Consolidated Financial Results for the Fiscal Year Ended December 31, 2018 (January 1, 2018 through December 31, 2018); Flash Report [IFRS]

February 14, 2019

Listed Company Name: **Unicharm Corporation**
Listing: **First Section, Tokyo Stock Exchange**
Code Number: **8113**
URL: **http://www.unicharm.co.jp/**
Company Representative: **Takahisa Takahara, President and Chief Executive Officer**
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Telephone Number: **+81-3-3451-5111**
Scheduled Date of Ordinary General Meeting of Shareholders: **March 27, 2019**
Scheduled Date to Commence Dividend Payments: **March 6, 2019**
Scheduled Date to Submit Securities Report: **March 28, 2019**
Preparation of Supplementary Material on Full Year Financial Results: **Yes**
Holding of Full Year Financial Results Presentation Meeting: **Yes (Securities Analysts, Institutional Investors)**

(Amounts are rounded to the nearest million yen)

1. Consolidated Financial Results for the Fiscal Year Ended December 31, 2018 (January 1, 2018 through December 31, 2018)

(1) Consolidated financial results

(Figures in percentage represent increases or decreases from the previous fiscal year)

	Net Sales		Core Operating Income		Profit Before Tax		Profit for the Period		Profit Attributable to Owners of Parent		Total Comprehensive Income	
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%
Fiscal Year Ended December 31, 2018	688,290	7.3	95,107	9.5	91,561	(1.5)	67,265	16.8	61,353	16.3	45,311	(30.2)
Fiscal Year Ended December 31, 2017	641,647	6.1	86,838	9.8	92,926	22.5	57,571	12.3	52,772	12.3	64,949	145.4

	Basic Earnings Per Share	Diluted Earnings Per Share	Return on Equity Attributable to Owners of Parent	Ratio of Profit Before Tax to Total Assets
	Yen	Yen	%	%
Fiscal Year Ended December 31, 2018	103.73	101.44	14.8	12.0
Fiscal Year Ended December 31, 2017	89.85	87.06	14.3	13.2

(Reference)
Share of profit of investments accounted for using equity method: As of December 31, 2018: ¥89 million
As of December 31, 2017: ¥58 million

(2) Consolidated financial position

	Total Assets	Total Equity	Equity Attributable to Owners of Parent	Ratio of Equity Attributable to Owners of Parent	Equity Attributable to Owners of Parent per Share
	Millions of Yen	Millions of Yen	Millions of Yen	%	Yen
As of December 31, 2018	795,483	503,670	441,456	55.5	736.39
As of December 31, 2017	736,644	453,029	387,567	52.6	652.91

(3) Consolidated cash flows

	From Operating Activities	From Investing Activities	From Financing Activities	Cash and Cash Equivalents at End of Period
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
Fiscal Year Ended December 31, 2018	110,867	(113,400)	(27,723)	135,065
Fiscal Year Ended December 31, 2017	98,086	(38,778)	(30,582)	169,903

2. Cash Dividends

	Annual Dividends					Total Amount of Cash Dividends (annual)	Dividend Payout Ratio (consolidated)	Ratio of Dividends to Equity Attributable to Owners of Parent (consolidated)
	1st Q-End	2nd Q-End	3rd Q-End	Year-End	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of Yen	%	%
Fiscal Year Ended December 31, 2017	–	9.00	–	11.00	20.00	11,715	22.3	3.2
Fiscal Year Ended December 31, 2018	–	12.00	–	12.00	24.00	14,302	23.1	3.5
Fiscal Year Ending December 31, 2019 (forecast)	–	14.00	–	14.00	28.00		26.3	

3. Forecast of Consolidated Financial Results for the Fiscal Year Ending December 31, 2019 (January 1, 2019 through December 31, 2019)

(Figures in percentage represent increases or decreases from the previous fiscal year)

	Net Sales		Core Operating Income		Profit Before Tax		Profit Attributable to Owners of Parent		Basic Earnings Per Share
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Yen
Full Year	730,000	6.1	100,000	5.1	96,500	5.4	63,500	3.5	106.42

*** Notes**

(1) Changes in major subsidiaries during the period (or any change of specified subsidiaries accompanying a change in the scope of consolidation): Yes

Newly included: 1 company
Company name: DSG International (Thailand) Public Company Limited
(Note) For the details, please refer to "3. Consolidated Financial Statements and Significant Notes Thereto, (5) Notes to the consolidated financial statements, 2. Changes in major subsidiaries during the fiscal year under review" section on page 18.

