



Integrated Report **2015**

(Annual Report 2015)



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Editorial policy

Unicharm is striving to increase corporate value while also helping to make everyday life cleaner and more hygienic for people around the world. Given this objective, we have decided to publish Integrated Reports, which include more non-financial information than conventional Annual Reports, to help stakeholders gain a more detailed picture of the links between our strategies and the social impact of our business. For our Integrated Report 2015, we have selected the most important information about our management strategies, business activities, earnings performance, CSR programs and management structure, and presented it in an easy-to-understand format.

Scope of report: Unicharm Corporation and its domestic and overseas consolidated subsidiaries, as well as information about some non-consolidated subsidiaries and affiliates

Message from the President

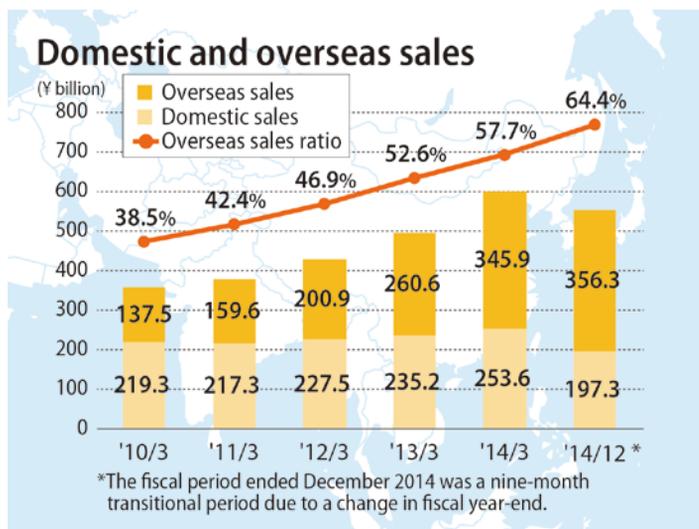
We constantly provide the world's No.1 and unprecedented products and services to everybody around the globe, and deliver comfort, impression and satisfaction.

Another year of record sales and operating income

In the fiscal period ended December 31, 2014, Unicharm reported net sales of ¥553.6 billion and operating income of ¥61.3 billion. The period under review was a nine-month transitional period due to a change in our fiscal year-end, but in real terms, it marked the 13th straight year of record net sales and the eighth successive year of record operating income.

Overseas, we implemented aggressive marketing campaigns with a focus on China, Indonesia and other markets in Asia. This drove steady growth in the Asia region's share of net sales. As a result, overseas sales now account for 64.4% of consolidated net sales, up 6.7 percentage points year on year. Earnings in Japan were solid, supported by strong demand for high value-added products in the personal care and pet care businesses, as well as efforts to improve profitability.

For fiscal 2015 ending December 31, 2015, the entire Unicharm Group will continue to work on delivering another year of record net sales and operating income.



Takahisa Takahara
President and CEO

Working toward the goals in our ninth Medium-Term Management Plan and G20 Plan

We see the potential for continued strong growth in target business fields worldwide in both advanced and emerging markets. Supported by these conditions, we aim to accelerate the globalization of our business to drive rapid growth. This objective is incorporated into our ninth Medium-Term Management Plan and our long-term vision, the G20 Plan, both released in April 2014. Under the G20 Plan, we are targeting consolidated net sales of ¥1.6 trillion, average annual sales growth of 15%, an operating margin of 15% and ROE of 15% by 2020. To achieve those targets, the ninth Medium-Term Management Plan calls for net sales of ¥913.1 billion in fiscal 2016, ending December 31, 2016. As a stepping stone toward these goals, we forecast consolidated net sales of ¥760 billion and operating income of ¥86 billion in fiscal 2015, ending December 31, 2015. That means we are aiming for double-digit growth in net sales and profits in both Japan and overseas.

We will continue to strengthen strategy implementation in our core business areas and regions in order to attain our management targets.



G20 Plan targets: ¥1.6 trillion in consolidated net sales in 2020

Performance targets

Growth potential
Sales growth

15%

Profitability
Operating margin

15%

Capital efficiency
ROE

15%

Responding rapidly to changing markets through close contact with consumers

In emerging markets, demand for disposable diapers and feminine care products is expanding rapidly due to rising incomes. Against this backdrop, our goal is to build a dominant market share in the fast-growing Asia market. In Asia, where there are still low levels of market uptake and usage for disposable baby diapers, feminine care products and adult incontinence care products, we are expanding our supply framework to prepare for further growth in demand. Two years ago, we opened a factory in Surabaya, Indonesia, last year we opened another in Yangzhou, China, and we are currently building our second factory in India, a country with a vast population. The new factory, located in the south of the country, is scheduled to start production in the first half of fiscal 2015.

In Japan, as part of ongoing efforts to offer new value propositions, we launched smaller diaper sizes for new-born infants in response to rising numbers of babies with low birth weights.

In autumn 2014, in the key Chinese market, we launched new high-quality disposable diapers that offer even higher levels of peace of mind and safety. These new products have proven to be very popular with consumers.

By continuing to create close links with customers, we plan to quickly identify changes in the market and use that information to rapidly launch and promote new products that address those changes. Leveraging strengths built up in Asia, we aim to increase our presence in the global market by extending our sales reach into Africa, South America and other areas with the potential for growth in demand.

In advanced markets and some countries in Asia where populations are also aging, we will reinforce our pet care and health care businesses, two areas where demand is likely to expand over the medium and long term.

Our mission is to help improve quality of life for people worldwide

All the products we supply are vital to making everyday life cleaner and more hygienic. Our mission is to provide these products to people worldwide to help raise quality of life. In 2006, we declared our support for the United Nations Global Compact and we have also given our backing to the United Nations Millennium Development Goals. We are now striving to achieve the principles of both programs.

Many people in emerging markets still live in unhygienic conditions, as they are unable to buy disposable diapers or feminine care products. Using the expertise we have accumulated through our operations in Japan, we are providing products and services tailored to conditions in each country and region. These products are supplied to consumers from local factories, which we also use to actively provide employment opportunities for local women. Together with various Unicharm-sponsored awareness programs, these efforts are aimed at raising living standards for women in emerging markets, helping them to take a more active role in society. In advanced markets, societies are expected to age rapidly. In Japan, where population aging is more advanced than in other countries, we have used our position as a leading company in the industry to encourage wider uptake and greater awareness of products, such as light incontinence products, as part of efforts to extend the healthy life expectancy of elderly people.

In Asia, where population aging is also becoming a challenge, we plan to actively raise awareness of related issues by transferring our Japanese care model to other Asian markets. In countries with different values to Japan, this will mean actively communicating the merits of our care model, such as the positive economic impact of giving the elderly greater independence, rather than restricting them to bed, and the hygienic and economic benefits of using adult incontinence care products. Our approach also reduces the burden on carers and the people receiving incontinence care, helping to resolve issues that prevent elderly people in society today from leading independent, comfortable lives. As part of ongoing efforts to extend the healthy life expectancy of elderly people, we will continue to create new products and address the issue of aging in pets – which are now often regarded as members of the family – in order to create a symbiotic society where people can live long and rich lives with their pets.

Paying stable returns to shareholder

At Unicharm, one of our top priorities is to return an appropriate level of profits to shareholders. We believe it is important to pay stable returns while at the same time strengthening the Company to boost earnings and actively investing in our business to drive growth.

For the fiscal period ended December 31, 2014, we plan to pay a year-end dividend of ¥6.40 per share, after taking into account the stock split conducted last year.

In fiscal 2015, in accordance with our shareholder return policy, we will put priority on business investment to deliver sustained growth, while continuing to pay a stable and sustained dividend in line with medium- to long-term growth in consolidated earnings. Where necessary, we also intend to increase the total shareholder return ratio by conducting share buybacks on a flexible basis. We intend to pay a full-year dividend of ¥14.80 per share for fiscal 2015.

Building a stronger more global business structure

We are striving to make our business more global by giving overseas subsidiaries more power. To support this move, we need people who understand Unicharm's DNA, corporate culture and business strategies. We are actively sending our best people, who often have over 20 years of experience working for Unicharm, to overseas business sites to ensure our corporate DNA takes root.

We have already made progress in strengthening corporate governance, such as introducing an executive officer system to separate management oversight and executive functions, but we intend to build on this progress by adopting a committee-based system of corporate governance (company with audit and supervisory committee) on May 1, 2015. This new system will strengthen oversight of the executive functions of the Board of Directors and bring outside directors into the management process to increase transparency and efficiency. Our main objective is to ensure we satisfy the expectations of all our stakeholders in Japan and overseas from a global perspective.

Targeting sustained growth by responding accurately to changes in our markets

One of our goals is to help improve quality of life for people everywhere, but to do this, we also need to maximize earnings. It is vital that we respond flexibly to changes in population trends and consumer lifestyles from a long-term perspective, to ensure we remain successful in an increasingly competitive global market. By integrating closely with local markets, we will be able to rapidly identify changes in the operating environment and trends at our competitors. This will help us to make decisions on the best time to launch products and reinforce our manufacturing framework. Using this approach, we aim to continue delivering record profits and achieve the goals in our ninth Medium-Term Management Plan and G20 Plan.

I look forward to the continued support of all our stakeholders as we take on the challenges ahead.

March 2015

Takahisa Takahara

President and CEO





Unicharm: A Story of Sustained Growth

More than 50 years of continued growth

Unicharm was founded in 1961. In the space of just over 50 years, it has grown into a company with annual sales worth roughly ¥600 billion. That period has also seen successive years of record net sales and operating income. We realized early on that the domestic market was maturing, prompting us to actively start developing our overseas operations in the 1980s. Since then, we have established our presence in a wide range of overseas markets – advanced and emerging – which has supported steady growth in earnings.

