

Securities Report

(The English translation of the Report
pursuant to Article 24, Paragraph 1 of
the Financial Instruments and Exchange Act
for the 57th fiscal year,
from January 1, 2016 to December 31, 2016)

Unicharm Corporation

(E00678)

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

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 31, 2017
【Business Year】	57th Fiscal Year (From January 1, 2016 to December 31, 2016)
【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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【Contact for Communications】	Atsushi Iwata, Senior Executive Officer, General Manager of Accounting and Finance Division
【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		53rd	54th	55th	56th	57th
Year ended		March 31, 2013	March 31, 2014	December 31, 2014	December 31, 2015	December 31, 2016
Net sales	Millions of Yen	495,771	599,455	553,661	738,707	710,965
Ordinary income	Millions of Yen	65,012	67,913	65,527	71,380	71,848
Profit attributable to owners of parent	Millions of Yen	43,121	38,216	32,731	40,511	44,134
Comprehensive income	Millions of Yen	71,982	65,592	74,428	32,710	24,634
Net assets	Millions of Yen	329,201	432,152	492,844	451,091	449,974
Total assets	Millions of Yen	535,055	620,419	699,108	702,601	711,541
Net assets per share	Yen	1,521.78	619.47	698.49	649.98	655.50
Net income per share	Yen	233.75	64.10	54.33	67.55	74.29
Net income per share-diluted	Yen	209.56	62.40	54.25	66.51	70.64
Ratio of shareholders' equity	%	54.2	60.3	60.0	55.1	54.4
Net income to shareholders' equity	%	17.2	11.5	8.2	10.0	11.4
Price earnings ratio	Times	23.8	28.7	53.6	36.7	34.4
Cash flows from operating activities	Millions of Yen	68,758	95,659	68,892	85,009	103,604
Cash flows from investing activities	Millions of Yen	(53,304)	(58,220)	(36,741)	(68,166)	(42,612)
Cash flows from financing activities	Millions of Yen	(28,653)	(12,505)	(12,054)	(36,835)	(21,540)
Cash and cash equivalents at end of fiscal year	Millions of Yen	68,211	97,498	127,044	101,966	138,042
Employees () represents the average number of part-time employees not included in the above numbers	Persons	10,855 (7,220)	12,795 (7,609)	13,901 (7,164)	15,500 (4,309)	15,843 (1,796)

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 provisions of the "Accounting Standard for Business Combinations" (Accounting Standards Board of Japan ("ASBJ") Statement No. 21; September 13, 2013), etc. has been applied, and net income has been changed to profit attributable to owners of parent from the fiscal year under review.

(2) Non-consolidated financial data

Fiscal year		53rd	54th	55th	56th	57th
Year ended		March 31, 2013	March 31, 2014	December 31, 2014	December 31, 2015	December 31, 2016
Net sales	Millions of Yen	241,347	265,658	206,248	307,704	327,775
Ordinary income	Millions of Yen	35,290	33,342	32,043	36,928	38,741
Net income	Millions of Yen	27,100	11,185	19,254	17,318	16,036
Capital stock	Millions of Yen	15,992	15,992	15,992	15,992	15,992
Number of shares issued	Shares	206,944,773	206,944,773	620,834,319	620,834,319	620,834,319
Net assets	Millions of Yen	197,754	241,652	249,834	246,226	236,137
Total assets	Millions of Yen	316,180	322,386	329,618	384,018	370,713
Net assets per share	Yen	1,035.00	399.62	415.44	412.87	399.07
Cash dividends per share (Interim cash dividends included herein)	Yen (Yen)	34 (17)	38 (18)	25.4 (19)	14.8 (7.4)	16 (8)
Net income per share	Yen	146.90	18.76	31.96	28.88	26.99
Net income per share-diluted	Yen	131.64	18.26	31.91	28.23	24.97
Ratio of shareholders' equity	%	62.3	74.9	75.7	64.0	63.6
Net income to shareholders' equity	%	15.5	5.1	7.8	7.0	6.7
Price earnings ratio	Times	37.9	98.0	91.1	85.8	94.7
Dividend payout ratio	%	23.1	67.5	39.8	51.2	59.3
Employees () represents the average number of part-time employees not included in the above numbers	Persons	1,234 (301)	1,264 (298)	1,297 (297)	1,297 (295)	1,329 (291)

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 year (after the stock split).

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”), 47 subsidiaries and 3 affiliates (collectively, the “Group”) is engaged chiefly in the manufacture and sale of baby care products, feminine care products, and pet care products.

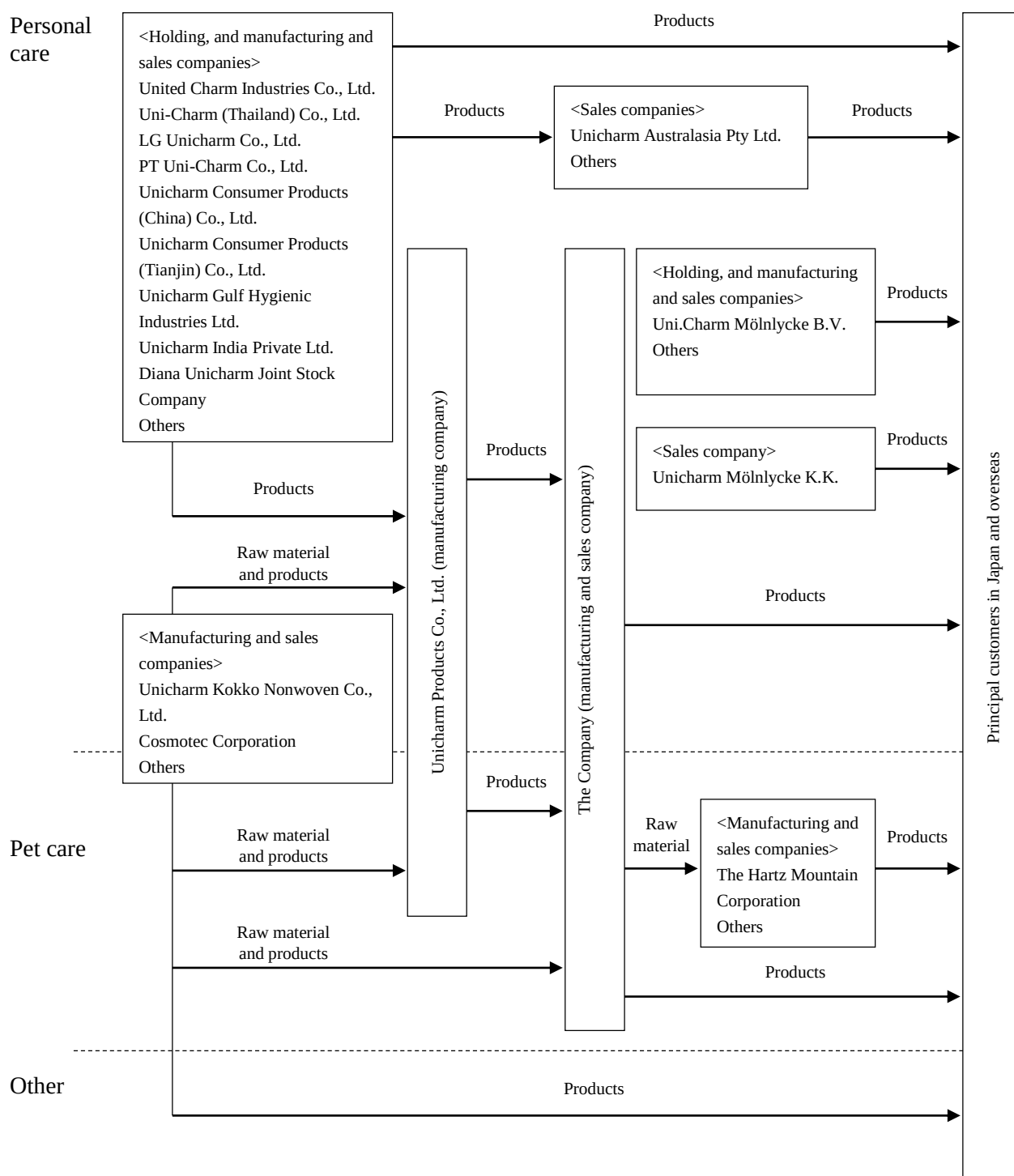
Organizational positioning and segment information of Group businesses are as follows.

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 products Feminine care products Health care products Clean and fresh products	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 products	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 5 companies Total 7 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 2,605	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
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 332,525	Personal care	74.0	Sells products to Group companies Interlocking executive: 1 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 12,167	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 267,532	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 280,345	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 553,783	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	Interlocking executive: 1 Financial assistance: Yes
Other 33 companies	—	—	—	—	—
(Affiliates accounted for by the equity method)					
The Fun Co., Ltd.	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	¥108,816 million
2) Ordinary income	¥9,583 million
3) Net income	¥6,792 million
4) Net assets	¥77,676 million
5) Total assets	¥101,946 million

5. Employees

(1) Consolidated companies

(As of December 31, 2016)

Reporting segment	Number of employees (Persons)
Personal care	14,743 (1,558)
Pet care	633 (120)
Other	333 (99)
Corporate (common)	134 (19)
Total	15,843 (1,796)

- 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, 2016)

Number of employees (Persons)	Average age (Years)	Average years of service (Years)	Average annual salary (Thousands of Yen)
1,329 (291)	42.0	17.1	8,668

Reporting segment	Number of employees (Persons)
Personal care	1,031 (247)
Pet care	164 (25)
Other	— (—)
Corporate (common)	134 (19)
Total	1,329 (291)

- 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

(1) Operating results

Summary of operating results

	Fiscal Year Ended Dec. 31, 2015 (Millions of Yen)	Fiscal Year Ended Dec. 31, 2016 (Millions of Yen)	Difference (Millions of Yen)	Rate of Difference (%)
Net sales	738,707	710,965	(27,741)	(3.8)
Operating income	79,934	78,277	(1,657)	(2.1)
Ordinary income	71,380	71,848	468	0.7
Profit attributable to owners of parent	40,511	44,134	3,622	8.9
Net income per share (Yen)	67.55	74.29	6.74	10.0

Net sales, operating income, ordinary income, and profit attributable to owners of parent for the consolidated fiscal year under review reached ¥710,965 million (down 3.8% over the previous consolidated fiscal year), ¥78,277 million (down 2.1% over the previous consolidated fiscal year), ¥71,848 million (up 0.7% over the previous consolidated fiscal year) and ¥44,134 million (up 8.9% over the previous consolidated fiscal year), respectively.

The provisions of the “Accounting Standard for Business Combinations” (ASBJ Statement No. 21; September 13, 2013), etc. has been applied, and net income has been changed to profit attributable to owners of parent from the fiscal year under review.

Operating results by segment

1) Personal Care Business

	Fiscal Year Ended Dec. 31, 2015 (Millions of Yen)	Fiscal Year Ended Dec. 31, 2016 (Millions of Yen)	Difference (Millions of Yen)	Rate of Difference (%)
Net sales (Note)	647,573	619,047	(28,526)	(4.4)
Operating income	76,254	72,514	(3,739)	(4.9)

Note: Net sales represent those to external customers.

Net sales and segment income (operating income) for the personal care business for the consolidated fiscal year under review were ¥619,047 million (down 4.4% over the previous consolidated fiscal year) and ¥72,514 million (down 4.9% over the previous consolidated fiscal year), respectively.

● Baby Care Products

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 meets the needs for safety, is high, as well as to promote pants-type disposable diapers. In India, where the use of disposable diapers is still quite low even among emerging countries, the Company expanded its sales area and market shares while promoting pants-type disposable diapers.

In Japan, the Company newly launched the *Natural moony* series of disposable diapers aiming for top quality that is gentle on the baby’s skin through the use of organic cotton for the top sheet of disposable diapers under the *moony* brand that fits comfortably on the baby’s skin while preventing leakage, which has been well received by many mothers in Japan who are raising children for its functionality, simplicity, and convenience. This series pursues comfort for babies and offers peace of mind with a soft texture like the hands of a mother, based on scientific evidence. The Company also endeavored in creating a powerful lineup and strengthening relations in sub-category products such as the *Mamy Poko* series with a charming Disney character design and superior absorbency, pants-type products for children with bed-wetting problems and training pants.

- Feminine Care Products

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 actively expanding its sales area for products tailored to customer needs in emerging countries such as Indonesia, Thailand, and Vietnam, further endeavoring to increase its market share.

In Japan, the Company newly released the *Sofy Air Fit Slim* series of thin napkins that give the user the sense that they are not wearing a napkin and made product improvements for the *Sofy Ultra Sound Sleep* series that allows users to enjoy the happiness of sleep and the *Sofy Hada Omoi Liner* series that is gentle on sensitive skin. 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. The Company also actively engaged in social contribution activities through a Pink Ribbon Campaign.

- Health Care Products

In the domestic market for healthcare products, 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 incontinence care products line, the Company expands the line-up of the *Lifree Comfortable Pads* series, including products for women that are fast-absorbing and prevent leakage and products for men that are designed to prevent urine leakage and stains on trousers, to allow the selection of absorption quantity depending on the conditions and continued its efforts to remove resistance to using these products by conveying that everyone has light incontinence, together with the *Charm Nap* series, which brings happiness to daily life with its absorbent care. In nursing care products, along with the *Lifree* series, the Company has also actively promoted its products through TV commercials, on its website, during over-the-counter consultations at shops, and by creating shelf space at retailers based on daily activities to take the lead in the market for excretion care products. In addition, the Company has promoted "Social walking*" that encourages the people to have a social life with purpose and avoids confining themselves in the rooms, supported them going outside through appropriate excretion care, and commenced initiatives to prevent dementia.

*"Social walking" is a coined word that means "social participation and walking," and it indicates a form of walking that helps prevent 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 Institute of Gerontology).

- Clean and Fresh Products

In the domestic market for clean and fresh products, *Silcot Sponge Touch Moisturizing Cotton* that makes skin amazingly moist with 50% less lotion*¹ satisfied and enjoyed high levels of support from many customers, *Silcot Wiping Cotton Silky Cut* was newly launched by the Company, made from Japan's first*² superfine filament, which easily removes even microscopic dirt to make skin care easier, more comfortable, and effective, and the Company made efforts to revitalize the diversifying cosmetic cotton market. In addition, the Company has worked to promote sales in the *Silcot Wet Tissues* series that enables users to clean quickly with just one hand and revitalize the market.

*1: Compared to the Company's conventional products

*2: The outer layer touching the skin consists of extremely fine fibers that are less than 10 μm in size and the inner part is made up of coarse cellulose fibers. The survey covered cosmetic cotton from major brands in Japan. (survey by Unicharm Corporation, in October 2015)

2) Pet Care Business

	Fiscal Year Ended Dec. 31, 2015 (Millions of Yen)	Fiscal Year Ended Dec. 31, 2016 (Millions of Yen)	Difference (Millions of Yen)	Rate of Difference (%)
Net sales (Note)	85,624	85,756	131	0.2
Operating income	3,329	5,347	2,018	60.6

Note: Net sales represent those to external customers.

Net sales and segment income (operating income) for the pet care business for the consolidated fiscal year under review were ¥85,756 million (up 0.2% over the previous consolidated fiscal year) and ¥5,347 million (up 60.6% over the previous consolidated fiscal year), respectively.

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 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, absorbing sheets*¹ were adopted for the *Deo Sheet* brand, and significant improvements were made to the speed of excretion absorption and reversal. Also, the Company newly released the *Deo Clean Blessing of the Forest* series composed of ClearForest Functional Tree Extract Liquid*² that excels in air purifying and deodorizing effects and proposed means for creating clean and comfortable living spaces where users and pets live together. In addition, the Company newly launched the *Unicharm Pet Pro* series for veterinary hospitals as Japan's first pet nursing care system*³ in response to the needs for the care for dogs that require nursing care, which are on the rise with the advance of aging.

In the domestic pet food market, the Company newly released *Best Balance Soft and Easy* as a dog food that is soft and easy to eat and available in different varieties depending on the type and age of the dog in consideration of the health maintenance of increasing elderly dogs, as well as *Low Fat Grand Deli Dog Food for Dogs Nearing Age 7* as a healthy dog food in response to obesity. For cats, the Company expanded its lineup under the *Silver Spoon* brand to include *Silver Spoon Meal Regurgitation Suppression Food* as the first cat food in the world*⁴ to use a newly developed type of dietary fiber that suppresses meal regurgitation, *Silver Spoon Three-Star Gourmet Pouches: Domestically Produced Premium* that was developed jointly together with Hagoromo Foods Corporation that uses the high-quality flakes of 100% natural tuna fished in Japan in response to growing needs for health and peace of mind, and released *Silver Spoon Three-Star Gourmet* dry cat food that lets cats enjoy an assortment of four flavors in one box to create a high value-added market.

In the North American market, sales have remained steady in sheets for dogs and clay-type cat litter products that use Japanese technology, and preparations were made for deploying innovations in cat litter and dog snacks, including consumer tests, in conjunction with television commercials, in the northeast area with *Hartz Delectables*, a wet-type snack for cats, which are the first of its kind in America. In addition, preparations were made for future growth, including strengthened Internet sales that have grown significantly in recent years and increased sales to pet specialty stores.

*1 Absorbing sheets fit both regular and wide models.

*2 ClearForest is a common brand of products utilizing functional tree extract liquid with outstanding air purification effects that has been extracted from the sakhalin fir, jointly developed by the Japan Aroma Laboratory Co., Ltd. of The S.T. Group and the Forestry and Forest Products Research Institute.

