

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 58th fiscal year,
from January 1, 2017 to December 31, 2017)

Unicharm Corporation

(E00678)

The 58th Fiscal Year (from January 1, 2017 to December 31, 2017)

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, Kanto Local Finance Bureau
【Date of Filing】	March 29, 2018
【Business Year】	The 58th Fiscal Year (From January 1, 2017 to December 31, 2017)
【Company Name】	Unicharm Kabushiki-Kaisha
【Company Name (in English)】	Unicharm Corporation
【Position and Name of Representative】	Takahisa Takahara, 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 of 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) Kinki Branch, 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
Year ended		January 1, 2016	December 31, 2016	December 31, 2017
Net sales	Millions of Yen	-	604,653	641,647
Profit before tax	Millions of Yen	-	75,835	92,926
Profit attributable to owners of parent	Millions of Yen	-	46,971	52,772
Comprehensive income attributable to owners of parent	Millions of Yen	-	25,604	58,849
Equity attributable to owners of parent	Millions of Yen	349,714	352,098	387,567
Total assets	Millions of Yen	656,200	668,592	736,644
Equity attributable to owners of parent per share	Yen	579.50	587.61	652.91
Basic earnings per share	Yen	-	79.06	89.85
Diluted earnings per share	Yen	-	76.63	87.06
Ratio of equity attributable to owners of parent	%	53.3	52.7	52.6
Return on equity attributable to owners of parent	%	-	13.4	14.3
Price earnings ratio	Times	-	32.3	32.6
Cash flows from operating activities	Millions of Yen	-	103,604	98,086
Cash flows from investing activities	Millions of Yen	-	(42,612)	(38,778)
Cash flows from financing activities	Millions of Yen	-	(21,540)	(30,582)
Cash and cash equivalents at end of fiscal period	Millions of Yen	101,966	138,043	169,903
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)

- Notes:
1. Net sales are presented exclusive of consumption taxes.
 2. The number of employees represents the number of persons in employment.
 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				
		54th	55th	56th	57th	58th
Year ended		March 31, 2014	December 31, 2014	December 31, 2015	December 31, 2016	December 31, 2017
Net sales	Millions of Yen	599,455	553,661	738,707	710,965	748,256
Ordinary income	Millions of Yen	67,913	65,527	71,380	71,848	84,077
Profit attributable to owners of parent	Millions of Yen	38,216	32,731	40,511	44,134	48,172
Comprehensive income	Millions of Yen	65,592	74,428	32,710	24,634	62,655
Net assets	Millions of Yen	432,152	492,844	451,091	449,974	487,013
Total assets	Millions of Yen	620,419	699,108	702,601	711,541	772,629
Net assets per share	Yen	619.47	698.49	649.98	655.50	717.40
Net income per share	Yen	64.10	54.33	67.55	74.29	82.02
Net income per share-diluted	Yen	62.40	54.25	66.51	70.64	78.13
Ratio of shareholders' equity	%	60.3	60.0	55.1	54.4	54.4
Net income to shareholders' equity	%	11.5	8.2	10.0	11.4	11.9
Price earnings ratio	Times	28.7	53.6	36.7	34.4	35.7
Cash flows from operating activities	Millions of Yen	95,659	68,892	85,009	103,604	98,086
Cash flows from investing activities	Millions of Yen	(58,220)	(36,741)	(68,166)	(42,612)	(38,778)
Cash flows from financing activities	Millions of Yen	(12,505)	(12,054)	(36,835)	(21,540)	(30,582)
Cash and cash equivalents at end of fiscal period	Millions of Yen	97,498	127,044	101,966	138,042	169,903
Employees () represents the average number of part-time employees not included in the above numbers	Persons	12,795 (7,609)	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 persons in employment.

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 net assets per share, net income per share and net income per share-diluted have been calculated presuming that this stock split was carried out at the start of the 54th consolidated fiscal year.

5. The 58th fiscal year J-GAAP figures have not 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		54th	55th	56th	57th	58th
Year ended		March 31, 2014	December 31, 2014	December 31, 2015	December 31, 2016	December 31, 2017
Net sales	Millions of Yen	265,658	206,248	307,704	327,775	338,846
Ordinary income	Millions of Yen	33,342	32,043	36,928	38,741	43,056
Net income	Millions of Yen	11,185	19,254	17,318	16,036	35,554
Capital stock	Millions of Yen	15,992	15,992	15,992	15,992	15,993
Number of shares issued	Shares	206,944,773	620,834,319	620,834,319	620,834,319	620,834,319
Net assets	Millions of Yen	241,652	249,834	246,226	236,137	249,899
Total assets	Millions of Yen	322,386	329,618	384,018	370,713	411,372
Net assets per share	Yen	399.62	415.44	412.87	399.07	424.47
Cash dividends per share (Interim cash dividends included herein)	Yen (Yen)	38 (18)	25.4 (19)	14.8 (7.4)	16 (8)	20 (9)
Net income per share	Yen	18.76	31.96	28.88	26.99	60.54
Net income per share-diluted	Yen	18.26	31.91	28.23	24.97	57.38
Ratio of shareholders' equity	%	74.9	75.7	64.0	63.6	60.4
Net income to shareholders' equity	%	5.1	7.8	7.0	6.7	14.7
Price earnings ratio	Times	98.0	91.1	85.8	94.7	48.4
Dividend payout ratio	%	67.5	39.8	51.2	59.3	33.0
Employees () represents the average number of part-time employees not included in the above numbers	Persons	1,264 (298)	1,297 (297)	1,297 (295)	1,329 (291)	1,398 (280)

- 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 net assets per share, net income per share and net income per share-diluted have been calculated presuming that this stock split was carried out at the start of the 54th consolidated fiscal year. The cash dividends per share for the 55th business 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 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. History

February 1961	Keiichiro Takahara (incumbent Director and Founder) 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.

3. Description of business

Unicharm Corporation (the “Company”), 48 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.

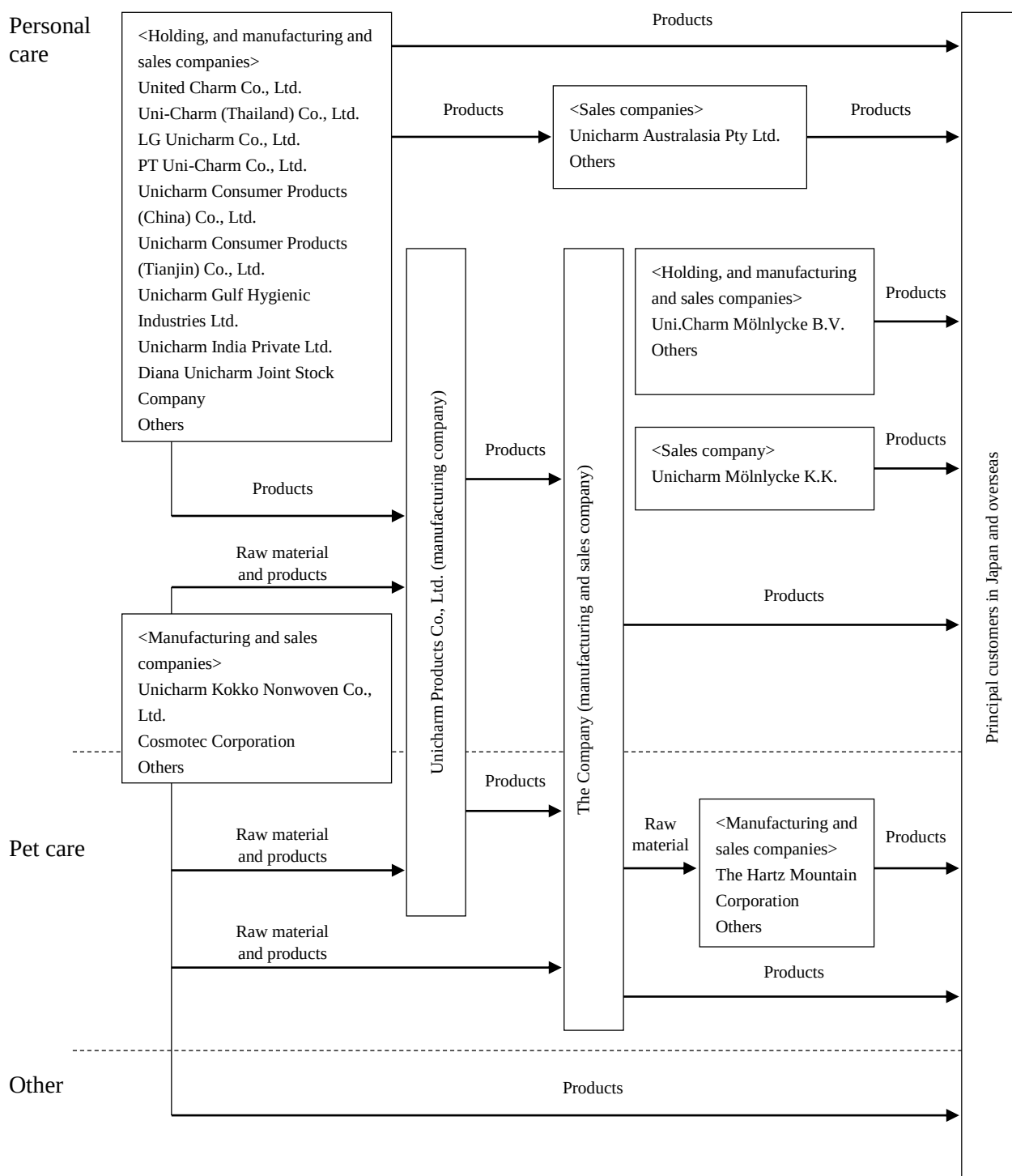
Organizational positioning and segment information of Group businesses are as follows.

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 Industries 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 23 companies Total 39 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	Millions of JPY 2,606	Personal care	100.0	Sells products to Group companies Interlocking executives: 2 Cash loan relations: Yes
United Charm Industries Co., Ltd. (Note 2)	Taipei, 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)	Bangpakong, Kingdom of Thailand	Thousands of THB 718,843	Personal care	94.2	Sells products to Group companies Cash loan relations: Yes
Unicharm Consumer Products (China) Co., Ltd. (Notes 2, 3, 4)	Shanghai, People's Republic of China	Thousands of USD 117,127	Personal care	75.0 (75.0)	Sells products to Group companies Interlocking executive: 1 Cash loan relations: Yes
LG Unicharm Co., Ltd. (Note 2)	Gumi, Republic of Korea	Millions of KRW 30,000	Personal care	51.0	Sells products to Group companies
PT Uni-Charm Indonesia (Notes 2)	Jakarta, 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)	Riyadh, 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)	Gurgaon, Haryana, Republic of India	Millions of INR 15,168	Personal care	100.0	Interlocking executive: 1 Financial assistance: Yes
Unicharm Australasia Holding Pty Ltd. (Note 2)	Dingley, Victoria, Commonwealth of Australia	Thousands of AUD 60,000	Personal care	100.0	Financial assistance: Yes
The Hartz Mountain Corporation (Note 2)	Secaucus, New Jersey, United States of America	Thousands of USD 267,533	Pet care	51.0	Sells products to Group companies Interlocking executive: 1 Financial assistance: Yes
Unicharm (China) Co., Ltd (Note 2)	Shanghai, People's Republic of China	Thousands of USD 280,346	Personal care	100.0	Interlocking executive: 1
UNICHARM DO BRASIL INDÚSTRIA E COMÉRCIO DE PRODUTOS DE HIGIENE LTDA. (Note 2)	Jaguariúna, São Paulo, Federative Republic of Brazil	Thousands of BRL 678,783	Personal care	100.0	

Name of company	Location	Capital	Principal businesses (Note 1)	Percentage of voting rights held (%)	Business relationship
Unicharm Middle East & North Africa Hygienic Industries Company S.A.E. (Note 2)	Ramadan, Arab Republic of Egypt	Thousands of EGP 750,000	Personal care	95.0	Sells products to Group companies Interlocking executive: 1 Financial assistance: Yes
Other 35 companies	—	—	—	—	—
(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 shows 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	¥107,769 million
2) Profit before tax	¥5,674 million
3) Profit for the period	¥4,187 million
4) Total equity	¥81,417 million
5) Total assets	¥105,102 million

5. There is one other affiliate company.

5. Employees

(1) Consolidated companies

(As of December 31, 2017)

Reporting segment	Number of employees (Persons)
Personal care	14,497 (1,532)
Pet care	636 (122)
Other	481 (131)
Corporate (common)	143 (17)
Total	15,757 (1,802)

- 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, 2017)

Number of employees (Persons)	Average age (Years)	Average years of service (Years)	Average annual salary (Thousands of Yen)
1,398 (280)	41.7	16.5	8,589

Reporting segment	Number of employees (Persons)
Personal care	1,006 (242)
Pet care	249 (21)
Other	— (—)
Corporate (common)	143 (17)
Total	1,398 (280)

- 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. Overview of business results

The Group has applied IFRS, replacing the previous Japanese accounting standards, in the consolidated fiscal year under review, in order to improve the international comparability of financial information and the quality of business management. The previous consolidated fiscal year's numerical values have also been restated on an IFRS basis to carry out a comparative analysis.

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) Operating results

Summary of operating results

	Fiscal Year Ended Dec. 31, 2016 (Millions of Yen)	Fiscal Year Ended Dec. 31, 2017 (Millions of Yen)	Difference (Millions of Yen)	Rate of Difference (%)
Net sales	604,653	641,647	36,994	6.1
Core operating income	79,116	86,838	7,722	9.8
Profit before tax	75,835	92,926	17,091	22.5
Profit attributable to owners of parent	46,971	52,772	5,801	12.3
Basic earnings per share (Yen)	79.06	89.85	10.79	13.6

Net sales in the fiscal year under review reached ¥641,647 million (up 6.1% year on year). In addition, looking at profits, the Company had posted foreign exchange losses in the previous fiscal year, but recorded foreign exchange gains for the fiscal year under review. Partly for this reason, profit before tax, profit for the period, and profit attributable to owners of parent in the fiscal year under review reached ¥92,926 million (up 22.5% year on year), ¥57,571 million (up 12.3% year on year), and ¥52,772 million (up 12.3% year on year), respectively.

Operating results by segment

1) Personal Care Business

	Fiscal Year Ended Dec. 31, 2016 (Millions of Yen)	Fiscal Year Ended Dec. 31, 2017 (Millions of Yen)	Difference (Millions of Yen)	Rate of Difference (%)
Net sales (Note)	523,116	555,388	32,272	6.2
Core operating income	71,355	77,177	5,822	8.2

Note: Net sales represent those to external customers.

● Baby Care Business

For 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, is high, as well as to promote pants-type disposable diapers. In addition, the Company refined the *Mamy Poko* series, manufactured in China, with the use of Japanese technology. In India, where the use of disposable diapers is still quite low even among emerging countries, the Company expanded its sales area and market share while promoting pants-type disposable diapers.

In Japan, the Company assented to the Nihon Kotsu's "Jintsu Taxi Project (Labor Pain Taxi Project)" to support pregnant women, and provided them with the products as a maternity gift from the *moony* brand, which fits comfortably on the baby's skin while preventing leakage. The Company strengthened relations in the *Mamy Poko* series, which has a charming Disney character design and superior absorbency, as well as sub-category products such as *Oyasumi Man*, a brand exclusive for nighttime

wear. In addition, the *Natural moony* series, which is Japan's first^{*1} disposable diaper that uses organic cotton for the top sheet making it a sensible choice for baby's skin, and a free app, "Potty Training with moony," developed with the Graduate School of Kyoto University, both won the Eleventh Kids Design Award^{*2} in the "Child Labor and Rearing Design category," sponsored by the Kids Design Award Association^{*3} (supported by the Ministry of Economics, Trade and Industry, the Consumer Affairs Agency and the Cabinet Office). *Natural moony man*, a premium pants-type disposal diaper, was also launched to meet heightened demand for high quality products.

*1: Among the major domestic disposable baby diaper products (survey by Unicharm Corporation, in March 2016)

*2: An award that selects and recognizes impressive products, spaces, and services that support child-rearing.

*3: An NPO that brings together a wide range of companies and organizations in all industries to create a social environment that leads to the healthy growth and development of children for the next generation, based on its three design missions for kids design.

● 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 and Vietnam.

In Japan, the Company updated the design of the package for the *SOFY Hada Omoi* series, which is gentle on sensitive skin, and introduced *SOFY Air Fit Slim - Happy Floral Bouquet Aroma*, an addition to the *SOFY Air Fit Slim* series of thin napkins that give users a new sense of comfort that they are not wearing a napkin. In the *Center-in* brand, familiar for its "IN the pouch, GO fashionable!," the Company created the *Center-in Fragrance - White Chabon Aroma* product to meet the need for fragrant products that is growing year after year. The Company refined the *SOFY Ultra Sound Sleep Fit 340*, which gives users the ultimate comfort as it allows users to enjoy the happiness of sleep, by adopting the world's first^{*1} "six pack flexibly absorbent pad^{*2}" to provide a new sense of comfort. The Company also launched *SOFY Hada Omoi Liner Clean Plus*, a panty liner with Japan's first^{*3} SIAA-certified 99% antibacterial sheet^{*4}. With these products, the Company endeavored to free women from physical and emotional constraints while examining the structures of women's bodies and minds from a scientific perspective.

*1: Among menstrual napkins manufactured by major global brands (survey by Unicharm Corporation, in October 2015)

*2: A napkin with a flexible zone that can bend and stretch both vertically and horizontally is added to the absorbent section of the hip flap

*3: The first in Japan to acquire SIAA certification in the panty liner category (survey by Society of International sustaining growth for Antimicrobial Articles, in September 2017)

*4: Percentage reduction in bacteria compared to non-processed products; Inhibits the proliferation of bacteria on the surface of the antibacterial processed section, but does not prevent all bacteria.

● Health Care Business

Looking at overseas activities in Indonesia, a country in which the majority are Muslims and where the market for adult disposable diapers continues to expand, the Company obtained Halal certification that certifies its products are manufactured in conformity with Islamic Shariah Laws, in an effort to make products available to as many people as possible, so that they can feel assured in using the products.

In the domestic market, which continues to grow as Japan's population of the elderly grows, 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 Company augmented its lineup in the *Lifree Comfortable Pads* series of incontinence care products for men that are designed to prevent stains on trousers and be inconspicuous, and the *Charm Nap* brand, which brings happiness to daily life with its absorbent care, so that users can select the right absorbency for their needs. In addition, the Company continued its efforts to remove resistance to using these products by conveying that anyone can have light incontinence. In addition, as there are many people who experience light fecal incontinence which, as with light urinary incontinence, is caused by the weakening of sphincter muscles, the Company sought to create a new market with the launch of Japan's first^{*1} pad specially designed for "slight bowel leaks^{*2}," the *Lifree Comfortable Pads for Slight Leaks*, which are available through on-line stores in a limited release. In the *Lifree* brand of adult disposable diapers and incontinence care products area, the Company introduced the *Lifree Elastic Thin-fit Adult Diaper with Tape Fasteners* that makes it easy for the user to sit up since sitting on a daily basis is part of rehabilitation, and the *Lifree Slim-fit Style Underwear*, which has separate designs for men and women and in which three patented technologies are used to enable users to look natural from behind so that they can enjoy long hours out of the house feeling secure and without having to worry about how they might look. In addition, the Company has promoted "Social walking^{*3}," a program which aims to phase out

people who have confined themselves to their room by encouraging them to continue working purposefully with society, and supported people going outside through appropriate excretion care. The Company has worked to educate the elderly while partnering with local governments and related organizations with the aim of creating a more healthy society. 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.

- *1: Among major domestic manufacturers of pads to be placed in an undergarment to cover the anal area as a precaution against light fecal incontinence (survey by Unicharm Corporation, in March 2017)
- *2: “Slight bowel leaks” is defined as small fecal incontinence and a staining of the undergarment.
- *3: “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 development includes the first major improvement^{*1} in eight years of the *Silcot Wet Tissues* series, which is a box of wipes and enables users to clean quickly with just one hand, with the introduction of advanced airtightness and a sophisticated design that makes them easier to be pulled out. In addition, the Company found that approximately 79% of handy wiper users did not throw away the dirty sheet after their first cleaning, even though they felt that it was unsanitary, and addressed this by introducing antibacterial^{*2} EX fibers for the first time in the sheet cleaner category^{*3} into the *Wave* brand with its cleaning proposal that a single sheet of this product can clean the entire house. This helped revitalize the market. The product *Silcot Sponge Touch Moisturizing Cotton*, which makes skin amazingly moist with 50% less lotion^{*4}, won first place for the second consecutive year^{*5} in the @cosme Best Cosmetics Award in the Best Beauty Care Goods category. In addition, *Silcot Wiping Cotton Silky Cut*, made from Japan’s first superfine filament^{*6}, which easily removes even microscopic dirt. These products have rejuvenated the diversifying market for cosmetic cotton.

- *1: Period from improvements to container in March 2009
- *2: Inhibits the proliferation of bacteria on the surface of the antibacterial processed section, but does not prevent all bacteria
- *3: Among major throw-away handy wipers (survey by Unicharm Corporation, in August 2017)
- *4: Compared to the Company’s conventional products
- *5: @cosme Best Cosmetics Award in the Best Beauty Care Goods category, 2016 and 2017
- *6: 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 μ m 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 ¥555,388 million (up 6.2% year on year) and ¥77,177 million (up 8.2% year on year), respectively.

2) Pet Care Business

	Fiscal Year Ended Dec. 31, 2016 (Millions of Yen)	Fiscal Year Ended Dec. 31, 2017 (Millions of Yen)	Difference (Millions of Yen)	Rate of Difference (%)
Net sales (Note)	75,390	79,847	4,456	5.9
Core operating income	7,342	9,684	2,342	31.9

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, with more families seeing their dog as a child or family member, the Company launched the *Deo Sheet Premium*, one rank higher-quality pet sheet that utilizes the four technologies granted patents from the *Deo Sheet* brand to provide an ultra-deodorizing effect and ultra-absorbency lasting 12 hours^{*1}. This improves the excretion care environment so that owners can live together with their dog in a more pleasant environment. Also, in response to the general preference for smaller dog breeds and a rise in health care

needs, the Company introduced a new product, the *Karada-omoi-labo, bed gentle to the legs, loins and joints*, a bed for pets developed jointly with Toyobo Co., Ltd., and designed to reduce the physical burden on the pets. As such, the Company has endeavored to develop products that provide the daily care needed for pets to always be healthy and full of energy.

