

TRANSLATION

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

Securities Report

(For the 60th fiscal year,
from January 1, 2019 to December 31, 2019)

Unicharm Corporation

(E00678)

The 60th Fiscal Year (from January 1, 2019 to December 31, 2019)

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

Table of Contents

The 60th Securities Report	Page
Cover	1
Part 1. Information on the Company	2
I. Overview of the Company	2
1. Key financial data and trends.....	2
2. History	5
3. Description of business	6
4. Information on subsidiaries and affiliates	8
5. Employees.....	10
II. Business Overview	11
1. Management policies, management environment, and issues facing the Group	11
2. Business and other risks.....	12
3. Management’s analysis of financial position, operating results and cash flows.....	14
4. Important business contracts.....	22
5. Research and development activities	23
III. Equipment and Facilities	27
1. Overview of capital investments	27
2. Major facilities.....	27
3. Plans for new additions or disposals	28
IV. Corporate Information	30
1. Information on the Company’s shares	30
2. Acquisition of treasury shares.....	39
3. Dividend policy.....	41
4. Corporate governance	42
V. Financial Information	64
1. Consolidated financial statements.....	65
2. Non-consolidated financial statements.....	132
VI. Information on Transfer and Repurchase of the Company’s Shares	146
VII. Reference Information on the Company	147
1. Information on the parent company or equivalent of the Company	147
2. Other reference information.....	147
Part 2. Information on Guarantors for the Company	148
Independent Auditor’s Reports	
Internal Control Report	
Confirmation Note	

【Cover】	
【Document Submitted】	Securities Report (“ <i>Yukashoken-Houkokusho</i> ”)
【Article of the Applicable Law Requiring Submission of This Document】	Article 24, Paragraph 1 of the Financial Instruments and Exchange Act
【Filed to】	Director-General of the Kanto Local Finance Bureau
【Date of Filing】	March 26, 2020
【Business Year】	The 60th Fiscal Year (from January 1, 2019 to December 31, 2019)
【Company Name】	Unicharm Kabushiki-Kaisha
【Company Name (in English)】	Unicharm Corporation
【Position and Name of Representative】	Takahisa Takahara, Representative Director, President and Chief Executive Officer
【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
【Phone No.】	+81-3-3451-5111 (switchboard)
【Contact for Communications】	Hirotsu Shimada, Executive Officer, General Manager of Accounting Control and Finance Division
【Nearest Contact】	Sumitomo Fudosan Mita Twin Bldg., West Wing, 3-5-27, Mita, Minato-ku, Tokyo, Japan
【Phone No.】	+81-3-3451-5111 (switchboard)
【Contact for Communications】	Hirotsu Shimada, Executive Officer, General Manager of Accounting Control and Finance Division
【Place Where Available for Public Inspection】	Head Office, Unicharm Corporation (Sumitomo Fudosan Mita Twin Bldg., West Wing, 3-5-27, Mita, Minato-ku, Tokyo, Japan) Unicharm Kyoshinkan (Resonance Hall), Unicharm Corporation (131, Shimobun, Kinsei-cho, Shikokuchuo-shi, Ehime, Japan) Osaka Office, Unicharm Corporation (Sumitomo Nakanoshima Bldg., 3-2-18, Nakanoshima, Kita-ku, Osaka-shi, Osaka, Japan) Tokyo Stock Exchange, Inc. (2-1, Nihonbashi Kabutocho, Chuo-ku, Tokyo, Japan)

Part 1. Information on the Company

I. Overview of the Company

1. Key financial data and trends

(1) Consolidated financial data

Fiscal year		IFRS				
		Date of transition	57th	58th	59th	60th
Year ended		January 1, 2016	December 31, 2016	December 31, 2017	December 31, 2018	December 31, 2019
Net sales	Millions of Yen	—	604,653	641,647	688,290	714,233
Profit before tax	Millions of Yen	—	75,835	92,926	91,561	69,538
Profit attributable to owners of parent	Millions of Yen	—	46,971	52,772	61,353	46,116
Comprehensive income attributable to owners of parent	Millions of Yen	—	25,604	58,849	43,016	52,458
Equity attributable to owners of parent	Millions of Yen	349,714	352,098	387,567	441,456	473,073
Total assets	Millions of Yen	656,200	668,592	736,644	795,483	864,003
Equity attributable to owners of parent per share	Yen	579.50	587.61	652.91	736.39	791.25
Basic earnings per share	Yen	—	79.06	89.85	103.73	77.53
Diluted earnings per share	Yen	—	76.63	87.06	101.44	77.05
Ratio of equity attributable to owners of parent	%	53.3	52.7	52.6	55.5	54.8
Return on equity attributable to owners of parent	%	—	13.4	14.3	14.8	10.1
Price earnings ratio	Times	—	32.3	32.6	34.3	47.7
Cash flows from operating activities	Millions of Yen	—	103,604	98,086	110,867	84,936
Cash flows from investing activities	Millions of Yen	—	(42,612)	(38,778)	(113,400)	(69,235)
Cash flows from financing activities	Millions of Yen	—	(21,540)	(30,582)	(27,723)	(23,062)
Cash and cash equivalents at end of fiscal period	Millions of Yen	101,966	138,043	169,903	135,065	128,787
Employees () represents the average number of part-time employees not included in the above numbers	Persons	15,500 (4,309)	15,843 (1,796)	15,757 (1,802)	16,207 (1,794)	16,304 (1,781)

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

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

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

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

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

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

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

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

(2) Non-consolidated financial data

Fiscal year		56th	57th	58th	59th	60th
Year ended		December 31, 2015	December 31, 2016	December 31, 2017	December 31, 2018	December 31, 2019
Net sales	Millions of Yen	307,704	327,775	338,846	359,961	355,721
Ordinary income	Millions of Yen	36,928	38,741	43,056	61,545	40,217
Profit	Millions of Yen	17,318	16,036	35,554	43,774	35,119
Capital stock	Millions of Yen	15,992	15,992	15,993	15,993	15,993
Number of shares issued	Shares	620,834,319	620,834,319	620,834,319	620,834,319	620,834,319
Net assets	Millions of Yen	246,226	236,137	249,899	302,824	316,040
Total assets	Millions of Yen	384,018	370,713	407,899	435,350	443,842
Net assets per share	Yen	412.87	399.07	424.47	505.41	527.99
Cash dividends per share (Interim cash dividends included herein)	Yen (Yen)	14.8 (7.4)	16 (8)	20 (9)	24 (12)	28 (14)
Earnings per share	Yen	28.88	26.99	60.54	74.01	59.04
Diluted earnings per share	Yen	28.23	24.97	57.38	71.52	58.43
Ratio of shareholders' equity	%	64.0	63.6	61.0	69.3	70.9
Earnings to shareholders' equity	%	7.0	6.7	14.7	15.9	11.4
Price earnings ratio	Times	85.8	94.7	48.4	48.1	62.7
Dividend payout ratio	%	51.2	59.3	33.0	32.4	47.4
Employees () represents the average number of part-time employees not included in the above numbers	Persons	1,297 (295)	1,329 (291)	1,398 (280)	1,443 (269)	1,443 (286)
Total shareholder return (Comparative indicator: TOPIX Total Return Index)	% (%)	85.6 (112.1)	88.9 (112.4)	102.3 (137.4)	124.8 (115.5)	130.6 (136.4)
Highest share price	Yen	3,398	2,668	3,078	3,892	3,787
Lowest share price	Yen	2,045	2,001	2,436.5	2,767.5	2,905

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

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

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

4. The Company has adopted the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) from the 59th fiscal year, and the key financial data, etc. for the 58th fiscal year is presented as data, etc. after retrospectively applying the accounting standards.

5. The highest and lowest share prices are those quoted on the Tokyo Stock Exchange (First Section).

2. History

February 1961	Keiichiro Takahara established Taisei Kako Co., Ltd. Commenced the manufacture and sale of building materials
August 1963	Commenced manufacture and sale of feminine napkins
March 1974	The feminine napkin manufacturing business was transferred to Unicharm Industries Co., Ltd.
September 1974	Due to a change in the par value of shares, Okada Industries Co., Ltd. merged Taisei Kako Co., Ltd. by absorption, and changed the corporate name to Unicharm Corporation as surviving entity
August 1976	Listed stocks on the Second Section of the Tokyo Stock Exchange
August 1981	Launched disposable baby diapers
October 1984	Established United Charm Co., Ltd. (former United Charm Industries Co., Ltd.) in Taiwan
March 1985	Company stock designated to be listed on the First Section of the Tokyo Stock Exchange
July 1987	Established Uni-Charm (Thailand) Co., Ltd.
June 1993	Established Unicharm East Japan Corp.
November 1993	Established Uni.Charm Mölnlycke B.V.
December 1995	Established Shanghai Unicharm Co., Ltd.
June 1997	Established PT UNI-CHARM INDONESIA Tbk (PT Uni-Charm Indonesia at time of establishment)
October 1998	Transferred the pet businesses to Uni-Taisei Corp.
February 1999	Uni-Taisei Corp. changed its company name to Uni Heartous Corporation
May 1999	Established Unicharm Central Japan Corporation
October 1999	Transferred Central Japan Production Department to Unicharm Central Japan Corporation
November 2001	Established Unicharm Consumer Products (China) Co., Ltd.
January 2002	Unicharm East Japan Corp. and Unicharm Central Japan Corporation were merged by absorption, with Unicharm Industries Co., Ltd. as the surviving entity. The corporate name was changed to Unicharm Products Co., Ltd.
February 2002	Established Unicharm Consumer Products and Services (Shanghai) Co., Ltd.
October 2002	Uni Heartous Corporation changed its corporate name to Unicharm PetCare Corporation
October 2004	Unicharm PetCare Corporation stock listed on the Second Section of the Tokyo Stock Exchange
September 2005	Unicharm PetCare Corporation stock designated to be listed on the First Section of Tokyo Stock Exchange
December 2005	Acquired Unicharm Gulf Hygienic Industries Ltd.
February 2006	Launched joint venture business in South Korea at LG Unicharm Co., Ltd. (former Uni-Charm Co., Ltd.) with LG Household & Health Care Ltd.
July 2008	Established Unicharm India Private Ltd. (Unicharm India Hygienic Private Ltd. at time of establishment)
September 2008	After acquisition of all shares in APPP Parent Pty Ltd., corporate name was changed to Unicharm Australasia Holding Pty Ltd.
January 2009	Shanghai Unicharm Co., Ltd., Unicharm Consumer Products (China) Co., Ltd. and Unicharm Consumer Products and Services (Shanghai) Co., Ltd. merged to form Unicharm Consumer Products (China) Co., Ltd. as surviving entity
September 2010	Merged Unicharm PetCare Corporation by absorption
September 2011	Established Unicharm (China) Co., Ltd.
September 2011	Acquired 95% of the shares of Diana Unicharm Joint Stock Company (Diana Joint Stock Company at time of establishment)
December 2011	Acquired 51% of shares of The Hartz Mountain Corporation
July 2012	Established Unicharm Consumer Products (Jiangsu) Co., Ltd.
April 2013	Acquired all shares of CFA International Paper Products Pte. Ltd., holder of 88% of the shares of Myanmar Care Products Ltd.
August 2013	Acquired additional 10% of shares Myanmar Care Products Ltd. and the corporate name was changed to MYCARE Unicharm Co., Ltd.
September 2018	Acquired all shares of DSG (Cayman) Ltd.
December 2019	PT UNI-CHARM INDONESIA Tbk stock listed on the Main Board of the Indonesia Stock Exchange

3. Description of business

Unicharm Corporation (the “Company”), 56 subsidiaries and 4 affiliates (collectively, the “Group”) is engaged chiefly in the manufacture and sale of baby care products, feminine care products, health care products, clean and fresh products, and pet care products.

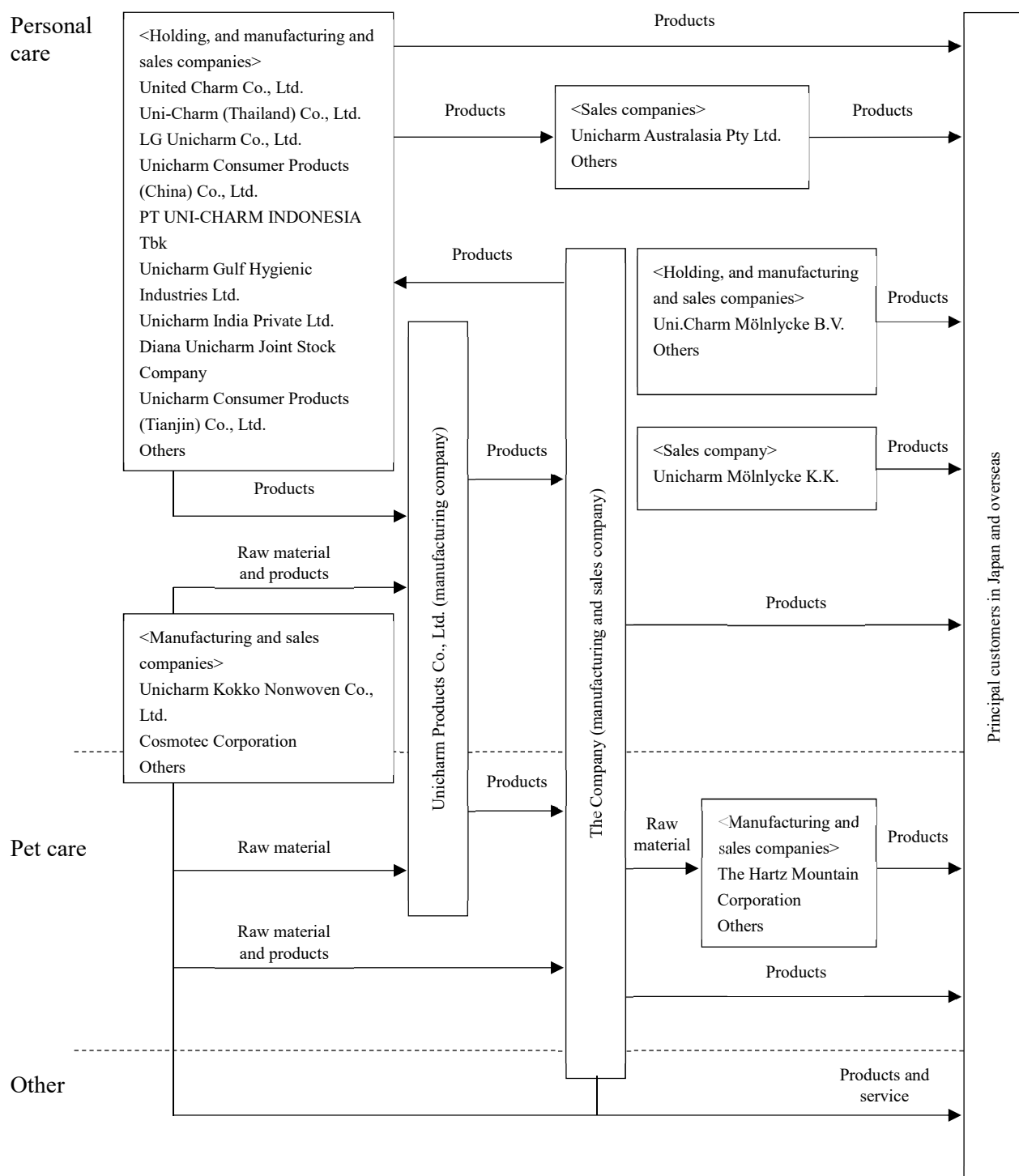
Organizational positioning and segment information of Group businesses are as follows.

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

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

The organization chart of principal businesses is as follows.



4. Information on subsidiaries and affiliates

Name of company	Location	Capital	Principal businesses (Note 1)	Percentage of voting rights held (%)	Business relationship
(Consolidated subsidiaries)					
Unicharm Products Co., Ltd. (Note 2)	Shikokuchuo-shi, Ehime, Japan	Millions of JPY 200	Personal care	100.0	Sells products to Group companies Interlocking executives: 2 Cash loan relations: Yes
United Charm Co., Ltd. (Note 2)	Taiwan	Thousands of TWD 588,800	Personal care	52.6	Sells products to Group companies Interlocking executive: 1
Uni-Charm (Thailand) Co., Ltd. (Note 2)	Kingdom of Thailand	Thousands of THB 718,843	Personal care	94.2	Sells products to Group companies Cash loan relations: Yes
LG Unicharm Co., Ltd. (Note 2)	Republic of Korea	Millions of KRW 30,000	Personal care	51.0	Sells products to Group companies
Unicharm Consumer Products (China) Co., Ltd. (Notes 2, 3, 4)	People's Republic of China	Thousands of USD 117,127	Personal care	75.0 (75.0)	Sells products to Group companies Cash loan relations: Yes
PT UNI-CHARM INDONESIA Tbk (Notes 2, 5)	Republic of Indonesia	Millions of IDR 415,657	Personal care	59.2	Sells products to Group companies Financial assistance: Yes
Unicharm Gulf Hygienic Industries Ltd. (Note 2)	Kingdom of Saudi Arabia	Thousands of SAR 400,000	Personal care	95.0	Sells products to Group companies Interlocking executive: 1 Financial assistance: Yes
Unicharm India Private Ltd. (Note 2)	Republic of India	Millions of INR 20,168	Personal care	100.0	Financial assistance: Yes
Unicharm Australasia Holding Pty Ltd. (Note 2)	Commonwealth of Australia	Thousands of AUD 60,000	Personal care	100.0	Financial assistance: Yes
Unicharm Middle East & North Africa Hygienic Industries Company S.A.E. (Note 2)	Arab Republic of Egypt	Thousands of EGP 750,000	Personal care	95.0	Sells products to Group companies Interlocking executive: 1 Financial assistance: Yes
The Hartz Mountain Corporation (Note 2)	United States of America	Thousands of USD 197,398	Pet care	51.0	Sells products to Group companies
Unicharm (China) Co., Ltd. (Note 2)	People's Republic of China	Thousands of USD 280,346	Personal care	100.0	
UNICHARM DO BRASIL INDÚSTRIA E COMÉRCIO DE PRODUTOS DE HIGIENE LTDA. (Note 2)	Federative Republic of Brazil	Thousands of BRL 848,783	Personal care	80.1	
DSG International (Thailand) Public Co., Ltd. (Notes 2, 3)	Kingdom of Thailand	Thousands of THB 1,260,000	Personal care	99.3 (99.3)	Sells products to Group companies
Other 42 companies	—	—	—	—	—

Name of company	Location	Capital	Principal businesses (Note 1)	Percentage of voting rights held (%)	Business relationship
(Affiliates accounted for by the equity method) The Fun Co., Ltd.	Kita-ku, Sakai-shi, Osaka, Japan	Millions of JPY 200	Data storage and processing services	25.0	
Other 3 companies	—	—	—	—	—

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

2. Companies indicated are specified subsidiaries.

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

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

Principal financial data:

1) Net sales	¥102,321 million
2) Profit before tax	¥10,129 million
3) Profit for the period	¥7,503 million
4) Total equity	¥78,764 million
5) Total assets	¥106,555 million

5. Stock of PT UNI-CHARM INDONESIA Tbk was listed on the Main Board of the Indonesia Stock Exchange on December 20, 2019.

6. There is one other affiliate company.

5. Employees

(1) Consolidated companies

(As of December 31, 2019)

Reporting segment	Number of employees (Persons)
Personal care	15,004 (1,517)
Pet care	657 (86)
Other	495 (163)
Corporate (common)	148 (15)
Total	16,304 (1,781)

- 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, 2019)

Number of employees (Persons)	Average age (Years)	Average years of service (Years)	Average annual salary (Thousands of Yen)
1,443 (286)	41.4	16.1	8,425

Reporting segment	Number of employees (Persons)
Personal care	1,053 (251)
Pet care	242 (20)
Other	— (—)
Corporate (common)	148 (15)
Total	1,443 (286)

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

(3) Trade union

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

II. Business Overview

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

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

(1) Basic management policies

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

(2) Target management indicators

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

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

(3) Medium- to long-term management strategy

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

Said Presentation Materials can be viewed at the following URL.

The Company's website:

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

(4) Issues facing the Group

As for overseas operations, high levels of economic growth are expected to continue primarily in emerging countries in Asia. However, there are uncertainties such as the economic and trade issues between the US and China, among other countries, and instability in the Middle East, which may affect geopolitical risks, economy, finance and fluctuations of exchange rates in some countries where we are rolling out business; this may considerably impact business in these countries and cause stagnant sales, price fluctuations in imported raw materials and products. Meanwhile in Japan, in addition to the termination of the Point Reward Project for Consumers Using Cashless Payment in June 2020 and a sense of uncertainty about the direction of the economy after the Tokyo Olympic and Paralympic Games, 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 circumstances and issues, in accordance with the management philosophy of the Company and its group companies, the Company will strive to consistently create new markets and new value, and speedily promote the expansion of product line-ups to meet customer insights by such means as maximizing demand for Japanese-made goods as well as responding to rapid aging in Asia. As for overseas operations, the Company will enhance its risk management while aggressively developing business areas and establishing a position as a category leader in growth markets; and in Japan, the Company will aim to realize a society where people and pets live symbiotically, and also expand total industrial assets by revitalizing the market. In these ways, the Company is striving to improve its business performance.

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

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

2. Business and other risks

In the future, there is a possibility that the financial standing and business performance of the Group (hereinafter referred to collectively as the Company in this section) will be affected by various factors that may occur. The main items that are expected to possibly pose a business risk to the Company are listed below. Items regarding the future in this report have been judged by the Company as of the filing date of this securities report (March 26, 2020), 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.

In addition, the Company believes it necessary to strive to secure and develop indispensable human resources for business execution. On the other hand, following the trend of aging population and a decreasing birthrate in society, it is becoming increasingly difficult to secure human resources. If human resources are not secured or developed as planned, there is a possibility that our business activities will be affected.

(3) Risks regarding overseas business

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

(4) Risks regarding raw material price fluctuations

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

(5) Risks regarding product reliability

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

safety at the time of product manufacture or sale, there is a possibility that the reliability of the Company's products will decline significantly.

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

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

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

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

(8) Environmental Risks

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

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

(9) Disaster and accident risk

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

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

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

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

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

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

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

(1) Overview of operating results, etc.

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

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

1) Financial position and operating results

	Fiscal Year Ended Dec. 31, 2018 (Millions of Yen)	Fiscal Year Ended Dec. 31, 2019 (Millions of Yen)	Difference (Millions of Yen)	Rate of Difference (%)
Net sales	688,290	714,233	25,943	3.8
Core operating income	95,107	89,779	(5,328)	(5.6)
Profit before tax	91,561	69,538	(22,023)	(24.1)
Profit attributable to owners of parent	61,353	46,116	(15,236)	(24.8)
Basic earnings per share (Yen)	103.73	77.53	(26.20)	(25.3)

The Company's net sales, core operating income, profit before tax, profit for the period, and profit attributable to owners of parent in the fiscal year under review reached ¥714,233 million (up 3.8% year on year), ¥89,779 million (down 5.6% year on year), ¥69,538 million (down 24.1% year on year), ¥52,638 million (down 21.7% year on year), and ¥46,116 million (down 24.8% year on year), respectively.

Operating results by segment are as follows.

(a) Personal Care Business

	Fiscal Year Ended Dec. 31, 2018 (Millions of Yen)	Fiscal Year Ended Dec. 31, 2019 (Millions of Yen)	Difference (Millions of Yen)	Rate of Difference (%)
Net sales (Note)	599,290	620,742	21,453	3.6
Core operating income	84,833	78,893	(5,940)	(7.0)

Note: Net sales represent those to external customers.

● Baby Care Business

Overseas, business performance recovered moderately in China as the Company proactively sold the *moony* series, which are high value-added imports from Japan, through e-commerce channels in order to meet the needs for "safety, security and high quality." However, demand for Japanese products has not grown as much as expected because of the recent extraordinary change in the economic environment and in consumer values in China. Moreover, against the backdrop of the intense competitive environment as a result of the rise of local manufacturers, the Company found it difficult to significantly increase sales volume in the near term, and an impairment loss was recorded. Going forward, the Company will work to develop its product lineup utilizing digital information to capture signs of changes among consumers. The Company continued to pursue synergies to drive dramatic growth in the Southeast Asia region, where DSG (Cayman) Limited, which owns the *BabyLove*, *Fitti* and *PetPet* brands, operates. In India, where the use of disposable diapers is still low even among emerging countries, the Company expanded its sales area and market share while promoting pants-type disposable diapers. In Saudi Arabia, the Company continued offering products tailored to consumer needs, in an effort to maintain the top share in the market^{*1}, which it achieved in the previous year.

In Japan, the Company carried out research on actions that motivate people regarding childcare by stirring up positive feelings, in collaboration with Professor Masako Myowa-Yamakoshi of Kyoto University Graduate School of Education. In addition to the Happy Notifications, whereby a positive message such as "Thank you" or "I love you" appears when the baby urinates on a *Natural moony*^{*2} (the first disposable diaper in Japan^{*3} to use organic cotton for the top sheet), the Company has been cooperating with customers to come up with thoughts

and ideas to help both the global environment and the workplace environment, and to contribute to children's future in support of the "ORGABITS project" ^{*4} developed by Toyoshima & Co., Ltd. The *moony Air Fit* series, which fits comfortably on the baby's skin while preventing leakage, and the *Natural moony* series, incorporate a design that applies "origami technology" and "mechanics," so that anyone can put them on their babies well, even novice parents, regardless of their proficiency. These products earned acclaim for taking the stress out of childcare and won the Good Design Award in 2019. The Company also released the world's smallest ^{*5} disposable diaper, *moony flat type* for hospitals and maternity clinics nationwide, which was developed jointly with nurses for babies born weighing less than 1,000 g as a result of Unicharm's efforts to allow a snug fit on every baby born. Furthermore, the Company has been continuing to execute the "Project for Supporting Tiny Lives" from last year in order to continually support babies in the NICU ^{*6}, their families, and medical professionals. In the *Mamy Poko* series, which has a charming design and superior absorbency, the Company has extended its design variations by adding the Doraemon design, which is very popular with children, as a new design. For sub-category brands such as *Trepanman* and *Oyasumi Man*, the Company started free distribution of the "Toilet Training with *moony*" app incorporating an Oyasumi Man mode to help prevent bed-wetting. The app is useful for parents helping their children start toilet training, a key period of development when they gain self-confidence and build trust with the people around them. The app helps children develop the habit of going to the toilet in the morning and evening. The Company also started a flat-rate service for disposable baby diapers for nursery schools in partnership with BABY JOB Co., Ltd., a supplier of childcare personnel services, in order to reduce the burden on the increasing number of dual-income households and to give parents more enjoyment as they raise their babies.

*1: Disposable baby diaper market within Saudi Arabia (cumulative sales amount from July 2018 to June 2019, survey by Nielsen)

*2 Applicable sizes: Newborn (Birth to 3,000g), Newborn (Birth to 5,000g), and S sizes

*3: Surface sheets of leading disposable baby diaper products in Japan (survey by Unicharm Corporation, in March 2016)

*4: A project started from the desire to contribute to the global environment bit by bit through organic cotton

*5: Among disposable diapers for low-weight newborns manufactured by major global brands (survey by Unicharm Corporation, in March 2019)

*6: Taken from the acronym for Neonatal Intensive Care Unit

● Feminine Care Business

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

In Japan, to meet heightened demand for health and peace of mind, the Company added the *SOFY Organic Cotton* series, which uses organic cotton, to the *SOFY* brand, which encourages women to spread their wings, as premium lines in the various categories of napkins, tampons, pantyliners, and sanitary shorts. The Company also released the new *SOFY Ultra Sound Sleep Shorts*, which is a wearable, shorts-shaped napkin that realizes comfort, is highly breathable, and looks like underwear, which provides the assurance for women that they can sleep through the night without leakage, even on days with heavy menstruation. In the pantyliner business, the Company has strived to offer high value-added products utilizing its proprietary non-woven technology, such as with the release of the new pantyliner, *Kiyora Luxury Absorption* series, which absorbs both discharge and moisture. Moreover, with efforts such as by starting the "#NoBagForMe" project aimed at helping create a world in which everybody can feel free to talk about menstruation and sanitary products without hiding them, and by continuing with its support for the pink ribbon movement for 12 consecutive years since 2008, the Company strove to free women from their physical and emotional constraints and to realize a society in which all women can play an active role, leading healthier lives and expressing their individuality, while examining the structures of women's bodies and minds from a scientific perspective.

● Health Care Business

In the overseas markets, populations in Taiwan, Indonesia, Thailand, Vietnam and China are aging even faster than in Japan, which will boost the demand for adult excretion care products. The Company moved ahead with preparations to spread the care model established in Japan to Asian regions. In addition, the Company has conducted various initiatives aimed at accelerating the spread of such products in Thailand and Malaysia, where the Company is building a superior market position in the market for adult disposable diapers, and where DSG (Cayman) Limited, the manufacturer of the *Certainty* brand, operates.

