concerning measurement of debt securities is information such as parameters that are used by creditor financial institutions as a basis for calculating valuations; fluctuations in the input will result in increases or decreases in fair value of debt securities.

Derivative assets and derivative liabilities

The fair value of foreign exchange forward contracts and non-deliverable forwards is calculated based on the forward exchange rate at the end of each fiscal period. The fair value of currency swaps is calculated based on observable market data, such as interest rates presented by creditor financial institutions and other parties.

Shares

The fair value of marketable shares is calculated based on the market price at the end of each fiscal period. The fair value of unlisted shares is calculated using appropriate valuation techniques, such as the comparable company analysis method.

Changes in financial instruments categorized in Level 3 during each fiscal year are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)
Balance at beginning of period	739	872
Total gains or losses	137	138
Profit or loss (Note 1)	–	(5)
Other comprehensive income (Note 2)	137	143
Purchase	2	8,903
Sale and settlement	(6)	(1,500)
Balance at end of period	872	8,413

- Notes: 1. Gains or losses included in profit or loss pertain to financial assets measured at fair value through profit or loss. The profit and loss are included in “Financial income” and “Financial costs.”
2. Gains or losses included in other comprehensive income pertain to equity instruments measured at fair value through other comprehensive income, and are included in “Net changes in equity instruments measured at fair value through other comprehensive income” and “Exchange differences on translation in foreign operations” in the consolidated statement of comprehensive income.

Financial instruments categorized in Level 3 are mainly composed of debt securities and unlisted shares.

Significant unobservable inputs for financial instruments categorized in Level 3 are mainly credit risk and illiquidity discounts, and the fair value decreases (increases) with higher (lower) credit risk or illiquidity discounts. Changes in the fair value in the case where unobservable inputs are replaced by reasonably possible alternative assumptions are not material.

The department in charge determines the valuation methods for each asset and measures fair value in accordance with valuation policies and procedures for fair value measurements. The results of fair value measurements are approved by the appropriate person in charge.

2) Carrying amount and fair value of financial assets and financial liabilities measured at amortized cost

The carrying amount and fair value of financial instruments measured at amortized cost as of each closing date are as follows. The following table does not include financial instruments whose carrying amount reasonably approximates their fair value (mainly trade and other receivables, time deposits with maturities over three months, and trade and other payables).

	Fiscal Year Ended December 31, 2017 (as of December 31, 2017)		Fiscal Year Ended December 31, 2018 (as of December 31, 2018)	
	Carrying amount	Fair value	Carrying amount	Fair value
<Financial assets>				
Debt securities	–	–	1,003	995
<Financial liabilities>				
Bonds and borrowings	64,189	64,432	40,262	40,309

Note: The fair value of debt securities and borrowings is Level 2. The fair value of the bond portion of convertible bond-type bonds with share acquisition rights is Level 3.

Fair value calculation methods are as follows.

Debt securities

The fair value of debt securities is calculated using valuations presented by creditor financial institutions.

Bonds and borrowings

The fair value of the bond portion of convertible bond-type bonds with share acquisition rights is calculated by deducting the amount equivalent to share acquisition rights from the market price of convertible bond-type bonds with share acquisition rights. The amount equivalent to share acquisition rights is calculated reflecting historical volatility and credit spreads. The fair value of borrowings is estimated by discounting future cash flows to the present value with an interest rate applicable to similar new borrowings by the Group. Bonds and borrowings with variable interest rates have a carrying amount which approximates their fair value since the interest rates are revised periodically.

30. Major subsidiaries

Information on the Group's major subsidiaries as of the end of the fiscal year under review is as follows.

Company	Location	Reportable segment	Percentage of voting rights held (%)
Unicharm Products Co., Ltd.	Shikokuchuo-shi, Ehime	Personal care	100.0
United Charm Co., Ltd.	Taiwan	Personal care	52.6
Uni-Charm (Thailand) Co., Ltd.	Kingdom of Thailand	Personal care	94.2
LG Unicharm Co., Ltd.	Republic of Korea	Personal care	51.0
Unicharm Consumer Products (China) Co., Ltd. (Note)	People's Republic of China	Personal care	75.0 (75.0)
PT Uni-Charm Indonesia	Republic of Indonesia	Personal care	74.0
Unicharm Gulf Hygienic Industries Ltd.	Kingdom of Saudi Arabia	Personal care	95.0
Unicharm India Private Ltd.	Republic of India	Personal care	100.0
Unicharm Australasia Holding Pty Ltd.	Commonwealth of Australia	Personal care	100.0
Unicharm Middle East & North Africa Hygienic Industries Company S.A.E.	Arab Republic of Egypt	Personal care	95.0
The Hartz Mountain Corporation	United States of America	Pet care	51.0
Unicharm (China) Co., Ltd.	People's Republic of China	Personal care	100.0
UNICHARM DO BRASIL INDÚSTRIA E COMÉRCIO DE PRODUTOS DE HIGIENE LTDA.	Federative Republic of Brazil	Personal care	80.1
DSG International (Thailand) Public Co., Ltd. (Note)	Kingdom of Thailand	Personal care	99.3 (99.3)

Note: The figure in parentheses in the "Percentage of voting rights held" column shows the percentage of indirect voting interests, which is a part of the total voting interests.

31. Related parties

(1) Transactions with related parties

Transactions between the Group and related parties are as follows.

Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)

(Millions of Yen)

Name	Transactions	Transaction amount (Note 4)	Outstanding balance (Note 4)
Takahara Kosan K.K. (Note 2)	To insure	86	15
	Rent of land	119	–
Unitec Corporation (Note 3)	Rent of land	10	–

Notes: 1. Terms and conditions of transactions and decisions thereon

(1) Insurance premiums are determined at the general insurance premium rate after designating the insured amount.