In the domestic pet food market, the Company actively promoted sales of the *Grand Deli* brand of dog food, which focuses on high-quality ingredients with a well-balanced colors and a balance of flavor, taste and nutrition, by using television commercials and the Internet. The Company also launched *Grand Deli Ottotto* for dogs or dog snacks with crispy texture jointly developed with Morinaga & Co., Ltd.*² In the cat food market, more pet cats are being kept inside the house and are thus physically closer to their owners. This has raised the owners' demand in serving delicious pet food, which the Company has met by augmenting the lineup in the *Silver Spoon Three-Star Gourmet* brand and meeting needs for preference and new flavors. In addition, the Company launched the *Silver Spoon Three-Star Gourmet Snack* brand of liquid snacks, luxurious single-portion snacks with a focus on quality ingredients from all around Japan. The Company also launched a campaign to thank our pets, conveying our appreciation to our pets that give us such happiness, on November 22, which has been designated "Pet Day" (in Japanese, the date 11/22 makes the sound of a dog's bark and a cat's meow). In these ways, the Company provides total support for a pet's entire life and the days we spend with them.

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.

*1: Calculated based on the average urinary output of a small dog

*2: Snacks for dogs jointly developed for the first time by Unicharm Corporation and Morinaga & Co., Ltd. (as of March 2017)

As a result, net sales and segment profit (core operating income) for the pet care business for the fiscal year under review were ¥79,847 million (up 5.9% year on year) and ¥9,684 million (up 31.9% year on year), respectively.

3) Other Businesses

	Fiscal Year Ended Dec. 31, 2016 (Millions of Yen)	Fiscal Year Ended Dec. 31, 2017 (Millions of Yen)	Difference (Millions of Yen)	Rate of Difference (%)
Net sales (Note)	6,147	6,412	265	4.3
Core operating income	419	(23)	(443)	—

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. The Company also began a new childcare video-streaming service and posted the start-up costs for this service.

As a result, net sales and segment profit (core operating income) in other businesses for the fiscal year under review were ¥6,412 million (up 4.3% year on year) and a loss of ¥23 million (segment profit (core operating income) was ¥419 million in the previous fiscal year).

(2) Cash flows

	Fiscal Year Ended Dec. 31, 2016 (Millions of Yen)	Fiscal Year Ended Dec. 31, 2017 (Millions of Yen)	Difference (Millions of Yen)
Cash flows from operating activities	103,604	98,086	(5,518)
Cash flows from investing activities	(42,612)	(38,778)	3,834
Cash flows from financing activities	(21,540)	(30,582)	(9,042)
Cash and cash equivalents at end of fiscal period	138,043	169,903	31,860

Net cash provided by operating activities totaled ¥98,086 million (down ¥5,518 million from the previous fiscal year). Net cash used in investing activities totaled ¥38,778 million mainly due to payments into time deposits (down ¥3,834 million from the previous fiscal year). Net cash used in financing activities amounted to ¥30,582 million, mainly attributable to purchase of treasury shares (up ¥9,042 million from previous fiscal year).

As a result, cash and cash equivalents at end of the fiscal period under review amounted to ¥169,903 million, up ¥31,860 million over the end of the previous fiscal year.

(3) Parallel disclosure information

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

The condensed consolidated financial statements prepared in accordance with J-GAAP for the fiscal year under review, is not audited under the provisions of Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act of Japan.

Regarding the condensed consolidated financial statements prepared in accordance with J-GAAP, the previous consolidated fiscal year rounded down figures of less than one million yen, and the consolidated fiscal year under review rounds figures to the nearest million yen.

i) Condensed consolidated balance sheet (J-GAAP)

(Millions of Yen)

	Fiscal Year Ended December 31, 2016 (as of December 31, 2016)	Fiscal Year Ended December 31, 2017 (as of December 31, 2017)
Assets		
Current assets	352,250	416,166
Non-current assets		
Property, plant and equipment	244,325	238,279
Intangible assets	83,082	77,416
Investments and other assets	31,883	40,768
Total non-current assets	359,290	356,463
Total assets	711,541	772,629
Liabilities		
Current liabilities	175,994	192,777
Non-current liabilities	85,572	92,838
Total liabilities	261,567	285,616
Net assets		
Shareholders' equity	369,316	393,876
Accumulated other comprehensive income	17,987	26,332
Subscription rights to shares	345	1,270
Non-controlling interests	62,325	65,536
Total net assets	449,974	487,013
Total liabilities and net assets	711,541	772,629

ii) Condensed consolidated statements of income and comprehensive income (J-GAAP)

Condensed consolidated statement of income

(Millions of Yen)

	Fiscal year ended December 31, 2016 (January 1, 2016 - December 31, 2016)	Fiscal year ended December 31, 2017 (January 1, 2017 - December 31, 2017)
Net sales	710,965	748,256
Cost of sales	376,510	393,680
Gross profit	334,455	354,576
Selling, general and administrative expenses	256,178	272,074
Operating income	78,277	82,502
Non-operating income	6,176	6,834
Non-operating expenses	12,605	5,259
Ordinary income	71,848	84,077
Extraordinary income	5,223	4,966
Extraordinary losses	3,277	1,814
Profit before income taxes	73,794	87,229
Total income taxes	25,092	34,246
Profit	48,702	52,983
Profit attributable to non-controlling interests	4,568	4,811
Profit attributable to owners of parent	44,134	48,172

Condensed consolidated statement of comprehensive income

(Millions of Yen)

	Fiscal year ended December 31, 2016 (January 1, 2016 - December 31, 2016)	Fiscal year ended December 31, 2017 (January 1, 2017 - December 31, 2017)
Profit	48,702	52,983
Total other comprehensive income	(24,068)	9,672
Comprehensive income	24,634	62,655
Comprehensive income attributable to		
Owners of parent	23,453	56,516
Non-controlling interests	1,180	6,139

iii) Condensed consolidated statement of changes in shareholders' equity (J-GAAP)

Fiscal year ended December 31, 2016 (January 1, 2016 – December 31, 2016)

(Millions of Yen)

	Shareholders' equity	Accumulated other comprehensive income	Subscription rights to shares	Non-controlling interests	Total net assets
Balance at beginning of current period	348,527	38,667	276	63,619	451,091
Total changes of items during period	20,788	(20,680)	68	(1,294)	(1,117)
Balance at end of current period	369,316	17,987	345	62,325	449,974

Fiscal year ended December 31, 2017 (January 1, 2017 – December 31, 2017)

(Millions of Yen)

	Shareholders' equity	Accumulated other comprehensive income	Subscription rights to shares	Non-controlling interests	Total net assets
Balance at beginning of current period	369,316	17,987	345	62,325	449,974
Total changes of items during period	24,559	8,345	925	3,210	37,039
Balance at end of current period	393,876	26,332	1,270	65,536	487,013

iv) Condensed consolidated statement of cash flows (J-GAAP)

(Millions of Yen)

	Fiscal year ended December 31, 2016 (January 1, 2016 - December 31, 2016)	Fiscal year ended December 31, 2017 (January 1, 2017 - December 31, 2017)
Cash flows from operating activities	103,604	98,086
Cash flows from investing activities	(42,612)	(38,778)
Cash flows from financing activities	(21,540)	(30,582)
Effect of exchange rate change on cash and cash equivalents	(3,375)	3,135
Net increase (decrease) in cash and cash equivalents	36,076	31,860
Cash and cash equivalents at beginning of period	101,966	138,043
Cash and cash equivalents at end of period	138,042	169,903

v) Changes in significant accounting policies concerning the preparation of consolidated financial statements (J-GAAP)

Fiscal year ended December 31, 2016 (January 1, 2016 - December 31, 2016)

(Changes according to application of Accounting Standard for Business Combinations, etc.)

In application of the provisions of Paragraph 39 of the "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22; September 13, 2013), the presentation method of net income, etc. has been changed and the presentation of minority interests has been changed to non-controlling interests.

(Guidance on Recoverability of Deferred Tax Assets)

The "Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016) is made applicable to the consolidated financial statements at the end of fiscal year under review, and effective from the fiscal year under review, the Company has applied the said guidance.

Fiscal year ended December 31, 2017 (January 1, 2017 - December 31, 2017)

Not applicable

vi) Differences between key items in consolidated financial statements prepared under IFRS and corresponding items in consolidated financial statements prepared under J-GAAP

Fiscal year ended December 31, 2016 (January 1, 2016 - December 31, 2016)

Differences are described in “V. Financial Information, 1. Consolidated Financial Statements, (1) Consolidated financial statements, Notes to the consolidated financial statements, 31. First-time adoption.”

Fiscal year ended December 31, 2017 (January 1, 2017 - December 31, 2017)

(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 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 and Selling, general and administrative expenses decreased by ¥34,324 million and ¥4,580 million, respectively.

(Net sales)

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

As a result, net sales decreased by ¥106,609 million.

2. Production, orders received and sales

(1) Actual production

Reportable segment	Production amount (Millions of Yen)	Year-on-year change (%)
Personal care	561,417	9.2
Pet care	80,522	6.3
Other	6,410	3.0
Total	648,349	8.8

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

(2) Orders received

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

(3) Actual sales

Reportable segment	Sales amount (Millions of Yen)	Year-on-year change (%)
Personal care		
Baby care business	288,075	4.5
Feminine care business	131,734	7.7
Other	135,579	8.4
Total	555,388	6.2
Pet care	79,847	5.9
Other	6,412	4.3
Total	641,647	6.1

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

3. 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 consolidated fiscal year under review.

(1) Basic management policies

The Group is promoting 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 under review 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 emerging 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, 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.

4. 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 29, 2018), 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. Furthermore, 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 will be affected.

(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 claims 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 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.

(7) 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.

(8) 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 Kyushu Plant is being undertaken.

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

(9) 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 due to unexpectedly adverse market changes or policy outcomes.

(10) 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.

5. Important business contracts

Not applicable

6. 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 ¥6,554 million (1.0 % of consolidated net sales). Principal achievements were as follows.

(1) Personal Care

● Baby Care Business

In tape-type disposable diapers, the Company launched under the *moony* brand *Natural moony* (for Newborns up to 3,000g) using an organic cotton-blend sheet, the first in Japan^{*1}. Likewise, in pants-type disposable diapers, measures were taken to revitalize the market through launches of products with new functions such as a launch of *moony man Air Fit* (M), with the world's first^{*2} 3D design special pocket for loose stool leakage.

Measures were also taken to upgrade product quality and functionality through launches of the highest quality, premium pants-type disposable diapers *Natural moony man* and other products.

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

In China, in pants-type disposable diapers, the Company launched *Natural moony man* (M/L/XL), *moony man Dry Bottom* (L/XL), and *Oyasumi Man* (L/XL). A further measure to improve customer satisfaction was the launch of tape-type disposable diaper *moony Air Fit* (XL).

In India, the Company launched *Mamy Poko Pants Standard* (NB), a low-cost pants-type disposable diaper for newborns. In addition, the Company launched an improved version of *Mamy Poko Pants* (NB-0/NB-1/S/M/L/XL), with enhanced quality to reduce leakage, further strengthening the *Mamy Poko* brand.

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 Thailand, Indonesia, Taiwan, South Korea, Vietnam, Australia, middle eastern countries including Egypt and Saudi Arabia, and Brazil.

*1: Among the major domestic disposable baby diaper products (survey by Unicharm Corporation, in March 2016)

*2: Disposable diapers created with an outward facing, stretchy pocket and 2 tacks on the back, horizontal and vertical, that join together. For baby pants-type disposable diapers by main global brands (survey by Unicharm Corporation, in September 2015)

● Feminine Care Business

In the sanitary napkin category, under the *SOFY* brand, the Company refined the *SOFY Ultra Sound Sleep Fit* (34cm), which gives users the ultimate comfort, by adopting the world's first^{*1} “six pack flexibly absorbent pad^{*2}” To further improve customer satisfaction, the Company released the aromatic *SOFY Air Fit Slim - Happy Floral Bouquet Aroma*, and *Center-in Fragrance - White Chabon Aroma* under the *Center-in* brand.

Turning to overseas markets, in China the Company worked to strengthen the *SOFY* brand with the launches of *SOFY Koudai Mofa S Riyong Sanitary Napkin* (23/25cm), *SOFY Chao Shushui Anxin Ku Shaonu Kuan*, and *SOFY Gui Ai Lang Caoben Riyong Sanitary Napkin* (25/29/33cm). Likewise, in Thailand, the Company launched *Night Lab sonid talord khuen* (33cm), and in Vietnam, *Diana Sieu Tham Cool Fresh Ultra thin wing* (23cm) and *Diana Sensi cool fresh no wing* (23cm). 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 the panty liner category, a growth market, the Company launched *SOFY Hada Omoi Liner Clean Plus*, which includes an antibacterial sheet to restrict the growth of germs, an addition to the *SOFY Hada Omoi* (Friendly to Skin) *Liner* series. Further measures to improve customer satisfaction included an improved version of the *SOFY Kiyora Premium Fragrance* (14cm).

To revitalize the panty liner segment in overseas markets, the Company launched *Cooling Fresh Panty Liner regular type (15.5cm)* in Thailand.

In addition, with regards to the tampon category, *SOFY SOFT Tampon and SOFY Compact Tampon*, we have been working to revitalize the tampon market as well as improving customer satisfaction by renewing the packaging after a period of 5 years according to the tastes of young people.

*1: Among menstrual napkins manufactured by major global brands (survey by Unicharm Corporation, in October 2015)

*2: A napkin with a flexible zone that can bend and stretch both vertically and horizontally is added to the absorbent section of the hip flap

● Health Care Business

In the pants category, the Company launched *Lifree Slim-fit Style Underwear (For Men/Women)* that uses the *Snug Fit Structure** patented technology function that fits pants to the shape of the hips. In moves to raise customer satisfaction, in the tape-type category, the Company also released *Lifree Elastic Thin-fit Adult Diaper with Tape Fasteners*.

In the light incontinence category, the Company took measures to revitalize the market by expanding lineups and improving quality and functionality. In the *Lifree Comfortable Pads* series, the Company launched *Lifree Comfortable Pads for Men (250cc)* suitable for leakage and heavy incontinence. In the *Charm Nap* series, the Company released *Charm Nap Absorbent Sarafi (Pantyliners Long Anti-odor type (10cc)/Feel comfortable about light fluids (30cc))*.

In the urine suction pad category, *Lifree Anti-slip Anshin Urine Pads for Underwear 1/2 width* joined the lineup, with an emphasis on reducing the uncomfortableness of the pad.

In addition, in measures to improve customer satisfaction, the Company released an improved version of *Lifree Rehabilitation Pants (Regular/Super)*, as a product for care homes and hospitals.

In the face mask category, the Company launched the *Cho-kaiteki (Ultra Comfort) Face Mask Stuff-Free Type*, featuring an ultra comfort breath filter + interior mesh gauze.

In overseas markets, the Company launched *Qingshuang Li Luo Ku Nan/Nu* in the pants-type category in Taiwan, and an improved version of *Lifree Ultra Slim Pants (M/L/XL)* in Thailand. In the light incontinence category, the Company launched improved versions of *Zhengye Yipian Jiu Anxin* and *Anxin Bu Yi Wei Ku Xing Yong Niaopian* in Taiwan. These were measures to expand lineups in all countries and strengthen the *Lifree* brand.

* The hip line structure of the girth of the stretch sheet and the circumference of the underbody side is 50 degrees or less.

● Clean and Fresh Business

In the personal wet tissue category, *Silcot Wet Tissue's* improved container was released, with quality and functionality improved as much as possible to raise customer satisfaction.

Also, from the *Wave* brand, antibacterial*¹ EX fibers were adopted for the first time in the sheet cleaner category*². *Wave Handy Wiper* was improved and released. We have been working to revitalize the market.

*1: Inhibits the proliferation of bacteria on the surface of the antibacterial processed section, but does not prevent all bacteria

*2: Among major throw-away handy wipers (survey by Unicharm Corporation, in August 2017)

● Research achievements

Through joint research with each research institute, an app related to baby care, "Potty Training with moony," was developed, where a parent can have fun with their child while communicating, based on developmental science expertise regarding research on the child wanting to use the restroom of their own free will.

In feminine care business, the Company took measures to publicize our research results through technological PR activities, with the publication of results of our studies into research on the psychological effects of vegetable natural fragrances: "Investigation related to the stress mitigation effect of the scent of Geranium" and "Evaluation of stress with different sanitary napkins during a dance."

As a result of the above, research and development expenses for the consolidated fiscal year in the personal care field totaled ¥5,435 million.

(2) Pet Care

Research and development activities in the pet-care field are carried out by the PetCare Research & Development Division of the company. 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 dog foods, the Company launched *Best Balance Kari Kari Crunchy Shih Tzus Aged 10 and Over*, a dry-type breed-specific product designed for dogs of advanced age. In the wet-type category, the Company released *Grand Deli Pouch Dual Taste*, a gourmet type featuring two flavors. In side treats, the Company launched *Grand Deli Ottotto for dogs*, dog snacks with crispy texture jointly developed with Morinaga & Co., Ltd.*¹

In our cat food lines, the Company launched a new variety of tasty dry food featuring a low fat and low calorie amount, *Silver Spoon Special Fish Ingredients for cats with obesity concerns*. Also, as a tasty gourmet type with a variety of ingredients, under the *Silver Spoon Three-Star Gourmet* brand, the two SKUs of *Four Assorted Flavors* and *Four Assorted Ingredients* dry-type foods, and *Silver Spoon Pouches Tasty Gelée* and *Silver Spoon Three-Star Gourmet Pouches Luxury Ingredients* wet-type foods were released. As for side treats, the *Silver Spoon Three-Star Gourmet Snacks Torori* small snack containing carefully selected raw materials from all around Japan, the *Silver Spoon Oishii Kao ga Mirareru Oyatsu (Snacks to Relish) Kari Kari Seafood with Bonito Flakes* with a crispy texture, the *Silver Spoon* snack that embodies tastiness and the *Crispy Seafood Katsuobushi* were released.

To respond to diversifying customer needs, the Company also released two SKUs of the *Grand Deli Pouch Four Assortment Packs* wet-type for dogs, and the *Silver Spoon Pouches Two Assorted Flavors* wet-type for cats, in addition to the *Grand Deli Three Luxury Selections* in side dishes.

In the pet toiletry business, with more families seeing their dog as a family member, the Company launched the *Deo Sheet Premium*, a pet sheet of one rank higher-quality that utilizes the four technologies granted patents from the No. 1*² brand in the pet sheet market, the *Deo Sheet* brand, to provide an ultra-deodorizing effect and ultra-absorbency lasting 12 hours*³. This made a proposal to improve market value and the excretion care environment so that owners can live together with their dog in a more pleasant environment. In addition, under the *Deo Sheet Deodorizing Fragrance* series, *Scent of Cherry Blossom*, *Scent of the Ocean Resort*, and *Scent of Candy Rose* were released, limited seasonally, and contributed to the creation of a new market. Also, in response to the general preference for smaller dog breeds and a rise in health care needs, the Company introduced a new product, the *Karada-omoi-labo, bed gentle to the legs, loins and joints*, a bed for pets developed jointly with Toyobo Co., Ltd., and designed to reduce the physical burden on the pets and provide comfortable sleep. As such, the Company has endeavored to develop products that provide the daily care needed for pets to always be healthy and full of energy. In the growing market for cat excrement cleanup products, the basic performance that consumer value most in deodorant functions were strengthened, and we are implementing continued development to strengthen *Deo Toilet System* goods.

*1: Snacks for dogs jointly developed for the first time by Unicharm Corporation and Morinaga & Co., Ltd. (as of March 2017)

*2: Intage SRI Pet Sheet Market cumulative sales amount for the period from January 2001 to December 2017

*3: Calculated based on the average urinary output of a small dog

As a result of the above, research and development expenses in pet care operations for the consolidated fiscal year under review totaled ¥894 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 ¥225 million.

7. Analysis of financial position, operating results and cash flows

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) 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) Analysis of operating results

In the fiscal year under review, for overseas, the US and Asian economies showed solid growth, but in our key target countries, including China, Indonesia, Thailand, and India, competition remained harsh. In this environment, the Group proactively carried out sales activities of personal care products tailored to consumer needs, with a view to expanding its sales and market share.

In Japan, the modest economic growth continued, with signs of a recovery for personal spending. 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, net sales in the fiscal year under review reached ¥641,647 million (up 6.1% year on year). In addition, looking at profits, the Company posted foreign exchange losses in the previous fiscal year, but recorded foreign exchange gains for the fiscal year under review. Partly for this reason, profit before tax, profit for the period, and profit attributable to owners of parent in the fiscal year under review reached ¥92,926 million (up 22.5% year on year), ¥57,571 million (up 12.3% year on year), and ¥52,772 million (up 12.3% year on year), respectively.

(3) Risks materially affecting operating results

See "4. Business and other risks."

(4) 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.

(5) Analysis of cash flows

See "1. Overview of business results, (2) Cash flows."

(6) Issues identified by the management, and future policies

See "3. Management policies, operating environment, and issues facing the Group"

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 ¥31,629 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 ¥1,545 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, 2017)

Facilities (Location)	Segment	Description	Carrying amount (Millions of Yen)					Number of employees (Persons) (Note)
			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	1,066	1,847	285 (21)	120	3,317	401 (115)
Itami Factory (Itami-shi, Hyogo)	Pet care	Facilities for manufacture of pet foods, etc.	314	1,030	1,105 (13)	7	2,456	35 (17)
Mie Factory (Nabari-shi, Mie)	Pet care	Facilities for manufacture of pet toiletries, etc.	187	780	62 (17)	6	1,035	26 (3)
Saitama Factory (Kamisato-machi, Kodama-gun, Saitama)	Pet care	Facilities for manufacture of pet foods, etc.	345	820	146 (8)	2	1,313	18 (3)

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, 2017)

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 Factory (Kanonji-shi, Kagawa)	Personal care	Facilities for manufacture of disposable diapers and feminine sanitary products, etc.	4,642	10,447	1,541 (128)	142	16,772	448 (70)
	Fukushima Factory (Tanagura-cho, Higashi-shirakawa-gun, Fukushima)	Personal care	Facilities for manufacture of disposable diapers and feminine sanitary products, etc.	3,245	8,987	2,139 (128)	146	14,517	317 (13)
	Shizuoka Factory (Kakegawa-shi, Shizuoka) (Note 1)	Personal care	Facilities for manufacture of disposable diapers and feminine sanitary products, etc.	2,957	6,596	— (83)	49	9,603	260 (16)

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, 2017)

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	
PT Uni-Charm Indonesia	Karawang, Republic of Indonesia	Personal care	Facilities for manufacture of disposable diapers and feminine sanitary products, etc.	8,726	13,709	1,307 (353)	63	23,805	2,317 (485)
Unicharm Gulf Hygienic Industries Ltd.	Riyadh, Kingdom of Saudi Arabia	Personal care	Facilities for manufacture of disposable diapers and feminine sanitary products, etc.	6,281	15,784	196 (71)	206	22,466	2,370 (—)
Unicharm Consumer Products (Tianjin) Co., Ltd.	Tianjin, People's Republic of China (Note 1)	Personal care	Facilities for manufacture of disposable diapers and feminine sanitary products, etc.	8,349	7,862	775 (91)	1,562	18,548	228 (1)
Unicharm Consumer Products (China) Co., Ltd.	Shanghai, People's Republic of China (Note 1)	Personal care	Facilities for manufacture of disposable diapers and feminine sanitary products, etc.	5,186	11,009	822 (133)	938	17,956	1,421 (65)
Unicharm India Private Ltd.	Gurgaon, Haryana, Republic of India	Personal care	Facilities for manufacture of disposable diapers and feminine sanitary products, etc.	4,872	5,899	2,735 (540)	2,818	16,324	729 (1)

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, 2017 are as follows.