In the domestic market, which continues to grow as Japan's population of the elderly increases, the Company has been working to educate the public about products that enable elderly people to continue with their current lifestyle as before, commercialize "used disposable diaper recycling technology" that recycles used disposable

diapers through the Company's proprietary recycling system, build name recognition for "circular model," and spread the adoption of the products. In the light incontinence care products line, in the *Charm Nap* series, which brings happiness to daily life with its absorbent care, the Company made additions to the lineup for the *Charm Nap Absorbent Sarafi* series, in the form of the *Charm Nap Absorbent Sarafi Organic Cotton 100%^{*1}*, which uses natural organic cotton material, as a product that combines natural comfort with reassurance in use. Together with the *Lifree Comfortable Pads* series of incontinence care products for men that are designed to prevent urine leakage and stains on trousers, the Company continued its activities aimed at removing resistance to using these products by conveying that anyone can have light incontinence. In the *Lifree* brand of adult disposable diapers and incontinence care products, the Company is working to support both those in care and their carers, as well as helping to extend healthy life-spans by equipping *Lifree Pants* series with our patented "easy stitches" technology that allows both sides of disposable pants to be torn with only a small amount of force, thus making the changes more convenient. The Company also offers NAVI for Adult Diapers, which uses an artificial intelligence chatbot^{*2} — the first in the adult diaper industry — to answer questions about excretion care 24 hours a day, 365 days a year. In these ways, the Company supports a healthy mentality and body. The Company is also working to combat social problems associated with an aging population, such as home confinement and dementia, by holding regular *Lifree* "Social Walking"^{*3} events, which is an initiative that helps prevent dementia by encouraging people to continue working purposefully with society through initiatives that everyone can participate in. The Company has also actively promoted its products through TV commercials, on its website, during over-the-counter consultations at shops, and by creating shelf space at retailers based on daily activities to take the lead in the market for excretion care products.

In the *Cho-kaiteki* mask brand, which protects daily health and supports a safe and comfortable lifestyle, to respond to diversifying usage and needs, the Company launched *Cho-kaiteki Mask Stuffy-Free Type BLACK*, *Cho-kaiteki Mask Regular Size Pink* and *Cho-kaiteki Mask For Kids (for kindergartener) Oyako Animal Pattern*. In this way the Company strove to offer a range of masks suitable for comfortable year-round use by both children and adults, and to revitalize the market.

*1: The top layer that comes in contact with skin uses 100% organic cotton

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

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

● Clean and Fresh Business

In the domestic market for clean and fresh products, the Company developed products in line with the changes in living environments and lifestyle changes targeted at the increasing number of customers who wish to keep their living spaces always spick and span by cleaning their homes easily within the limited time they spend at home. The Company has responded to diversifying consumer needs by adding *Silcot Noroclear Antibacterial Wet Tissues^{*1}*, which contains safe and secure to use, 100% natural antivirus ingredient, Noroclear Protein, developed by Kewpie Corporation to the *Silcot Wet Tissues* series, which is a box of wipes that enables users to clean quickly with just one hand. As for the *Wave* brand with its cleaning proposal that a single sheet of this product can clean the entire house, the Company launched *Wave Floor Wiper* and *Wave Floor sheet (Wet or Dry-type)*, whose head automatically rotates to a vertical position just by pulling it upwards, so users can reach vertical gaps in furniture and appliances, to make the whole house spotless, and recommended ways to make daily life comfortable.

With regard to the *Silcot Cotton* series, which maintains the health of the skin as it changes on a daily basis and which makes everyday maintenance easier and more effective, the Company took steps to revitalize the increasingly diversified cosmetic cotton market through its products such as the *Silcot Sponge Touch Moisturizing Cotton* (winner of @cosme Best Cosmetics Awards three years in a row^{*2} and inducted into the Hall of Fame), which makes skin amazingly moist using 50% less lotion^{*3}, and the *Silcot Wiping Cotton Silky Cut* products, made from Japan's first superfine filament^{*4}, which easily removes even microscopic dirt.

The Company has been working on reducing food wastage in relation to fresh foods with products such as *Cook Up* cooking paper for uses from food preparation, cooking, and storage to kitchen wipes, as well as introducing convenient usage methods such as maintaining the freshness of fresh foods, and *Fresh Master* tray sheets, which absorb excess moisture and let air through to prevent deterioration and discoloration of fresh foods.

*1: Does not eliminate all bacteria

*2: @cosme Best Cosmetics Awards: Best in Category—Beauty Goods 2016, Best in Category—Beauty Goods 2017, Hall of Fame 2018

*3: Compared to the Company's conventional products

*4: The sheet covering the puff has a double-layered structure. The outer layer touching the skin consists of superfine

filaments that are less than 10 μm in size and the inner part is made up of coarse cellulose fibers. The survey covered cosmetic cotton from major brands in Japan. (survey by Unicharm Corporation, in October 2015)

As a result, net sales and segment profit (core operating income) for the personal care business were ¥620,742 million (up 3.6% year on year) and ¥78,893 million (down 7.0% year on year), respectively.

(b) Pet Care Business

	Fiscal Year Ended Dec. 31, 2018 (Millions of Yen)	Fiscal Year Ended Dec. 31, 2019 (Millions of Yen)	Difference (Millions of Yen)	Rate of Difference (%)
Net sales (Note)	82,073	86,977	4,904	6.0
Core operating income	10,123	10,667	543	5.4

Note: Net sales represent those to external customers.

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

In the domestic pet toiletry business, with the proportion of elderly dogs increasing in the same way it has increased for humans in recent years, the Company has launched a new brand of the *Manner Wear Long Time Diaper*, which are fashionable, cute, can be worn almost like clothing, and have significantly improved resistance to slippage and twisting. It allows much-loved dogs to continue to live, play and walk as normal without being confined to their beds. For cats, the Company has improved the deodorizing power of the *Deo Toilet Deodorizing Sheet* series, designed to eliminate unpleasant odors, and worked to offer products enabling pets to live hygienically and comfortably.

In the domestic pet food market, the Company is committed to pursuing flavor and quality using near-natural ingredients by launching new products in the *Grand Deli* brand of dog food, which focuses on high-quality ingredients with well-balanced colors and a balance of flavor, taste, and nutrition such as the *Grand Deli Additive-free 100% Domestic Pouch* series, which retains the full flavor of the ingredients and is made with no additives*¹ and 100% domestic chicken meat, and a non-colored snack, the *Grand Deli Luxury Ingredient* series, which uses low-fat chicken breast topped with ingredients such as cheese and pumpkin. The Company also strove to expand the dog gourmet market by newly adding “soybean flakes with chicken breast*²,” which is a new flavor ingredient, to *Grand Deli Soft* and increasing the amount of ingredients to improve its texture. In the *Best Balance* brand of health food designed to give the best to each dog breed with a balance of nutrition, digestibility and taste, the Company has newly adopted new “multi-health support grain,” packed with nutrients necessary for maintaining much-loved dogs’ health, and supported dogs’ health according to the characteristics of each dog breed.

For cats, in the *Silver Spoon Three-Star Gourmet* brand, which is a premium food featuring luxurious tastes and smells, the Company launched *Silver Spoon Three-Star Gourmet Fish Cream with Three Assorted Flavors* in an assorted range that enables pets to enjoy a variety of flavors for each meal and also launched a wet food product, *Silver Spoon Three-Star Gourmet Pouch (Thick-style)*, that is delicious and easy to eat. In the *Silver Spoon Three-Star Gourmet Snack* series, bite-size snacks with specially selected, delicious ingredients that cats love and can enjoy freshly every day, the Company launched *Silver Spoon Three-Star Gourmet Snacks Rich Grain*, a snack for cats that enjoy a grainy texture of ingredients. In this way the Company was working to support a happy and healthy life for pets. In addition, the Company has worked to bring about a “Cohesive Society” in which humans and pets can live together by implementing campaigns to support “PANEL FOR LIFE,” a project launched by Christel Vie Ensemble Foundation, which offers various plans with the aim to increase awareness of the existence of rescued dogs and cats and to create a society where they can easily find a home.

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

*1: No food dye, seasoning, or coloring agents used

*2: Patent pending ingredient that combines flakes that use soybeans as the main ingredient and chicken breast that dogs love

As a result, net sales and segment profit (core operating income) for the pet care business were ¥86,977 million (up 6.0% year on year) and ¥10,667 million (up 5.4% year on year), respectively.

(c) Other Businesses

	Fiscal Year Ended Dec. 31, 2018 (Millions of Yen)	Fiscal Year Ended Dec. 31, 2019 (Millions of Yen)	Difference (Millions of Yen)	Rate of Difference (%)
Net sales (Note)	6,927	6,514	(413)	(6.0)
Core operating income	151	219	68	45.1

Note: Net sales represent those to external customers.

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

As a result, net sales and segment profit (core operating income) in other businesses were ¥6,514 million (down 6.0% year on year) and ¥219 million (up 45.1% year on year), respectively.

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

	As of December 31, 2018 (Millions of Yen)	As of December 31, 2019 (Millions of Yen)	Difference (Millions of Yen)
Total assets	795,483	864,003	68,520
Total liabilities	291,813	321,102	29,289
Total equity	503,670	542,900	39,231
Ratio of equity attributable to owners of parent (%)	55.5	54.8	—

Total assets as of the end of the fiscal year under review amounted to ¥864,003 million, up ¥68,520 million over the end of the previous fiscal year. The major increases were ¥43,477 million in property, plant and equipment, ¥25,249 million in other current and non-current financial assets mainly due to time deposits with deposit terms exceeding three months, and ¥21,625 million in trade and other receivables, and the main decrease was ¥7,913 million in other non-current assets mainly due to long-term prepaid expenses. Total liabilities were ¥321,102 million, up ¥29,289 million over the end of the previous fiscal year. The major increase was ¥44,653 million in other current and non-current financial liabilities mainly due to lease liabilities, and the main decreases were ¥6,538 million in income tax payables, ¥3,487 million in trade and other payables and ¥2,396 million in bonds and borrowings. Total equity amounted to ¥542,900 million, up ¥39,231 million over the end of the previous fiscal year. The major increase was ¥46,116 million in profit attributable to owners of parent, and the major decreases were ¥15,475 million in dividends paid to owners of parent, and ¥5,993 million in increase in treasury shares.

Consequently, the ratio of equity attributable to owners of parent increased from 55.5% as of the end of the previous fiscal year to 54.8% as of the end of the fiscal year under review.

2) Cash flows

	Fiscal Year Ended Dec. 31, 2018 (Millions of Yen)	Fiscal Year Ended Dec. 31, 2019 (Millions of Yen)	Difference (Millions of Yen)
Cash flows from operating activities	110,867	84,936	(25,932)
Cash flows from investing activities	(113,400)	(69,235)	44,165
Cash flows from financing activities	(27,723)	(23,062)	4,662
Cash and cash equivalents at end of period	135,065	128,787	(6,278)

Net cash provided by operating activities totaled ¥84,936 million (down ¥25,932 million from the previous fiscal year). Net cash used in investing activities totaled ¥69,235 million mainly due to purchase of property, plant and equipment, and intangible assets (down ¥44,165 million from the previous fiscal year). Net cash used in financing activities amounted to ¥23,062 million, mainly attributable to dividends paid to owners of parent (down ¥4,662 million from previous fiscal year).

As a result, cash and cash equivalents including effect of exchange rate changes at end of the fiscal year under review amounted to ¥128,787 million, down ¥6,278 million over the end of the previous fiscal year.

3) Actual production, orders received and sales

(a) Actual production

Reportable segment	Production amount (Millions of Yen)	Year-on-year change (%)
Personal care	607,465	(1.4)
Pet care	87,241	4.5
Other	6,528	(6.8)
Total	701,233	(0.8)

Notes: 1. Intersegment transactions have been eliminated.

2. Production amount is based on selling prices.

3. Production amount is presented exclusive of consumption taxes.

(b) Actual orders received

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

(c) Actual sales

Reportable segment	Sales amount (Millions of Yen)	Year-on-year change (%)
Personal care	620,742	3.6
Pet care	86,977	6.0
Other	6,514	(6.0)
Total	714,233	3.8

Notes: 1. Intersegment transactions have been eliminated.

2. Sales amount is presented exclusive of consumption taxes.

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

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

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

1) Significant accounting policies and estimates

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

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

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

(a) Analysis of operating results

In the fiscal year under review, while the operating environment of the Group overseas was affected by lingering uncertainties over the outlook of the global economy due to the US-China trade conflict and continued concerns over economic slowdown in our key target countries such as China, Indonesia and Thailand, the Group proactively carried out sales activities for personal care products tailored to consumer needs and achieved sustainable growth.

Meanwhile, the recoverable amount of investment in production facilities for the disposable baby diapers market in China fell below the carrying amount, and as such, the Group recorded impairment losses of ¥11,987 million in the fiscal year under review. In addition, the Group proceeded with the integration of the Indonesia business of DSG (Cayman) Ltd. acquired in September 2018 with existing businesses and reorganized the distribution channels. In association with this, the Group recorded impairment losses of ¥5,543 million in the fiscal year under review concerning intangible assets (customer-related assets), etc. to balance accounts of the acquired business.

In Japan, despite a succession of natural disasters and signs of bottoming out in inbound tourist consumption, the impact of the consumption tax hike has become confined and personal spending has been on a moderate upward trend, as the Group continued to make proposals offering new value to stimulate demand for high value-added personal care products and worked to expand its markets.

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

As a result, the Company's net sales, core operating income, profit before tax, profit for the period, and profit attributable to owners of parent in the fiscal year under review reached ¥714,233 million (up 3.8% year on year), ¥89,779 million (down 5.6% year on year), ¥69,538 million (down 24.1% year on year), ¥52,638 million (down 21.7% year on year), and ¥46,116 million (down 24.8% year on year), respectively.

(b) Risks materially affecting operating results

See "2. Business and other risks."

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

In the fiscal year under review, while stock of PT UNI-CHARM INDONESIA Tbk, a consolidated subsidiary of the Company, was listed on the Main Board of the Indonesia Stock Exchange on December 20, 2019, and the Company raised funds in the amount of ¥9,602 million in total, cash flows from operating activities (inflow of ¥84,936 million in the fiscal year under review) were the key financial resources. The Company is striving to secure sufficient liquidity of funds so that funding needs for investment may be covered with own funds. For

example, the Company made the payment of the full amount of investment in the new Kyushu Plant which was completed on March 12, 2019, and has commenced operation, using cash and deposits held.

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

Own funds will be appropriated for the funds for capital investment for the fiscal year ending December 31, 2020.

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

The status of key indicators targeted under the 10th Medium-term Management Plan which is currently underway are as follows. In the fiscal year under review, indicators excluding net sales were lower than the previous fiscal year, mainly due to the performance of the baby care business in China being lower than expected. In the fiscal year ending December 31, 2020, the final year of the Medium-term Management Plan, the Company will strive to develop new products and to create markets that meet consumer needs in order to achieve sustainable high growth while market environment is changing more rapidly than expected. We also intend to invest further management resources in feminine care, health care and pet care, which are high profit, high growth markets, and will work to reform our business structure.

	Fiscal Year Ended December 31, 2017	Fiscal Year Ended December 31, 2018	Fiscal Year Ended December 31, 2019	Target under the Medium-term Management Plan (Fiscal Year Ending December 31, 2020)
Net sales	¥641,647 million	¥688,290 million	¥714,233 million	¥800,000 million
Net sales growth rate	6.1% (YoY)	7.3% (YoY)	3.8% (YoY)	(Note) 7.0% Compound annual growth rate (CAGR)
Core operating income margin	13.5%	13.8%	12.6%	15.0%
Return on equity attributable to owners of parent (ROE)	14.3%	14.8%	10.1%	15.0%

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

(e) Current state of and prospects for management strategy

Regarding the operating environment of the Group, the outlook remains uncertain due to factors such as geopolitical risk, trends in emerging economies, and volatility in financial markets. Under these conditions, the Company expects growth driven by domestic demand to continue in the Asian countries where it operates its business. In Japan, despite the termination of the Point Reward Project for Consumers Using Cashless Payment in June 2020 and a sense of uncertainty about the direction of the economy after the Tokyo Olympic and Paralympic Games, amidst solid private-sector investment and overseas demand, we expect the economic recovery to continue.

In overseas, within this environment, we intend to grow with a speed exceeding that of the market and strive for revitalization through offering products that meet individual needs in the target countries and aggressive sales activities. In Japan, we continue to offer high value-added products reflecting consumer needs and lead the revitalization of the domestic market in the personal care business. In addition, in the pet care business, we will work to develop products and create markets to support the lives of pets in an integrated manner.

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

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

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

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

(Goodwill)

Under J-GAAP, goodwill was amortized over the periods in which the economic benefits of the goodwill were reasonably expected to be realized.

Under IFRS, goodwill is not amortized and impairment assessments are performed periodically. Under J-GAAP, transaction costs related to business combinations that occurred prior to the early adoption, on December 31, 2015, of “Accounting Standards for Business Combinations” (Corporate Accounting Standards No. 21 of September 13, 2013; hereafter “Accounting Standards for Business Combination”) were recorded as assets for any portion for which consideration was recognized.

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

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

Due to the impact of the foregoing, goodwill decreased by ¥23,349 million under IFRS compared to the amount under J-GAAP. In addition, selling, general and administrative expenses decreased by ¥5,835 million.

(Net sales)

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

Due to an impact of the foregoing, net sales decreased by ¥99,654 million under IFRS compared to the amount under J-GAAP.

4. Important business contracts

Not applicable.

5. Research and development activities

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

During the consolidated fiscal year under review, overall research and development expenses totaled ¥7,584 million (1.1% of consolidated net sales). Principal achievements were as follows.

(1) Personal Care

● Baby Care Business

Under the *moony* series, the Company released the world’s smallest* disposable diaper *moony flat type* for hospitals and maternity clinics, which was developed jointly with nurses for babies born weighing less than 1,000 g. In addition, the Company launched improved versions of *moony Air Fit (S/M)* with “soft-fit waist” technology.

The Company has made the *Natural moony* products even more gentle on the skin by adding three kinds of additive-free natural oil and added a three-line notification sign indicating time for changing diapers in a more easy-to-understand way. For the new-born and S-size products, based on the results of a joint research with Kyoto University, a function to help stir up positive feelings about childcare has been adopted whereby a Happy Notification appears when a baby urinates.

In addition, the Company launched *moony man Safe from Coldness (L/big, unisex)*, for a limited time period of fall and winter. The product uses “chill cut sheet” which prevents the body of babies from getting cold due to the cold sensation after urination.

In the baby wipe category, the Company launched a new product, *moony Baby Wipes - Clean with just 1 sheet -*, with large and thick sheet that can clean loose stools with just a single sheet.

In the nursing pad category, the Company launched a new product, *moony Luxurious Premium Nursing Pads*, which uses luxurious soft sheet to realize a gentle feel on the skin that is especially delicate during the nursing period.

In overseas markets, the Company launched new products, namely, ultra-thin *Unicharm moony with Ultimate Breathability* (tape type: S, M, L, and XL sizes; pants type: L and XXL sizes) in China, which boasts excellent breathability; *MamyPoko Pants SUPER PREMIUM Organic (S/M/L/XL/XXL)* in Thailand; and *MamyPoko Pants X-tra Kering Slim (M/L/XL)* in Indonesia, which is the first slim-type diaper in the country. In addition to the foregoing, centered on the development bases of each country where the Company has a presence, the Company has carried out product development to suit local market needs in such ways as improving quality and functionality and broadening lineups and thereby worked to revitalize the markets.

* Among disposable diapers for low-weight newborns manufactured by major global brands (survey by Unicharm Corporation, in March 2019)

● Feminine Care Business

Under the *SOFY* brand which constantly encourage customers to live their lives comfortably and confidently as usual even during their period, the Company launched new premium-line *SOFY ORGANIC Cotton* series in each category of napkins, tampons, pantyliners and sanitary shorts, which use organic cotton materials in response to the needs of women who place a particular focus on safe and reliable products for use on their body on the back of the heightened health consciousness in recent years. (*SOFY Hadaomoi Organic Cotton (with/without wings)*, *SOFY Pantyliner Organic Cotton*, *SOFY Soft Tampon Organic Cotton 100%* (regular/super/super plus)*, and *SOFY Organic Cotton Warm Underwear (M/L)*)

In the sanitary napkins category, the Company released significantly improved versions of the *Center-in Compact I/2* series, which included improvements to prevent unexpected leaks when out and about, and redesigning of the package and individual wrappings.

In addition, as a new style of solution for menstrual issues, the Company launched new product, *SOFY Ultra Sound Sleep Shorts (M-L size)*, which provides the ultimate reassurance for no leaks thanks to the shape of the shorts integrated with pad, providing all-around protection from hip to waist.

In overseas markets, the Company launched *SOFY Extremely Clean Skin Antibacterial Herb (23/28cm)* in Taiwan, which offers increased antibacterial functions, and *SOFY Cool (EXTRA LONG/SUPER EXTRA LONG+)* in India, which offers improved comfort with added function to create a cold sensation. In addition, in China, the Company

launched the *SOFY Naked Feeling S Aristocratic* series which uses cotton 100% surface material and the *SOFY Pocket Magic Fluffy Cloud* series which offers portability, comfortability, and assurance, working to strengthen the brand. The Company launched new products, *CHARM Cooling Fresh (29/35cm)* in Indonesia, the first nighttime cool-type product in the country, and *SOFY Cooling Fresh (42cm)* in Thailand. 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 Malaysia and Singapore.

In the pantyliner category, the Company launched a line of new pantyliner products, *Kiyora Luxury Absorption (Fragrance Free/White Floral Fragrance/Natural Cotton)*, which absorbs not only discharge but also moisture, and thereby worked to increase customer satisfaction.

* Uses 100% organic cotton for the surface material.

● Health Care Business

In the pants-type category, the Company launched improved versions of *Lifree Thin-type Keikai Pants (S/M/L/LL)*, *Lifree Cho-jikan Anshin Thin-type Pants (S/M/L/LL)*, *Lifree Cho-jikan Anshin Rehabilitation Pants (S/M/L/LL)*, and *Lifree Cho-jikan Anshin Pants Without Urinary Absorption Pad (M/L)*, which use the “easy stitches” technology to allow both sides of pants to be extended by twice its original length and torn with only a small amount of force so that the wearers themselves may easily put the pants on and off. As such, the Company has advanced its independent excretion support even further. In addition, the Company launched a new product *Lifree Walking Assist Underwear (M/L)* offering new value for disposable underwear by encouraging wearers to walk which leads to increased motivation.

In the light incontinence category, the lineup of the *Lifree Comfortable Pads* series now includes *Very Light Extra 5cc/Very Light 10cc/Regular to heavy flow 100cc* to respond to women’s needs. The Company launched new products in the *Charm Nap Absorbent Sarafi* series, the top brand among the light incontinence care products for women, namely, *Charm Nap Organic Cotton (3cc/super-light type 5cc/light type 15cc/feel comfortable about light fluids 30cc/regular 50cc)*, which uses 100% organic cotton on the surface that touches skin to provide reassurance with natural comfort, and *Pantyliner Compact (non-scented 3cc/scented 3cc/non-scented 5cc/odor-blocking type 5cc)*, which uses super absorbent sheet to create light feel on the skin. Through these efforts, the Company has striven to revitalize the light incontinence market and improve customer satisfaction. In addition, the Company expanded the product lineup of *Lifree Comfortable Pads for Men* by adding *Comfortable medium volume levels 45cc*.

In the light incontinence category of overseas markets, the Company released *Lifree Absorb Pants (M/L/XL)* in Thailand and *Lifree Shorts 150cc (M/L)* in Taiwan as shorts-type products which are neither a pad nor pants. In the pants-type category, the Company released *Lifree Rehabi Pants (M/L/LL)* in Thailand.

In the face mask category, in order to meet diversifying needs of customers, the Company launched new products *Cho-kaiteki Mask Stuffy-Free Type BLACK*, *Cho-kaiteki Mask Regular Size Pink*, and *Cho-kaiteki Mask For Kids (for kindergartener) Oyako Animal Pattern*, which represents the Company’s commitment to not only comfort but also the look, to offer style for customers choosing the products. In the overseas markets, the Company launched *3D Mask (S/M/L)* in Thailand. Through these efforts and others, the Company has striven to enhance product lineups in various countries.

● Clean and Fresh Business

In the *Wave* brand, the Company launched new product *Wave Floor Wiper* which enables users to reach deep gaps allowing for a quick, innovative cleaning style and has worked to revitalize the handy wiper market by expanding the product lineup to incorporate both functionalities and design aesthetics.

In the personal wet tissue category, the Company launched new product *Silcot Noroclear Antibacterial Wet Tissues* which contains 100% naturally derived antiviral agent, *Noroclear Protein*, developed by Kewpie Corporation, to meet the demand for safe and reliable disinfectants.

In the cosmetic cotton category, the Company launched new product *Silcot Maximizer Cotton* in Indonesia, which makes skin amazingly moist using 50% less lotion, as part of its efforts to improve customer satisfaction.

● Research achievements

The Company conducted joint research with Project Professor Ichiro Hagiwara and others at Meiji University on disposable baby diapers which provides a higher fit by applying the “origami technology,” which resulted in the development of absorbent material that changes shape to fit the body of babies.

In addition, joint research with Professor Akihito Sano and others at Nagoya Institute of Technology revealed that there is a high possibility of positive effects on the feel of diapers (thickness and softness) when touched on a wrist.

Accordingly, the Company worked to develop diapers which provide not only a good feel on the skin for babies but also comfort for parents when they touch the diapers.

With the aim of contributing to sustainable society, the Company has been working on business activities which strike balance between preservation of the global environment and economic growth. As part of such activities, the Company commenced a recycling project in 2015 with the objective of building a model of recycling disposable diapers in which used disposable diapers are utilized as raw materials, and accomplished the “establishment of technology to recycle used disposable diapers to the level reusable for sanitary goods” and developed a “prototype of disposable diapers, etc. utilizing recycled disposable diapers as raw materials.” The Company will continue with the research activities further by setting up the “Pre-opening Office for Recycle Business” for commercializing the “recycle technology for used disposable diapers.”

As a result of the above, research and development expenses for the consolidated fiscal year in the personal care business totaled ¥6,433 million.

(2) Pet Care

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

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

In the dog food lines, the Company is committed to pursuing flavor and quality using near-natural ingredients by launching new products in the *Grand Deli* brand of dog food, which focuses on high-quality ingredients with a well-balanced colors and a balance of flavor, taste and nutrition, such as nine SKUs of the *Grand Deli Additive-free 100% Domestic Pouch* series, which retains the full flavor of the ingredients and is made with no additives*¹ and 100% domestic chicken meat, and six SKUs of the *Grand Deli Luxury Ingredient* series non-colored snacks using low-fat chicken breast topped with ingredients such as cheese and pumpkin. The Company also strove to expand the dog gourmet market by newly adding “soybean flakes with chicken breast*²,” as a new flavor ingredient to *Grand Deli Soft* and increasing the amount of ingredients to improve its texture as well. In the *Best Balance* brand of health food designed to give the best to each dog breed with a balance of nutrition, digestibility and taste, the Company has newly adopted new “multi-health support grain,” packed with nutrients necessary for maintaining much-loved dogs’ health, and supported dogs’ health according to the characteristics of each dog breed. In the cat food lines, in the *Silver Spoon Three-Star Gourmet* brand, which is a premium food featuring luxurious tastes and smells, the Company launched two SKUs of *Silver Spoon Three-Star Gourmet Fish Cream with Three Assorted Flavors* in an assorted range that enables pets to enjoy a variety of flavors for each meal and also launched a wet food product, five SKUs of *Silver Spoon Three-Star Gourmet Pouch (Thick-style)*, that is delicious and easy to eat. In the *Silver Spoon Three-Star Gourmet Snack* series, bite-size snacks with specially selected, delicious ingredients that cats love and can enjoy freshly every day, the Company launched five SKUs of *Silver Spoon Three-Star Gourmet Snacks Rich Grain*, a snack for cats that enjoy a grainy texture of ingredients. In this way the Company was working to support a happy and healthy life for pets.

In the pet toiletry business, with the proportion of elderly dogs increasing in the same way it has increased for humans in recent years, the Company has launched a new brand in the pet toiletry market for dog excrement cleanup products, the *Manner Wear Long Time Diaper*, which are fashionable, cute, can be worn almost like clothing, and have significantly improved resistance to slippage and twisting. The Company has worked to offer products which allow much-loved dogs to continue to live, play and walk as normal without being confined to their beds. In the growing market for cat excrement cleanup products, the Company has improved the deodorizing power and continuity of the *Deo Toilet Deodorizing Sheet* series, designed to eliminate unpleasant odors, and worked to offer products enabling pets to live hygienically and comfortably.

*1: No food dye, seasoning, or coloring agents used

*2: Patent pending ingredient that combines flakes that use soybeans as the main ingredient and chicken breast that dogs love

As a result of the above, research and development expenses in pet care business for the consolidated fiscal year under review totaled ¥1,150 million.

(3) Other

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

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

III. Equipment and Facilities

1. Overview of capital investments

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

(1) Personal Care

Capital investments totaling ¥45,865 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.

(2) Pet Care

Capital investments totaling ¥1,485 million were made for the purpose of strengthening and rationalizing production of pet care-related products.