(2) Changes in accounting policies and accounting estimates

(i) Changes in accounting policies required by IFRS: Yes
(ii) Changes in accounting policies other than item (i) above: None
(iii) Changes in accounting estimates: None
(Note) For the details, please refer to "3. Consolidated Financial Statements and Significant Notes Thereto, (5) Notes to the consolidated financial statements, 3. Significant accounting policies" section on page 18.

(3) Number of issued and outstanding shares (common shares)

(i) Number of issued and outstanding shares as of end of period (including treasury shares):
As of December 31, 2018: 620,834,319 shares
As of December 31, 2017: 620,834,319 shares
(ii) Number of treasury shares as of end of period:
As of December 31, 2018: 24,151,251 shares
As of December 31, 2017: 35,097,927 shares
(iii) Average number of shares during the period (accumulated total):
Fiscal Year Ended December 31, 2018: 591,475,687 shares
Fiscal Year Ended December 31, 2017: 587,322,285 shares

(Reference) Summary of non-consolidated performance

1. Non-consolidated Financial Results for the Fiscal Year Ended December 31, 2018 (January 1, 2018 through December 31, 2018)

(1) Non-consolidated financial results

(Figures in percentage represent increases or decreases from the previous fiscal year)

	Net Sales		Operating Income		Ordinary Income		Profit	
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%
Fiscal Year Ended December 31, 2018	359,961	6.2	47,131	33.7	61,545	42.9	43,774	23.1
Fiscal Year Ended December 31, 2017	338,846	3.4	35,249	0.7	43,056	11.1	35,554	121.7

	Earnings Per Share	Diluted Earnings Per Share
	Yen	Yen
Fiscal Year Ended December 31, 2018	74.01	71.52
Fiscal Year Ended December 31, 2017	60.54	57.38

(2) Non-consolidated financial position

	Total Assets	Net Assets	Ratio of Shareholders' Equity	Net Assets Per Share
	Millions of Yen	Millions of Yen	%	Yen
As of December 31, 2018	435,350	302,824	69.3	505.41
As of December 31, 2017	407,899	249,899	61.0	424.47

(Reference) Equity: As of December 31, 2018: ¥301,571 million
As of December 31, 2017: ¥248,629 million

Notes: 1. Non-consolidated financial figures were prepared in accordance with accounting standards generally accepted in Japan.
2. The Company has early adopted the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) from the fiscal year ended December 31, 2018. Accordingly, the figures for non-consolidated financial position as of December 31, 2017 are those after retrospective application.

2. Forecast of Non-consolidated Financial Results for the Fiscal Year Ending December 31, 2019 (January 1, 2019 through December 31, 2019)

Explanation regarding non-consolidated financial results is omitted since it is not considered to be material as investment information.

* Financial results report is exempt from audit by certified public accountants or an audit corporation.

* Explanation regarding proper use of the forecasts of financial results and other notes

(1) While the core operating income disclosed by the Company is not an indicator defined in IFRS, the Company voluntarily discloses this as it is believed to be a valuable benchmark for measuring the Group's recurring business performance.

(2) Forecasts stated herein are based on the currently available information and the Company's assumptions that were judged to be valid as of the announcement date hereof, and are not intended to be a promise by the Company to achieve these forecasts. Therefore, actual results may differ for various factors. Please refer to "1. Overview of the Operating Results, Etc., (4) Outlook for the fiscal year ending December 31, 2019" section on page 8 for more information concerning the assumptions used for forecasts of financial results and other notes on proper use.

Contents of Exhibit

1. Overview of the Operating Results, Etc.

(1) Overview of the operating results, etc. for the fiscal year under review

Comparison with actual results for the previous fiscal year

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

Comparison with projected results

	Projection for Fiscal Year Ended Dec. 31, 2018 (Millions of Yen)	Fiscal Year Ended Dec. 31, 2018 (Millions of Yen)	Difference (Millions of Yen)	Rate of difference (%)
Net sales	687,000	688,290	1,290	0.2
Core operating income	94,000	95,107	1,107	1.2
Profit before tax	93,000	91,561	(1,439)	(1.5)
Profit attributable to owners of parent	59,000	61,353	2,353	4.0

By region

	Net sales (Note)			Core operating income		
	Fiscal Year Ended Dec. 31, 2017 (Millions of Yen)	Fiscal Year Ended Dec. 31, 2018 (Millions of Yen)	Difference (Millions of Yen)	Fiscal Year Ended Dec. 31, 2017 (Millions of Yen)	Fiscal Year Ended Dec. 31, 2018 (Millions of Yen)	Difference (Millions of Yen)
Japan	266,010	279,589	13,580	57,718	56,334	(1,385)
China	83,058	87,145	4,087	7,904	9,872	1,968
Asia	192,254	215,721	23,468	15,968	22,948	6,979
Others	100,326	105,835	5,509	4,899	5,809	910

(Note) Net sales represent those to external customers.