Segment	Amount (Millions of Yen)	Description
Personal care	56,000	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	58,000	—

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, 2017	As of March 29, 2018 (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 subscription rights to shares

Stock options

The Company issued subscription rights to shares pursuant to the Companies Act as follows:

Based on the resolution of the Board of Directors held on April 16, 2015		
	As of December 31, 2017	As of February 28, 2018 (end of the month prior to the filing date of this Securities Report)
Number of subscription rights to shares	30,828 units (Note 1)	30,771 units (Note 1)
Number of subscription rights to shares held by the Company included in the subscription rights to shares	—	—
Class of shares to be issued upon the exercise of the subscription rights to shares	Common shares: (The number of shares constituting a unit is 100.)	Same as left
Number of shares to be issued upon the exercise of the subscription rights to shares	3,082,800 shares (Note 1)	3,077,100 shares (Note 1)
Amount to be paid in upon the exercise of the subscription rights to shares	¥2,901 per share (Note 2)	Same as left
Exercise period of the subscription rights to shares	From June 1, 2017 to May 31, 2022	Same as left
Upon the exercise of the subscription rights to shares, 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	Same as left Same as left
Conditions for the exercise of the subscription rights to shares	(1) Any person who has been allotted the subscription rights to shares 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, except 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 subscription rights to shares must be, even at the time of exercise of such rights, a Director who is not Audit and Supervisory Committee Member or an employee of the Company or Director or employee of the Company's subsidiary, except in cases where he or she has resigned from the position as Director who is not 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 the Company's subsidiary due to reaching the mandatory retirement age. (3) Notwithstanding (2) above, in the event that any person who has been allotted the subscription rights to shares passed away, his/her successor may exercise the rights.	Same as left
Matters relating to transfer of the subscription rights to shares	Any and all transfers of subscription rights to shares must be approved by the Board of Directors of the Company.	Same as left
Matters relating to subrogation payment	—	—
Matters relating to the issuance of subscription rights to shares as a result of organizational restructuring action	—	—

- Notes: 1. Number of shares to be issued per subscription right to shares 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 subscription rights to shares) 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.

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

“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.

Bonds with subscription rights to shares

The Company issued bonds with subscription rights to shares pursuant to the Companies Act as follows:

Zero Coupon Convertible Bonds due 2020 (issued on September 25, 2015)		
	As of December 31, 2017	As of February 28, 2018 (one month prior to the filing date of this Securities Report)
Date of resolution	September 8, 2015	Same as left
Balance of bonds with subscription rights to shares	¥52,480 million	¥52,322 million
Number of subscription rights to shares	5,000 units (Note 1)	5,000 units (Note 1)
Number of subscription rights to shares held by the Company included in the subscription rights to shares	—	—
Class of shares to be issued upon the exercise of the subscription rights to shares	Common shares: (The number of shares constituting a unit is 100.)	Same as left
Number of shares to be issued upon the exercise of the subscription rights to shares	20,755,000 shares (Note 2)	20,755,000 shares (Note 2)
Amount to be paid in upon the exercise of the subscription rights to shares	¥2,409 per share (Note 3)	Same as left
Exercise period of the subscription rights to shares	From October 9, 2015 to September 11, 2020 (Local time at place of reception of exercise requests) (Note 4)	Same as left
Upon the exercise of the subscription rights to shares, 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)	Same as left
Conditions for the exercise of the subscription rights to shares	Partial exercise of individual subscription rights is not possible.	Same as left
Matters relating to transfer of the subscription rights to shares	No separation and transfer of subscription rights to shares attached to convertible bond-type bonds with subscription rights to shares is permitted.	Same as left
Matters relating to subrogation payment	(Note 6)	Same as left
Matters relating to the issuance of subscription rights to shares as a result of organizational restructuring action	(Note 7)	Same as left

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

2. The number of shares to be issued upon exercise of subscription rights to shares 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 subscription rights, the bond relating to the subscription right to shares 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 subscription rights to shares shall immediately be deemed cancelled.

(2) The initial conversion price is ¥2,409.

(3) After issue of bonds with subscription rights to shares, 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).

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

In line with the terms and conditions for bonds with subscription rights to shares, 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 subscription rights to shares (including those attached to bonds with subscription rights to shares) 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 subscription rights to shares, an exception is made for subscription rights to shares 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 subscription rights to shares, 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 subscription rights to shares 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 subscription rights to shares 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 subscription rights to shares 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 subscription rights to shares. However, in the case of changes to Japanese laws, regulations or enforcement practices relating to the share issue pertaining to the exercise of share subscription rights through transfer systems based on Act on Book-Entry of Company Bonds, Shares, etc., the Company may revise the deadline for exercise of subscription rights to shares 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 subscription rights to shares 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. At the time of exercise of the subscription rights to shares, the related bonds shall be contributed, and the price of the bonds shall be the same sum as the par value.

7. (1) In line with the terms and conditions of the bonds with subscription rights to shares, 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 subscription rights to shares, and make its best efforts to ensure that new subscription rights to shares shall be delivered in replacement of the original subscription rights to shares. 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 subscription rights to shares and/or subscription rights to shares.

(2) Details of the subscription rights to shares of the successor company, etc. to be delivered in line with the provisions of (1) above are as follows.

1) Number of subscription rights to shares

The number shall be the same as the number of subscription rights to shares relating to bonds with subscription rights to shares remaining immediately prior to the effective date of the organizational restructuring, etc.

2) Class of shares to be issued upon the exercise of the subscription rights to shares

Common shares of the successor company, etc.

3) Number of shares to be issued upon the exercise of the subscription rights to shares

The number of common shares to be delivered by the exercise of subscription rights to shares of the successor company, etc. shall be decided with reference to the terms and conditions for the bonds with subscription rights to shares, 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 (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 subscription rights to shares 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 subscription rights to shares 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 subscription rights to shares 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 subscription rights to shares at the time of exercise of subscription rights to shares 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 subscription rights to shares and the amount thereof

At the time of exercise of subscription rights to shares 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 subscription rights to shares 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 subscription rights to shares.

6) Other conditions for the exercise of the subscription rights to shares

Partial exercise of the share subscription rights of the successor company, etc., is not permitted.

7) Acquisition of bonds with subscription rights to shares by the successor company, etc.

The successor company, etc. may acquire subscription rights to share of the successor company etc., or succeeded bonds in the same way that the Company acquires bonds with subscription rights to shares.

8) Increase in capital stock and legal capital surplus capital in the case of issue of shares by exercise of subscription rights to shares

The amount of capital stock to be increased in the event of share issue as a result of the exercise of subscription rights to shares 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 subscription rights to shares.

10) Other

Fractional amounts of less than one share arising from exercise of subscription rights to shares of the successor company, etc., shall be rounded down, and no cash adjustment shall be made.

Subscription rights to shares 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 subscription rights to shares, the Company shall follow the terms and conditions of the bonds with subscription rights to shares.

(3) Exercise status of bonds with subscription rights to shares containing a clause for exercise price adjustment

Not applicable

(4) Right plans

Not applicable

(5) 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.

(6) Details by shareholder classification

(As of December 31, 2017)

(As of December 31, 20

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)	—	89	44	281	621	19	38,293	39,347	—
Number of shares held (Units)	—	1,332,214	76,980	2,013,270	1,994,724	92	790,216	6,207,496	84,719
Shareholding ratio (%)	—	21.46	1.24	32.43	32.13	0.00	12.73	100.00	—

Note: Treasury shares of 35,097,927 shares are included in “Individuals and other” at 350,979 units, and in “Shares less than one unit” at 27 shares. The number of shares held by substantial shareholders as of the last day of the fiscal period is the same.

(7) Major shareholders

(As of December 31, 2017)

Name	Address	Number of shares held (Thousands of shares)	Number of shares held as a percentage of total shares issued (%)
Unitec Corporation	4087-24, Kawanoe-cho, Shikokuchuo-shi, Ehime	154,957	24.96
Takahara Kikin K.K.	1712, Kawanoe-cho, Shikokuchuo-shi, Ehime	28,080	4.52
The Master Trust Bank of Japan, Ltd. (Trust account)	2-11-3 Hamamatsucho, Minato-ku, Tokyo	22,050	3.55
The Master Trust Bank of Japan, Ltd. (Retirement Benefit Account Trust/Hiroshima Bank Account)	2-11-3 Hamamatsucho, Minato-ku, Tokyo	17,287	2.78
Bnymsanv Re Mil Re Fsi Icvc-Stewart Inv Asia Pacific Leaders Fd (standing proxy: The Bank of Tokyo-Mitsubishi UFJ, Ltd.)	FINSBURY CIRCUS HOUSE, 15 FINSBURY CIRCUS LONDON EC2M 7EB (2-7-1 Marunouchi, Chiyoda-ku, Tokyo)	17,226	2.77
JPMorgan 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)	17,044	2.75
Japan Trustee Services Bank, Ltd. (Trust Account)	1-8-11, Harumi, Chuo-ku, Tokyo	15,990	2.58
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	2.46
GIC Private Limited-C (standing proxy: The Bank of Tokyo-Mitsubishi UFJ, Ltd.)	168 ROBINSON ROAD #37-01 CAPITAL TOWER, SINGAPORE (2-7-1, Marunouchi, Chiyoda-ku, Tokyo)	14,058	2.26
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	1.96
Total	—	314,180	50.61

- Notes: 1. The Company holds 35,098 thousand shares of treasury shares (5.65%). As they have no voting rights, those shares are excluded from the above list of major shareholders.
2. In the report on major shareholders made public on September 21, 2017, First State Investment Management (UK) Limited and its joint owners Colonial First State Asset Management (Australia) Limited, First State Investments (Hong Kong) Limited, First State Investments International Limited, and First State Investments (Singapore) are listed as shareholders, as detailed below. But as of September 15, 2017, the Company was unable to confirm the number of shares actually held by them as of the end of the business year under review. Accordingly, details of these major shareholders are not included here. Reported details of these major shareholders are as follows.

Name	Address	Number of shares held (Shares)	Ratio of shares held (%)
First State Investment Management (UK) Limited	23 St Andrew Square Edinburgh EH2 1BB, UK	1,260,429	0.20
Colonial First State Asset Management (Australia) Limited	Ground Floor, Tower 1, 201 Sussex Street, Sydney, New South Wales, Australia	21,963,200	3.54
First State Investments (Hong Kong) Limited	Level 25, One Exchange Square, Central, Hong Kong	1,433,100	0.23
First State Investments International Limited	23 St Andrew Square Edinburgh EH2 1BB, UK	2,965,500	0.48
First State Investments (Singapore)	#06-11 South Beach Tower, 38 Beach Road, Singapore	3,454,300	0.56

(8) Status of voting rights

1) Shares issued

(As of December 31, 2017)

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 35,097,900	—	Standard common shares of the Company without any restriction
Shares with full voting rights (Other)	Common shares 585,651,700	5,856,517	Same as above
Shares less than one unit	Common shares 84,719	—	Same as above
Total shares issued	620,834,319	—	—
Total voting rights held by all shareholders	—	5,856,517	—

Note: “Shares less than one unit” include 27 shares of treasury shares held by the Company.

2) Treasury shares, etc.

(As of December 31, 2017)

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	35,097,900	—	35,097,900	5.65
Total	—	35,097,900	—	35,097,900	5.65

(9) Stock option plans

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

(Based on a resolution of the Board of Directors' meeting held on April 16, 2015)

Based on the provisions of Articles 236, 238 and 239 of the Companies Act, a resolution was passed at the 55th Ordinary General Meeting of Shareholders held on March 27, 2015, to the effect that decision-making regarding solicitation would be delegated to the Board of Directors. At a Board of Directors' meeting held on April 16, 2015, a resolution was passed for issue of subscription rights to shares.

At the 55th Ordinary General Meeting of Shareholders held on March 27, 2015, a resolution was passed for allocation of subscription rights to shares to form part of compensation to Directors of the Company, separately from the framework for remuneration to Directors approved at the same Ordinary General Meeting of Shareholders based on the provisions of Article 361 of the Companies Act.

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
Class of shares to be issued upon the exercise of the subscription rights to shares	As noted in "(2) Status of the subscription rights to shares, Stock options"
Number of shares (Shares)	Same as above
Amount to be paid in upon the exercise of the subscription rights to shares (Yen)	Same as above
Exercise period	Same as above
Conditions for the exercise of the subscription rights to shares	Same as above
Matters relating to transfer of subscription rights to shares	Same as above
Matters relating to subrogation payment	—
Matters relating to the issuance of subscription rights to shares as a result of organizational restructuring action	—

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 (February 15, 2017) (Period of acquisition: From February 16, 2017 to June 30, 2017)	8,000,000	14,000,000,000
Treasury shares acquired before the fiscal year under review	—	—
Treasury shares acquired during the fiscal year under review	5,115,000	13,999,881,418
Total number and value of remaining shares subject to the resolution	2,885,000	118,582
Percentage of un-exercised acquisition as of the last day of the fiscal year under review (%)	36.06	0.00
Treasury shares acquired during the period	—	—
Ratio of un-exercised acquisition as of the date of filing (%)	36.06	0.00

(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	137	355,827
Treasury shares acquired during the period	—	—

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, 2018 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)	—	—	—	—
Number of treasury shares held (Note 2)	35,097,927	—	35,097,927	—

Notes: 1. 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, 2018 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 purchase and transfer by sale of shares less than one unit from March 1, 2018 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% or higher 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 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 one interim and one year-end dividend from surplus.

The annual dividend for the fiscal year under review will be ¥20, comprising a year-end dividend of ¥11 per share, in addition to a ¥9 per share dividend for the end of the second quarter. This will be the 16th consecutive period of an increase in dividends, with a dividend on equity attributable to owners of parent (DOE) of 3.2%.

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, 2017 are as follows:

Date of resolution	Total dividend amount (Millions of Yen)	Dividend per share (Yen)
August 10, 2017	5,272	9
February 27, 2018	6,443	11

4. Share prices

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

Term	54th fiscal year	55th fiscal year	56th fiscal year	57th fiscal year	58th fiscal year
Fiscal year end	March 2014	December 2014	December 2015	December 2016	December 2017
Highest (Yen)	6,690	7,455 * 3,010	3,398	2,668	3,078
Lowest (Yen)	5,050	5,411 * 2,358.5	2,045	2,001	2,436.5

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 2017	August	September	October	November	December
Highest (Yen)	2,967	2,913.5	2,628.5	2,716	2,964	3,036
Lowest (Yen)	2,776	2,587	2,532	2,536.5	2,585.5	2,908.5

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

5. Directors

11 males, 0 females (female ratio of - %)

Function	Position	Name	Date of birth	Career profile		Term of office	Number of shares owned (Thousands)
Director, Founder		Keiichiro Takahara	March 16, 1931	February 1961 July 1974 June 2001 June 2004 June 2008 February 2011	President of Taisei Kako Co., Ltd. President of the Company Chairman & Executive Director Representative Director, Chairman of the Board Director, Chairman of the Board Director, Founder (to present)	(Note 3)	0.1
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 President President & CEO (to present)	(Note 3)	3,700.0
Director, Vice President and Managing Executive Officer	Chairman of the Hartz Mountain Corporation	Gumpei Futagami	January 9, 1945	April 1968 December 1985 June 1991 June 2001 June 2010 September 2010 January 2014 March 2014 January 2017	Joined Taisei Kako Co., Ltd. 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 of the Company Chairman of the Hartz Mountain Corporation (to present)	(Note 3)	95.4

Function	Position	Name	Date of birth	Career profile		Term of office	Number of shares owned (Thousands)
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 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 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)	60.3

Function	Position	Name	Date of birth	Career profile		Term of office	Number of shares owned (Thousands)
Director, Managing Executive Officer	General Manager of Japan Pro-care Sales Head Office	Kennosuke Nakano	April 13, 1956	April 1979 April 1993 April 1999 June 1999 July 2003 July 2004 June 2005 April 2009 April 2010 April 2011 April 2013 January 2014 October 2016	Joined the Company Branch Manager of the Yokohama Branch, Sales Division Branch Manager of the Tokyo Branch, Sales Division Executive Officer Senior Executive Officer Senior Executive Officer Director, Senior Executive Officer Director, Senior Executive Officer Chairman, President of Unicharm Consumer Products (China) Co., Ltd. and Responsible for Asia and Oceania regions Director, Managing Executive Officer Director, Managing Executive Officer Chairman, President of Unicharm Consumer Products (China) Co., Ltd., and Responsible for Asia, Oceania and MENA regions Director, Managing Executive Officer Chairman, President of Unicharm (China) Co., Ltd., Chairman, President of Unicharm Consumer Products (China) Co., Ltd., and Responsible for Asia, Oceania and MENA regions Director, Managing Executive Officer General Manager of Sales Division Director, Managing Executive Officer General Manager of Japan Pro-care Sales Head Office (to present)	(Note 3)	64.8

Function	Position	Name	Date of birth	Career profile		Term of office	Number of shares owned (Thousands)
Director, Senior Executive Officer	General Manager of PetCare Production Division	Masakatsu Takai	May 6, 1956	March 1977 April 1996 April 1998 June 1999 June 2000 June 2007 April 2008 April 2010 January 2012 April 2012 January 2017	Joined the Company Plant Manager of the Chuo Plant of Charm Industry Corporation Deputy General Manager of Technology Division and Department Manager of Production Technology Department of the Company Deputy Executive Officer Executive Officer Director, Executive Officer Director, Senior Executive Officer Director, Senior Executive Officer General Manager of Global Human Resources & Administration Division and Department Manager of Corporate Social Responsibility Department Director, Senior Executive Officer General Manager of Global Human Resources & Administration Division and General Manager of Production Division of Unicharm PetCare Company Director, Senior Executive Officer General Manager of Production Division of Unicharm PetCare Company Director, Senior Executive Officer General Manager of PetCare Production Division (to present)	(Note 3)	34.2

Function	Position	Name	Date of birth	Career profile		Term of office	Number of shares owned (Thousands)
Director, Senior Executive Officer	Chairman, President of Unicharm (China) Co., Ltd. Chairman, President of Unicharm Consumer Products (China) Co., Ltd. President of UniCharm (Philippines) Corp.	Yoshihiro Miyabayashi	April 26, 1955	April 1979 April 1993 April 1999 June 1999 April 2005 April 2010 April 2011 April 2012 June 2012 April 2013 January 2014 January 2018	Joined the Company Branch Manager of the Chiba Branch, Sales Division Department Manager of National Account Department, Sales Division Executive Officer Executive Officer President Director of PT Uni-Charm Indonesia Senior Executive Officer Senior Executive Officer President Director of PT Uni-Charm Indonesia, and Responsible for ASEAN region Senior Executive Officer President Director of PT Uni-Charm Indonesia, President of Unicharm (Philippines) Corp., and Responsible for ASEAN region Director, Senior Executive Officer Director, Senior Executive Officer President Director of PT Uni-Charm Indonesia, Chairman of Unicharm India Private Ltd., President of UniCharm (Philippines) Corp., and Responsible for ASEAN region Director, Senior Executive Officer Chairman, President of Unicharm (China) Co., Ltd., Chairman, President of Unicharm Consumer Products (China) Co., Ltd., Chairman of PT Uni-Charm Indonesia, Chairman of Unicharm India Private Ltd., and President of UniCharm (Philippines) Corp. Director, Senior Executive Officer Chairman, President of Unicharm (China) Co., Ltd., Chairman, President of Unicharm Consumer Products (China) Co., Ltd., and President of UniCharm (Philippines) Corp. (to present)	(Note 3)	57.5

Function	Position	Name	Date of birth	Career profile		Term of office	Number of shares owned (Thousands)
Director (Audit and Supervisory Committee Member)		Kimisuke Fujimoto	September 24, 1942	April 1965 June 1993 June 1996 June 1999 April 2001 April 2003 October 2005 June 2006 June 2010 May 2015	Joined the Sanwa Bank, Limited Director, London Branch Manager Managing Director of Sanwa Securities Co., Ltd. Managing Director, Manager of International Market Division of the Sanwa Bank Limited Chairman of the Board of Directors of Sanwa Securities Co., Ltd. President of UFJ Tsubasa Securities Co. Ltd. President of Mitsubishi UFJ Securities Co., Ltd. Auditor of UFJ Nicos Co., Ltd. Audit & Supervisory Board Member of the Company Director (Audit and Supervisory Committee Member) (to present)	(Note 4)	—
Director (Audit and Supervisory Committee Member)		Takashi Mitachi	January 21, 1957	April 1979 October 1993 January 1999 January 2005 January 2016 March 2017	Joined Japan Airlines Co., Ltd. Joined the Boston Consulting Group Vice President of The Boston Consulting Group Japan Co-chair of The Boston Consulting Group Senior Partner & Managing Director Director (Audit and Supervisory Committee Member) of the Company (to present)	(Note 4)	—
Director (Audit and Supervisory Committee Member)		Shigeru Asada	March 20, 1949	April 1973 March 1994 April 1999 April 2004 April 2006 April 2009 February 2013 April 2013 March 2017	Joined Matsushita Electric Industrial Co., Ltd. Managing Director Chief Financial Officer of Panasonic Do Brasil Lomitada General Manager (tax) of Corporate Accounting Department of Matsushita Electric Industrial Co., Ltd. Managing Director Chief Financial Officer of Panasonic Europe Co., Ltd. Director General Manager of Internal Auditing Department of Matsushita Electric Industrial Co., Ltd. Corporate Auditor (Full-time) of IPS Alpha Technology, Ltd. Advisor for the Office of Audit and Supervisory Committee Member of the Company Executive Officer General Manager of Accounting and Finance Division Director (Audit and Supervisory Committee Member) (to present)	(Note 4)	2.0
Total							4,045.7

Notes: 1. Directors (Audit and Supervisory Committee Members) Kimisuke Fujimoto and Takashi Mitachi are Outside Directors.
2. The Audit and Supervisory Committee of the Company is constituted as follows.
Director Shigeru Asada 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 committees other than the Board of Directors, etc., 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, 2017 up to the conclusion of the Ordinary General Meeting of Shareholders for the fiscal year ending December 31, 2018.
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, 2016 up to the conclusion of the Ordinary General Meeting of Shareholders for the fiscal year ending December 31, 2018.
5. President & CEO Takahisa Takahara is the eldest son of Director and Founder Keiichiro Takahara.
6. To further revitalize the Board of Directors, the Company has drawn a clear distinction between the Board of Directors' decision-making and business execution supervising functions from the business execution roles of each division. The executive officer system has been introduced to improve management efficiency.