*3 Among the major pet nursing care products in Japan (survey by Unicharm Corporation, in October 2016)

*4 Dry pet food soaked in a pH 2.5 solution for 10 minutes until at least 60% of grains had a hardness of no more than 2.5 kgw/scope includes pet foods of major global brands (survey by Unicharm Corporation, in March 2016).

3) Other Businesses

	Fiscal Year Ended Dec. 31, 2015 (Millions of Yen)	Fiscal Year Ended Dec. 31, 2016 (Millions of Yen)	Difference (Millions of Yen)	Rate of Difference (%)
Net sales (Note)	5,508	6,161	652	11.9
Operating income	330	414	83	25.4

Note: Net sales represent those to external customers.

Net sales and segment income (operating income) in other businesses for the consolidated fiscal year under review were ¥6,161 million (up 11.9% over the previous consolidated fiscal year) and ¥414 million (up 25.4% over the previous consolidated fiscal year), respectively.

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.

(2) Cash flows

	Fiscal Year Ended Dec. 31, 2015 (Millions of Yen)	Fiscal Year Ended Dec. 31, 2016 (Millions of Yen)	Difference (Millions of Yen)
Cash flows from operating activities	85,009	103,604	18,594
Cash flows from investing activities	(68,166)	(42,612)	25,554
Cash flows from financing activities	(36,835)	(21,540)	15,295
Cash and cash equivalents at end of fiscal year	101,966	138,042	36,076

Net cash provided by operating activities totaled ¥103,604 million mainly due to ¥73,794 million in profit before income taxes, ¥ 26,750 million in depreciation and ¥16,798 million in income taxes paid.

Net cash used in investing activities totaled ¥42,612 million mainly as a result of ¥37,861 million in the purchase of property, plant and equipment and intangible assets, ¥17,218 million in payments into time deposits, and ¥13,603 million in proceeds from withdrawal of time deposits.

Net cash used in financing activities amounted to ¥21,540 million mainly due to ¥14,000 million in purchase of treasury shares, ¥9,173 million in cash dividends paid, ¥3,163 million in repayments of long-term loans payable, and ¥4,812 million in proceeds from long-term loans payable.

As a result, cash and cash equivalents at end of period amounted to ¥138,042 million, up ¥36,076 million over the end of the preceding fiscal year.

2. Production, orders received and sales

(1) Actual production

Reportable Segment	Production amount (Millions of Yen)	Year-on-year change (%)
Personal care	610,180	(6.9)
Pet care	86,386	4.4
Other	6,275	14.7
Total	702,842	(5.4)

- 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 products	328,004	(8.1)
Feminine care products	147,500	(6.1)
Other	143,543	7.5
Total	619,047	(4.4)
Pet care	85,756	0.2
Other	6,161	11.9
Total	710,965	(3.8)

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

3. 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 economic policies of the new US President and Brexit, and economic, financial, and social conditions are causing fluctuations in the exchange rates of some emerging countries where we are rolling out business; this is considerably impacting business in these countries and raising concerns over the risk of 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 products.

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 value and speedily promote the expansion of product line-ups to meet customer needs. As for overseas, 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 expand its business 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 added value through continuous product innovation, and thoroughly pursue cost reduction and the efficient use of management resources.

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 31, 2017), 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 is expected to abide by certain environmental standards both in Japan and overseas. These standards include the handling and disposal of air pollution, CO₂ emissions, effluent emissions and waste matter.

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 makes preparations through its business contingency plan for coordinating between other manufacturing and distribution bases and for rapid recovery of information systems and administration functions.

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 ¥6,070 million (0.9 % of consolidated net sales). Principal achievements were as follows.

(1) Personal care

● Baby Care Products

In tape-type disposable diapers, the Company launched in-store sales of *Natural moony (Newborn Infants/S/M/L)* using an organic cotton-blend top sheet, the first in Japan*. Likewise, in pants-type disposable diapers, measures were taken to revitalize the market through launches of products with new functions such as a new improved version of *moony man air fit (S)*, with a special pocket for loose stool leakage.

Measures were also taken to upgrade product quality and functionality through improved versions of *moony air fit (Newborn Infants/S)*, *Mamy Poko Pants (L)* and other products.

In overseas markets, establishment of research centers in priority areas is expected to foster products that better match local market needs.

In China, in pants-type disposable diapers, the Company launched *moony water play pants (M/L/Big)* and an improved version of *moony man air fit (L/Big)* and *Mamy Poko Pants (L/XL/XXL)*. A further measure to improve customer satisfaction was the launch of an improved version of tape-type disposable diaper *moony air fit (Newborn Infants/S/M/L)*.

In India, new launches comprised *Mamy Poko Pants (NB-0)*, a pants-type disposable diaper even smaller than XS size for babies weighing 2.0-3.5kg, and *Mamy Poko Kids Pants (KIDS1/KIDS2)*, a pants-type disposable diaper with colors to delight infants 2 years old and above who are developing their own personalities. In addition, the Company launched improved versions of *Mamy Poko Pants (NB-1)* and *Mamy Poko Pants Extra Absorb (S/M/L/XL)*, 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.

* Major paper diaper top-sheet manufacturers in Japan (survey by Unicharm Corporation, March 2016)

● Feminine Care Products

In the sanitary napkin category, the Company launched under the *SOFY* brand *SOFY Air Fit Slim (21/25cm)*, a thin napkin so comfortable that its presence is almost unnoticed. The Company launched an improved version of *SOFY Ultra Sound Sleep Slim (37/40cm)*, with a world-first* split-absorption design that fits so well it becomes a part of the wearer. To further improve customer satisfaction, the Company released an improved version of *Center-in Compact Fragrance* in the *Center-in* brand.

Turning to overseas markets, in China the Company worked to strengthen the *SOFY* brand with the launch of *Chao Shushui Ji Shang Yeyong Sanitary Napkin (37/40cm)* and improved versions of *Chao Shushui Rou Mian Gan* (soft cotton feeling) (42cm), *Chao Shushui Bo Suixin Fan (42cm)* and *Sufei Koudai Mofa Riyong (Ling Weigan/Sen Huxi/Xiao Ai Cao)*. Likewise, in Thailand, the Company launched the *SOFY Cooling Fresh Slim (23cm)*, and in Vietnam, *Diana Sensi No-wing* and *Diana Sensi Cool Fresh (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 the *SOFY Hada Omoi Liner with 100% natural cotton* featuring the waveform sheet with 100% natural cotton for skin contact, 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 Hada Omoi Liner (non-fragrant/floral musk)* with smooth sheeting that is gentle on the skin.

To revitalize the panty liner segment in overseas markets, the Company launched *SOFY Cooling Fresh Panty Liner Slim (14cm)* in Thailand and the *SOFY Hangyul Liner (15.5/17.5cm)* in South Korea, and in Vietnam the *Diana Daily Sensi Slim Fit*, *Diana Daily Sensi Mini Fit (14cm)* and *Diana Daily Sensi Cool Fresh (15cm)*.

To improve customer satisfaction in the tampon category through improvement in product quality and functionality and to revitalize the market, the Company launched improved versions of *SOFY SOFT Tampon (Super/Super Plus)*.

* In major global brands of sanitary napkins (survey by Unicharm Corporation, October 2015)

● Health Care Products

In the pants category, the Company launched improved versions of the *Lifree* series using our patented “gap fit and gather” technology for reduction of leakage through gaps, *Lifree Thin and Comfortable Pants*, *Lifree Long-Hours Comfortable Thin Type Pants*, *Lifree Rehabilitation Pants*, *Lifree Rehabilitation Pants For Change Without Trouser Removal* and *Lifree Long-Hours Comfortable Pants Even Without Urine-Absorbing Pad*. In moves to raise customer satisfaction through quality and functionality improvements, in the tape-type category, the Company also released an improved version of *Lifree Nobiru Fitto Elastic Fit Thin and Comfortable Tape-Type*.

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 Sawayaka Pads* series, the Company launched *Lifree Comfortable Pads for Men (Very Low Volume)* suitable for minor urine leakage in men. The Company also released improved versions of *Lifree Comfortable Pads for Men (Low and Medium Volume and Feel-At-Ease for High Volume and Very High Volume Leakage)*. In the *Charm Nap* series, the Company further improved 24-hour odor elimination features in improved versions of *Charm Nap Kyusui Sarafi (Long Panty Liner Fragrant and Low and Medium Volume and Long-Lasting Comfort and Reassurance Even With High Volume Leakage and Long-Hours Worry-Free) (Non-Wing)*.

In the urine suction pad category, the Company launched *Lifree All-Night-Long Comfortable Urine Suction Pad 10 Times Absorption* featuring our extra thick absorption sheet and ultra-absorptive spot patented technologies that enhance absorption.

In addition, the Company launched the *Lifree Nobiru Fitto Tape-Type*, a tape-type disposable diaper equipped with patented stretch tape technology, as a product for care homes and hospitals. Also in measures to improve customer satisfaction, the Company released an improved version of *Lifree Rehabilitation Pants (Regular/Super)*.

The Company took measures to revitalize the face mask category with new value proposals including launch of our *Small Face Appearance Mask (Small/Regular)* to meet customer demand for products that make faces look smaller.

In overseas markets, the Company launched improved versions of *Fanglou Anxin (Leakage Relief) Rehabilitation Pants* and *Chang Shijian Anxin (Long-time Reassurance) Rehabilitation Pants (M/L/XL)* in the pants-type category in Taiwan, and of *Lifree Ultra Slim Pants (M/L/XL)* in Thailand. In the light incontinence category, the Company launched *Lifree Fresh Pads (220cc)* in Taiwan, and *Lifree Extra Dry Light Urinary Pad (20/80/120/170/300cc)* in Singapore. These were measures to expand lineups in all countries and strengthen the *Lifree* brand.

● Clean and Fresh Products

In measures to revitalize the wiping cotton segment of the cosmetic cotton market, the Company launched *Silcot Wiping Cotton Silky Cut* under the *Silcot* brand. This product easily removes even microscopic dirt.

In the personal wet tissue category, the Company launched an improved version of *Silcot Antibacterial Wet Tissue Alcohol Type* and took measures to improve quality and functionality.

● Research achievements

Research published at academic conventions included joint baby-care research with other research institutes into the topic of “Identifying pleasurable tactile sensations that activate the prefrontal cortex of both mothers and children—Discussions arising from mother-child synchronized NIRS measurements,” and “Do babies prefer soft diapers?—Appraisal by reaching and preferential gaze method.” Through research

activities, the Company has made progress in building up scientific evidence to underpin quality and functionality, and is applying these technologies to the new *Natural moony* products. With regard to baby-care products, the Company has also published results of our research into mother-child heart-beat synchronization mediated by breathing. In feminine care products, the Company took measures to publicize our research results through technological PR activities, with the publication of results of our studies into comfortable nocturnal napkin-wearing and sleep for women during their menstrual period, and into stress examination using simple electroencephalography regarding the differences among sanitary napkins.

As a result of the above, research and development expenses for the consolidated fiscal year in the personal care field totaled ¥5,296 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 Factory of the Company in Hyogo, while pet toiletry products are developed in Kanonji-shi in Kagawa.

Development in pet food focused on 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.

In dog foods, the Company launched *Grand Deli Low Fat Grand Deli Dog Food for Dogs Nearing Age 7*, a dry-type gourmet product designed for dogs of advanced age, and *Best Balance Kari Kari Crunchy Toy Poodles Aged 10 and Over*, a dry-type breed-specific product. In the half-cooked category, the Company released in the *Best Balance Soft* line products for Miniature Dachshund (Aged 7 and Over/Aged 10 and Over/Aged 13 and Over), for Chihuahua (Aged 7 and Over/Aged 10 and Over), for Toy Poodles (Aged 7 and Over/Aged 10 and Over) and for Shiba-breed dogs (Aged 7 and Over). In side treats, the Company released *Happy Step Low-Fat Stick Type*.

In our cat food lines, the Company launched *Gin no Spoon Meal Regurgitation Suppression Food*, the world’s first* dry-type cat food that suppresses meal regurgitation, a cat physiology. The Company also released the domestically-produced, wet-type *Gin no Spoon Three Star Gourmet Pouch Made in Japan Premium Jelly 3SKU*, *Gin no Spoon Three Star Gourmet Pouch Made in Japan Premium Luxury Flakes 3SKU*, and in domestically-produced topping food, *Gin no Spoon Fuwafuwa (soft) Topping 2SKU*.

To respond to diversifying customer needs, the Company also released, in dry food for dogs, 4-packs for *Grand Deli 4SKU* and, in dry food for cats, 4-packs in the *Gin no Spoon 3SKU* and *Gin no Spoon Umi no Zeitaku Sozai* (luxury seafood) 3SKU lines, as well as assortment packs in the *Gin no Spoon Umi no Zeitaku Sozai* and *Gin no Spoon Three Star Gourmet 3SKU*. The Company also launched, as limited release products, the *Gin no Spoon Three Star Gourmet Limited Release Seasonal Fish Selection 3SKU*, *Happy Crunch Limited Release* and *Happy Soft! Limited Release* products.

In pet toiletry products, the Company developed products tailored to specific usage habits and situations that foster good relations between pets and owners, to ensure healthy long life in pets.

In pet sheets, the Company took measures to improve product quality and functionality including the release of improved versions of *Deo Sheet Shikkari Super-Absorbent Non-Fragrant Deodorant Type* and *Deo Sheet Deodorant Fragrance*. Additionally, with an aging trend among dogs in recent years, the Company launched *Care Mat*, *Care Deo Sheet*, *Oshiri Mawari Buttocks Washing Liquid* and *Oshiri Mawari Buttocks Wiper*, additions to the *Unicharm Pet Pro* line for pet care in the home. In the *Deo Clean* brand in the clean care category, the Company newly launched an improved version of *Shoshu Deodorant Spray* and the new *Wet Tissue Yasashii Jokin* (soft sterilization), *Wet Tissue for Cleaning* and *Karada Fuki* (body wiping) *Sheet*. In the growing market for cat excrement cleanup products, the Company continues to work on basic deodorant functions and improvement of solidification agent efficacy.

* Dry pet food soaked in a pH 2.5 solution for 10 minutes until at least 60% of grains had a hardness of no more than 2.5 kgw/scope includes pet foods of major global brands (survey by Unicharm Corporation, March 2016).

As a result of the above, research and development expenses in pet care operations for the consolidated fiscal year under review totaled ¥772 million.

(3) Other

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

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

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 consolidated fiscal year under review.

The provisions of the “Accounting Standard for Business Combinations” (ASBJ Statement No. 21; September 13, 2013), etc. has been applied, and net income has been changed to profit attributable to owners of parent from the fiscal year under review.

(1) Significant accounting policies and estimates

The Group’s consolidated financial statements are prepared in accordance with accounting principles generally accepted in Japan.

(2) Analysis of operating results

In light of the management environment surrounding the Company and its group companies during the fiscal year under review, the outlook overseas became increasingly uncertain due to turmoil in the global economy stemming from the results of a referendum in the UK on leaving the EU and the presidential election in the US. There was robust economic growth in emerging countries, albeit inconsistent in some regions, and the Group proactively carried out sales promotion activities to popularize its personal care products that meet consumer needs.

Meanwhile in Japan, though inbound consumption showed signs of calming, against a backdrop of a gradual economic recovery, the Company continued to make proposals offering new value that succeeded in stimulating demand for high value-added personal care-related products, which resulted in stable growth.

In this environment 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 Company and its group companies continued to develop products to meet the needs of consumers using unique non-woven fabric processing and forming technology and endeavor to foster a society in which everyone can live together with mutual respect for individuality, without a sense of burden among the generations.

As a result, the Company’s net sales, operating income, ordinary income, and profit attributable to owners of parent for the fiscal year under review respectively reached ¥710,965 million (down 3.8% over the previous consolidated fiscal year), ¥78,277 million (down 2.1% over the previous consolidated fiscal year), ¥71,848 million (up 0.7% over the previous consolidated fiscal year), and ¥44,134 million (up 8.9% over the previous consolidated fiscal year).

(3) Risks materially affecting operating results

See “4. Business and other risks.”

(4) Current state of and prospects for management strategy

In light of the management environment surrounding the Company and its group companies, while a full-scale economic recovery is not expected in Asian countries where business is being rolled out, we do expect moderate growth led by internal demand to continue over the near term. Meanwhile in Japan, while economic recovery can be expected to continue due to the positive effect of an increase in public investment stemming from the government’s economic policies, consumption expenditure is expected to be soft due to weakness in disposable income caused by factors including an increase in social insurance contributions.

In Overseas, within this environment, we intend to grow with a speed exceeding that of the market and strive for vitalization 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 area. 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 “anthropomorphic pet,” and achieve the creation of demand in response to a 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 management, and future policies

See “3. Issues facing the Group.”

III. Equipment and Facilities

1. Overview of capital expenditures

Capital expenditures by segment for the consolidated fiscal year under review is shown below.

Personal care

Capital investments totaling ¥37,217 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 investment in this segment totaled ¥1,938 million 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 investments in, or disposals or sales, etc. of major facilities took place.