1. Overview of the overall earnings in the fiscal year under review

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

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

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

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

2. Overview of the operation by main business segment

Financial results by segment are as described below.

1) Personal Care Business

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

(Note) Net sales represent those to external customers.

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

In Japan, the Company updated the products in the *moony* series, which fits comfortably on the baby's skin while preventing leakage, by applying patented "covering high waist" technology[*2] to *moony man Air Fit,* L-and Big-sized products of *Natural moony man* that uses organic cotton for the top sheet, a sensible choice for baby's skin while preventing leakage, and *Oyasumi Man* series exclusive for nighttime wear. The new technology provides a firm fit to the rounded belly characteristic of infants, allowing clean coverage all the way up to the navel preventing the diaper to slide down. In addition, the Company has relieved parents from worries about leaks with the *Mamy Poko* series, which has a charming Disney character design and an affordable price, as well as impressive performance. The absorber now uses a gel that quickly absorbs large volumes of urine repeatedly for a maximum of 12 hours[*3] to prevent leaks for the long term even for babies that play and move around a lot. Together with the Graduate School of Kyoto University, the Company carried out research based on developmental psychology on actions that motivate parents and children, and launched *Trepanman* as a new diaper that makes toilet training enjoyable for both parents and children. These diapers come with the world's first[*4] "Reward Stickers," "Find the Same Picture" game, and "Wakuwaku Drawing Space," which are patented technologies. We have given parents more enjoyment as they raise their babies.

*1: EDANA (European Disposables And Nonwovens Association)
*2: Constructed so that the edge of the waist area uses only stretchy, non-woven fabric, while the side edges of the waist area of the crotch use layers of stretchy, non-woven fabric and rubber threads.
*3: There are individual differences in the volume of urine a baby produces.
*4: Among pants-type disposable diapers manufactured by major global brands (survey by Unicharm Corporation, in February 2018)

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

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

*1: After rolling up the used napkin, the non-adhesive tape sticks to the napkin's adhesive face. Among pad-type menstrual napkins manufactured by major global brands (survey by Unicharm Corporation, in September 2017)
*2: Excluding the *SOFY Ultra Sound Sleep Guard 290* and the *SOFY Ultra Sound Sleep Fit 340*
*3: As before, after rolling up the pad, it is wrapped separately for disposal for improved sanitation.
*4: Excluding the *Hada Omoi Ultra Thin Slim 17.5 cm*
*5: This made-up Japanese word suggests a chic and cute cat.

● Health Care Business

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

In the domestic market, which continues to grow as Japan's population of the elderly increases, the Company has been working to educate the public about products that enable elderly people to continue with their current lifestyle as before. In the light incontinence care products line, the *Charm Nap Absorbent Sarafi* series, which brings happiness to daily life with its absorbent care, introduced the "fast absorbing sheet"*1, a patented technology that instantly draws urine into the absorber, leaving no moisture behind on the surface. In addition to this significant improvement in performance, the Company developed the *Charm Nap Sarafi Active Pants* in collaboration with Okayama Prefectural University. These shorts absorb urine but look and feel like underwear and can be worn without any need to worry about slippage and twisting. With these products, the Company continued its activities aimed at removing resistance to using these products by conveying that anyone can have light inconsistence. In the *Lifree* brand of adult disposable diapers and incontinence care products, the Company launched the *Lifree Comfortable Pads* series for women, which includes the world's first*2 "speed in sheet" to instantly absorb urine containing impurities. Coupled with the *Lifree Comfortable Pads for Men* series, which is designed to prevent urine leakage and stains on trousers, these products are an example of the kind of product the Company develops so that users can enjoy their daily lives as usual. In addition, the Company offered a clean and pleasant incontinence care environment with the launch of the *Lifree Bottom Clean Shower*. This product can be used to wash bottoms to keep them clean and fresh, thus alleviating the burden for both home care workers and the person being cared for. The Company offers "NAVI for Adult Diapers," which uses an artificial intelligence chatbot*3 — the first in the adult diaper industry — to answer questions about excretion care 24 hours a day, 365 days a year. The Company is also working to combat social problems associated with an aging population, such as home confinement and dementia, by holding regular *Lifree* "Social Walking"*4 events that support a healthy mentality and body. The Company has also actively promoted its products through TV commercials, on its website, during over-the-counter consultations at shops, and by creating shelf space at retailers based on daily activities to take the lead in the market for excretion care products.