6. Corporate governance

(1) Status of corporate governance

Basic corporate governance policy

The Unicharm Group strives to pursue proper corporate management faithful to the Unicharm Ideals, in order to achieve sustainable growth and creation of corporate value over the medium to long term through business activities implemented by management and executive divisions in an integrated manner as well as appropriate collaboration with stakeholders with the aim of becoming an enterprise evaluated and trusted by society.

The Company introduced the Executive Officer System in 1999 in order to separate management oversight from operational execution. In May 2015, the Company adopted a “Company with Audit and Supervisory Committee” structure to meet expectations of stakeholders worldwide from a global perspective by strengthening oversight of the executive functions of the Board of Directors and increasing transparency and efficiency of processes through involvement of outside directors in management.

Under this management structure, independent Audit and Supervisory Committee members have voting rights at meetings of the Board of Directors, and the Audit and Supervisory Committee performs audits by proactively utilizing the internal control system. This will enable the Company not only to comply with the laws and regulations, but also to strengthen audit and supervisory functions of management monitored by the Outside Directors with aims to maintain appropriate collaborative relationships with stakeholders, and to foster organizational culture and climate that respects healthy and ethical business practices, which is the Company’s basic policy in order to realize corporate activities that strike a balance between growth and discipline as a global enterprise.

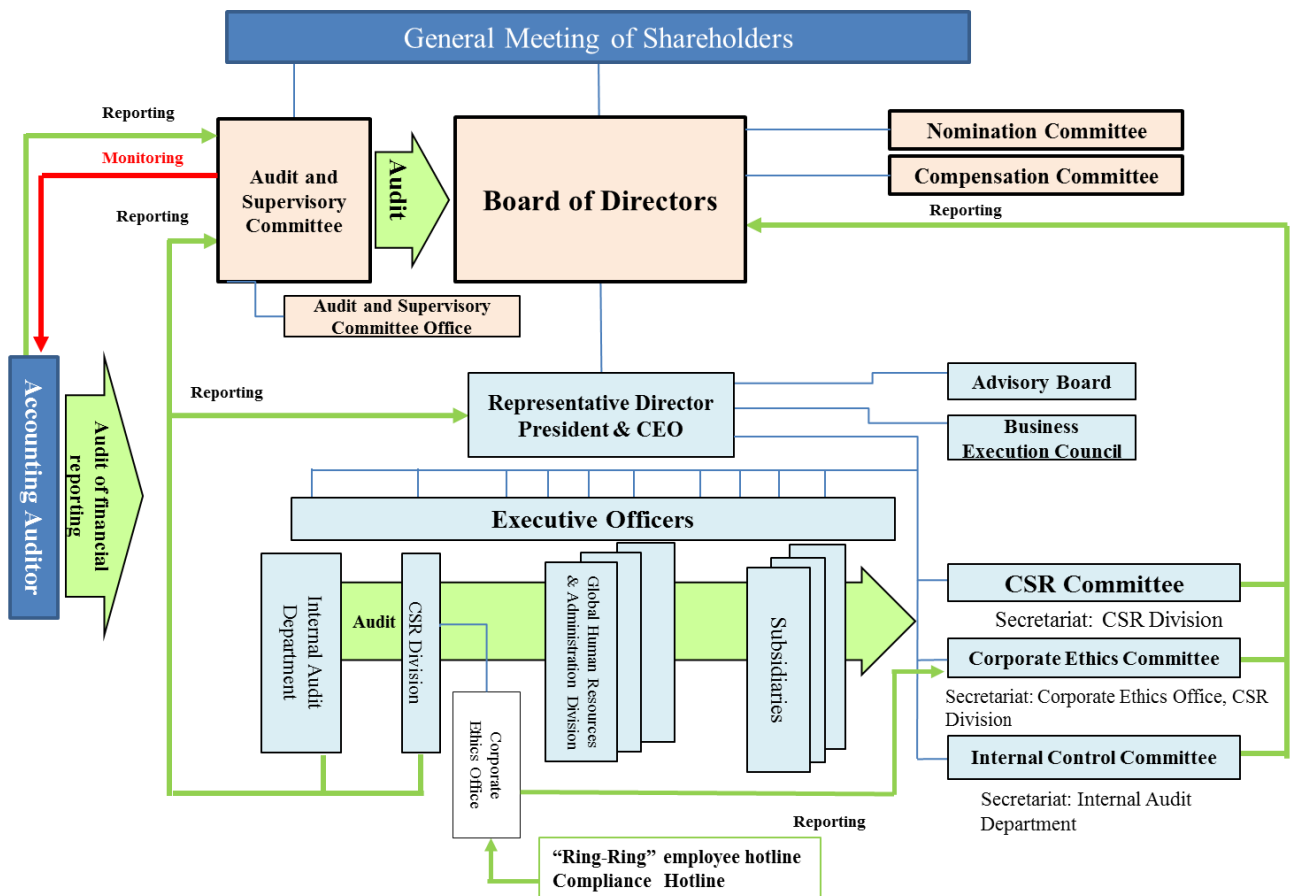
(a) Corporate governance system

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 Director and two 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 Representative Directors and non-executive Directors. 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 further strengthen corporate governance, meeting the expectations of stakeholders in Japan and overseas from a global viewpoint.

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. Systems to Ensure that Directors and Employees Perform Their Duties in Accordance with Laws and Regulations and the Articles of Incorporation and Other Systems to Ensure Appropriate Business Operations

(1) Corporate Governance

- a) The Company is a company with audit and supervisory committee. The purpose is to strengthen the Board of Directors' functions for overseeing business execution and to ensure appropriateness and transparency of the decision-making process through outside directors' involvement in management. The Board of Directors shall determine important matters in accordance with laws and regulations, the Articles of Incorporation, Board of Directors' Regulations and other internal rules and oversee directors' execution of duties.
- b) Directors perform their duties based on the roles determined by the Board of Directors and in accordance with laws and regulations, the Articles of Incorporation, resolutions of the Board of Directors, and internal rules.
- c) The Company has adopted the executive officer system to separate management decision-making and oversight from business execution and to strengthen the Board of Directors' oversight function, enhance efficiency of operations of organizations responsible for business execution, and accelerate decision-making. Based on the decisions made by the Board of Directors and entrusted by the Board of Directors and the representative director, executive officers perform their duties and execute business for which they are responsible.
- d) The Company has established the Decision-making Rules shared throughout the Group and operates business in accordance with the Decision-making Rules to ensure appropriateness of business operations. The decision-making process is designed in a manner to enhance efficiency of organizational operation and to accelerate decision-making, such as by Group-wide authorization and proposals.

(2) Compliance

- a) The Company's mission statement says "We strive to pursue proper corporate management principles which combine corporate growth, associate well-being and the fulfillment of our social responsibilities." This is an integral part of the Company's management policy.
- b) The Company has created a booklet titled The Unicharm Way, which contains the Unicharm Group's Action Guidelines etc. to guide directors and employees in their efforts to maintain high ethical standards and comply with laws and regulations and the Articles of Incorporation. The Unicharm Way is the basis of the Company's compliance system.
- c) The Company strives to enhance employees' awareness of corporate ethics and inculcate the principles articulated in The Unicharm Way by having the President & CEO and executive officers continue to disseminate them among the associates all over the world. In this way, the Company emphasizes that ensuring compliance is a prerequisite for any corporate activities.
- d) The Company has established the CSR Committee that monitors activities relating to corporate social responsibility encompassing quality, safety, and the environment to ensure compliance, fairness, and soundness of corporate behavior. The CSR Division has been established as a dedicated organization for promoting CSR activities.
- e) As part of efforts to enhance the compliance system, the Company has established the Compliance Hotline, which is a point of contact for seeking advice and for reporting violations of laws and regulations, violations of internal rules, or significant violations of corporate ethics and the Ring-ring employee hotline, which is a point of contact for seeking advice and for reporting workplace issues such as harassment and problematic personal relationships. The Corporate Ethics Office in the CSR Division is responsible for operating these points of contact. In the event of occurrence of a material problem, the President & CEO convenes a meeting of the Corporate Ethics Committee whose standing members are Audit and Supervisory Committee members and leads efforts to solve the problem as the committee chairman.
- f) In order to enhance awareness about compliance and prevent occurrence of problems, the Company's legal affairs department provides compliance education to directors and employees, periodically checks the status of compliance with laws and regulations etc., and implements improvement measures.
- g) In order to verify that business execution by divisions is appropriate and in accordance with laws and regulations and provide recommendations for improvement, as necessary, the Company has established an internal audit department, which is independent from executive business divisions and directly reports to the President & CEO. The internal audit department performs internal audit of the Company and its subsidiaries.
- h) The Company's policy and criteria for elimination of antisocial forces are specified in the Unicharm Group's Action Guidelines contained in The Unicharm Way. Moreover, a system is in place to collaborate with lawyers and the police and act systematically.

2. Systems to Store and Manage Information Related to Duties Performed by Directors

In accordance with the Information Management Security Rules and other internal rules, the Company appropriately stores and manages important documents related to duties performed by directors together with the related information materials. Directors have access to these documents at any time.

3. Rules related to Managing Risk of Loss and Other Systems

- a) The Board of Directors analyzes and evaluates material risks periodically reported by divisions and deliberates on and determines measures for improvement.
- b) When performing their duties, employees take responsibility and manage risks in accordance with the segregation of duties and authority defined by internal rules.
- c) A system is in place to ensure performance of duties is in accordance with the segregation of duties and authority defined by internal rules. Duties shall be performed based on the recognition that directors and employees take responsibility and manage risks in accordance with their duties and authority.
- d) In the event that a material risk arises, the Company shall establish the Crisis Management Team in accordance with the Crisis Communication Manual, which was established as rules for crisis management, and strive to take swift and appropriate action and achieve early recovery.
- e) The internal audit department audits the status of daily risk management of each division in accordance with the relevant rules and manuals in cooperation with the departments concerned.

4. Systems to Ensure Directors Perform Their Duties Efficiently

The Company implements the following measures to ensure efficient business operations by putting in place a system for appropriate division of responsibilities between directors and for oversight.

- a) The Company applies the Schedule-Action-Performance-Schedule (SAPS) Management Model, which is the Company's unique approach for devoting time and efforts to priority issues. All sites throughout the Group link up via a video conferencing system each and every week for decision-making using a specific thinking process so that directors and employees perform their duties efficiently.
- b) By adopting the executive officer system, the Company separates management and business execution and clarifies responsibilities of executive officers for business execution. Moreover, apart from the Board of Directors, the Business Execution Council, which has been established as a system for swift and flexible response to change in the business environment, meets every month.
- c) The Board of Directors determines the Group Policy Outline and executive officers responsible for divisions thoroughly communicate the policy throughout their divisions. Then, each division formulates a business plan and submits it to the Advisory Board.
- d) To implement the business plan of each division, half-yearly budgetary targets are formulated for each business division and each Group company, which are submitted to the Board of Directors for approval.
- e) At monthly meetings of the Business Execution Council, executive officers report on the status of their performance and countermeasures are considered, as necessary. Important matters are reported to the Board of Directors.
- f) IT shall be used effectively and appropriately for communication of information throughout the Group and for business operations.

5. Systems to Ensure Appropriate Business Operations by the Unicharm Group

(1) Systems for Reporting the Company Matters Related to the Performance of Duties by Directors etc. of the Company's Subsidiaries

- a) In accordance with the Rules for Management of Affiliated Companies, the Company requires subsidiaries to submit relevant information materials in order to accurately grasp the management status of subsidiaries.
- b) The Company requires subsidiaries to submit quarterly financial reports for the purpose of receiving reports on business results, financial position, and other important information.

(2) Rules related to Managing Risk of Loss and Other Systems of the Company's Subsidiaries

- a) The Company analyzes and evaluates material risks pertaining to subsidiaries periodically reported to the Board of Directors and the Business Execution Council and deliberates on and determines measures for improvement.
- b) The Company requires subsidiaries to establish a system to ensure performance of duties is in accordance with the segregation of duties and authority. The Company also requires subsidiaries to take responsibility and manage risks. It is specified in the Regulations for Management of Subsidiary Companies that executive officers periodically report to the parent company about material risks pertaining to the subsidiaries for which they are responsible.
- c) In the event that a material risk arises at a subsidiary, the Company shall establish the Crisis Management of Team in accordance with the Crisis Communication Manual, which was established as rules for crisis management, and strive to take swift and appropriate action and achieve early recovery.
- d) The Company's internal audit department audits the status of risk management of divisions of subsidiaries in accordance with such manual etc. in cooperation with the internal audit department of each subsidiary and other departments concerned.

(3) Systems to Ensure Directors etc. and Employees of the Company's Subsidiaries Perform Their Duties Efficiently

While respecting managerial autonomy and independence of subsidiaries, the Company implements the following measures to ensure efficient business operations.

- a) The Company applies the Schedule-Action-Performance-Schedule (SAPS) Management Model, which is the Company's unique approach for devoting time and efforts to priority issues. All sites throughout the Group link up via a video conferencing system each and every week for decision-making using a specific thinking process so that directors and employees perform their duties efficiently.
- b) The Company's Board of Directors determines the Group Policy Outline and executive officers responsible for subsidiaries thoroughly communicate the policy throughout the subsidiaries. Then, each subsidiary formulates a business plan and submits it to the Company's Advisory Board.
- c) To implement the business plan, each subsidiary formulates half-yearly budgetary targets, which are submitted to the Company's Board of Directors for approval.
- d) In accordance with the Company's request, subsidiaries report on the status of their performance at a meeting of the Business Execution Council, and countermeasures are considered, as necessary. Important matters are reported to the Company's Board of Directors.
- e) IT shall be used effectively and appropriately for communication of information between the Company and subsidiaries and for business operations.

(4) Systems to Ensure that Directors etc. and Employees of Subsidiaries Perform Their Duties in Accordance with Laws and Regulations and the Articles of Incorporation

- a) The Company distributes The Unicharm Way to all directors etc. and employees of subsidiaries, which provides guidelines for them to comply with laws and regulations and the Articles of Incorporation. The Company strives to inculcate The Unicharm Way and ensure compliance with it.
- b) The Company has established the Compliance Hotline, which is a point of contact for seeking advice and for reporting violations of laws and regulations, violations of internal rules, or significant violations of corporate ethics concerning subsidiaries and the Ring-ring employee hotline, which is a point of contact for seeking advice and for reporting workplace issues such as harassment and problematic personal relationships.
- c) In order to enhance awareness about compliance and prevent occurrence of problems, the Company provides compliance education to directors etc. and employees of subsidiaries, periodically checks the status of compliance with laws and regulations etc., and implements improvement measures.
- d) The Company performs internal audits of subsidiaries to verify that business execution by subsidiaries is appropriate and in accordance with laws and regulations and to provide recommendations for improvement, as necessary.

6. Matters Regarding Employees Who Assist the Audit and Supervisory Committee with Its Duties

- a) The Company has established the Audit and Supervisory Committee Office to assist the Audit and Supervisory Committee with its duties.
- b) The Company secures approval of the Audit and Supervisory Committee before determining appointment, personnel changes and disciplinary action against such employees who assist the Audit and Supervisory Committee.

7. Systems for Reporting to the Audit and Supervisory Committee

(1) Systems for Directors and Employees of the Company to Report to the Audit and Supervisory Committee

- a) When requested by the Audit and Supervisory Committee to report on the business, directors and employees shall swiftly report to the Audit and Supervisory Committee. Any fact detected that caused or may cause significant damage to the Company shall be immediately reported to the Audit and Supervisory Committee.
- b) In accordance with the request of the Audit and Supervisory Committee, directors and employees shall cooperate with any investigation of the status of operations and property.
- c) In the event that an employee detects any fact that caused or may cause significant damage to the Company, such as behavior that violates laws and regulations, he or she shall immediately report to the Compliance Hotline or the Ring-ring employee hotline. The Corporate Ethics Office, which is responsible for the Compliance Hotline and the Ring-ring employee hotline, shall periodically report the status of whistleblowing to the Board of Directors via the Corporate Ethics Committee while taking into account the anonymity of whistleblowers.

(2) Systems for Directors and Employees of Subsidiaries to Report to the Audit and Supervisory Committee of the Company

- a) When requested by the Audit and Supervisory Committee of the Company to report on the business, directors and employees of subsidiaries shall swiftly report to the Audit and Supervisory Committee except for a justifiable reason.
- b) In accordance with the request of the Audit and Supervisory Committee of the Company, directors and employees of subsidiaries shall cooperate with any investigation of the status of operations and property except for a justifiable reason.

- c) In the event that a director or an employee of a subsidiary detects any fact that caused or may cause significant damage to the Company or subsidiaries, such as behavior that violates laws and regulations, he or she shall immediately report to the Compliance Hotline or the Ring-ring employee hotline. The Corporate Ethics Office of the Company, which is responsible for the Compliance Hotline and the Ring-ring employee hotline, shall periodically report the status of whistleblowing to the Board of Directors via the Corporate Ethics Committee while taking into account the anonymity of whistleblowers.
8. Systems to Ensure that Persons Who Reported to the Audit and Supervisory Committee Will Not Receive Detrimental Treatment Because of the Reporting
- a) The Company shall prohibit detrimental treatment of persons who sought advice or reported to the Compliance Hotline or the Ring-ring employee hotline.
 - b) The Company shall prohibit detrimental treatment of persons who reported to the Audit and Supervisory Committee because of the reporting. The Company shall put in place a strict information management system concerning persons who reported to the Audit and Supervisory Committee and the content of such reports to prevent detrimental treatment of such persons.
9. Matters Related to Policies Concerning the Treatment of Expenses Incurred by the Performance of Duties by Audit and Supervisory Committee Members
- When Audit and Supervisory Committee members request advance payment or reimbursement of expenses for their performance of duties, the Company shall make advance payment of or reimburse such expenses except in the case that such expenses or liabilities are proved to be unnecessary for the performance of duties by such Audit and Supervisory Committee members.
10. Other Systems to Ensure Effective Audits by the Audit and Supervisory Committee
- a) The Audit and Supervisory Committee shall periodically meet the Company's Accounting Auditor and internal audit department and subsidiaries' audit and supervisory board members to share information and exchange views.
 - b) The Audit and Supervisory Committee shall periodically meet the President & CEO to audit directors' performance of duties and put in place the audit system
 - c) The Audit and Supervisory Committee shall cooperate with external experts such as lawyers and certified public accountants, when necessary for performance of duties.

(Note) "Employee" as used here is the same as "employee" as defined in the Companies Act.

(b) Internal auditing and Audit and Supervisory Committee audits

The Company has established the Management Audit Department comprising six members directly under the President & CEO as its internal audit department. The Management 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 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 Management Audit Department monitors the outcomes of the remedial measures.

The Audit and Supervisory Committee of the Company comprises three members, one a 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 Kimisuke Fujimoto has served in management positions at leading financial institutions including as Managing Director of Sanwa Bank, Limited and President of Mitsubishi UFJ Securities Co., Ltd., and has ample insight into financial and accounting matters. Audit and Supervisory Committee Member, Outside Director Takashi Mitachi, has years of experience in the use of financial and accounting knowledge at the Boston Consulting Group, and has ample insight into financial and accounting matters.

Full-time Audit and Supervisory Committee Member Shigeru Asada has experience as Executive Officer, General Manager of Accounting and Finance Division at the Company, and has ample insight into finance and accounting matters.

Based on reporting from the Management 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 Management 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.

(c) 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. The Audit and Supervisory Committee holds regular meetings with internal auditing departments and the Accounting Auditor for exchange of information and opinions, etc. Its auditing activities also cover establishment and operational status of internal control systems by internal control departments. 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 as Outside Directors serving as Audit and Supervisory Committee Members. However, a person to serve as Independent Outside Director is ineligible if the following circumstances apply or have applied recently (including those who execute business), or if a person is a close relative thereof, or with any suspicion of conflict with general shareholder interests.

(1) The Company and its subsidiaries

(2) Major transaction partners of the Company and its subsidiaries

(3) Entities for which the Company or its subsidiaries are major transaction partners

(4) Consultants, accounting specialists or legal specialists who have received large amounts of assets from the Company (in the case of groups, those belonging to such groups).

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

(d) 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	Stock option	
Directors (excluding Directors who are Audit and Supervisory Committee Members) (excluding Outside Directors)	598	573	25	8
Directors (Audit and Supervisory Committee Members) (excluding Outside Directors)	14	12	1	2
Outside Directors	19	19	—	3

- Note:
1. The above includes Directors and Outside 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. However, at the 55th Ordinary General Meeting of Shareholders held on March 27, 2015, a resolution was passed to make payments in the form of stock options as remuneration to Directors of the Company (excluding Audit and Supervisory Committee Members), under a separate framework to the remuneration totals for Directors (excluding Audit and Supervisory Committee Members) approved at the same General Meeting.
 3. Stock options for Directors (Audit and Supervisory Committee Members) were granted before the Directors (Audit and Supervisory Committee Members) assumed office.

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	Stock option	
Takahisa Takahara	President & CEO	The Company	177	5	181

- 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. However, at the 55th Ordinary General Meeting of Shareholders held on March 27, 2015, a resolution was passed to make payments in the form of stock options as remuneration to Directors of the Company (excluding Audit and Supervisory Committee Members), under a separate framework to the remuneration totals for Directors (excluding Audit and Supervisory Committee Members) approved at the same General Meeting.

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

Remuneration, etc., for Executive Directors of the Company is decided after deliberation at the Compensation Committee comprising Representative Directors and all non-executive Directors/Independent Outside Directors, after an overall evaluation of their motivation in raising earnings performance and corporate value, and securing talented personnel. Such remuneration should broadly reflect their role and duties.