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

(3) Other

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

2. Major facilities

Major facilities of the Group are as follows.

Carrying amounts are presented in conformity with IFRS.

(1) The Company

(As of December 31, 2019)

Facilities (Location)	Segment	Description	Carrying amount (Millions of Yen)					Land area (Thousands of m ²)	Number of employees (Persons)
			Buildings and structures	Machinery, equipment and vehicles	Land	Other	Total		
Kagawa Technical Centre Engineering Centre (Kanonji-shi, Kagawa)	Personal care Pet care	R&D facilities	1,050	2,607	285	153	4,095	21	405 (120)
Itami Plant (Itami-shi, Hyogo)	Pet care	Facilities for manufacture of pet foods, etc.	379	1,094	1,105	32	2,610	13	45 (14)
Mie Plant (Nabari-shi, Mie)	Pet care	Facilities for manufacture of pet toiletries, etc.	189	616	62	15	883	17	23 (3)
Saitama Plant (Kamisato-machi, Kodama-gun, Saitama)	Pet care	Facilities for manufacture of pet foods, etc.	408	680	146	9	1,243	8	21 (-)

Notes: 1. "Other" includes right-of-use assets.

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.

(2) Domestic subsidiaries

(As of December 31, 2019)

Company	Facilities (Location)	Segment	Description	Carrying amount (Millions of Yen)					Land area (Thousands of m ²)	Number of employees (Persons)
				Buildings and structures	Machinery, equipment and vehicles	Land	Other	Total		
Unicharm Products Co., Ltd.	Shikoku Plant (Kanonji-shi, Kagawa)	Personal care	Facilities for manufacture of disposable diapers and feminine sanitary products, etc.	4,155	9,473	1,541	9,677	24,847	125	555 (68)
	Fukushima Plant (Tanagura-cho, Higashi-shirakawa- gun, Fukushima)	Personal care	Facilities for manufacture of disposable diapers and feminine sanitary products, etc.	2,852	7,876	2,139	94	12,962	128	315 (15)
	Shizuoka Plant (Kakegawa-shi, Shizuoka)	Personal care	Facilities for manufacture of disposable diapers and feminine sanitary products, etc.	2,863	5,490	—	2,044	10,397	83	263 (14)
	Kyushu Plant (Kanda-machi, Miyako-gun, Fukuoka)	Personal care	Facilities for manufacture of disposable diapers	13,191	7,128	3,525	217	24,061	160	51 (—)

Notes: 1. “Other” includes right-of-use assets.

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

(3) Overseas subsidiaries

(As of December 31, 2019)

Company	Facilities (Location)	Segment	Description	Carrying amount (Millions of Yen)					Land area (Thousands of m ²)	Number of employees (Persons)
				Buildings and structures	Machinery, equipment and vehicles	Land	Other	Total		
Uni-Charm (Thailand) Co., Ltd.	(Kingdom of Thailand)	Personal care	Facilities for manufacture of disposable diapers and feminine sanitary products, etc.	5,307	8,141	1,248	119	14,815	110	1,152 (30)
PT UNI- CHARM INDONESIA Tbk	(Republic of Indonesia)	Personal care	Facilities for manufacture of disposable diapers and feminine sanitary products, etc.	7,103	9,815	1,229	4,484	22,631	355	1,681 (525)
Unicharm Gulf Hygienic Industries Ltd.	(Kingdom of Saudi Arabia)	Personal care	Facilities for manufacture of disposable diapers and feminine sanitary products, etc.	5,828	13,180	297	1,880	21,184	95	2,495 (—)
Unicharm India Private Ltd.	(Republic of India)	Personal care	Facilities for manufacture of disposable diapers and feminine sanitary products, etc.	8,220	14,574	—	3,073	25,867	540	880 (1)
DSG International (Thailand) Public Co., Ltd.	(Kingdom of Thailand)	Personal care	Facilities for manufacture of disposable diapers, etc.	2,037	8,281	—	1,602	11,920	301	380 (7)

Notes: 1. “Other” includes right-of-use assets.

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

3. Plans for new additions or disposals

(1) New additions and renovations

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

The Group's capital investment plans (new construction and expansion, etc.) for the following fiscal year as of December 31, 2019 are as follows.

Segment	Amount (Millions of Yen)	Description
Personal care	45,500	Facilities for manufacture of disposable diapers and feminine sanitary products, etc.
Pet care	1,500	Facilities for manufacture of pet foods and pet toiletries, etc.
Total	47,000	—

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

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

(2) Disposals and sales

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

IV. Corporate Information

1. Information on the Company's shares

(1) Total number of shares and other

1) Total number of shares

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

2) Number of shares issued

	Number of shares issued		Stock exchanges on which the Company is listed	Description
	As of December 31, 2019	As of March 26, 2020 (filing date of this Securities Report)		
Common shares	620,834,319	620,834,319	First Section of the Tokyo Stock Exchange	The number of shares constituting a unit is 100
Total	620,834,319	620,834,319	—	—

(2) Status of the share acquisition rights

1) Stock option plans

Stock options

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

Date of resolution	April 16, 2015
Category and number of individuals covered by the stock options (Persons)	Directors who are not Audit and Supervisory Committee Members of the Company: 8 Employees of the Company: 1,783 Employees of the subsidiaries: 1,316
Number of share acquisition rights*	30,039 [29,979] units (Note 1)
Class, details and number of shares to be issued upon the exercise of the share acquisition rights*	Common shares: 3,003,900 [2,997,900] shares (Note 1)
Amount to be paid in upon the exercise of the share acquisition rights*	¥2,901 per share (Note 2)
Exercise period of the share acquisition rights*	From June 1, 2017 to May 31, 2022
Upon the exercise of the share acquisition rights, issue price and amount per share to be credited to capital stock*	Issue price: ¥2,901 Amount per share to be credited to capital stock: ¥1,451
Conditions for the exercise of the share acquisition rights*	(1) Any person who has been allotted the share acquisition rights may not exercise such rights unless the closing price of the Company's common shares at the Tokyo Stock Exchange is ¥4,030 per share ("condition price") or over on at least one occasion during the period from the allotment date through February 28, 2021. In cases where the exercise price is adjusted, the condition price shall be also adjusted in a uniform manner. (2) Any person who has been allotted the share acquisition rights must be, even at the time of exercise of such rights, a Director who is not an Audit and Supervisory Committee Member or an employee of the Company or a Director or an employee of the Company's subsidiary, except in cases where he or she has resigned from the position as Director who is not an Audit and Supervisory Committee Member of the Company or Director of the Company's subsidiary due to expiration of term of office or retired as employee of the Company or its subsidiary due to reaching the mandatory retirement age. (3) Notwithstanding (2) above, in the event that any person who has been allotted the share acquisition rights passed away, his/her successor may exercise the rights.
Matters relating to transfer of share acquisition rights*	Any and all transfers of share acquisition rights must be approved by the Board of Directors of the Company.
Matters relating to the issuance of share acquisition rights as a result of organizational restructuring action*	—

* Presented are the details as of the last day of the fiscal year under review (December 31, 2019). Changes during the period from the last day of the fiscal year under review to the end of the month prior to the filing date of this Securities Report (February 29, 2020) are stated in the parentheses with the details as of the end of the month prior to the filing date, and other matters have not changed since the last day of the fiscal year under review.

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

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

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

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

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

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

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

2) Right plans

Not applicable.

3) Status of other share acquisition rights

Bonds with share acquisition rights

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

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

Date of resolution	September 8, 2015
Number of share acquisition rights*	350 [125] units (Note 1)
Number of share acquisition rights held by the Company included in the share acquisition rights*	—
Class, details and number of shares to be issued upon the exercise of the share acquisition rights*	Common shares: 1,452,850 [518,875] shares (Note 2)
Amount to be paid in upon the exercise of the share acquisition rights*	¥2,409 per share (Note 3)
Exercise period of the share acquisition rights*	From October 9, 2015 to September 11, 2020 (Local time at place of reception of exercise requests) (Note 4)
Upon the exercise of the share acquisition rights, issue price and amount per share to be credited to capital stock*	Issue price: ¥2,409 Amount per share to be credited to capital stock: ¥1,205 (Note 5)
Conditions for the exercise of the share acquisition rights*	Partial exercise of individual share acquisition rights is not possible.
Matters relating to transfer of share acquisition rights*	No separation and transfer of share acquisition rights attached to convertible bond-type bonds with share acquisition rights is permitted.
Matters relating to the issuance of share acquisition rights as a result of organizational restructuring action*	(Note 6)
Property to be contributed upon the exercise of the share acquisition rights and the amount thereof*	(Note 7)
Balance of bonds with share acquisition rights*	¥3,543 [1,265] million

* Presented are the details as of the last day of the fiscal year under review (December 31, 2019). Changes during the period from the last day of the fiscal year under review to the end of the month prior to the filing date of this Securities Report (February 29, 2020) are stated in the parentheses with the details as of the end of the month prior to the filing date, and other matters have not changed since the last day of the fiscal year under review.

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

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

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

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

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

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

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

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

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

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

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

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

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

Not applicable.

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

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

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

(5) Details by shareholder classification

(As of December 31, 2019)

(As of December 31, 2019)

Classification	Status of shares (1 unit = 100 shares)								Shares less than one unit
	National and local governments	Financial institutions	Japanese financial instruments business operators	Other corporations	Foreign shareholders		Individuals and other	Total	
					Other than individuals	Individuals			
Number of shareholders (Persons)	—	108	33	250	729	15	27,468	28,603	—
Number of shares held (Units)	—	1,484,684	38,285	2,026,819	2,038,262	91	619,325	6,207,466	87,719
Shareholding ratio (%)	—	23.92	0.62	32.65	32.84	0.00	9.97	100.00	—

Note: Treasury shares of 24,604,939 shares are included in “Individuals and other” at 246,049 units, and in “Shares less than one unit” at 39 shares. The number of shares held by substantial shareholders as of the last day of the fiscal period is the same.

(6) Major shareholders

(As of December 31, 2019)

Name	Address	Number of shares held (Thousands of shares)	Number of shares held as a percentage of total shares issued (excluding treasury shares) (%)
Unitec Corporation	4087-24, Kawanoe-cho, Shikokuchuo-shi, Ehime	154,957	25.99
The Master Trust Bank of Japan, Ltd. (Trust account)	2-11-3 Hamamatsucho, Minato-ku, Tokyo	28,635	4.80
Takahara Kikin K.K.	1712, Kawanoe-cho, Shikokuchuo-shi, Ehime	28,080	4.71
Japan Trustee Services Bank, Ltd. (Trust Account)	1-8-11, Harumi, Chuo-ku, Tokyo	19,075	3.20
The Master Trust Bank of Japan, Ltd. (Retirement Benefit Account Trust/The Hiroshima Bank Account)	2-11-3 Hamamatsucho, Minato-ku, Tokyo	17,287	2.90
The Iyo Bank, Ltd. (standing proxy: Trust & Custody Services Bank, Ltd.)	1, Minamihoribata-cho, Matsuyama-shi, Ehime (Harumi Island Triton Square Office Tower Z, 1-8-12, Harumi, Chuo-ku, Tokyo)	15,300	2.57
BNYMSANV Re MIL Re FSI ICVC-Stewart Inv Asia Pacific Leaders FD (Standing Proxy, MUFG Bank, Ltd.)	FINSBURY CIRCUS HOUSE, 15 FINSBURY CIRCUS LONDON EC2M 7EB (2-7-1 Marunouchi, Chiyoda-ku, Tokyo)	13,068	2.19
Nippon Life Insurance Company (standing proxy: The Master Trust Bank of Japan, Ltd.)	1-6-6, Marunouchi, Chiyoda-ku, Tokyo (2-11-3 Hamamatsucho, Minato-ku, Tokyo)	12,189	2.04
JP MORGAN CHASE BANK (standing proxy: Settlement & Clearing Services Department, Mizuho Bank, Ltd.)	270 PARK AVENUE, NEW YORK, NY 10017, UNITED STATES OF AMERICA (SHINAGAWA INTERCITY A, 2-15-1, Konan, Minato-ku, Tokyo)	12,092	2.03
NORTHERN TRUST CO. (AVFC) SUB A/C AMERICAN CLIENTS (standing proxy: Tokyo Branch, The Hongkong and Shanghai Banking Corporation Limited)	50 BANK STREET CANARY WHARF LONDON E14 5 NT, UK (3-11-1, Nihonbashi, Chuo-ku, Tokyo)	10,067	1.69
Total	—	310,749	52.12

Notes: 1. The Company holds 24,605 thousand shares of treasury shares. 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 November 5, 2019 and the amendment report made public on March 5, 2020, MUFG Bank, Ltd. and its joint owners Mitsubishi UFJ Trust and Banking Corporation, Mitsubishi UFJ Kokusai Asset Management Co., Ltd., Mitsubishi UFJ Morgan Stanley Securities Co., Ltd., First Sentier Investors (Australia) IM Ltd., First Sentier Investors (Australia) RE Ltd., First State Investments (Hong Kong) Limited, First State Investments International Limited, and First State Investments (Singapore) are listed as shareholders as of October 28, 2019, as detailed below. But the Company was unable to confirm the number of shares actually held by them as of December 31, 2019. Accordingly, details of these major shareholders are not included here.

Reported details of these major shareholders and amendments are as follows.

Name of company	Location	Number of shares held (Shares)	Ratio of shares held (%)
MUFG Bank, Ltd.	2-7-1, Marunouchi, Chiyoda-ku, Tokyo	2,707,452	0.44
Mitsubishi UFJ Trust and Banking Corporation	1-4-5, Marunouchi, Chiyoda-ku, Tokyo	14,687,400	2.37
Mitsubishi UFJ Kokusai Asset Management Co., Ltd.	1-12-1, Yurakucho, Chiyoda-ku, Tokyo	2,073,000	0.33
Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.	2-5-2, Marunouchi, Chiyoda-ku, Tokyo	4,153,239	0.67
First Sentier Investors (Australia) IM Ltd.	Level 5, Tower Three International Towers Sydney, 300 Barangaroo Avenue, Barangaroo, NSW 2000, Australia	19,688,300	3.17
First Sentier Investors (Australia) RE Ltd.	Level 5, Tower Three International Towers Sydney, 300 Barangaroo Avenue, Barangaroo, NSW 2000, Australia	2,480,300	0.40
First State Investments (Hong Kong) Limited	25th Floor, One Exchange Square, Central, Hong Kong	4,298,800	0.69
First State Investments International Limited	23 St Andrew Square, Edinburgh, EH2 1BB, Scotland	1,417,282	0.23
First State Investments (Singapore)	38 Beach Road, #06-11 South Beach Tower, Singapore, 189767	5,557,600	0.90

(7) Status of voting rights

1) Shares issued

(As of December 31, 2019)

Classification	Number of shares (Shares)	Number of voting rights (Units)	Description
Non-voting shares	—	—	—
Shares with restricted voting rights (Treasury shares, etc.)	—	—	—
Shares with restricted voting rights (Other)	—	—	—
Shares with full voting rights (Treasury shares, etc.)	(Treasury shares) Common shares 24,604,900	—	Standard common shares of the Company without any restriction
Shares with full voting rights (Other)	Common shares 596,141,700	5,961,417	Same as above
Shares less than one unit	Common shares 87,719	—	Same as above
Total shares issued	620,834,319	—	—
Total voting rights held by all shareholders	—	5,961,417	—

Note: “Shares less than one unit” include 39 shares of treasury shares held by the Company.

2) Treasury shares, etc.

(As of December 31, 2019)

Shareholders	Addresses of shareholders	Number of shares held under own name (Shares)	Number of shares held under the names of others (Shares)	Total shares held (Shares)	% of interest in number of shares issued (%)
(Treasury shares) Unicharm Corporation	182, Shimobun, Kinsei-cho, Shikokuchuo-shi, Ehime	24,604,900	—	24,604,900	3.96
Total	—	24,604,900	—	24,604,900	3.96

2. Acquisition of treasury shares

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

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

Not applicable.

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

Acquisition under Article 155, Item 3 of the Companies Act

Classification	Number of shares (Shares)	Total amount (Yen)
Resolution at the Board of Directors meeting (February 14, 2019) (Period of acquisition: From February 15, 2019 to December 20, 2019)	5,000,000	15,000,000,000
Treasury shares acquired before the fiscal year under review	—	—
Treasury shares acquired during the fiscal year under review	4,235,100	14,999,760,161
Total number and value of remaining shares subject to the resolution	764,900	239,839
Percentage of un-exercised acquisition as of the last day of the fiscal year under review (%)	15.30	0.00
Treasury shares acquired during the period	—	—
Ratio of un-exercised acquisition as of the date of filing (%)	15.30	0.00

Classification	Number of shares (Shares)	Total amount (Yen)
Resolution at the Board of Directors meeting (February 13, 2020) (Period of acquisition: From February 14, 2020 to December 23, 2020)	4,200,000	12,500,000,000
Treasury shares acquired before the fiscal year under review	—	—
Treasury shares acquired during the fiscal year under review	—	—
Total number and value of remaining shares subject to the resolution	—	—
Percentage of un-exercised acquisition as of the last day of the fiscal year under review (%)	—	—
Treasury shares acquired during the period	—	—
Ratio of un-exercised acquisition as of the date of filing (%)	100.00	100.00

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

2. Treasury shares acquired during the period does not include the number of shares acquired pursuant to the resolution during the period from March 1, 2020 to the filing date of this Securities Report.

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

Acquisition under Article 155, Item 7 of the Companies Act

Classification	Number of shares (Shares)	Total amount (Yen)
Treasury shares acquired during the fiscal year under review	235	797,962
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, 2020 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)	3,781,647	9,007,887,408	933,995	2,230,442,326
Number of treasury shares held (Note 2)	24,604,939	—	23,670,944	—

- Notes: 1. The detail of the disposition for the fiscal year under review is exercise of rights (conversion) in the convertible bond-type bonds with share acquisition rights (number of shares: 3,781,647, total disposition amount: ¥9,007,887,408). Treasury shares disposed of during the period does not include the decreases in the number of shares due to transfer by sale of shares less than one unit and exercise of rights (conversion) in the convertible bond-type bonds with share acquisition rights during the period from March 1, 2020 to the filing date of this Securities Report.
2. Number of treasury shares held during the period does not include the increases and decreases in the number of shares due to acquisition of shares, purchase and transfer by sale of shares less than one unit, and exercise of rights (conversion) in the convertible bond-type bonds with share acquisition rights during the period from March 1, 2020 to the filing date of this Securities Report.

3. Dividend policy

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

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

The annual dividend for the fiscal year under review will be ¥28, comprising a year-end dividend of ¥14 per share, in addition to a ¥14 per share dividend for the end of the second quarter. This will be the 18th consecutive period of an increase in dividends, with a dividend on equity attributable to owners of parent (DOE) of 3.7%.

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, 2019 are as follows:

Date of resolution	Total dividend amount (Millions of Yen)	Dividend per share (Yen)
August 8, 2019	8,315	14.0
February 21, 2020	8,347	14.0

4. Corporate governance

(1) Overview of corporate governance

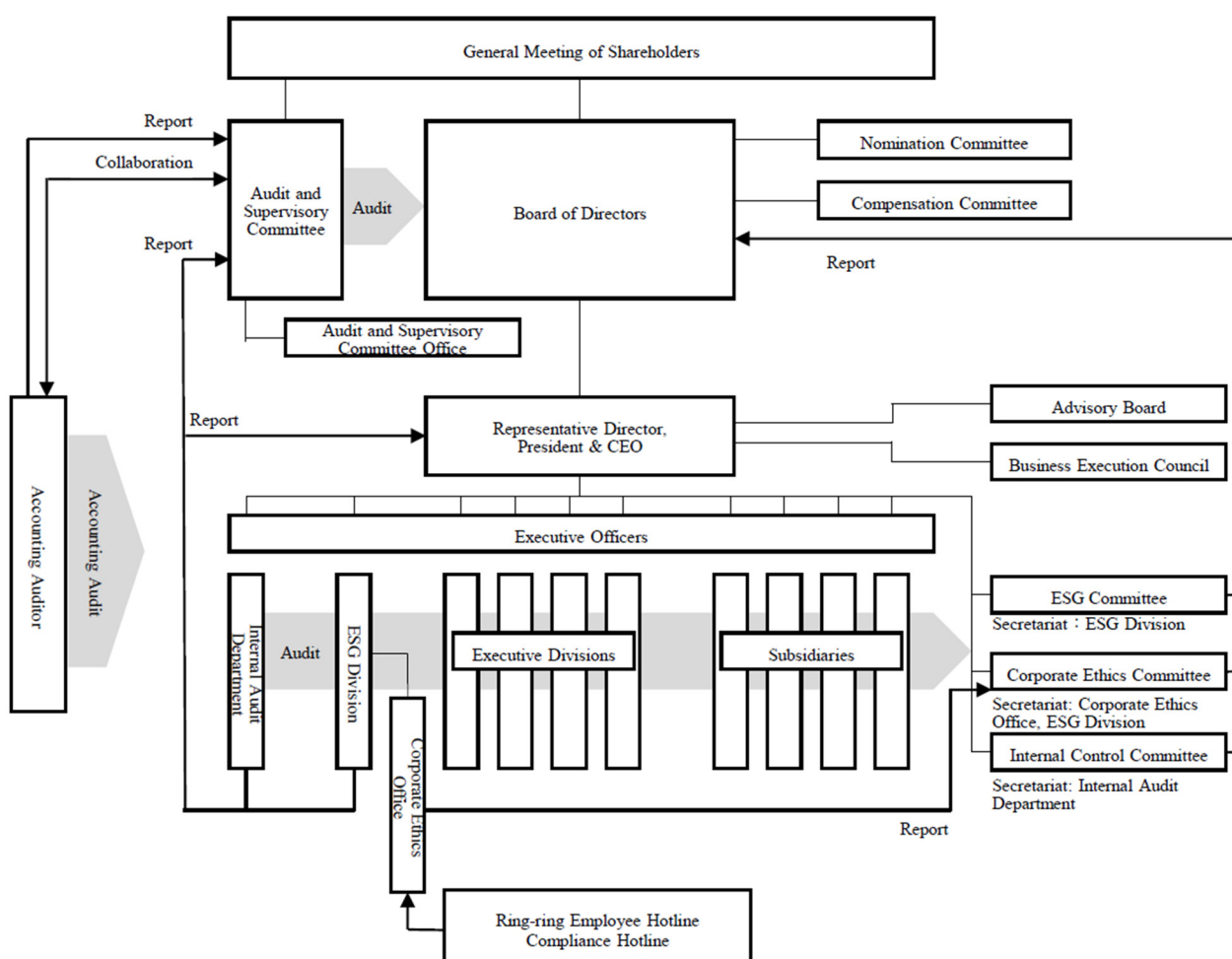
1) Basic corporate governance policy

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

In order to realize these objectives, we have established a basic policy of corporate governance that achieves transparent, fair, expeditious and decisive management by conducting honest and active dialogue to obtain support from various stakeholders and work to improve ESG and a corporate environment where management can make appropriate decisions at the right time.

2) Overview of corporate governance system and reasons for adopting thereof

As a company with audit and supervisory committee, the Company has established the Board of Directors and the Audit and Supervisory Committee. In addition, the Company has voluntarily established the Nomination Committee and the Compensation Committee. Indicated below is a diagram of the corporate governance system of the Company.



Board of Directors

The Board of Directors of the Company comprises one Representative Director, three non-executive Directors who are not Outside Directors, and two Outside Directors. The only Director who is concurrently serving as an Executive Officer is the Representative Director who is concurrently serving as President & CEO. The Board of Directors has the authority on such matters as decisions on the basic management policies, establishment of internal control systems and other major decision-making in business execution and establishes an environment where management can make appropriate decisions at the right time by playing the functions such as decisions on the medium- to long-term direction and the supervision on execution.

Members	Representative Director	Takahisa Takahara	(Chairman)
	Director	Eiji Ishikawa	
	Director	Shinji Mori	
	Outside Director	Takashi Mitachi	
	Outside Director	Hiroko Wada	
	Director	Gumpei Futagami	

Audit and Supervisory Committee

The Audit and Supervisory Committee of the Company comprises one non-executive Director who is not Outside Director and two Outside Directors. The one non-executive Director is a 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 someone well-versed in internal matters participate in major meetings, etc. other than the Board of Directors meetings, and closely cooperate with the internal auditing department, etc.

Members	Outside Director	Takashi Mitachi	(Chairman)
	Outside Director	Hiroko Wada	
	Director	Gumpei Futagami	

Nomination Committee

The Company has voluntarily established the Nomination Committee for the purpose of ensuring transparency and objectivity of the nominations of Director candidates and the appointments of Executive Officers. The Nomination Committee has the authority to submit (1) proposals concerning appointment and dismissal of Directors to be submitted to General Meetings of Shareholders, and (2) proposals concerning appointment and dismissal of Representative Directors and (3) appointment and dismissal of Executive Officers and appointment and dismissal of Senior Executive Officers to the Board of Directors.

Members	Representative Director	Takahisa Takahara	
	Outside Director	Takashi Mitachi	(Chairman)
	Outside Director	Hiroko Wada	
	Director	Gumpei Futagami	

Compensation Committee

The Company has voluntarily established the Compensation Committee for the purpose of ensuring transparency and objectivity of remuneration of Directors (excluding Directors who are Audit and Supervisory Committee Members) and Executive Officers. The Compensation Committee has the authority on (1) suggestions to the Board of Directors of proposals concerning remuneration, etc. of Directors to be submitted to General Meetings of Shareholders, (2) decisions on the details of remuneration, etc. for individual Directors (excluding Directors who are Audit and Supervisory Committee Members), and (3) decisions on the details of remuneration, etc. for individual Executive Officers.

Members	Representative Director	Takahisa Takahara	
	Outside Director	Takashi Mitachi	(Chairman)
	Outside Director	Hiroko Wada	
	Director	Gumpei Futagami	

<Reasons for adopting the system>

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.

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.

3) Other matters concerning corporate governance

I Status of establishment of internal control systems

The Company has the internal control system in place in accordance with the following basic policy.

1. Compliance System

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

2. System of Retention and Management of Information

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

3. Risk Management System

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

4. System to Ensure Efficiency of Performance of Duties

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

5. Group Management System

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

6. Employee Assigned to Assist the Audit and Supervisory Committee

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

7. Systems of Reporting to the Audit and Supervisory Committee

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

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

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

II 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.

III Requirement of a resolution for electing Directors

The Company stipulates in its Articles of Incorporation that a resolution for the election of Directors, in distinction between Directors who are Audit and Supervisory Committee Members and Directors who are not, 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.

IV 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.

V Decision-making body for dividend of surplus, etc.

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.