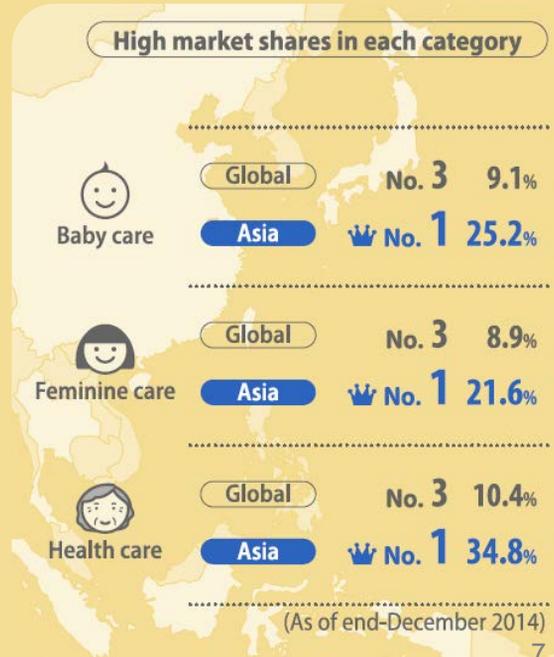
- *1 Fiscal period ended March 1988: six-month transitional period due to a change in fiscal year-end
- *2 Fiscal period ended December 2014: nine-month transitional period due to a change in fiscal year-end



Leading share in the fast-growing Asia market

Unicharm has positioned the fast-growing Asia region as its priority market. We have already built leading market shares in disposable diapers, feminine care products and adult incontinence care products in the region's key markets. Asia's high and sustained rate of growth has been the driver behind Unicharm's own expansion.

Unicharm channels its business resources into nonwoven fabric and absorbent material processing and forming technology. This means we can launch high-quality products that are popular with consumers in Japan and overseas ahead of competitors, thanks to our position as a specialist manufacturer.



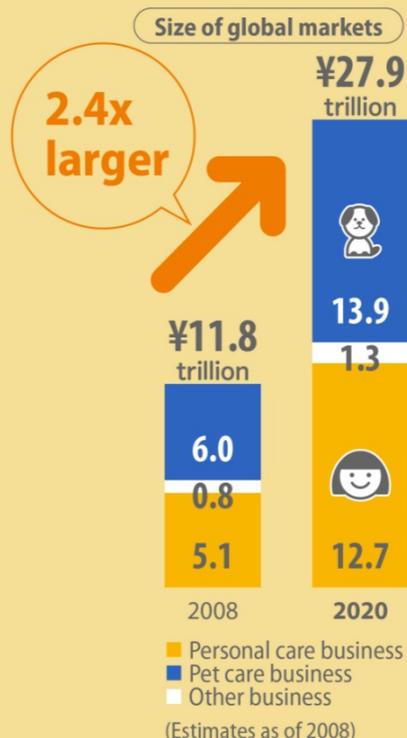
Personal care and pet care businesses driving growth

We see considerable room for growth in our target business fields.

Demand for feminine care products and disposable diapers is growing simultaneously in many emerging markets in Asia and elsewhere due to rising income levels. We see prospects for further growth in Africa and South America, as well as Asia, spurred by population growth in emerging markets.

Also, aging populations in advanced economies and some Asian countries are likely to support increased demand for adult incontinence care products and pet care products.

In particular, pet care markets continue to expand worldwide. We expect this trend to drive growth in our pet care business, which is likely to rival our personal care business for size in the longer term.



Continuing to provide world-leading products and services

Unicharm supplies feminine care products, disposable baby diapers, adult incontinence products and a wide range of other products to consumers in Japan and overseas. In these business activities, we are guided by our NOLA & DOLA corporate philosophy, which incorporates our goal of making life more comfortable for people worldwide.

Delivering sustained growth in earnings is crucial, but more importantly, we strive to continue providing world-leading products and services that consistently satisfy the changing needs of consumers. All our employees are committed in thought and action to making life better and more comfortable for our customers.



Making life more comfortable for women and children

Unicharm started out in the 1960s as a maker of feminine care products. At the time, sanitary napkins were rudimentary, made from several layers of thick paper which soon lost their absorbency. To overcome this problem, we started developing nonwoven fabric to replace the paper sheets, achieving incremental improvements in sanitary napkin absorbency. These advances gave women more independence during their periods, helping them to take a more active role in society.

In the 1980s, we started manufacturing and selling disposable diapers, leveraging the technologies we created for sanitary napkins. Our high-quality disposable diapers helped reduce the burden of child rearing for mothers, again giving them scope to move away from their traditional role in the home.



Creating a better society for the elderly and pets

Unicharm began actively moving into new business fields from the 1980s, when population estimates showed Japan's society was aging.

One of those business fields was health care. Motivated by a desire to help elderly people lead the lives they want for as long as possible, we began manufacturing and selling disposable adult diapers in 1987. Since then, we have consistently sought to help elderly people lead independent lives through adult incontinence care.

Another new business field was pet care. In 1986, we started manufacturing and selling pet care products with the aim of making it easier for people to care for pets in the areas of health and hygiene.

In recent years, as aging has become an issue for both pets and people, we have shifted our focus to creating a symbiotic society where pets and their owners can live together in comfort.



Identifying what customers really want is key to creating distinctive products

Consumer needs are changing constantly. At Unicharm, we seek to pin down those needs as soon as possible to ensure we can continue developing products that exceed their expectations. Our goal is to make everyday life easier and more hygienic for our customers. To achieve this aim, Unicharm staff conduct detailed research into local lifestyles in each market at the product development stage, helping us identify what consumers really need from our products.

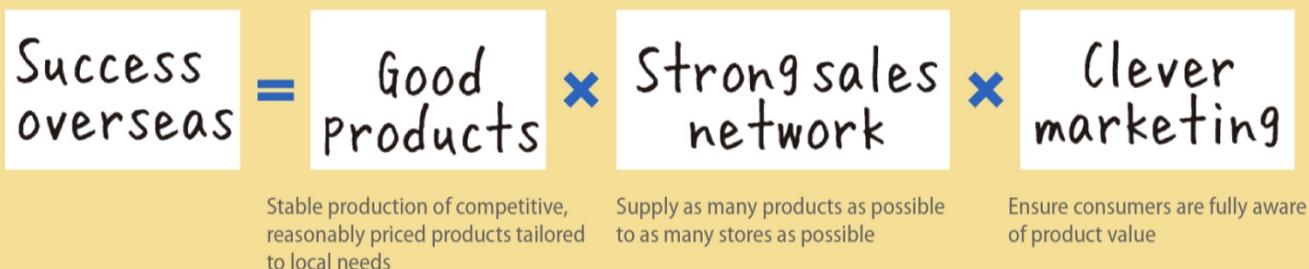
By identifying these needs, we can develop distinctive products tailored to the specific needs of regional markets.



Transferring the secrets of our success to other overseas markets

We aim to accelerate global expansion to support sustained growth. The secrets of our success overseas are good products, a strong sales network and clever marketing.

We have built strong positions in over 80 countries by skillfully adapting our template for success in Japan to overseas markets. We have carefully analyzed the reasons for this success to the extent that we can now recreate similar conditions whenever and wherever we choose. Our achievements overseas are built on this thorough self-assessment of Unicharm's strengths and weaknesses.

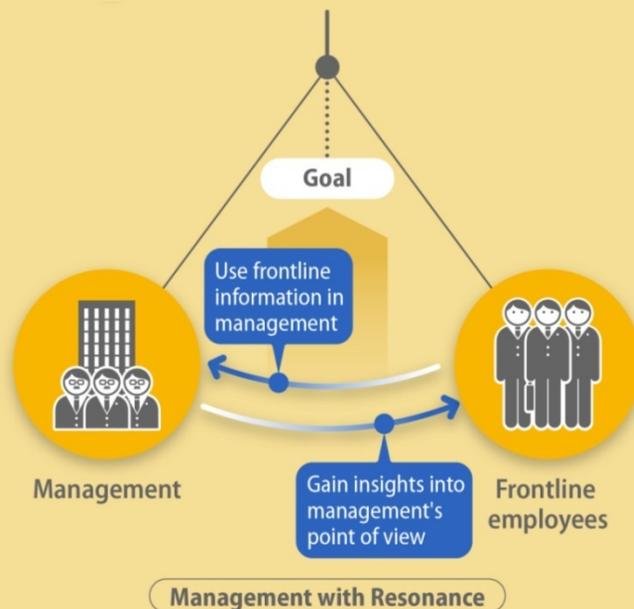


Management with Resonance based on close links with frontline operations

We have set ambitious growth targets for Japan and overseas markets. To ensure strategies to achieve those targets are implemented effectively, management and frontline employees need to work together toward shared goals.

To achieve our medium-term goals, we conduct in-depth discussions with frontline employees about detailed action plans for each product category and regional market. Once everyone is satisfied with the plans, they are incorporated into wider plans for approval by the Board of Directors. Through this process, managers gain first-hand information about frontline operations and employees gain insights into management's point of view.

This daily interaction of skills and knowledge between the frontline and management – which can be visualized as a pendulum – leads to Management with Resonance and feeds back into personnel development, which also supports Unicharm's growth.



Working to make life better for people everywhere

Unicharm is working to make life more comfortable for people worldwide. To achieve this, we offer products for babies, the elderly and even pets that make life easier by supporting the mind and the body. Every region has different needs, with advanced economies facing the problem of aging societies and emerging economies needing to tackle hygiene issues. By integrating closely with local markets, we gain a clear understanding of what each region needs now and in the future.

Going forward, we will continue to tackle issues in society head on while using our brand of Management with Resonance to constantly provide the world's number one and unprecedented products and services to everybody around the globe, and deliver comfort, impression and satisfaction.



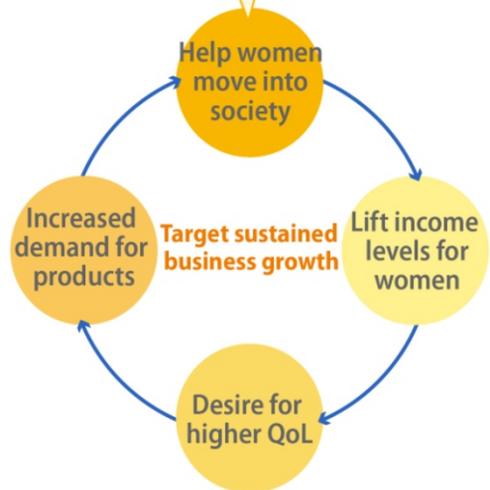


Challenges faced by women and babies

Creating markets that help women take a more active role in society

Our efforts to help women participate fully in society are now being implemented overseas. In emerging markets, we sell feminine care products and disposable diapers at a price point that makes them accessible for people on local incomes. We also actively hire women to work in our local plants and offices and educate them about the mechanism of menstruation and feminine care products. Encouraging women to take an active role in society also helps to lift their income levels, which should ultimately translate into increased demand for our products and a stronger Unicharm brand.