The Compensation Committee also deliberates and decides on policy for remuneration for Directors and Executive Officers.

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.

(e) Status of shares held

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

Number of securities: 61

Total amount recorded in the balance sheet: ¥13,847 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, 2016)

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	3,786	Maintain and strengthen trade relations
ZUIKO CO., LTD.	245,100	1,012	Maintain and strengthen trade relations
The Hiroshima Bank, Ltd.	1,675,100	914	Maintain and strengthen trade relations
THE IYO BANK, Ltd.	1,017,640	820	Maintain and strengthen trade relations
Mitsubishi UFJ Financial Group, Inc.	904,050	651	Maintain and strengthen trade relations
Mitsui Chemicals, Inc.	1,189,000	624	Maintain and strengthen trade relations
ARATA CORPORATION	225,545	597	Maintain and strengthen trade relations
PLANET, INC.	300,800	570	Maintain and strengthen trade relations
FP Corporation	78,541	420	Maintain and strengthen trade relations
AEON CO., LTD.	221,575	366	Maintain and strengthen trade relations
TSURUHA HOLDINGS INC.	20,000	222	Maintain and strengthen trade relations
Seven & i Holdings Co., Ltd.	44,640	198	Maintain and strengthen trade relations
Valor Holdings Co., Ltd.	59,504	181	Maintain and strengthen trade relations
Izumi Co., Ltd.	32,000	161	Maintain and strengthen trade relations
CREATE SD HOLDINGS CO., LTD.	60,000	150	Maintain and strengthen trade relations
Sanyo Chemical Industries, Ltd.	27,720	138	Maintain and strengthen trade relations
ECHO TRADING CO., LTD.	105,000	70	Maintain and strengthen trade relations
FamilyMart UNY Holdings Co., Ltd.	8,142	63	Maintain and strengthen trade relations
RETAIL PARTNERS CO., LTD.	54,000	62	Maintain and strengthen trade relations
The Hyakujushi Bank, Ltd.	152,250	60	Maintain and strengthen trade relations
CAWACHI LTD.	20,000	58	Maintain and strengthen trade relations
CB GROUP MANAGEMENT Co., Ltd.	81,328	45	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
cocokara fine Inc.	10,000	42	Maintain and strengthen trade relations
HARIMA-KYOWA CO., LTD.	26,400	36	Maintain and strengthen trade relations
FUJI CO., LTD.	13,000	31	Maintain and strengthen trade relations
MEDIPAL HOLDINGS CORPORATION	16,500	30	Maintain and strengthen trade relations
United Super Markets Holdings Inc.	21,903	21	Maintain and strengthen trade relations
Heiwado Co., Ltd.	7,000	19	Maintain and strengthen trade relations
ARCS COMPANY, LIMITED	4,609	12	Maintain and strengthen trade relations
MINISTOP Co., Ltd.	4,583	9	Maintain and strengthen trade relations

Shares subject to deemed holding

Not applicable

(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

Shares	Number of shares held by the Company (Shares)	Amount recorded in the balance sheet (Millions of Yen)	Holding purpose
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
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

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	11,336	4,559	224	4,929	2,074

(f) 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: Taisuke Shiino

Designated Limited Liability and Engagement Partner: Yusuke Yaguchi

Assistants to the audit of the financial statements

Certified Public Accountants: 9

Others: 12

(g) 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.

(h) 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.

(i) 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.

(j) 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

(a) 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	80	25	114	8
Consolidated subsidiaries	8	—	8	—
Total	88	25	122	8

(b) Content of other significant remuneration

In the previous consolidated fiscal year, a total remuneration of ¥165 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 ¥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.

- (c) 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.

- (d) 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”).

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, 2017 (January 1, 2017 – December 31, 2017) 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	Date of transition to IFRS (as of January 1, 2016)	Fiscal Year Ended December 31, 2016 (as of December 31, 2016)	Fiscal Year Ended December 31, 2017 (as of December 31, 2017)
Assets				
Current assets				
Cash and cash equivalents	6, 26	101,966	138,043	169,903
Trade and other receivables	7, 26	98,576	90,637	98,821
Inventories	8	64,029	57,403	60,529
Other current financial assets	26	36,589	38,938	59,119
Other current assets		13,509	14,615	18,805
Total current assets		314,669	339,637	407,176
Non-current assets				
Property, plant and equipment	9	239,692	236,629	228,521
Intangible assets	10	51,734	48,595	46,563
Deferred tax assets	11	13,067	8,955	9,451
Investments accounted for using equity method		204	705	733
Other non-current financial assets	26	25,615	25,388	33,631
Other non-current assets	15	11,218	8,684	10,568
Total non-current assets		341,531	328,955	329,467
Total assets		656,200	668,592	736,644

(Millions of Yen)

	Notes	Date of transition to IFRS (as of January 1, 2016)	Fiscal Year Ended December 31, 2016 (as of December 31, 2016)	Fiscal Year Ended December 31, 2017 (as of December 31, 2017)
Liabilities and equity				
Liabilities				
Current liabilities				
Trade and other payables	14, 26	131,737	129,206	138,480
Bonds and borrowings	12, 26	3,847	6,753	6,189
Income tax payables		7,668	9,337	11,070
Other current financial liabilities	26	174	65	239
Other current liabilities	16	26,199	31,600	38,001
Total current liabilities		169,624	176,962	193,979
Non-current liabilities				
Bonds and borrowings	12, 26	59,623	61,190	58,000
Deferred tax liabilities	11	3,091	2,873	18,227
Retirement benefit liabilities	15	5,296	7,649	8,225
Other non-current financial liabilities	26	2,349	2,391	2,111
Other non-current liabilities		2,900	3,141	3,073
Total non-current liabilities		73,258	77,243	89,636
Total liabilities		242,883	254,205	283,615
Equity				
Equity attributable to owners of parent				
Capital stock	17	15,993	15,993	15,993
Share premium	17	—	—	421
Retained earnings	17	358,875	391,800	434,298
Treasury shares	17	(41,101)	(53,652)	(67,652)
Other components of equity	17	15,947	(2,042)	4,509
Total equity attributable to owners of parent		349,714	352,098	387,567
Non-controlling interests		63,604	62,289	65,461
Total equity		413,317	414,387	453,029
Total liabilities and equity		656,200	668,592	736,644

2) Consolidated statements of income and comprehensive income

Consolidated statement of income

(Millions of Yen)

	Notes	Fiscal Year Ended December 31, 2016 (January 1, 2016 – December 31, 2016)	Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)
Net sales	5	604,653	641,647
Cost of sales	20	(376,842)	(393,101)
Gross profit		227,811	248,546
Selling, general and administrative expenses	19, 20	(148,695)	(161,707)
Other income	21	1,832	2,163
Other expenses	21	(4,242)	(2,662)
Financial income	22	8,565	8,750
Financial costs	22	(9,436)	(2,163)
Profit before tax		75,835	92,926
Income tax expenses	11	(24,577)	(35,355)
Profit for the period		51,259	57,571
Profit attributable to			
Owners of parent		46,971	52,772
Non-controlling interests		4,288	4,800
Profit for the period		51,259	57,571
Earnings per share attributable to owners of parent			
Basic earnings per share (Yen)	24	79.06	89.85
Diluted earnings per share (Yen)	24	76.63	87.06

Reconciliation of changes from gross profit to core operating income

(Millions of Yen)

Gross profit	227,811	248,546
Selling, general and administrative expenses	(148,695)	(161,707)
Core operating income (*)	79,116	86,838

* 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, 2016 (January 1, 2016 – December 31, 2016)	Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)
Profit for the period		51,259	57,571
Other comprehensive income, net of tax			
Items that will not be reclassified to profit or loss			
Remeasurements related to net defined benefit liabilities (assets)	23	(2,975)	(281)
Subtotal		(2,975)	(281)
Items that may be reclassified to profit or loss			
Changes in fair value of available-for-sale financial assets	23	(3,974)	1,376
Changes in fair value of cash flow hedges	23	25	(53)
Exchange differences on translation in foreign operations	23	(17,871)	6,337
Subtotal		(21,820)	7,659
Total other comprehensive income, net of tax		(24,795)	7,378
Total comprehensive income		26,463	64,949
Total comprehensive income attributable to			
Owners of parent		25,604	58,849
Non-controlling interests		859	6,101
Total comprehensive income		26,463	64,949

3) Consolidated statement of changes in equity

Fiscal Year Ended December 31, 2016 (January 1, 2016 – December 31, 2016)

(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, 2016		15,993	—	358,875	(41,101)	15,947	349,714	63,604	413,317
Profit for the period	23	—	—	46,971	—	—	46,971	4,288	51,259
Other comprehensive income		—	—	—	—	(21,367)	(21,367)	(3,429)	(24,795)
Total comprehensive income		—	—	46,971	—	(21,367)	25,604	859	26,463
Purchase of treasury shares	17	—	—	—	(14,000)	—	(14,000)	—	(14,000)
Disposal of treasury shares	17	—	(351)	—	1,449	(148)	950	—	950
Dividends	18	—	—	(9,175)	—	—	(9,175)	(2,610)	(11,785)
Change of scope of consolidation		—	—	(347)	—	—	(347)	—	(347)
Equity transactions with non-controlling interests		—	(1,222)	—	—	—	(1,222)	436	(786)
Share-based payments	17, 25	—	—	—	—	575	575	—	575
Transfer from other components of equity to retained earnings	17	—	—	(2,950)	—	2,950	—	—	—
Transfer from retained earnings to share premium		—	1,574	(1,574)	—	—	—	—	—
Total transactions with owners		—	—	(14,046)	(12,551)	3,378	(23,220)	(2,174)	(25,394)
Balance at December 31, 2016		15,993	—	391,800	(53,652)	(2,042)	352,098	62,289	414,387

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	23	—	—	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	17	—	—	—	(14,000)	—	(14,000)	—	(14,000)
Dividends	18	—	—	(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	17, 25	—	—	—	—	233	233	—	233
Transfer from other components of equity to retained earnings	17	—	—	(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

4) Consolidated statement of cash flows

(Millions of Yen)

	Notes	Fiscal Year Ended December 31, 2016 (January 1, 2016 – December 31, 2016)	Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)
Cash flows from operating activities			
Profit before tax		75,835	92,926
Depreciation and amortization		27,598	29,345
Impairment losses		1,355	886
Interest and dividend income		(2,383)	(2,869)
Interest expenses		853	928
Foreign exchange loss (gain)		5,833	(547)
Loss (gain) on sale and retirement of fixed assets		1,010	898
Loss (gain) on sale of available-for-sale financial assets		(5,066)	(4,937)
Decrease (increase) in trade and other receivables		2,188	(7,583)
Decrease (increase) in inventories		3,210	(5,241)
Increase (decrease) in trade and other payables		2,598	8,388
Increase (decrease) in other current liabilities		6,903	6,826
Other		(1,894)	(3,023)
Subtotal		118,039	115,999
Interest and dividends received		2,275	2,721
Interest paid		(571)	(708)
Income taxes refund		659	8
Income taxes paid		(16,798)	(19,934)
Net cash provided by (used in) operating activities		103,604	98,086
Cash flows from investing activities			
Payments into time deposits		(17,218)	(65,952)
Proceeds from withdrawal of time deposits		13,603	46,937
Purchase of property, plant and equipment, and intangible assets		(37,862)	(32,598)
Proceeds from sale of property, plant and equipment, and intangible assets		216	64
Purchase of available-for-sale financial assets		(6,500)	(17)
Proceeds from sale of available-for-sale financial assets		5,146	11,363
Proceeds from sale of investments in subsidiaries resulting in change in scope of consolidation		—	1,424
Other		2	1
Net cash provided by (used in) investing activities		(42,612)	(38,778)

(Millions of Yen)

	Notes	Fiscal Year Ended December 31, 2016 (January 1, 2016 – December 31, 2016)	Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)
Cash flows from financing activities			
Net increase (decrease) in short-term borrowings	12	2,527	(3,334)
Proceeds from long-term borrowings	12	4,813	—
Repayments of long-term borrowings	12	(3,163)	(602)
Purchase of investments in subsidiaries not resulting in change in scope of consolidation		(989)	—
Proceeds from sale of investments in subsidiaries not resulting in change in scope of consolidation		—	100
Payments for purchase of treasury shares	17	(14,000)	(14,000)
Dividends paid to owners of parent		(9,173)	(9,986)
Dividends paid to non-controlling interests		(2,610)	(2,715)
Capital contribution from non-controlling interests		232	—
Proceeds from exercise of employee share options		950	—
Other		(127)	(45)
Net cash provided by (used in) financing activities		(21,540)	(30,582)
Effect of exchange rate changes on cash and cash equivalents		(3,375)	3,135
Net increase (decrease) in cash and cash equivalents		36,076	31,860
Cash and cash equivalents at beginning of period	6	101,966	138,043
Cash and cash equivalents at end of period	6	138,043	169,903

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 has adopted IFRS starting with the fiscal year under review (January 1, 2017 – December 31, 2017). The full year consolidated financial statements for the fiscal year under review are therefore the Group's first consolidated financial statements prepared in conformity with IFRS. The date of transition to IFRS was January 1, 2016, and the Group has adopted IFRS 1 "First-time Adoption of International Financial Reporting Standards" (hereafter "IFRS 1"). The effects of the transition from Japanese accounting standards to IFRS are presented in Note 31 "First-time adoption."

The Group's consolidated financial statements for the fiscal year under review were approved at the Board of Directors meeting held on March 28, 2018.

(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) Early adoption of new accounting standards

There are no accounting standards, etc. early adopted.

(5) 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, 2017 are mainly as follows. The impact of the adoption of IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" is estimated to be immaterial. The impact of the adoption of IFRS 16 "Leases" on the Group is being assessed.

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 9	Financial Instruments	January 1, 2018	December 31, 2018	Amendments to classification and measurement of financial instruments, impairment, and hedge accounting
IFRS 15	Revenue from Contracts with Customers	January 1, 2018	December 31, 2018	Amendments to accounting treatment for the recognition of revenues
IFRS 16	Leases	January 1, 2019	December 31, 2019	Amendments to accounting treatment for lease transactions

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

The Group classifies financial assets that it holds as loans and receivables, held-to-maturity investments, and available-for-sale financial assets. This classification is based on the purpose of acquiring the respective financial assets and is determined at initial recognition.

The Group recognizes financial assets on the transaction date on which the Group becomes a party to the contract relating to the relevant financial assets. In the initial recognition, financial assets are measured as the total of fair value and transaction costs.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets that are not quoted in an active market with fixed or determinable payments. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Amortization based on the effective interest method is recognized in profit or loss as financial income.

(b) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed maturity dates and fixed or determinable payments, and for which the Group has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method, less any impairment losses. Amortization based on the effective interest method is recognized in profit or loss as financial income.

(c) Available-for-sale financial assets

Available-for-sale financial assets are financial assets that are designated as available-for-sale assets or not classified in any of the other categories. Subsequent to initial recognition, available-for-sale financial assets are measured at fair value, and valuation differences arising from changes in fair value are recognized in other comprehensive income. When there is objective evidence of impairment on available-for-sale financial assets, previously recognized accumulated other comprehensive income is transferred to profit or loss. Foreign exchange gains and losses arising from monetary financial assets classified as available-for-sale financial assets, and interest income relating to available-for-sale financial assets based on the effective interest method, and dividend income are recognized in profit or loss. When available-for-sale financial assets are derecognized, accumulated other comprehensive income is transferred to profit or loss.

(d) 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.

(e) Impairment of financial assets

The Group assesses whether there are any objective evidence of impairment on financial assets or groups of financial assets at the end of each fiscal period. Impairment losses are recognized when, as a result of one or more events (hereafter “loss event(s)”) that occurred subsequent to initial recognition of financial assets or groups of financial assets, there is objective evidence of impairment and a negative effect on estimated future cash flows from the relevant financial assets or groups of financial assets can be reasonably anticipated. The Group assesses the following conditions in judging whether or not objective evidence of impairment losses exists:

- Significant financial difficulty of the issuer or the borrower;
- Breach of contract, such as a default or delinquency in interest or principal payments;
- Increased possibilities of the issuer becoming insolvent or otherwise subject to financial reorganization;
- Disappearance of an active market for the financial assets due to financial difficulty.

With respect to loans and receivables and held-to-maturity investments that are measured at amortized cost, the impairment loss amount is measured at the difference between the relevant asset’s carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. The carrying amount of the relevant financial asset is reduced and the impairment losses are recognized in profit or loss.

If, in the subsequent period, impairment losses decrease and such a decrease can be objectively attributed to an event that occurred after recognition of the impairment, the previously recognized impairment losses are

reversed in profit or loss to the extent of the amortized cost had the impairment not been recognized in the carrying amount of the financial asset.

With respect to equity instruments classified as available-for-sale financial assets, a significant or prolonged decline in the fair value below the acquisition cost is an indication of impairment of the relevant financial assets. If such evidence exists, the previously recognized accumulated other comprehensive income is transferred to profit or loss. For equity instruments, impairment losses recognized as profit or loss will not be reversed.

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 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 subscription rights to shares, 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

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 measures revenues at the fair value of consideration received or receivable less trade discounts, rebates, value-added tax, and other taxes.

Revenues from the sale of products are recognized, normally at the time of product delivery, when significant risks and rewards of ownership of the goods have been transferred to the customer, neither continuing involvement in nor substantive control over the goods is retained, it is probable that the economic benefits associated with the transaction will flow to the Group, and such economic benefits along with associated costs can be measured reliably.

(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, 2016 (January 1, 2016 – December 31, 2016)					
	Reportable segment				Adjustments	Amounts reported in consolidated financial statements
	Personal care	Pet care	Other	Total		
Sales to external customers	523,116	75,390	6,147	604,653	—	604,653
Sales across segments (Note)	—	—	35	35	(35)	—
Total segment sales	523,116	75,390	6,182	604,688	(35)	604,653
Segment profit (Core operating income)	71,355	7,342	419	79,116	—	79,116
Other income						1,832
Other expenses						(4,242)
Financial income						8,565
Financial costs						(9,436)
Profit before tax						75,835
Others						
Depreciation and amortization	24,736	2,763	99	27,598	—	27,598
Impairment losses	1,355	—	—	1,355	—	1,355
Increase in property, plant and equipment and intangible assets	37,218	1,938	281	39,437	—	39,437

(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	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

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, 2016 (January 1, 2016 – December 31, 2016)	Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)
Japan	253,544	266,010
China	82,944	83,058
Asia	171,428	192,254
Other	96,736	100,326
Total	604,653	641,647

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)

	Date of transition to IFRS (as of January 1, 2016)	Fiscal Year Ended December 31, 2016 (as of December 31, 2016)	Fiscal Year Ended December 31, 2017 (as of December 31, 2017)
Japan	50,974	58,704	68,564
China	68,512	58,514	53,904
Asia	114,518	112,464	100,663
Other	66,480	63,949	62,131
Total	300,484	293,631	285,262

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. Cash and cash equivalents

The details of cash and cash equivalents are as follows.

(Millions of Yen)

	Date of transition to IFRS (as of January 1, 2016)	Fiscal Year Ended December 31, 2016 (as of December 31, 2016)	Fiscal Year Ended December 31, 2017 (as of December 31, 2017)
Cash and deposits	138,503	175,743	228,827
Time deposits with maturities over three months	(36,537)	(37,700)	(58,925)
Total	101,966	138,043	169,903

The balance of cash and cash equivalents as of the date of transition to IFRS, the end of the previous fiscal year, and the end of the fiscal year under review is identical to the balance of cash and cash equivalents presented in the consolidated statement of cash flows.

7. Trade and other receivables

The details of trade and other receivables are as follows.

(Millions of Yen)

	Date of transition to IFRS (as of January 1, 2016)	Fiscal Year Ended December 31, 2016 (as of December 31, 2016)	Fiscal Year Ended December 31, 2017 (as of December 31, 2017)
Notes and accounts receivable - trade	95,476	88,485	96,721
Accounts receivable - other	3,248	2,827	3,389
Allowance for doubtful accounts	(148)	(675)	(1,290)
Total	98,576	90,637	98,821

8. Inventories

The details of inventories are as follows.

(Millions of Yen)

	Date of transition to IFRS (as of January 1, 2016)	Fiscal Year Ended December 31, 2016 (as of December 31, 2016)	Fiscal Year Ended December 31, 2017 (as of December 31, 2017)
Merchandise and finished goods	30,170	30,793	35,756
Raw materials and supplies	32,499	25,882	24,031
Work in process	1,360	728	742
Total	64,029	57,403	60,529

The write-down of inventories recognized as an expense totaled ¥708 million and ¥691 million for the previous fiscal year and the fiscal year under review, respectively, which is included in cost of sales.

9. 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, 2016	122,348	290,127	10,474	16,123	20,308	459,379
Purchase	384	2,994	—	34,514	1,028	38,920
Reclassification, etc.	5,674	26,243	13	(34,731)	329	(2,471)
Disposal	(787)	(10,236)	—	(2)	(950)	(11,977)
Effect of exchange rate changes	(6,008)	(11,549)	(328)	(571)	(995)	(19,451)
Balance at December 31, 2016	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

(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, 2016	45,919	159,897	15	—	13,855	219,687
Depreciation	4,330	18,219	—	—	2,216	24,764
Impairment losses	—	820	—	301	234	1,355
Reclassification, etc.	(67)	(1,044)	—	—	(346)	(1,458)
Disposal	(728)	(9,438)	—	—	(911)	(11,077)
Effect of exchange rate changes	(926)	(3,969)	—	—	(605)	(5,500)
Balance at December 31, 2016	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

(Millions of Yen)

Carrying amount	Buildings and structures	Machinery, equipment and vehicles	Land	Construction in progress	Other	Total
Balance at January 1, 2016	76,428	130,229	10,459	16,123	6,453	239,692
Balance at December 31, 2016	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

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

Disposal for the fiscal year under review includes facilities, etc. of the Neemrana Factory 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 21 “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 idle 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 ¥1,355 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 zero as no future cash flows are expected.

In the fiscal year under review, 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.