(2) Directors

1) List of Directors

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

Title	Name	Date of birth	Career profile		Term of office	Number of shares owned (Thousands)
Representative Director, President & CEO	Takahisa Takahara	July 12, 1961	April 1991 June 1995 April 1996 June 1997 April 1998 October 2000 June 2001 June 2004	Joined the Company Director Director, General Manager of Procurement Division and Deputy General Manager of International Division Senior Director Senior Director, General Manager of Feminine Hygiene Business Division Senior Director, Responsible for Management Strategy Representative Director, President Representative Director, President & CEO (to present)	(Note 2)	3,700.0
Director, Vice President overseeing Production, Research & Development	Eiji Ishikawa	October 19, 1955	February 1980 October 1996 April 1998 June 1999 July 2003 July 2004 June 2005 April 2010 January 2018 January 2020	Joined the Company Department Manager of Production Planning Office, Production Division General Manager of Production Division Executive Officer Senior Executive Officer Senior Executive Officer (Change in Japanese only; English unchanged) Director, Senior Executive Officer Director, Managing Executive Officer Director, Vice President and Managing Executive Officer Chief Quality Officer and General Manager of Global Research & Development Division Representative Director President & CEO of Unicharm Products Co., Ltd. Director, Vice President overseeing Production, Research & Development (to present)	(Note 2)	31.5

Title	Name	Date of birth	Career profile		Term of office	Number of shares owned (Thousands)
Director, Vice President overseeing Sales	Shinji Mori	June 17, 1956	April 1979 April 1994 April 1998 June 1999 June 2000 July 2003 July 2004 Joined the Company Branch Manager of the Hiroshima Branch, Sales Division Branch Manager of the Osaka Branch, Sales Division Deputy Executive Officer Executive Officer Senior Executive Officer Senior Executive Officer (Change in Japanese only; English unchanged) June 2005 October 2005 April 2010 January 2014 October 2016 January 2017 January 2018 January 2020 Director, Senior Executive Officer Director, Senior Executive Officer, General Manager of Sales Division Director, Managing Executive Officer Director, Managing Executive Officer, President of Unicharm PetCare Company Director, Managing Executive Officer, President of Unicharm PetCare Company and General Manager of Japan Sales Head Office Director, Managing Executive Officer, General Manager of Japan Sales Head Office Director, Vice President and Managing Executive Officer General Manager of Japan Sales Head Office Director, Vice President overseeing Sales (to present)		(Note 2)	62.3
Director (Audit and Supervisory Committee Member)	Takashi Mitachi	January 21, 1957	April 1979 October 1993 January 1999 January 2005 January 2016 March 2017 October 2017 Joined Japan Airlines Co., Ltd. Joined the Boston Consulting Group Vice President Japan Co-chair Senior Partner & Managing Director Outside Director of the Company (Audit and Supervisory Committee Member) (to present) Senior Advisor of the Boston Consulting Group (to present)		(Note 3)	—
Director (Audit and Supervisory Committee Member)	Hiroko Wada	May 4, 1952	April 1977 February 1995 January 1998 March 2001 April 2004 November 2004 May 2009 March 2019 Joined Procter & Gamble Sun Home Co., Ltd. (currently Procter & Gamble Company of Japan) General Manager, responsible for paper products division and new business development of Procter & Gamble Far East Inc. (currently same as above) Vice President, Responsible for Corporate New Venture Asia of US Procter & Gamble Representative Director and President of Dyson KK President and Representative Director, and Chief Operating Officer of Toys“R”Us-Japan, Ltd. Established Office WaDa, Representative (to present) Outside Director of Aderans Holdings Company Limited (currently Aderans Company Limited) Outside Director of the Company (Audit and Supervisory Committee Member) (to present)		(Note 3)	—

Title	Name	Date of birth	Career profile		Term of office	Number of shares owned (Thousands)
Director (Audit and Supervisory Committee Member)	Gumpei Futagami	January 9, 1945	April 1968 December 1985 June 1991 June 2001 June 2010 September 2010 January 2014 March 2014 January 2017 March 2019	Joined Taisei Kako Co., Ltd. (currently the Company) Director of the Company Senior Director President & Representative Director of Unicharm PetCare Corporation Director of the Company Director, Vice President and Managing Executive Officer President of Unicharm PetCare Company Director, Vice President and Managing Executive Officer Chairman of Unicharm PetCare Company Director, Vice President and Managing Executive Officer Chairman of Unicharm PetCare Company Chairman, President and CEO of the Hartz Mountain Corporation Director, Vice President and Managing Executive Officer Chairman of the Hartz Mountain Corporation Director of the Company (Audit and Supervisory Committee Member) (to present)	(Note 3)	95.4
Total						3,889.2

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

2. For one year from the conclusion of the Ordinary General Meeting of Shareholders held on March 25, 2020

3. For two years from the conclusion of the Ordinary General Meeting of Shareholders held on March 27, 2019

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

1. In order for a Director of the Company to be recognized as being independent (hereinafter, “Independent Director”), the Director must not be an executive Director, Executive Officer, manager or other employee of the Company (collectively, “Executive Directors, etc.”) and must not be an Executive Director, etc. of the Company during the past 10 years before assuming office (however, for any Director who has once been a non-executive Director (meaning a Director who is not executive director; hereinafter the same shall apply), Auditor, or accounting advisor of the Company at any time during the past 10 years before assuming office, during the past 10 years before assuming such a position).
2. In order for a Director of the Company to be recognized as Independent Director, the Director must not be an Executive Directors, etc. of any current subsidiary of the Company and must not be an Executive Director, etc. of the subsidiary during the past 10 years before assuming office (however, for any Director who has once been a non-executive director, auditor, or accounting advisor of the subsidiary at any time during the past 10 years before assuming office, during the past 10 years before assuming such a position).
3. In order for a Director of the Company to be recognized as Independent Director, the Director must not fall under any of the following items:
 - (i) a current principal shareholder of the Company or any of its subsidiaries (meaning a shareholder who holds 10% or more of the voting rights; hereinafter the same shall apply), or, if the principal shareholder is a corporation, director, auditor, accounting advisor, operating officer, associate officer, executive officer, or manager or other employee of the principal shareholder, its parent company, or important subsidiary;
 - (ii) a person who has once been a director, auditor, accounting advisor, operating officer, associate officer, executive officer, or manager or other employee of a current principal shareholder, its parent company or

- important subsidiary of the Company or any of its subsidiaries in the recent five years; or
- (iii) a director, auditor, accounting advisor, operating officer, executive officer, or manager or other employee of a corporation for which the Company or any of its subsidiaries is currently a principal shareholder.
4. In order for a Director of the Company to be recognized as Independent Director, the Director must not fall under any of the following items:
- (i) an entity whose major business partner is the Company or any of its subsidiaries (meaning an entity that has received payments from the Company or any of its subsidiaries, equivalent to 2% or more of its annual consolidated gross sales for the most recent fiscal year; hereinafter the same shall apply) or its parent company or important subsidiary, or, if any of the foregoing is a corporation, its executive director, operating officer, executive officer, or manager or other employee;
 - (ii) an entity whose major business partner was the Company or any of its subsidiaries (meaning an entity that received payments from the Company or any of its subsidiaries, equivalent to 2% or more of its annual consolidated gross sales for the most recent fiscal year; hereinafter the same shall apply) or its parent company or important subsidiary, or, if any of the foregoing is a corporation, its executive director, operating officer, executive officer, or manager or other employee, in any fiscal year among the three fiscal years prior to the most recent fiscal year;
 - (iii) an entity who is a major business partner of the Company or any of its subsidiaries (meaning an entity that has made payments to the Company or its subsidiaries, equivalent to 2% or more of annual consolidated gross sales for the most recent fiscal year of the Company; hereinafter the same shall apply) or its parent company or important subsidiary, or, if any of the foregoing is a corporation, its executive director, operating officer, executive officer, or manager or other employee;
 - (iv) an entity who was a major business partner of the Company or any of its subsidiaries (meaning an entity that made payments to the Company or its subsidiaries, equivalent to 2% or more of annual consolidated gross sales for the most recent fiscal year of the Company; hereinafter the same shall apply) or its parent company or important subsidiary, or, if any of the foregoing is a corporation, its executive director, operating officer, executive officer, or manager or other employee, in any fiscal year among the three fiscal years prior to the immediately preceding fiscal year; or
 - (v) an associate officer (limited to a person who executes business) or other person who executes business (meaning an officer, member or employee who executes business of an organization described below; hereinafter the same shall apply) of the organization (for example, public interest incorporated foundation, public interest incorporated association, non-profit corporation, etc.) which has received donation or grants from the Company or any of its subsidiaries exceeding a certain amount (an annual amount of ¥10 million on average for the past three fiscal years or 30% of the average annual total expenses of the said organization, whichever is larger).
5. In order for a Director of the Company to be recognized as Independent Director, the Director must not be a director, auditor, accounting advisor, operating officer or executive officer of a corporation, its parent company, or subsidiary which has accepted any director from the Company or any of its subsidiaries (regardless of whether on a full-time or part-time basis).
6. In order for a Director of the Company to be recognized as Independent Director, the Director must not fall under any of the following items:
- (i) a director, auditor, accounting advisor, operating officer, executive officer, or manager or other employee of a financial institution or other large creditor (hereinafter, "Large Creditor, etc.") or its parent company or important subsidiary which is indispensable for the Company or any of its subsidiaries in its fund raising and on which the Company or any of its subsidiaries relies to the extent that there is no alternative; or
 - (ii) a person who has once been a director, auditor, accounting advisor, operating officer, executive officer, or manager or other employee of a current Large Creditor, etc. or its parent company or important subsidiary of the Company or any of its subsidiaries in the recent three years.
7. In order for a Director of the Company to be recognized as Independent Director, the Director must not fall under any of the following items:
- (i) a person who is a certified public accountant (or certified tax accountant), or member, partner or employee of auditing firm (or tax accounting firm), that is the accounting auditor or accounting advisor of the Company or any of its subsidiaries;
 - (ii) a person who has once been a certified public accountant (or certified tax accountant), or member, partner or employee of auditing firm (or tax accounting firm), that is the accounting auditor or accounting advisor of the Company or any of its subsidiaries, and was actually engaged in the audit service for the Company or any of its subsidiaries (excluding, however, supportive involvement) (including any persons who is already retired or resigned) in the recent three years;
 - (iii) a person who is a lawyer, certified public accountant, certified tax accountant, or other consultant who does not fall under Item (i) or (ii) above and has received money or other property benefit from the Company or any of its subsidiaries in the annual amount of ¥10 million or more on average for the past three fiscal years, aside from executive remuneration; or
 - (iv) a person who is a member, partner, associate, or employee of a law firm, auditing firm, tax accounting firm,

or consulting firm or other professional advisory firm which does not fall under Item (i) or (ii) above and is a firm whose major business partner is the Company or any of its subsidiaries (meaning a firm that has received payments from the Company or any of its subsidiaries, equivalent to 2% or more of consolidated gross sales on average for the past three fiscal years of the firm; hereinafter the same shall apply).

8. In order for a Director of the Company to be recognized as Independent Director, the Director must not fall under any of the following items:
 - (i) a spouse, relative within the second degree of consanguinity or cohabiting relative of a director, executive officer, or manager or other important employee of the Company or any of its subsidiaries;
 - (ii) a spouse, relative within the second degree of consanguinity or cohabiting relative of a person who has once been a director, executive officer, or manager or other important employee of the Company or any of its subsidiaries in the recent five years;
 - (iii) a spouse, relative within the second degree of consanguinity or cohabiting relative of a current principal shareholder of the Company or any of its subsidiaries or its director, auditor, accounting advisor, operating officer, associate officer, or executive officer;
 - (iv) a spouse, relative within the second degree of consanguinity or cohabiting relative of a person who has once been a principal shareholder of the Company or any of its subsidiaries, or its director, auditor, accounting advisor, operating officer, associate officer, or executive officer, in the recent five years;
 - (v) a spouse, relative within the second degree of consanguinity or cohabiting relative of a director, auditor, accounting advisor, operating officer, or executive officer of a corporation for which the Company or any of its subsidiaries is currently a principal shareholder;
 - (vi) a spouse or relative within the second degree of consanguinity or cohabiting relative of a person (an individual) whose major business partner is the Company or any of its subsidiaries, or, a spouse or relative within the second degree of consanguinity or cohabiting relative of an executive director, operating officer or executive officer of a corporation whose major business partner is the Company or any of its subsidiaries;
 - (vii) a spouse or relative within the second degree of consanguinity or cohabiting relative of a person (an individual) whose major business partner has once been the Company or any of its subsidiaries in any fiscal year among the recent three fiscal years, or, a spouse or relative within the second degree of consanguinity or cohabiting relative of an executive director, operating officer or executive officer of a corporation whose major business partner has once been the Company or any of its subsidiaries in any fiscal year among the recent three fiscal years;
 - (viii) a spouse or relative within the second degree of consanguinity or cohabiting relative of a person (an individual) who is a major business partner of the Company or any of its subsidiaries, or, a spouse or relative within the second degree of consanguinity or cohabiting relative of an executive director, operating officer or executive officer of a corporation which is a major business partner of the Company or any of its subsidiaries;
 - (ix) a spouse or relative within the second degree of consanguinity or cohabiting relative of a person (an individual) who has once been a major business partner of the Company or any of its subsidiaries in any fiscal year among the recent three fiscal years, or, a spouse or relative within the second degree of consanguinity or cohabiting relative of an executive director, operating officer or executive officer of a corporation which has once been a major business partner of the Company or any of its subsidiaries in any fiscal year among the recent three fiscal years;
 - (x) a spouse, relative within the second degree of consanguinity or cohabiting relative of an associate officer (limited to a person who executes business) or other person who executes business of the organization (for example, public interest incorporated foundation, public interest incorporated association, non-profit corporation, etc.) which has received donation or grants from the Company or any of its subsidiaries exceeding a certain amount (an amount of ¥10 million on average for the past three years or 30% of the annual total expenses of the said organization, whichever is larger);
 - (xi) a spouse, relative within the second degree of consanguinity or cohabiting relative of a director, auditor, accounting advisor, operating officer, or executive officer of a current Large Creditor, etc. of the Company or any of its subsidiaries;
 - (xii) a spouse, relative within the second degree of consanguinity or cohabiting relative of a person who has once been a director, auditor, accounting advisor, operating officer, or executive officer of a current Large Creditor, etc. of the Company or any of its subsidiaries in the recent three years;
 - (xiii) a person whose spouse, relative within the second degree of consanguinity or cohabiting relative falls under the category of a certified public accountant (or certified tax accountant), or member, partner or employee of auditing firm (or tax accounting firm), that is the accounting auditor or accounting advisor of the Company or any of its subsidiaries;
 - (xiv) a person whose spouse, relative within the second degree of consanguinity or cohabiting relative falls under the category of a certified public accountant (or certified tax accountant), or employee of auditing firm (or tax accounting firm), that is the accounting auditor or accounting advisor of the Company or any of its subsidiaries, and is currently and actually engaged in the audit service for the Company or any of its subsidiaries (excluding, however, supportive involvement);

- (xv) a person whose spouse, relative within the second degree of consanguinity or cohabiting relative falls under the category of a certified public accountant (or certified tax accountant), or member, partner or employee of auditing firm (or tax accounting firm), that is the accounting auditor or accounting advisor of the Company or any of its subsidiaries, and was actually engaged in the audit service for the Company or any of its subsidiaries (excluding, however, supportive involvement) in the recent three years; or
 - (xvi) a person whose spouse or relative within the second degree of consanguinity or cohabiting relative is a lawyer, certified public accountant, certified tax accountant, or other consultant who does not fall under Item (i) or (ii) of above Paragraph 8 and has received money or other property benefit from the Company or any of its subsidiaries in the annual amount of ¥10 million or more on average for the past three fiscal years, aside from executive remuneration, or, a person who falls under the category of member or partner of a law firm, auditing firm, tax accounting firm, or consulting firm or other professional advisory firm which does not fall under Item (i) or (ii) of above Paragraph 8 and whose major business partner is the Company or any of its subsidiaries.
9. In order for a Director of the Company to be recognized as Independent Director, the Director is otherwise required to be, on a permanent basis, a person with no possibility of substantial conflict of interests with the Company's public shareholders as a whole caused by any reason other than those considered in Paragraphs 1 through 8 above.
 10. Even if the person falls under any of the Paragraphs 3 through 8 above, when the Company believes that he or she is appropriate for Independent Director in light of the personality, insight, etc. of the said person, the Company may designate the said person as Independent Director of the Company on the condition that the said person satisfies the requirements for outside directors stipulated in the Companies Act and the Company publicly explains the reasons why it believes that he or she is appropriate for Independent Director of the Company.
 11. When an incumbent Independent Director of the Company to be reappointed as Independent Director, his or her cumulative total term off office needs to be 10 years or less.

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

- 3) Mutual collaboration between supervision and internal audit by Outside Directors, audit by the Audit and Supervisory Committee, and accounting audit, as well as the relationship with internal control departments
The Outside Directors of the Company are Audit and Supervisory Committee Members and carry out their role as auditors, etc. as part of Audit and Supervisory Committee. In addition, the Outside Directors of the Company play a role in supervising the performance of duties by Directors and in major decision-making, etc. in business execution, as members of the Board of Directors. Please refer to “(3) Audit 2) Internal audit” for mutual collaboration between internal audit and accounting audit and the relationship with internal control departments.

(3) Audit

1) Audit by the Audit and Supervisory Committee

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

Chairman of the Audit and Supervisory Committee, Outside Director Takashi Mitachi has long-standing experience in the use of corporate finance and accounting knowledge over the course of his 25-year career such as serving as Japan Co-chair of the Boston Consulting Group, a leading foreign consulting firm, and has ample insight into financial and accounting matters.

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

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

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

2) Internal audit

The Company has established the Internal Audit Department comprising five members directly under the Representative Director, President & CEO as its internal auditing department. The Internal Audit Department, in cooperation with the Audit and Supervisory Committee, conducts internal audits of business divisions and creates internal audit reports in which findings and necessary remedial measures are described. These reports are submitted to the Company's Representative Director, President & CEO, the Audit and Supervisory Committee, and the

business divisions that have been audited. In the event that issues requiring remediation and/or deficiencies are identified, remedial measures are formulated and implemented. The Internal Audit Department monitors the outcomes of the remedial measures.

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

3) Audit of financial statements

I Name of auditing firm

PricewaterhouseCoopers Aarata LLC

II Certified public accountant who performed the service

Designated Limited Liability and Engagement Partner: Hisashi Shirahata

Designated Limited Liability and Engagement Partner: Tsuyoshi Saito

Designated Limited Liability and Engagement Partner: Mamoru Honda

III Assistants to the audit service

Assistants to the accounting audit service for the Company comprised nine Certified Public Accountants and 15 others.

IV Policy on and reason for selecting the auditing firm

When selecting Accounting Auditor, the Audit and Supervisory Committee of the Company make decisions in consideration of audit systems, independence, specialization, etc. of Accounting Auditor. Based on this policy, the Company determined that it is appropriate to reappoint PricewaterhouseCoopers Aarata LLC as Accounting Auditor for the fiscal year under review.

In addition, if Accounting Auditor is determined to be falling under any of the items of Article 340, Paragraph 1 of the Companies Act, the Audit and Supervisory Committee will dismiss Accounting Auditor based on the unanimous consent of its members. Whether to approve reappointment of Accounting Auditor will be examined each fiscal year with the considerations of the suitability, independence, performance of services, etc. of Accounting Auditor in mind. If it is determined that the refusal of reappointment is appropriate as a result of such examination, the Audit and Supervisory Committee will decide on the content of a proposal concerning the refusal of reappointment of Accounting Auditor to be submitted to the General Meeting of Shareholders.

V Evaluation of the auditing firm by the Audit and Supervisory Committee

In order to ensure the appropriateness and reliability of accounting audit, the Audit and Supervisory Committee verifies and evaluates whether Accounting Auditor maintains fair attitude and independence and conducts appropriate audit as a professional.

4) Content of audit fees

The Company has applied the transitional measures of the provisions of I through III of Note (56) d (f) described in Form No. 2 of the “Cabinet Office Order on Disclosure of Corporate Affairs” revised based on the “Cabinet Office Ordinance for Partial Amendments to the Cabinet Office Order on Disclosure of Corporate Affairs” (Cabinet Office Ordinance No. 3 of January 31, 2019).

I Remuneration to the Certified Public Accountants engaged in the financial statements audit

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	116	2	102	—
Consolidated subsidiaries	8	7	8	4
Total	125	8	110	4

II Content of other significant remuneration

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

Hygienic Industries Ltd., etc.

In the consolidated fiscal year under review, a total remuneration of ¥190 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 addition, remuneration for non-audit services was paid in the amount of ¥126 million. The non-audit services mainly comprised advisory services, etc. related to the listing of our subsidiary in Indonesia.

III 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.

IV Policy on determining the audit fee

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

V The Audit and Supervisory Committee's reason for agreeing to the remuneration, etc. for Accounting Auditor

The Audit and Supervisory Committee conducted necessary examination on whether the contents of the audit plan, performance of accounting audit services, the basis for the calculation of remuneration estimates, etc. of Accounting Auditor are appropriate. As a result, the Audit and Supervisory Committee determined that the independence, audit quality, and effectiveness of Accounting Auditor are secured, and agreed to the amount of remuneration, etc. for Accounting Auditor.

(4) Remuneration paid to Executives

1) Policies for the determination of the amount of or calculation method for executive remuneration

a. Basic policies

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

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

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.

In addition, at the 55th Ordinary General Meeting of Shareholders held on March 27, 2015, the proposal that the maximum amount of remuneration, etc. for Directors (excluding Directors who are Audit and Supervisory Committee Members) of the Company (total amount) is to be in the amount of ¥1,000 million per year was approved, and at the 60th Ordinary General Meeting of Shareholders held on March 25, 2020, the proposal that the total maximum amount of restricted share-based remuneration is to be in the amount of ¥250 million per year (however, the amount is included in the aforementioned ¥1,000 million) was approved.

[Basic executive remuneration principles]

1)	Remuneration contributable to the sustainable growth and medium to long-term increase of corporate value
2)	Remuneration plan that is linked closely with performance and motivates the fulfillment of management plans and the achievement of results of the Company
3)	Remuneration level which attracts and retains “talented personnel” who are capable of company management
4)	Highly transparent and objective process for determining remuneration

[Executive remuneration levels]

1)	In order to swiftly cope with the changes in external and market circumstances, the Company benchmarks the remuneration levels of executive members of other domestic and foreign companies in the same and different industries with the size equivalent to the Company and sets remuneration standard based on the Company’s financial condition.
2)	The Company sets the target value for monetary remuneration as top 25% and the target value for monetary remuneration with the addition of share-based payments from a medium- to long-term perspective as top 10%.

[Executive remuneration, etc. and the policy determination processes as well as the activities during the fiscal year under review]

With the objective of ensuring transparency and objectivity of determination processes, the deliberations and determinations shall be made by the Compensation Committee comprising one Representative Director, one non-executive Director, and two Independent Outside Directors, a majority of which is comprising Independent Outside Directors and chaired by an Independent Outside Director.

In the fiscal year under review, “Compensation Committee” meetings were held twice in total, on February 25, 2019 and December 19, 2019, where the introduction of share-based payments and other designs of executive remuneration, remuneration standards, examination of processes of evaluation as well as determination of remuneration, among other things, were deliberated.

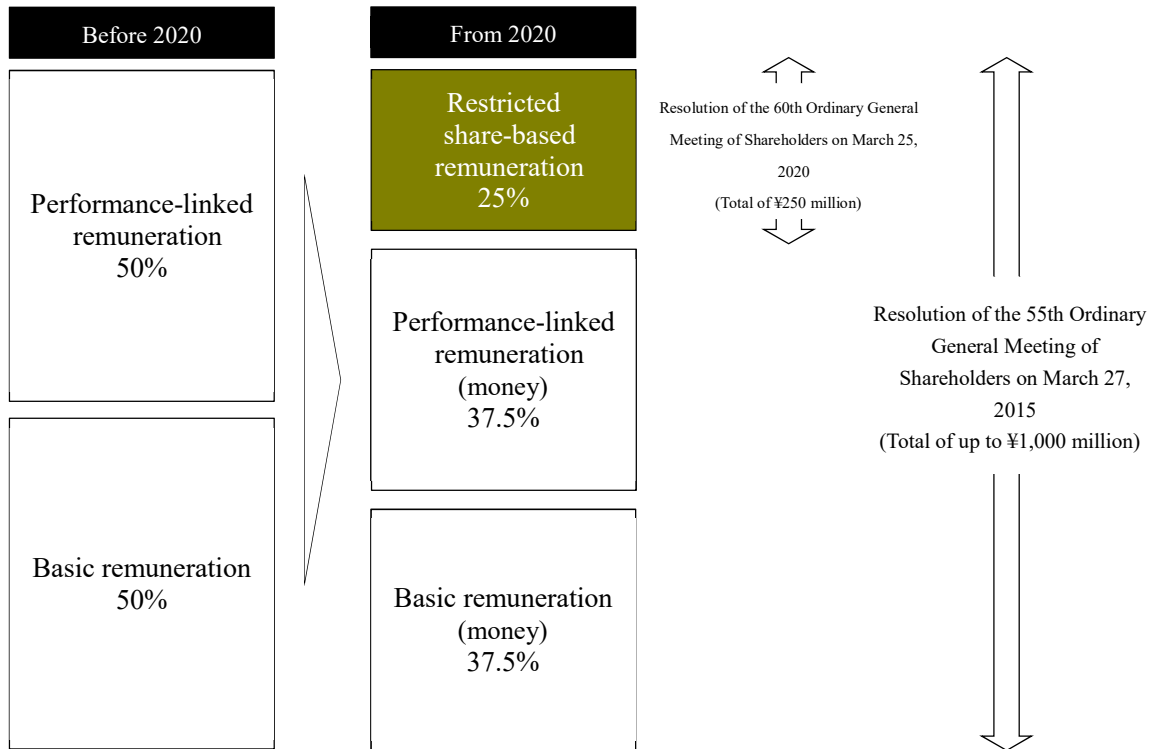
In addition, the amount of remuneration for Directors for the fiscal year under review was deliberated and

b. Composition of and evaluation indicators for executive remuneration

The remuneration for Directors (excluding Directors who are Audit and Supervisory Committee Members) and Executive Officers of the Company comprises basic remuneration (money) and performance-linked remuneration, and the performance-linked remuneration comprises monetary remuneration which is a short-term incentive and restricted share-based remuneration which is a medium- to long-term incentive. In addition, the basic remuneration is determined for each managerial position according to the magnitude of their job responsibilities.

Remuneration for Independent Outside Directors and Directors who are Audit and Supervisory Committee Members who are independent from business execution comprises fixed remuneration only, taking into consideration their supervisory and advisory roles on management of the Company from an objective standpoint.

[Composition of executive remuneration]



- Basic remuneration (money): Basic remuneration is fixed remuneration which is determined for each position in line with responsibilities.
- Performance-linked remuneration (money): As a short-term incentive, performance-linked remuneration are set in the range of 0% to 200% of the basic remuneration amount depending on performance results for one year.
- Restricted share-based remuneration: As an incentive to increase corporate value over the medium to long term, the Company allocates restricted shares equivalent to 33% to 100% of the basic remuneration amount according to the performance results.

[Evaluation indicators and basic approaches to the executive remuneration and targets and results for the fiscal year under review]

Evaluation indicators and the targets and results for the fiscal year under review concerning the performance results, which are used to determine the performance-linked remuneration (money) and restricted share-based remuneration for Directors (excluding Directors who are Audit and Supervisory Committee Members) and Executive Officers of the Company, are as follows.

The evaluation weight is set for each managerial position according to the magnitude of their job responsibilities. For example, the weight for Representative Director is company-level performance of 50% and company-level focal strategies of 50%, and for Senior Executive Officer in charge of front-line divisions, company-level performance and department-level performance of 30% each and company-level focal strategies and department-level focal strategies of 20% each.

No.	Evaluation indicator	Accountability	Evaluation weight	Target	Result	Evaluation
1	Company-level performance (management plan)	1-1 Company-level sales	20-50%	¥730,000 million	¥714,233 million	97.8%
		1-2 Company-level core operating income		¥100,000 million	¥89,779 million	89.8%
		1-3 Profit attributable to owners of parent		¥63,500 million	¥46,116 million	72.6%
2	Department-level performance	2-1 Department-level sales	0-40%	(By department)	(By department)	—
		2-2 Department-level income		(By department)	(By department)	—
3	Company-level focal strategies	3-1 Priority strategies executed by officers themselves	20-50%	(By officer)	(By officer)	—
		3-2 Ratings of ESG agencies, etc.		(Added starting from the fiscal year ending December 31, 2020)	—	—
4	Department-level focal strategies	4 Highest priority strategies of departments	0-40%	(By department)	(By department)	—

* Basic approaches to each evaluation indicator

1. Indicator for evaluating the Company's efforts from a performance perspective
2. Indicator for evaluating the efforts of each officer from a performance perspective
3. Indicator for evaluating the Company's efforts on the priority strategies (including qualitative evaluation)
4. Indicator for evaluating the efforts of each officer on the priority strategies (including qualitative evaluation)

[Details of an agreement on the allotment of restricted shares]

“Restricted share-based remuneration” is a system in which Eligible Directors and Executive Officers shall pay all monetary claims to be provided to them by the Company, in the form of property contributed in kind, and shall, in return, receive common shares of the Company that shall be issued or disposed of by the Company.

The Company and each of Eligible Directors and Executive Officers shall sign an agreement on the allotment of restricted shares.

1	Restricted Period	The Eligible Directors and Executive Officers shall be prohibited from transfers, creation of security interest, or any other disposal (hereinafter, “Transfer Restrictions”) of the allotted shares of the Company (hereinafter, “Allotted Shares”) for three years from the date of the allotment (hereinafter, “Restriction Period”).
2	Treatment on retirement from the position	If an Eligible Director or Executive Officer resigns or retires from the position of Director or Executive Officer of the Company or other positions prescribed by the Board of Directors before the Restriction Period expires, the Company shall automatically acquire such Allotted Shares without contribution unless there are justifiable reasons for the retirement or resignation from office, such as expiration of the term of his or her office or death.
3	Lifting of Transfer Restrictions	The Company shall lift the Transfer Restrictions of all of the Allotted Shares upon the expiration of the Restriction Period, on the condition that the Eligible Directors and Executive Officers have remained in the position of Director or Executive Officer of the Company or other positions prescribed by the Board of Directors during the Restriction Period. However, if an Eligible Director or Executive Officer resigns or retires from the position of Director or Executive Officer of the Company or other positions prescribed by the Board of Directors before the expiration of the Restriction Period due to expiration of the term of his or her office, death, or other justifiable reasons specified in (2) above, the Company shall rationally adjust the number of the Allotted Shares for which the Transfer Restriction is to be lifted and the timing of lifting as necessary. In addition, immediately after the Transfer Restrictions are lifted in accordance with the above provisions, the Company shall automatically acquire the Allotted Shares whose Transfer Restrictions have not been lifted without contribution.
4	Clawback provision	The Eligible Directors and Executive Officers shall return all or part of the Allotted Shares without contribution in the event of material accounting frauds or substantial losses, to take responsibility for such occurrences.
5	Other items	Other matters concerning an agreement on the allotment of restricted shares shall be determined by the Board of Directors of the Company.