(2) The rent of real estate is reviewed every year based on the surrounding market circumstances.

2. The voting rights of Takahara Kosan K.K. are owned 20.0% directly and 20.0% indirectly by Mr. Takahisa Takahara, CEO of the Company, 1.0% directly by Mr. Keiichiro Takahara, Director, and 44.5% directly and 14.5% indirectly by his close relatives.

3. The voting rights of Unitec Corporation are owned 0.5% directly and 45.4% indirectly by Mr. Takahisa Takahara, CEO of the Company, 1.5% indirectly by his close relatives, 0.6% indirectly by Mr. Keiichiro Takahara, Director, and 0.6% directly and 51.4% indirectly by his close relatives.

4. The above amounts do not include consumption and other taxes.

Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)

(Millions of Yen)

Name	Transactions	Transaction amount (Note 4)	Outstanding balance (Note 4)
Takahara Kosan K.K. (Note 2)	To insure	82	116
	Rent of land	103	–
Unitec Corporation (Note 3)	Rent of land	10	–

Notes: 1. Terms and conditions of transactions and decisions thereon

(1) Insurance premiums are determined at the general insurance premium rate after designating the insured amount.

(2) The rent of real estate is reviewed every year based on the surrounding market circumstances.

2. The voting rights of Takahara Kosan K.K. are owned 20.0% directly and 20.0% indirectly by Mr. Takahisa Takahara, CEO of the Company, and 45.5% directly and 14.5% indirectly by his close relatives.

3. The voting rights of Unitec Corporation are owned 0.6% directly and 46.0% indirectly by Mr. Takahisa Takahara, CEO of the Company, and 0.6% directly and 52.8% indirectly by his close relatives.

4. The above amounts do not include consumption and other taxes.

(2) Key management personnel compensation

Key management personnel compensation is as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)
Basic compensation	604	613
Share-based payments	27	–
Total	631	613

Note: Key management personnel compensation is considered as remuneration for Directors of the Company starting from the fiscal year under review, and the compensation for the previous fiscal year is reclassified and presented accordingly.

32. Commitments

Capital expenditures which have been contracted but have not yet been generated as of the end of each fiscal year are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2017 (as of December 31, 2017)	Fiscal Year Ended December 31, 2018 (as of December 31, 2018)
Property, plant and equipment	13,684	10,034
Intangible assets	222	641
Total	13,907	10,675

33. Subsequent events

(Capital increase of subsidiary)

At the meeting of the Board of Directors of the Company held on January 22, 2019, the Company resolved to conduct a capital increase with payment from DSG International (Thailand) Public Co., Ltd., a subsidiary of the Company, to PT DSG Surya Mas Indonesia, a subsidiary of DSG International (Thailand) Public Co., Ltd., with the aim of improving its financial strength. The capital increase is capped at an amount in Indonesian Rupiah equivalent to 2,350 million Thai Baht. Payment will be made in sequence starting late March 2019.

(Purchase of treasury shares)

At the meeting of the Board of Directors of the Company held on February 14, 2019, the Company resolved to purchase treasury shares under the provision of the Company's Articles of Incorporation based upon Article 459, Paragraph 1, Item 1 of the Companies Act as follows.

(1) Reason for conducting purchase of treasury shares

To deliver even more returns to shareholders and to enable a flexible capital policy in response to changes in the business environment.

(2) Details of the share acquisition

- 1) Type of shares to be acquired: Company's common shares
- 2) Total number of shares to be acquired: 5.0 million shares (upper limit)
(Ratio of total number of issued shares (excluding treasury shares): 0.84%)
- 3) Total share acquisition cost: ¥15,000 million (upper limit)
- 4) Acquisition period: February 15, 2019 – December 20, 2019
- 5) Acquisition method: Purchase on the Tokyo Stock Exchange
(through discretionary investment by a securities company)

(2) Other

Quarterly financial information for the fiscal year ended December 31, 2018

(Millions of Yen unless otherwise stated)

Cumulative period	First Quarter	Second Quarter	Third Quarter	Full Year
Net sales	160,936	325,685	498,115	688,290
Profit before tax	21,824	45,418	73,905	91,561
Profit attributable to owners of parent	14,178	30,001	47,086	61,353
Basic earnings per share (Yen)	24.21	51.10	79.85	103.73

Each quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Basic earnings per share (Yen)	24.21	26.91	28.68	23.89

Note: Provisional accounting procedures concerning business combinations were made in the third quarter of the fiscal year under review. The calculation was finalized in the fourth quarter of the fiscal year under review, result of which had no impact on the relevant figures in the third quarter.

2. Non-consolidated financial statements

(1) Non-consolidated financial statements

1) Non-consolidated balance sheet

(Millions of Yen)

	Fiscal Year Ended December 31, 2017 (as of December 31, 2017)	Fiscal Year Ended December 31, 2018 (as of December 31, 2018)
Assets		
Current assets		
Cash and deposits	89,364	40,880
Notes and accounts receivable - trade	*2 33,013	*2 35,660
Securities	—	8,000
Merchandise and finished goods	2,476	2,951
Raw materials and supplies	2,306	4,944
Short-term loans receivable	2,828	3,015
Other	5,121	5,478
Allowance for doubtful accounts	(10)	(10)
Total current assets	*1 135,099	*1 100,917
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	2,582	2,646
Machinery, equipment and vehicles, net	5,988	5,697
Tools, furniture and fixtures, net	527	522
Land	2,267	2,249
Construction in progress	1,186	1,021
Other, net	16	11
Total property, plant and equipment	12,566	12,146
Intangible assets		
Goodwill	34,730	31,954
Software	2,698	2,486
Other	250	633
Total intangible assets	37,678	35,072
Investments and other assets		
Investment securities	18,405	35,298
Investments in shares and capital of subsidiaries and affiliates	178,676	236,418
Long-term loans receivable	43,728	38,898
Prepaid pension cost	7,082	6,720
Deferred tax assets	—	400
Other	1,462	1,579
Allowance for doubtful accounts	(91)	(184)
Allowance for loss on valuation of investment in subsidiaries and affiliates	(26,706)	(31,916)
Total investments and other assets	*1 222,557	*1 287,215
Total non-current assets	272,800	334,433
Total assets	407,899	435,350