- Supply Unicharm products
- Education about menstruation
- Hire women to work in local plants / offices



Challenges faced by the elderly and pets

Offering new value propositions centered on creating a symbiotic society

Our aim is to help create a symbiotic society, where people of all ages live in comfort and individual independence is respected. With societal aging now a growing issue worldwide, Unicharm has proposed a new approach to nursing care. Instead of restricting the elderly to bed, we have introduced the concept of rehabilitation through the use of disposable adult diapers. These products help the elderly live with more dignity and encourage them to be more independent, which also reduces the burden on their carers. We are also putting more emphasis on the health of pets, which are increasingly seen as members of the family. We have expanded our lineup of pet food to include products with the right balance of ingredients for the changing bodies and appetites of aging dogs and cats.



Unicharm is working to create a symbiotic society

Global issues

Reducing environmental impact

Increasing the ratio of environmentally friendly products to reduce our impact on the environment

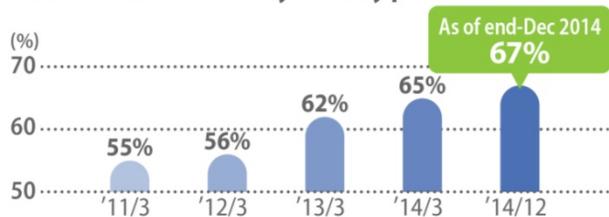
Unicharm’s products have a close relationship with the environment. They play a key role in making everyday life more hygienic, but they are also disposable products that end up as waste.

That’s why we have introduced strict environmental standards for our products. Based on these standards, we have changed the design of our products to reduce the volume of raw materials and cut waste in manufacturing processes to an absolute minimum. We are also cutting back the volume of waste in other areas to reduce the overall environmental impact of our business operations.

In addition, 25 Unicharm product categories now have proprietary Eco Charming certification*, which is only awarded to products that satisfy strict criteria on reducing environmental impact and enhancing product value.

We are also pushing ahead with R&D aimed at further reducing environmental impact, as part of efforts to create new value in the environmental field and fulfill our responsibilities as a maker of consumer products.

Ratio of environmentally friendly products



Reductions in CO₂ and waste



*Eco Charming mark: Proprietary Unicharm certification only shown on labels of products that enhance value in areas such as convenience and comfort, while also reducing environmental impact compared with legacy products.

The Unicharm approach

Detailed market research

Developing the best products for local needs

Our corporate philosophy incorporates our goal of making life more comfortable for people worldwide. To realize this vision, we need to develop products that are priced at a level that makes them accessible for people in emerging markets.

For example, after detailed local market research, we developed new disposable diapers that retain the basic non-leak, stay-dry qualities of our diapers, while also exhaustively scaling back costs in areas where value is less noticeable to consumers. Our efforts resulted in a range of diapers aimed at middle-class consumers that carefully balance quality and price. These diapers are now the leading products in Indonesia and China.



Striving to make life more comfortable for people worldwide

The Unicharm approach

People who can turn ideas into reality

Dispatching our top people in Japan to overseas sites

To ensure our template for success also works overseas, we need people who can adapt our approach in Japan to the culture of local markets.

That's why we actively send our best people – often with over 20 years of experience – to overseas offices. To ensure there is a steady stream of highly capable people, we also later train employee cohorts and pass on Unicharm's corporate DNA to overseas locations.

Roughly 60% of Unicharm's Executive Officers are either currently overseas or have overseas work experience. We believe greater knowledge of overseas operations helps senior management make better choices when faced with tough decisions.



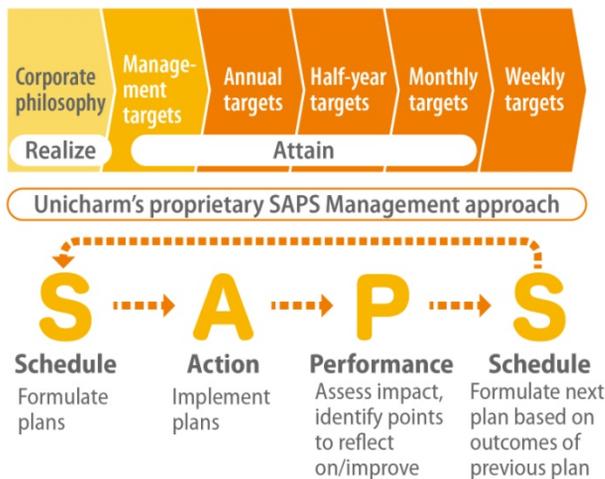
The Unicharm approach

Management focused on frontline operations

Management with Resonance underpinned by our SAPS Management Model

Our management approach puts the highest priority on first-hand information and intuitive observations gathered directly from frontline operations.

Anybody can access second-hand information from books or the internet, but it does not offer the same kind of insight as first-hand information. By visiting frontline operations and seeing conditions with our own eyes, we gain a better picture of the effectiveness and speed of strategy implementation. However, visiting frontline operations is a time consuming process, so we introduced our SAPS Management model to help managers use their valuable time more effectively. Under the SAPS Management model, every employee channels their time and effort into resolving priority issues within their team, helping to eliminate unproductive activities from daily tasks.



Each division, group and individual channels efforts into resolving high-priority, high value-added issues

Integrated Report 2015



Message from the President	Financial and Non-Financial Highlights	Unicharm and the Changing World	Strategy and Progress	Management Structure and Corporate Governance
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Financial and Non - Financial Highlights



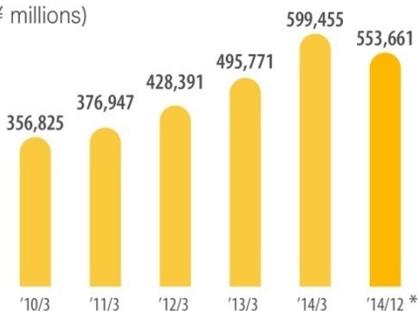
G20 Plan targets consolidated net sales of ¥1.6 trillion in 2020

We aim to grow sales at an annual rate of 15% while also boosting profitability and capital efficiency.

● Performance Targets

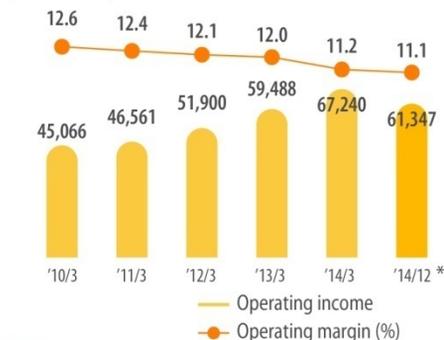
● Growth potential
Sales growth
(¥ millions)

15%



● Profitability
Operating margin
(¥ millions)

15%



● Capital efficiency
ROE
(%)

15%



*The fiscal period ended December 31, 2014 was a transitional fiscal period due to a change in fiscal year-end.



We aim to build a dominant market share in Asia and enhance our presence in the global market.

We will actively channel management resources into growth markets.

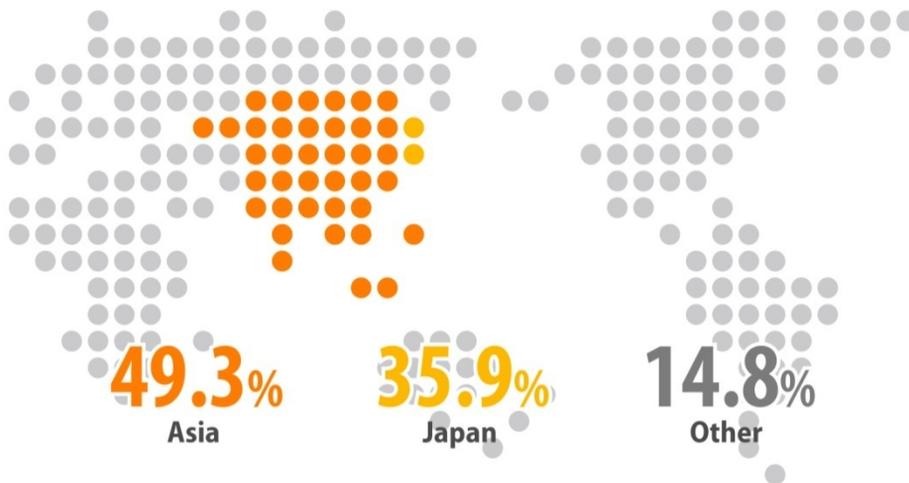
Share of nonwoven fabric / absorbent material market

(Fiscal period ended December 31, 2014)



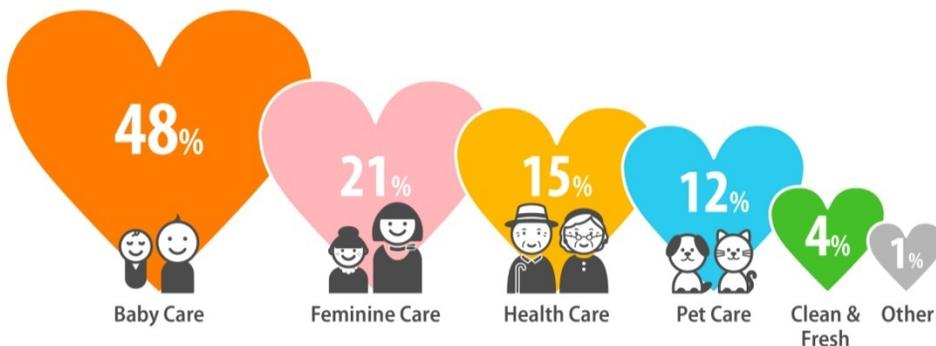
Sales by geographical segment

(Fiscal period ended December 31, 2014)



Sales by business segment

(Fiscal period ended December 31, 2014)

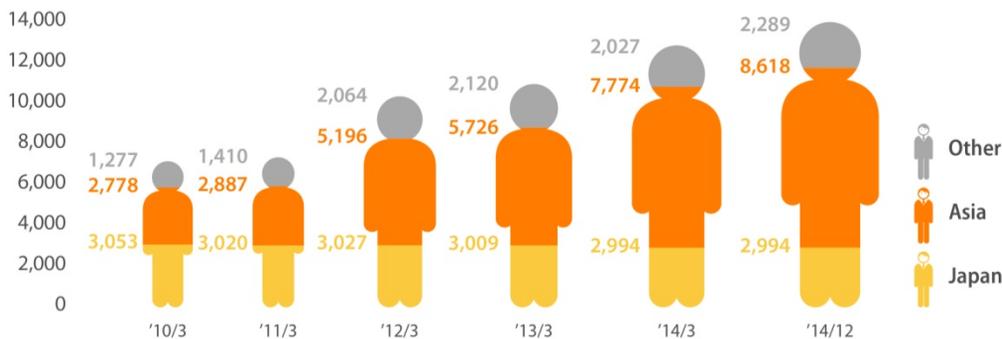




We will create a more diverse workforce to help tackle issues faced by global society.