2. Major facilities

(1) The Company

(As of December 31, 2016)

Name of facilities (Location)	Reporting segment	Description	Net book value (Millions of Yen)					Number of employees (Persons)
			Buildings and structures	Machinery, equipment and vehicles	Land (Thousands of m ²)	Other	Total	
Kagawa Technical Centre Engineering Centre (Kanonji-shi, Kagawa)	Personal care Pet care	R&D facilities	1,095	1,999	285 (20)	138	3,518	338 (114)
Unicharm Petcare Company	Itami Factory (Itami-shi, Hyogo)	Facilities for manufacture of pet foods, etc.	247	512	1,104 (12)	9	1,873	35 (7)
	Mie Factory (Nabari-shi, Mie)	Facilities for manufacture of pet toiletries, etc.	201	852	62 (16)	6	1,123	26 (3)
	Saitama Factory (Kamisato-machi, Kodama-gun, Saitama)	Facilities for manufacture of pet foods, etc.	351	606	146 (8)	2	1,106	16 (1)

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, 2016)

Name of company	Name of facilities (Location)	Reportin g segment	Description	Net book value (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) (Note 1)	Personal care	Facilities for manufacture of disposable diapers and feminine sanitary products, etc.	3,611	8,464	1,541 (127)	130	13,747	585 (74)
	Fukushima Factory (Tanagura-cho, Higashi-shirakawa-gun, Fukushima)	Personal care	Facilities for manufacture of disposable diapers and feminine sanitary products, etc.	3,471	10,207	2,139 (128)	148	15,966	323 (12)
	Shizuoka Factory (Kakegawa-shi, Shizuoka) (Note 2)	Personal care	Facilities for manufacture of disposable diapers and feminine sanitary products, etc.	2,821	6,951	— (82)	53	9,825	264 (11)

Notes: 1. Land is partly leased (2,000 m²).

2. Land is leased.

3. 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) Foreign subsidiaries

(As of December 31, 2016)

Name of company	Name of facilities (Location)	Reporting segment	Description	Net book value (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.	9,647	16,183	1,353 (353)	80	27,264	2,360 (421)
Unicharm Gulf Hygienic Industries Ltd.	Riyadh, Kingdom of Saudi Arabia	Personal care	Facilities for manufacture of disposable diapers and feminine sanitary products, etc.	2,040	16,775	202 (71)	4,070	23,088	2,109 (—)
Unicharm India Private Ltd.	Gurgaon, Haryana, Republic of India (Note 1)	Personal care	Facilities for manufacture of disposable diapers and feminine sanitary products, etc.	7,981	11,442	495 (239)	2,760	22,681	665 (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.	5,362	12,711	819 (132)	1,898	20,791	1,531 (126)
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.	5,969	8,460	768 (91)	4,455	19,654	261 (5)

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 year 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.

Group investment plans (new construction and expansion, etc.) for the fiscal year following the consolidated fiscal year under review as of December 31, 2016 are as follows.

Reporting segment	Amount (Millions of Yen)	Description
Personal care	32,000	Facilities for manufacture of disposable diapers and feminine sanitary products, etc.
Pet care	2,000	Facilities for manufacture of pet foods and pet toiletries products, etc.
Total	34,000	—

Notes: 1. The above amounts do not include the consumption taxes, etc.
2. Financing for the above is planned by using own funds.

(2) Disposals and sales

Except for disposals and sales conducted in the course of the Group's renewal of its working equipment and facilities, 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

Type	Number of shares issued		Stock exchanges on which the Company is listed	Description
	As of December 31, 2016	As of March 31, 2017 (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, 2016	As of February 28, 2017 (end of the month prior to the filing date of this Securities Report)
Number of subscription rights to shares	31,224 units (Note 1)	31,179 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	3,122,400 shares (Note 1)	3,117,900 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

Based on the resolution of the Board of Directors held on April 16, 2015		
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.

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

"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, 2016	As of February 28, 2017 (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	¥53,441 million	¥53,281 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 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)	—
Matters relating to the issuance of subscription rights to shares as a result of organizational restructuring action	(Note 7)	—

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).

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

In line with the terms and conditions for bonds with 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	—	15,992	—	18,590

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, 2016)

Classification	Status of shares (1 unit = 100 shares)								Shares less than one unit
	National and local governments	Financial institutions	Japanese financial instruments business operators	Other corporations	Foreign shareholders		Individuals and other	Total	
					Other than individuals	Individuals			
Number of shareholders (Persons)	—	105	36	346	556	31	51,047	52,121	—
Number of shares held (Units)	—	1,231,308	66,700	2,015,334	2,072,486	116	821,523	6,207,467	87,619
Shareholding ratio (%)	—	19.84	1.07	32.47	33.39	0.00	13.23	100.00	—

Note: Treasury shares of 29,982,790 shares are included in “Individuals and other” at 299,827 units, and in “Shares less than one unit” at 90 shares. The number of shares held by substantial shareholders as of the last day of the fiscal year is the same.

(7) Major shareholders

(As of December 31, 2016)

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	154,956	24.96
STATE STREET LONDON CARE OF STATE STREET BANK AND TRUST BOSTON SSBTC ACCOUNT UK LONDON BRANCH CLIENTS UNITED KINGDOM (standing proxy: Tokyo Branch, The Hongkong and Shanghai Banking Corporation Limited)	ONE LINCOLN STREET, BOSTON MA USA (3-11-1, Nihonbashi, Chuo-ku, Tokyo)	35,704	5.75
Takahara Kikin K.K.	1712, Kawanoe-cho, Shikokuchuo-shi, Ehime	28,080	4.52
JPMorgan Chase Bank (standing proxy: Settlement & Clearing Services Department, Mizuho Bank, Ltd.)	270 PARK AVENUE, NEW YORK, NY, UNITED STATES OF AMERICA (SHINAGAWA INTERCITY A, 2-15-1, Konan, Minato-ku, Tokyo)	23,066	3.72
The Master Trust Bank of Japan, Ltd. (Trust Account)	2-11-3, Hamamatsu-cho, Minato-ku, Tokyo	17,923	2.89
The Master Trust Bank of Japan, Ltd. (Retirement Benefit Trust Account (The Hiroshima Bank, Ltd. Account))	2-11-3, Hamamatsu-cho, Minato-ku, Tokyo	17,287	2.78
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)	15,299	2.46
Nippon Life Insurance Company	1-6-6, Marunouchi, Chiyoda-ku, Tokyo	12,188	1.96
Japan Trustee Services Bank, Ltd. (Trust Account)	1-8-11, Harumi, Chuo-ku, Tokyo	11,135	1.79
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)	10,717	1.73
Total	—	326,359	52.57

Notes: 1. The Company holds 29,982 thousand shares of treasury shares (4.83%). 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 August 18, 2016, First State Investment Management (UK) Limited and its joint owners Colonial First State Asset Management (Australia) Limited, First State Investments (Singapore) and First State Investments International Limited are listed as shareholders, as detailed below. But as of August 15, 2016, 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, Scotland	1,418,900	0.23
Colonial First State Asset Management (Australia) Limited	Ground Floor, Tower 1, 201 Sussex Street, Sydney, New South Wales, Australia	29,388,200	4.73
First State Investments (Singapore)	#06-11 South Beach Tower, 38 Beach Road, Singapore	11,148,200	1.80
First State Investments International Limited	23 St Andrew Square, Edinburgh, Scotland	2,483,400	0.40

(8) Status of voting rights

1) Shares issued

(As of December 31, 2016)

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 29,982,700	—	Standard common shares of the Company without any restriction
Shares with full voting rights (Other)	Common shares 590,764,000	5,907,640	Same as above
Shares less than one unit	Common shares 87,619	—	Same as above
Total shares issued	620,834,319	—	—
Total voting rights held by all shareholders	—	5,907,640	—

Note: “Shares less than one unit” include 90 shares of treasury shares held by the Company.

2) Treasury shares, etc.

(As of December 31, 2016)

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	29,982,700	—	29,982,700	4.83
Total	—	29,982,700	—	29,982,700	4.83

(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 (May 13, 2016) (Period of acquisition: From May 16, 2016 to December 27, 2016)	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	5,717,500	13,999,967,814
Total number and value of remaining shares subject to the resolution	2,282,500	32,186
Percentage of un-exercised acquisition as of the last day of the fiscal year under review (%)	28.53	0.00
Treasury shares acquired during the period	—	—
Ratio of un-exercised acquisition as of the date of filing (%)	28.53	0.00

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	—	—
Total number and value of remaining shares subject to the resolution	—	—
Percentage of un-exercised acquisition as of the last day of the fiscal year under review (%)	—	—
Treasury shares acquired during the period	2,742,900	6,999,974,967
Ratio of un-exercised acquisition as of the date of filing (%)	65.71	50.00

(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	51	124,666
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, 2017 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)	866,400	1,449,023,400	—	—
Number of treasury shares held (Note 2)	29,982,790	—	32,725,690	—

Notes: 1. The breakdown for the fiscal year under review is based on exercise of stock option rights (866,400 shares, for a total disposal value of shares of 1,449,023,400 yen).

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, 2017 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, 2017 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 will aim to achieve 15% or higher ROE (return on equity) and maintain its policy of increasing dividend payments in a stable and continuous manner in terms of both cash flow and profit, while making efforts to aggressively expand business investment for strengthening and growing corporate structure to improve profitability.

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.

Based on this policy, the annual dividend for the fiscal year under review is ¥16, comprising a year-end dividend of ¥8 per share, in addition to a ¥8 per share interim dividend for the end of the second quarter.

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, 2016 are as follows:

Date of resolution	Total dividend amount (Millions of Yen)	Dividend per share (Yen)
August 5, 2016	4,767	8
February 27, 2017	4,726	8

4. Share prices

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

Term	53rd fiscal year	54th fiscal year	55th fiscal year	56th fiscal year	57th fiscal year
Fiscal year end	March 2013	March 2014	December 2014	December 2015	December 2016
Highest (Yen)	5,630	6,690	7,455 * 3,010	3,398	2,668
Lowest (Yen)	4,035	5,050	5,411 * 2,358.5	2,045	2,001

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 2016	August	September	October	November	December
Highest (Yen)	2,366.5	2,528.5	2,659.5	2,668	2,554.5	2,590
Lowest (Yen)	2,056	2,078.5	2,452	2,423	2,300.5	2,385

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)	3,699.9
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, 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	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 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, 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	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 (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	Joined the Company	(Note 3)	64.8
				April 1993	Branch Manager of the Yokohama Branch, Sales Division		
				April 1999	Branch Manager of the Tokyo Branch, Sales Division		
				June 1999	Executive Officer		
				July 2003	Senior Executive Officer		
				July 2004	Senior Executive Officer		
				June 2005	Director, Senior Executive Officer		
				April 2009	Director, Senior Executive Officer		
					Chairman, President of Unicharm Consumer Products (China) Co., Ltd. and Responsible for Asia and Oceania regions		
				April 2010	Director, Managing Executive Officer		
				April 2011	Director, Managing Executive Officer	(Note 3)	64.8
					Chairman, President of Unicharm Consumer Products (China) Co., Ltd., and Responsible for Asia, Oceania and MENA regions		
				April 2013	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		
				January 2014	Director, Managing Executive Officer		
					General Manager of Sales Division	(Note 3)	64.8
				October 2016	Director, Managing Executive Officer		
					General Manager of Japan Pro-care Sales Head Office (to present)		

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
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. 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	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. (to present)	(Note 3)	57.4

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, 2016 up to the conclusion of the Ordinary General Meeting of Shareholders for the fiscal year ending December 31, 2017.
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. The number of executive officers is 23.

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.

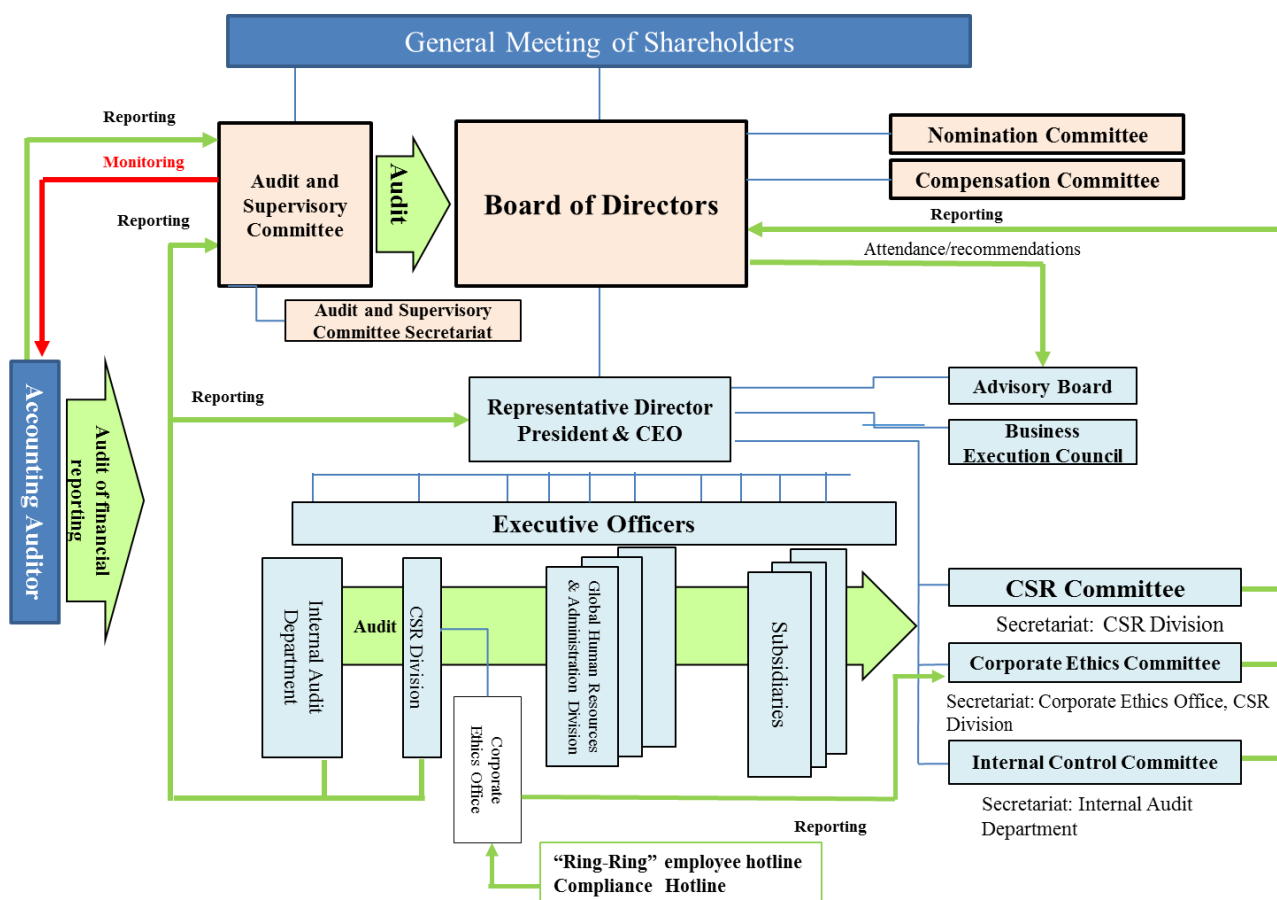
Under this management structure, independent Audit and Supervisory Committee members have voting rights at meetings of the Board of Directors, and the Audit and Supervisory Committee performs audits by proactively utilizing the internal control system. This will enable the Company not only to comply 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 March 31, 2017)



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 shall establish 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. Likewise, 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)	577	571	6	8
Directors (Audit and Supervisory Committee Members) (excluding Outside Directors)	18	18	—	1
Outside Directors	16	16	—	2

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.

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	
Keiichiro Takahara	Director, Founder	The Company	102	1	103
Takahisa Takahara	President & CEO	The Company	156	1	157

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: 63

Total amount recorded in the balance sheet: ¥11,632 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, 2015)

Specific shares for investment

Shares	Number of shares held by the Company (Shares)	Amount recorded in the balance sheet (Millions of Yen)	Holding purpose
KDDI CORPORATION	1,600,000	5,046	Maintain amicable relations
Sumitomo Realty & Development Co., Ltd.	1,219,000	4,236	Maintain and strengthen trade relations
THE IYO BANK, Ltd.	1,017,640	1,204	Maintain and strengthen trade relations
The Hiroshima Bank, Ltd.	1,675,100	1,160	Maintain and strengthen trade relations
ZUIKO CO., LTD.	245,100	1,156	Maintain and strengthen trade relations
Mitsubishi UFJ Financial Group, Inc.	904,050	684	Maintain and strengthen trade relations
Mitsui Chemicals, Inc.	1,189,000	644	Maintain and strengthen trade relations
ARATA CORPORATION	225,545	585	Maintain and strengthen trade relations
PLANET, INC.	300,800	443	Maintain and strengthen trade relations
AEON CO., LTD.	216,143	403	Maintain and strengthen trade relations
FP Corporation	78,043	342	Maintain and strengthen trade relations
Seven & i Holdings Co., Ltd.	44,640	247	Maintain and strengthen trade relations
TSURUHA HOLDINGS INC.	20,000	210	Maintain and strengthen trade relations
CREATE SD HOLDINGS CO., LTD.	60,000	178	Maintain and strengthen trade relations
Valor Holdings Co., Ltd.	59,504	169	Maintain and strengthen trade relations
Izumi Co., Ltd.	32,000	150	Maintain and strengthen trade relations
Sanyo Chemical Industries, Ltd.	138,600	132	Maintain and strengthen trade relations
The Hyakujushi Bank, Ltd.	152,250	68	Maintain and strengthen trade relations
ECHO TRADING CO., LTD.	105,000	67	Maintain and strengthen trade relations
Inui Global Logistics Co., Ltd.	69,300	66	Maintain and strengthen trade relations
Dream Incubator Inc.	24,000	66	Maintain amicable relations

Shares	Number of shares held by the Company (Shares)	Amount recorded in the balance sheet (Millions of Yen)	Holding purpose
RETAIL PARTNERS CO., LTD.	54,000	62	Maintain and strengthen trade relations
cocokara fine Inc.	10,000	54	Maintain and strengthen trade relations
Mizuho Financial Group, Inc.	214,280	52	Maintain and strengthen trade relations
CAWACHI LTD.	20,000	47	Maintain and strengthen trade relations
UNY Group Holdings Co., Ltd.	59,000	45	Maintain and strengthen trade relations
Chuo Bussan Corporation	78,531	35	Maintain and strengthen trade relations
MEDIPAL HOLDINGS CORPORATION	16,500	34	Maintain and strengthen trade relations
FUJI CO., LTD.	13,000	31	Maintain and strengthen trade relations
Miura Co., Ltd.	18,000	31	Maintain and strengthen trade relations

Shares subject to deemed holding

Not applicable

(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

Shares	Number of shares held by the Company (Shares)	Amount recorded in the balance sheet (Millions of Yen)	Holding purpose
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
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 amicable relations
MINISTOP Co., Ltd.	4,583	9	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	5,337	11,336	134	—	2,466

(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: 7

Others: 10

(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	77	34	80	25
Consolidated subsidiaries	8	—	8	—
Total	85	34	88	25

(b) Content of other significant remuneration

In the previous consolidated fiscal year, a total remuneration of ¥159 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 ¥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.