(Millions of Yen)

	Fiscal Year Ended December 31, 2017 (as of December 31, 2017)	Fiscal Year Ended December 31, 2018 (as of December 31, 2018)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	31,635	34,874
Short-term loans payable	30,740	37,940
Accounts payable - other	16,055	18,098
Income taxes payable	4,564	7,318
Provision for bonuses	2,111	2,260
Other	1,540	4,908
Total current liabilities	*1 86,644	*1 105,397
Non-current liabilities		
Convertible bond-type bonds with share acquisition rights	52,480	12,997
Long-term loans payable	15,103	11,312
Provision for retirement benefits	1,944	2,061
Other	1,829	758
Total non-current liabilities	*1 71,356	*1 27,129
Total liabilities	158,000	132,526
Net assets		
Shareholders' equity		
Capital stock	15,993	15,993
Capital surplus		
Legal capital surplus	18,591	18,591
Other capital surplus	27,344	35,815
Total capital surplus	45,934	54,406
Retained earnings		
Legal retained earnings	1,992	1,992
Other retained earnings		
Retained earnings brought forward	244,191	274,380
Total retained earnings	246,182	276,372
Treasury shares	(67,652)	(52,776)
Total shareholders' equity	240,457	293,994
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	8,329	7,734
Revaluation reserve for land	(157)	(157)
Total valuation and translation adjustments	8,172	7,577
Share acquisition rights	1,270	1,253
Total net assets	249,899	302,824
Total liabilities and net assets	407,899	435,350

2) Non-consolidated statements of income and comprehensive income

(Millions of Yen)

		Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)		Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)
Net sales	*2	338,846	*2	359,961
Cost of sales	*2	196,464	*2	208,203
Gross profit		142,382		151,757
Selling, general and administrative expenses	*1, *2	107,133	*1, *2	104,627
Operating income		35,249		47,131
Non-operating income				
Interest income		1,648		1,665
Dividend income		8,991		15,105
Foreign exchange gains		–		323
Other		194		174
Total non-operating income	*2	10,833	*2	17,267
Non-operating expenses				
Interest expenses		240		531
Sales discounts		1,850		1,903
Derivative expenses		365		176
Foreign exchange losses		492		–
Other		79		244
Total non-operating expenses	*2	3,026	*2	2,853
Ordinary income		43,056		61,545
Extraordinary income				
Gain on sales of non-current assets		–		48
Gain on sales of investment securities		4,937		618
Other		421		17
Total extraordinary income		5,357		683
Extraordinary losses				
Loss on disposal of non-current assets		124		88
Provision of allowance for loss on valuation of investments in subsidiaries and affiliates		–		5,210
Loss on valuation of shares of subsidiaries and affiliates		–	*3	198
Loss on sales of investments in capital of subsidiaries and affiliates		–	*4	76
Other		–		2
Total extraordinary losses		124		5,574
Profit before income taxes		48,290		56,653
Income taxes - current		6,826		13,177
Income taxes - deferred		5,910		(299)
Total income taxes		12,736		12,878
Profit		35,554		43,774

3) Non-consolidated statement of changes in shareholders' equity
Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)

(Millions of Yen)

	Shareholders' equity								
	Capital stock	Capital surplus			Retained earnings			Treasury shares	Total shareholders' equity
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings	Total retained earnings		
						Retained earnings brought forward			
Balance at beginning of current period	15,992	18,590	27,343	45,934	1,991	218,635	220,626	(53,652)	228,901
Changes of items during period									
Dividends of surplus						(9,998)	(9,998)		(9,998)
Profit						35,554	35,554		35,554
Purchase of treasury shares								(14,000)	(14,000)
Net changes of items other than shareholders' equity									
Total changes of items during period	—	—	—	—	—	25,555	25,555	(14,000)	11,555
Balance at end of current period	15,993	18,591	27,344	45,934	1,992	244,191	246,182	(67,652)	240,457

	Valuation and translation adjustments			Share acquisition rights	Total net assets
	Valuation difference on available-for-sale securities	Revaluation reserve for land	Total valuation and translation adjustments		
Balance at beginning of current period	7,047	(157)	6,890	345	236,137
Changes of items during period					
Dividends of surplus					(9,998)
Profit					35,554
Purchase of treasury shares					(14,000)
Net changes of items other than shareholders' equity	1,281	—	1,281	925	2,206
Total changes of items during period	1,281	—	1,281	925	13,761
Balance at end of current period	8,329	(157)	8,172	1,270	249,899

Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)

(Millions of Yen)

(millions of yen)