Unicharm has a high ratio of overseas employees, and many senior managers have worked at offices overseas. We are also offering more employment opportunities for women, and the number of women in management roles is increasing.

● Number of employees by geographical segment



● Number of employees (consolidated) (As of December 31, 2014)



● Executive officers (including concurrent directors) (As of December 31, 2014)



● Percentage of female managers (As of December 31, 2014)



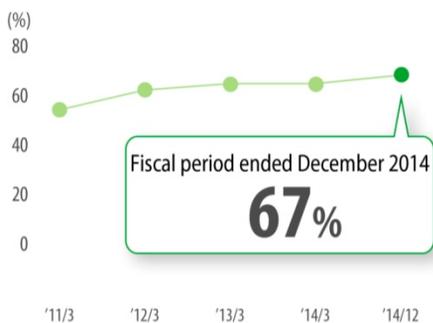


We will work to help create a sustainable society.

Unicharm is implementing initiatives to realize environmental improvements in two key areas: reducing environmental impact and achieving economic efficiency.

● Percentage of environmentally friendly products

75% by December 2016



● Reduction in industrial waste (at three main plants)

-14% by December 2016



● CO₂ emissions volume

Unit energy consumption (GJ) / sales (¥ millions)

10.5 by December 2016

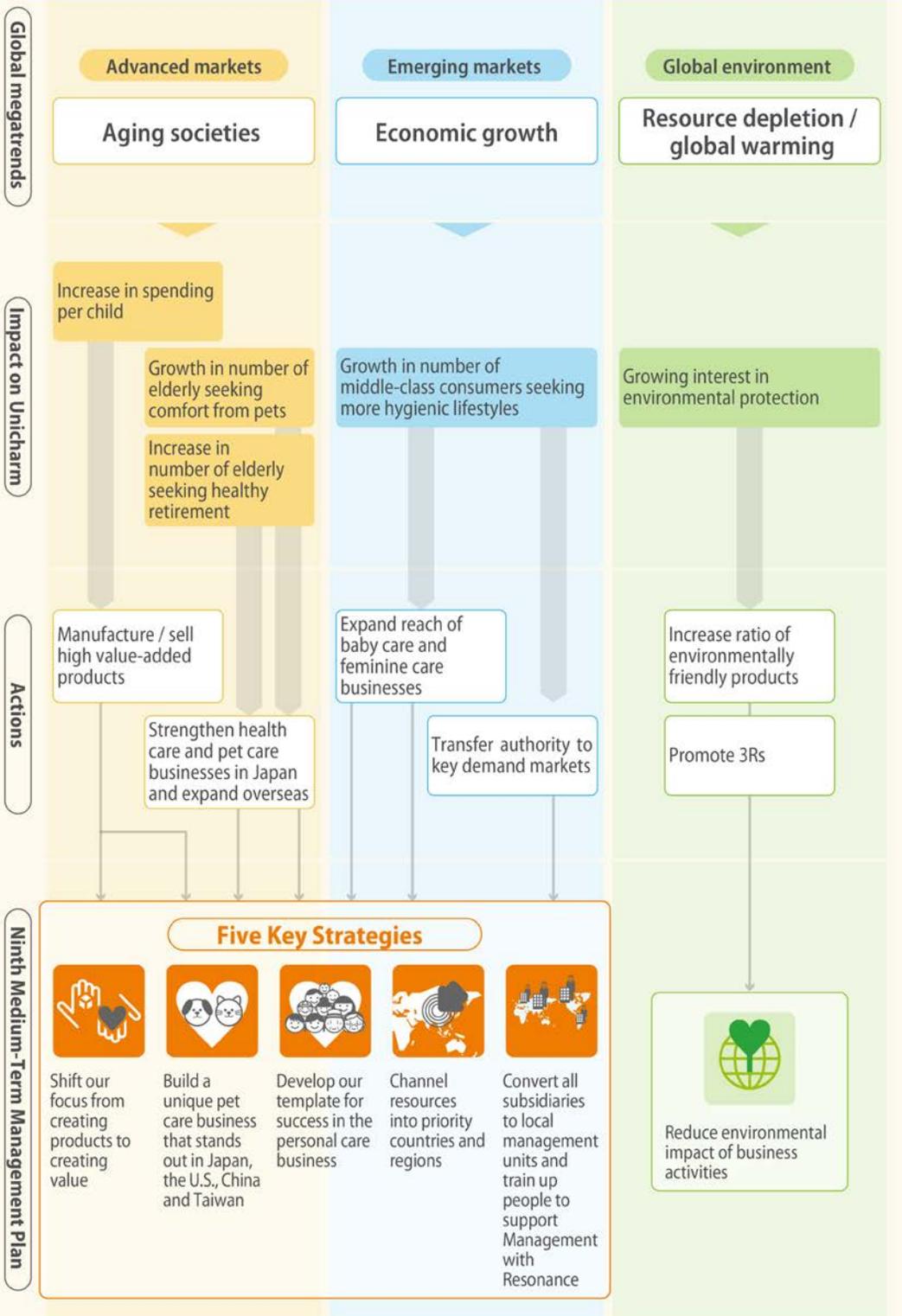


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Unicharm and the Changing World



Five Key Strategies



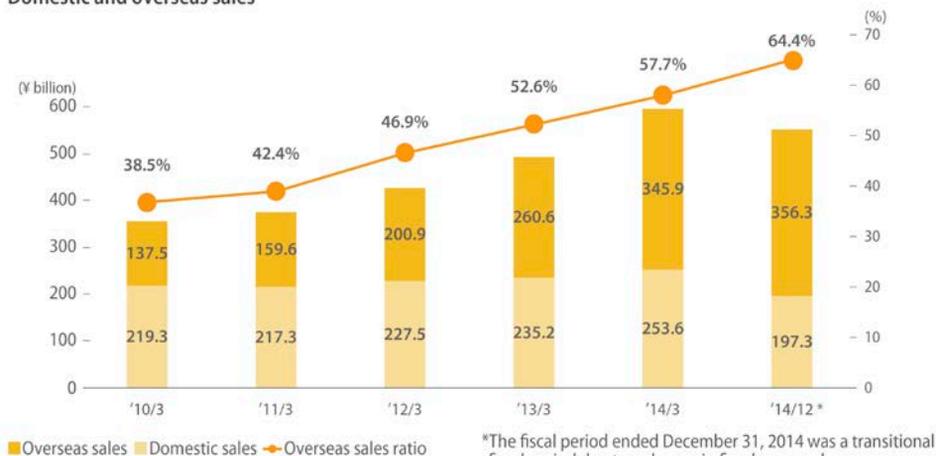
Channel resources into priority countries and regions

Emerging markets in Asia and other regions

Growth in Asia is driving consolidated earnings

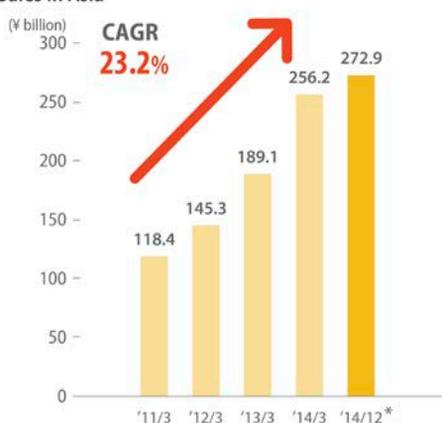
The rate of market uptake for disposable baby diapers and feminine care products continues to rise rapidly in Asia on the back of economic growth. In China, currently our most important market, we have expanded our lineup of premium products to address growing demand. As a result, sales have returned to double-digit growth and profitability is improving. Sales in India and Southeast Asian markets such as Indonesia also remain strong. In the fiscal period ended December 2014, a nine-month transitional period due to a change in fiscal year-end, the Group's sales in Asia excluding Japan totaled ¥272.9 billion and overseas sales accounted for a record 64.4% of consolidated sales, up 6.7 percentage points from the previous fiscal year.

Domestic and overseas sales

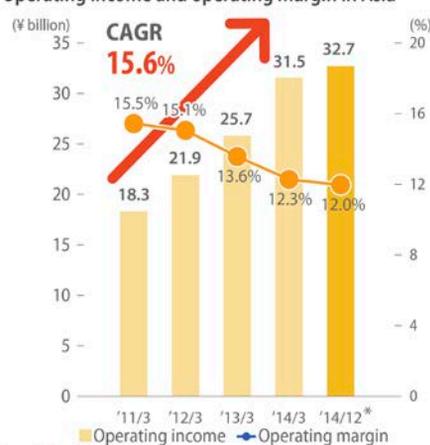


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Sales in Asia



Operating income and operating margin in Asia



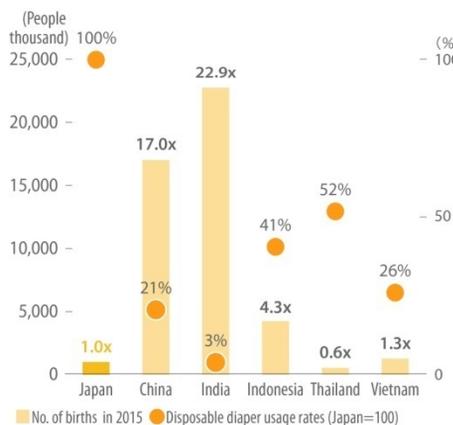
*The fiscal period ended December 31, 2014 was a transitional fiscal period due to a change in fiscal year-end.