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

*1: Applicable sizes: 10 cc to 170 cc
*2: The structure uses a ribbed top sheet that allows the user to maintain bulkiness even when wet. Among light incontinence pads manufactured by major global brands. (survey by Unicharm Corporation, in February 2015)
*3: A program that engages in dialogue instead of a person (or a system that includes this function)
*4: “Social walking” is a coined word that means “social participation and walking,” and it indicates a form of walking that helps preventing dementia in a manner that anyone can easily benefit from by walking while having a good time with other people (devised by the Company, under the supervision of Tokyo Metropolitan Geriatric Hospital and Institute of Gerontology).

● Clean and Fresh Business

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

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

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

2) Pet Care Business

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

(Note) Net sales represent those to external customers.

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

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

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

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

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

*1: Snacks for dogs jointly developed for the first time by Unicharm Corporation and Morinaga & Co., Ltd.
*2: A pet food in which the individual dry kibbles are topped with lines of fish cream. Among pet food manufactured by major global brands. (survey by Unicharm Corporation, in August 2018)

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

3) Other Businesses

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

(Note) Net sales represent those to external customers.

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

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

(2) Overview of the financial position for the fiscal year under review

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

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

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

(3) Overview of the cash flows for the fiscal year under review

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

Net cash provided by operating activities totaled ¥110,867 million (up ¥12,781 million from the previous fiscal year). Net cash used in investing activities totaled ¥113,400 million mainly due to purchase of investments in subsidiaries resulting in change in scope of consolidation (up ¥74,622 million from the previous fiscal year). Net cash used in financing activities amounted to ¥27,723 million, mainly attributable to purchase of treasury shares (down ¥2,859 million from the previous fiscal year).

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

(Reference) Changes in cash flow-related financial indicators

	As of Dec. 31, 2016	As of Dec. 31, 2017	As of Dec. 31, 2018
Ratio of equity attributable to owners of parent (%)	52.7	52.6	55.5
Ratio of equity attributable to owners of parent at market value (%)	226.0	232.9	267.0
Ratio of cash flows to interest-bearing debts (year)	0.2	0.2	0.4
Interest coverage ratio (times)	181.5	138.6	194.3

Ratio of equity attributable to owners of parent: Equity attributable to owners of parent/Total assets
Ratio of equity attributable to owners of parent at market value: Market capitalization/Total assets
Ratio of cash flows to interest-bearing debts: Interest-bearing debts/Cash flows
Interest coverage ratio: Cash flows/Payment of interest
Note 1: All the above indicators are calculated using consolidated financial figures.
Note 2: Market capitalization is calculated using the Company's total shares outstanding excluding treasury shares.
Note 3: Cash flows from operating activities are used for calculations.
Note 4: Interest-bearing debts cover all debts for which interest is paid among those that are included in the consolidated statement of financial position.
Note 5: The date of transition to IFRS was January 1, 2016, and the Group adopted IFRS in the fiscal year ended December 31, 2017. Accordingly, data for the fiscal year ended on December 31, 2015 and prior periods are not provided.

(4) Outlook for the fiscal year ending December 31, 2019

	Actual results for fiscal year ended Dec. 31, 2018 (Millions of Yen)	Projected results for fiscal year ending Dec. 31, 2019 (Millions of Yen)	Difference (Millions of Yen)	Rate of difference (%)
Net sales	688,290	730,000	41,710	6.1
Core operating income	95,107	100,000	4,893	5.1
Profit before tax	91,561	96,500	4,939	5.4
Profit attributable to owners of parent	61,353	63,500	2,147	3.5
Basic earnings per share (Yen)	103.73	106.42	2.69	2.6

Regarding the operating environment of the Group, the outlook remains uncertain due to factors such as geopolitical risks, trends in emerging economies and volatility in financial markets. Under these conditions, we expect a surge in raw materials prices to be the greatest risk. In the Asian countries where the Group operates businesses, we expect growth driven by domestic demand to continue, while in Japan, despite temporary fluctuations in demand due to consumption tax increase, we expect the market as a whole to continue on an expansionary track.