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

10. 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	Other	Total
Balance at January 1, 2016	23,725	30,105	22,027	75,857
Purchase	—	2	1,388	1,390
Reclassification, etc.	—	—	24	24
Disposal	—	—	(150)	(150)
Effect of exchange rate changes	(575)	(1,060)	(664)	(2,299)
Balance at December 31, 2016	23,150	29,047	22,624	74,821
Purchase	—	—	1,426	1,426
Reclassification, etc.	322	—	157	479
Disposal	—	—	(100)	(100)
Effect of exchange rate changes	(341)	(682)	(428)	(1,451)
Balance at December 31, 2017	23,131	28,364	23,680	75,175

(Millions of Yen)

Accumulated amortization and accumulated impairment losses	Goodwill	Trademarks	Other	Total
Balance at January 1, 2016	—	12,680	11,442	24,122
Amortization	—	1,317	1,517	2,834
Disposal	—	—	(94)	(94)
Effect of exchange rate changes	—	(301)	(334)	(636)
Balance at December 31, 2016	—	13,696	12,530	26,226
Amortization	—	1,407	1,680	3,087
Reclassification, etc.	—	—	(1)	(1)
Disposal	—	—	(100)	(100)
Effect of exchange rate changes	—	(369)	(231)	(600)
Balance at December 31, 2017	—	14,734	13,879	28,612

(Millions of Yen)

Carrying amount	Goodwill	Trademarks	Other	Total
Balance at January 1, 2016	23,725	17,424	10,585	51,734
Balance at December 31, 2016	23,150	15,351	10,094	48,595
Balance at December 31, 2017	23,131	13,631	9,801	46,563

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 ¥1,506 million, ¥1,445 million, and ¥1,510 million as of the date of transition to IFRS, 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)

	Date of transition to IFRS (as of January 1, 2016)		Fiscal Year Ended December 31, 2016 (as of December 31, 2016)		Fiscal Year Ended December 31, 2017 (as of December 31, 2017)	
	Goodwill	Intangible assets with indefinite useful lives	Goodwill	Intangible assets with indefinite useful lives	Goodwill	Intangible assets with indefinite useful lives
Vietnam	14,257	—	13,770	—	13,357	—
Australia	6,045	1,506	6,045	1,445	6,366	1,510
Other	3,424	—	3,336	—	3,407	—
Total	23,725	1,506	23,150	1,445	23,131	1,510

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 (date of transition to IFRS: 6.1%-13.8%, previous fiscal year: 4.6%-13.8%, fiscal year under review: 5.2%-12.9%). 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 at the date of transition to IFRS, in the previous fiscal year, or in 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.

11. 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, 2016 (January 1, 2016 – December 31, 2016)

(Millions of Yen)

	January 1, 2016	Recognized as profit or loss	Recognized as other comprehensive income	Other	December 31, 2016
Deferred tax assets					
Accrued bonuses	1,187	120	—	—	1,308
Accrued sales promotion expenses	4,623	245	—	—	4,868
Retirement benefit liabilities	2,095	(272)	1,149	—	2,972
Tax loss carryforwards	19,596	(8,380)	—	—	11,216
Other	6,328	113	5	—	6,446
Total deferred tax assets	33,829	(8,174)	1,155	—	26,810
Deferred tax liabilities					
Depreciation and amortization	(2,771)	235	—	—	(2,535)
Net defined benefit asset	(614)	560	(34)	—	(88)
Available-for-sale financial assets	(5,294)	427	1,996	—	(2,870)
Undistributed earnings	(7,373)	(1,398)	—	—	(8,771)
Convertible bond-type bonds with subscription rights to shares	(1,771)	464	—	—	(1,308)
Intangible assets	(2,827)	612	—	—	(2,215)
Other	(3,203)	280	(18)	—	(2,940)
Total deferred tax liabilities	(23,853)	1,181	1,944	—	(20,727)
Net deferred tax assets (liabilities)	9,977	(6,993)	3,099	—	6,082

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	(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 subscription rights to shares	(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)

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)

	Date of transition to IFRS (as of January 1, 2016)	Fiscal Year Ended December 31, 2016 (as of December 31, 2016)	Fiscal Year Ended December 31, 2017 (as of December 31, 2017)
Deductible temporary differences	18	63	188
Tax loss carryforwards	19,410	18,166	20,303
Foreign tax credits	2,892	2,359	2,017
Total	22,320	20,587	22,508

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

(Millions of Yen)			
	Date of transition to IFRS (as of January 1, 2016)	Fiscal Year Ended December 31, 2016 (as of December 31, 2016)	Fiscal Year Ended December 31, 2017 (as of December 31, 2017)
In one year or less	144	731	364
After one year through five years	7,786	3,882	4,998
After five years	11,480	13,552	14,941
Total	19,410	18,166	20,303

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

(Millions of Yen)			
	Date of transition to IFRS (as of January 1, 2016)	Fiscal Year Ended December 31, 2016 (as of December 31, 2016)	Fiscal Year Ended December 31, 2017 (as of December 31, 2017)
In one year or less	1,380	661	1,303
After one year through three years	1,512	1,698	714
Total	2,892	2,359	2,017

Total temporary differences associated with investments in subsidiaries which are not recognized as deferred tax liabilities were ¥94,817 million, ¥82,319 million, and ¥1,214 million at the date of transition to IFRS, 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, 2016 (January 1, 2016 – December 31, 2016)	Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)
Current tax expenses	17,135	21,299
Deferred tax expenses	7,441	14,057
Total income tax expenses	24,577	35,355

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 ¥640 million and ¥135 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, 2016 (January 1, 2016 – December 31, 2016)	Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)
Effective statutory tax rate	33.1%	30.9%
Changes in unrecognized deferred tax assets	1.6%	0.3%
Dividend income, etc.	1.0%	0.7%
Lower income tax rates applicable to income in certain foreign countries	(6.9)%	(4.7)%
Effect of tax reforms	0.9%	(0.8)%
Tax credits	(0.8)%	(1.0)%
Tax effects on undistributed earnings	1.8%	11.1%
Other	1.7%	1.5%
Actual effective tax rate	32.4%	38.0%

Note: Fiscal Year Ended December 31, 2016 (January 1, 2016 – December 31, 2016)

The “Act for Partial Revision of the Income Tax Act, etc.” (Act No. 15 of 2016) and the “Act for Partial Revision of Local Taxes, etc.” (Act No. 13 of 2016) were passed in the Diet on March 29, 2016, and as a result, the income tax rate, etc. will be lowered beginning with the fiscal years beginning on or after April 1, 2016. Accordingly, the effective statutory tax rates used to measure deferred tax assets and deferred tax liabilities will be changed from 32.3% that was used in calculations for the previous fiscal year to 30.9% for temporary differences, etc. expected to be eliminated in the fiscal years beginning on January 1, 2017 and 2018, and to 30.6% for temporary differences, etc. expected to be eliminated in the fiscal years beginning on or after January 1, 2019.

12. 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, 2016	3,847	—	3,847	48,865	10,758	59,623	63,470
New borrowings	3,304	—	3,304	—	4,813	4,813	8,117
Transfer	—	259	259	—	(259)	(259)	—
Repayment or redemption	(777)	—	(777)	—	(3,163)	(3,163)	(3,940)
Effect of exchange rate changes	104	16	120	—	(64)	(64)	56
Other	—	—	—	241	—	241	241
Balance at December 31, 2016	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
Average interest rate (Note 1)	5.14%	0.81%	—	(Note 3)	2.01%	—	—
Maturity (Note 2)	—	—	—	(Note 3)	2019 — 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	Date of transition to IFRS (as of January 1, 2016)	Fiscal Year Ended December 31, 2016 (as of December 31, 2016)	Fiscal Year Ended December 31, 2017 (as of December 31, 2017)	Interest rate	Maturity
Unicharm Corporation	Zero Coupon Convertible Bonds due 2020	September 25, 2015	48,865	49,106	49,348	—	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.

13. 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 ¥4,867 million and ¥4,848 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)

	Date of transition to IFRS (as of January 1, 2016)	Fiscal Year Ended December 31, 2016 (as of December 31, 2016)	Fiscal Year Ended December 31, 2017 (as of December 31, 2017)
In one year or less	791	928	976
After one year through five years	3,662	3,275	3,120
After five years	141	175	547
Total	4,595	4,378	4,643

14. Trade and other payables

The details of trade and other payables are as follows.

(Millions of Yen)

	Date of transition to IFRS (as of January 1, 2016)	Fiscal Year Ended December 31, 2016 (as of December 31, 2016)	Fiscal Year Ended December 31, 2017 (as of December 31, 2017)
Notes and accounts payable - trade	93,800	93,257	98,295
Accounts payable - other	37,937	35,948	40,186
Total	131,737	129,206	138,480

15. Employee benefits

(1) Overview of retirement benefit plans

The Company and its consolidated 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 consolidated 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)

	Date of transition to IFRS (as of January 1, 2016)	Fiscal Year Ended December 31, 2016 (as of December 31, 2016)	Fiscal Year Ended December 31, 2017 (as of December 31, 2017)
Present value of funded defined benefit obligations	41,210	46,205	49,527
Fair value of plan assets	(41,247)	(42,918)	(47,457)
Subtotal	(36)	3,287	2,070
Effect of asset ceiling (Note 1)	—	—	1,833
Present value of unfunded defined benefit obligations	3,171	4,085	3,931
Net retirement benefit liabilities (defined benefit asset)	3,135	7,372	7,834
Amounts in the consolidated statement of financial position			
Retirement benefit liabilities	5,296	7,649	8,225
Net defined benefit asset (Note 2)	(2,161)	(277)	(391)

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, 2016 (January 1, 2016 – December 31, 2016)	Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)
Present value of defined benefit obligations at beginning of period	44,382	50,290
Current service cost	2,797	3,078
Interest expenses	654	519
Remeasurements		
Actuarial differences arising from changes in demographic assumptions	12	11
Actuarial differences arising from changes in financial assumptions	2,579	(1,257)
Actuarial differences arising from performance adjustments	1,375	1,766
Past service cost	—	(28)
Retirement benefits paid	(1,056)	(1,372)
Effect of exchange rate changes	(336)	451
Other	(118)	—
Present value of defined benefit obligations at end of period	50,290	53,458

Note: Weighted-average duration of defined benefit obligations was 18.5 years and 18.1 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, 2016 (January 1, 2016 – December 31, 2016)	Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)
Fair value of plan assets at beginning of period	41,247	42,918
Interest income	590	412
Remeasurements		
Gain on plan assets	(124)	1,960
Contribution from employers	2,271	2,312
Retirement benefits paid	(587)	(644)
Effect of exchange rate changes	(354)	500
Other	(125)	—
Fair value of plan assets at end of period	42,918	47,457

Note: Employers are expected to contribute ¥1,892 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, 2016 (January 1, 2016 – December 31, 2016)	Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)
Effect of asset ceiling at beginning of period	—	—
Remeasurements		
Changes in the effect of asset ceiling	—	1,833
Effect of asset ceiling at end of period	—	1,833

5) Details of plan assets

The details of plan assets are as follows.

Date of transition to IFRS (as of January 1, 2016)

(Millions of Yen)

	Quoted in an active market	Unquoted in an active market	Total
Debt instruments	3,684	16,638	20,323
Equity instruments	2,825	10,458	13,283
Cash and cash equivalents	1,490	696	2,185
Life insurance company general account	—	3,862	3,862
Other	1,253	340	1,593
Total plan assets	9,253	31,994	41,247

Fiscal Year Ended December 31, 2016 (as of December 31, 2016)

(Millions of Yen)

	Quoted in an active market	Unquoted in an active market	Total
Debt instruments	2,954	18,965	21,919
Equity instruments	1,909	11,021	12,930
Cash and cash equivalents	2,639	60	2,698
Life insurance company general account	—	4,125	4,125
Other	455	791	1,246
Total plan assets	7,957	34,961	42,918

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

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.

	Date of transition to IFRS (as of January 1, 2016)	Fiscal Year Ended December 31, 2016 (as of December 31, 2016)	Fiscal Year Ended December 31, 2017 (as of December 31, 2017)
Discount rate	Mainly 1.6%	Mainly 1.1%	Mainly 1.1%

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, 2016 (as of December 31, 2016)	Fiscal Year Ended December 31, 2017 (as of December 31, 2017)
Discount rate	0.5% increase	¥3,678 million decrease	¥3,752 million decrease
	0.5% decrease	¥4,222 million increase	¥4,299 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 ¥4,105 million and ¥3,787 million for the previous fiscal year and the fiscal year under review, respectively.

16. Other current liabilities

The details of other current liabilities are as follows.

	(Millions of Yen)		
	Date of transition to IFRS (as of January 1, 2016)	Fiscal Year Ended December 31, 2016 (as of December 31, 2016)	Fiscal Year Ended December 31, 2017 (as of December 31, 2017)
Accrued expenses	15,011	17,365	23,670
Accrued bonuses	5,515	6,091	6,239
Accrued consumption taxes, etc.	2,714	4,590	4,680
Accrued compensated absences	1,394	1,762	1,926
Other	1,566	1,792	1,485
Total	26,199	31,600	38,001

17. 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, 2016	827,779	620,834
Increase during the period	—	—
Decrease during the period	—	—
Balance at December 31, 2016	827,779	620,834
Increase during the period	—	—
Decrease during the period	—	—
Balance at December 31, 2017	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, 2016	25,132	41,101
Increase due to purchase of treasury shares based on a resolution by the Board of Directors	5,718	14,000
Increase due to purchase of shares of less than one unit	0	0
Decrease due to exercise of stock option rights	(866)	(1,449)
Balance at December 31, 2016	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

(4) Other components of equity

Changes in other components of equity are as follows.

(Millions of Yen)

	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)	Subscription rights to shares	Total
Balance at January 1, 2016	11,449	(7)	—	—	4,505	15,947
Other comprehensive income	(3,974)	12	(14,430)	(2,974)	—	(21,367)
Disposal of treasury shares	—	—	—	—	(148)	(148)
Share-based payments	—	—	—	—	575	575
Transfer from other components of equity to retained earnings	—	—	—	2,974	(24)	2,950
Balance at December 31, 2016	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

18. Dividends

Fiscal Year Ended December 31, 2016 (January 1, 2016 – December 31, 2016)

(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 25, 2016	Common shares	4,408	7.4	December 31, 2015	March 9, 2016
Board of Directors meeting on August 5, 2016	Common shares	4,767	8.0	June 30, 2016	September 5, 2016

(2) Dividends whose record date is in the fiscal year ended December 31, 2016 and whose effective date is in the fiscal year ended December 31, 2017

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

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 ending 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

19. Selling, general and administrative expenses

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

(Millions of Yen)

	Fiscal Year Ended December 31, 2016 (January 1, 2016 – December 31, 2016)	Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)
Freight-out expenses	37,783	41,923
Promotion expenses	19,577	23,817
Advertising expenses	20,914	22,830
Employee benefits expense	31,988	33,514
Depreciation and amortization expense	4,732	5,075
Research and development expense	6,071	6,554
Others	27,630	27,995
Total	148,695	161,707

20. Employee benefits expense

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

(Millions of Yen)

	Fiscal Year Ended December 31, 2016 (January 1, 2016 – December 31, 2016)	Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)
Salaries and bonuses	43,933	46,632
Employee and legal benefits expenses	5,153	5,711
Retirement benefit expenses	6,700	6,630
Other	2,445	1,092
Total	58,231	60,065

21. Other income and other expenses

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

(Millions of Yen)

	Fiscal Year Ended December 31, 2016 (January 1, 2016 – December 31, 2016)	Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)
Other income		
Gain on insurance adjustment (Note 1)	—	978
Subsidy income	1,003	92
Gain on sales of scraps	327	294
Other	502	799
Total other income	1,832	2,163
Other expenses		
Loss on disposal of non-current assets	1,167	928
Impairment losses (Note 2)	1,355	886
Settlement related expenses	754	—
Other	965	848
Total other expenses	4,242	2,662

Notes: 1. In relation to a fire accident which occurred at the Neemrana Factory 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 9 "Property, plant and equipment."

22. Financial income and financial costs

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

(Millions of Yen)

	Fiscal Year Ended December 31, 2016 (January 1, 2016 – December 31, 2016)	Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)
Financial income		
Interest income (Note 1)	2,026	2,458
Dividend income (Note 2)	357	411
Gain on sales of available-for-sale financial assets	5,066	4,937
Foreign exchange gains	—	945
Gain on valuation of derivatives	1,116	—
Total financial income	8,565	8,750
Financial costs		
Interest expenses (Note 3)	853	928
Foreign exchange losses	8,500	—
Loss on valuation of derivatives	—	1,126
Other	84	109
Total financial costs	9,436	2,163

Notes: 1. Interest income was generated from cash and cash equivalents, loans, and receivables.

2. Dividend income was generated from available-for-sale financial assets.

3. Interest expenses were generated from financial liabilities measured at amortized cost.

23. 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, 2016 (January 1, 2016 – December 31, 2016)

(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)	(4,091)	—	(4,091)	1,115	(2,975)
Subtotal	(4,091)	—	(4,091)	1,115	(2,975)
Items that may be reclassified to profit or loss					
Changes in fair value of available-for-sale financial assets	(904)	(5,066)	(5,971)	1,996	(3,974)
Changes in fair value of cash flow hedges	(158)	196	38	(13)	25
Exchange differences on translation in foreign operations	(17,870)	(1)	(17,871)	—	(17,871)
Subtotal	(18,933)	(4,871)	(23,804)	1,984	(21,820)
Total other comprehensive income	(23,024)	(4,871)	(27,894)	3,099	(24,795)

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

24. 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, 2016 (January 1, 2016 – December 31, 2016)	Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)
Profit attributable to owners of parent (Millions of Yen)	46,971	52,772
Weighted-average number of common shares (Thousands of Shares)	594,109	587,322
Basic earnings per share (Yen)	79.06	89.85

(2) Diluted earnings per share

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

	Fiscal Year Ended December 31, 2016 (January 1, 2016 – December 31, 2016)	Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)
Profit attributable to owners of parent (Millions of Yen)	46,971	52,772
Adjustment of profit used to calculate diluted earnings per share (Millions of Yen)	167	167
Profit used to calculate diluted earnings per share (Millions of Yen)	47,138	52,939
Weighted-average number of common shares (Thousands of Shares)	594,109	587,322
Impact of dilutive potential common shares		
Increase in the number of common shares from exercise of convertible bond-type bonds with subscription rights to shares (Thousands of Shares)	20,755	20,755
Increase in the number of common shares from exercise of stock options (Thousands of Shares)	279	—
Weighted-average number of diluted common shares (Thousands of Shares)	615,143	608,077
Diluted earnings per share (Yen)	76.63	87.06
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

25. 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	Unicharm Corporation
Date of resolution	September 16, 2010	April 16, 2015
Category and number of persons granted (Persons)	Directors of the Company: 9 Directors of the subsidiaries: 1 Employees of the Company: 1,651 Employees of the subsidiaries: 1,397	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)	7,784,100 common shares	3,202,500 common shares
Date of grant	November 1, 2010	June 1, 2015
Conditions for vesting	- Any person who has been allotted the subscription rights to shares may not exercise such rights unless the closing price of the Company's common shares at the Tokyo Stock Exchange is ¥1,600 per share ("condition price") or over on at least one occasion during the period from the allotment date through March 31, 2014. 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 subscription rights to shares must be, even at the time of exercise of such rights, a Director or an employee of the Company or its subsidiary, except in cases where he or she has resigned from the position as Director of the Company or its 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.	- Any person who has been allotted the subscription rights to shares 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 subscription rights to shares 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 subscription rights to shares passed away, his/her successor may exercise the rights.
Service period	November 1, 2010 — September 30, 2012	June 1, 2015 — May 31, 2017
Exercise period	October 1, 2012 — September 30, 2016	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, 2016 (January 1, 2016 – December 31, 2016)		Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)	
	Number of shares (Shares)	Weighted-average exercise price (Yen)	Number of shares (Shares)	Weighted-average exercise price (Yen)
Non-vested:				
January 1 - Outstanding	3,171,600	2,901	3,122,400	2,901
Granted	—	—	—	—
Forfeited	(49,200)	2,901	(24,300)	2,901
Vested	—	—	3,098,100	2,901
December 31 - Outstanding	3,122,400	2,901	—	—
Vested:				
January 1 - Outstanding	1,005,900	1,096	—	—
Vested	—	—	3,098,100	2,901
Exercised	(866,400)	1,096	—	—
Forfeited	(139,500)	1,096	(15,300)	2,901
December 31 - Outstanding	—	—	3,082,800	2,901

The weighted-average remaining contract period of outstanding stock options was 5.4 years and 4.4 years at the end of the previous fiscal year and the fiscal year under review, respectively.

The weighted-average share price as of the exercise dates was ¥2,349 in the previous fiscal year.

(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, 2016 (January 1, 2016 – December 31, 2016)	Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)
Cost of sales	178	61
Selling, general and administrative expenses	397	172
Total	575	233

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

None.

26. Financial instruments

(1) Categorization of financial instruments

The details of financial instruments by category are as follows.