	Shareholders' equity								
	Capital stock	Capital surplus			Retained earnings			Treasury shares	Total shareholders' equity
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings	Total retained earnings		
						Retained earnings brought forward			
Balance at beginning of current period	15,993	18,591	27,344	45,934	1,992	244,191	246,182	(67,652)	240,457
Changes of items during period									
Dividends of surplus						(13,585)	(13,585)		(13,585)
Profit						43,774	43,774		43,774
Purchase of treasury shares								(15,500)	(15,500)
Conversion of convertible bond-type bonds with share acquisition rights			8,471	8,471				30,376	38,848
Net changes of items other than shareholders' equity									
Total changes of items during period	—	—	8,471	8,471	—	30,190	30,190	14,876	53,537
Balance at end of current period	15,993	18,591	35,815	54,406	1,992	274,380	276,372	(52,776)	293,994

	Valuation and translation adjustments			Share acquisition rights	Total net assets
	Valuation difference on available-for-sale securities	Revaluation reserve for land	Total valuation and translation adjustments		
Balance at beginning of current period	8,329	(157)	8,172	1,270	249,899
Changes of items during period					
Dividends of surplus					(13,585)
Profit					43,774
Purchase of treasury shares					(15,500)
Conversion of convertible bond-type bonds with share acquisition rights					38,848
Net changes of items other than shareholders' equity	(595)	—	(595)	(17)	(612)
Total changes of items during period	(595)	—	(595)	(17)	52,925
Balance at end of current period	7,734	(157)	7,577	1,253	302,824

Notes to Non-consolidated Financial Statements

(Significant accounting policies)

1. Valuation standards and methods for securities

(1) Held-to-maturity debt securities

Amortized cost method (straight-line method)

(2) Shares of subsidiaries and affiliates

Cost method by the moving-average method

(3) Available-for-sale securities

Those with market value:

Market value method based on the market price, etc. as of the fiscal closing date

(the valuation difference is directly included in net assets, and cost of sales is determined by the moving-average method.)

Those without market value:

Cost method by the moving-average method

2. Valuation methods for derivative financial instruments

Market value method

3. Valuation standards and methods for inventories

Inventories held for ordinary selling purpose:

Valuation standard is cost method (carrying amount is written down due to decreased profitability)

(1) Merchandise and finished goods

Gross average method

(2) Supplies

Specific identification method

(3) Raw materials

Moving-average method

4. Depreciation of non-current assets

(1) Property, plant and equipment (excluding leased assets)

Straight-line method

Major useful lives are as follows:

Buildings and structures	2 – 50 years
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Machinery, equipment and vehicles	2 – 17 years
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(2) Intangible assets (excluding leased assets)

Straight-line method

As major useful lives, goodwill is amortized within 20 years after incurred and software (for internal use) is amortized over the internally estimated useful lives (5 years).

(3) Leased assets

Leased assets related to finance lease transactions which do not transfer ownerships to the lessee

Leased assets are depreciated over the lease terms as useful lives using the straight-line method without any residual value.

5. Translation of foreign currency denominated assets and liabilities into Japanese yen

Foreign currency denominated monetary receivables and payables are translated into Japanese yen using the spot exchange rate on the closing date and the translation difference is charged or credited to income.

6. Accounting standards for reserves and allowances

(1) Allowance for doubtful accounts

In order to prepare for possible credit losses on receivables, the Company records the estimated amount of non-recoverable receivables based on the historical loss rate for general receivables and specific collectability for specific doubtful receivables.

(2) Allowance for loss on valuation of investments in subsidiaries and affiliates

In order to provide for a decline in the value of investments in subsidiaries and affiliates, an amount according to the decrease in net assets is recorded.

(3) Provision for bonuses

In order to prepare for payments of bonuses to the employees, the estimated payable amount attributable to the fiscal year under review is recorded as provision for bonuses.

(4) Provision for retirement benefits

In order to prepare for employees' retirement benefits, provision for retirement benefits is recorded based on the retirement benefit obligations and estimated plan assets as of the current fiscal year-end.

1) Period attribution method for estimated retirement benefits

In calculating retirement benefit obligations, the method of attributing the estimated amount of retirement benefits to the periods up to the end of the fiscal year under review is based on the benefit formula basis.

2) Accounting method for actuarial difference and past service cost

Past service cost is expensed at the amount divided proportionally using the straight-line method over a period of definite years (5 years) within the employees' average remaining service years when incurred.

Actuarial difference is expensed at the amount divided proportionally using the straight-line method over a period of definite years (10 years) within the employees' average remaining service years in each fiscal year when it is incurred, commencing from the fiscal year following the fiscal year in which the difference is incurred.

7. Other significant accounting policies concerning the preparation of financial statements

(1) Accounting for retirement benefits

The accounting methods of unrecognized actuarial gain and loss and unrecognized past service cost differ from those of the consolidated financial statements.

(2) Accounting for consumption taxes

Transactions subject to consumption taxes and local consumption taxes are recorded at amounts exclusive of consumption taxes.

(Change in the presentation method)

(Change due to early adoption of the "Partial Amendments to 'Accounting Standard for Tax Effect Accounting'")

The "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018; hereafter "Partial Amendments to Tax Effect Accounting Standard") is available for adoption starting from the financial statements pertaining to the closing date of the fiscal year under review. In response to this, the Company has adopted the Partial Amendments to Tax Effect Accounting Standard starting from the fiscal year under review, based on which the presentation method was changed to present deferred tax assets under the category of investments and other assets, and deferred tax liabilities, under the category of non-current liabilities.

As a result, in the balance sheets of the previous fiscal year, deferred tax assets of ¥3,473 million in current assets are offset with deferred tax liabilities in non-current liabilities and included in other in non-current liabilities.