2) Total amount of remuneration and remuneration by type and number of recipients, by class of executive

Category	Total remuneration (Millions of Yen)	Total remuneration by remuneration type (Millions of Yen)		Number of Executives (Persons)
		Basic remuneration	Performance- linked remuneration	
Directors (excluding Directors who are Audit and Supervisory Committee Members) (excluding Outside Directors)	392	264	128	7
Directors (Audit and Supervisory Committee Members) (excluding Outside Directors)	36	36	-	2
Outside Director	21	21	-	3

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

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

3) 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	Performance-linked remuneration	
Takahisa Takahara	Representative Director, President & CEO	The Company	125	75	200

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.

(5) Status of shares held

1) Criteria for and basic approaches to the classification of shares for investment

As for classification of shares for investment, the Company classifies shares for investment held solely for the purpose of obtaining profits from the fluctuation of share value or the receipt of dividends as shares for investment for pure investment purposes, and shares for investment for the other purposes as shares for investment for purposes other than pure investment purposes.

2) Shares for investment held for any purposes other than pure investment purposes

I Method of examining the rationality of the holding policy and the holding, and the details of the examination by the Board of Directors, etc. concerning the appropriateness of the holding of individual securities

The Company holds minimum necessary shares of other companies, comprehensively taking into consideration dividends, benefits and risks that can be obtained or arising from the maintenance and strengthening of the trade relations, etc. and capital costs, among other things, from a perspective of whether the holding would contribute to an increase in corporate value of the Company.

In addition, the Board of Directors examines the rationality of the holding of individual securities every year from the perspectives of whether the holding purpose is diluted and whether the benefits and risks resulting from the holding are proportionate to the capital cost. The shares determined to have no rationality in the holding as a result of the examination will be sold appropriately according to the overall judgment on market impact, etc.

II Number of securities and amount recorded in the balance sheet

	Number of securities (Securities)	Total amount recorded in the balance sheet (Millions of Yen)
Unlisted equity securities	14	572
Equity securities other than unlisted equity securities	22	11,418

(Securities for which the number of shares increased during the fiscal year under review)

	Number of securities (Securities)	Total amount of acquisition cost associated with the increase in the number of shares (Millions of Yen)	Reason for the increase in the number of shares
Unlisted equity securities	1	3	Acquisition of shares through the shareholding association of business partners
Equity securities other than unlisted equity securities	5	13	Acquisition of shares through the shareholding association of business partners

(Securities for which the number of shares decreased during the fiscal year under review)

	Number of securities (Securities)	Total amount of sales price associated with the decrease in the number of shares (Millions of Yen)
Unlisted equity securities	1	3
Equity securities other than unlisted equity securities	1	0

III Information concerning the number of specific shares for investment by securities, the amount recorded in the balance sheet, etc.

Specific shares for investment

Shares	Fiscal Year Ended December 31, 2019	Fiscal Year Ended December 31, 2018	Holding purpose, quantitative effect of holding and reason for increase in the number of shares	Cross- holding of the Company's shares
	Number of shares (Shares)	Number of shares (Shares)		
	Amount recorded in the balance sheet (Millions of Yen)	Amount recorded in the balance sheet (Millions of Yen)		
Sumitomo Realty & Development Co., Ltd.	1,219,000	1,219,000	The issuer engages in lease transactions, etc. of real estate facilities and the Company holds the shares for the purpose of facilitating business activities and maintaining and strengthening the trade relations.	Yes
	4,647	4,908		
ARATA CORPORATION	225,545	225,545	The issuer engages in product sales transactions and the Company holds the shares for the purpose of facilitating business activities and maintaining and strengthening the trade relations.	Yes
	1,022	983		
ZUIKO CO., LTD.	245,100	245,100	The issuer engages in equipment purchase transactions and the Company holds the shares for the purpose of facilitating business activities and maintaining and strengthening the trade relations.	Yes
	968	630		
Mitsui Chemicals, Inc.	237,800	237,800	The issuer engages in raw material purchase transactions and the Company holds the shares for the purpose of facilitating business activities and maintaining and strengthening the trade relations.	Yes
	637	591		
THE IYO BANK, Ltd.	1,017,640	1,017,640	The issuer engages in fund transactions such as fund procurement and settlement and the Company holds the shares for the purpose of facilitating business activities and maintaining and strengthening the trade relations.	Yes
	631	590		
Mitsubishi UFJ Financial Group, Inc.	904,050	904,050	The issuer engages in fund transactions such as fund procurement and settlement and the Company holds the shares for the purpose of facilitating business activities and maintaining and strengthening the trade relations.	Yes
	536	486		
AEON CO., LTD.	235,322	230,792	The issuer engages in product sales transactions and the Company holds the shares for the purpose of facilitating business activities and maintaining and strengthening the trade relations. The number of shares increased due to the acquisition of shares through the shareholding association.	No
	531	496		

Shares	Fiscal Year Ended December 31, 2019	Fiscal Year Ended December 31, 2018	Holding purpose, quantitative effect of holding and reason for increase in the number of shares	Cross- holding of the Company's shares
	Number of shares (Shares)	Number of shares (Shares)		
	Amount recorded in the balance sheet (Millions of Yen)	Amount recorded in the balance sheet (Millions of Yen)		
FP Corporation	79,500	79,443	The issuer engages in product sales transactions and the Company holds the shares for the purpose of facilitating business activities and maintaining and strengthening the trade relations. The number of shares increased due to the acquisition of shares through the shareholding association.	No
	516	534		
PLANET, INC.	300,800	300,800	The issuer engages in contracted development of product distribution systems, among other things, and the Company holds the shares for the purpose of facilitating business activities and maintaining and strengthening the trade relations.	No
	469	555		
The Hiroshima Bank, Ltd.	837,550	837,550	The issuer engages in fund transactions such as fund procurement and settlement and the Company holds the shares for the purpose of facilitating business activities and maintaining and strengthening the trade relations.	Yes
	449	488		
TSURUHA HOLDINGS INC.	20,000	20,000	The issuer engages in product sales transactions and the Company holds the shares for the purpose of facilitating business activities and maintaining and strengthening the trade relations.	No
	280	188		
CREATE SD HOLDINGS CO., LTD.	60,000	60,000	The issuer engages in product sales transactions and the Company holds the shares for the purpose of facilitating business activities and maintaining and strengthening the trade relations.	No
	168	158		
Sanyo Chemical Industries, Ltd.	27,720	27,720	The issuer engages in raw material purchase transactions and the Company holds the shares for the purpose of facilitating business activities and maintaining and strengthening the trade relations.	Yes
	150	141		
Valor Holdings Co., Ltd.	59,504	59,504	The issuer engages in product sales transactions and the Company holds the shares for the purpose of facilitating business activities and maintaining and strengthening the trade relations.	No
	127	157		

Shares	Fiscal Year Ended December 31, 2019	Fiscal Year Ended December 31, 2018	Holding purpose, quantitative effect of holding and reason for increase in the number of shares	Cross- holding of the Company's shares
	Number of shares (Shares)	Number of shares (Shares)		
	Amount recorded in the balance sheet (Millions of Yen)	Amount recorded in the balance sheet (Millions of Yen)		
cocokara fine Inc.	10,000	10,000	The issuer engages in product sales transactions and the Company holds the shares for the purpose of facilitating business activities and maintaining and strengthening the trade relations.	No
	63	54		
CB GROUP MANAGEMENT Co., Ltd.	17,528	17,015	The issuer engages in product sales transactions and the Company holds the shares for the purpose of facilitating business activities and maintaining and strengthening the trade relations. The number of shares increased due to the acquisition of shares through the shareholding association.	Yes
	56	50		
CAWACHI LTD.	20,000	20,000	The issuer engages in product sales transactions and the Company holds the shares for the purpose of facilitating business activities and maintaining and strengthening the trade relations.	No
	44	36		
HARIMA-KYOWA CO., LTD.	26,400	26,400	The issuer engages in product sales transactions and the Company holds the shares for the purpose of facilitating business activities and maintaining and strengthening the trade relations.	No
	44	38		
The Hyakujushi Bank, Ltd.	15,225	15,225	The issuer engages in fund transactions such as fund procurement and settlement and the Company holds the shares for the purpose of facilitating business activities and maintaining and strengthening the trade relations.	Yes
	33	40		
ECHO TRADING CO., LTD.	55,000	55,000	The issuer engages in product sales transactions and the Company holds the shares for the purpose of facilitating business activities and maintaining and strengthening the trade relations.	No
	31	32		
MINISTOP Co., Ltd.	5,353	5,069	The issuer engages in product sales transactions and the Company holds the shares for the purpose of facilitating business activities and maintaining and strengthening the trade relations. The number of shares increased due to the acquisition of shares through the shareholding association.	No
	8	10		

Shares	Fiscal Year Ended December 31, 2019	Fiscal Year Ended December 31, 2018	Holding purpose, quantitative effect of holding and reason for increase in the number of shares	Cross- holding of the Company's shares
	Number of shares (Shares)	Number of shares (Shares)		
	Amount recorded in the balance sheet (Millions of Yen)	Amount recorded in the balance sheet (Millions of Yen)		
Encho Co., Ltd.	7,447	6,724	The issuer engages in product sales transactions and the Company holds the shares for the purpose of facilitating business activities and maintaining and strengthening the trade relations. The number of shares increased due to the acquisition of shares through the shareholding association.	No
	8	5		

Note: Information about quantitative effect of holding of securities is omitted, since it is difficult in practice to provide such information. The rationality of the holding was examined at the Board of Directors meeting held in November 2019 based on whether the holding purpose is diluted and whether the benefits and risks resulting from the holding are proportionate to the capital cost.

Shares subject to deemed holding
Not applicable.

3) Shares for investment held for pure investment purposes

Classification	Fiscal year under review		Fiscal Year Ended December 31, 2018	
	Number of securities (Securities)	Total amount recorded in the balance sheet (Millions of Yen)	Number of securities (Securities)	Total amount recorded in the balance sheet (Millions of Yen)
Unlisted equity securities	—	—	—	—
Equity securities other than unlisted equity securities	2	17,627	2	19,549

Classification	Fiscal year under review		
	Total amount of dividend income (Millions of Yen)	Total amount of gain (loss) on sale (Millions of Yen)	Total amount of gain (loss) on valuation (Millions of Yen)
Unlisted equity securities	—	—	—
Equity securities other than unlisted equity securities	266	2,147	2,327

V. Financial Information

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

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

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

2. Auditing and certification

The consolidated and the non-consolidated financial statements for the fiscal year ended December 31, 2019 (January 1, 2019 – December 31, 2019) were audited by PricewaterhouseCoopers Aarata LLC, in accordance with Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act.

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

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

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

1. Consolidated financial statements

(1) Consolidated financial statements

1) Consolidated statement of financial position

(Millions of Yen)

	Notes	Fiscal Year Ended December 31, 2018 (as of December 31, 2018)	Fiscal Year Ended December 31, 2019 (as of December 31, 2019)
Assets			
Current assets			
Cash and cash equivalents	6, 30	135,065	128,787
Trade and other receivables	7, 30	100,159	121,784
Inventories	8	71,939	65,240
Other current financial assets	30	53,520	86,418
Other current assets		23,758	24,891
Total current assets		384,441	427,120
Non-current assets			
Property, plant and equipment	2, 9, 11	240,628	284,105
Intangible assets	10, 11	100,121	94,162
Deferred tax assets	13	9,418	13,141
Investments accounted for using equity method		778	939
Other non-current financial assets	30	49,991	42,342
Other non-current assets	2, 17	10,106	2,193
Total non-current assets		411,042	436,882
Total assets		795,483	864,003

(Millions of Yen)

	Notes	Fiscal Year Ended December 31, 2018 (as of December 31, 2018)	Fiscal Year Ended December 31, 2019 (as of December 31, 2019)
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	16, 30	153,494	150,007
Bonds and borrowings	14, 30	18,834	10,264
Income tax payables		13,579	7,041
Other current financial liabilities	2, 15, 30	633	5,998
Other current liabilities	18	44,959	43,557
Total current liabilities		231,498	216,868
Non-current liabilities			
Bonds and borrowings	14, 30	21,428	27,601
Deferred tax liabilities	13	21,084	20,682
Retirement benefit liabilities	17	11,358	10,173
Other non-current financial liabilities	2, 15, 30	1,212	40,500
Other non-current liabilities		5,233	5,279
Total non-current liabilities		60,316	104,234
Total liabilities		291,813	321,102
Equity			
Equity attributable to owners of parent			
Capital stock	19	15,993	15,993
Share premium	19	13,058	14,960
Retained earnings	19	480,457	513,066
Treasury shares	19	(52,776)	(58,769)
Other components of equity	19	(15,276)	(12,177)
Total equity attributable to owners of parent		441,456	473,073
Non-controlling interests		62,214	69,827
Total equity		503,670	542,900
Total liabilities and equity		795,483	864,003

2) Consolidated statements of income and comprehensive income

Consolidated statement of income

(Millions of Yen)

	Notes	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)	Fiscal Year Ended December 31, 2019 (January 1, 2019 – December 31, 2019)
Net sales	5, 21	688,290	714,233
Cost of sales	23	(423,005)	(447,495)
Gross profit		265,286	266,738
Selling, general and administrative expenses	22, 23	(170,178)	(176,959)
Other income	24	1,783	2,324
Other expenses	12, 24	(4,364)	(22,358)
Financial income	25	3,310	3,385
Financial costs	25	(4,275)	(3,593)
Profit before tax		91,561	69,538
Income tax expenses	13	(24,295)	(16,900)
Profit for the period		67,265	52,638
Profit attributable to			
Owners of parent		61,353	46,116
Non-controlling interests		5,913	6,521
Profit for the period		67,265	52,638
Earnings per share attributable to owners of parent			
Basic earnings per share (Yen)	27	103.73	77.53
Diluted earnings per share (Yen)	27	101.44	77.05

Reconciliation of changes from gross profit to core operating income

(Millions of Yen)

Gross profit	265,286	266,738
Selling, general and administrative expenses	(170,178)	(176,959)
Core operating income (*)	95,107	89,779

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

Consolidated statement of comprehensive income

(Millions of Yen)

	Notes	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)	Fiscal Year Ended December 31, 2019 (January 1, 2019 – December 31, 2019)
Profit for the period		67,265	52,638
Other comprehensive income, net of tax			
Items that will not be reclassified to profit or loss			
Net changes in equity instruments measured at fair value through other comprehensive income	26	120	766
Remeasurements related to net defined benefit liabilities (assets)	26	(2,208)	958
Subtotal		(2,089)	1,724
Items that may be reclassified to profit or loss			
Changes in fair value of cash flow hedges	26	50	(15)
Exchange differences on translation in foreign operations	26	(19,916)	2,737
Subtotal		(19,866)	2,722
Total other comprehensive income, net of tax		(21,955)	4,446
Total comprehensive income		45,311	57,083
Total comprehensive income attributable to			
Owners of parent		43,016	52,458
Non-controlling interests		2,294	4,625
Total comprehensive income		45,311	57,083

3) Consolidated statement of changes in equity

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

(Millions of Yen)

	Notes	Equity attributable to owners of parent						Non-controlling interests	Total equity
		Capital stock	Share premium	Retained earnings	Treasury shares	Other components of equity	Total		
Balance at January 1, 2018		15,993	421	434,298	(67,652)	4,509	387,567	65,461	453,029
Profit for the period	26	–	–	61,353	–	–	61,353	5,913	67,265
Other comprehensive income		–	–	–	–	(18,336)	(18,336)	(3,618)	(21,955)
Total comprehensive income		–	–	61,353	–	(18,336)	43,016	2,294	45,311
Purchase of treasury shares	19	–	–	–	(15,500)	–	(15,500)	–	(15,500)
Conversion of convertible bond-type bonds with share acquisition rights	19	–	10,250	–	30,376	(3,057)	37,569	–	37,569
Dividends	20	–	–	(13,585)	–	–	(13,585)	(8,162)	(21,747)
Change of scope of consolidation		–	–	–	–	–	–	179	179
Equity transactions with non-controlling interests		–	2,388	–	–	–	2,388	2,442	4,830
Transfer from other components of equity to retained earnings	19	–	–	(1,609)	–	1,609	–	–	–
Total transactions with owners		–	12,637	(15,193)	14,876	(1,448)	10,872	(5,542)	5,330
Balance at December 31, 2018		15,993	13,058	480,457	(52,776)	(15,276)	441,456	62,214	503,670

Fiscal Year Ended December 31, 2019 (January 1, 2019 – December 31, 2019)

(Millions of Yen)

	Notes	Equity attributable to owners of parent						Non-controlling interests	Total equity
		Capital stock	Share premium	Retained earnings	Treasury shares	Other components of equity	Total		
Balance at January 1, 2019		15,993	13,058	480,457	(52,776)	(15,276)	441,456	62,214	503,670
Cumulative effects of changes in accounting policies	2	–	–	(530)	–	–	(530)	(23)	(554)
Restated balance at January 1, 2019		15,993	13,058	479,927	(52,776)	(15,276)	440,926	62,190	503,116
Profit for the period	26	–	–	46,116	–	–	46,116	6,521	52,638
Other comprehensive income		–	–	–	–	6,341	6,341	(1,896)	4,446
Total comprehensive income		–	–	46,116	–	6,341	52,458	4,625	57,083
Purchase of treasury shares	19	–	–	–	(15,001)	–	(15,001)	–	(15,001)
Conversion of convertible bond-type bonds with share acquisition rights	19	–	867	–	9,008	(745)	9,130	–	9,130
Dividends	20	–	–	(15,475)	–	–	(15,475)	(2,211)	(17,686)
Equity transactions with non-controlling interests	19	–	1,036	–	–	–	1,036	5,222	6,257
Transfer from other components of equity to retained earnings		–	–	2,497	–	(2,497)	–	–	–
Total transactions with owners		–	1,902	(12,978)	(5,993)	(3,242)	(20,310)	3,011	(17,299)
Balance at December 31, 2019		15,993	14,960	513,066	(58,769)	(12,177)	473,073	69,827	542,900

4) Consolidated statement of cash flows

(Millions of Yen)

	Notes	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)	Fiscal Year Ended December 31, 2019 (January 1, 2019 – December 31, 2019)
Cash flows from operating activities			
Profit before tax		91,561	69,538
Depreciation and amortization expenses		30,353	38,676
Impairment losses		2,182	19,654
Interest and dividend income		(3,309)	(3,380)
Interest expenses		2,280	2,296
Foreign exchange loss (gain)		728	265
Loss (gain) on sale and retirement of fixed assets		598	626
Decrease (increase) in trade and other receivables		(85)	(20,264)
Decrease (increase) in inventories		(9,872)	6,700
Increase (decrease) in trade and other payables		15,994	(6,763)
Increase (decrease) in other current liabilities		4,434	50
Other, net		(3,281)	3,469
Subtotal		131,582	110,866
Interest and dividends received		3,224	3,489
Interest paid		(571)	(1,540)
Proceeds from insurance income		–	2,025
Income taxes refund		1,283	13
Income taxes paid		(24,652)	(29,919)
Net cash provided by (used in) operating activities		110,867	84,936

(Millions of Yen)

	Notes	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)	Fiscal Year Ended December 31, 2019 (January 1, 2019 – December 31, 2019)
Cash flows from investing activities			
Payments into time deposits		(21,697)	(66,717)
Proceeds from withdrawal of time deposits		28,607	34,092
Purchase of property, plant and equipment, and intangible assets		(43,303)	(44,017)
Proceeds from sale of property, plant and equipment, and intangible assets		313	760
Purchase of financial assets measured at amortized cost		(1,004)	–
Purchase of financial assets measured at fair value through profit or loss		(8,500)	–
Purchase of equity instruments measured at fair value through other comprehensive income		(13,931)	(4,015)
Proceeds from sale and redemption of financial assets measured at fair value through profit or loss		1,500	4,000
Proceeds from sale and redemption of equity instruments measured at fair value through other comprehensive income		802	6,850
Purchase of investments in subsidiaries resulting in change in scope of consolidation		(56,606)	–
Proceeds from sale of investments in subsidiaries resulting in change in scope of consolidation		411	–
Other, net		7	(188)
Net cash provided by (used in) investing activities		(113,400)	(69,235)

(Millions of Yen)

	Notes	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)	Fiscal Year Ended December 31, 2019 (January 1, 2019 – December 31, 2019)
Cash flows from financing activities			
Net increase (decrease) in short-term borrowings	14	7,434	(6,869)
Proceeds from long-term borrowings	14	1,223	23,000
Repayments of long-term borrowings	14	(3,530)	(9,503)
Repayments of lease liabilities		(49)	(5,933)
Proceeds from sale of investments in subsidiaries not resulting in change in scope of consolidation		4,746	–
Payments for purchase of treasury shares	19	(15,500)	(15,001)
Dividends paid to owners of parent		(13,592)	(15,482)
Dividends paid to non-controlling interests		(8,455)	(2,179)
Proceeds from share issuance to non-controlling interests		–	8,904
Net cash provided by (used in) financing activities		(27,723)	(23,062)
Effect of exchange rate changes on cash and cash equivalents		(4,582)	1,083
Net increase (decrease) in cash and cash equivalents		(34,837)	(6,278)
Cash and cash equivalents at beginning of period	6	169,903	135,065
Cash and cash equivalents at end of period	6	135,065	128,787

Notes to the consolidated financial statements

1. Reporting entity

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

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

2. Basis of preparation

(1) Conformity with IFRS

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

The Group's consolidated financial statements for the fiscal year under review were approved at the Board of Directors meeting held on March 25, 2020.

(2) Basis of measurement

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

(3) Functional currency and presentation currency

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

(4) Changes in accounting policies

The following are the accounting standards adopted from the fiscal year under review.

Standard number	Standard title	Overview of new and revised standards
IFRS 16	Leases	Revisions of accounting procedures relating to lease transactions

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

In accordance with the transitional provisions of IFRS 16 "Leases" (hereafter "IFRS 16"), the Group has not restated the consolidated financial statements for the previous fiscal year.

Adoption of IFRS 16

The Group has changed its accounting policies relating to leases as follows.

At the lease commencement date, the right-of-use asset is measured at acquisition cost and the lease liability is measured at the present value of the lease payments not paid as of the lease commencement date.

Right-of-use assets are depreciated over the useful life of the right-of-use asset or the period of the lease, whichever is shorter, from the lease commencement date, and are included in property, plant and equipment or intangible assets in the consolidated statement of financial position.

Lease liabilities are measured at amortized cost using the effective interest method and are shown in other financial liabilities in the consolidated statement of financial position. Lease payments are allocated between financial costs and the amount of the lease liability remaining to be repaid, so that there is a fixed interest rate on the balance of the lease liability. Financial costs are shown separately from depreciation of right-of-use assets in the consolidated statement of income.

At the start of the contract, the Group identifies whether a contract meets the definition of a lease or includes a lease, based on the substance of the contract. If the contract transfers the right to control the use of an identified asset for a period of time in exchange for a consideration, the contract is deemed to be a lease or to contain a lease.

In the case of short-term leases and leases of low value underlying assets with lease terms of less than twelve months, the Group does not recognize right-of-use assets and lease liabilities. The Group recognizes the total lease payments in profit or loss using the straight-line method over the lease term.

With the adoption of IFRS 16, the former distinction between traditional operating leases and finance leases no longer applies, and in principle all right-of-use assets and lease liabilities are recognized. The lease liability is measured as the present value of the lease payments not paid at the date of initial adoption, which is discounted using the Group's incremental borrowing rate as of January 1, 2019. The weighted average of the lessee's incremental borrowing rates is 1.1%.

The main impact on the consolidated statement of financial position is as follows. The impact on the consolidated statement of income is insignificant.

(Millions of Yen)

IAS 17 (as of December 31, 2018)		Changes in recognition, presentation and classification	IFRS 16 (as of January 1, 2019)	
Property, plant and equipment	240,628	47,865	288,493	Property, plant and equipment
Intangible assets	100,121	2	100,123	Intangible assets
Deferred tax assets	9,418	65	9,484	Deferred tax assets
Other non-current assets	10,106	(7,125)	2,981	Other non-current assets
Total assets	795,483	40,808	836,291	Total assets
Other current financial liabilities	633	4,749	5,382	Other current financial liabilities
Other current liabilities	44,959	(64)	44,895	Other current liabilities
Deferred tax liabilities	21,084	(189)	20,895	Deferred tax liabilities
Other non-current financial liabilities	1,212	37,001	38,214	Other non-current financial liabilities
Other non-current liabilities	5,233	(136)	5,097	Other non-current liabilities
Retained earnings	480,457	(530)	479,927	Retained earnings
Non-controlling interests	62,214	(23)	62,190	Non-controlling interests
Total liabilities and equity	795,483	40,808	836,291	Total liabilities and equity

The difference between the total amount of future minimum lease payments based on the non-cancelable operating

leases disclosed with the adoption of IAS 17 as of the last day of the fiscal year immediately preceding the date of initial adoption (January 1, 2019) and the lease liabilities recognized in the consolidated statement of financial position as of the date of initial adoption is as follows.

(Millions of Yen)	
Total amount of future minimum lease payments based on the non-cancelable operating leases disclosed as of December 31, 2018	5,130
Total amount of future minimum lease payments based on the non-cancelable operating leases disclosed as of December 31, 2018 (discounted)	4,962
Finance lease obligations (as of December 31, 2018)	160
Adjustments, etc. arising from different treatments for extension options and cancellation options	36,789
Lease liabilities recognized in the consolidated statement of financial position as of the date of initial adoption (January 1, 2019)	41,911

(5) Early adoption of new accounting standards

There are no accounting standards, etc. early adopted.

(6) Accounting standards and interpretations not yet adopted

There are no accounting standards and interpretations having a material impact, among those that have been published by the date of approval for the consolidated financial statements and that have not been adopted by the Group as of December 31, 2019.

3. Significant accounting policies

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

(1) Basis of consolidation

1) Subsidiaries

Subsidiaries are entities over which the Group has control.

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

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

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

2) Associates

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

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

(2) Business combinations

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

of non-controlling interests in the acquiree is recognized either at fair value or based on the proportionate share of the non-controlling interests in the identifiable net asset amounts for each business combination transaction.

(3) Foreign currency translation

1) Transactions denominated in foreign currencies

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

2) Foreign operations

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

(4) Financial instruments

1) Non-derivative financial assets

(a) Initial recognition and measurement

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

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

(i) Financial assets measured at amortized cost

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

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

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

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

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

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

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

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

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

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

(b) Derecognition of financial assets

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

(c) Impairment of financial assets

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

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

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

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

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

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

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

2) Non-derivative financial liabilities

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

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

3) Offsetting financial assets and financial liabilities

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

4) Derivatives and hedge accounting

(a) Derivatives

The Group utilizes primarily foreign exchange forward contracts, non-deliverable forwards and currency swaps for hedging foreign exchange fluctuation risk. Derivatives are initially recognized at fair value on the date when

the derivative contracts are entered into and are subsequently measured at fair value at the end of each fiscal period. Changes in the fair value of a derivative are recognized in profit or loss immediately unless the derivative is designated as a hedging instrument or the hedging is effective.

(b) Hedge accounting

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

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

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

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

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

5) Compound financial instruments

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

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

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

(5) Cash and cash equivalents

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

(6) Inventories

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

(7) Property, plant and equipment

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

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

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

Buildings and structures	2 – 50 years
Machinery, equipment and vehicles	2 – 20 years

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

(8) Goodwill and intangible assets

1) Goodwill

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

2) Intangible assets

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

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

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

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

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

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

(9) Leases

At the lease commencement date, the right-of-use asset is measured at acquisition cost and the lease liability is measured at the present value of the lease payments not paid as of the lease commencement date.

Right-of-use assets are depreciated over the useful life of the right-of-use asset or the period of the lease, whichever is shorter, from the lease commencement date, and are included in property, plant and equipment or intangible assets in the consolidated statement of financial position.

Lease liabilities are measured at amortized cost using the effective interest method and are shown in other financial liabilities in the consolidated statement of financial position. Lease payments are allocated between financial costs and the amount of the lease liability remaining to be repaid, so that there is a fixed interest rate on the balance of the lease liability. Financial costs are shown separately from depreciation of right-of-use assets in the consolidated statement of income.

At the start of the contract, the Group identifies whether a contract meets the definition of a lease or includes a lease, based on the substance of the contract. If the contract transfers the right to control the use of an identified asset for a period of time in exchange for a consideration, the contract is deemed to be a lease or to contain a lease.

In the case of short-term leases and leases of low value underlying assets with lease terms of less than twelve months, the Group does not recognize right-of-use assets and lease liabilities. The Group recognizes the total lease payments in profit or loss using the straight-line method over the lease term.

(10) Impairment of non-financial assets

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

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

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

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

(11) Employee benefits

1) Short-term employee benefits

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

2) Retirement benefits

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

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

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

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

(12) Share-based payments

The Group operates an equity-settled share-based compensation scheme. Under this scheme, the Group receives services from its directors and employees in return for the Group's equity instruments (options). Options are estimated

at fair value as of the grant date, and are recognized as expenses over the vesting period. The fair value of stock options is calculated using the Black-Scholes model.

(13) Equity

Common shares are classified as equity.