(Millions of Yen)

	Date of transition to IFRS (as of January 1, 2016)	Fiscal Year Ended December 31, 2016 (as of December 31, 2016)	Fiscal Year Ended December 31, 2017 (as of December 31, 2017)
<Financial assets>			
Cash and cash equivalents	101,966	138,043	169,903
Financial assets measured at fair value through profit or loss (derivatives)			
Other financial assets (current)	51	1,209	195
Loans and receivables			
Trade and other receivables	98,576	90,637	98,821
Other financial assets (current)	36,537	37,700	58,925
Other financial assets (non-current)	1,715	1,759	14,390
Held-to-maturity investments			
Other financial assets (current)	—	29	—
Other financial assets (non-current)	31	—	—
Available-for-sale financial assets			
Other financial assets (non-current)	23,869	23,629	19,242
Total	262,746	293,006	361,474
< Financial liabilities >			
Financial liabilities measured at fair value through profit or loss (derivatives)			
Other financial liabilities (current)	59	24	196
Financial liabilities measured at amortized cost			
Trade and other payables	131,737	129,206	138,480
Bonds and borrowings	63,470	67,943	64,189
Other financial liabilities (current)	115	42	43
Other financial liabilities (non-current)	2,349	2,391	2,111
Total	197,729	199,605	205,019

(2) 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, 2016 (January 1, 2016 – December 31, 2016)	Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)
Equity attributable to owners of parent (Millions of Yen)	352,098	387,567
Return on equity attributable to owners of parent (ROE) (%)	13.4	14.3

(3) 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 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 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)

	Date of transition to IFRS (as of January 1, 2016)			Fiscal Year Ended December 31, 2016 (as of December 31, 2016)			Fiscal Year Ended December 31, 2017 (as of December 31, 2017)		
	Contract amount		Fair value	Contract amount		Fair value	Contract amount		Fair value
		Contract amount due after one year			Contract amount due after one year			Contract amount due after one year	
Foreign exchange forward contracts: Selling USD	23,893	—	(1)	23,047	—	236	5,488	—	10
Foreign exchange forward contracts: Buying USD	2,004	—	(17)	490	—	33	1,826	—	(10)
Foreign exchange forward contracts: Buying EUR	101	—	(3)	—	—	—	87	—	(0)
Foreign exchange forward contracts: Buying SEK	46	—	0	48	—	1	38	—	(0)
Foreign exchange forward contracts: Selling JPY	8,139	—	43	8,523	—	829	8,253	—	161
Foreign exchange forward contracts: Buying THB	1,279	—	(25)	1,058	—	34	1,271	—	13
Foreign exchange forward contracts: Selling AUD	758	—	(3)	1,381	—	7	691	—	(0)
Currency swaps: Received in CNY Paid in JPY	—	—	—	—	—	—	12,103	12,103	(136)
Total	36,219	—	(6)	34,547	—	1,139	29,756	12,103	38

Derivatives to which hedge accounting is applied

(Millions of Yen)

	Major hedged item	Date of transition to IFRS (as of January 1, 2016)			Fiscal Year Ended December 31, 2016 (as of December 31, 2016)			Fiscal Year Ended December 31, 2017 (as of December 31, 2017)		
		Contract amount		Fair value	Contract amount		Fair value	Contract amount		Fair value
			Contract amount due after one year			Contract amount due after one year			Contract amount due after one year	
Foreign exchange forward contracts: Buying USD	Trade payables	1,543	—	14	549	—	47	—	—	—
Foreign exchange forward contracts: Buying EUR	Trade payables	769	—	(14)	—	—	—	—	—	—
Foreign exchange forward contracts: Buying JPY	Trade payables	75	—	(1)	726	—	(18)	374	—	(48)
Foreign exchange forward contracts: Selling USD	Trade receivables	—	—	—	514	—	11	—	—	—
Foreign exchange forward contracts: Selling CAD	Trade payables	—	—	—	526	—	6	416	—	9
Total		2,388	—	(1)	2,314	—	46	790	—	(39)

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, 2016 (January 1, 2016 – December 31, 2016)	Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)
USD	(20)	10
CNY	(13)	121
Total	(32)	131

(b) Price risk

Equity instruments held by the Group are mainly shares related to businesses or capital alliances with business partners, 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 each fiscal year is as follows.

(Millions of Yen)

After maturity	Date of transition to IFRS (as of January 1, 2016)	Fiscal Year Ended December 31, 2016 (as of December 31, 2016)	Fiscal Year Ended December 31, 2017 (as of December 31, 2017)
In 30 days or less	6,180	3,590	4,787
After 30 days through 60 days	989	1,801	1,056
After 60 days through 90 days	985	263	467
After 90 days through 120 days	504	570	643
After 120 days	691	652	844
Total	9,349	6,875	7,799

(b) 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, 2016 (January 1, 2016 – December 31, 2016)	Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)
Balance at beginning of period	240	766
Increase during the period due to provision	632	798
Decrease during the period resulting from settlement	(2)	(22)
Decrease during the period due to reversal	(130)	(140)
Decrease due to change in scope of consolidation	—	(0)
Effect of exchange rate changes	26	(21)
Balance at end of period	766	1,381

There were no significant financial assets which were individually determined that they were impaired as of the date of transition to IFRS, 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.

Date of transition to IFRS (as of January 1, 2016)

(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	131,497	230	2	—	7	1	131,737
Bonds and borrowings	3,847	—	—	10,758	50,000	—	64,605
Lease obligations	115	39	33	28	24	30	268
Other financial liabilities	—	—	—	—	—	2,196	2,196
Derivative liabilities							
Cash outflows	59	—	—	—	—	—	59
Total	135,517	269	35	10,785	50,031	2,227	198,864

Fiscal Year Ended December 31, 2016 (as of December 31, 2016)

(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	129,013	183	2	7	—	1	129,206
Bonds and borrowings	6,753	3,275	7,710	50,275	275	549	68,837
Lease obligations	42	35	32	28	24	26	186
Other financial liabilities	—	—	—	—	—	2,246	2,246
Derivative liabilities							
Cash outflows	24	—	—	—	—	—	24
Total	135,831	3,494	7,744	50,309	299	2,822	200,499

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 fiscal year under review are up to 2031. Lease obligations are included in “Other financial liabilities” in the consolidated statement of financial position.

(4) 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)

	Date of transition to IFRS (as of January 1, 2016)			
	Level 1	Level 2	Level 3	Total
<Financial assets>				
Financial assets measured at fair value through profit or loss				
Derivative assets	—	51	—	51
Available-for-sale financial assets				
Shares	23,158	5	574	23,737
Other	—	109	23	132
Total	23,158	165	597	23,921
<Financial liabilities>				
Financial liabilities measured at fair value through profit or loss				
Derivative liabilities	—	59	—	59
Total	—	59	—	59

(Millions of Yen)

	Fiscal Year Ended December 31, 2016 (as of December 31, 2016)			
	Level 1	Level 2	Level 3	Total
<Financial assets>				
Financial assets measured at fair value through profit or loss				
Derivative assets	—	1,209	—	1,209
Available-for-sale financial assets				
Shares	22,790	5	716	23,511
Other	—	94	23	118
Total	22,790	1,309	739	24,838
<Financial liabilities>				
Financial liabilities measured at fair value through profit or loss				
Derivative liabilities	—	24	—	24
Total	—	24	—	24

(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

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.

Derivative assets and derivative liabilities

The fair value of foreign exchange forward contracts 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, 2016 (January 1, 2016 – December 31, 2016)	Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)
Balance at beginning of period	597	739
Gains or losses		
Profit for the period (Note 1)	(16)	—
Other comprehensive income (Note 2)	195	137
Purchase	3	2
Sale and settlement	(40)	(6)
Balance at end of period	739	872

Notes: 1. Gains or losses recognized in profit for the period are included in “Financial income” or “Financial costs” in the consolidated statement of income.

2. Gains or losses recognized in other comprehensive income are included in “Changes in fair value of available-for-sale financial assets” 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 unlisted shares, and their fair value is measured by the department in charge 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.

Significant unobservable inputs for financial instruments categorized in Level 3 are mainly illiquidity discounts (30%), and the fair value decreases (increases) with higher (lower) illiquidity discounts. Changes in the fair value in the case where unobservable inputs are replaced by reasonably possible alternative assumptions are not material.

2) Carrying amount and fair value of financial assets and financial liabilities which are not measured at fair value on a recurring basis

Financial assets and financial liabilities which are not measured at fair value on a recurring basis are 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).

	Date of transition to IFRS (as of January 1, 2016)		Fiscal Year Ended December 31, 2016 (as of December 31, 2016)		Fiscal Year Ended December 31, 2017 (as of December 31, 2017)	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
<Financial assets>						
Held-to-maturity investments						
Debt securities	31	35	29	34	—	—
<Financial liabilities>						
Financial liabilities measured at amortized cost						
Bonds and borrowings	63,470	63,645	67,943	68,288	64,189	64,432

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 subscription rights to shares 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 subscription rights to shares is calculated by deducting the amount equivalent to subscription rights to shares from the market price of convertible bond-type bonds with subscription rights to shares. The amount equivalent to subscription rights to shares 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.

27. 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 Industries Co., Ltd.	Taipei, Taiwan	Personal care	52.6
Uni-Charm (Thailand) Co., Ltd.	Bangpakong, Kingdom of Thailand	Personal care	94.2
Unicharm Consumer Products (China) Co., Ltd. (Note)	Shanghai, People's Republic of China	Personal care	75.0 (75.0)
LG Unicharm Co., Ltd.	Gumi, Republic of Korea	Personal care	51.0
PT Uni-Charm Indonesia	Jakarta, Republic of Indonesia	Personal care	74.0
Unicharm Gulf Hygienic Industries Ltd.	Riyadh, Kingdom of Saudi Arabia	Personal care	95.0
Unicharm India Private Ltd.	Gurgaon, Haryana, Republic of India	Personal care	100.0
Unicharm Australasia Holding Pty Ltd.	Dingley, Victoria, Commonwealth of Australia	Personal care	100.0
The Hartz Mountain Corporation	Secaucus, New Jersey, United States of America	Pet care	51.0
Unicharm (China) Co., Ltd	Shanghai, People's Republic of China	Personal care	100.0
UNICHARM DO BRASIL INDÚSTRIA E COMÉRCIO DE PRODUTOS DE HIGIENE LTDA.	Jaguariúna, São Paulo, Federative Republic of Brazil	Personal care	100.0
Unicharm Middle East & North Africa Hygienic Industries Company S.A.E.	Ramadan, Arab Republic of Egypt	Personal care	95.0

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.

28. Related parties

(1) Transactions with related parties

Transactions between the Group and related parties are as follows.

Date of transition to IFRS (as of January 1, 2016)

The outstanding balance of insurance premiums paid to Takahara Kosan K.K. as of the date of transition to IFRS (January 1, 2016) was ¥53 million.

Fiscal Year Ended December 31, 2016 (January 1, 2016 – December 31, 2016)

(Millions of Yen)

Name	Transactions	Transaction amount (Note 4)	Outstanding balance (Note 4)
Takahara Kosan K.K. (Note 2)	To insure	118	39
	Rent of land	119	—
Unitec Corporation (Note 3)	Rent of land	11	—
	Purchase of land	13	—

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.
- (3) The purchase price of land is determined in reference to the appraisal value by a real estate appraiser.
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 45.3% indirectly by Mr. Takahisa Takahara, CEO of the Company, 2.1% indirectly by Mr. Keiichiro Takahara, Director, and 0.6% directly and 51.5% indirectly by his close relatives.
4. The above amounts do not include consumption and other taxes.

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.
- (3) The purchase price of land is determined in reference to the appraisal value by a real estate appraiser.
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.

(2) Key management personnel compensation

Key management personnel compensation is as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2016 (January 1, 2016 – December 31, 2016)	Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)
Basic compensation	1,007	1,045
Bonuses	21	23
Share-based payments	16	7
Total	1,044	1,074

29. 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, 2016 (as of December 31, 2016)	Fiscal Year Ended December 31, 2017 (as of December 31, 2017)
Property, plant and equipment	3,459	13,684
Intangible assets	412	222
Total	3,871	13,907

30. Subsequent events

None.

31. First-time adoption

These consolidated financial statements are the Group's first set of financial statements prepared in conformity with IFRS. The most recent consolidated financial statements prepared in accordance with J-GAAP are for the fiscal year ended December 31, 2016. The date of transition to IFRS is January 1, 2016.

Accounting policies stated in Note 3 "Significant accounting policies" are adopted to prepare consolidated financial statements for the consolidated fiscal year under review and the previous consolidated fiscal year, and consolidated statement of financial position on the date of transition to IFRS.

(1) Exemptions under IFRS 1

IFRS 1 requires that, in principle, an entity adopting IFRS for the first time must apply the procedures required by IFRS retrospectively. However, IFRS 1 also provides that first-time adopters may apply optional exemptions to certain procedures required by IFRS. Stated below are the exemptions under IFRS 1 that the Group has elected to apply in the transition from J-GAAP.

(i) Business combinations

IFRS 1 allows IFRS 3 "Business Combinations" (hereafter "IFRS 3") provisions to be applied to previous business combinations from a certain date prior to the transition to IFRS to all later combinations. The Group has elected to apply IFRS 3 retrospectively to business combinations that occurred on or after September 1, 2010. IFRS 3 therefore is not applied to business combinations that occurred on or before August 31, 2010.

(ii) Cumulative exchange differences on translation in foreign operations

IFRS 1 allows cumulative exchange differences on translation in foreign operations to be reset to zero as of the date of transition to IFRS. The Group has elected to reset the cumulative exchange differences on translation in foreign operations to zero as of the date of transition to IFRS.

(iii) Leases

IFRS 1 allows first-time adopters to determine whether an arrangement contains a lease as of the date of transition to IFRS. The Group has elected to determine whether an arrangement contains a lease based on the facts and conditions that exist on the date of transition to IFRS.

(iv) Deemed cost

IFRS 1 allows first-time adopters to use the fair value of property, plant and equipment as of the date of transition to IFRS as a deemed cost. The Group uses the fair value as of the date of transition to IFRS as the deemed cost for certain items of property, plant and equipment.

(2) Reconciliation from J-GAAP to IFRS

In preparing the consolidated financial statements in conformity with IFRS, the Group has made the necessary adjustments to amounts previously reported in its consolidated financial statements prepared in accordance with J-GAAP. The effect of the transition from J-GAAP to IFRS is presented in the following reconciliation charts.

(i) Reconciliation of equity as of the date of transition to IFRS (as of January 1, 2016)

(Millions of Yen)

J-GAAP	J-GAAP	1) Reclassifications	2) Adjustments of recognition and measurement	IFRS	Notes	IFRS
Assets						Assets
Current assets						Current assets
Cash and deposits	138,503	(36,537)	—	101,966		Cash and cash equivalents
Notes and accounts receivable – trade	95,476	3,100	—	98,576		Trade and other receivables
Merchandise and finished goods	30,169	(30,169)	—	—		
Raw materials and supplies	32,499	(32,499)	—	—		
Work in process	1,360	(1,360)	—	—		
	—	64,029	—	64,029		Inventories
Deferred tax assets	17,024	(17,024)	—	—		
	—	36,589	—	36,589		Other current financial assets
Other	16,809	(3,300)	—	13,509		Other current assets
Allowance for doubtful accounts	(148)	148	—	—		
Total current assets	331,693	(17,024)	—	314,669		Total current assets
Non-current assets						Non-current assets
Property, plant and equipment	247,808	(5,670)	(2,446)	239,692	G	Property, plant and equipment
Intangible assets	89,828	—	(38,094)	51,734	A, J	Intangible assets
Investment securities	23,611	(23,611)	—	—		
Deferred tax assets	2,195	17,024	(6,153)	13,067	E	Deferred tax assets
Net defined benefit asset	2,160	(2,160)	—	—		
	—	204	—	204		Investments accounted for using equity method
	—	25,254	361	25,615	C	Other non-current financial assets
Other	5,393	5,893	(68)	11,218		Other non-current assets
Allowance for doubtful accounts	(91)	91	—	—		
Total non-current assets	370,907	17,024	(46,401)	341,531		Total non-current assets
Total assets	702,601	—	(46,401)	656,200		Total assets

(Millions of Yen)

J-GAAP	J-GAAP	1) Reclassifications	2) Adjustments of recognition and measurement	IFRS	Notes	IFRS
Liabilities and net assets						Liabilities and equity
Current liabilities						Current liabilities
Notes and accounts payable – trade	93,799	37,937	–	131,737		Trade and other payables
Short-term loans payable	3,846	–	–	3,847		Bonds and borrowings
Accounts payable – other	40,683	(40,683)	–	–		
Income taxes payable	7,667	–	–	7,668		Income tax payables
Provision for bonuses	5,514	(5,514)	–	–		
	–	174	–	174		Other current financial liabilities
Other	17,117	7,944	1,138	26,199	B	Other current liabilities
Total current liabilities	168,630	(144)	1,138	169,624		Total current liabilities
Non-current liabilities						Non-current liabilities
Convertible bond-type bonds with subscription rights to shares	54,421	(54,421)	–	–		
Long-term loans payable	10,757	54,421	(5,557)	59,623	I	Bonds and borrowings
Deferred tax liabilities	8,160	144	(5,214)	3,091	E	Deferred tax liabilities
Net defined benefit liability	5,295	–	–	5,296		Retirement benefit liabilities
	–	2,349	–	2,349		Other non-current financial liabilities
Other	4,243	(2,349)	1,006	2,900	B	Other non-current liabilities
Total non-current liabilities	82,878	144	(9,764)	73,258		Total non-current liabilities
Total liabilities	251,509	–	(8,627)	242,883		Total liabilities
Shareholders' equity						Equity attributable to owners of parent
Capital stock	15,992	–	–	15,993		Capital stock
Capital surplus	6,858	49,074	(55,933)	–	A	Share premium
Retained earnings	366,777	(49,074)	41,173	358,875	J	Retained earnings
Treasury shares	(41,101)	–	–	(41,101)		Treasury shares
Valuation difference on available-for-sale securities	11,164	(11,164)	–	–		
Deferred gains or losses on hedges	(6)	6	–	–		
Revaluation reserve for land	(157)	157	–	–		
Foreign currency translation adjustment	33,804	(33,804)	–	–		
Remeasurements of defined benefit plans	(6,136)	6,136	–	–		
Subscription rights to shares	276	(276)	–	–		
	–	38,945	(22,998)	15,947	C, D, F, I	Other components of equity
	387,472	–	(37,759)	349,714		Total equity attributable to owners of parent
Non-controlling interests	63,619	–	(16)	63,604		Non-controlling interests
Total net assets	451,091	–	(37,775)	413,317		Total equity
Total liabilities and net assets	702,601	–	(46,401)	656,200		Total liabilities and equity

(ii) Reconciliations of equity as of the end of the fiscal year ended December 31, 2016 (as of December 31, 2016)

(Millions of Yen)

J-GAAP	J-GAAP	1) Reclassifications	2) Adjustments of recognition and measurement	IFRS	Notes	IFRS
Assets						Assets
Current assets						Current assets
Cash and deposits	175,742	(37,700)	—	138,043		Cash and cash equivalents
Notes and accounts receivable – trade	88,484	2,152	—	90,637		Trade and other receivables
Securities	29	(29)	—	—		
Merchandise and finished goods	30,792	(30,792)	—	—		
Raw materials and supplies	25,881	(25,881)	—	—		
Work in process	728	(728)	—	—		
	—	57,403	—	57,403		Inventories
Deferred tax assets	12,613	(12,613)	—	—		
	—	38,938	—	38,938		Other current financial assets
Other	18,651	(4,036)	—	14,615		Other current assets
Allowance for doubtful accounts	(674)	674	—	—		
Total current assets	352,250	(12,614)	—	339,637		Total current assets
Non-current assets						Non-current assets
Property, plant and equipment	244,325	(5,250)	(2,446)	236,629	G	Property, plant and equipment
Intangible assets	83,082	—	(34,487)	48,595	A, J	Intangible assets
Investment securities	23,675	(23,675)	—	—		
Deferred tax assets	2,843	12,614	(6,502)	8,955	E	Deferred tax assets
Net defined benefit asset	276	(276)	—	—		
	—	705	—	705		Investments accounted for using equity method
	—	24,847	540	25,388	C	Other non-current financial assets
Other	5,178	3,559	(54)	8,684		Other non-current assets
Allowance for doubtful accounts	(90)	90	—	—		
Total non-current assets	359,290	12,614	(42,949)	328,955		Total non-current assets
Total assets	711,541	—	(42,949)	668,592		Total assets

(Millions of Yen)

J-GAAP	J-GAAP	1) Reclassifi- cations	2) Adjustments of recognition and measurement	IFRS	Notes	IFRS
Liabilities and net assets						Liabilities and equity
Current liabilities						Current liabilities
Notes and accounts payable – trade	93,257	35,948	–	129,206		Trade and other payables
Short-term loans payable	6,753	–	–	6,753		Bonds and borrowings
Accounts payable – other	40,573	(40,573)	–	–		
Income taxes payable	9,337	–	–	9,337		Income tax payables
Provision for bonuses	6,090	(6,090)	–	–		
	–	65	–	65		Other current financial liabilities
Other	19,982	10,438	1,179	31,600	B	Other current liabilities
Total current liabilities	175,994	(213)	1,179	176,962		Total current liabilities
Non-current liabilities						Non-current liabilities
Convertible bond-type bonds with subscription rights to shares	53,441	(53,441)	–	–		
Long-term loans payable	12,084	53,441	(4,336)	61,190	I	Bonds and borrowings
Deferred tax liabilities	9,093	213	(6,433)	2,873	E	Deferred tax liabilities
Net defined benefit liability	7,648	–	–	7,649		Retirement benefit liabilities
	–	2,391	–	2,391		Other non-current financial liabilities
Other	3,304	(2,391)	2,227	3,141	B	Other non-current liabilities
Total non-current liabilities	85,572	213	(8,542)	77,243		Total non-current liabilities
Total liabilities	261,567	–	(7,362)	254,205		Total liabilities
Shareholders' equity						Equity attributable to owners of parent
Capital stock	15,992	–	–	15,993		Capital stock
Capital surplus	5,586	50,648	(56,235)	–	A	Share premium
Retained earnings	401,388	(50,648)	41,059	391,800	J	Retained earnings
Treasury shares	(53,652)	–	–	(53,652)		Treasury shares
Valuation difference on available-for-sale securities	7,047	(7,047)	–	–		
Deferred gains or losses on hedges	4	(4)	–	–		
Revaluation reserve for land	(157)	157	–	–		
Foreign currency translation adjustment	19,378	(19,378)	–	–		
Remeasurements of defined benefit plans	(8,286)	8,286	–	–		
Subscription rights to shares	345	(345)	–	–		
	–	18,333	(20,375)	(2,042)	C, D, F, I	Other components of equity
	387,648	–	(35,551)	352,098		Total equity attributable to owners of parent
Non-controlling interests	62,325	–	(36)	62,289		Non-controlling interests
Total net assets	449,974	–	(35,587)	414,387		Total equity
Total liabilities and net assets	711,541	–	(42,949)	668,592		Total liabilities and equity

(iii) Reconciliations of comprehensive income for the previous fiscal year (January 1, 2016 – December 31, 2016)

(Millions of Yen)

J-GAAP	J-GAAP	1) Reclassifications	2) Adjustments of recognition and measurement	IFRS	Notes	IFRS
Net sales	710,965	–	(106,313)	604,653	H	Net sales
Cost of sales	376,510	2	329	376,842	B, D	Cost of sales
Gross profit	334,455	(2)	(106,642)	227,811		Gross profit
Selling, general and administrative expenses	256,178	676	(108,160)	148,695	A, B, D, H	Selling, general and administrative expenses
	–	1,855	(24)	1,832		Other income
	–	6,011	(1,769)	4,242		Other expenses
	–	9,545	(980)	8,565		Financial income
	–	9,194	242	9,436		Financial costs
Non-operating income	6,176	(6,176)	–	–		
Non-operating expenses	12,605	(12,605)	–	–		
Extraordinary income	5,223	(5,223)	–	–		
Extraordinary losses	3,277	(3,277)	–	–		
Profit before income taxes	73,794	–	2,041	75,835		Profit before tax
Total income taxes	25,092	–	(515)	24,577	E	Income tax expenses
Profit	48,702	–	2,556	51,259		Profit for the period
Profit attributable to non- controlling interests	4,568	–	(281)	4,288		Profit attributable to Non-controlling interests
Profit attributable to owners of parent	44,134	–	2,837	46,971		Owners of parent

(Millions of Yen)

J-GAAP	J-GAAP	1) Reclassifi- cations	2) Adjustments of recognition and measurement	IFRS	Notes	IFRS
Profit	48,702	—	2,556	51,259		Profit for the period
Other comprehensive income						Other comprehensive income, net of tax
Valuation difference on available-for-sale securities	(4,116)	—	142	(3,974)	C	Changes in fair value of available-for-sale financial assets
Deferred gains or losses on hedges	24	—	—	25		Changes in fair value of cash flow hedges
Foreign currency translation adjustment	(17,845)	—	(25)	(17,871)		Exchange differences on translation in foreign operations
Remeasurements of defined benefit plans, net of tax	(2,130)	—	(845)	(2,975)	D	Remeasurements related to net defined benefit liabilities (assets)
Total other comprehensive income	(24,068)	—	(727)	(24,795)		Total other comprehensive income, net of tax
Comprehensive income	24,634	—	1,829	26,463		Total comprehensive income

(iv) Notes on reconciliation of equity and comprehensive income

1) Reclassifications

Reclassifications are made to comply with IFRS provisions. The main reclassifications are as follows.