(Balance sheet)

*1 Monetary receivables from and payables to subsidiaries and affiliates (except for those separately disclosed)

(Millions of Yen)

	Fiscal Year Ended December 31, 2017 (as of December 31, 2017)	Fiscal Year Ended December 31, 2018 (as of December 31, 2018)
Short-term monetary receivables	13,305	16,350
Long-term monetary receivables	43,728	38,898
Short-term monetary payables	46,569	51,145
Long-term monetary payables	12,103	11,312

*2 Notes maturing at the fiscal year-end are accounted for as if they were settled at the maturity date. The following notes matured at the fiscal year-end are excluded from the balance at the fiscal year-end since the current fiscal year-end fell on a bank holiday:

(Millions of Yen)

	Fiscal Year Ended December 31, 2017 (as of December 31, 2017)	Fiscal Year Ended December 31, 2018 (as of December 31, 2018)
Notes receivable - trade	66	58

*3 Guarantee obligation

The Company provides guarantee of obligations concerning the borrowings from financial institutions of the following subsidiaries and affiliates.

(Millions of Yen)

Fiscal Year Ended December 31, 2017 (as of December 31, 2017)		Fiscal Year Ended December 31, 2018 (as of December 31, 2018)	
Uni.Charm Mölnlycke B.V. (Netherlands)	1,708	Uni.Charm Mölnlycke B.V. (Netherlands)	1,608
UcM Inco USA, Inc. (U.S.A.)	533	Unicharm India Private Ltd.	1,193
Unicharm Mölnlycke Rus L.L.C. (Russia)	355	UcM Inco USA, Inc. (U.S.A.)	523
		Unicharm Mölnlycke Rus L.L.C. (Russia)	288
Total	2,596	Total	3,612

(Statement of income)

*1 The main expense items and amounts of selling, general and administrative expenses are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)
Sales promotion expenses	53,817	51,153
Advertisement expenses	9,828	9,274
Miscellaneous fees	4,593	4,799
Salaries and bonuses to employees	6,859	6,990
Allowance for bonuses transferred	1,644	1,763
Depreciation and amortization expenses	4,355	4,746
Share of selling expenses out of selling, general and administrative expenses	71%	69%

*2 Transactions with subsidiaries and affiliates

(Millions of Yen)

	Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)
Operating transactions	198,319	214,844
Non-operating transactions	9,490	15,951

*3 Loss on valuation of shares of subsidiaries and affiliates is loss on valuation associated with impairment of shares in Unicharm Humancare Corporation.

*4 Loss on sales of investments in capital of subsidiaries and affiliates is due to partial transfer of investments in capital of UNICHARM DO BRASIL INDÚSTRIA E COMÉRCIO DE PRODUTOS DE HIGIENE LTDA.

(Securities)

There are no shares of subsidiaries and affiliates whose market values are available.

Note: The amounts of shares of subsidiaries and affiliates recorded in the balance sheet for which it is deemed extremely difficult to determine the fair value.

(Millions of Yen)

Category	Fiscal Year Ended December 31, 2017 (as of December 31, 2017)	Fiscal Year Ended December 31, 2018 (as of December 31, 2018)
(1) Shares of subsidiaries	128,827	189,087
(2) Investments in capital of subsidiaries	49,308	46,790
(3) Shares of affiliates	541	541

Note: Market values of above items are not available. Accordingly, these items are deemed to be extremely difficult to determine their fair values.

(Tax-effect accounting)

1. Major components of deferred tax assets and liabilities

	(Millions of Yen)	
	Fiscal Year Ended December 31, 2017 (as of December 31, 2017)	Fiscal Year Ended December 31, 2018 (as of December 31, 2018)
Deferred tax assets:		
Provision for bonuses	651	692
Loss on valuation of shares of subsidiaries and affiliates	1,741	1,801
Accrued sales promotion expense	1,994	2,253
Allowance for loss on valuation of investments in subsidiaries and affiliates	8,177	9,672
Provision for retirement benefits	1,882	1,921
Other	1,721	1,448
Subtotal	16,166	17,787
Less valuation allowance	(10,351)	(11,800)
Total deferred tax assets	5,815	5,987
Deferred tax liabilities:		
Prepaid pension cost	(2,169)	(2,058)
Valuation difference on available-for-sale securities	(3,558)	(3,299)
Other	(247)	(230)
Total deferred tax liabilities	(5,973)	(5,587)
Net deferred tax assets (liabilities)	(158)	400

2. The reconciliation between the actual effective tax rates reflected in the financial statements and the statutory tax rate

	Fiscal Year Ended December 31, 2017 (as of December 31, 2017)	Fiscal Year Ended December 31, 2018 (as of December 31, 2018)
Effective statutory tax rate	30.9%	30.9%
Reconciliations:		
Non-deductible items such as entertainment expenses, etc.	0.2%	0.2%
Non-taxable items such as dividends received, etc.	(5.3)%	(7.8)%
Amortization of goodwill	1.8%	1.5%
Valuation allowance	(0.3)%	2.6%
Tax credit	(1.6)%	(5.5)%
Other	0.7%	0.9%
Actual effective tax rate	26.4%	22.7%

(Significant subsequent events)

(Purchase of treasury shares)

At the meeting of the Board of Directors of the Company held on February 14, 2019, the Company resolved to purchase treasury shares under the provision of the Company's Articles of Incorporation based upon Article 459, Paragraph 1, Item 1 of the Companies Act as follows.

(1) Reason for conducting purchase of treasury shares

To deliver even more returns to shareholders and to enable a flexible capital policy in response to changes in the business environment.