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

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

(14) Revenue recognition

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

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

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

(15) Income taxes

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

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

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

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

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

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

(16) Earnings per share

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

4. Significant accounting estimates and judgments

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

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

(1) Impairment of non-financial assets

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

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

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

(2) Income taxes

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

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

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

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

(3) Retirement benefits

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

5. Segment information

(1) Overview of reportable segments

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

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

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

In the personal care business, the Group manufactures and sells baby care products, feminine care products, health care products, and clean and fresh products. In the pet care business, the Group manufactures and sells pet food products and pet toiletry products. In other businesses, the Group manufactures and sells industrial materials related products, etc.

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

(2) Sales and results by reportable segment

Sales and results by reportable segment are as follows.

(Millions of Yen)

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

(Millions of Yen)

	Fiscal Year Ended December 31, 2019 (January 1, 2019 – December 31, 2019)					
	Reportable segments				Adjustments	Amounts reported in consolidated financial statements
	Personal care	Pet care	Other	Total		
Sales to external customers	620,742	86,977	6,514	714,233	–	714,233
Sales across segments (Note)	–	–	38	38	(38)	–
Total segment sales	620,742	86,977	6,551	714,271	(38)	714,233
Segment profit (Core operating income)	78,893	10,667	219	89,779	–	89,779
Other income						2,324
Other expenses						(22,358)
Financial income						3,385
Financial costs						(3,593)
Profit before tax						69,538
Others						
Depreciation and amortization expenses	35,489	3,035	151	38,676	–	38,676
Impairment losses	19,654	–	–	19,654	–	19,654
Increase in property, plant and equipment and intangible assets	54,089	1,488	445	56,022	–	56,022

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

(3) Information on products and services

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

(4) Geographical information

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

(Millions of Yen)

	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)	Fiscal Year Ended December 31, 2019 (January 1, 2019 – December 31, 2019)
Japan	279,589	273,773
China	87,145	89,025
Asia	215,721	240,910
Other	105,835	110,526
Total	688,290	714,233

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

(Millions of Yen)

	Fiscal Year Ended December 31, 2018 (as of December 31, 2018)	Fiscal Year Ended December 31, 2019 (as of December 31, 2019)
Japan	80,291	127,039
China	45,644	36,051
Asia	166,571	160,156
Other	58,349	57,182
Total	350,854	380,428

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

(5) Information about major customers

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

6. Cash and cash equivalents

The details of cash and cash equivalents are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2018 (as of December 31, 2018)	Fiscal Year Ended December 31, 2019 (as of December 31, 2019)
Cash and deposits	184,419	211,147
Time deposits with maturities over three months	(49,354)	(82,359)
Total	135,065	128,787

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

7. Trade and other receivables

The details of trade and other receivables are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2018 (as of December 31, 2018)	Fiscal Year Ended December 31, 2019 (as of December 31, 2019)
Notes and accounts receivable - trade	100,048	120,474
Accounts receivable - other	1,660	3,230
Allowance for doubtful accounts	(1,548)	(1,920)
Total	100,159	121,784

8. Inventories

The details of inventories are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2018 (as of December 31, 2018)	Fiscal Year Ended December 31, 2019 (as of December 31, 2019)
Merchandise and finished goods	39,512	37,884
Raw materials and supplies	31,624	26,506
Work in process	803	850
Total	71,939	65,240

The write-down of inventories recognized as an expense totaled ¥576 million and ¥450 million for the previous fiscal year and the fiscal year under review, respectively, which is included in cost of sales.

9. Property, plant and equipment

(1) Details of property, plant and equipment

The details of “property, plant and equipment” in the consolidated statement of financial position are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2018 (as of December 31, 2018)	Fiscal Year Ended December 31, 2019 (as of December 31, 2019)
Property, plant and equipment	240,628	236,240
Right-of-use assets	—	47,865
Total	240,628	284,105

Please refer to Note “11. Right-of-use assets” for the statement of right-of-use assets.

(2) Statement of property, plant and equipment

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

(Millions of Yen)

Cost	Buildings and structures	Machinery, equipment and vehicles	Land	Construction in progress	Other	Total
Balance at January 1, 2018	127,599	301,611	13,931	10,944	20,860	474,946
Purchase	1,024	1,654	—	39,100	1,459	43,237
Acquisition through business combinations	2,652	12,232	—	896	299	16,079
Reclassification, etc.	4,862	23,624	—	(27,951)	773	1,308
Disposal	(351)	(8,849)	(17)	(57)	(1,372)	(10,646)
Effect of exchange rate changes	(4,779)	(11,920)	(286)	(530)	(941)	(18,457)
Balance at December 31, 2018	131,008	318,352	13,628	22,402	21,078	506,467
Effect of adoption of IFRS 16	—	—	1,198	—	(428)	770
Balance at January 1, 2019	131,008	318,352	14,826	22,402	20,650	507,238
Purchase	615	1,793	12	38,076	1,537	42,034
Reclassification, etc.	15,147	27,949	107	(48,940)	1,179	(4,558)
Disposal	(934)	(9,482)	(83)	(42)	(656)	(11,196)
Effect of exchange rate changes	318	80	75	(748)	(356)	(631)
Balance at December 31, 2019	146,155	338,692	14,937	10,748	22,354	532,886

Following the adoption of IFRS 16 starting from January 1, 2019, the Group has transferred the amount of leases recorded, which was included in the cost of property, plant and equipment, to be included in the cost of the right-of-use assets.

(Millions of Yen)

Accumulated depreciation and accumulated impairment losses	Buildings and structures	Machinery, equipment and vehicles	Land	Construction in progress	Other	Total
Balance at January 1, 2018	52,352	177,802	15	311	15,945	246,424
Depreciation	4,833	20,060	—	—	1,842	26,734
Impairment losses	300	1,720	—	—	161	2,182
Acquisition through business combinations	496	6,100	—	800	168	7,564
Reclassification, etc.	(18)	(123)	—	(289)	(36)	(465)
Disposal	(293)	(8,322)	—	—	(1,354)	(9,968)
Effect of exchange rate changes	(1,040)	(4,818)	—	(149)	(625)	(6,632)
Balance at December 31, 2018	56,630	192,421	15	673	16,101	265,839
Effect of adoption of IFRS 16	—	—	—	—	(285)	(285)
Balance at January 1, 2019	56,630	192,421	15	673	15,815	265,554
Depreciation	5,491	21,844	—	—	1,703	29,037
Impairment losses	32	11,840	—	—	414	12,285
Reclassification, etc.	(304)	(323)	—	—	95	(532)
Disposal	(632)	(8,729)	—	—	(644)	(10,004)
Effect of exchange rate changes	65	341	—	155	(256)	306
Balance at December 31, 2019	61,282	217,393	15	829	17,127	296,646

Following the adoption of IFRS 16 starting from January 1, 2019, the Group has transferred the amount of leases recorded, which was included in accumulated depreciation and accumulated impairment losses under property, plant and equipment, to be included in accumulated depreciation and accumulated impairment losses under right-of-use assets.

(Millions of Yen)

Carrying amount	Buildings and structures	Machinery, equipment and vehicles	Land	Construction in progress	Other	Total
Balance at January 1, 2018	75,248	123,809	13,916	10,633	4,915	228,521
Balance at December 31, 2018	74,378	125,931	13,613	21,728	4,977	240,628
Balance at December 31, 2019	84,873	121,299	14,922	9,919	5,227	236,240

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

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

10. Intangible assets

(1) Details of intangible assets

The details of “intangible assets” in the consolidated statement of financial position are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2018 (as of December 31, 2018)	Fiscal Year Ended December 31, 2019 (as of December 31, 2019)
Intangible assets	100,121	94,156
Right-of-use assets	—	6
Total	100,121	94,162

Please refer to Note “11. Right-of-use assets” for the statement of right-of-use assets.

(2) Statement of intangible assets

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

(Millions of Yen)

Cost	Goodwill	Trademarks	Customer-related assets	Other	Total
Balance at January 1, 2018	23,131	28,364	10,612	13,068	75,175
Purchase	—	—	—	1,176	1,176
Acquisition through business combinations	25,776	9,124	22,747	1,240	58,886
Reclassification, etc.	—	—	—	(223)	(223)
Disposal	—	—	—	(171)	(171)
Effect of exchange rate changes	(970)	(890)	(773)	(226)	(2,859)
Balance at December 31, 2018	47,937	36,598	32,586	14,864	131,984
Effect of adoption of IFRS 16	—	—	—	(13)	(13)
Balance at January 1, 2019	47,937	36,598	32,586	14,851	131,971
Purchase	—	—	—	2,628	2,628
Reclassification, etc.	—	—	—	587	587
Disposal	—	—	—	(114)	(114)
Effect of exchange rate changes	1,117	(601)	1,295	(43)	1,768
Balance at December 31, 2019	49,054	35,997	33,881	17,908	136,840

Following the adoption of IFRS 16 starting from January 1, 2019, the Group has transferred the amount of leases recorded, which was included in the cost of intangible assets, to be included in the cost of the right-of-use assets.

(Millions of Yen)

Accumulated amortization and accumulated impairment losses	Goodwill	Trademarks	Customer-related assets	Other	Total
Balance at January 1, 2018	—	14,734	4,359	9,519	28,612
Amortization	—	1,533	945	1,142	3,619
Acquisition through business combinations	—	—	—	368	368
Reclassification, etc.	—	—	—	(62)	(62)
Disposal	—	—	—	(165)	(165)
Effect of exchange rate changes	—	(267)	(76)	(166)	(509)
Balance at December 31, 2018	—	15,999	5,228	10,636	31,863
Effect of adoption of IFRS 16	—	—	—	(3)	(3)
Balance at January 1, 2019	—	15,999	5,228	10,633	31,860
Amortization	—	1,862	1,604	1,179	4,646
Impairment losses	1,498	329	4,712	—	6,538
Reclassification, etc.	—	—	—	(9)	(9)
Disposal	—	—	—	(113)	(113)
Effect of exchange rate changes	—	(116)	(48)	(73)	(238)
Balance at December 31, 2019	1,498	18,074	11,497	11,616	42,684

Following the adoption of IFRS 16 starting from January 1, 2019, the Group has transferred the amount of leases recorded, which was included in accumulated amortization and accumulated impairment losses under intangible assets, to be included in accumulated depreciation and accumulated impairment losses under right-of-use assets.

(Millions of Yen)

Carrying amount	Goodwill	Trademarks	Customer-related assets	Other	Total
Balance at January 1, 2018	23,131	13,631	6,253	3,548	46,563
Balance at December 31, 2018	47,937	20,598	27,358	4,228	100,121
Balance at December 31, 2019	47,556	17,923	22,384	6,292	94,156

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

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

Some of the trademarks are deemed to have indefinite useful lives since they will basically remain as long as the business is continued. The carrying amounts of trademarks with indefinite useful lives were ¥1,339 million and ¥1,310 million as of the end of the previous fiscal year and the end of the fiscal year under review, respectively.

11. Right-of-use assets

Cost and changes in accumulated depreciation and accumulated impairment losses of right-of-use assets are as follows.

(Millions of Yen)

Cost	Buildings and structures	Machinery, equipment and vehicles	Land	Other	Total
Balance at December 31, 2018	—	—	—	—	—
Effect of adoption of IFRS 16	36,830	1,925	9,074	200	48,029
Balance at January 1, 2019	36,830	1,925	9,074	200	48,029
Purchase	7,913	213	4	132	8,261
Other	(1,957)	(69)	(69)	(47)	(2,141)
Balance at December 31, 2019	42,786	2,069	9,008	286	54,149

Following the adoption of IFRS 16 starting from January 1, 2019, the Group recognizes the right-of-use assets concerning all leases, in principle, and has transferred the amount of leases recorded, which was included in the cost of property, plant and equipment or intangible assets, to be included in the cost of the right-of-use assets.

(Millions of Yen)

Accumulated depreciation and accumulated impairment losses	Buildings and structures	Machinery, equipment and vehicles	Land	Other	Total
Balance at December 31, 2018	—	—	—	—	—
Effect of adoption of IFRS 16	261	231	660	56	1,208
Balance at January 1, 2019	261	231	660	56	1,208
Depreciation	4,155	552	189	96	4,993
Other	169	(67)	(1)	(23)	77
Balance at December 31, 2019	4,585	716	848	129	6,278

Following the adoption of IFRS 16 starting from January 1, 2019, the Group recognizes the right-of-use assets concerning all leases, in principle, and has transferred the amount of leases recorded, which was included in accumulated depreciation and accumulated impairment losses under property, plant and equipment or intangible assets, to be included in accumulated depreciation and accumulated impairment losses under right-of-use assets.

(Millions of Yen)

Carrying amount	Buildings and structures	Machinery, equipment and vehicles	Land	Other	Total
Balance at January 1, 2019	36,569	1,694	8,413	145	46,821
Balance at December 31, 2019	38,201	1,353	8,160	157	47,871

12. Impairment of non-financial assets

The details of assets by type for which impairment losses are recognized are as follows.

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

(Millions of Yen)

	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)	Fiscal Year Ended December 31, 2019 (January 1, 2019 – December 31, 2019)
Buildings and structures	300	32
Machinery, equipment and vehicles	1,720	11,840
Right-of-use assets	–	831
Other	161	414
Total property, plant and equipment	2,182	13,116
Goodwill	–	1,498
Trademarks	–	329
Customer-related assets	–	4,712
Total intangible assets	–	6,538
Total impairment losses	2,182	19,654

(1) Cash-generating unit

The Group categorizes cash-generating units into the smallest units that have individually identifiable cash flows, while idle assets are grouped by individual asset.

(2) Impairment loss

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

In the fiscal year under review, the carrying amount of assets which are not expected to be used in the future mainly due to changes in the business structure in China was reduced to their recoverable amount, and the reduction of ¥2,182 million was recorded as impairment losses in “Other expenses.”

Fiscal Year Ended December 31, 2019 (January 1, 2019 – December 31, 2019)

The main impairment losses recorded in the fiscal year under review are as follows.

The carrying amounts of “machinery, equipment and vehicles” and “other” were reduced to the recoverable amount to reflect the impact of declining profitability as a result of the change in the business situation in China. A reduction of ¥11,987 million was recorded as an impairment loss in “other expenses.”

In addition, as the profit projected at the time of the acquisition is now not expected at MYCARE Unicharm Co., Ltd., a subsidiary of the Company based in Myanmar, the carrying amount of property, plant and equipment such as “machinery, equipment and vehicles,” “goodwill” and “trademarks” related to the business in Myanmar was reduced to their recoverable amount, and a reduction of ¥2,029 million was recorded as an impairment loss in “other expenses.”

Furthermore, as the business prospect of a subsidiary based in Indonesia, one of the group companies of DSG (Cayman) Ltd., a subsidiary of the Company, has deviated significantly from the future growth plan projected at the time of the acquisition because of business restructuring in Indonesia, the carrying amount of “right-of-use assets” and “customer-related assets” that are recognized at the subsidiary based in Indonesia was reduced to their recoverable amount, and a reduction of ¥5,543 million was recorded as an impairment loss in “other expenses.”

The recoverable amounts of these groups of assets are measured by their value in use. Value in use is obtained by discounting the future cash flows based on the business plan approved by the Board of Directors to the present value using the discount rate calculated based on the pre-tax weighted average cost of capital (4.4%-10.2%).

(3) Impairment assessments on goodwill and intangible assets with indefinite useful lives

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

(Millions of Yen)

	Fiscal Year Ended December 31, 2018 (as of December 31, 2018)		Fiscal Year Ended December 31, 2019 (as of December 31, 2019)	
	Goodwill	Intangible assets with indefinite useful lives	Goodwill	Intangible assets with indefinite useful lives
Thailand	20,163	—	21,464	—
Vietnam	13,121	—	12,951	—
Australia	6,366	1,339	6,366	1,310
Malaysia	4,944	—	4,929	—
Other	3,343	—	1,846	—
Total	47,937	1,339	47,556	1,310

Recoverable amounts used for impairment assessments on goodwill and intangible assets with indefinite useful lives are calculated based on value in use. Value in use is calculated by discounting estimated future cash flows for five years, which are based on the business plans approved by the management, to their present value at a discount rate calculated based on weighted-average capital cost (previous fiscal year: 5.2%-13.0%, fiscal year under review: 4.4%-10.4%). Business plans are created based on the evaluation of future projections of the business by the management and the past results, upon aligning external information and internal information.

Cash flows for a period exceeding the period of business plans are estimated by taking into account average growth rates forecast in each market (0.0%-5.0%), and other factors.

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

Please refer to Note “12. Impairment of non-financial assets (2) Impairment loss” for the details of goodwill and intangible assets with indefinite useful lives recognized in the fiscal year under review. If future cash flows which are the major assumptions used for impairment assessments decrease or if the discount rates increase, additional impairment losses may arise.

13. Income taxes

(1) Deferred tax assets and deferred tax liabilities

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

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

(Millions of Yen)

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

Fiscal Year Ended December 31, 2019 (January 1, 2019 – December 31, 2019)

(Millions of Yen)

	January 1, 2019	Cumulative amount of impact from application of new accounting standards	Recognized as profit or loss	Recognized as other comprehensive income	Other	December 31, 2019
Deferred tax assets						
Accrued bonuses	1,405	–	(23)	–	–	1,382
Accrued sales promotion expenses	5,567	–	(21)	–	–	5,546
Retirement benefit liabilities	2,744	–	(29)	(486)	–	2,228
Tax loss carryforwards	4,470	–	(821)	–	–	3,649
Other	10,415	65	(430)	–	–	10,051
Total deferred tax assets	24,601	65	(1,325)	(486)	–	22,855
Deferred tax liabilities						
Depreciation and amortization expenses	(5,829)	–	4,330	–	–	(1,500)
Net defined benefit asset	(0)	–	(13)	2	–	(11)
Equity instruments measured at fair value through other comprehensive income	(3,573)	–	658	(338)	–	(3,253)
Undistributed earnings	(18,691)	–	(868)	–	–	(19,559)
Convertible bond-type bonds with share acquisition rights	(143)	–	130	–	–	(14)
Intangible assets	(6,998)	–	1,827	–	–	(5,171)
Other	(1,032)	189	(54)	7	–	(889)
Total deferred tax liabilities	(36,267)	189	6,009	(328)	–	(30,396)
Net deferred tax assets (liabilities)	(11,666)	255	4,685	(815)	–	(7,541)

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

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

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

(Millions of Yen)

	Fiscal Year Ended December 31, 2018 (as of December 31, 2018)	Fiscal Year Ended December 31, 2019 (as of December 31, 2019)
Deductible temporary differences	5,761	7,757
Tax loss carryforwards	21,161	19,385
Total	26,923	27,142

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

(Millions of Yen)

	Fiscal Year Ended December 31, 2018 (as of December 31, 2018)	Fiscal Year Ended December 31, 2019 (as of December 31, 2019)
In one year or less	74	459
After one year through five years	4,550	5,905
After five years	16,538	13,021
Total	21,161	19,385

Total temporary differences associated with investments in subsidiaries which are not recognized as deferred tax liabilities were ¥29 million and ¥8,122 million at the end of the previous fiscal year and the end of the fiscal year under review, respectively.

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

(2) Income tax expenses

The details of income tax expenses are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)	Fiscal Year Ended December 31, 2019 (January 1, 2019 – December 31, 2019)
Current tax expenses	25,758	20,961
Deferred tax expenses	(1,462)	(4,060)
Total income tax expenses	24,295	16,900

Current tax expenses include benefits arising from previously unrecognized tax losses, tax credits, and temporary differences for prior periods. A decrease in current tax expenses due to the above factor was ¥2,239 million and ¥21 million for the previous fiscal year and the fiscal year under review, respectively.

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

	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)	Fiscal Year Ended December 31, 2019 (January 1, 2019 – December 31, 2019)
Effective statutory tax rate	30.9%	30.6%
Changes in unrecognized deferred tax assets	0.7%	1.4%
Dividend income, etc.	0.5%	0.3%
Lower income tax rates applicable to income in certain foreign countries	(3.2)%	(5.3)%
Effect of tax reforms	0.3%	0.0%
Tax credits	(3.6)%	(2.1)%
Tax effects on undistributed earnings	0.2%	2.4%
Loss on share transfer of subsidiaries following capital reduction	—	(3.6)%
Other	0.8%	0.5%
Actual effective tax rate	26.5%	24.3%

14. Bonds and borrowings

The details of bonds and borrowings are as follows.

(Millions of Yen)

	Short-term borrowings	Current portion of long-term borrowings	Current portion of bonds	Subtotal of current items	Bonds	Long-term borrowings	Subtotal of non-current items	Total
Balance at January 1, 2018	2,923	3,265	—	6,189	49,348	8,652	58,000	64,189
New borrowings	14,801	—	—	14,801	—	1,223	1,223	16,024
Transfer	—	4,407	—	4,407	—	(4,407)	(4,407)	—
Repayment or redemption	(7,368)	(3,492)	—	(10,859)	—	(38)	(38)	(10,898)
Conversion of convertible bond-type bonds with share acquisition rights	—	—	—	—	(37,005)	—	(37,005)	(37,005)
Increase due to business combinations	3,521	1,303	—	4,823	—	4,031	4,031	8,854
Effect of exchange rate changes	(475)	(52)	—	(527)	—	(539)	(539)	(1,066)
Other	—	—	—	—	164	—	164	164
Balance at December 31, 2018	13,402	5,432	—	18,834	12,507	8,921	21,428	40,262
New borrowings	4,553	—	—	4,553	—	23,000	23,000	27,553
Transfer	—	863	8,644	9,507	(8,644)	(863)	(9,507)	—
Repayment or redemption	(11,422)	(6,051)	—	(17,473)	—	(3,452)	(3,452)	(20,925)
Conversion of convertible bond-type bonds with share acquisition rights	—	—	(5,339)	(5,339)	(3,726)	—	(3,726)	(9,066)
Effect of exchange rate changes	(28)	27	—	(1)	—	(5)	(5)	(6)
Other	—	—	184	184	(137)	—	(137)	47
Balance at December 31, 2019	6,506	270	3,489	10,264	—	27,601	27,601	37,866
Average interest rate (Note 1)	6.59%	6.70%	(Note 3)	—	(Note 3)	0.46%	—	—
Maturity (Note 2)	—	—	(Note 3)	—	(Note 3)	2021 – 2025	—	—

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

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

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

(Millions of Yen)

Company	Series	Date of issuance	Fiscal Year Ended December 31, 2018 (as of December 31, 2018)	Fiscal Year Ended December 31, 2019 (as of December 31, 2019)	Interest rate	Maturity
Unicharm Corporation	Zero Coupon Convertible Bonds due 2020	September 25, 2015	12,507	3,489	—	September 25, 2020

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

15. Lease obligations and lease liabilities

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

The Group has rented multiple offices and vehicles, etc. as cancelable or non-cancelable operating leases. Lease payments recognized as expenses in the previous fiscal year were ¥4,916 million.

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

(Millions of Yen)

	Fiscal Year Ended December 31, 2018 (as of December 31, 2018)
In one year or less	906
After one year through five years	3,074
After five years	1,149
Total	5,130

Fiscal Year Ended December 31, 2019 (as of December 31, 2019)

The Group has rented multiple offices and vehicles, etc.

Lease payments not paid as of the end of the fiscal year under review are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2019 (as of December 31, 2019)
In one year or less	5,782
After one year through five years	18,609
After five years	24,067
Total	48,459
Interest expenses associated with lease liabilities	3,765
Present value of lease liabilities	44,693
Average interest rate (Note)	1.06%

Note: The average interest rate represents the weighted-average interest rate applicable to the balance at the end of the fiscal year.

The details of gains and losses concerning leases are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2019 (as of December 31, 2019)
Short-term lease payments	230
Small lease payments	338

Depreciation of right-of-use assets and the increase in right-of-use assets, as well as the carrying amount of right-of-use assets are presented in Note “11. Right-of-use assets,” interest expenses associated with lease liabilities are presented in Note “25. Financial income and financial costs,” and the total amount of cash outflows concerning leases are presented in the consolidated statement of cash flows.

16. Trade and other payables

The details of trade and other payables are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2018 (as of December 31, 2018)	Fiscal Year Ended December 31, 2019 (as of December 31, 2019)
Notes and accounts payable - trade	111,629	106,225
Accounts payable - other	41,865	43,783
Total	153,494	150,007

17. Employee benefits

(1) Overview of retirement benefit plans

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

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

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

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

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

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

(2) Defined benefit plans

1) Amounts recognized in the consolidated statement of financial position

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

(Millions of Yen)

	Fiscal Year Ended December 31, 2018 (as of December 31, 2018)	Fiscal Year Ended December 31, 2019 (as of December 31, 2019)
Present value of funded defined benefit obligations	51,259	55,145
Fair value of plan assets	(47,263)	(51,869)
Subtotal	3,996	3,275
Effect of asset ceiling (Note 1)	3,084	1,522
Present value of unfunded defined benefit obligations	4,276	5,343
Net retirement benefit liabilities (defined benefit asset)	11,357	10,140
Amounts in the consolidated statement of financial position		
Retirement benefit liabilities	11,358	10,173
Net defined benefit asset (Note 2)	(1)	(33)

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

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

2) Reconciliation of the present value of defined benefit obligations

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

(Millions of Yen)

	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)	Fiscal Year Ended December 31, 2019 (January 1, 2019 – December 31, 2019)
Present value of defined benefit obligations at beginning of period	53,458	55,536
Current service cost	2,994	3,075
Interest expenses	603	622
Remeasurements		
Actuarial differences arising from changes in demographic assumptions	118	(103)
Actuarial differences arising from changes in financial assumptions	(129)	3,155
Actuarial differences arising from performance adjustments	362	371
Past service cost	11	119
Retirement benefits paid	(1,687)	(2,112)
Increase due to business combinations	224	—
Effect of exchange rate changes	(428)	(149)
Other	8	(27)
Present value of defined benefit obligations at end of period	55,536	60,487

Note: Weighted-average duration of defined benefit obligations was 17.8 years and 18.0 years for the previous fiscal year and the fiscal year under review, respectively.

3) Reconciliation of the fair value of plan assets

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

(Millions of Yen)

	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)	Fiscal Year Ended December 31, 2019 (January 1, 2019 – December 31, 2019)
Fair value of plan assets at beginning of period	47,457	47,263
Interest income	439	331
Remeasurements		
Gain on plan assets	(1,641)	3,278
Contribution from employers	1,977	1,869
Retirement benefits paid	(711)	(784)
Effect of exchange rate changes	(258)	(88)
Fair value of plan assets at end of period	47,263	51,869

Note: Employers are expected to contribute ¥1,969 million to defined benefit plans in the following fiscal year.

4) Reconciliation of the effect of asset ceiling

Changes in the effect of asset ceiling are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)	Fiscal Year Ended December 31, 2019 (January 1, 2019 – December 31, 2019)
Effect of asset ceiling at beginning of period	1,833	3,084
Restrictions on interest income	15	24
Remeasurements		
Changes in the effect of asset ceiling	1,236	(1,587)
Effect of asset ceiling at end of period	3,084	1,522

5) Details of plan assets

The details of plan assets are as follows.

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

(Millions of Yen)

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

Fiscal Year Ended December 31, 2019 (as of December 31, 2019)

(Millions of Yen)

	Quoted in an active market	Unquoted in an active market	Total
Debt instruments	2,992	22,797	25,789
Equity instruments	1,892	9,199	11,092
Cash and cash equivalents	188	738	926
Life insurance company general account	—	4,695	4,695
Other	1,029	8,338	9,367
Total plan assets	6,102	45,767	51,869

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

6) Actuarial assumptions

Major actuarial assumptions used are as follows.

	Fiscal Year Ended December 31, 2018 (as of December 31, 2018)	Fiscal Year Ended December 31, 2019 (as of December 31, 2019)
Discount rate	Mainly 1.0%	Mainly 0.8%

7) Sensitivity analysis

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

	Change	Fiscal Year Ended December 31, 2018 (as of December 31, 2018)	Fiscal Year Ended December 31, 2019 (as of December 31, 2019)
Discount rate	0.5% increase	¥3,833 million decrease	¥4,151 million decrease
	0.5% decrease	¥4,397 million increase	¥4,753 million increase

(3) Defined contribution plans

Expenses for defined contribution plans are recognized as an expense during the period in which the employees render the related service, and contributions payable are recognized as obligations. The expenses were ¥3,849 million and ¥4,221 million for the previous fiscal year and the fiscal year under review, respectively.

18. Other current liabilities

The details of other current liabilities are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2018 (as of December 31, 2018)	Fiscal Year Ended December 31, 2019 (as of December 31, 2019)
Accrued expenses	26,592	28,748
Accrued bonuses	6,978	6,661
Accrued consumption taxes, etc.	4,266	3,500
Accrued compensated absences	1,903	2,031
Other	5,220	2,617
Total	44,959	43,557

19. Equity

(1) Capital stock and share premium

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

	Total number of shares authorized (Thousands of Shares)	Number of outstanding shares (Thousands of Shares)
Balance at January 1, 2018	827,779	620,834
Increase during the period	—	—
Decrease during the period	—	—
Balance at December 31, 2018	827,779	620,834
Increase during the period	—	—
Decrease during the period	—	—
Balance at December 31, 2019	827,779	620,834

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

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

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

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

(2) Retained earnings

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

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

(3) Treasury shares

Changes in treasury shares are as follows.