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

As a result of the aforementioned efforts, net sales, core operating income, profit before tax, and profit attributable to owners of parent for the fiscal year ending December 31, 2019 are projected to be ¥730,000 million, ¥100,000 million, ¥96,500 million and ¥63,500 million, respectively, on a consolidated basis. Basic earnings per share will be ¥106.42.

In the meantime, the Company's assumptions on foreign exchange rates for the main currencies are JPY109.5 to the U.S. dollar and JPY15.9 to the Chinese yuan.

(5) Basic policy regarding profit distribution and dividends for the fiscal year ended December 31, 2018 and the fiscal year ending December 31, 2019

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

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

Also, based on the resolution for purchase of the treasury shares passed at the Board of Directors' meeting held on November 5, 2018, 4,574,200 shares were acquired, from November 6 to December 19, 2018, by the purchase on the Tokyo Stock Exchange for the total purchase amount of ¥15,500 million.

Based on the abovementioned profit distribution policy, the Company plans to make an annual dividend payment in the fiscal year ending December 31, 2019 of ¥28 per share, including a ¥14 per share dividend for the end of the second quarter, as we gradually increase dividend payouts toward 2020.

2. Basic Stance on Selecting Accounting Standards

The Group has applied the International Financial Reporting Standards (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. Consolidated Financial Statements and Significant Notes Thereto

(1) Consolidated statement of financial position

(Millions of Yen)

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

(Millions of Yen)

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

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

(Millions of Yen)

	Notes	Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)
Net sales	4	641,647	688,290
Cost of sales		(393,101)	(423,005)
Gross profit		248,546	265,286
Selling, general and administrative expenses	6	(161,707)	(170,178)
Other income		2,163	1,783
Other expenses		(2,662)	(4,364)
Financial income		8,750	3,310
Financial costs		(2,163)	(4,275)
Profit before tax		92,926	91,561
Income tax expenses		(35,355)	(24,295)
Profit for the period		57,571	67,265
Profit attributable to			
Owners of parent		52,772	61,353
Non-controlling interests		4,800	5,913
Profit for the period		57,571	67,265
Earnings per share attributable to owners of parent			
Basic earnings per share (Yen)	7	89.85	103.73
Diluted earnings per share (Yen)	7	87.06	101.44

Reconciliation of changes from gross profit to core operating income

(Millions of Yen)

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

* Core operating income comprises gross profit less selling, general and administrative expenses. While it is not an indicator defined in IFRS, the Company voluntarily discloses this in the consolidated statement of income and Note "4. Segment information" as the Company's Board of Directors evaluates the performance of business segments based on core operating income, and it is believed to be a valuable benchmark for measuring the Group's recurring business performance.

Consolidated statement of comprehensive income

(Millions of Yen)

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

(3) Consolidated statement of changes in equity

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

(Millions of Yen)

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

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

(Millions of Yen)

	Notes	Equity attributable to owners of parent						Non-controlling interests	Total equity
		Capital stock	Share premium	Retained earnings	Treasury shares	Other components of equity	Total		
Balance at January 1, 2018		15,993	421	434,298	(67,652)	4,509	387,567	65,461	453,029
Profit for the period		–	–	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		–	–	–	(15,500)	–	(15,500)	–	(15,500)
Conversion of convertible bond-type bonds with share acquisition rights		–	10,250	–	30,376	(3,057)	37,569	–	37,569
Dividends		–	–	(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		–	–	(1,609)	–	1,609	–	–	–
Total transactions with owners		–	12,637	(15,193)	14,876	(1,448)	10,872	(5,542)	5,330
Balance at December 31, 2018		15,993	13,058	480,457	(52,776)	(15,276)	441,456	62,214	503,670

(4) Consolidated statement of cash flows

(Millions of Yen)