(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, 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 and preparation of a comfort letter relating to a bond issue.

In 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 financial statements and the non-consolidated financial statements

- (1) The consolidated financial statements of the Company are prepared in accordance with the Ministry of Finance Ordinance No. 28, 1976 “Regulations Concerning the Terminology, Forms and Preparation Methods of 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” (hereinafter the “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 consolidated fiscal year (from January 1, 2016 to December 31, 2016) were audited by PricewaterhouseCoopers Aarata LLC, in accordance with Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act.

Additionally, PricewaterhouseCoopers Aarata Audit Corporation, by which the Company has been receiving its accounting audits, changed its name to PricewaterhouseCoopers Aarata LLC on July 1, 2016 due to the change in the type of the audit corporation.

3. Particular efforts to secure the appropriateness of the consolidated financial statements

The Company is making particular efforts to ensure the appropriateness of the consolidated financial statements.

The Company has become a member of the Financial Accounting Standards Foundation (hereinafter the “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. In addition, in order to prepare appropriate consolidated financial statements, etc., the Company develops internal rules, manuals, guidelines, etc.

1. Consolidated Financial Statements

(1) Consolidated financial statements

1) Consolidated balance sheet

	(Millions of Yen)	
	Fiscal Year Ended December 31, 2015 (as of December 31, 2015)	Fiscal Year Ended December 31, 2016 (as of December 31, 2016)
Assets		
Current assets		
Cash and deposits	138,503	175,742
Notes and accounts receivable - trade	*4 95,476	*4 88,484
Securities	—	29
Merchandise and finished goods	30,169	30,792
Raw materials and supplies	32,499	25,881
Work in process	1,360	728
Deferred tax assets	17,024	12,613
Other	16,809	18,651
Allowance for doubtful accounts	(148)	(674)
Total current assets	331,693	352,250
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	76,428	73,081
Machinery, equipment and vehicles, net	130,254	133,119
Land	*3 18,549	*3 17,815
Construction in progress	16,123	15,031
Other, net	6,452	5,277
Total property, plant and equipment	*1 247,808	*1 244,325
Intangible assets		
Goodwill	67,359	62,075
Other	22,468	21,006
Total intangible assets	89,828	83,082
Investments and other assets		
Investment securities	*2 23,611	*2 23,675
Deferred tax assets	2,195	2,843
Net defined benefit asset	2,160	276
Other	5,393	5,178
Allowance for doubtful accounts	(91)	(90)
Total investments and other assets	33,270	31,883
Total non-current assets	370,907	359,290
Total assets	702,601	711,541

	(Millions of Yen)	
	Fiscal Year Ended December 31, 2015 (as of December 31, 2015)	Fiscal Year Ended December 31, 2016 (as of December 31, 2016)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	*4 93,799	*4 93,257
Short-term loans payable	3,846	6,753
Accounts payable - other	40,683	40,573
Income taxes payable	7,667	9,337
Provision for bonuses	5,514	6,090
Other	17,117	19,982
Total current liabilities	168,630	175,994
Non-current liabilities		
Convertible bond-type bonds with subscription rights to shares	54,421	53,441
Long-term loans payable	10,757	12,084
Deferred tax liabilities	8,160	9,093
Net defined benefit liability	5,295	7,648
Other	4,243	3,304
Total non-current liabilities	82,878	85,572
Total liabilities	251,509	261,567
Net assets		
Shareholders' equity		
Capital stock	15,992	15,992
Capital surplus	6,858	5,586
Retained earnings	366,777	401,388
Treasury shares	(41,101)	(53,652)
Total shareholders' equity	348,527	369,316
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	11,164	7,047
Deferred gains or losses on hedges	(6)	4
Revaluation reserve for land	*3 (157)	*3 (157)
Foreign currency translation adjustment	33,804	19,378
Remeasurements of defined benefit plans	(6,136)	(8,286)
Total accumulated other comprehensive income	38,667	17,987
Subscription rights to shares	276	345
Non-controlling interests	63,619	62,325
Total net assets	451,091	449,974
Total liabilities and net assets	702,601	711,541

2) Consolidated statements of income and comprehensive income
Consolidated statement of income

	(Millions of Yen)			
	Fiscal Year Ended December 31, 2015 (January 1, 2015 – December 31, 2015)		Fiscal Year Ended December 31, 2016 (January 1, 2016 – December 31, 2016)	
Net sales		738,707		710,965
Cost of sales		406,521		376,510
Gross profit		332,185		334,455
Selling, general and administrative expenses	*1, *2	252,250	*1, *2	256,178
Operating income		79,934		78,277
Non-operating income				
Interest income		1,750		3,006
Dividend income		435		356
Gain on valuation of derivatives		—		1,115
Subsidy income		765		1,003
Gain on sales of scraps		761		326
Gain on forfeiture of unclaimed dividends		1,052		8
Other		880		359
Total non-operating income		5,646		6,176
Non-operating expenses				
Interest expenses		588		611
Sales discounts		4,271		1,762
Foreign exchange losses		7,979		8,499
Other		1,362		1,732
Total non-operating expenses		14,201		12,605
Ordinary income		71,380		71,848
Extraordinary income				
Gain on sales of non-current assets	*3	54	*3	157
Gain on sales of investment securities		4,214		5,066
Subsidy income		2,249		—
Total extraordinary income		6,518		5,223
Extraordinary losses				
Loss on disposal of non-current assets	*4	557	*4	1,167
Impairment loss		—	*5	1,355
Settlement related expenses		—		754
Total extraordinary losses		557		3,277
Income before income taxes and minority interests		77,340		73,794
Income taxes - current		16,128		17,135
Income taxes - deferred		12,724		7,956
Total income taxes		28,852		25,092
Profit		48,488		48,702
Profit attributable to non-controlling interests		7,976		4,568
Profit attributable to owners of parent		40,511		44,134

Consolidated statement of comprehensive income

	(Millions of Yen)	
	Fiscal Year Ended December 31, 2015 (January 1, 2015 – December 31, 2015)	Fiscal Year Ended December 31, 2016 (January 1, 2016 – December 31, 2016)
Profit	48,488	48,702
Other comprehensive income		
Valuation difference on available-for-sale securities	(164)	(4,116)
Deferred gains or losses on hedges	(146)	24
Foreign currency translation adjustment	(13,536)	(17,845)
Remeasurements of defined benefit plans, net of tax	(1,930)	(2,130)
Total other comprehensive income	* (15,778)	* (24,068)
Comprehensive income	32,710	24,634
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	27,769	23,453
Comprehensive income attributable to non-controlling interests	4,941	1,180

3) Consolidated statement of changes in shareholders' equity
Fiscal Year Ended December 31, 2015 (January 1, 2015 – December 31, 2015)

(Millions of Yen)

	Shareholders' equity					Accumulated other comprehensive income	
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges
Balance at beginning of current period	15,992	46,358	334,558	(28,667)	368,242	11,329	65
Changes of items during period							
Dividends of surplus			(8,293)		(8,293)		
Profit attributable to owners of parent			40,511		40,511		
Purchase of treasury shares				(13,000)	(13,000)		
Disposal of treasury shares		(72)		566	493		
Purchase of shares of consolidated subsidiaries		(39,426)			(39,426)		
Net changes of items other than shareholders' equity						(164)	(72)
Total changes of items during period	—	(39,499)	32,218	(12,434)	(19,715)	(164)	(72)
Balance at end of current period	15,992	6,858	366,777	(41,101)	348,527	11,164	(6)

	Accumulated other comprehensive income				Subscription rights to shares	Non-controlling interests	Total net assets
	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of current period	(157)	44,426	(4,254)	51,410	238	72,952	492,844
Changes of items during period							
Dividends of surplus							(8,293)
Profit attributable to owners of parent							40,511
Purchase of treasury shares							(13,000)
Disposal of treasury shares							493
Purchase of shares of consolidated subsidiaries							(39,426)
Net changes of items other than shareholders' equity	—	(10,622)	(1,882)	(12,742)	38	(9,332)	(22,036)
Total changes of items during period	—	(10,622)	(1,882)	(12,742)	38	(9,332)	(41,752)
Balance at end of current period	(157)	33,804	(6,136)	38,667	276	63,619	451,091

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

(Millions of Yen)

	Shareholders' equity					Accumulated other comprehensive income	
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges
Balance at beginning of current period	15,992	6,858	366,777	(41,101)	348,527	11,164	(6)
Changes of items during period							
Dividends of surplus			(9,175)		(9,175)		
Profit attributable to owners of parent			44,134		44,134		
Purchase of treasury shares				(14,000)	(14,000)		
Disposal of treasury shares		(351)		1,449	1,097		
Change of scope of consolidation			(347)		(347)		
Purchase of shares of consolidated subsidiaries		(920)			(920)		
Net changes of items other than shareholders' equity						(4,116)	11
Total changes of items during period	—	(1,271)	34,611	(12,551)	20,788	(4,116)	11
Balance at end of current period	15,992	5,586	401,388	(53,652)	369,316	7,047	4

	Accumulated other comprehensive income				Subscription rights to shares	Non-controlling interests	Total net assets
	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of current period	(157)	33,804	(6,136)	38,667	276	63,619	451,091
Changes of items during period							
Dividends of surplus							(9,175)
Profit attributable to owners of parent							44,134
Purchase of treasury shares							(14,000)
Disposal of treasury shares							1,097
Change of scope of consolidation							(347)
Purchase of shares of consolidated subsidiaries							(920)
Net changes of items other than shareholders' equity	—	(14,426)	(2,149)	(20,680)	68	(1,294)	(21,906)
Total changes of items during period	—	(14,426)	(2,149)	(20,680)	68	(1,294)	(1,117)
Balance at end of current period	(157)	19,378	(8,286)	17,987	345	62,325	449,974

4) Consolidated statement of cash flows

	(Millions of Yen)	
	Fiscal Year Ended December 31, 2015 (January 1, 2015 – December 31, 2015)	Fiscal Year Ended December 31, 2016 (January 1, 2016 – December 31, 2016)
Cash flows from operating activities		
Income before income taxes and minority interests	77,340	73,794
Depreciation	27,343	26,750
Impairment loss	—	1,355
Amortization of goodwill	4,640	4,519
Interest and dividend income	(2,186)	(3,362)
Interest expenses	588	611
Foreign exchange losses (gains)	7,203	5,832
Loss (gain) on sales and retirement of non-current assets	503	1,010
Loss (gain) on sales of investment securities	(4,214)	(5,066)
Decrease (increase) in notes and accounts receivable – trade	(12,315)	1,953
Decrease (increase) in inventories	(4,356)	3,209
Increase (decrease) in notes and accounts payable – trade	5,064	2,680
Increase (decrease) in other current liabilities	(336)	6,066
Other, net	(1,706)	(1,316)
Subtotal	97,569	118,039
Interest and dividend income received	2,019	2,274
Interest expenses paid	(683)	(570)
Income taxes refund	1,064	658
Income taxes paid	(14,959)	(16,798)
Net cash provided by (used in) operating activities	85,009	103,604
Cash flows from investing activities		
Payments into time deposits	(36,035)	(17,218)
Proceeds from withdrawal of time deposits	9,280	13,603
Purchase of property, plant and equipment and intangible assets	(46,575)	(37,861)
Proceeds from sales of property, plant and equipment and intangible assets	690	216
Purchase of investment securities	(15)	(6,500)
Proceeds from sales of investment securities	4,467	5,146
Other, net	20	2
Net cash provided by (used in) investing activities	(68,166)	(42,612)

	(Millions of Yen)	
	Fiscal Year Ended December 31, 2015 (January 1, 2015 – December 31, 2015)	Fiscal Year Ended December 31, 2016 (January 1, 2016 – December 31, 2016)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(1,678)	2,527
Proceeds from long-term loans payable	6,000	4,812
Repayments of long-term loans payable	(22,200)	(3,163)
Proceeds from issuance of convertible bond-type bonds with subscription rights to shares	54,750	–
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(50,742)	(988)
Purchase of treasury shares	(13,000)	(14,000)
Cash dividends paid	(8,284)	(9,173)
Dividends paid to non-controlling interests	(1,500)	(2,609)
Proceeds from share issuance to non-controlling shareholders	117	232
Proceeds from exercise of share options	427	949
Other, net	(723)	(127)
Net cash provided by (used in) financing activities	(36,835)	(21,540)
Effect of exchange rate change on cash and cash equivalents	(5,085)	(3,375)
Net increase (decrease) in cash and cash equivalents	(25,078)	36,076
Cash and cash equivalents at beginning of period	127,044	101,966
Cash and cash equivalents at end of period	* 101,966	* 138,042

Notes to Consolidated Financial Statements

(Material basis for the preparation of consolidated financial statements)

1. The scope of consolidation

(1) Number of consolidated subsidiaries: 46 (previous consolidated fiscal year: 46)

Name of the principal subsidiaries

The information is omitted as it is stated in “I. Overview of the Company, 4. Information on subsidiaries and affiliates.”

(2) Name of the principal non-consolidated subsidiary

Hartz-B2E LLC

Reason for exclusion of the subsidiary from consolidation

Because this one non-consolidated subsidiary is a small-sized company, which does not have significant impact on the consolidated financial statements in terms of the aggregated total assets, net sales, net income (amount corresponding to the Company’s equity) and retained earnings (amount corresponding to the Company’s equity), etc.

2. Equity method

(1) Number of affiliates accounted for by the equity method: 3

Name of the companies

The Fun Co., Ltd.

UBS Corporation

Japan Retail Innovation Co., Ltd.

Japan Retail Innovation Co., Ltd. has been included in the affiliates accounted for by the equity method from the consolidated fiscal year under review, since the Company newly acquired its shares.

(2) Name of the principal non-consolidated subsidiaries and affiliates not accounted for by the equity method

Hartz-B2E LLC

Reason for not applying the equity method

Because the subsidiary not accounted for by the equity method does not have significant impact on the net income (amount corresponding to the Company’s equity) and retained earnings (amount corresponding to the Company’s equity), etc. and are immaterial as a whole.

3. Accounting period of consolidated subsidiaries

When the fiscal closing date is different from that of the Company for consolidation, the consolidation is made by the provisional closing at the consolidated closing date for such subsidiaries.

4. Significant accounting policies

(1) Valuation standards and methods for significant assets

1) Securities

a. Held-to-maturity debt securities:

Stated at amortized cost (straight-line method).

b. 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) Derivative financial instruments

Market value method

3) Inventories

Inventories held for ordinary selling purpose:

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

a. Merchandise and finished goods

Principally gross average method

b. Raw materials

Principally moving-average method

c. Supplies

Principally gross average method

d. Work in process

Principally gross average method

- (2) Depreciation method of significant depreciable assets:
 - 1) Property, plant and equipment (excluding leased assets)

Straight-line method

Major useful lives are as follows:

Buildings and structures: 2-53 years

Machinery, equipment and vehicles: 2-20 years
 - 2) Intangible fixed assets (excluding leased assets)

Straight-line method

As major useful lives, 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.
- (3) Accounting standards for significant reserves and allowances
 - 1) Allowance for doubtful accounts

In order to prepare for possible credit losses on receivables, the Company and its domestic consolidated subsidiaries record the estimated amount of non-recoverable receivables based on the historical loss rate for general receivables and specific collectability for specific doubtful receivables. Overseas consolidated subsidiaries principally record the estimated amount of non-recoverable receivables for specified receivables.
 - 2) Provision for bonuses

In order to prepare for payments of bonuses to the employees, the estimated payable amount attributable to the consolidated fiscal year under review is recorded as provision for bonuses.
- (4) Accounting method for retirement benefits
 - 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 consolidated fiscal year under review is based on the benefit formula basis.
 - 2) Accounting method for actuarial difference and past service cost

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 consolidated fiscal year when it is incurred, commencing from the consolidated fiscal year following the consolidated fiscal year in which the difference is incurred.

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 at the time when it is incurred.
- (5) Translation of significant 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 consolidated closing date and the translation difference is charged or credited to income. Assets and liabilities of overseas subsidiaries, etc. are translated into Japanese yen using the spot exchange rate on the consolidated closing date, and revenues and expenses are translated into Japanese yen based on average exchange rate during the fiscal year under review. The translation difference is included in foreign currency translation adjustment and non-controlling interests under net assets.
- (6) Significant hedge accounting method
 - 1) Hedge accounting method

Principally deferral hedge method
 - 2) Hedging instruments and hedged items

Hedging instruments: Forward exchange contracts

Hedged items: Foreign currency denominated forward transactions, foreign currency denominated monetary receivables and payables, etc.
 - 3) Hedging policy

Foreign exchange fluctuation risk is hedged in accordance with "Derivative Transaction Regulations," which is the Company's internal rule.
 - 4) Assessment of hedge effectiveness

As the significant conditions regarding the notional principal of the hedging instruments and hedged items are identical and the market fluctuations or cash flow movements can be supposed to offset completely and continuously on and after the inception of hedging, the assessment of hedge effectiveness is omitted.