Targeting resources on the fast-growing Asia market

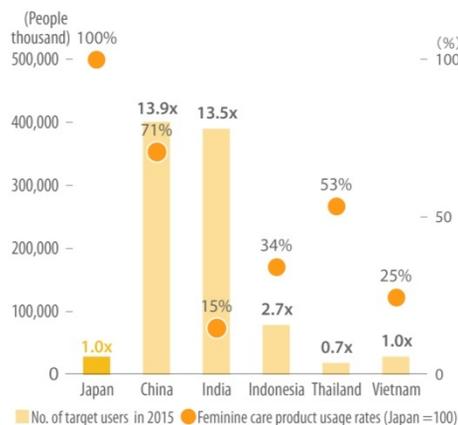
In Asia, feminine care products and disposable baby diapers are still not widely used, but demand for our products is emerging simultaneously in many markets across the region due to economic growth. Unicharm is targeting further growth by actively channeling management resources into these fast-growing Asian markets. We have positioned China and India – two countries with vast populations – as our priority markets for the medium and long term. We aim to expand our sales areas in those countries while promoting wider market uptake of disposable baby diapers and feminine care products.

In Asia, Unicharm is also actively working to create job opportunities for local women and supporting efforts to improve hygiene, such as participating in programs that educate women about the mechanism of menstruation and that also give them better knowledge about the types of feminine products that are available. We believe these efforts to help women take a more active role in society in emerging markets will contribute to the development of their countries and the Asia region as a whole. This should also translate into stronger demand for the daily necessities that we produce and raise awareness of the Unicharm brand in local markets.

**Disposable baby diapers:
Number of births and usage rates**



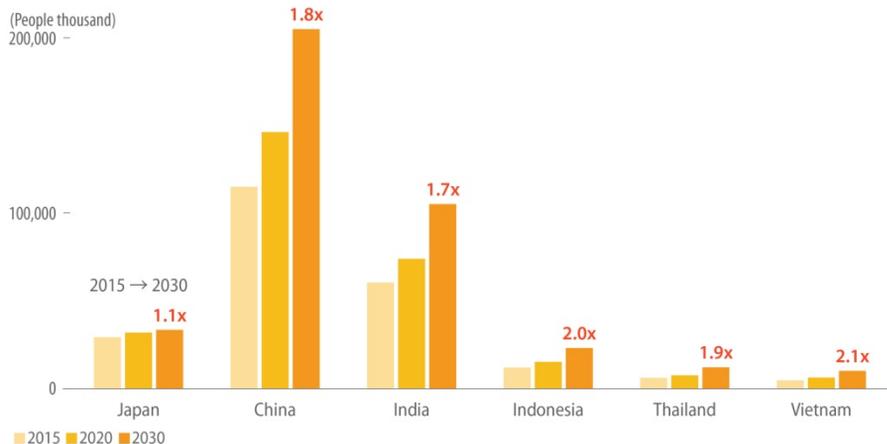
**Feminine care products:
Number of target users and usage rates**



Health care business: Raising awareness of aging issues to tap future demand

The Asia region is currently aging at a faster rate than Japan, which is likely to translate into strong growth in demand for adult incontinence care products in the near term. Given this outlook, we plan to

Number of elderly people in Asia (65 and older)



extend our Japanese care model across the Asia region by leveraging our experience in Japan – the world’s most rapidly aging society. In Taiwan, where the population is also aging, specialist Unicharm care advisors play a key role in developing the market by actively raising awareness of our adult incontinence care products, such as explaining product features and how to use them.

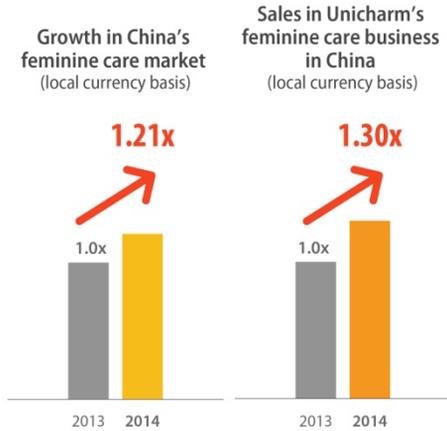
China: Sales have been recovering since the launch of premium products

In China, demand for disposable baby diapers and feminine care products is now also growing in inland cities, supported by rising income levels. We are therefore extending our sales reach into those inland markets. Sales in China now account for over 18% of the Group’s consolidated sales.

Recently, we have also seen rising demand in China for high-price, high value-added products on the back of growth in urban markets. In response, we have launched premium disposable baby diapers to complement our existing range of standard and economy products. This has been coupled with efforts to accelerate growth by stimulating the market and encouraging wider use of disposable diapers. These initiatives have paid off, with sales and profits in China increasing sharply in the fiscal period ended December 2014. As income levels rise in China, parents are becoming more inclined to buy high-quality diapers for their children. This has also led to growing demand for pants-type diapers, which are easier to put on wriggling babies. These trends have prompted us to actively market premium and pants-type diapers, mainly in coastal areas where incomes are higher. In the standard-type market, China’s largest disposable diaper category, we are offering new value propositions, such as different designs for boys and girls, thinner diapers and new products that offer significant improvements in absorbency. These new products are supporting steady sales in the standard diaper category.



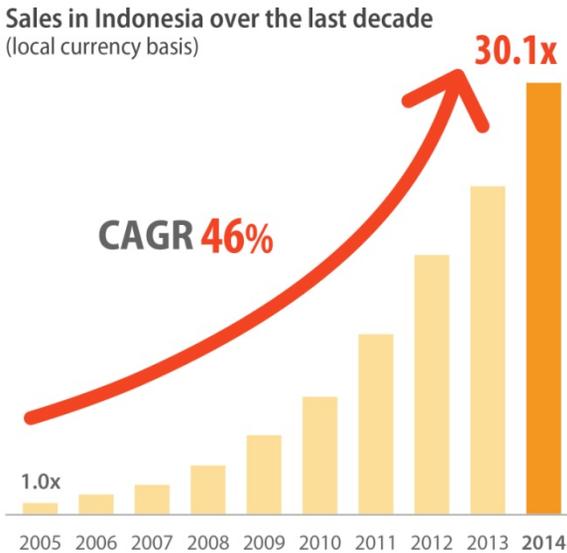
Sales in our feminine care business grew at an annualized rate of roughly 20% in the four years from 2011 to 2014. The attractive designs and high quality of our products have proved popular with younger women in China, helping us strengthen our second ranked position in the Chinese feminine care market. We are now marketing our premium products in inland cities, in addition to coastal areas, aiming to boost brand visibility and increase market share even further.



Indonesia: A new factory to support further expansion

Our business in Indonesia is growing strongly. Since 2005, sales on a local currency basis have risen at an average annual rate of over 40%.

In the baby care business, we launched Mamy Poko Pants Standar disposable baby diapers aimed at middle-class consumers in 2007. These diapers have proved to be very popular, while product renewals and sales area expansion have helped us capture over 60% of the disposable diaper market in Indonesia.



In the feminine care business, we have launched a number of products that are tailored to local preferences and kind on the skin. These products have been well received, helping us build up a market share of nearly 40%. We are targeting further growth by expanding our lineup of thinner products and by accelerating the rate of market uptake.

Indonesia is said to have around 3,000 inhabited islands. To increase sales further, we will need to step up efforts to extend our distribution network from Jakarta into regional cities in the East and into outlying island areas. To support this push, we opened our third factory in Indonesia (Surabaya, East Java) in 2013, creating a distribution system that can rapidly deliver products to East Java and North Sumatra. Competition in disposable baby diapers and feminine care products is likely to become tougher in Indonesia as more companies move into the market. However, that will also help drive wider uptake of those products. We aim to increase our market share further in Indonesia by leveraging strengths such as our dominant brand position, and by reinforcing our distribution network in regional areas.

Our health care business has also rapidly captured market share in Indonesia. As of the end of November 2014, Unicharm was the market leader with a share of over 30%. We aim to build on this position by promoting a shift to pants-type disposable adult diapers, a product category where Unicharm is strong.

Thailand: Success in creating a new market for daytime disposable diapers

Unicharm has already built a dominant market position in Thailand. Our baby care business has nearly 60% of the market and our feminine care business has around 50%. Sales on a local currency basis are growing steadily, supported by active efforts to expand the product lineup and moves into supermarket and convenience store retail channels.

In the baby care business, we sell Mamy Poko Happy Pants, a new daytime disposable diaper developed specifically for local needs. Use of these diapers has increased significantly in Thailand. We are aiming to increase market share further by expanding our product lineup. We have launched Mamy Poko Pants Ultra Protect, a new standard-type disposable diaper, complementing our existing range of economy and premium products.

In the feminine care business, we have increased sales of high value-added products, helping us build a market share of over 50%. We are also working to create new markets by offering new value propositions in the skin care market segment. Specifically, we have expanded our lineup with products such as Sofy Extra Dry, a new skin care-type product designed for local needs.



Vietnam: Targeting growth in market share by promoting pants-type diapers

In September 2011, we acquired local company Diana, which has the second largest market shares for disposable baby diapers and feminine care products in Vietnam. Both of these businesses are growing strongly.

Our baby care business is the market leader, with around 40% of the Vietnamese market. We are targeting further growth in share by rolling out sales campaigns that link TV commercials with in-store promotions and by promoting a shift to pants-type diapers.

In the feminine care business, our market share has risen to over 40% and is closing in on the market leader due to efforts to increase brand value by strengthening links between advertising campaigns and in-store promotions.

Vietnam is the ASEAN region's third largest country, with a population of around 86 million. We see potential for continued strong economic growth and rising consumption. Given this outlook, we plan to step up business expansion in Vietnam by combining our product development capabilities, manufacturing technology and marketing expertise with Diana's sales network and understanding of local consumers.



India: Accelerating growth by creating a market for pants-type diapers

Unicharm has enjoyed strong growth in India since 2009, when we launched disposable baby diapers on a full-scale basis. Sales growth is now running at around 100% year on year, supported by efforts to promote economy pants-type disposable diapers that are sold individually. Our goal is to make the India business profitable on a single fiscal year basis by 2016. In December 2014, our market share hit a new high of over 25%.