(2) Details of the share acquisition

1) Type of shares to be acquired: Company's common shares

2) Total number of shares to be acquired: 5.0 million shares (upper limit)

(Ratio of total number of issued shares (excluding treasury shares): 0.84%)

3) Total share acquisition cost: ¥15,000 million (upper limit)

4) Acquisition period: February 15, 2019 – December 20, 2019

5) Acquisition method: Purchase on the Tokyo Stock Exchange (through discretionary investment by a securities company)

4) Non-consolidated supplemental schedules
Detailed schedule of property, plant and equipment

(Millions of Yen)

Classification	Type of assets	Balance at the beginning of the fiscal year ended December 31, 2018	Increase in the fiscal year ended December 31, 2018	Decrease in the fiscal year ended December 31, 2018	Depreciation for the fiscal year ended December 31, 2018	Balance at the end of the fiscal year ended December 31, 2018	Accumulated depreciation
Property, plant and equipment	Buildings and structures	2,582	270	2	203	2,646	4,448
	Machinery, equipment and vehicles	5,988	1,921	313	1,899	5,697	9,420
	Tools, furniture and fixtures	527	226	2	230	522	2,897
	Land	2,267 [(157)]	—	18	—	2,249 [(157)]	139
	Construction in progress	1,186	672	836	—	1,021	—
	Other	16	—	—	5	11	17
	Total	12,566	3,089	1,171	2,337	12,146	16,922
Intangible assets	Goodwill	34,730	—	—	2,776	31,954	—
	Software	2,698	680	2	890	2,486	—
	Other	250	899	515	1	633	—
	Total	37,678	1,579	517	3,667	35,072	—

Note: 1. Main factors of the increase

Machinery, equipment and vehicles

Development machines for baby care business: ¥807 million

Development machines for feminine care business: ¥422 million

Manufacturing machines for pet care business: ¥227 million

Development machines for health care business: ¥154 million

2. [] denotes revaluation difference of land which was revalued in accordance with the Act of Revaluation of Land (1998 Act No. 34).

3. The amount of accumulated depreciation includes the amount of accumulated impairment loss.

Detailed schedule of allowances

(Millions of Yen)

Classification	Balance at the beginning of the fiscal year ended December 31, 2018	Increase in the fiscal year ended December 31, 2018	Decrease in the fiscal year ended December 31, 2018	Balance at the end of the fiscal year ended December 31, 2018
Allowance for doubtful accounts	101	194	101	194
Allowance for loss on valuation of investments in subsidiaries and affiliates	26,706	5,408	198	31,916
Provision for bonuses	2,111	2,260	2,111	2,260

Note: The reasons for accounting the allowances and calculation method therefor are stated in “6. Accounting standards for

reserves and allowances” in “Significant accounting policies.”

(2) Details of major assets and liabilities

This information is omitted because the Company prepares consolidated financial statements.

(3) Other

Not applicable.

VI. Information on Transfer and Repurchase of the Company's Shares

Fiscal year	From January 1 to December 31
Ordinary General Meeting of Shareholders	March
Record date	December 31
Record date for dividend	June 30 (interim dividend) and December 31 (year-end dividend)
Number of shares per unit of the Company's shares	100 shares
Repurchase of shares less than one unit	
Address where repurchases are processed	(Special account) 1-2-4, Nihonbashi Kayabacho, Chuo-ku, Tokyo JAPAN SECURITIES AGENTS, LTD.
Administrator of shareholders' register	(Special account) 1-4-5, Marunouchi, Chiyoda-ku, Tokyo Mitsubishi UFJ Trust and Banking Corporation
Offices available for repurchase	—
Charges for repurchase	No charge
Method of public notice	Public notice of the Company shall be given by electronic means; provided, however, that in the event accidents or other unavoidable reasons prevent public notice by electronic means, the notice can be given in the Nihon Keizai Shimbun. URL for public notice http://www.unicharm.co.jp/ir/
Special benefits to shareholders	Not applicable.

Note: The Company's shareholders of shares of less than one unit are not able to exercise their rights other than the rights as following:

- (1) The rights stipulated in each item of Article 189, Paragraph 2 of the Companies Act;
- (2) The right to make a claim in accordance with Article 166, Paragraph 1 of the Companies Act; and
- (3) The right to subscribe for new shares or new share acquisition rights in proportion to the number of the shares owned by said shareholder.

VII. Reference Information on the Company

1. Information on the parent company or equivalent of the Company

The Company has no parent company or equivalent.

2. Other reference information

The Company filed the following documents between the beginning of the fiscal year ended December 31, 2018 and the date when this Securities Report (*Yukashoken-Houkokusho*) was filed.

(1) Securities Report and Accompanying Documents and Confirmation Note

The 58th Fiscal Year (from January 1, 2017 to December 31, 2017)

Submitted to the Director-General of the Kanto Local Finance Bureau on March 29, 2018.

(2) Internal Control Report and Accompanying Documents

Submitted to the Director-General of the Kanto Local Finance Bureau on March 29, 2018.

(3) Quarterly Securities Reports and Confirmation Notes

The 1st Quarter of 59th Fiscal Year (from January 1, 2018 to March 31, 2018)

Submitted to the Director-General of the Kanto Local Finance Bureau on May 11, 2018.

The 2nd Quarter of 59th Fiscal Year (from April 1, 2018 to June 30, 2018)

Submitted to the Director-General of the Kanto Local Finance Bureau on August 8, 2018.

The 3rd Quarter of 59th Fiscal Year (from July 1, 2018 to September 30, 2018)

Submitted to the Director-General of the Kanto Local Finance Bureau on November 7, 2018.

(4) Extraordinary Report

The Extraordinary Report according to the provision of Article 19, Paragraph 2, Item 9-2 (results of exercise of voting rights at the general meetings of shareholders) of the Cabinet Office Ordinance on Disclosure of Corporate Affairs, etc.

Submitted to the Director-General of the Kanto Local Finance Bureau on March 29, 2018.