(7) Amortization of goodwill

Regarding significant goodwill, the period of expected investment return is individually estimated and the goodwill is amortized using the straight-line method over the period within 20 years after the occurrence.

(8) Cash and cash equivalents in the consolidated statement of cash flows

Cash and cash equivalents consist of cash in hand, demand deposits and high-liquidity short-term investments with a maturity of three months or less when purchased which can easily be converted to cash and subject to little risk of change in value.

(9) Other significant matters for preparation of the consolidated financial statements

Accounting for consumption taxes

Transactions subject to consumption taxes and local consumption taxes are recorded at amounts exclusive of consumption taxes.

(Changes in presentation methods)

(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. The consolidated financial statements for the previous consolidated fiscal year have been reclassified to reflect these changes in presentation.

(Additional information)

(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.

(Consolidated balance sheet)

*1 Accumulated depreciation of property, plant and equipment

	(Millions of Yen)	
	Fiscal Year Ended December 31, 2015 (as of December 31, 2015)	Fiscal Year Ended December 31, 2016 (as of December 31, 2016)
Accumulated depreciation of property, plant and equipment	221,646	226,796

*2 Information related to affiliates is as follows:

	(Millions of Yen)	
	Fiscal Year Ended December 31, 2015 (as of December 31, 2015)	Fiscal Year Ended December 31, 2016 (as of December 31, 2016)
Investment securities (equity securities)	204	704

*3 Revaluation of land

The Company revaluated land for business use in accordance with "Act of Revaluation of Land" (Act No. 34 promulgated on March 31, 1998) and "Act on Partial Revision of Act of Revaluation of Land" (revised on March 31, 2001).

Method of revaluation:

Computed by the appraisal value set forth in Article 2, Item 5 of "Order for enforcement on Act of Revaluation of Land" (Cabinet Order No. 119 promulgated on March 31, 1998)

Date of revaluation:

March 31, 2001

	(Millions of Yen)	
	Fiscal Year Ended December 31, 2015 (as of December 31, 2015)	Fiscal Year Ended December 31, 2016 (as of December 31, 2016)
Difference between the market value of revaluated land at the fiscal year-end and the carrying amount after revaluation	(305)	(312)

*4 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 consolidated fiscal year-end fell on a bank holiday:

	(Millions of Yen)	
	Fiscal Year Ended December 31, 2015 (as of December 31, 2015)	Fiscal Year Ended December 31, 2016 (as of December 31, 2016)
Notes receivable	161	185
Notes payable	476	537

(Consolidated 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, 2015 (January 1, 2015 – December 31, 2015)	Fiscal Year Ended December 31, 2016 (January 1, 2016 – December 31, 2016)
Freight-out expenses	38,646	37,782
Promotion expenses	119,598	124,127
Advertising expenses	21,082	20,913
Employees' salaries and bonuses	21,803	21,700
Provision for bonuses	1,836	1,921
Retirement benefit expenses	1,978	2,674
Depreciation	3,231	3,184

*2 Research and development expenses included in general and administrative expenses are as follows.

	(Millions of Yen)	
	Fiscal Year Ended December 31, 2015 (January 1, 2015 – December 31, 2015)	Fiscal Year Ended December 31, 2016 (January 1, 2016 – December 31, 2016)
	5,993	6,070

*3 The components of "Gain on sales of non-current assets" are as follows:

	(Millions of Yen)	
	Fiscal Year Ended December 31, 2015 (January 1, 2015 – December 31, 2015)	Fiscal Year Ended December 31, 2016 (January 1, 2016 – December 31, 2016)
Buildings and structures	2	111
Machinery, equipment and vehicles	20	42
Other	30	2
Total	54	157

*4 The components of "Loss on disposal of non-current assets" are as follows:

	(Millions of Yen)	
	Fiscal Year Ended December 31, 2015 (January 1, 2015 – December 31, 2015)	Fiscal Year Ended December 31, 2016 (January 1, 2016 – December 31, 2016)
Buildings and structures	2	50
Machinery, equipment and vehicles	488	798
Removal costs	22	175
Other	16	127
Total	529	1,152

Loss on sales of non-current assets

	(Millions of Yen)	
	Fiscal Year Ended December 31, 2015 (January 1, 2015 – December 31, 2015)	Fiscal Year Ended December 31, 2016 (January 1, 2016 – December 31, 2016)
Buildings and structures	22	0
Machinery, equipment and vehicles	6	14
Other	0	0
Total	28	15

*5 Impairment loss

The Group posted impairment losses on the asset groups below for the fiscal year under review.

Use	Type	Location	Impairment loss (Millions of Yen)
Idle assets	Machinery, equipment and vehicles, etc.	People's Republic of China	1,355

The Group's business assets are grouped by the business department based on the assessed profits and losses on managerial accounting, and the Group's rental assets and idle assets are grouped by each asset.

During the current consolidated fiscal year, idle assets not expected to be used in the future due to changes in the business structure were reduced from their carrying amount to the recoverable amount, and this reduction was recorded as an impairment loss (¥1,355 million) under extraordinary losses.

Note that 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.

(Consolidated statement of comprehensive income)

* Reclassification adjustments and tax effects concerning other comprehensive income

	(Millions of Yen)	
	Fiscal Year Ended December 31, 2015 (January 1, 2015 – December 31, 2015)	Fiscal Year Ended December 31, 2016 (January 1, 2016 – December 31, 2016)
Valuation difference on available-for-securities		
Amount arising during the period	2,388	(1,235)
Reclassification adjustment	(3,509)	(5,066)
Before tax effect adjustment	(1,121)	(6,301)
Amount of tax effects	956	2,184
Valuation difference on available-for-sale securities	(164)	(4,116)
Deferred gains or losses on hedges		
Amount arising during the period	(69)	(158)
Reclassification adjustment	(153)	196
Before tax effect adjustment	(222)	37
Amount of tax effects	76	(12)
Deferred gains or losses on hedges	(146)	24
Foreign currency translation adjustment		
Amount arising during the period	(13,536)	(17,845)
Remeasurements of defined benefit plans		
Amount arising during the period	(3,750)	(4,696)
Reclassification adjustment	1,249	1,806
Before tax effect adjustment	(2,500)	(2,889)
Amount of tax effects	570	759
Remeasurements of defined benefit plans	(1,930)	(2,130)
Total other comprehensive income	(15,778)	(24,068)

(Consolidated statement of changes in shareholder's equity)

Fiscal Year Ended December 31, 2015 (January 1, 2015 – December 31, 2015)

1. Shares issued and treasury shares

(Shares)

Class of shares	At the beginning of the period	Increase	Decrease	At the end of the period
Shares issued: Common shares	620,834,319	—	—	620,834,319
Treasury share: Common shares	20,036,933	5,484,406	389,700	25,131,639

(Overview of the reasons for changes)

Major components of changes in treasury shares are as follows:

- | | |
|--|------------------|
| 1. Increase due to purchase of shares of less than one unit: | 306 shares |
| 2. Increase due to implementation of market buying: | 5,484,100 shares |
| 3. Decrease due to the exercise of stock options: | 389,700 shares |

2. Subscription rights to shares

Company	Description	Class of shares to be issued	Number of shares to be issued (Shares) (Note 2)				Balance at the end of the period (Millions of Yen)
			At the beginning of the period	Increase	Decrease	At the end of the period	
The Company	Subscription rights to shares as stock options 2010	—	—	—	—	—	172
	Subscription rights to shares as stock options 2015	—	—	—	—	—	104
	Zero Coupon Convertible Bonds due 2020 (issued on September 25, 2015)	Common shares	—	20,755,000	—	20,755,000	(Note 1) (Note 3)
Total			—	—	—	—	276

Notes: 1. Regarding convertible bonds with subscription rights to shares, the number of shares to be issued is presented on a lump-sum basis.

2. The number of shares to be issued is presented assuming that subscription rights to shares were exercised.

3. Overview of the reasons for changes in number of shares to be issued
The increase is due to issuance.

3. Dividends

(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 17, 2015	Common shares	3,845	6.4	December 31, 2014	March 9, 2015
Board of Directors meeting on August 7, 2015	Common shares	4,447	7.4	June 30, 2015	September 7, 2015

(2) Dividends which the record date was in the fiscal year under review and the effective date of which is in the following fiscal year

Resolution	Class of shares	Total dividends (Millions of yen)	Source of dividends	Dividends per share (Yen)	Record date	Effective date
Board of Directors meeting on February 25, 2016	Common shares	4,408	Retained earnings	7.4	December 31, 2015	March 9, 2016

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

1. Shares issued and treasury shares

(Shares)

Class of shares	At the beginning of the period	Increase	Decrease	At the end of the period
Shares issued: Common shares	620,834,319	—	—	620,834,319
Treasury share: Common shares	25,131,639	5,717,551	866,400	29,982,790

(Overview of the reasons for changes)

Major components of changes in treasury shares are as follows:

- | | |
|--|------------------|
| 1. Increase due to purchase of shares of less than one unit: | 51 shares |
| 2. Increase due to implementation of market buying: | 5,717,500 shares |
| 3. Decrease due to the exercise of stock options: | 866,400 shares |

2. Subscription rights to shares

Company	Description	Class of shares to be issued	Number of shares to be issued (Shares) (Note 2)				Balance at the end of the period (Millions of Yen)
			At the beginning of the period	Increase	Decrease	At the end of the period	
The Company	Subscription rights to shares as stock options 2015	—	—	—	—	—	345
	Zero Coupon Convertible Bonds due 2020 (issued on September 25, 2015)	Common shares	20,755,000	—	—	20,755,000	(Note 1)
Total			—	—	—	—	345

Notes: 1. Regarding convertible bonds with subscription rights to shares, the number of shares to be issued is presented on a lump-sum basis.

2. The number of shares to be issued is presented assuming that subscription rights to shares were exercised.

3. Dividends

(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 which the record date was in the fiscal year ended December 31, 2016 and the effective date of which is in the fiscal year ending December 31, 2017

Resolution	Class of shares	Total dividends (Millions of yen)	Source of dividends	Dividends per share (Yen)	Record date	Effective date
Board of Directors meeting on February 27, 2017	Common shares	4,726	Retained earnings	8.0	December 31, 2016	March 9, 2017

(Consolidated statement of cash flows)

* Cash and cash equivalents as of the fiscal year end are reconciled to the accounts reported in the consolidated balance sheets as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2015 (January 1, 2015 – December 31, 2015)	Fiscal Year Ended December 31, 2016 (January 1, 2016 – December 31, 2016)
Cash and deposits	138,503	175,742
Time deposits with maturities of more than three months	(36,536)	(37,700)
Cash and cash equivalents	101,966	138,042

(Lease transactions)

Operating lease transactions

(Lessees' accounting)

Future lease payments under non-cancelable operating lease transactions

(Millions of Yen)

	Fiscal Year Ended December 31, 2015 (As of December 31, 2015)	Fiscal Year Ended December 31, 2016 (As of December 31, 2016)
Within one year	791	659
Over one year	3,803	2,916
Total	4,594	3,575

(Financial instruments)

1. Matters related to the status of financial instruments

(1) Policies on financial instruments

With respect to fund management, cash surpluses are invested in low risk financial instruments such as time deposits, Japanese Government Bonds, etc. With respect to fund raising, the Group selects and implements the best measures for the Group considering financial situations of the Company and respective consolidated subsidiaries and market environments.

Derivatives are used not for speculative purposes but to avoid the market risk of fluctuation in foreign exchange rates associated with foreign currency denominated receivables and payables based on the actual demand.

(2) Nature and risk of financial instruments

For the Company and certain consolidated subsidiaries, notes receivable and accounts receivable that are trade receivables are exposed to customer credit risk. With respect to such risk, the sales administration department is monitoring major counterparties' credit status periodically, controlling collection due dates and outstanding balances per counterparty 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. Furthermore, foreign currency denominated trade receivables due from the Company's consolidated subsidiaries developing globally are exposed to foreign currency fluctuation risk, but the Company hedges the position, net of trade payables, using foreign exchange forward contracts as necessary.

Securities and investment securities held by the Company and certain consolidated subsidiaries, which consist primarily of equity securities held for the purpose of business or capital alliances with business partners, are exposed to market risk due to fluctuation in market prices. With regard to equity securities, most of which are issued by the business-related counterparties, their market values are identified periodically and are reported to the Board of Directors together with other net investment purpose equities, holding risk of which is closely monitored.

Trade payables including notes payable, accounts payable, other payables, income taxes payable, etc. mostly have payment due dates within one year. Some of them are denominated in foreign currencies arising from importing raw materials from overseas and exposed to foreign currency exchange risk, but it is hedged by foreign currency forward contracts as necessary. Loans payable are principally for the purpose of raising fund necessary for investment and lending. A part of loans payable have variable interest rates and is exposed to interest rate fluctuation risk. In addition, with respect to liquidity risk associated with fund raising, the Group manages its liquidity risk by maintaining liquidity on hand, as well as having the Accounting and Finance Division prepare and update cash management plans based on reports, etc. from each department.

Derivative transactions of the Company and certain consolidated subsidiaries are foreign exchange forward contracts for the purpose of hedging the market risk due to fluctuation in foreign exchange rates associated with foreign currency denominated receivables and payables. The derivative transactions are executed and controlled in accordance with the Derivative Control Regulations and limited to hedging actual transactions. For hedging instruments, hedged items, hedging policy, assessment method of hedge effectiveness, etc., please refer to "Significant hedge accounting method" included in the aforementioned "Significant accounting policies."

(3) Supplementary explanation about fair value of financial instruments

Fair value of financial instruments includes value based on market prices and value reasonably determined when there is no available market price. As variable factors are incorporated in determining the relevant value, such relevant value may change by adopting different preconditions, etc. Contract amounts concerning derivative transactions presented in "2. Matters regarding fair value of financial instruments, etc." do not represent market risk of the derivative transactions.

2. Matters regarding fair values of financial instruments, etc.

Carrying amounts on the consolidated balance sheet, fair values and their differences are as follows. The following table does not include fair values for financial instruments for which the fair value is difficult to determine (please see Note 2).

Fiscal Year Ended December 31, 2015 (as of December 31, 2015)

(Millions of Yen)

	Carrying amount	Fair value	Difference
(1) Cash and deposits	138,503	138,503	—
(2) Notes and accounts receivable - trade	95,476		
Allowance for doubtful accounts (*1)	(148)		
	95,327	95,327	—
(3) Securities and investment securities	23,194	23,198	4
Total assets	257,024	257,029	4
(1) Notes and accounts payable - trade	93,799	93,799	—
(2) Short-term loans payable	3,846	3,846	—
(3) Accounts payable - other	40,683	40,683	—
(4) Income taxes payable	7,667	7,667	—
(5) Convertible bond-type bonds with subscription rights to shares	54,421	60,437	6,016
(6) Long-term loans payable	10,757	10,760	3
Total liabilities	211,177	217,196	6,019
Derivative transactions (*2)			
1) Hedge accounting is not applied	(6)	(6)	—
2) Hedge accounting is applied	(1)	(1)	—
Total derivative transactions	(7)	(7)	—

(*1) Allowance for doubtful accounts corresponding to notes and accounts receivable - trade is deducted.

(*2) Receivables and payables arising from derivative transactions are shown in net amount, and in parenthesis in case of net payables.

	Carrying amount	Fair value	Difference
(1) Cash and deposits	175,742	175,742	—
(2) Notes and accounts receivable - trade	88,484		
Allowance for doubtful accounts (*1)	(674)		
	87,810	87,810	—
(3) Securities and investment securities	22,824	22,828	4
Total assets	286,377	286,381	4
(1) Notes and accounts payable - trade	93,257	93,257	—
(2) Short-term loans payable	6,753	6,753	—
(3) Accounts payable - other	40,573	40,573	—
(4) Income taxes payable	9,337	9,337	—
(5) Convertible bond-type bonds with subscription rights to shares	53,441	60,150	6,708
(6) Long-term loans payable	12,084	12,094	10
Total liabilities	215,447	222,166	6,718
Derivative transactions (*2)			
1) Hedge accounting is not applied	1,139	1,139	—
2) Hedge accounting is applied	46	46	—
Total derivative transactions	1,185	1,185	—

(*1) Allowance for doubtful accounts corresponding to notes and accounts receivable - trade is deducted.

(*2) Receivables and payables arising from derivative transactions are shown in net amount, and in parenthesis in case of net payables.

Note 1: Calculation method of the fair value of financial instruments, and securities and derivative transactions

Assets:

(1) Cash and deposits and (2) notes and accounts receivable - trade

The carrying amount is presented as the fair value since these balances are routinely settled in the short term, and as such the fair value is considered to approximate the carrying value.

(3) Securities and investment securities

The fair values of investment securities are based on the prices traded at the stock exchange.

Liabilities:

(1) Notes and accounts payable - trade, (2) Short-term loans payable, (3) accounts payable – other, and (4) income taxes payable

The carrying amount is presented as the fair value since these balances are routinely settled in the short term, and as such the fair value is considered to approximate the carrying value.

(5) Convertible bond-type bonds with subscription rights to shares

The fair values of the Company's debt securities are based on the market prices.

(6) Long-term loans payable

The fair value of long-term loans payable is based on the present value of the total of principal and interest discounted by the interest rate to be applied if similar new loans were entered into. However, the fair value of long-term loans payable with variable rates is based on the book value, since the variable rates are renewed periodically and as the fair value approximates the carrying amounts.