	Notes	Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)
Cash flows from operating activities			
Profit before tax		92,926	91,561
Depreciation and amortization expense		29,345	30,353
Impairment losses		886	2,182
Interest and dividend income		(2,869)	(3,309)
Interest expenses		928	2,280
Foreign exchange loss (gain)		(547)	728
Loss (gain) on sale and retirement of fixed assets		898	598
Loss (gain) on sale of available-for-sale financial assets		(4,937)	–
Decrease (increase) in trade and other receivables		(7,583)	(85)
Decrease (increase) in inventories		(5,241)	(9,872)
Increase (decrease) in trade and other payables		8,388	15,994
Increase (decrease) in other current liabilities		6,826	4,434
Other		(3,023)	(3,281)
Subtotal		115,999	131,582
Interest and dividends received		2,721	3,224
Interest paid		(708)	(571)
Income taxes refund		8	1,283
Income taxes paid		(19,934)	(24,652)
Net cash provided by (used in) operating activities		98,086	110,867
Cash flows from investing activities			
Payments into time deposits		(65,952)	(21,697)
Proceeds from withdrawal of time deposits		46,937	28,607
Purchase of property, plant and equipment, and intangible assets		(32,598)	(43,303)
Proceeds from sale of property, plant and equipment, and intangible assets		64	313
Purchase of available-for-sale financial assets		(17)	–
Purchase of financial assets measured at amortized cost		–	(1,004)
Purchase of financial assets measured at fair value through profit or loss		–	(8,500)
Purchase of equity instruments measured at fair value through other comprehensive income		–	(13,931)
Proceeds from sale of available-for-sale financial assets		11,363	–
Proceeds from sale and redemption of financial assets measured at fair value through profit or loss		–	1,500
Proceeds from sale and redemption of equity instruments measured at fair value through other comprehensive income		–	802
Purchase of investments in subsidiaries resulting in change in scope of consolidation	5	–	(56,606)
Proceeds from sale of investments in subsidiaries resulting in change in scope of consolidation		1,424	411
Other		1	7
Net cash provided by (used in) investing activities		(38,778)	(113,400)

(Millions of Yen)

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

(5) Notes to the consolidated financial statements

1. Notes regarding going concern assumptions

None.

2. Changes in major subsidiaries during the fiscal year under review

For the fiscal year under review, following the acquisition of the entire shares of DSG (Cayman) Limited, that company along with its subsidiaries comprising DSG International (Thailand) Public Company Limited and eight other companies, were included in the scope of consolidation.

DSG International (Thailand) Public Company Limited falls under the category of specified subsidiaries.

3. Significant accounting policies

Significant accounting policies adopted for these consolidated financial statements are the same as those applied to the consolidated financial statements for the fiscal year ended December 31, 2017 with the exception of the changes in accounting policies described hereunder.

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

Standard number	Standard title	Overview of new and revised standards
IFRS 9	Financial Instruments	Revisions relating to classification and measurement of financial instruments, impairment and hedge accounting
IFRS 15	Revenue from Contracts with Customers	Revisions of accounting procedures relating to recognition of revenue

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

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

(1) Adoption of IFRS 9

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

(i) Initial recognition and measurement

The Group classifies financial assets which it holds into the following categories: (a) financial assets measured at amortized cost, (b) equity instruments measured at fair value through other comprehensive income, and (c) 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.

(a) 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 loss. 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.

(b) 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.

(c) 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.

(ii) Impairment of financial assets

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

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

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

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

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

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

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

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

(Millions of Yen)

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

(2) Adoption of IFRS 15

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

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

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

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

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

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

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

The impact of the application of IFRS 15 is insignificant.

4. 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 reporting segments.

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

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

(2) Sales and results by reportable segment

Sales and results by reportable segment are as follows.

(Millions of Yen)

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

(Millions of Yen)

	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)					
	Reportable 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 expense	27,358	2,841	154	30,353	–	30,353
Impairment losses	2,167	15	–	2,182	–	2,182
Increase in property, plant and equipment and intangible assets	72,101	1,283	304	73,688	–	73,688

(Note) Sales across segments are based on prevailing market prices.

5. Business combinations

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

None.

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

(1) Overview of business combinations

On September 25, 2018, the Company acquired 100% shares of DSG (Cayman) Limited (hereafter "DSGCL").

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

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

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

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

(Millions of Yen)

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

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

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

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

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

(Millions of Yen)

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

(4) Cash flow associated with acquisition

(Millions of Yen)

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

(5) Impact on performance

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

6. Selling, general and administrative expenses

The breakdown of selling, general and administrative expenses is as follows.

(Millions of Yen)

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

7. Earnings per share

(1) Basic earnings per share

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

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

(2) Diluted earnings per share

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

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

8. Significant subsequent events

(Capital increase of subsidiary)

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

(Purchase of treasury shares)

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

(1) Reason for conducting purchase of treasury shares

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

(2) Details of the share acquisition

1. Type of shares to be acquired: Company's common shares

2. Total number of shares to be acquired: 5.0 million shares (upper limit)

(Ratio of total number of issued shares (excluding treasury shares): 0.84%)

3. Total share acquisition cost: 15,000 million yen (upper limit)

4. Acquisition period: February 15, 2019 – December 20, 2019

5. Acquisition method: Purchase on the Tokyo Stock Exchange
(through discretionary investment by a securities company)