India has a vast population of around 1.2 billion and uptake of disposable diapers is still low compared with other emerging markets. Consequently, in the future, we think India could grow to become an even larger market than China. We are targeting further growth in India by promoting our pants-type



No. 1 factory:
Neemrana City

No. 2 factory:
Sri City, due for completion
in first half of fiscal 2015

These efforts to promote pants-type diapers have helped us secure the leading share in Delhi, with roughly 50% of the local market for disposable diapers as of December 2014. We are also stepping up efforts to win entry-level consumers with the launch of extra-small pants-type diapers. This is coupled with a strategy to encourage a shift to pants-type products by setting prices at levels accessible to local people. Also, with demand expected to grow sharply, we are currently building a second factory in India, aiming to start operations in the first half of fiscal 2015. The new factory, located in the southern city of Sri, will boost production capacity and give us the capability to supply all areas of India.



Myanmar: Expanding our business through synergies with Mycare

In March 2013, we acquired Mycare, a leading manufacturer and distributor of hygiene products in Myanmar. Since then, we have built dominant positions in the local markets for disposable baby diapers and feminine care products, with shares of over 60% and 50%, respectively. Myanmar has a population of 62 million, roughly the same as Thailand's, and the birth rate is just over double the rate in Japan. These factors are likely to support growth in the market. We are aiming to expand our business in Myanmar by combining our product development capabilities, manufacturing technology and marketing expertise with Mycare's highly visible brands.



Brazil: Moving into new markets after starting up our new local factory

In spring 2014, we started production at our new factory in the state of Sao Paulo. Our disposable baby diapers are now sold in around 1,000 supermarkets, mainly aimed at wealthy and middle-class consumers.

Brazil is an attractive market for Unicharm. The target market for disposable baby diapers is roughly eight million users, nearly three times the size of Japan's, and demand is rising on the back of growth in Brazil's middle class. We aim to tap into this growth by using our strong position in pants-type diapers to stand out in the market.

Japan

Baby care business: Leveraging the strengths of two brands to revitalize the market

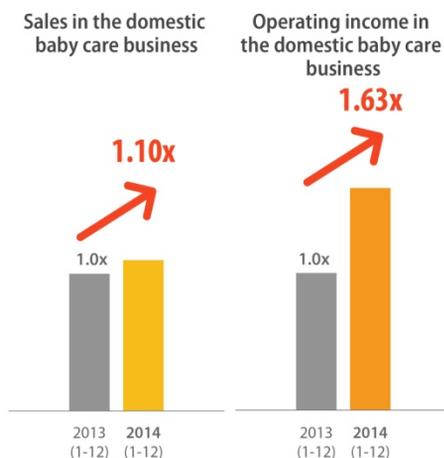
Unicharm has captured a high share of the market in Japan by leveraging the strengths of two brands – Moony, which has the highest levels of quality in our disposable baby diaper range, and Mamy Poko, which offers an excellent balance between quality and price. As the domestic diaper market has matured, we have reinforced these brands by continuing to offer innovative value propositions, helping us achieve sales growth ahead of the market average and significant improvements in profitability.

With the Japanese economy now moving out of deflation, we have stepped up efforts to promote Moony disposable diapers, which already have strong support from consumers because they are kind on sensitive skin. As a result, sales growth is now outstripping the market average and profit margins are rising. In the fiscal period under review, Moony Airfit diapers, a new type of diaper launched last year that prevents leaks without the need for a tight fit, registered strong sales. We also ran a marketing campaign to mark the product's first anniversary, aiming to expand sales further. In addition, we are working to capture demand for diapers in hospitals with the launch of new products that address the rising numbers of babies with low birth weights.

Other new products launched during the year under review include limited-edition summer diapers in the Mamy Poko range, which is already recognized for its excellent balance between quality and price. These new products feature absorbency sheets with better breathability to make the hot summer weather more bearable, summer motifs on the packaging and diapers, and improvements to the basic non-leak, stay-dry qualities of our Mamy Poko range.

We will continue to launch new high value-added products and strengthen our presence in sub-categories such as training pants and swim diapers in order to energize the domestic diaper market.

Japan is currently seeing growth in the number of Asian visitors, many of whom buy high-quality Japanese disposable baby diapers during their stay. We are also successfully capturing demand from these customers.





Feminine care business: Launching high value-added products in growth segments

As the domestic market for feminine care products has matured, we have worked to revitalize the market by offering new value propositions tailored to women's lifestyles and by leveraging our nonwoven fabric technology to launch high value-added products.

In Japan, women are becoming more active due to changing lifestyles and an increase in the number of working women. This is spurring growing demand for feminine care products that are kinder on the skin, more comfortable and absorbent. Against this backdrop, we have introduced new products in our Sofy Hadaomoi range of sanitary napkins that are kind on the skin, such as Sofy Hadaomoi Long-Lasting Use, which can be used for a long time without concerns about absorbency.

In our Center-In Compact range, a lineup of easy-to-carry, compact sanitary napkins with vivid colorful designs, we have launched Center-In Compact Fragrance in response to growing requests from customers for sanitary napkins that have a pleasant scent.

In recent years, there has been an increase in the number of women using pantyliners on an everyday basis, especially when outside the home. To address this trend, we have added Sofy Hadaomoi Pantyliners to our Sofy Hadaomoi range.

In our Sofy Hadaomoi and Sofy Super Sound Sleep ranges, we have also launched limited-edition products with elegant, floral designs.

Unicharm has continued to create a steady stream of innovative products by carefully monitoring women's concerns and trends in their increasingly diverse lifestyles. This approach has helped us to secure an even larger share of Japan's feminine care market and boost profitability in our feminine care business. Going forward, we plan to launch high value-added products in growth segments in order to further increase market share and lift profitability.



Health care business: Market expansion taking off, driving domestic earnings

Since moving into the disposable adult diaper market in 1987, Unicharm has built dominant shares of over 50% in both the moderate and light adult incontinence retail markets. Unicharm has also been the industry leader in promoting wider use of adult incontinence products for nursing care. In recent years, as Japan's society has aged, growth in the domestic health care market has gained momentum, overtaking the baby care market in size. Against this backdrop, we have achieved growth in excess of the market average, helping us build a dominant position. The health care business is now driving growth in Unicharm's domestic earnings.

The target market for incontinence care products is likely to expand further in Japan. To tap into this growth, we aim to stand out in the market by offering a wider choice of products and new value propositions in order to strengthen our already dominant position in the market and maintain our current growth trajectory.

• Moderate incontinence products

To encourage even wider user of disposable adult diapers, we have been working with retail stores to create sales areas that make it easier for shoppers to select products. Also, through partnerships with many retailers, we provide advice to shoppers about how best to use our products.

At Unicharm, our aim is to stand out in the market by improving the performance of our products so that people who are receiving care for incontinence can lead more comfortable and independent lives. One of these products is Lifree Thin Light & Comfortable Incontinence Pants, which we have improved by adding a new type of gather that makes it easier for users to slip the diaper on and off themselves.

We have also launched an improved version of our Lifree Kind on Skin All Night Pads, which are aimed at nursing care facilities and hospitals that have to change disposable diapers during the night. This adult diaper has an interchangeable absorbent pad that means the same diaper can be left on until the morning, helping patients get a better sleep.

Going forward, we will continue to work on building a unique position in the market by improving our products so that people receiving incontinence care can lead more independent lives. We will also work to reinforce our market dominance by offering new value propositions in areas such as thinness, peace of mind, and pants and pad combination designs.



• **Light incontinence products**

In the light incontinence and urinary incontinence care market, Unicharm is leading market growth in Japan with two brands – the liner-type Charm Nap range and the napkin-type Lifree range. Unicharm is now the dominant player in the domestic light incontinence market, with a share of over 60% as of December 2014.

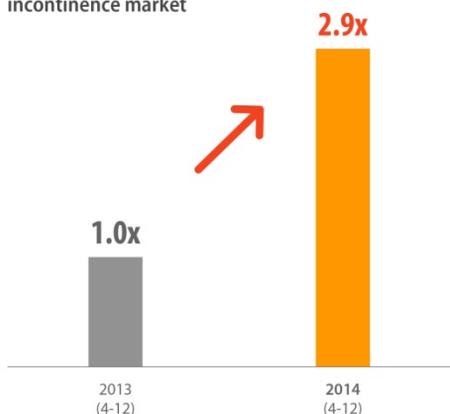
The urinary incontinence care market continues to expand, spurred by recent growth in the number of active seniors who take part in leisure activities. The male light incontinence market is growing particularly quickly, nearly tripling in size year on year in 2014. To address this demand, we launched Lifree Comfortable Thin Pads for Men in April 2014. The new product, which is specially designed to be less visible and prevent leakage, is aimed at men who refrain from going out due to concerns about light incontinence. Our hope is that Lifree Comfortable Thin Pads for Men will give users more confidence to lead normal lives. The launch of this product helped lift our share of the male light incontinence market to over 70% as of December 2014.

We also launched Charm Nap Funwari Hada during the fiscal period under review. With more women entering the workforce in Japan, this product is designed to be easier on the skin than other pantyliners and is aimed at alleviating skin irritation experienced by many women, helping to make their working day more comfortable.

Since 2013, we have also worked to change the way the activities of daily living (ADLs) are defined, proposing a new group of activities called ADL-0 (zero) that include light incontinence. This is just one way we are working to help extend the healthy life expectancy of elderly people in Japan.

Going forward, we will create new product segments and accelerate market uptake for incontinence care products by using retail stores, TV commercials and the internet to communicate the benefits of our products.

Domestic male light incontinence market



Manufacturing Framework

Upgrading our production sites worldwide to meet rising demand

Demand for disposable diapers and feminine care products is emerging simultaneously in many markets, so we are actively increasing production capacity and optimizing our manufacturing framework.

In China, currently our most important market, we are working to ensure reliable and efficient supplies of our products. We opened a fourth factory in 2012 in Tianjin and we started operation of a fifth factory in 2014 in Yangzhou. Efficient and reliable product distribution is challenging in China due to its size. We are therefore using our Tianjin and Yangzhou factories to supply inland markets and our three factories in Shanghai to supply coastal areas.