Derivative transactions:

Refer to the notes in “Derivative transactions.”

Note 2: Carrying amounts of financial instruments for which fair value is extremely difficult to determine

(Millions of Yen)

Classification	As of December 31, 2015	As of December 31, 2016
Unlisted equity securities	417	880
Total	417	880

These items are not included in above “(3) Securities and investment securities” since no market price is available and it is extremely difficult to determine the fair value.

Note 3: Repayment amounts of monetary receivables and securities with contractual maturities after consolidated closing date

Fiscal Year Ended December 31, 2015 (as of December 31, 2015)

(Millions of Yen)

	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits	138,503	—	—	—
Notes and accounts receivable - trade	95,476	—	—	—
Securities and investment securities: Held-to-maturity debt securities:				
(1) Government and municipal bonds	—	31	—	—
(2) Corporate bonds	—	—	—	—
(3) Other	—	—	—	—
Total	233,979	31	—	—

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 five years	Due after five years through ten years	Due after ten years
Cash and deposits	175,742	—	—	—
Notes and accounts receivable - trade	88,484	—	—	—
Securities and investment securities: Held-to-maturity debt securities:				
(1) Government and municipal bonds	29	—	—	—
(2) Corporate bonds	—	—	—	—
(3) Other	—	—	—	—
Total	264,256	—	—	—

Note 4: Repayment amounts of corporate bonds, long-term loans payable and other interest-bearing debt after consolidated closing date

Fiscal Year Ended December 31, 2015 (as of December 31, 2015)

(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
Short-term loans payable	3,846	—	—	—	—	—
Convertible bond-type bonds with subscription rights to shares	—	—	—	—	50,000	—
Long-term loans payable	—	—	—	10,757	—	—
Total	3,846	—	—	10,757	50,000	—

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
Short-term loans payable	6,478	—	—	—	—	—
Convertible bond-type bonds with subscription rights to shares	—	—	—	50,000	—	—
Long-term loans payable	274	3,274	7,710	274	274	549
Total	6,753	3,274	7,710	50,274	274	549

(Securities)

1. Held-to-maturity debt securities

Fiscal Year Ended December 31, 2015 (as of December 31, 2015)

(Millions of Yen)

	Classification	Carrying amount	Fair value	Difference
Securities whose fair value exceeds their carrying amount recorded in the consolidated balance sheets	(1) Government and municipal bonds	30	35	4
	(2) Corporate bonds	—	—	—
	(3) Other	—	—	—
	Subtotal	30	35	4
Securities whose fair value does not exceed their carrying amount recorded in the consolidated balance sheets	(1) Government and municipal bonds	—	—	—
	(2) Corporate bonds	—	—	—
	(3) Other	—	—	—
	Subtotal	—	—	—
Total		30	35	4

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

(Millions of Yen)

	Classification	Carrying amount	Fair value	Difference
Securities whose fair value exceeds their carrying amount recorded in the consolidated balance sheets	(1) Government and municipal bonds	29	33	4
	(2) Corporate bonds	—	—	—
	(3) Other	—	—	—
	Subtotal	29	33	4
Securities whose fair value does not exceed their carrying amount recorded in the consolidated balance sheets	(1) Government and municipal bonds	—	—	—
	(2) Corporate bonds	—	—	—
	(3) Other	—	—	—
	Subtotal	—	—	—
Total		29	33	4

2. Available-for-sale securities

Fiscal Year Ended December 31, 2015 (as of December 31, 2015)

(Millions of Yen)

	Classification	Carrying amount	Acquisition cost	Difference
Securities whose carrying amount does not exceed their acquisition cost	(1) Shares	23,036	6,685	16,351
	(2) Other	—	—	—
	Subtotal	23,036	6,685	16,351
Securities whose carrying amount exceed their acquisition cost	(1) Shares	126	135	(9)
	(2) Other	—	—	—
	Subtotal	126	135	(9)
Total		23,163	6,821	16,341

Note: Unlisted equity securities (carrying amount of ¥213 million) are not included in available-for-sale securities above since no market price is available and it is extremely difficult to determine the fair value.

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

(Millions of Yen)

	Classification	Carrying amount	Acquisition cost	Difference
Securities whose carrying amount does not exceed their acquisition cost	(1) Shares	16,823	6,739	10,084
	(2) Other	—	—	—
	Subtotal	16,823	6,739	10,084
Securities whose carrying amount exceed their acquisition cost	(1) Shares	5,971	6,015	(43)
	(2) Other	—	—	—
	Subtotal	5,971	6,015	(43)
Total		22,794	12,754	10,040

Note: Unlisted equity securities (carrying amount of ¥175 million) are not included in available-for-sale securities above since no market price is available and it is extremely difficult to determine the fair value.

3. Available-for-sale securities sold during the fiscal year

Fiscal Year Ended December 31, 2015 (January 1, 2015 – December 31, 2015)

(Millions of Yen)

Classification	Sales proceeds	Total gains on sales	Total losses on sales
Equity securities	252	4,214	—
Total	252	4,214	—

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

(Millions of Yen)

Classification	Sales proceeds	Total gains on sales	Total losses on sales
Equity securities	80	5,066	—
Total	80	5,066	—

(Derivative transactions)

1. Derivatives to which hedge accounting is not applied

With respect to derivatives to which hedge accounting is not applied, contract amount as of the consolidated closing date or the amount corresponding to the principal defined in the contract, fair value and unrealized gain (loss) by the type of derivatives and determination method of the fair value are as follows:

Fiscal Year Ended December 31, 2015 (as of December 31, 2015)

(Millions of Yen)

Classification	Type of derivatives	Contract amount		Fair value	Unrealized gain (loss)
			Contract amount due after one year		
Exchange-traded	Foreign exchange forward contracts: Selling USD	23,893	—	(0)	(0)
Exchange-traded	Foreign exchange forward contracts: Buying USD	2,003	—	(16)	(16)
Exchange-traded	Foreign exchange forward contracts: Buying EUR	100	—	(3)	(3)
Exchange-traded	Foreign exchange forward contracts: Buying SEK	45	—	0	0
Exchange-traded	Foreign exchange forward contracts: Selling JPY	8,138	—	43	43
Exchange-traded	Foreign exchange forward contracts: Buying THB	1,278	—	(25)	(25)
Exchange-traded	Foreign exchange forward contracts: Selling AUD	758	—	(3)	(3)
Total		36,219	—	(6)	(6)

Note: The fair value is calculated based on the prices presented from the financial institutions with which derivatives are transacted.

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

(Millions of Yen)

Classification	Type of derivatives	Contract amount		Fair value	Unrealized gain (loss)
			Contract amount due after one year		
Exchange-traded	Foreign exchange forward contracts: Selling USD	23,047	—	235	235
Exchange-traded	Foreign exchange forward contracts: Buying USD	489	—	33	33
Exchange-traded	Foreign exchange forward contracts: Buying SEK	48	—	0	0
Exchange-traded	Foreign exchange forward contracts: Selling JPY	8,522	—	828	828
Exchange-traded	Foreign exchange forward contracts: Buying THB	1,057	—	34	34
Exchange-traded	Foreign exchange forward contracts: Selling AUD	1,381	—	6	6
Total		34,546	—	1,139	1,139

Note: The fair value is calculated based on the prices presented from the financial institutions with which derivatives are transacted.

2. Derivatives to which hedge accounting is applied

With respect to derivatives to which hedge accounting is applied, contract amount as of the consolidated closing date or the amount corresponding to the principal defined in the contract, fair value and unrealized gain (loss) by the type of derivatives and determination method of the fair value are as follows:

Fiscal Year Ended December 31, 2015 (as of December 31, 2015)

(Millions of Yen)

Hedge accounting method	Type of derivatives	Major hedged item	Contract amount		Fair value
				Contract amount due after one year	
Deferred hedge accounting method	Foreign exchange forward contracts: Buying USD	Accounts payable - trade	1,543	—	14
Deferred hedge accounting method	Foreign exchange forward contracts: Buying EUR	Accounts payable - trade	768	—	(14)
Deferred hedge accounting method	Foreign exchange forward contracts: Buying JPY	Accounts payable - trade	75	—	(0)
Total			2,387	—	(1)

Note: The fair value is calculated based on the prices presented from the financial institutions with which derivatives are transacted.

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

(Millions of Yen)

Hedge accounting method	Type of derivatives	Major hedged item	Contract amount		Fair value
				Contract amount due after one year	
Deferred hedge accounting method	Foreign exchange forward contracts: Selling USD	Accounts receivable - trade	513	—	11
Deferred hedge accounting method	Foreign exchange forward contracts: Buying USD	Accounts payable - trade	548	—	47
Deferred hedge accounting method	Foreign exchange forward contracts: Selling CAD	Accounts payable - trade	526	—	5
Deferred hedge accounting method	Foreign exchange forward contracts: Buying JPY	Accounts payable - trade	725	—	(17)
Total			2,313	—	46

Note: The fair value is calculated based on the prices presented from the financial institutions with which derivatives are transacted.

(Retirement benefits and pension plans)

1. Description of retirement benefits and pension plans

The Company and its consolidated subsidiaries have funded or unfunded defined benefit plans and defined contribution plans to provide for the employees' retirement and severance benefits.

Under the defined benefit corporate pension plans, lump-sum severance benefits or annuities are paid based on the rate of paid salaries and years of service.

Under lump-sum benefit plans (unfunded plans, whereas some plans are funded types due to the establishment of retirement benefit trusts), lump-sum benefits are paid based on the rate of paid salaries and years of service.

Some consolidated subsidiaries adopt a simplified method in determining retirement benefit obligations.

2. Defined benefit plans

(1) Reconciliations between the beginning balance and ending balance of retirement benefit obligations

	(Millions of Yen)	
	Fiscal Year Ended December 31, 2015 (January 1, 2015 – December 31, 2015)	Fiscal Year Ended December 31, 2016 (January 1, 2016 – December 31, 2016)
Beginning balance of retirement benefit obligations	39,309	43,045
Service cost	2,217	2,222
Interest expenses	611	654
Actuarial gain or loss incurred	2,559	3,966
Retirement benefits paid	(1,033)	(974)
Foreign exchange translation differences	(619)	(318)
Other	—	(117)
Ending balance of retirement benefit obligations	43,045	48,477

(2) Reconciliations between the beginning balance and ending balance of plan assets

	(Millions of Yen)	
	Fiscal Year Ended December 31, 2015 (January 1, 2015 – December 31, 2015)	Fiscal Year Ended December 31, 2016 (January 1, 2016 – December 31, 2016)
Beginning balance of plan assets	40,163	41,246
Expected return on plan assets	1,068	1,117
Actuarial gain or loss incurred	(1,193)	(712)
Contribution from employers	2,292	2,270
Retirement benefits paid	(600)	(587)
Foreign exchange translation differences	(484)	(291)
Other	—	(125)
Ending balance of plan assets	41,246	42,917

(3) Reconciliations between the beginning balance and ending balance of net defined benefit liability to which the simplified method is applied

	(Millions of Yen)	
	Fiscal Year Ended December 31, 2015 (January 1, 2015 – December 31, 2015)	Fiscal Year Ended December 31, 2016 (January 1, 2016 – December 31, 2016)
Beginning balance of net defined benefit liability	1,373	1,336
Retirement benefit expenses	358	574
Retirement benefits paid	(388)	(81)
Foreign exchange translation differences	(6)	(16)
Ending balance of net defined benefit liability	1,336	1,812

(4) Reconciliations between the ending balances of retirement benefit obligations and plan assets and net defined benefit liability (asset) recorded in the consolidated balance sheet

	(Millions of Yen)	
	Fiscal Year Ended December 31, 2015 (January 1, 2015 – December 31, 2015)	Fiscal Year Ended December 31, 2016 (January 1, 2016 – December 31, 2016)
Funded retirement benefit obligations	41,210	46,204
Plan assets	(41,246)	(42,917)
	(36)	3,286
Unfunded retirement benefit obligations	3,171	4,085
Net liability (asset) recorded in the consolidated balance sheet	3,134	7,372
Net defined benefit liability	5,295	7,648
Net defined benefit asset	(2,160)	(276)
Net liability (asset) recorded in the consolidated balance sheet	3,134	7,372

(5) The amounts of components of retirement benefit expenses

	(Millions of Yen)	
	Fiscal Year Ended December 31, 2015 (January 1, 2015 – December 31, 2015)	Fiscal Year Ended December 31, 2016 (January 1, 2016 – December 31, 2016)
Service cost	2,217	2,222
Interest expenses	611	654
Expected return on plan assets	(1,068)	(1,117)
Actuarial gain or loss amortized	1,244	1,729
Past service costs amortized	5	3
Retirement benefit expenses computed under the simplified method	358	574
Other	—	21
Retirement benefit expenses on defined benefit plans	3,367	4,088

(6) Remeasurements of defined benefit plans under other comprehensive income

The components of remeasurements of defined benefit plans (before tax effects) reported under other comprehensive income are as follows:

	(Millions of Yen)	
	Fiscal Year Ended December 31, 2015 (January 1, 2015 – December 31, 2015)	Fiscal Year Ended December 31, 2016 (January 1, 2016 – December 31, 2016)
Past service cost	(5)	(3)
Actuarial difference	2,505	2,893
Total	2,500	2,889

(7) Remeasurements of defined benefit plans under accumulated other comprehensive income

The components of remeasurements of defined benefit plans (before tax effects) reported under accumulated other comprehensive income are as follows:

	(Millions of Yen)	
	Fiscal Year Ended December 31, 2015 (January 1, 2015 – December 31, 2015)	Fiscal Year Ended December 31, 2016 (January 1, 2016 – December 31, 2016)
Unrealized past service cost	3	—
Unrealized actuarial difference	9,168	12,047
Total	9,171	12,047

(8) Plan assets

1) Components of plan assets

Ratio of each principal component of plan assets is as following:

	Fiscal Year Ended December 31, 2015 (January 1, 2015 – December 31, 2015)	Fiscal Year Ended December 31, 2016 (January 1, 2016 – December 31, 2016)
Debt securities	49%	51%
Equity securities	32%	30%
Cash and bank deposits	5%	6%
General account	9%	10%
Other	5%	3%
Total	100%	100%

Notes: 1. Plan assets for the fiscal year ended December 31, 2015 include a retirement benefit trust established as part of the corporate pension plan which constitutes 10% of the total asset value.

2. Plan assets for the fiscal year ended December 31, 2016 include a retirement benefit trust established as part of the corporate pension plan which constitutes 10% of the total asset value.

2) Method of determining the long-term expected rate of return on plan assets

The long-term expected rate of return on plan assets is determined considering the expected profile of plan assets both currently and in the future, and the long-term rates of return which are expected currently and in the future from the various components of those plan assets.

(9) Actuarial assumptions used

Principal actuarial assumptions at the end of period

	Fiscal Year Ended December 31, 2015 (January 1, 2015 – December 31, 2015)	Fiscal Year Ended December 31, 2016 (January 1, 2016 – December 31, 2016)
Discount rate	Mainly 1.6%	Mainly 1.1%
Long-term expected rate of return	Mainly 3.0%	Mainly 3.0%

Notes: 1. Expected rate of salary raise is not adopted.

2. The discount rate applied in the computation at the beginning of the consolidated fiscal year under review was 1.6%, but as a result of having reviewed the discount rate at the end of the fiscal year, the discount rate has been changed to 1.1% because the management judged such change will have a material impact on the amount of retirement benefit obligations.

3. Defined contribution plans

The required contribution to the defined contribution plans of the Company and its consolidated subsidiaries is ¥480 million and ¥587 million for the fiscal year ended December 31, 2015 and 2016, respectively.

(Stock options)

1. The account and the amount of stock options charged as expenses

(Millions of Yen)

	Fiscal Year Ended December 31, 2015 (January 1, 2015 – December 31, 2015)	Fiscal Year Ended December 31, 2016 (January 1, 2016 – December 31, 2016)
Cost of sales	24	72
Selling, general and administrative expenses	79	167

2. Nature, size and status of changes of stock options

(1) Description of stock options

Name of company	The Company
Date of resolution	April 16, 2015
Category and number of persons granted	8 Directors who are not Audit and Supervisory Committee Members 1,783 employees of the Company 1,316 employees of the subsidiaries
Class and number of shares granted (Note)	Common shares: 3,202,500 shares
Date of grant	June 1, 2015
Conditions for vesting	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 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 a Director of the Company's subsidiary due to expiration of term of office or retired as employee 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.
Service period	From June 1, 2015 to May 31, 2017
Exercise period	From June 1, 2017 to May 31, 2022

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

(2) Size and status of changes of stock options

The number of stock options, which existed as of the consolidated fiscal year under review (as of December 31, 2016) is presented by converting into the number of shares.

1) Number of stock options

(Shares)

Name of company	The Company
Date of resolution	April 16, 2015
Non-vested:	
January 1, 2016—Outstanding	3,171,600
Granted	—
Forfeited	49,200
Vested	—
December 31, 2016—Outstanding	3,122,400
Vested:	
January 1, 2016—Outstanding	—
Vested	—
Exercised	—
Forfeited	—
December 31, 2016—Outstanding	—

2) Prices

(Yen)

Name of company	The Company
Date of resolution	April 16, 2015
Exercise price	2,901
Average share price at exercise	—
Fair value price at grant date	412

3. Method for estimating the per share fair value of stock options granted in the consolidated fiscal year under review

Not applicable.

4. Estimation of the number of stock options vested

The number of stock options to be forfeited due to non-vesting is estimated, considering vesting conditions, etc.