	Number of shares (Thousands of Shares)	Amount (Millions of Yen)
Balance at January 1, 2018	35,098	67,652
Increase due to purchase of treasury shares based on a resolution by the Board of Directors	4,574	15,500
Increase due to purchase of shares of less than one unit	0	0
Decrease due to conversion of convertible bond-type bonds with share acquisition rights	(15,521)	(30,376)
Balance at December 31, 2018	24,151	52,776
Increase due to purchase of treasury shares based on a resolution by the Board of Directors	4,235	15,000
Increase due to purchase of shares of less than one unit	0	1
Decrease due to conversion of convertible bond-type bonds with share acquisition rights	(3,782)	(9,008)
Balance at December 31, 2019	24,605	58,769

(4) Other components of equity

Changes in other components of equity are as follows.

(Millions of Yen)

	Net changes in equity instruments measured at fair value through other comprehensive income	Changes in fair value of cash flow hedges	Exchange differences on translation in foreign operations	Remeasurements related to net defined benefit liabilities (assets)	Share acquisition rights	Total
Balance at January 1, 2018	8,851	(24)	(9,453)	—	5,136	4,509
Other comprehensive income	120	29	(16,243)	(2,242)	—	(18,336)
Conversion of convertible bond-type bonds with share acquisition rights	—	—	—	—	(3,057)	(3,057)
Transfer from other components of equity to retained earnings	(618)	—	—	2,242	(15)	1,609
Balance at December 31, 2018	8,352	4	(25,696)	—	2,064	(15,276)
Other comprehensive income	766	(8)	4,591	992	—	6,341
Conversion of convertible bond-type bonds with share acquisition rights	—	—	—	—	(745)	(745)
Transfer from other components of equity to retained earnings	(1,491)	—	—	(992)	(14)	(2,497)
Balance at December 31, 2019	7,627	(3)	(21,105)	—	1,304	(12,177)

20. Dividends

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

(1) Dividends paid

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

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

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

Fiscal Year Ended December 31, 2019 (January 1, 2019 – December 31, 2019)

(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, 2019	Common shares	7,160	12.0	December 31, 2018	March 6, 2019
Board of Directors meeting on August 8, 2019	Common shares	8,315	14.0	June 30, 2019	September 2, 2019

(2) Dividends whose record date is in the fiscal year ended December 31, 2019 and whose effective date is in the fiscal year ending December 31, 2020

Resolution	Class of shares	Total dividends (Millions of Yen)	Dividends per share (Yen)	Record date	Effective date
Board of Directors meeting on February 21, 2020	Common shares	8,347	14.0	December 31, 2019	March 5, 2020

21. Revenue

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

(Millions of Yen)

	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)	Fiscal Year Ended December 31, 2019 (January 1, 2019 – December 31, 2019)
Personal care		
Japan	216,589	208,569
China	86,672	88,438
Asia	215,350	240,477
Other	80,679	83,259
Subtotal	599,290	620,742
Pet care (Note 1)	82,073	86,977
Other (Note 2)	6,927	6,514
Total	688,290	714,233

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

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

22. Selling, general and administrative expenses

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

(Millions of Yen)

	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)	Fiscal Year Ended December 31, 2019 (January 1, 2019 – December 31, 2019)
Freight-out expenses	46,538	49,701
Promotion expenses	22,574	22,896
Advertising expenses	24,324	23,123
Employee benefits expenses	35,514	36,310
Depreciation and amortization expenses	5,853	9,781
Research and development expenses	6,621	7,584
Others	28,754	27,564
Total	170,178	176,959

23. Employee benefits expenses

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

(Millions of Yen)

	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)	Fiscal Year Ended December 31, 2019 (January 1, 2019 – December 31, 2019)
Salaries and bonuses	49,503	51,106
Employee and legal benefits expenses	6,188	5,917
Retirement benefit expenses	6,689	7,291
Other	1,477	1,169
Total	63,857	65,484

24. Other income and other expenses

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

(Millions of Yen)

	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)	Fiscal Year Ended December 31, 2019 (January 1, 2019 – December 31, 2019)
Other income		
Subsidy income	44	518
Gain on sales of scraps	403	324
Other	1,336	1,482
Total other income	1,783	2,324
Other expenses		
Loss on disposal of non-current assets	689	786
Impairment losses (Note)	2,182	19,654
Other	1,493	1,917
Total other expenses	4,364	22,358

Note: Impairment losses are presented in Note “12. Impairment of non-financial assets.”

25. Financial income and financial costs

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

(Millions of Yen)

	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)	Fiscal Year Ended December 31, 2019 (January 1, 2019 – December 31, 2019)
Financial income		
Interest income (Note 1)	2,965	2,911
Dividend income (Note 2)	344	469
Other	1	4
Total financial income	3,310	3,385
Financial costs		
Interest expenses		
Financial liabilities measured at amortized cost (Note 3)	2,280	2,296
Foreign exchange losses	1,266	780
Loss on valuation of derivatives	503	195
Other	227	322
Total financial costs	4,275	3,593

- Notes: 1. Interest income was generated from financial assets measured at amortized cost, cash and cash equivalents, loans, and receivables.
2. Dividend income was generated from equity instruments measured at fair value through other comprehensive income.
3. Interest expenses on financial liabilities measured at amortized cost include interest expenses associated with lease liabilities, the amount of which for the fiscal year under review is ¥514 million, and which did not exist in the previous fiscal year.

26. Other comprehensive income

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

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

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

Fiscal Year Ended December 31, 2019 (January 1, 2019 – December 31, 2019)

	Amount arising during the period	Reclassification adjustment	Before tax effect adjustment	Tax effects	After tax effect adjustment
Items that will not be reclassified to profit or loss					
Net changes in equity instruments measured at fair value through other comprehensive income	1,104	—	1,104	(338)	766
Remeasurements related to net defined benefit liabilities (assets)	1,442	—	1,442	(484)	958
Subtotal	2,546	—	2,546	(822)	1,724
Items that may be reclassified to profit or loss					
Changes in fair value of cash flow hedges	(30)	8	(22)	7	(15)
Exchange differences on translation in foreign operations	2,737	—	2,737	—	2,737
Subtotal	2,707	8	2,715	7	2,722
Total other comprehensive income	5,253	8	5,260	(815)	4,446

27. Earnings per share

(1) Basic earnings per share

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

	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)	Fiscal Year Ended December 31, 2019 (January 1, 2019 – December 31, 2019)
Profit attributable to owners of parent (Millions of Yen)	61,353	46,116
Weighted-average number of common shares (Thousands of Shares)	591,476	594,854
Basic earnings per share (Yen)	103.73	77.53

(2) Diluted earnings per share

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

	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)	Fiscal Year Ended December 31, 2019 (January 1, 2019 – December 31, 2019)
Profit attributable to owners of parent (Millions of Yen)	61,353	46,116
Adjustment of profit used to calculate diluted earnings per share (Millions of Yen)	113	33
Profit used to calculate diluted earnings per share (Millions of Yen)	61,466	46,149
Weighted-average number of common shares (Thousands of Shares)	591,476	594,854
Impact of dilutive potential common shares		
Increase in the number of common shares from exercise of convertible bond-type bonds with share acquisition rights (Thousands of Shares)	14,473	4,096
Weighted-average number of diluted common shares (Thousands of Shares)	605,949	598,950
Diluted earnings per share (Yen)	101.44	77.05
Description of potential shares that were not included in the calculation of diluted earnings per share because of their anti-dilutive effect	Stock options resolved by the Board of Directors on April 16, 2015	Stock options resolved by the Board of Directors on April 16, 2015

28. Cash flow information

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

(Millions of Yen)

	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)	Fiscal Year Ended December 31, 2019 (January 1, 2019 – December 31, 2019)
Conversion of convertible bond-type bonds with share acquisition rights	41,411	10,139
Increase in right-of-use assets pertaining to lease transactions	–	8,261

29. Share-based payments

(1) Details of stock options

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

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

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

(2) Size and changes of stock options

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

	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)		Fiscal Year Ended December 31, 2019 (January 1, 2019 – December 31, 2019)	
	Number of shares (Shares)	Weighted-average exercise price (Yen)	Number of shares (Shares)	Weighted-average exercise price (Yen)
Non-vested:				
January 1 - Outstanding	–	–	–	–
Granted	–	–	–	–
Forfeited	–	–	–	–
Vested	–	–	–	–
December 31 - Outstanding	–	–	–	–
Vested:				
January 1 - Outstanding	3,082,800	2,901	3,042,300	2,901
Vested	–	–	–	–
Exercised	–	–	–	–
Forfeited	(40,500)	2,901	(38,400)	2,901
December 31 - Outstanding	3,042,300	2,901	3,003,900	2,901

The weighted-average remaining contract period of outstanding stock options was 3.4 years and 2.4 years at the end of the previous fiscal year and the fiscal year under review, respectively.

(3) Share-based payment expenses

None.

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

None.

30. Financial instruments

(1) Categorization of financial instruments

The details of financial instruments by category are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2018 (as of December 31, 2018)	Fiscal Year Ended December 31, 2019 (as of December 31, 2019)
<Financial assets>		
Financial assets measured at amortized cost		
Cash and cash equivalents	135,065	128,787
Trade and other receivables	100,159	121,784
Other current financial assets	49,364	83,363
Other non-current financial assets	14,725	11,806
Financial assets measured at fair value through profit or loss		
Other current financial assets	4,156	3,055
Other non-current financial assets	3,121	123
Equity instruments measured at fair value through other comprehensive income		
Other non-current financial assets	32,144	30,413
Total	338,735	379,331
<Financial liabilities>		
Financial liabilities measured at amortized cost		
Trade and other payables	153,494	150,007
Bonds and borrowings	40,262	37,866
Other current financial liabilities	47	5,298
Other non-current financial liabilities	1,212	40,500
Financial liabilities measured at fair value through profit or loss		
Other current financial liabilities	586	700
Total	195,601	234,371

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

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

1) Fair value of major shares

Fair value of major shares is as follows.

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

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

Fiscal Year Ended December 31, 2019 (as of December 31, 2019)

(Millions of Yen)	
Shares	Fair value
Kao Corporation	13,579
Sumitomo Realty & Development Co., Ltd.	4,647
Pigeon Corporation	4,048
ARATA CORPORATION	1,022
ZUIKO CO., LTD.	968

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

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

(Millions of Yen)		
	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)	Fiscal Year Ended December 31, 2019 (January 1, 2019 – December 31, 2019)
Fair value	802	6,850
Cumulative gains (losses)	618	2,149

The Group transfers cumulative gains or losses due to changes in fair value of equity instruments measured at fair value through other comprehensive income, when derecognizing them, directly from other components of equity to retained earnings. Cumulative gains or losses of other comprehensive income directly transferred to retained earnings during the previous fiscal year and the fiscal year under review were ¥618 million and ¥2,149 million, respectively.

3) Dividend income

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

	(Millions of Yen)	
	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)	Fiscal Year Ended December 31, 2019 (January 1, 2019 – December 31, 2019)
Financial assets derecognized during the period	11	53
Financial assets held as of the last day of the period	333	416
Total	344	469

(3) Capital management

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

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

	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)	Fiscal Year Ended December 31, 2019 (January 1, 2019 – December 31, 2019)
Equity attributable to owners of parent (Millions of Yen)	441,456	473,073
Return on equity attributable to owners of parent (ROE) (%)	14.8	10.1

(4) Financial risk management

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

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

1) Market risk

(a) Foreign exchange risk

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

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

Derivatives

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

Derivatives to which hedge accounting is not applied

(Millions of Yen)

	Fiscal Year Ended December 31, 2018 (as of December 31, 2018)			Fiscal Year Ended December 31, 2019 (as of December 31, 2019)		
	Contract amount		Fair value	Contract amount		Fair value
		Contract amount due after one year			Contract amount due after one year	
Foreign exchange forward contracts: Selling USD	6,189	—	(1)	4,341	—	(7)
Foreign exchange forward contracts: Buying USD	1,469	—	0	1,971	—	(26)
Foreign exchange forward contracts: Buying EUR	69	—	1	82	—	(1)
Foreign exchange forward contracts: Buying SEK	35	—	0	—	—	—
Foreign exchange forward contracts: Buying JPY	0	—	0	23	—	(1)
Foreign exchange forward contracts: Selling JPY	15,677	—	(185)	15,243	—	55
Foreign exchange forward contracts: Buying THB	803	—	23	1,387	—	(6)
Foreign exchange forward contracts: Selling AUD	586	—	(0)	536	—	(3)
Non-deliverable forwards: Buying USD	2,336	—	9	19,906	—	(0)
Non-deliverable forwards: Buying JPY	9,052	—	82	379,041	—	(49)
Currency swaps: Received in CNY Paid in JPY	11,312	11,312	(388)	10,969	10,969	(603)
Total	47,529	11,312	(460)	433,498	10,969	(642)

Derivatives to which hedge accounting is applied

(Millions of Yen)

	Major hedged item	Fiscal Year Ended December 31, 2018 (as of December 31, 2018)			Fiscal Year Ended December 31, 2019 (as of December 31, 2019)		
		Contract amount		Fair value	Contract amount		Fair value
			Contract amount due after one year			Contract amount due after one year	
Foreign exchange forward contracts: Buying EUR	Trade payables	1,067	–	3	–	–	–
Foreign exchange forward contracts: Buying USD	Trade payables	403	–	1	–	–	–
Foreign exchange forward contracts: Selling CAD	Trade payables	519	–	26	501	–	(2)
Total		1,989	–	30	501	–	(2)

Foreign exchange sensitivity analysis

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

(Millions of Yen)

	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)	Fiscal Year Ended December 31, 2019 (January 1, 2019 – December 31, 2019)
USD	45	25
CNY	115	111
Total	160	136

(b) Price risk

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

(c) Interest rate risk

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

2) Credit risk

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

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

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

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

(a) Credit risk exposure

Credit risk exposure of trade and other receivables is as follows.

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

(Millions of Yen)

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

Fiscal Year Ended December 31, 2019 (as of December 31, 2019)

(Millions of Yen)

Periods before and after maturity	Financial assets for which allowance for doubtful accounts is measured at an amount equal to twelve-month expected credit losses	Financial assets for which allowance for doubtful accounts is measured at an amount equal to lifetime expected credit losses		Total
		Financial assets for which credit risk has significantly increased since initial recognition	Financial assets for which allowance for doubtful accounts is always measured at an amount equal to lifetime expected credit losses	
Before maturity	3,112	—	104,447	107,559
In 30 days or less	8	—	6,920	6,928
After 30 days through 60 days	12	—	1,596	1,608
After 60 days through 90 days	54	—	1,000	1,054
After 90 days through 120 days	0	—	2,165	2,165
After 120 days	30	—	2,441	2,471
Total	3,215	—	118,569	121,784

(b) Analysis of changes in allowance for doubtful accounts

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

(Millions of Yen)

	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)	Fiscal Year Ended December 31, 2019 (January 1, 2019 – December 31, 2019)
Balance at beginning of period	1,381	1,633
Increase during the period due to provision	480	595
Decrease during the period resulting from settlement	(7)	(49)
Decrease during the period due to reversal	(122)	(142)
Increase due to business combinations	16	—
Effect of exchange rate changes	(114)	47
Balance at end of period	1,633	2,084

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

3) Liquidity risk

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

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

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

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

(Millions of Yen)

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

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

Fiscal Year Ended December 31, 2019 (as of December 31, 2019)

(Millions of Yen)

	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years	Total
Trade and other payables	149,823	184	1	—	—	—	150,007
Bonds and borrowings	10,276	4,155	20,000	—	3,446	—	37,877
Lease liabilities (Note)	5,298	5,068	4,611	4,252	3,306	22,158	44,693
Other financial liabilities	—	—	—	—	—	1,105	1,105
Derivative liabilities							
Cash inflows	(386)	(386)	(11,355)	—	—	—	(12,127)
Cash outflows	700	—	11,806	—	—	—	12,505
Total	165,711	9,021	25,063	4,252	6,752	23,263	234,061

Note: The maturities of lease liabilities for the fiscal year under review are up to 2054. Lease liabilities are included in “Other financial liabilities” in the consolidated statement of financial position.

(5) Fair value of financial instruments

1) Financial assets and financial liabilities measured at fair value

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

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

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

Level 3: Unobservable input

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

(Millions of Yen)

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

(Millions of Yen)

	Fiscal Year Ended December 31, 2019 (as of December 31, 2019)			
	Level 1	Level 2	Level 3	Total
<Financial assets>				
Financial assets measured at fair value through profit or loss				
Debt securities	—	—	3,000	3,000
Derivative assets	—	55	—	55
Other	—	123	—	123
Equity instruments measured at fair value through other comprehensive income				
Shares	29,046	—	1,343	30,389
Other	—	—	23	23
Total	29,046	178	4,367	33,590
<Financial liabilities>				
Financial liabilities measured at fair value through profit or loss				
Derivative liabilities	—	700	—	700
Total	—	700	—	700

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

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

Fair value calculation methods are as follows.

Debt securities

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

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

Derivative assets and derivative liabilities

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

Shares

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

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

(Millions of Yen)

	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)	Fiscal Year Ended December 31, 2019 (January 1, 2019 – December 31, 2019)
Balance at beginning of period	872	8,413
Total gains or losses	138	(44)
Profit or loss (Note 1)	(5)	4
Other comprehensive income (Note 2)	143	(48)
Purchase	8,903	3
Sale and settlement	(1,500)	(4,006)
Balance at end of period	8,413	4,367

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

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

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

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

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

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

	Fiscal Year Ended December 31, 2018 (as of December 31, 2018)		Fiscal Year Ended December 31, 2019 (as of December 31, 2019)	
	Carrying amount	Fair value	Carrying amount	Fair value
<Financial assets>				
Debt securities	1,003	995	1,001	998
<Financial liabilities>				
Bonds and borrowings	40,262	40,309	37,866	37,869

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

Fair value calculation methods are as follows.

Debt securities

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

Bonds and borrowings

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

31. Major subsidiaries

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

Company	Location	Reportable segment	Percentage of voting rights held (%)
Unicharm Products Co., Ltd.	Shikokuchuo-shi, Ehime	Personal care	100.0
United Charm Co., Ltd.	Taiwan	Personal care	52.6
Uni-Charm (Thailand) Co., Ltd.	Kingdom of Thailand	Personal care	94.2
LG Unicharm Co., Ltd.	Republic of Korea	Personal care	51.0
Unicharm Consumer Products (China) Co., Ltd. (Note)	People's Republic of China	Personal care	75.0 (75.0)
PT UNI-CHARM INDONESIA Tbk	Republic of Indonesia	Personal care	59.2
Unicharm Gulf Hygienic Industries Ltd.	Kingdom of Saudi Arabia	Personal care	95.0
Unicharm India Private Ltd.	Republic of India	Personal care	100.0
Unicharm Australasia Holding Pty Ltd.	Commonwealth of Australia	Personal care	100.0
Unicharm Middle East & North Africa Hygienic Industries Company S.A.E.	Arab Republic of Egypt	Personal care	95.0
The Hartz Mountain Corporation	United States of America	Pet care	51.0
Unicharm (China) Co., Ltd.	People's Republic of China	Personal care	100.0
UNICHARM DO BRASIL INDÚSTRIA E COMÉRCIO DE PRODUTOS DE HIGIENE LTDA.	Federative Republic of Brazil	Personal care	80.1
DSG International (Thailand) Public Co., Ltd. (Note)	Kingdom of Thailand	Personal care	99.3 (99.3)

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

32. Related parties

(1) Transactions with related parties

Transactions between the Group and related parties are as follows.

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

(Millions of Yen)

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

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

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

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

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

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

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

Fiscal Year Ended December 31, 2019 (January 1, 2019 – December 31, 2019)

(Millions of Yen)

Name	Transactions	Transaction amount (Note 4)	Outstanding balance (Note 4)
Takahara Kosan K.K. (Note 2)	To insure	118	75
	Rent of land	98	–
Unitec Corporation (Note 3)	Rent of land	11	–

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

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

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

2. The voting rights of Takahara Kosan K.K. are owned 29.0% directly and 67.6% indirectly by Mr. Takahisa Takahara, CEO of the Company, and 2.0% directly and 1.4% indirectly by his close relatives.

3. The voting rights of Unitec Corporation are owned 95.6% indirectly by Mr. Takahisa Takahara, CEO of the Company, and 4.4% indirectly by his close relatives.

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

(2) Key management personnel compensation

Key management personnel compensation is as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)	Fiscal Year Ended December 31, 2019 (January 1, 2019 – December 31, 2019)
Basic remuneration and performance-linked remuneration	613	449
Total	613	449

33. Commitments

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

(Millions of Yen)

	Fiscal Year Ended December 31, 2018 (as of December 31, 2018)	Fiscal Year Ended December 31, 2019 (as of December 31, 2019)
Property, plant and equipment	10,034	4,948
Intangible assets	641	239
Total	10,675	5,187

34. Contingent liabilities

Unicharm India Private Ltd., a subsidiary of the Company, is subject to import tariff exemption applied under the Export Promotion Capital Goods (EPCG) scheme set forth in the foreign trade policy of the Indian Government.

However, the said scheme requires achievement of exports calculated by multiplying the amount of exempted tariffs by a certain rate within a set period of time and we are required to pay later the amount of exempted tariffs, etc. corresponding to any portion of the said requirements that is not achieved.

The Company estimates that the potential amount which is required to be paid in such a case, which varies depending on the future exports, is between ¥2,700 million and ¥5,000 million as of the end of the fiscal year under review.

The Company believes that we will be able to satisfy all of the said requirements by 2025 in line with the future business plan.

35. Subsequent events

(Purchase of treasury shares)

At the meeting of the Board of Directors of the Company held on February 13, 2020, the Company resolved to purchase treasury shares under the provision of the Company's Articles of Incorporation based upon Article 459, Paragraph 1, Item 1 of the Companies Act as follows.

(1) Reason for conducting purchase of treasury shares

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

(2) Details of the share acquisition

- 1) Type of shares to be acquired: Company's common shares
- 2) Total number of shares to be acquired: 4.2 million shares (upper limit)
(Ratio of total number of issued shares (excluding treasury shares): 0.70%)
- 3) Total share acquisition cost: ¥12,500 million (upper limit)
- 4) Acquisition period: February 14, 2020 – December 23, 2020
- 5) Acquisition method: Purchase on the Tokyo Stock Exchange
(through discretionary investment by a securities company)

(Disposal of treasury shares as restricted share-based remuneration)

At its Board of Directors meeting held on March 25, 2020, the Company resolved to dispose of its treasury shares (hereafter the "Disposal") as follows.

(1) Overview of the Disposal

1) Disposal date	April 24, 2020
2) Class and number of shares to be disposed of	Company's common shares: 81,400 shares
3) Disposal amount	¥3,631 per share
4) Total disposal amount	¥295,563,400
5) Allottees, number thereof and number of shares to be disposed of	Directors of the Company (excluding Outside Directors and Directors who are Audit and Supervisory Committee Members): 38,800 shares to be allotted to 3 persons Executive Officers who are not serving concurrently as Director of the Company: 40,200 shares to be allotted to 20 persons Associate Officers of the Company: 2,400 shares to be allotted to 5 persons

(2) Purpose of and reason for the Disposal

At the Board of Directors meeting held on February 21, 2020, the Company resolved to introduce a restricted share-based remuneration plan (hereafter the "Plan") as a new remuneration plan for Directors excluding Outside Directors and Directors who are Audit and Supervisory Committee Members of the Company (hereafter the "Eligible Directors"); Executive Officers not serving concurrently as Directors of the Company (hereafter the "Eligible Executive Officers"); and Associate Officers of the Company (hereafter the "Eligible Associate Officers" and together with the Eligible Directors and the Eligible Executive Officers, collectively, the "Eligible Directors, etc."). The Plan is intended to provide an incentive to sustainably increase the Group's corporate value and to share shareholder value, with the aim of maximizing its shareholder value. Also, at the 60th Ordinary General Meeting of Shareholders held on March 25, 2020, the Company received approval to provide monetary remuneration claims of ¥250 million or less per year to the Eligible Directors under the Plan as monetary remuneration to be used as property contributed for acquisition of the restricted shares, and to set the transfer restriction period for restricted shares at three years from the day on which restricted shares are allotted. The Eligible Directors, etc. shall pay all monetary remuneration claims to be provided to them by the Company under the Plan, in the form of property contributed in kind, and shall, in return, receive common shares of the Company that shall be issued or disposed of by the Company.

(Disposal of treasury shares as restricted share-based remuneration to employees of the Company and its subsidiaries)

At its Board of Directors meeting held on March 25, 2020, the Company resolved to dispose of its treasury shares (hereafter the "Disposal of Treasury Shares" or the "Disposal") as follows.

(1) Overview of the Disposal

1) Disposal date	September 30, 2020
2) Class and number of shares to be disposed of	Company's common shares: 1,593,100 shares
3) Disposal amount	¥3,631 per share
4) Total disposal amount	¥5,784,546,100
5) Allottees, number thereof and number of shares to be disposed of	Employees of the Company: 1,049,900 shares to be allotted to 1,753 persons Employees of subsidiaries of the Company: 543,200 shares to be allotted to 1,437 persons
(6) Others	The Disposal of Treasury Shares is conditioned on the Securities Registration Statement taking effect in accordance with the Financial Instruments and Exchange Act.

(2) Purpose of and reason for the Disposal

At the Board of Directors meeting held on March 25, 2020, the Company resolved to introduce a restricted share-based remuneration plan (hereafter the "Plan") in order to provide employees of the Company and its subsidiaries (hereafter the "Eligible Employees") with an incentive to sustainably increase the Group's corporate value and to share shareholder value. The Eligible Employees shall pay all monetary claims to be provided to them by the Company or its subsidiaries under the Plan, in the form of property contributed in kind, and shall, in return, receive common shares of the Company that shall be issued or disposed of by the Company.