In the fast-growing Indonesian market, demand is expanding in regional cities in the East and in outlying island areas. In order to step up the distribution of products to these areas, in 2013, we opened our third Indonesian factory in Surabaya in the east of the country.

In India, where demand is likely to grow dramatically, we are currently building our second local factory, aiming to start operations in 2015. The new factory will supply markets in the south of the country.

Over the medium and long term, we also forecast rising demand for disposable baby diapers and feminine care products in emerging markets outside Asia. We are therefore strengthening our manufacturing framework to supply those areas. In the Middle East and North Africa (MENA), we opened our first production site in Africa with the start up of our factory in Egypt in December 2012, and we moved into the baby care market in Latin America in spring 2014 when our first factory in the region started production in the state of Sao Paulo, Brazil.

Building an optimum global manufacturing network



Five Key Strategies

2

Shift our focus from creating products to creating value



Secure unrivaled support from consumers

Domestic and overseas markets for nonwoven fabric and absorbent material products are becoming much more competitive. That means companies need to develop innovative products that accurately address consumer needs.

At Unicharm, we are using an approach in all our domestic and overseas markets that is designed to secure unrivaled support from consumers so they continue to purchase our products.



< Targeting real needs >

Asking all our customers directly what they think about Unicharm products is not possible, so Unicharm staff conduct detailed research into local lifestyles in each market, helping us uncover what consumers really need from our products. We also take into account different regional cultures and lifestyles before developing products that are tailored to the needs of each market.

< Developing products tailored to local needs >

We use the nonwoven fabric and absorbent material processing and forming technologies developed since the first days of Unicharm to constantly improve the basic functions of our products: kindness on the skin, non-leak, stay-dry qualities, and a comfortable fit. In overseas markets, we are actively launching high-quality products developed with home-grown nonwoven fabric and absorbent material processing and forming technologies, aiming to stand out in the market by emphasizing premium levels of quality. Consumer needs are constantly changing, so we will work to identify new needs ahead of competitors and develop a steady stream of innovative new products to ensure we consistently exceed consumer expectations.

Case study (1): Disposable baby diapers for emerging markets

Demand for disposable baby diapers is growing rapidly in emerging markets, particularly in Asia, but disposable diapers are still out of reach of many people because incomes are still low.

At Unicharm our mission is to enhance comfort and make life richer and more enjoyable for people worldwide. To achieve this goal, we are supplying disposable diapers to emerging markets at a price local people can afford. We are doing this by exhaustively scaling back functions that are not essential to local markets while retaining the basic non-leak, stay-dry qualities of our diapers. These products are already on sale in Indonesia and China, where they have proved very popular with many consumers.

Case study (2): Disposable adult diapers for Japan

In Japan, where the population is aging rapidly, we are developing new disposable adult diapers with improved performance and comfort to help create a society where elderly people can lead independent and comfortable lives for as long as possible. Specifically, we are developing highly absorbent diapers that are kind on the skin, so users can sleep through the night without having to change their diapers. We are also working on pants-type disposable diapers that elderly people can put on and take off themselves with only minimal effort.

< Actively communicating product value >

To encourage consumers to buy Unicharm products, we have to make sure they fully understand the value of our products so that they take an initial interest in them at retail stores. At Unicharm, we first build a close understanding of culture and customs in each market and region, using that information to develop communication strategies that strike a chord with local consumers. We then use those strategies in in-store sales campaigns that are tied in with TV advertising.

We are working to build an even larger base of customers who feel comfortable about consistently choosing Unicharm products. We are doing this by communicating the compelling value of our products to create a powerful brand that consumers can relate to.

< Supplying products to all corners of the market >

Disposable baby diapers and feminine care products are used in ever-growing numbers in emerging markets, but many countries and regions lack proper infrastructure for product distribution. To ensure faster market uptake, we need to efficiently sell our products to the millions of small retail stores scattered across emerging markets, so that as many stores as possible stock as many Unicharm products as possible.

To achieve this aim, we are building close relationships with leading wholesalers in each region and conducting regular training seminars to explain sales methods and product features. We have already made progress in creating strong networks with leading wholesalers, helping us create distribution systems that allow us to supply every corner of local markets. This is one factor behind our high share in emerging markets.

A long-term approach to raising brand awareness and growing the user base

In Asia, Unicharm is actively working to create job opportunities for local women and supporting efforts to improve hygiene, such as participating in programs that educate women about the mechanism of menstruation and that also give them better knowledge about the types of feminine products that are available. We believe our efforts to help women in emerging markets take a more active role in society will contribute to the development of their countries and the region as a whole. This should also translate into stronger demand for the daily necessities that we produce and raise awareness of the Unicharm brand in local markets.

• Creating more job opportunities for women in Asia and the Middle East

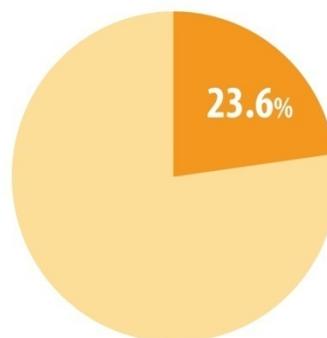
Since 1984, when we set up a joint venture in Taiwan, we have worked to create more employment opportunities for local women. As a result of this approach, women now make up a high proportion of the workforce on our production lines in Asia, and through visits to retail stores, our female sales personnel make a significant contribution to improving understanding about our products and ensuring customers are accurately informed. A large number of women also work in managerial positions.

In Saudi Arabia, we opened a new factory in the capital Riyadh that only employs women. Under Islam's strict rules in Saudi Arabia, employment opportunities for women are severely limited. Consequently, in accordance with local customs, we have put elaborate measures in place to ensure men only come into contact with women at our factory indirectly when they need to hand over documents or products. These measures include specially designated areas with shutters that prevent direct contact between men and women but allow items to be exchanged.



Our factory in Saudi Arabia employs only women

Female manager ratio in Asia



*Ratio of managerial positions in Asia (excluding Japan) that are filled by women (as of December 31, 2014)

• Helping women in India take an active role in society

In emerging markets in Asia and elsewhere, the use of hygiene products such as disposable baby diapers and feminine care products is still in its early stages. Also, poor understanding about menstruation and a lack of social infrastructure limits opportunities for women, preventing them from participating fully in society in many countries and regions. In addition to supplying feminine care products and disposable diapers, Unicharm also works to improve understanding about menstruation and hygiene as part of wider efforts to help women in emerging markets take a more active role in society.

In India, we work with local NGOs to educate women about the mechanisms of menstruation and the types of products that are available to them.



Educating women about menstruation in schools and communities in Northern India



Unicharm is expanding its sales area for disposable baby diapers and feminine care products, mainly in emerging markets, where demand for nonwoven fabric and absorbent material products is rising. In order to continue delivering profitable growth in the face of intensifying competition worldwide, we are flexibly adapting our template for success in Japan to the different local needs and cultures of overseas markets.

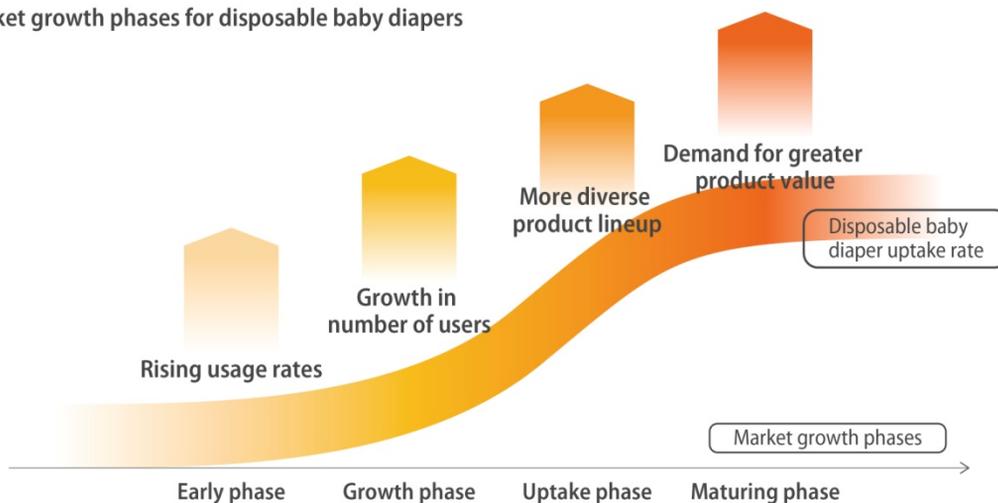
Using our first-mover advantage to increase market share in growth markets

Going forward, we aim to secure strong market positions in promising growth markets by moving ahead of competitors to create new markets and build local production and sales networks. There is a close correlation between market uptake rates for nonwoven fabric and absorbent material products and per capita GDP in each country. Our research shows that uptake rates for disposable baby diapers jump sharply when per capita GDP exceeds \$3,000. When per capita GDP reaches a high level, uptake for disposable baby diapers hits a ceiling, but market uptake increases for adult diapers.

Implementing strategies for each phase of market growth

Unicharm implements clear strategies tailored to each stage of market growth: early phase, growth phase, uptake phase and maturing phase. Based on careful analysis of these growth phases, we work to boost market uptake and maximize profits by launching the right products at the right time in each market.

Market growth phases for disposable baby diapers



The global market is becoming more complex and faster moving. In this context, we aim to deliver further growth while constantly adapting our template for success.

Five Key Strategies

4

Build a unique pet care business that stands out in Japan, the U.S., China and Taiwan



The pet care market is growing worldwide

The pet care market continues to expand worldwide. We forecast growth not only in advanced economies, but also in emerging markets in South America and Asia, particularly China, where rising incomes and aging societies are likely to drive market expansion.

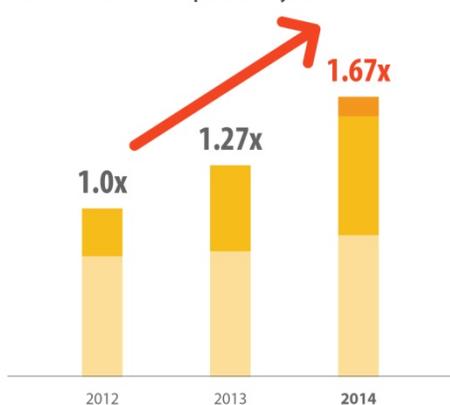
In Japan, Unicharm has the leading share in all pet food and pet toiletry segments where it has a market presence. We aim to expand the pet care business further by building on this strong position in Japan and accelerating expansion overseas.