(Tax-effect accounting)

1. Major components of deferred tax assets and liabilities

	(Millions of Yen)	
	Fiscal Year Ended December 31, 2015 (as of December 31, 2015)	Fiscal Year Ended December 31, 2016 (as of December 31, 2016)
Deferred tax assets:		
Provision for bonuses	1,187	1,307
Accrued sales promotion expense	4,622	4,867
Net defined benefit liability	2,095	2,973
Tax loss carryforwards	23,541	14,922
Other	4,868	4,735
Subtotal	36,315	28,807
Less valuation allowance	(4,530)	(4,277)
Total deferred tax assets	31,785	24,529
Deferred tax liabilities:		
Net unrealized gain from fair value	(1,731)	(1,339)
Depreciation of overseas subsidiaries	(2,770)	(2,535)
Net defined benefit asset	(614)	(87)
Valuation deference for available-for-sale securities	(5,177)	(2,704)
Retained earnings	(7,372)	(8,770)
Other	(3,202)	(2,940)
Total deferred tax liabilities	(20,869)	(18,378)
Net deferred tax assets (liabilities)	10,915	6,151

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

	(Millions of Yen)	
	Fiscal Year Ended December 31, 2015 (as of December 31, 2015)	Fiscal Year Ended December 31, 2016 (as of December 31, 2016)
Deferred tax assets—current	17,024	12,613
Deferred tax assets—non-current	2,195	2,843
Other—current liabilities	(144)	(212)
Deferred tax liabilities—non-current	(8,160)	(9,093)

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

The note on the reconciliation between the actual effective tax rate reflected in the consolidated financial statements and the statutory tax rate is omitted, since the difference between the statutory tax rate and the actual effective tax rate after applying the deferred tax accounting is less than 5% of the statutory tax rate.

3. Revision of amounts of deferred tax assets and deferred tax liabilities due to changes in corporate tax rate, etc.

The Act for Partial Revision of the Income Tax Act, etc. (Act No. 15 of 2016) and the Act for Partial Revision of the Local Tax Act, etc. (Act No. 13 of 2016) were passed in the Diet on March 29, 2016.

As a result, the corporate tax rate, etc. will be lowered beginning with the consolidated 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 32.26% that was used in calculations for the previous consolidated fiscal year to 30.86% for temporary differences expected to be eliminated in the fiscal years beginning on or after January 1, 2017. Additionally, the effective statutory tax rate used to measure deferred tax assets and deferred tax liabilities will be changed to 30.62% for temporary differences expected to be eliminated in the fiscal years beginning on or after January 1, 2018.

The impact of these changes on the consolidated financial statements is immaterial.

(Segment information, etc.)

[Segment information]

1. Outline of reporting segments

(1) How to decide reporting segments

The Company's reporting segments shall be part of its organizational units whose financial information is individually available, and shall be subject to regular review by its Board of Directors for the purpose of deciding the allocation of its managerial resources and evaluating its business performance.

The Company 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 Company's reporting segments.

(2) Type of products and services for each reporting segment

The Company has manufactured and sold baby care products, feminine care products, health care products, and clean-and-fresh products in the "personal care business." In the "pet care business," the Company has manufactured and sold pet food products and pet toiletry products. In "other businesses," the Company has manufactured and sold business-use products, etc.

2. Methods of calculating the amount of sales, profits/losses, assets, liabilities, and other items by reporting segment

Accounting methods for reporting segments are nearly the same as those of "material matters affecting the preparation of consolidated financial statements" in the most recent securities report.

3. Information concerning the amount of net sales, income/loss, assets, liabilities and other items by reporting segment

Fiscal year ended December 31, 2015 (January 1, 2015 – December 31, 2015)

(Millions of Yen)

	Reporting segment				Elimination or company-wide	Consolidation
	Personal care	Pet care	Other	Total		
Net sales						
Sales to external customers	647,573	85,624	5,508	738,707	—	738,707
Internal sales or transfers across segments	—	—	23	23	(23)	—
Total	647,573	85,624	5,531	738,730	(23)	738,707
Segment income (Operating income)	76,254	3,329	330	79,914	20	79,934
Segment assets	586,249	68,739	4,637	659,625	42,975	702,601
Others						
Depreciation	24,279	2,972	92	27,343	—	27,343
Amortization of goodwill	1,864	2,775	—	4,640	—	4,640
Increase in property, plant and equipment and intangible assets	46,273	1,514	205	47,993	—	47,993

Note: Corporate assets included in "Elimination or company-wide" amount to ¥61,215 million. Such assets consist of cash and deposits and investment securities held by the Company.

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

(Millions of Yen)

	Reporting segment				Elimination or company-wide	Consolidation
	Personal care	Pet care	Other	Total		
Net sales						
Sales to external customers	619,047	85,756	6,161	710,965	—	710,965
Internal sales or transfers across segments	—	—	35	35	(35)	—
Total	619,047	85,756	6,196	711,000	(35)	710,965
Segment income (Operating income)	72,514	5,347	414	78,277	—	78,277
Segment assets	593,115	63,628	4,948	661,692	49,848	711,541
Others						
Depreciation	23,887	2,763	99	26,750	—	26,750
Amortization of goodwill	1,743	2,775	—	4,519	—	4,519
Impairment loss	1,355	—	—	1,355	—	1,355
Increase in property, plant and equipment and intangible assets	37,217	1,938	280	39,436	—	39,436

Note: Corporate assets included in “Elimination or company-wide” amount to ¥67,360 million. Such assets consist of cash and deposits and investment securities held by the Company.

[Related information]

Fiscal year ended December 31, 2015 (January 1, 2015 – December 31, 2015)

1. Information on products and services

Information on products and services is omitted, since the similar information is disclosed in the segment information note above.

2. Geographical information

(1) Net sales

(Millions of Yen)

Japan	China	Indonesia	Other	Total
287,135	132,160	74,180	245,231	738,707

Note: Net sales are classified by country or region based on the customer’s location.

(2) Property, plant and equipment

(Millions of Yen)

Japan	China	Indonesia	Other	Total
52,858	64,957	32,946	97,046	247,808

3. Information about major customers

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

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

1. Information on products and services

Information on products and services is omitted, since the similar information is disclosed in the segment information note above.

2. Geographical information

(1) Net sales

(Millions of Yen)

Japan	China	Other	Total
302,851	107,830	300,283	710,965

Note: Net sales are classified by country or region based on the customer's location.

(2) Property, plant and equipment

(Millions of Yen)

Japan	China	Indonesia	Other	Total
60,263	55,402	29,952	98,707	244,325

3. Information about major customers

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

[Information about impairment loss on non-current assets by reporting segment]

Fiscal year ended December 31, 2015 (January 1, 2015 – December 31, 2015)

There was no significant impairment loss to be reported.

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

(Millions of Yen)

	Reporting segment				Elimination or company-wide	Consolidation
	Personal care	Pet care	Other	Total		
Impairment loss	1,355	—	—	1,355	—	1,355

[Information about amortization and unamortized balance of goodwill by reporting segment]

Fiscal year ended December 31, 2015 (January 1, 2015 – December 31, 2015)

(Millions of Yen)

	Reporting segment				Elimination or company-wide	Consolidation
	Personal care	Pet care	Other	Total		
Amortization	1,864	2,775	—	4,640	—	4,640
Unamortized balance at end of the period	27,078	40,281	—	67,359	—	67,359

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

(Millions of Yen)

	Reporting segment				Elimination or company-wide	Consolidation
	Personal care	Pet care	Other	Total		
Amortization	1,743	2,775	—	4,519	—	4,519
Unamortized balance at end of the period	24,570	37,505	—	62,075	—	62,075

[Information about gain on negative goodwill by reporting segment]

Fiscal year ended December 31, 2015 (January 1, 2015 – December 31, 2015)
Not applicable.

Fiscal year ended December 31, 2016 (January 1, 2016 – December 31, 2016)
Not applicable.

[Information on related party transactions]

Transactions with related parties

(1) Transactions of the Company with related parties

Directors and major shareholders (limited to individuals) of the Company which submitted the consolidated financial statements

Fiscal year ended December 31, 2015 (January 1, 2015 – December 31, 2015)

Classification	Name	Address	Capital	Business	Percentage of voting rights held	Relation	Transactions	Transaction amount (Note 4)	Account item	Year-end balance (Note 4)
Company whose majority of voting rights is owned by the directors and their close relatives (including the subsidiaries of the company)	Takahara Kosan K.K. (Note 2)	Minato-ku, Tokyo	¥10 million	Insurance agency	(Owned) Indirectly 12.7%	To insure the Company	Business transaction To insure	¥138 million	Prepaid expenses	¥53 million
	Unitec Corporation (Note 3)	Shikokuchuo-shi, Ehime	¥98 million	Real estate lease agent	(Owned) Directly 26.0%	Rent of land	Business transaction Rent of land	¥11 million	—	—

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

(1) Insurance premium is determined at the normal insurance premium rate designating the insured amount.

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

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

3. The voting rights of Unitec Corporation are owned 0.5% directly and 45.3% indirectly by Mr. Takahisa Takahara, Representative Director of the Company, 2.1% indirectly by Mr. Keiichiro Takahara, Director, and 0.6% directly and 51.5% indirectly owned by their close relatives.

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

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

Classification	Name	Address	Capital	Business	Percentage of voting rights held	Relation	Transactions	Transaction amount (Note 4)	Account item	Year-end balance (Note 4)
Company whose majority of voting rights is owned by the directors and their close relatives (including the subsidiaries of the company)	Takahara Kosan K.K. (Note 2)	Minato-ku, Tokyo	¥10 million	Insurance agency	(Owned) Indirectly 14.3%	To insure the Company	Business transaction To insure	¥117 million	Prepaid expenses	¥39 million
	Unitec Corporation (Note 3)	Shikokuchuo-shi, Ehime	¥98 million	Real estate lease agent	(Owned) Directly 26.2%	Rent of land	Business transaction Rent of land	¥11 million	—	—

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

(1) Insurance premium is determined at the normal insurance premium rate designating the insured amount.

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

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

3. The voting rights of Unitec Corporation are owned 0.5% directly and 45.3% indirectly by Mr. Takahisa Takahara, Representative Director of the Company, 2.1% indirectly by Mr. Keiichiro Takahara, Director, and 0.6% directly and 51.5% indirectly owned by their close relatives.

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

(2) Transactions of the consolidated subsidiaries of the Company with related parties

Directors and major shareholders (limited to individuals) of the Company which submitted the consolidated financial statements

Fiscal year ended December 31, 2015 (January 1, 2015 – December 31, 2015)

Classification	Name	Address	Capital	Business	Percentage of voting rights held	Relation	Transactions	Transaction amount (Note 3)	Account item	Year-end balance (Note 3)
Company whose majority of voting rights is owned by the directors and their close relatives (including the subsidiaries of the company)	Takahara Kosan K.K. (Note 2)	Minato-ku, Tokyo	¥10 million	Insurance agency	(Owned) Indirectly 12.7%	Rent of land	Business transaction Rent of land	¥119 million	—	—

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

Rent of real estate is reviewed every year based on the surrounding market circumstances.

- The voting rights of Takahara Kosan K.K. are owned 20.0% directly and 20.0% indirectly owned by Mr. Takahisa Takahara, Representative Director of the Company, 1.0% directly by Mr. Keiichiro Takahara, Director, 44.5% directly and 14.5% indirectly owned by their close relatives.
- The amounts do not include consumption and other taxes.

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

Classification	Name	Address	Capital	Business	Percentage of voting rights held	Relation	Transactions	Transaction amount (Note 4)	Account item	Year-end balance (Note 4)
Company whose majority of voting rights is owned by the directors and their close relatives (including the subsidiaries of the company)	Takahara Kosan K.K. (Note 2)	Minato-ku, Tokyo	¥10 million	Insurance agency	(Owned) Indirectly 14.3%	Rent of land	Business transaction Rent of land	¥119 million	—	—
	Unitec Corporation (Note 3)	Shikokuchuo-shi, Ehime	¥98 million	Real estate lease agent	(Owned) Directly 26.2%	Purchase of land	Purchase of land	¥13 million	—	—

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

(1) Rent of real estate is reviewed every year based on the surrounding market circumstances.

(2) The purchase price of land is determined using the appraisal value by a real estate appraiser as reference.

- The voting rights of Takahara Kosan K.K. are owned 20.0% directly and 20.0% indirectly owned by Mr. Takahisa Takahara, Representative Director of the Company, 1.0% directly by Mr. Keiichiro Takahara, Director, 44.5% directly and 14.5% indirectly owned by their close relatives.
- The voting rights of Unitec Corporation are owned 0.5% directly and 45.3% indirectly by Mr. Takahisa Takahara, Representative Director of the Company, 2.1% indirectly by Mr. Keiichiro Takahara, Director, and 0.6% directly and 51.5% indirectly owned by their close relatives.
- The amounts do not include consumption and other taxes.

(Per-share information)

(Yen)

	Fiscal Year Ended December 31, 2015 (January 1, 2015 – December 31, 2015)	Fiscal Year Ended December 31, 2016 (January 1, 2016 – December 31, 2016)
Net assets per share	649.98	655.50
Net income per share	67.55	74.29
Net income per share–diluted	66.51	70.64

(Note 1) The calculation basis for net income per share and net income per share–diluted is as follows:

	Fiscal Year Ended December 31, 2015 (January 1, 2015 – December 31, 2015)	Fiscal Year Ended December 31, 2016 (January 1, 2016 – December 31, 2016)
Net income per share–basic:		
Profit attributable to owners of parent reported in the consolidated statement of income (Millions of Yen)	40,511	44,134
Amount not attributable to common shareholders (Millions of Yen)	—	—
Profit attributable to owners of parent relevant to common shares (Millions of Yen)	40,511	44,134
Average number of common shares during period (Thousands of shares)	599,691	594,109
Net income per share–diluted		
Adjustment for profit attributable to owners of parent (Millions of Yen)	(211)	(677)
(Of which interest income)	(211)	(677)
Increase in the number of common shares (Thousands of shares)	6,279	21,034
(Of which the number of convertible bond-type bonds with subscription rights to shares)	5,572	20,755
(Of which the number of subscription rights to shares)	706	279
Outline of potential shares which, due to the absence of any dilutive effect, was not included in the computation of the amount of net income per share after adjustment for residual income	Resolution on stock options passed at the Ordinary General Meeting of Shareholders on March 27, 2015. Subscription rights to shares: 32,025 Common shares: 3,202,500	Resolution on stock options passed at the Ordinary General Meeting of Shareholders on March 27, 2015. Subscription rights to shares: 31,224 Common shares: 3,122,400

(Note 2) Calculation basis for net assets per share is as follows:

	Fiscal year ended December 31, 2015 (as of December 31, 2015)	Fiscal year ended December 31, 2016 (as of December 31, 2016)
Total of net assets reported in the consolidated balance sheet (Millions of Yen)	451,091	449,974
Main items of the difference (Millions of Yen)		
Of which subscription rights to shares	276	345
Of which Non-controlling interests	63,619	62,325
Net assets relevant to common shares (Millions of Yen)	387,195	387,303
Number of common shares used to calculate net asset per share (Thousands of shares)	595,702	590,851

(Significant subsequent events)

(Purchase of treasury shares)

At the meeting of the Board of Directors of the Company held on February 15, 2017, the Company resolved to purchase treasury shares under the provision of the Company's Articles of Incorporation based upon Article 459, Paragraph 1, Item 1 of the Companies Act as follows.

(1) Reason for conducting purchase of treasury shares

To further return profits to shareholders as well as to enable a flexible implementation of capital policy in light of the changing business environment.

(2) Details of the share acquisition

1. Type of shares to be acquired: Common shares
2. Total number of shares to be acquired: 8,000,000 shares (maximum)
(1.35% of the total issued shares, excluding treasury shares)
3. Total acquisition price: ¥14,000,000,000 (maximum)
4. Acquisition period: February 16, 2017 – June 30, 2017
5. Acquisition method: Purchase on the Tokyo Stock Exchange
(through discretionary investment by a securities company)

(Capital expenditures of consolidated subsidiary)

At the Board of Directors' meeting held on February 27, 2017, the Company made a resolution to construct a new production base in Fukuoka Prefecture in order to strengthen the supply capacity and enhance export efficiency to meet the expanded demand for products manufactured in Japan.

(1) Company name: Unicharm Products Co., Ltd.

(2) Investment amount: Construction cost, etc. 14,500 million yen
(Construction cost of the plant: 13,000 million yen, Cost of production facilities, etc.: 1,500 million yen)

(3) Timing of the construction: To be started in October 2017 and completed in January 2019

5) Consolidated supplemental schedules

Schedule of bonds payable

Company	Series	Date of issuance	Balance at the beginning of the fiscal year ended December 31, 2016 (Millions of Yen)	Balance at the end of the fiscal year ended December 31, 2016 (Millions of Yen)	Interest rate (%)	Collateral	Maturity
Unicharm Corporation	Zero Coupon Convertible Bonds due 2020	September 25, 2015	54,421	53,441 [—]	—	None	September 25, 2020

(Note 1) The amounts in brackets presented under “Balance at the end of the fiscal year ended December 31, 2016” represent the amounts scheduled to be redeemed within one year.

(Note 2) Convertible bond-type bonds with subscription rights to shares

Series	Zero Coupon Convertible Bonds due 2020
Class of shares to be issued upon the exercise of the subscription rights to shares	Common shares
Issue price of subscription rights to shares	No charge
Issue price of shares	¥2,409
Aggregated issue price	¥54,750 million
Aggregated issue price of shares issued due to the exercise of subscription rights to shares	—
Ratio of granted subscription rights	100.0%
Exercise period	From October 9, 2015 to September 11, 2020 (Local time at place of reception of exercise requests)

Note: With respect to the exercise of this subscription rights to shares, 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.