(2) Other

Quarterly financial information for the fiscal year under review

(Millions of Yen unless otherwise stated)

Cumulative period	First Quarter	Second Quarter	Third Quarter	Full Year
Net sales	168,611	342,498	524,741	714,233
Profit before tax	20,939	39,002	67,597	69,538
Profit attributable to owners of parent	12,701	25,298	45,496	46,116
Basic earnings per share (Yen)	21.30	42.51	76.49	77.53

Each quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Basic earnings per share (Yen)	21.30	21.21	34.01	1.04

2. Non-consolidated financial statements

(1) Non-consolidated financial statements

1) Non-consolidated balance sheet

	(Millions of Yen)	
	Fiscal Year Ended December 31, 2018 (as of December 31, 2018)	Fiscal Year Ended December 31, 2019 (as of December 31, 2019)
Assets		
Current assets		
Cash and deposits	40,880	46,851
Notes and accounts receivable - trade	*2 35,660	*2 45,104
Securities	8,000	4,001
Merchandise and finished goods	2,951	2,762
Raw materials and supplies	4,944	5,504
Short-term loans receivable	3,015	2,865
Other	5,478	9,925
Allowance for doubtful accounts	(10)	(10)
Total current assets	*1 100,917	*1 117,002
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	2,646	2,592
Machinery, equipment and vehicles, net	5,697	5,690
Tools, furniture and fixtures, net	522	593
Land	2,249	2,249
Construction in progress	1,021	875
Other, net	11	17
Total property, plant and equipment	12,146	12,017
Intangible assets		
Goodwill	31,954	29,178
Trademarks	4	4,990
Software	2,486	2,877
Other	629	1,791
Total intangible assets	35,072	38,836
Investments and other assets		
Investment securities	35,298	29,618
Investments in shares and capital of subsidiaries and affiliates	236,418	236,390
Long-term loans receivable	38,898	34,400
Prepaid pension cost	6,720	6,250
Deferred tax assets	400	461
Other	1,579	1,513
Allowance for doubtful accounts	(184)	(118)
Allowance for loss on valuation of investment in subsidiaries and affiliates	(31,916)	(32,526)
Total investments and other assets	*1 287,215	*1 275,988
Total non-current assets	334,433	326,841
Total assets	435,350	443,842

(Millions of Yen)

	Fiscal Year Ended December 31, 2018 (as of December 31, 2018)	Fiscal Year Ended December 31, 2019 (as of December 31, 2019)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	34,874	35,905
Current portion of convertible bond-type bonds with share acquisition rights	—	3,543
Short-term loans payable	37,940	28,240
Accounts payable - other	18,098	17,912
Income taxes payable	7,318	231
Provision for bonuses	2,260	2,235
Other	4,908	3,226
Total current liabilities	*1 105,397	*1 91,292
Non-current liabilities		
Convertible bond-type bonds with share acquisition rights	12,997	—
Long-term loans payable	11,312	33,969
Provision for retirement benefits	2,061	1,795
Other	758	747
Total non-current liabilities	*1 27,129	*1 36,511
Total liabilities	132,526	127,803
Net assets		
Shareholders' equity		
Capital stock	15,993	15,993
Capital surplus		
Legal capital surplus	18,591	18,591
Other capital surplus	35,815	36,083
Total capital surplus	54,406	54,674
Retained earnings		
Legal retained earnings	1,992	1,992
Other retained earnings		
Retained earnings brought forward	274,380	294,024
Total retained earnings	276,372	296,016
Treasury shares	(52,776)	(58,769)
Total shareholders' equity	293,994	307,914
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	7,734	7,046
Revaluation reserve for land	(157)	(157)
Total valuation and translation adjustments	7,577	6,889
Share acquisition rights	1,253	1,238
Total net assets	302,824	316,040
Total liabilities and net assets	435,350	443,842

2) Non-consolidated statement of income

(Millions of Yen)

		Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)		Fiscal Year Ended December 31, 2019 (January 1, 2019 – December 31, 2019)
Net sales	*2	359,961	*2	355,721
Cost of sales	*2	208,203	*2	219,680
Gross profit		151,757		136,041
Selling, general and administrative expenses	*1, *2	104,627	*1, *2	109,136
Operating income		47,131		26,906
Non-operating income				
Interest income		1,665		1,148
Dividend income		15,105		15,800
Foreign exchange gains		323		–
Other		174		180
Total non-operating income	*2	17,267	*2	17,128
Non-operating expenses				
Interest expenses		531		538
Sales discounts		1,903		1,875
Derivative expenses		176		357
Foreign exchange losses		–		967
Other		244		80
Total non-operating expenses	*2	2,853	*2	3,817
Ordinary income		61,545		40,217
Extraordinary income				
Gain on sales of non-current assets		48		–
Gain on sales of investment securities		618		2,149
Other		17		16
Total extraordinary income		683		2,165
Extraordinary losses				
Loss on disposal of non-current assets		88		159
Provision of allowance for loss on valuation of investments in subsidiaries and affiliates		5,210		611
Loss on valuation of shares of subsidiaries and affiliates	*3	198		–
Loss on sales of investments in capital of subsidiaries and affiliates	*4	76		–
Other		2		2
Total extraordinary losses		5,574		772
Profit before income taxes		56,653		41,610
Income taxes - current		13,177		6,249
Income taxes - deferred		(299)		242
Total income taxes		12,878		6,491
Profit		43,774		35,119

3) Non-consolidated statement of changes in shareholders' equity
Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)

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

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

Fiscal Year Ended December 31, 2019 (January 1, 2019 – December 31, 2019)

(Millions of Yen)

(millions of Yen)

	Shareholders' equity								
	Capital stock	Capital surplus			Retained earnings			Treasury shares	Total shareholders' equity
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings	Total retained earnings		
						Retained earnings brought forward			
Balance at beginning of current period	15,993	18,591	35,815	54,406	1,992	274,380	276,372	(52,776)	293,994
Changes of items during period									
Dividends of surplus						(15,475)	(15,475)		(15,475)
Profit						35,119	35,119		35,119
Purchase of treasury shares								(15,001)	(15,001)
Conversion of convertible bond-type bonds with share acquisition rights			268	268				9,008	9,276
Net changes of items other than shareholders' equity									
Total changes of items during period	—	—	268	268	—	19,644	19,644	(5,993)	13,919
Balance at end of current period	15,993	18,591	36,083	54,674	1,992	294,024	296,016	(58,769)	307,914

	Valuation and translation adjustments			Share acquisition rights	Total net assets
	Valuation difference on available-for-sale securities	Revaluation reserve for land	Total valuation and translation adjustments		
Balance at beginning of current period	7,734	(157)	7,577	1,253	302,824
Changes of items during period					
Dividends of surplus					(15,475)
Profit					35,119
Purchase of treasury shares					(15,001)
Conversion of convertible bond-type bonds with share acquisition rights					9,276
Net changes of items other than shareholders' equity	(688)	—	(688)	(16)	(704)
Total changes of items during period	(688)	—	(688)	(16)	13,216
Balance at end of current period	7,046	(157)	6,889	1,238	316,040

Notes to Non-consolidated Financial Statements

(Significant accounting policies)

1. Valuation standards and methods for securities

(1) Held-to-maturity debt securities

Amortized cost method (straight-line method)

(2) Shares of subsidiaries and affiliates

Cost method by the moving-average method

(3) Available-for-sale securities

Those with market value:

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

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

Those without market value:

Cost method by the moving-average method

2. Valuation methods for derivative financial instruments

Market value method

3. Valuation standards and methods for inventories

Inventories held for ordinary selling purpose:

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

(1) Merchandise and finished goods

Gross average method

(2) Supplies

Specific identification method

(3) Raw materials

Moving-average method

4. Depreciation of non-current assets

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

Straight-line method

Major useful lives are as follows:

Buildings and structures	2 – 50 years
--------------------------	--------------

Machinery, equipment and vehicles	2 – 17 years
-----------------------------------	--------------

(2) Intangible assets (excluding leased assets)

Straight-line method

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

(3) Leased assets

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

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

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

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

6. Accounting standards for reserves and allowances

(1) Allowance for doubtful accounts

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

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

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

(3) Provision for bonuses

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

(4) Provision for retirement benefits

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

1) Period attribution method for estimated retirement benefits

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

2) Accounting method for actuarial difference and past service cost

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

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

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

(1) Accounting for retirement benefits

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

(2) Accounting for consumption taxes

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

(Change in the presentation method)

(Balance sheet)

"Trademarks," which has been included in "Other" under intangible assets up to the previous fiscal year, is separately stated starting from the fiscal year under review because it has become more important in terms of the amount. The financial statements for the previous fiscal year have been reclassified to reflect the change in the presentation method. As a result, in the balance sheet for the previous fiscal year, ¥633 million in "Other" under "Intangible assets" has been reclassified into ¥4 million in "Trademarks" and ¥629 million in "Other."

(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, 2018 (as of December 31, 2018)	Fiscal Year Ended December 31, 2019 (as of December 31, 2019)
Short-term monetary receivables	16,350	18,229
Long-term monetary receivables	38,898	34,400
Short-term monetary payables	51,145	50,175
Long-term monetary payables	11,312	10,969

*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, 2018 (as of December 31, 2018)	Fiscal Year Ended December 31, 2019 (as of December 31, 2019)
Notes receivable - trade	58	61

*3 Guarantee obligation

The Company provides guarantee of obligations concerning the borrowings from financial institutions of the following subsidiaries and affiliates.

(Millions of Yen)

	Fiscal Year Ended December 31, 2018 (as of December 31, 2018)		Fiscal Year Ended December 31, 2019 (as of December 31, 2019)
Uni.Charm Mölnlycke B.V. (Netherlands)	1,608	Uni.Charm Mölnlycke B.V. (Netherlands)	1,551
Unicharm India Private Ltd.	1,193	Unicharm India Private Ltd.	1,155
UcM Inco USA, Inc. (U.S.A.)	523	Unicharm Mölnlycke Rus L.L.C. (Russia)	690
Unicharm Mölnlycke Rus L.L.C. (Russia)	288	UcM Inco USA, Inc. (U.S.A.)	516
Total	3,612	Total	3,913

(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, 2018 (January 1, 2018 – December 31, 2018)	Fiscal Year Ended December 31, 2019 (January 1, 2019 – December 31, 2019)
Sales promotion expenses	51,153	53,331
Advertising expenses	9,274	9,050
Miscellaneous fees	4,799	5,027
Salaries and bonuses to employees	6,990	7,231
Allowance for bonuses transferred	1,763	1,696
Depreciation and amortization expenses	4,746	5,267
Share of selling expenses out of selling, general and administrative expenses	69%	69%

*2 Transactions with subsidiaries and affiliates

(Millions of Yen)

	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)	Fiscal Year Ended December 31, 2019 (January 1, 2019 – December 31, 2019)
Operating transactions	214,844	221,163
Non-operating transactions	15,951	16,409

*3 Loss on valuation of shares of subsidiaries and affiliates is loss on valuation associated with impairment of shares in Unicharm Humancare Corporation.

*4 Loss on sales of investments in capital of subsidiaries and affiliates is due to partial transfer of investments in capital of UNICHARM DO BRASIL INDÚSTRIA E COMÉRCIO DE PRODUTOS DE HIGIENE LTDA.

(Securities)

Shares of subsidiaries and affiliates

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

(Millions of Yen)

Category	Amount recorded in the balance sheet	Fair value	Difference
Shares of subsidiaries	—	—	—

Fiscal Year Ended December 31, 2019 (as of December 31, 2019)

(Millions of Yen)

Category	Amount recorded in the balance sheet	Fair value	Difference
Shares of subsidiaries	3,088	36,352	33,264

Note: The amounts of shares of subsidiaries and affiliates recorded in the balance sheet for which it is deemed extremely difficult to determine the fair value.

(Millions of Yen)

Category	Fiscal Year Ended December 31, 2018 (as of December 31, 2018)	Fiscal Year Ended December 31, 2019 (as of December 31, 2019)
Shares of subsidiaries	189,087	183,876
Investments in capital of subsidiaries	46,790	48,884
Shares of affiliates	541	541

The above figures have not been included in the table “Shares of subsidiaries and affiliates” above because market values of above items are not available and 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, 2018 (as of December 31, 2018)	(Millions of Yen) Fiscal Year Ended December 31, 2019 (as of December 31, 2019)
Deferred tax assets:		
Provision for bonuses	692	684
Loss on valuation of shares of subsidiaries and affiliates	1,801	1,339
Accrued sales promotion expenses	2,253	2,387
Allowance for loss on valuation of investments in subsidiaries and affiliates	9,672	9,960
Provision for retirement benefits	1,921	1,844
Other	1,448	996
Subtotal	17,787	17,210
Less valuation allowance	(11,800)	(11,625)
Total deferred tax assets	5,987	5,585
Deferred tax liabilities:		
Prepaid pension cost	(2,058)	(1,914)
Valuation difference on available-for-sale securities	(3,299)	(2,995)
Other	(230)	(214)
Total deferred tax liabilities	(5,587)	(5,123)
Net deferred tax assets (liabilities)	400	461

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

	Fiscal Year Ended December 31, 2018 (as of December 31, 2018)	Fiscal Year Ended December 31, 2019 (as of December 31, 2019)
Effective statutory tax rate	30.9%	30.6%
Reconciliations:		
Non-deductible items such as entertainment expenses, etc.	0.2%	0.2%
Non-taxable items such as dividends received, etc.	(7.8)%	(10.8)%
Amortization of goodwill	1.5%	2.0%
Valuation allowance	2.6%	(0.7)%
Tax credit	(5.5)%	(2.9)%
Loss on share transfer of subsidiaries following capital reduction	—	(4.8)%
Other	0.9%	2.0%
Actual effective tax rate	22.7%	15.6%

(Significant subsequent events)

(Purchase of treasury shares)

At the meeting of the Board of Directors of the Company held on February 13, 2020, the Company resolved to purchase treasury shares under the provision of the Company's Articles of Incorporation based upon Article 459, Paragraph 1, Item 1 of the Companies Act as follows.

(1) Reason for conducting purchase of treasury shares

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

(2) Details of the share acquisition

- 1) Type of shares to be acquired: Company's common shares
- 2) Total number of shares to be acquired: 4.2 million shares (upper limit)
(Ratio of total number of issued shares (excluding treasury shares): 0.70%)
- 3) Total share acquisition cost: ¥12,500 million (upper limit)
- 4) Acquisition period: February 14, 2020 – December 23, 2020
- 5) Acquisition method: Purchase on the Tokyo Stock Exchange
(through discretionary investment by a securities company)

(Disposal of treasury shares as restricted share-based remuneration)

At its Board of Directors meeting held on March 25, 2020, the Company resolved to dispose of its treasury shares (hereafter the "Disposal") as follows.

(1) Overview of the Disposal

1) Disposal date	April 24, 2020
2) Class and number of shares to be disposed of	Company's common shares: 81,400 shares
3) Disposal amount	¥3,631 per share
4) Total disposal amount	¥295,563,400
5) Allottees, number thereof and number of shares to be disposed of	Directors of the Company (excluding Outside Directors and Directors who are Audit and Supervisory Committee Members): 38,800 shares to be allotted to 3 persons Executive Officers who are not serving concurrently as Director of the Company: 40,200 shares to be allotted to 20 persons Associate Officers of the Company: 2,400 shares to be allotted to 5 persons

(2) Purpose of and reason for the Disposal

At the Board of Directors meeting held on February 21, 2020, the Company resolved to introduce a restricted share-based remuneration plan (hereafter the "Plan") as a new remuneration plan for Directors excluding Outside Directors and Directors who are Audit and Supervisory Committee Members of the Company (hereafter the "Eligible Directors"); Executive Officers not serving concurrently as Directors of the Company (hereafter the "Eligible Executive Officers"); and Associate Officers of the Company (hereafter the "Eligible Associate Officers" and together with the Eligible Directors and the Eligible Executive Officers, collectively, the "Eligible Directors, etc."). The Plan is intended to provide an incentive to sustainably increase the Group's corporate value and to share shareholder value, with the aim of maximizing its shareholder value. Also, at the 60th Ordinary General Meeting of Shareholders held on March 25, 2020, the Company received approval to provide monetary remuneration claims of ¥250 million or less per year to the Eligible Directors under the Plan as monetary remuneration to be used as property contributed for acquisition of the restricted shares, and to set the transfer restriction period for restricted shares at three years from the day on which restricted shares are allotted. The Eligible Directors, etc. shall pay all monetary remuneration claims to be provided to them by the Company under the Plan, in the form of property contributed in kind, and shall, in return, receive common shares of the Company that shall be issued or disposed of by the Company.

(Disposal of treasury shares as restricted share-based remuneration to employees of the Company and its subsidiaries)
At its Board of Directors meeting held on March 25, 2020, the Company resolved to dispose of its treasury shares (hereafter the “Disposal of Treasury Shares” or the “Disposal”) as follows.

(1) Overview of the Disposal

1) Disposal date	September 30, 2020
2) Class and number of shares to be disposed of	Company’s common shares: 1,593,100 shares
3) Disposal amount	¥3,631 per share
4) Total disposal amount	¥5,784,546,100
5) Allottees, number thereof and number of shares to be disposed of	Employees of the Company: 1,049,900 shares to be allotted to 1,753 persons Employees of subsidiaries of the Company: 543,200 shares to be allotted to 1,437 persons
(6) Other	The Disposal of Treasury Shares is conditioned on the Securities Registration Statement taking effect in accordance with the Financial Instruments and Exchange Act.

(2) Purpose of and reason for the Disposal

At the Board of Directors meeting held on March 25, 2020, the Company resolved to introduce a restricted share-based remuneration plan (hereafter the “Plan”) in order to provide employees of the Company and its subsidiaries (hereafter the “Eligible Employees”) with an incentive to sustainably increase the Group’s corporate value and to share shareholder value. The Eligible Employees shall pay all monetary claims to be provided to them by the Company or its subsidiaries under the Plan, in the form of property contributed in kind, and shall, in return, receive common shares of the Company that shall be issued or disposed of by the 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, 2019	Increase in the fiscal year ended December 31, 2019	Decrease in the fiscal year ended December 31, 2019	Depreciation for the fiscal year ended December 31, 2019	Balance at the end of the fiscal year ended December 31, 2019	Accumulated depreciation
Property, plant and equipment	Buildings and structures	2,646	157	0	212	2,592	4,637
	Machinery, equipment and vehicles	5,697	2,308	203	2,112	5,690	9,347
	Tools, furniture and fixtures	522	315	1	242	593	3,062
	Land	2,249 [(157)]	—	—	—	2,249 [(157)]	139
	Construction in progress	1,021	675	821	—	875	—
	Other	11	10	—	4	17	11
	Total	12,146	3,466	1,026	2,570	12,017	17,197
Intangible assets	Goodwill	31,954	—	—	2,776	29,178	—
	Trademarks	4	5,249	—	263	4,990	—
	Software	2,486	1,309	7	912	2,877	—
	Other	629	2,429	1,266	0	1,791	—
	Total	35,072	8,988	1,273	3,952	38,836	—

Notes: 1. The increases in the fiscal year ended December 31, 2019 are mainly as follows.

Machinery, equipment and vehicles	Development machines for baby care business:	¥1,444 million
Machinery, equipment and vehicles	Manufacturing machines for pet care business:	¥303 million
Machinery, equipment and vehicles	Development machines for feminine care business:	¥297 million
Machinery, equipment and vehicles	Development machines for health care business:	¥150 million
Trademarks	Transferred from DSG Investment (IP) Ltd.	¥5,249 million

2. [] denotes revaluation difference of land which was revalued in accordance with the Act of Revaluation of Land (1998 Act No. 34).
3. The amount of accumulated depreciation includes the amount of accumulated impairment loss.

Detailed schedule of allowances

(Millions of Yen)

Classification	Balance at the beginning of the fiscal year ended December 31, 2019	Increase in the fiscal year ended December 31, 2019	Decrease in the fiscal year ended December 31, 2019	Balance at the end of the fiscal year ended December 31, 2019
Allowance for doubtful accounts	194	128	194	128
Allowance for loss on valuation of investments in subsidiaries and affiliates	31,916	1,272	661	32,526
Provision for bonuses	2,260	2,235	2,260	2,235

Note: The reasons for accounting the allowances and calculation method therefor are stated in “6. Accounting standards for reserves and allowances” in “Significant accounting policies.”

(2) Details of major assets and liabilities

This information is omitted because the Company prepares consolidated financial statements.

(3) Other

Not applicable.

VI. Information on Transfer and Repurchase of the Company's Shares

Fiscal year	From January 1 to December 31
Ordinary General Meeting of Shareholders	March
Record date	December 31
Record date for dividend	June 30 (interim dividend) and December 31 (year-end dividend)
Number of shares per unit of the Company's shares	100 shares
Repurchase of shares less than one unit	
Address where repurchases are processed	(Special account) 1-2-4, Nihonbashi Kayabacho, Chuo-ku, Tokyo JAPAN SECURITIES AGENTS, LTD.
Administrator of shareholders' register	(Special account) 1-4-5, Marunouchi, Chiyoda-ku, Tokyo Mitsubishi UFJ Trust and Banking Corporation
Offices available for repurchase	—
Charges for repurchase	No charge
Method of public notice	Public notice of the Company shall be given by electronic means; provided, however, that in the event accidents or other unavoidable reasons prevent public notice by electronic means, the notice can be given in the Nihon Keizai Shimbun. URL for public notice http://www.unicharm.co.jp/ir/
Special benefits to shareholders	Not applicable.

Note: The Company's shareholders of shares of less than one unit are not able to exercise their rights other than the rights as following:

- (1) The rights stipulated in each item of Article 189, Paragraph 2 of the Companies Act;
- (2) The right to make a claim in accordance with Article 166, Paragraph 1 of the Companies Act; and
- (3) The right to subscribe for new shares or new share acquisition rights in proportion to the number of the shares owned by said shareholder.

VII. Reference Information on the Company

1. Information on the parent company or equivalent of the Company

The Company has no parent company or equivalent.

2. Other reference information

The Company filed the following documents between the beginning of the fiscal year ended December 31, 2019 and the date when this Securities Report (*Yukashoken-Houkokusho*) was filed.

(1) Securities Report and Accompanying Documents and Confirmation Note

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

Submitted to the Director-General of the Kanto Local Finance Bureau on March 28, 2019.

(2) Internal Control Report and Accompanying Documents

Submitted to the Director-General of the Kanto Local Finance Bureau on March 28, 2019.

(3) Quarterly Securities Reports and Confirmation Notes

The 1st Quarter of 60th Fiscal Year (from January 1, 2019 to March 31, 2019)

Submitted to the Director-General of the Kanto Local Finance Bureau on May 15, 2019.

The 2nd Quarter of 60th Fiscal Year (from April 1, 2019 to June 30, 2019)

Submitted to the Director-General of the Kanto Local Finance Bureau on August 13, 2019.

The 3rd Quarter of 60th Fiscal Year (from July 1, 2019 to September 30, 2019)

Submitted to the Director-General of the Kanto Local Finance Bureau on November 12, 2019.

(4) Extraordinary Report

The Extraordinary Report according to the provision of Article 19, Paragraph 2, Item 9-2 of the Cabinet Office Ordinance on Disclosure of Corporate Affairs, etc.

Submitted to the Director-General of the Kanto Local Finance Bureau on March 28, 2019.

The Extraordinary Report according to the provision of Article 19, Paragraph 2, Item 2-2 of the Cabinet Office Ordinance on Disclosure of Corporate Affairs, etc.

Submitted to the Director-General of the Kanto Local Finance Bureau on March 25, 2020.

(5) Securities Registration Statement and Accompanying Documents

Submitted to the Director-General of the Kanto Local Finance Bureau on March 25, 2020.

(6) Reporting on status of purchase of treasury shares

Reports were submitted to the Director-General of the Kanto Local Finance Bureau on April 12, 2019, May 10, 2019, June 10, 2019, and March 9, 2020.

Part 2. Information on Guarantors for the Company

Not applicable.

(For Translation Purposes Only)
Independent Auditor's Report

March 25, 2020

The Board of Directors
Unicharm Corporation

PricewaterhouseCoopers Aarata LLC

Designated Limited Liability and Engagement Partner
Certified Public Accountant Hisashi Shirahata
Designated Limited Liability and Engagement Partner
Certified Public Accountant Tsuyoshi Saito
Designated Limited Liability and Engagement Partner
Certified Public Accountant Mamoru Honda

<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, 2019 to December 31, 2019, which comprise the consolidated statements of financial position, income, comprehensive income, changes in equity and cash flows, and notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in conformity with International Financial Reporting Standards, according to the provisions of Article 93 of "Regulations Concerning the Terminology, Forms and Preparation Methods of Consolidated Financial Statements," and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Unicharm Corporation and consolidated subsidiaries as of December 31, 2019, and their consolidated financial performance and cash flows for the year then ended in conformity with International Financial Reporting Standards.

<Internal control audit>

In order to conduct the audit certification pursuant to Article 193-2, Paragraph 2 of the Financial Instruments and Exchange Act of Japan, we also have audited the internal control report as of December 31, 2019 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, 2019 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 25, 2020

The Board of Directors
Unicharm Corporation

PricewaterhouseCoopers Aarata LLC

Designated Limited Liability and Engagement Partner	
Certified Public Accountant	Hisashi Shirahata
Designated Limited Liability and Engagement Partner	
Certified Public Accountant	Tsuyoshi Saito
Designated Limited Liability and Engagement Partner	
Certified Public Accountant	Mamoru Honda

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 60th fiscal year from January 1, 2019 to December 31, 2019, 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, 2019, and its non-consolidated financial performance for the year then ended in conformity with accounting principles generally accepted in Japan.

Conflicts of Interest

We have no interest in the Company which should be disclosed in compliance with the Certified Public Accountants Act.

Notes:

1. The above is a digitization of the text contained in the original copy of the Independent Auditors' Report, which is in the custody of the Company—the submitter of this Securities Report.
2. The XBRL data is not included in the range of audit.

【Cover】	
【Document Submitted】	Internal Control Report (“ <i>Naibutousei-Houkokusho</i> ”)
【Article of the Applicable Law Requiring Submission of This Document】	Article 24-4-4, Paragraph 1 of the Financial Instruments and Exchange Act
【Filed to】	Director-General of the Kanto Local Finance Bureau
【Date of Filing】	March 26, 2020
【Company Name】	Unicharm Kabushiki-Kaisha
【Company Name (in English)】	Unicharm Corporation
【Position and Name of Representative】	Takahisa Takahara, Representative Director, President and Chief Executive Officer
【Position and Name of Chief Financial Officer】	Not applicable.
【Location of Head Office】	182, Shimobun, Kinsei-cho, Shikokuchuo-shi, Ehime, Japan (The above address is the official registered location of the head office. Actual operations are based as follows.) Sumitomo Fudosan Mita Twin Bldg., West Wing, 3-5-27, Mita, Minato-ku, Tokyo, Japan
【Place Where Available for Public Inspection】	Head Office, Unicharm Corporation (Sumitomo Fudosan Mita Twin Bldg., West Wing, 3-5-27, Mita, Minato-ku, Tokyo, Japan) Unicharm Kyoshinkan (Resonance Hall), Unicharm Corporation (131, Shimobun, Kinsei-cho, Shikokuchuo-shi, Ehime, Japan) Osaka Office, Unicharm Corporation (Sumitomo Nakanoshima Bldg., 3-2-18, Nakanoshima, Kita-ku, Osaka-shi, Osaka, Japan) Tokyo Stock Exchange, Inc. (2-1, Nihonbashi Kabutocho, Chuo-ku, Tokyo, Japan)

1. Basic Framework of Internal Control Over Financial Reporting

Takahisa Takahara, Representative Director, President & CEO of Unicharm Corporation (the “Company”) having the responsibility to design and operate internal control over financial reporting of the Company, designs and operates such internal control of the Company in accordance with the basic framework set forth in “On the Revision of the Standards and Practice Standards for Management Assessment and Audit concerning Internal Control Over Financial Reporting (Council Opinions)” published by the Business Accounting Council. Internal control over financial reporting is a process performed by all persons in the organization, incorporated in operations in order to secure credibility of financial statements and information which may have material effects on financial statements, and includes policies and procedures to reasonably guarantee that consolidated financial statements and non-consolidated financial statements are prepared fairly in accordance with generally accepted accounting principles.

Internal control has specific limitations where it may not function effectively, including cases due to misjudgment or collusion, initially unexpected changes in the environment, extraordinary transactions not covered, or possibilities in the future that the current internal control will become obsolete.

2. Scope of Assessment, Assessment Date and Assessment Procedure

For the purposes of financial reporting, internal control was assessed as follows. Matters for disclosure were selected from the consolidated financial statements based on amounts involved and qualitative importance; then, on a business-by-business basis regarding such matters, selection was made of accountable transactions and items forming the basis of financial reporting, and of important business processes; then the scope of the assessment was decided, and an evaluation of the effectiveness of internal control was made on the last day of the fiscal year under review.

- 1) The Company and all of its consolidated subsidiaries were subject to the Companywide assessment of internal control, except for subsidiaries without significance for financial reporting.
- 2) The selection of significant business locations was conducted so as to reach a certain proportion (around two-thirds) of consolidated net sales.
- 3) After a Companywide assessment of internal control, business processes subject to assessment of internal control were narrowed down to seven, as follows.

Business processes

- (1) Processes for sales, accounts receivable and payment collection
- (2) Processes for sales promotion expenses
- (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 on establishment and operational status of Companywide internal control including decision-making processes of the Board of Directors was undertaken, based on the assessment standards for internal control in Standards for Management Assessment and Audit concerning Internal Control over Financial Reporting. In addition, the assessment was undertaken from the perspective of the functioning of basic elements of internal control among business processes in terms of key aspects that exert material influence on the credibility of financial reporting. For the purposes of the assessment, after an analysis of selected business processes, key aspects that exert material influence on the credibility of financial reporting were selected. Then an assessment was made on establishment and operational status of key aspects of internal control, through inspection of related documents, due questioning of officials involved in internal control, observation of the conduct of business, and verification, etc. of implementation records of internal control.

3. Assessment Result

Based on the above mentioned assessment results, the management concluded that the internal control over financial reporting at the end of fiscal year under review was effective.

4. Supplementary Information

Not applicable.

5. Special Affairs

Not applicable.

【Cover】	
【Document Submitted】	Confirmation Note
【Article of the Applicable Law Requiring Submission of This Document】	Article 24-4-2, Paragraph 1 of the Financial Instruments and Exchange Act
【Filed to】	Director-General of the Kanto Local Finance Bureau
【Date of Filing】	March 26, 2020
【Company Name】	Unicharm Kabushiki-Kaisha
【Company Name (in English)】	Unicharm Corporation
【Position and Name of Representative】	Takahisa Takahara, Representative Director, President and Chief Executive Officer
【Position and Name of Chief Financial Officer】	Not applicable.
【Location of Head Office】	182, Shimobun, Kinsei-cho, Shikokuchuo-shi, Ehime, Japan (The above address is the official registered location of the head office. Actual operations are based as follows.) Sumitomo Fudosan Mita Twin Bldg., West Wing, 3-5-27, Mita, Minato-ku, Tokyo, Japan
【Place Where Available for Public Inspection】	Head Office, Unicharm Corporation (Sumitomo Fudosan Mita Twin Bldg., West Wing, 3-5-27, Mita, Minato-ku, Tokyo, Japan) Unicharm Kyoshinkan (Resonance Hall), Unicharm Corporation (131, Shimobun, Kinsei-cho, Shikokuchuo-shi, Ehime, Japan) Osaka Office, Unicharm Corporation (Sumitomo Nakanoshima Bldg., 3-2-18, Nakanoshima, Kita-ku, Osaka-shi, Osaka, Japan) Tokyo Stock Exchange, Inc. (2-1, Nihonbashi Kabutocho, Chuo-ku, Tokyo, Japan)

1. Appropriateness of the Descriptions in This Securities Report

Takahisa Takahara, Representative Director, President & CEO of Unicharm Corporation has confirmed that the Securities Report (“*Yukashoken-Houkokusho*”) of the 60th Fiscal Year (from January 1, 2019 to December 31, 2019) 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.