The Extraordinary Report according to the provision of Article 19, Paragraph 2, Item 3 (changes in specified subsidiaries) and Item 8-2 (decision on acquisition of subsidiaries) of the Cabinet Office Ordinance on Disclosure of Corporate Affairs, etc.

Submitted to the Director-General of the Kanto Local Finance Bureau on September 25, 2018.

(5) Reporting on status of purchase of treasury shares

Reports were submitted to the Director-General of the Kanto Local Finance Bureau on December 12, 2018, January 11, 2019 and March 12, 2019.

Part 2. Information on Guarantors for the Company

Not applicable.

(For Translation Purposes Only)
Independent Auditor's Report

March 27, 2019

The Board of Directors
Unicharm Corporation

PricewaterhouseCoopers Aarata LLC

Designated Limited Liability and Engagement Partner	
Certified Public Accountant	Hisashi Shirahata
Designated Limited Liability and Engagement Partner	
Certified Public Accountant	Tsuyoshi Saito
Designated Limited Liability and Engagement Partner	
Certified Public Accountant	Yusuke Yaguchi

<Financial statements audit>

Pursuant to Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act, we have audited the accompanying consolidated financial statements of Unicharm Corporation included in "Financial Information" for the fiscal year from January 1, 2018 to December 31, 2018, which comprise the consolidated statements of financial position, income, comprehensive income, changes in equity and cash flows, and notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in conformity with International Financial Reporting Standards, according to the provisions of Article 93 of "Regulations Concerning the Terminology, Forms and Preparation Methods of Consolidated Financial Statements," and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to independently 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 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 the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments, the auditor considers internal controls 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. 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 referred to above present fairly, in all material respects, the consolidated financial position of Unicharm Corporation and consolidated subsidiaries as of December 31, 2018, and their consolidated financial performance and cash flows for the year then ended in conformity with International Financial Reporting Standards.

<Internal control audit>

In order to conduct the audit certification pursuant to Article 193-2, Paragraph 2 of the Financial Instruments and Exchange Act of Japan, we also have audited the internal control report as of December 31, 2018 of Unicharm Corporation.

Management's Responsibility for the Internal Control Report

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

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

Auditor's Responsibility

Our responsibility is to independently 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 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 result of management's assessment on internal control over financial reporting in the internal control report. The procedures selected depend on the auditor's judgment, including the materiality of effect on the reliability of financial reporting. An internal control audit also includes evaluating the overall presentation of the internal control report, including disclosures on scope, procedures and conclusions of management's assessment of internal control over financial reporting.

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 internal control report referred to above, which represents that the internal control over financial reporting as of December 31, 2018 of Unicharm Corporation is effective, present fairly, in all material respects, the result of management's assessment on internal control over financial reporting in conformity with standards for assessment of internal control over financial reporting generally accepted in Japan.

Conflicts of Interest

We have no interest in the Company which should be disclosed in compliance with the Certified Public Accountants Act.

Notes:

1. The above is a digitization of the text contained in the original copy of the Independent Auditors' Report, which is in the custody of the Company—the submitter of this Securities Report.
2. The XBRL data is not included in the range of audit.

(For Translation Purposes Only)
Independent Auditor's Report

March 27, 2019

The Board of Directors
Unicharm Corporation

PricewaterhouseCoopers Aarata LLC

Designated Limited Liability and Engagement Partner	
Certified Public Accountant	Hisashi Shirahata
Designated Limited Liability and Engagement Partner	
Certified Public Accountant	Tsuyoshi Saito
Designated Limited Liability and Engagement Partner	
Certified Public Accountant	Yusuke Yaguchi

Pursuant to Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act of Japan, we have audited the accompanying non-consolidated financial statements of Unicharm Corporation included in "Financial Information" for the 59th fiscal year from January 1, 2018 to December 31, 2018, which comprise the non-consolidated balance sheet, the non-consolidated statements of income and changes in shareholder's equity, the significant accounting policies, the other related notes, and the non-consolidated supplemental schedules.

Management's Responsibility for the Non-Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these non-consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the non-consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to independently express an opinion on these non-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 plan and perform the audit to obtain reasonable assurance about whether the non-consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the non-consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the non-consolidated financial statements, whether due to fraud or error. The purpose of an audit of the non-consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the non-consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. 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 non-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 non-consolidated financial statements referred to above present fairly, in all material respects, the non-consolidated financial position of Unicharm Corporation as of December 31, 2018, and its non-consolidated financial performance for the year then ended in conformity with accounting principles generally accepted in Japan.

Conflicts of Interest

We have no interest in the Company which should be disclosed in compliance with the Certified Public Accountants Act.

Notes:

1. The above is a digitization of the text contained in the original copy of the Independent Auditors' Report, which is in the custody of the Company—the submitter of this Securities Report.
2. The XBRL data is not included in the range of audit.