- Under J-GAAP, time deposits with maturities over three months were presented as “Cash and deposits.” Under IFRS, they are presented as “Other current financial assets.”
- Under J-GAAP, “Allowance for doubtful accounts” was presented as a separate component and accounts receivable-other was included in “Other (current assets).” Under IFRS, they are included in “Trade and other receivables.”
- Under J-GAAP, “Merchandise and finished goods,” “Raw materials and supplies,” and “Work in process” were presented as separate components. Under IFRS, they are all presented as “Inventories.”
- Under J-GAAP, “Deferred tax assets” and “Deferred tax liabilities” were classified as current items. Under IFRS, they are presented as non-current items.
- Under J-GAAP, land was presented as “Property, plant and equipment.” Under IFRS, a portion of land is presented as “Other non-current assets.”
- Under J-GAAP, “Accounts payable - other” was presented as a separate component. Under IFRS, this is presented as “Trade and other payables.”
- Under J-GAAP, “Convertible bond-type bonds with subscription rights to shares” and “Loans payable” were presented as separate components. Under IFRS, they are presented as “Bonds and borrowings.”
- Under J-GAAP, “Provision for bonuses” was presented as a separate component. Under IFRS, this is presented as “Other current liabilities.”
- Under IFRS, “Other financial assets” and “Other financial liabilities” are presented as separate components.
- For items that were presented as “Non-operating income,” “Non-operating expenses,” “Extraordinary income” and “Extraordinary losses” under J-GAAP, reclassification under IFRS entails finance related items to be presented as “Financial income” or “Financial costs,” and all other items as “Other income” or “Other expenses.”
- Adjustments to IFRS resulted in a negative balance in share premium, hence the transfer was made from “Retained earnings” to “Share premium.”

2) Adjustments to recognitions and measurements

A. 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 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 ¥43,635 million on the date of transfer to IFRS and by ¥38,926 million in the fiscal year ended December 31, 2016. Selling, general and administrative expenses decreased by ¥4,519 million in the fiscal year ended December 31, 2016.

B. Liabilities related to compensated absences etc.

Under J-GAAP, unused compensated absences and long-term employee benefits were not recognized. Under IFRS, estimated amounts of liabilities related to these items are recognized as other current liabilities or other non-current liabilities.

As a result, other current liabilities increased by ¥1,138 million on the date of transition to IFRS, and by ¥1,179 million in the fiscal year ended December 31, 2016, while other non-current liabilities increased by ¥1,006 million on the date of transition to IFRS and by ¥2,227 million in the fiscal year ended December 31, 2016.

C. Evaluation of unlisted shares

Under J-GAAP, unlisted shares were measured based on their historical costs and declare impairment as necessary. Under IFRS, these are measured at their fair values.

D. Defined benefit liabilities

Under J-GAAP, actuarial gains and losses were recognized at the time of occurrence in other comprehensive income, amortized by the straight-line method over a period within the average remaining service years of employees and allocated proportionately, and recognized in profit or loss from the fiscal year following the respective fiscal year of occurrence. Under IFRS, these are immediately transferred to retained earnings through other comprehensive income.

Under J-GAAP, past service cost was recognized in other comprehensive income when incurred, amortized by the straight-line method over a period within the average remaining service years of employees and allocated proportionately, and recognized in profit or loss from the fiscal year of occurrence. Under IFRS, these are recognized in profit or loss when incurred.

As a result, the cost of sales and selling, general and administrative expenses combined decreased by ¥1,206 million in the fiscal year ended December 31, 2016.

E. Tax effects

Changes in deferred tax amounts reflecting tax effects show the impact of adjustments made to deferred tax amounts that were required in the transition to IFRS. Under J-GAAP, tax effects on elimination of unrealized gains were calculated based on the effective tax rates of selling entities. Under IFRS, these are calculated based on the effective tax rates of acquiring entities. Furthermore, following a review of the recoverability of deferred income tax assets on the basis of IFRS, additional deferred tax assets are recognized.

F. Cumulative exchange differences on translation in foreign operations

By applying the exemptions as a first-time adopter of IFRS as mentioned above, the Group has transferred the total amount of cumulative exchange differences on translation in foreign operations (¥33,723 million) to retained earnings on the date of transition to IFRS.

G. Deemed cost

By applying the exemption as a first-time adopter of IFRS as mentioned above, the Group uses the fair values, as of the date of transition to IFRS, of a portion of property, plant and equipment (land) as deemed costs. The fair values are assessed based on appraisal valuations, etc., performed

by third parties and evaluated using a method judged to be appropriate by the management. It is classified as Level 3.

The fair value of property, plant and equipment using deemed cost at the date of transition to IFRS is ¥2,870 million, while the carrying amount under J-GAAP was ¥5,449 million.

H. Net sales

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

As a result, net sales decreased by ¥106,313 million in the fiscal year ended December 31, 2016.

I. Convertible bond-type bonds with subscription rights to shares

Under J-GAAP, consideration was not separately recognized for corporate bonds and the subscription rights embedded in such bonds, which were recognized as a whole. Under IFRS, they are presented separately as compound financial instruments for the liability component and the equity component. Accordingly, of the amount that was recognized as liabilities under J-GAAP, the amount related to the subscription rights is recognized in equity under IFRS.

As a result, bonds and borrowings decreased by ¥5,557 million on the date of transfer to IFRS and by ¥4,336 million in the fiscal year ended December 31, 2016.

J. Retained earnings

The effect on retained earnings arising from the transition to IFRS is as follows.

(Millions of Yen)

	Date of transition to IFRS (as of January 1, 2016)	Fiscal Year Ended December 31, 2016 (as of December 31, 2016)
Adjustments related to amortization of goodwill (Refer to Note A)	18,854	23,373
Adjustments related to cumulative exchange differences on translation in foreign operations (Refer to Note F)	33,723	33,723
Adjustments related to unused compensated absences, etc. (Refer to Note B)	(2,144)	(3,407)
Adjustments related to tax effects on elimination of unrealized gains and losses (Refer to Note E)	(202)	(241)
Adjustments related to defined benefit liabilities (Refer to Note D)	(6,024)	(7,799)
Adjustments related to deemed cost of property, plant and equipment (Refer to Note G)	(2,578)	(2,578)
Transfer from retained earnings to share premium	(49,074)	(50,648)
Others	(455)	(2,011)
Total adjustments to retained earnings	(7,902)	(9,589)

The above adjustment items are based on the impact before the consideration of tax effects. The impact of tax effects is included in Others.

(v) Reconciliations of the consolidated cash flow statement for the previous fiscal year (January 1, 2016 - December 31, 2016)

There are no important discrepancies in the consolidated cash flow statement presented under IFRS and the consolidated cash flow statement presented under J-GAAP.

(2) Other

Quarterly financial information for the fiscal year ended December 31, 2017

(Millions of Yen unless otherwise stated)

Cumulative period	First Quarter	Second Quarter	Third Quarter	Full Year
Net sales	146,259	301,980	465,592	641,647
Profit before tax	17,993	38,429	66,966	92,926
Profit attributable to owners of parent	11,589	25,198	43,622	52,772
Basic earnings per share (Yen)	19.64	42.80	74.21	89.85

Each quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Basic earnings per share (Yen)	19.64	23.17	31.45	15.62

2. Non-Consolidated Financial Statements

(1) Non-consolidated financial statements

1) Non-consolidated balance sheet

	(Millions of Yen)			
	Fiscal Year Ended December 31, 2016 (as of December 31, 2016)		Fiscal Year Ended December 31, 2017 (as of December 31, 2017)	
Assets				
Current assets				
Cash and deposits		44,027		89,364
Notes and accounts receivable - trade	*2	33,254	*2	33,013
Merchandise and finished goods		1,871		2,476
Raw materials and supplies		1,339		2,306
Deferred tax assets		7,967		3,473
Short-term loans receivable		3,100		2,828
Other		5,273		5,121
Allowance for doubtful accounts		(10)		(10)
Total current assets	*1	96,825	*1	138,572
Non-current assets				
Property, plant and equipment				
Buildings and structures, net		2,614		2,582
Machinery, equipment and vehicles, net		4,518		5,988
Tools, furniture and fixtures		635		527
Land		2,266		2,267
Construction in progress		1,675		1,186
Other, net		12		16
Total property, plant and equipment		11,722		12,566
Intangible assets				
Goodwill		37,505		34,730
Software		1,155		2,698
Other		1,106		250
Total intangible assets		39,767		37,678
Investments and other assets				
Investment securities		22,968		18,405
Investments in shares and capital of subsidiaries and affiliates		168,613		178,676
Long-term loans receivable		48,917		43,728
Prepaid pension cost		7,528		7,082
Other		1,579		1,462
Allowance for doubtful accounts		(90)		(91)
Allowance for loss on valuation of investment in subsidiaries and affiliates		(27,120)		(26,706)
Total investments and other assets	*1	222,397	*1	222,557
Total non-current assets		273,888		272,800
Total assets		370,713		411,372

	(Millions of Yen)	
	Fiscal Year Ended December 31, 2016 (as of December 31, 2016)	Fiscal Year Ended December 31, 2017 (as of December 31, 2017)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	31,433	31,635
Short-term loans payable	16,140	30,740
Accounts payable - other	15,567	16,055
Income taxes payable	1,929	4,564
Provision for bonuses	2,041	2,111
Other	2,743	1,540
Total current liabilities	*1 69,855	*1 86,644
Non-current liabilities		
Convertible bond-type bonds with subscription rights to shares	53,441	52,480
Long-term loans payable	6,000	15,103
Provision for retirement benefits	1,664	1,944
Other	3,614	5,303
Total non-current liabilities	64,720	*1 74,830
Total liabilities	134,576	161,474
Net assets		
Shareholders' equity		
Capital stock	15,992	15,993
Capital surplus		
Legal capital surplus	18,590	18,591
Other capital surplus	27,343	27,344
Total capital surplus	45,934	45,934
Retained earnings		
Legal retained earnings	1,991	1,992
Other retained earnings		
Retained earnings brought forward	218,635	244,191
Total retained earnings	220,626	246,182
Treasury shares	(53,652)	(67,652)
Total shareholders' equity	228,901	240,457
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	7,047	8,329
Revaluation reserve for land	(157)	(157)
Total valuation and translation adjustments	6,890	8,172
Subscription rights to shares	345	1,270
Total net assets	236,137	249,899
Total liabilities and net assets	370,713	411,372

2) Non-consolidated statements of income and comprehensive income
Non-consolidated statement of income

	(Millions of Yen)			
		Fiscal Year Ended December 31, 2016 (January 1, 2016 – December 31, 2016)		Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)
Net sales	*2	327,775	*2	338,846
Cost of sales	*2	194,331	*2	196,464
Gross profit		133,444		142,382
Selling, general and administrative expenses	*1, *2	98,431	*1, *2	107,133
Operating income		35,013		35,249
Non-operating income				
Interest income		1,763		1,648
Dividend income		6,688		8,991
Other		354		194
Total non-operating income	*2	8,806	*2	10,833
Non-operating expenses				
Interest expenses		132		240
Sales discounts		1,747		1,850
Derivative expenses		—		365
Foreign exchange losses		3,135		492
Other		62		79
Total non-operating expenses	*2	5,078	*2	3,026
Ordinary income		38,741		43,056
Extraordinary income				
Gain on sales of investment securities		5,066		4,937
Other		88		421
Total extraordinary income		5,154		5,357
Extraordinary losses				
Loss on disposal of non-current assets		194		124
Provision of allowance for loss on valuation of investments in subsidiaries and affiliates		7,769		—
Loss on forgiveness of receivables from subsidiaries and affiliates		8,187		—
Other		754		—
Total extraordinary losses	*2	16,905		124
Income before income taxes		26,990		48,290
Income taxes - current		4,048		6,826
Income taxes - deferred		6,905		5,910
Total income taxes		10,953		12,736
Net income		16,036		35,554

3) Non-consolidated statement of changes in shareholders' equity
Fiscal Year Ended December 31, 2016 (January 1, 2016 – December 31, 2016)

(Millions of Yen)

	Shareholders' equity								
	Capital stock	Capital surplus			Legal retained earnings	Retained earnings		Treasury shares	Total shareholders' equity
		Legal capital surplus	Other capital surplus	Total capital surplus		Other retained earnings	Total retained earnings		
Balance at beginning of current period	15,992	18,590	27,694	46,285	1,991	211,773	213,765	(41,101)	234,942
Changes of items during period									
Dividends of surplus						(9,175)	(9,175)		(9,175)
Net income						16,036	16,036		16,036
Purchase of treasury shares								(14,000)	(14,000)
Disposal of treasury shares			(351)	(351)				1,449	1,097
Net changes of items other than shareholders' equity									
Total changes of items during period	—	—	(351)	(351)	—	6,861	6,861	(12,551)	(6,040)
Balance at end of current period	15,992	18,590	27,343	45,934	1,991	218,635	220,626	(53,652)	228,901

	Valuation and translation adjustments			Subscription rights to shares	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	11,164	(157)	11,007	276	246,226
Changes of items during period					
Dividends of surplus					(9,175)
Net income					16,036
Purchase of treasury shares					(14,000)
Disposal of treasury shares					1,097
Net changes of items other than shareholders' equity	(4,116)	—	(4,116)	68	(4,048)
Total changes of items during period	(4,116)	—	(4,116)	68	(10,089)
Balance at end of current period	7,047	(157)	6,890	345	236,137

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

(Millions of Yen)

	Shareholders' equity								
	Capital stock	Capital surplus			Legal retained earnings	Retained earnings		Treasury shares	Total shareholders' equity
		Legal capital surplus	Other capital surplus	Total capital surplus		Other retained earnings	Total retained earnings		
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)
Net income						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			Subscription rights to shares	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)
Net income					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

Notes to Non-consolidated Financial Statements

(Significant accounting policies)

1. Valuation standards and methods for securities

(1) Shares of subsidiaries and affiliates

Cost method by the moving-average method

(2) 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

Machinery, equipment and vehicles: 2 – 17 years

(2) Intangible fixed 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.

(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, 2016 (as of December 31, 2016)	Fiscal Year Ended December 31, 2017 (as of December 31, 2017)
Short-term monetary receivables	15,070	13,305
Long-term monetary receivables	48,917	43,728
Short-term monetary payables	34,825	46,569
Long-term monetary payables	—	12,103

*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, 2016 (as of December 31, 2016)	Fiscal Year Ended December 31, 2017 (as of December 31, 2017)
Notes receivable - trade	64	66

(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, 2016 (January 1, 2016 – December 31, 2016)	Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)
Sales promotion expenses	50,520	53,817
Advertisement expenses	8,387	9,828
Miscellaneous fees	4,253	4,593
Salaries and bonuses to employees	6,551	6,859
Allowance for bonuses transferred	1,591	1,644
Depreciation and amortization expenses	4,048	4,355
Share of selling expenses out of selling, general and administrative expenses	70%	71%

*2 Transactions with subsidiaries and affiliates

(Millions of Yen)		
	Fiscal Year Ended December 31, 2016 (January 1, 2016 – December 31, 2016)	Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)
Operating transactions	189,603	198,319
Non-operating transactions	15,411	9,490

(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	As of December 31, 2016	As of December 31, 2017
(1) Shares of subsidiaries	123,137	128,827
(2) Investments in capital of subsidiaries	44,934	49,308
(3) Shares of affiliates	540	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

	Fiscal Year Ended December 31, 2016 (as of December 31, 2016)	(Millions of Yen) Fiscal Year Ended December 31, 2017 (as of December 31, 2017)
Deferred tax assets:		
Provision for bonuses	629	651
Impairment loss on shares of subsidiaries	1,741	1,741
Accrued sales promotion expense	2,377	1,994
Allowance for loss on valuation of investments in subsidiaries and affiliates	8,304	8,177
Provision for retirement benefits	1,734	1,882
Tax loss carryforwards	6,007	—
Other	1,553	1,721
Subtotal	22,347	16,166
Less valuation allowance	(10,482)	(10,351)
Total deferred tax assets	11,865	5,815
Deferred tax liabilities:		
Prepaid pension cost	(2,305)	(2,169)
Valuation deference for available-for-sale securities	(2,992)	(3,558)
Other	(249)	(247)
Total deferred tax liabilities	(5,548)	(5,973)
Net deferred tax assets (liabilities)	6,317	(158)

Note: Net deferred tax assets are included in the following accounts on the balance sheet.

	Fiscal Year Ended December 31, 2016 (as of December 31, 2016)	(Millions of Yen) Fiscal Year Ended December 31, 2017 (as of December 31, 2017)
Deferred tax assets—current	7,967	3,473
Other— non-current liabilities	(1,649)	(3,631)

2. The reconciliation between the actual effective tax rates reflected in the financial statements and the statutory tax rate

	Fiscal Year Ended December 31, 2016 (as of December 31, 2016)	Fiscal Year Ended December 31, 2017 (as of December 31, 2017)
Effective statutory tax rate	33.1%	30.9%
Reconciliations:		
Non-deductible items such as entertainment expenses, etc.	0.6%	0.2%
Non-taxable items such as dividends received, etc.	(7.6)%	(5.3)%
Amortization of goodwill	3.4%	1.8%
Valuation allowance	8.7%	(0.3)%
Effect of tax rate changes	3.1%	—
Tax credit	(2.4)%	(1.6)%
Other	1.7%	0.7%
Actual effective tax rate	40.6%	26.4%

(Significant subsequent events)

Not applicable.

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, 2017	Increase in the fiscal year ended December 31, 2017	Decrease in the fiscal year ended December 31, 2017	Depreciation for the fiscal year ended December 31, 2017	Balance at the end of the fiscal year ended December 31, 2017	Accumulated depreciation
Property, plant and equipment	Buildings and structures	2,614	171	—	204	2,582	4,277
	Machinery, equipment and vehicles	4,518	3,184	119	1,595	5,988	8,222
	Tools, furniture and fixtures	635	151	4	255	527	2,773
	Land	2,266 [(157)]	—	—	—	2,267 [(157)]	140
	Construction in progress	1,675	1,009	1,499	—	1,186	—
	Other	12	10	—	6	16	23
	Total	11,722	4,525	1,622	2,060	12,566	15,435
Intangible fixed assets	Goodwill	37,505	—	—	2,776	34,730	20,435
	Software	1,155	2,226	0	684	2,698	3,379
	Other	1,106	1,225	2,080	2	250	109
	Total	39,767	3,451	2,081	3,461	37,678	23,923

Notes: 1. Main factors of the increase

Machinery, equipment and vehicles

Development machines for pet care business:	¥1,015 million
Development machines for health care business:	¥973 million
Development machines for baby care business:	¥603 million
Development machines for feminine care business:	¥555 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, 2017	Increase in the fiscal year ended December 31, 2017	Decrease in the fiscal year ended December 31, 2017	Balance at the end of the fiscal year ended December 31, 2017
Allowance for doubtful accounts	100	101	100	101
Allowance for loss on valuation of investments in subsidiaries and affiliates	27,120	—	414	26,706
Provision for bonuses	2,041	2,111	2,041	2,111

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 subscription rights to share 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, 2017 and the date when this Securities Report (*Yukashoken-Houkokusho*) was filed.

(1) Securities Report and Accompanying Documents and Confirmation Note

The 57th Fiscal Year (from January 1, 2016 to December 31, 2016)

Submitted to the Director-General of the Kanto Local Finance Bureau on March 31, 2017.

(2) Internal Control Report and Accompanying Documents

Submitted to the Director-General of the Kanto Local Finance Bureau on March 31, 2017.

(3) Quarterly Securities Reports and Confirmation Notes

The 1st Quarter of 58th Fiscal Year (from January 1, 2017 to March 31, 2017)

Submitted to the Director-General of the Kanto Local Finance Bureau on May 15, 2017.

The 2nd Quarter of 58th Fiscal Year (from April 1, 2017 to June 30, 2017)

Submitted to the Director-General of the Kanto Local Finance Bureau on September 14, 2017.

The 3rd Quarter of 58th Fiscal Year (from July 1, 2017 to September 30, 2017)

Submitted to the Director-General of the Kanto Local Finance Bureau on November 14, 2017.

(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 31, 2017.

(5) Reporting on status of purchase of treasury shares

Reports were submitted to the Director-General of the Kanto Local Finance Bureau on March 10, 2017, April 14, 2017, May 12, 2017, June 12, 2017, and July 12, 2017.

Part 2. Information on Guarantors for the Company

Not applicable

(For Translation Purposes Only)
Independent Auditor's Report

March 20, 2018

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	Taisuke Shiino
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, 2017 to December 31, 2017, 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, 2017, 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, 2017 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, 2017 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 20, 2018

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	Taisuke Shiino
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 58th fiscal year from January 1, 2017 to December 31, 2017, 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, 2017, 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, Kanto Local Finance Bureau
【Date of Filing】	March 29, 2018
【Company Name】	Unicharm Kabushiki-Kaisha
【Company Name (in English)】	Unicharm Corporation
【Position and Name of Representative】	Takahisa Takahara, President & CEO
【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 of 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) Kinki Branch, 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, 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, Kanto Local Finance Bureau
【Date of Filing】	March 29, 2018
【Company Name】	Unicharm Kabushiki-Kaisha
【Company Name (in English)】	Unicharm Corporation
【Position and Name of Representative】	Takahisa Takahara, President & CEO
【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 of 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) Kinki Branch, 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, President & CEO of Unicharm Corporation has confirmed that the Securities Report (“*Yukashoken-Houkokusho*”) of the 58th Fiscal Year (from January 1, 2017 to December 31, 2017) 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.