(Note 3) The redemption schedule of bonds for 5 years subsequent to December 31, 2016

(Millions of Yen)

Due within one year	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
—	—	—	50,000	—

Schedule of borrowings

(Millions of Yen)

Classification	Balance at the beginning of the fiscal year ended December 31, 2016	Balance at the end of the fiscal year ended December 31, 2016	Average interest rate (%)	Maturity
Short-term loans payable	3,846	6,478	6.56	
Current portion of long-term loans payable	—	274	8.30	
Current portion of lease obligations	114	41	—	
Long-term loans payable, less current portion	10,757	12,084	1.95	2023
Lease obligations, less current portion	153	144	—	2018 to 2031
Guarantee deposits received, long-term	932	1,223	2.89	
Total	15,805	20,246	—	

- Notes: 1. The average interest rate represents the weighted-average rate applicable to the year-end balance of loans, etc.
2. The average interest rate on lease obligations is omitted since lease obligations are recorded in the accompanying consolidated financial statements at the amount before deducting the amount equivalent to interest included in the total lease charges.
3. The following table shows the aggregate annual maturities of long-term loans payable and lease obligations (excluding the current portion) for 5 years subsequent to December 31, 2016.

(Millions of Yen)

Classification	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
Long-term loans payable	3,274	7,710	274	274
Lease obligations	35	31	27	24

Schedule of asset retirement obligations

The schedule of asset retirement obligations is omitted because the amounts of asset retirement obligations at the beginning and the end of the fiscal year ended December 31, 2016 were 1% or less of the amounts of total liabilities and net assets at the beginning and the end of the fiscal year ended December 31, 2016.

(2) Other

Quarterly financial information for the fiscal year ended December 31, 2016

(Millions of Yen unless otherwise stated)

Cumulative period	First Quarter	Second Quarter	Third Quarter	Full Year
Net sales	173,065	350,479	510,893	710,965
Income before income taxes and minority interests	13,488	29,415	46,301	73,794
Profit attributable to owners of parent	8,517	17,555	29,515	44,134
Net income per share (Yen)	14.30	29.47	49.60	74.29

Each quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net income per share (Yen)	14.30	15.17	20.13	24.74

2. Non-Consolidated Financial Statements

(1) Non-consolidated financial statements

1) Non-consolidated balance sheet

	(Millions of Yen)			
	Fiscal Year Ended December 31, 2015 (as of December 31, 2015)		Fiscal Year Ended December 31, 2016 (as of December 31, 2016)	
Assets				
Current assets				
Cash and deposits		37,635		44,027
Notes and accounts receivable - trade	*2	29,670	*2	33,254
Merchandise and finished goods		1,915		1,871
Raw materials and supplies		3,638		1,339
Deferred tax assets		12,176		7,967
Short-term loans receivable		11,632		3,100
Other		9,501		5,273
Allowance for doubtful accounts		(10)		(10)
Total current assets	*1	106,160	*1	96,825
Non-current assets				
Property, plant and equipment				
Buildings and structures, net		2,650		2,614
Machinery, equipment and vehicles, net		3,740		4,518
Tools, furniture and fixtures		582		635
Land		2,266		2,266
Construction in progress		1,166		1,675
Other, net		55		12
Total property, plant and equipment		10,463		11,722
Intangible assets				
Goodwill		40,281		37,505
Software		1,312		1,155
Other		171		1,106
Total intangible assets		41,764		39,767
Investments and other assets				
Investment securities		23,374		22,968
Investments in shares and capital of subsidiaries and affiliates		144,530		168,613
Long-term loans receivable		67,879		48,917
Prepaid pension cost		7,600		7,528
Other		1,687		1,579
Allowance for doubtful accounts		(91)		(90)
Allowance for loss on valuation of investment in subsidiaries and affiliates		(19,350)		(27,120)
Total investments and other assets	*1	225,630	*1	222,397
Total non-current assets		277,857		273,888
Total assets		384,018		370,713

	(Millions of Yen)	
	Fiscal Year Ended December 31, 2015 (as of December 31, 2015)	Fiscal Year Ended December 31, 2016 (as of December 31, 2016)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	33,367	31,433
Short-term loans payable	21,650	16,140
Accounts payable - other	13,511	15,567
Income taxes payable	716	1,929
Provision for bonuses	1,992	2,041
Other	1,675	2,743
Total current liabilities	*1 72,913	*1 69,855
Non-current liabilities		
Convertible bond-type bonds with subscription rights to shares	54,421	53,441
Long-term loans payable	6,000	6,000
Provision for retirement benefits	1,373	1,664
Other	3,083	3,614
Total non-current liabilities	64,878	64,720
Total liabilities	137,791	134,576
Net assets		
Shareholders' equity		
Capital stock	15,992	15,992
Capital surplus		
Legal capital surplus	18,590	18,590
Other capital surplus	27,694	27,343
Total capital surplus	46,285	45,934
Retained earnings		
Legal retained earnings	1,991	1,991
Other retained earnings		
Retained earnings brought forward	211,773	218,635
Total retained earnings	213,765	220,626
Treasury shares	(41,101)	(53,652)
Total shareholders' equity	234,942	228,901
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	11,164	7,047
Revaluation reserve for land	(157)	(157)
Total valuation and translation adjustments	11,007	6,890
Subscription rights to shares	276	345
Total net assets	246,226	236,137
Total liabilities and net assets	384,018	370,713

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

	(Millions of Yen)			
		Fiscal Year Ended December 31, 2015 (January 1, 2015 – December 31, 2015)		Fiscal Year Ended December 31, 2016 (January 1, 2016 – December 31, 2016)
Net sales	*2	307,704	*2	327,775
Cost of sales	*2	185,232	*2	194,331
Gross profit		122,471		133,444
Selling, general and administrative expenses	*1, *2	91,703	*1, *2	98,431
Operating income		30,768		35,013
Non-operating income				
Interest income		735		1,763
Dividend income		7,130		6,688
Other		786		354
Total non-operating income	*2	8,652	*2	8,806
Non-operating expenses				
Interest expenses		206		132
Sales discounts		1,675		1,747
Foreign exchange losses		589		3,135
Other		20		62
Total non-operating expenses		2,492		5,078
Ordinary income		36,928		38,741
Extraordinary income				
Gain on sales of investment securities		4,214		5,066
Other		0		88
Total extraordinary income		4,215		5,154
Extraordinary losses				
Loss on disposal of non-current assets		203		194
Provision of allowance for loss on valuation of investments in subsidiaries and affiliates		9,015		7,769
Loss on forgiveness of receivables from subsidiaries and affiliates		—		8,187
Other		0		754
Total extraordinary losses		9,218		16,905
Income before income taxes		31,924		26,990
Income taxes - current		2,744		4,048
Income taxes - deferred		11,862		6,905
Total income taxes		14,606		10,953
Net income		17,318		16,036

3) Non-consolidated statement of changes in shareholders' equity
Fiscal Year Ended December 31, 2015 (January 1, 2015 – December 31, 2015)

(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	27,767	46,358	1,991	202,748	204,739	(28,667)	238,424
Changes of items during period									
Dividends of surplus						(8,293)	(8,293)		(8,293)
Net income						17,318	17,318		17,318
Purchase of treasury shares								(13,000)	(13,000)
Disposal of treasury shares			(72)	(72)				566	493
Net changes of items other than shareholders' equity									
Total changes of items during period	—	—	(72)	(72)	—	9,025	9,025	(12,434)	(3,481)
Balance at end of current period	15,992	18,590	27,694	46,285	1,991	211,773	213,765	(41,101)	234,942

	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	11,329	(157)	11,171	238	249,834
Changes of items during period					
Dividends of surplus					(8,293)
Net income					17,318
Purchase of treasury shares					(13,000)
Disposal of treasury shares					493
Net changes of items other than shareholders' equity	(164)	—	(164)	38	(126)
Total changes of items during period	(164)	—	(164)	38	(3,607)
Balance at end of current period	11,164	(157)	11,007	276	246,226

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

(Millions of Yen)

(millions of Yen)

	Shareholders' equity								
	Capital stock	Capital surplus			Retained earnings			Treasury shares	Total shareholders' equity
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings	Total retained earnings		
						Retained earnings brought forward			
Balance at beginning of current period	15,992	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

Notes to Non-consolidated Financial Statements

(Material 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 material 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.

(Additional information)

(Guidance on Recoverability of Deferred Tax Assets)

As the application of the "Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016) was permitted from the non-consolidated financial statements for the end of the fiscal year under review, the Company has applied the said guidance.

(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, 2015 (as of December 31, 2015)	Fiscal Year Ended December 31, 2016 (as of December 31, 2016)
Short-term monetary receivables	25,254	15,070
Long-term monetary receivables	67,879	48,917
Long-term monetary payables	39,091	34,825

*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, 2015 (as of December 31, 2015)	Fiscal Year Ended December 31, 2016 (as of December 31, 2016)
Notes receivable - trade	49	64

(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, 2015 (January 1, 2015 – December 31, 2015)	Fiscal Year Ended December 31, 2016 (January 1, 2016 – December 31, 2016)
Sales promotion expenses	47,439	50,520
Advertisement expenses	6,553	8,387
Miscellaneous fees	4,068	4,253
Salaries and bonuses to employees	6,369	6,551
Allowance for bonuses transferred	1,555	1,591
Depreciation	3,889	4,048
Share of selling expenses out of selling, general and administrative expenses	69%	70%

*2 Transactions with subsidiaries and affiliates

(Millions of Yen)		
	Fiscal Year Ended December 31, 2015 (January 1, 2015 – December 31, 2015)	Fiscal Year Ended December 31, 2016 (January 1, 2016 – December 31, 2016)
Operating transactions	176,726	189,603
Non-operating transactions	11,542	15,411

(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, 2015	As of December 31, 2016
(1) Shares of subsidiaries	112,983	123,137
(2) Investments in capital of subsidiaries	31,490	44,934
(3) Shares of affiliates	56	540

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, 2015 (as of December 31, 2015)	(Millions of Yen) Fiscal Year Ended December 31, 2016 (as of December 31, 2016)
Deferred tax assets:		
Provision for bonuses	658	629
Impairment loss on shares of subsidiaries	1,682	1,597
Accrued sales promotion expense	1,961	2,377
Allowance for loss on valuation of investments in subsidiaries and affiliates	6,242	8,304
Provision for retirement benefits	1,733	1,734
Tax loss carryforwards	13,452	6,007
Other	1,944	1,697
Subtotal	27,676	22,347
Less valuation allowance	(8,750)	(10,482)
Total deferred tax assets	18,926	11,865
Deferred tax liabilities:		
Prepaid pension cost	(2,452)	(2,305)
Valuation deference for available-for-sale securities	(5,177)	(2,992)
Other	(258)	(249)
Total deferred tax liabilities	(7,888)	(5,548)
Net deferred tax assets (liabilities)	11,037	6,317

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

	Fiscal Year Ended December 31, 2015 (as of December 31, 2015)	(Millions of Yen) Fiscal Year Ended December 31, 2016 (as of December 31, 2016)
Deferred tax assets—current	12,176	7,967
Other— non-current liabilities	(1,138)	(1,649)

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

	Fiscal Year Ended December 31, 2015 (as of December 31, 2015)	Fiscal Year Ended December 31, 2016 (as of December 31, 2016)
Effective statutory tax rate	35.6%	33.1%
Reconciliations:		
Non-deductible items such as entertainment expenses, etc.	0.4%	0.6%
Non-taxable items such as dividends received, etc.	(7.6)%	(7.6)%
Amortization of goodwill	3.1%	3.4%
Valuation allowance	8.9%	8.7%
Effect of tax rate changes	4.3%	3.1%
Tax credit	0.7%	(2.4)%
Other	0.3%	1.7%
Actual effective tax rate	45.8%	40.6%

3. Revision of amounts of deferred tax assets and deferred tax liabilities due to changes in income tax rate

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 from 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 32.26% that was used in calculations for the previous fiscal year to 30.86% for temporary differences expected to be eliminated in the fiscal years beginning on or after January 1, 2017, and to 30.62% for temporary differences expected to be eliminated in the fiscal years beginning on or after January 1, 2018. The impact of these changes on the financial statements is immaterial.

(Significant subsequent events)

(Purchase of treasury shares)

At the meeting of the Board of Directors of the Company held on February 15, 2017, the Company resolved to purchase treasury shares under the provision of the Company's Articles of Incorporation based upon Article 459, Paragraph 1, Item 1 of the Companies Act as follows.

(1) Reason for conducting purchase of treasury shares

To further return profits to shareholders as well as to enable a flexible implementation of capital policy in light of the changing business environment.

(2) Details of the share acquisition

- | | |
|---|--|
| 1. Type of shares to be acquired: | Common shares |
| 2. Total number of shares to be acquired: | 8,000,000 shares (maximum)
(1.35% of the total issued shares, excluding treasury shares) |
| 3. Total acquisition price: | ¥14,000,000,000 (maximum) |
| 4. Acquisition period: | February 16, 2017 – June 30, 2017 |
| 5. Acquisition method: | Purchase on the Tokyo Stock Exchange
(through discretionary investment by a securities company) |

4) Non-consolidated supplemental schedules

Detailed schedule of property, plant and equipment

(Millions of Yen)

Classification	Type of assets	Balance at the beginning of the fiscal year ended December 31, 2016	Increase in the fiscal year ended December 31, 2016	Decrease in the fiscal year ended December 31, 2016	Depreciation for the fiscal year ended December 31, 2016	Balance at the end of the fiscal year ended December 31, 2016	Accumulated depreciation
Property, plant and equipment	Buildings and structures	2,650	181	18	198	2,614	4,073
	Machinery, equipment and vehicles	3,740	2,280	179	1,323	4,518	7,178
	Tools, furniture and fixtures	582	251	1	196	635	2,684
	Land	2,266 [(157)]	—	—	—	2,266 [(157)]	—
	Construction in progress	1,166	1,742	1,233	—	1,675	—
	Other	55	46	29	59	12	16
	Total	10,463	4,502	1,463	1,779	11,722	13,952
Intangible fixed assets	Goodwill	40,281	—	—	2,775	37,505	17,659
	Software	1,312	324	0	480	1,155	2,757
	Other	171	1,224	287	1	1,106	75
	Total	41,764	1,549	288	3,257	39,767	20,492

Notes: 1. Main factors of the increase

Machinery, equipment and vehicles

Development machines for pet care products: ¥947 million

Development machines for baby care products: ¥588 million

Development machines for feminine care products: ¥357 million

2. [] denotes revaluation difference of land which was revalued in accordance with the Act of Revaluation of Land (1998 Act No. 34).

Detailed schedule of allowances

(Millions of Yen)

Classification	Balance at the beginning of the fiscal year ended December 31, 2016	Increase in the fiscal year ended December 31, 2016	Decrease in the fiscal year ended December 31, 2016	Balance at the end of the fiscal year ended December 31, 2016
Allowance for doubtful accounts	101	100	101	100
Provision for bonuses	1,992	2,041	1,992	2,041
Allowance for loss on valuation of investments in subsidiaries and affiliates	19,350	7,769	—	27,120

Note: The reasons for accounting the allowances and calculation method therefor are stated in “6. Accounting standards for reserves and allowances” in “Material 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, Kayabacho, Nihonbashi, 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, 2016 and the date when this Securities Report (*Yukashoken-Houkokusho*) was filed.

(1) Securities Report and Accompanying Documents and Confirmation Note

The 56th Fiscal Year (from January 1, 2015 to December 31, 2015)

Submitted to the Director-General of the Kanto Local Finance Bureau on March 31, 2016.

(2) Internal Control Report and Accompanying Documents

Submitted to the Director-General of the Kanto Local Finance Bureau on March 31, 2016.

(3) Quarterly Securities Reports and Confirmation Notes

The 1st Quarter of 57th Fiscal Year (from January 1, 2016 to March 31, 2016)

Submitted to the Director-General of the Kanto Local Finance Bureau on May 13, 2016.

The 2nd Quarter of 57th Fiscal Year (from April 1, 2016 to June 30, 2016)

Submitted to the Director-General of the Kanto Local Finance Bureau on August 9, 2016.

The 3rd Quarter of 57th Fiscal Year (from July 1, 2016 to September 30, 2016)

Submitted to the Director-General of the Kanto Local Finance Bureau on November 8, 2016.

(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 April 1, 2016.

The Extraordinary Report according to the provision of Article 19, Paragraph 2, Item 11 (Forgiveness of receivables from a consolidated subsidiary) of the Cabinet Office Ordinance on Disclosure of Corporate Affairs, etc.

Submitted to the Director-General of the Kanto Local Finance Bureau on September 20, 2016.

(5) Reporting on status of purchase of treasury shares

Reports were submitted to the Director-General of the Kanto Local Finance Bureau on June 14, 2016, July 14, 2016, August 10, 2016, September 14, 2016, October 14, 2016, and March 10, 2017.

Part 2. Information on Guarantors for the Company

Not applicable

(For Translation Purposes Only)
Independent Auditor's Report

March 23, 2017

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, 2016 to December 31, 2016, which comprise the consolidated balance sheet, the consolidated statements of income, comprehensive income, changes in shareholder's equity and cash flows, the material accounting policies concerning the preparation of consolidated financial statements, the other related notes, and the consolidated supplemental schedules.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with 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 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, 2016, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

<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, 2016 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, 2016 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 23, 2017

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 57th fiscal year from January 1, 2016 to December 31, 2016, 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, 2016, 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 31, 2017
【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 Kabuto-cho, 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 31, 2017
【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 57th Fiscal Year (from January 1, 2016 to December 31, 2016) 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.