【Cover】	
【Document Submitted】	Internal Control Report (“ <i>Naibutousei-Houkokusho</i> ”)
【Article of the Applicable Law Requiring Submission of This Document】	Article 24-4-4, Paragraph 1 of the Financial Instruments and Exchange Act
【Filed to】	Director-General of the Kanto Local Finance Bureau
【Date of Filing】	March 28, 2019
【Company Name】	Unicharm Kabushiki-Kaisha
【Company Name (in English)】	Unicharm Corporation
【Position and Name of Representative】	Takahisa Takahara, Representative Director, President and Chief Executive Officer
【Position and Name of Chief Financial Officer】	Not applicable.
【Location of Head Office】	182, Shimobun, Kinsei-cho, Shikokuchuo-shi, Ehime, Japan (The above address is the official registered location of the head office. Actual operations are based as follows.) Sumitomo Fudosan Mita Twin Bldg., West Wing, 3-5-27, Mita, Minato-ku, Tokyo, Japan
【Place Where Available for Public Inspection】	Head Office, Unicharm Corporation (Sumitomo Fudosan Mita Twin Bldg., West Wing, 3-5-27, Mita, Minato-ku, Tokyo, Japan) Unicharm Kyoshinkan (Resonance Hall), Unicharm Corporation (131, Shimobun, Kinsei-cho, Shikokuchuo-shi, Ehime, Japan) Osaka Office, Unicharm Corporation (Sumitomo Nakanoshima Bldg., 3-2-18, Nakanoshima, Kita-ku, Osaka-shi, Osaka, Japan) Tokyo Stock Exchange, Inc. (2-1, Nihonbashi Kabutocho, Chuo-ku, Tokyo, Japan)

1. Basic Framework of Internal Control Over Financial Reporting

Takahisa Takahara, Representative Director, President & CEO of Unicharm Corporation (the “Company”) having the responsibility to design and operate internal control over financial reporting of the Company, designs and operates such internal control of the Company in accordance with the basic framework set forth in “On the Revision of the Standards and Practice Standards for Management Assessment and Audit concerning Internal Control Over Financial Reporting (Council Opinions)” published by the Business Accounting Council. Internal control over financial reporting is a process performed by all persons in the organization, incorporated in operations in order to secure credibility of financial statements and information which may have material effects on financial statements, and includes policies and procedures to reasonably guarantee that consolidated financial statements and non-consolidated financial statements are prepared fairly in accordance with generally accepted accounting principles.

Internal control has specific limitations where it may not function effectively, including cases due to misjudgment or collusion, initially unexpected changes in the environment, extraordinary transactions not covered, or possibilities in the future that the current internal control will become obsolete.

2. Scope of Assessment, Assessment Date and Assessment Procedure

For the purposes of financial reporting, internal control was assessed as follows. Matters for disclosure were selected from the consolidated financial statements based on amounts involved and qualitative importance; then, on a business-by-business basis regarding such matters, selection was made of accountable transactions and items forming the basis of financial reporting, and of important business processes; then the scope of the assessment was decided, and an evaluation of the effectiveness of internal control was made on the last day of the fiscal year under review.

- 1) The Company and all of its consolidated subsidiaries were subject to the Companywide assessment of internal control, except for subsidiaries without significance for financial reporting.
- 2) The selection of significant business locations was conducted so as to reach a certain proportion (around two-thirds) of consolidated net sales.
- 3) After a Companywide assessment of internal control, business processes subject to assessment of internal control were narrowed down to seven, as follows.

Business processes

- (1) Processes for sales, accounts receivable and payment collection
- (2) Processes for sales promotion expense
- (3) Processes for procurement, accounts payable and the making of payments
- (4) Processes for inventory (products)
- (5) Processes for cost calculation
- (6) Processes for financial settlements and reporting
- (7) Processes for overall IT controls

The assessment was based on the assessment standards for internal control in Standards for Management Assessment and Audit concerning Internal Control over Financial Reporting. Based on an assessment of establishment and operational status of Companywide internal control, including decision-making processes of the Board of Directors, a process of assessment was undertaken of the functioning of basic elements of internal control among business processes in terms of key aspects that exert material influence on the credibility of financial reporting. For the purposes of the assessment, after an analysis of selected business processes, key aspects that exert material influence on the credibility of financial reporting were selected. Then an assessment was made on establishment and operational status of key aspects of internal control, through inspection of related documents, due questioning of officials involved in internal control, observation of the conduct of business, and verification, etc. of implementation records of internal control.

3. Assessment Result

Based on the above mentioned assessment results, the management concluded that the internal control over financial reporting at the end of fiscal year under review was effective.

4. Supplementary Information

Not applicable.

5. Special Affairs

Not applicable.

【Cover】	
【Document Submitted】	Confirmation Note
【Article of the Applicable Law Requiring Submission of This Document】	Article 24-4-2, Paragraph 1 of the Financial Instruments and Exchange Act
【Filed to】	Director-General of the Kanto Local Finance Bureau
【Date of Filing】	March 28, 2019
【Company Name】	Unicharm Kabushiki-Kaisha
【Company Name (in English)】	Unicharm Corporation
【Position and Name of Representative】	Takahisa Takahara, Representative Director, President and Chief Executive Officer
【Position and Name of Chief Financial Officer】	Not applicable.
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【Place Where Available for Public Inspection】	Head Office, Unicharm Corporation (Sumitomo Fudosan Mita Twin Bldg., West Wing, 3-5-27, Mita, Minato-ku, Tokyo, Japan) Unicharm Kyoshinkan (Resonance Hall), Unicharm Corporation (131, Shimobun, Kinsei-cho, Shikokuchuo-shi, Ehime, Japan) Osaka Office, Unicharm Corporation (Sumitomo Nakanoshima Bldg., 3-2-18, Nakanoshima, Kita-ku, Osaka-shi, Osaka, Japan) Tokyo Stock Exchange, Inc. (2-1, Nihonbashi Kabutocho, Chuo-ku, Tokyo, Japan)

1. Appropriateness of the Descriptions in This Securities Report

Takahisa Takahara, Representative Director, President & CEO of Unicharm Corporation has confirmed that the Securities Report (“*Yukashoken-Houkokusho*”) of the 59th Fiscal Year (from January 1, 2018 to December 31, 2018) is fairly described in accordance with the Financial Instruments and Exchange Act.

2. Special Affairs

There are no noteworthy matters that are pertinent to this securities report.