Japan: Revitalizing the market through product segmentation

Our goal is to create a symbiotic society where people and their pets can live long and rich lives. To achieve this, we are focusing on two key themes – extending the healthy life expectancy of pets and their owners, and product segmentation. Based on these themes, we are developing new products to address consumer needs and creating new markets in order to revitalize the market and boost sales.

In pet food, we are aiming to revitalize the market by selling dog and cat food products that emphasize flavor and health. Specifically, we have expanded our Aiken Genki Best Balance range of high value-added dog food, leading to sales growth that is outstripping the market average. We intend to continue revitalizing the market by launching distinctive high value-added products and creating new market segments.

Unicharm's domestic pet toiletry sales



In pet toiletry products, we are using the nonwoven fabric and absorbent material processing and forming technologies developed since the early days of Unicharm to actively create new markets. Since launching our first disposable pet diapers in 2001 ahead of competitors, we have rolled out a number of new products in the segment, such as Male Dog Diapers, a toilet care product for dogs, in 2011, and Manner Wear for Male Dogs, special toilet etiquette products with clothing-type designs for dog walks, in October 2014. In Japan, many owners enjoy going out for walks with their dogs, but there are fewer places to take them compared with other advanced markets such as the US and Europe. Our goal is to promote a new type of lifestyle for dogs and their owners that puts more emphasis on responsible pet ownership, making it easier for large numbers of pets and owners to use the same spaces.

Also, we have expanded our lineup of dog and cat deodorizing products to address the growing number of owners who raise pets indoors and have pet toilets in living areas.

Going forward, we will continue to use the nonwoven fabric and absorbent material processing and forming technologies developed since the first days of Unicharm to develop new products with unique functionality.

North America: Targeting growth through synergies with Hartz

In the U.S. pet care market, which accounts for roughly 40% of the global market, we acquired The Hartz Mountain Corporation in 2011. Hartz is the leading U.S. pet care brand in eight product categories. The rationale behind this acquisition was to expand our business in the U.S. The U.S. pet care market is the world's largest, estimated to be worth around \$30 billion. We forecast continued strong growth in the market of around 4–5% annually. We are aiming to boost profitability and expand our pet care business in the U.S. by combining our technological and product development capabilities in pet toiletry and pet food products with the brand power, marketing expertise and selling power of Hartz.

We are currently focusing our resources on growth segments such as flea and tick drops and pet toiletry products. In flea and tick drops, we relaunched Hartz UltraGuard Pro Flea & Tick Drops in 2012, helping to lift our market share to over 30% as of December 2014 and giving us the leading position in the segment.

Focusing resources on growth segments (sales in the North America pet care business)

2010 (before acquisition)		2014	
1 Pet snacks	31%	1 Flea and tick drops	29%
2 Flea and tick drops	30%	2 Dog pad toilet sheets	16%
3 Pet toys	12%	3 Pet snacks	13%
4 Dog pad toilet sheets	10%	4 Birds and small pets	11%
5 Birds and small pets	9%	5 Pet toys	9%



China: Aiming for growth over the medium and long term

Unicharm moved into China's pet care market in 2010. Since then, our market share has risen steadily, supported by sales of dried dog and cat food, mainly in coastal cities where incomes are higher. China's population is projected to age at a faster rate than Japan's, which is likely to spur dramatic growth in the number of pets. Given this outlook, we plan to use our disposable baby diaper and feminine care product distribution network to expand our sales area for pet care products.

Five Key Strategies

5

Convert all subsidiaries to local management units (LMUs) and train personnel to support Management with Resonance

Accelerate strategy implementation by transferring more authority to overseas subsidiaries

Aiming to become a more global company, Unicharm is transferring more authority to overseas subsidiaries as part of efforts to create an operating structure that supports faster strategy implementation.

Demand for nonwoven fabric and absorbent material products is rising worldwide, but we also face intensifying competition. In order to accelerate overseas business expansion under these conditions, we need to integrate closely with local markets to rapidly identify changes in the operating environment and trends at our competitors, helping us make decisions about the best time to launch products and strengthen our manufacturing framework. As part of this approach, we are transferring responsibility for product development and marketing to local subsidiaries in markets where sales have been growing strongly.

In China and India, we have transferred those functions to local subsidiaries, which are now responsible for developing individual sales strategies for specific regions, ensuring we can respond rapidly to changes in consumer needs in small sales areas. We also plan to transfer more authority to local subsidiaries in Thailand, Indonesia and other markets.



Actively sending our best people to overseas sites

Another way we are working to become a more global company is by transferring and adapting our template for success in Japan to the cultures and needs of overseas markets. To do this, we need people who have a deep understanding of Unicharm's DNA, corporate culture and business strategy. We are therefore actively sending our best people – who have over 20 years of experience working for Unicharm – to overseas business sites to ensure our corporate DNA takes root. We are also cultivating the next generations of Unicharm personnel to fill this role in the future.

Management Structure and Corporate Governance

Ideal vision

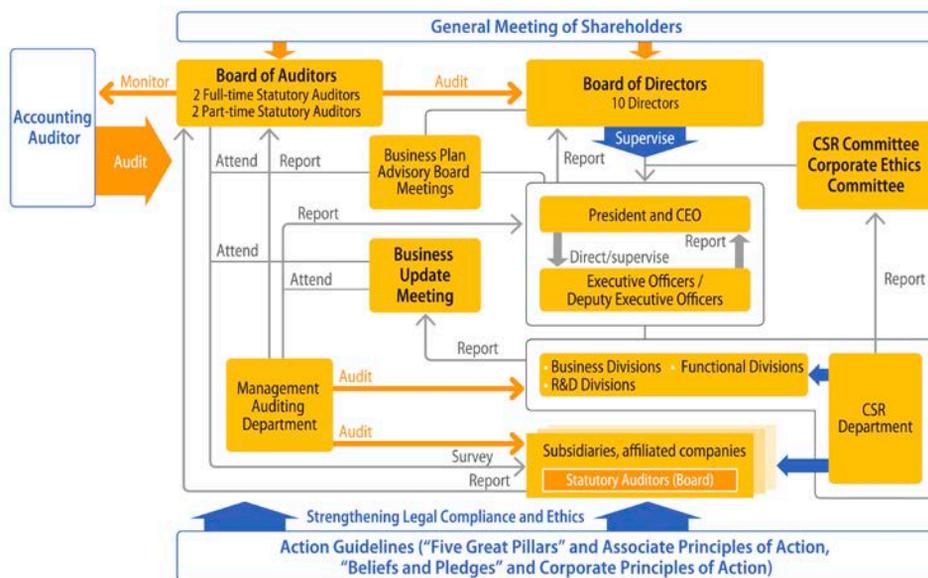
We will achieve growth and development as a company and social responsibility through transparent business management and voluntary information disclosure.

Corporate Governance

Unicharm strives to pursue proper corporate management through the Unicharm Ideals. We recognize the importance of achieving a sustainable balance between increasing corporate value and fulfilling our corporate social responsibilities through business activities implemented by integrating management and executive divisions. Based on this belief, we are reinforcing our corporate governance system as we further strengthen our executive officer structure through our corporate auditor system*.

*Following the enactment of the Law Concerning Partial Revisions to the Companies Act (May 1, 2015), the Company will adopt a “company with audit and supervisory committee” structure to enhance corporate governance. This move will strengthen oversight of the executive functions of the Board of Directors and increase transparency and efficiency in Group management processes.

Corporate Governance System (As of December 2014)



Establishment of an Internal Control System

The Unicharm Group formulated its Basic Policy for Establishing an Internal Control System based on the Companies Act, and established an Internal Control Committee to respond to the Internal Control and Reporting System (J-SOX) of the Financial Instruments and Exchange Act.

The Internal Control Committee conducts an annual reevaluation of risks for each company under the Unicharm Group, reviews target countries for J-SOX assessment, and revises business processes requiring evaluation. At the same time, the committee is committed to achieving reliable financial reporting by promoting the establishment and operation of an internal control system and effective assessments.

Going forward, we will continue to make improvements to our internal control system.

Compliance

Our stance on compliance

We see compliance as the promotion of sound corporate ethics and our corporate philosophy, in addition to conforming to established legislation. We strive to promote the Unicharm Group Action Guidelines, which express the high level of preparedness and morality expected of every employee at the Unicharm Group, as well as ensure legal and fair management.

Initiatives for increasing compliance awareness

Unicharm conducts periodic training and e-learning to raise the compliance awareness of directors, corporate officers and employees as well as provides them with knowledge of laws and business contracts for their respective positions and work duties. As part of these efforts, we are working to ensure that all directors, corporate officers and employees understand that they are prohibited from bribing public officials, that facilitating payments are in principle banned, and that it is important to uphold antitrust laws and other applicable laws. We will continue to train our employees through a phased expansion of target areas and companies going forward.

In Japan, employees can consult on compliance issues by phoning our Ring Ring Employee Hotline. In fiscal 2014, there were 19 consultations. We also operate similar hotlines in China and Thailand. In addition to the Ring Ring Employee Hotline, an internal whistle blowing hotline has been available to employees since April 2014 to promote compliance management.

Risk Management

Thorough information security

To ensure thorough information security, Unicharm has set out its information security principles and procedures, such as the Information Security Policy and the Information Management Security Rules. We also have Personal Information Protection Rules in place to safeguard personal information provided by our customers, and we strictly manage this information and take precautions to prevent information leaks. To ensure that these rules are strictly observed and to prevent information leaks, Unicharm has established a Groupwide Information Security Committee, and carries out employee education and ongoing monitoring, as well as implementing monthly information management day.

Protecting intellectual property

The intellectual property of the Unicharm Group is centrally managed by the Legal & Intellectual Property Division, which formulates and executes intellectual property strategies linked to business and development strategies at Unicharm. Based on our patent application strategy, we have been protecting and using business and development results as intellectual property. Strengthening international patent applications as part of our global expansion has lifted Unicharm into 91st place for international patents, higher than in 2013 and putting the Group in the top 100 for four consecutive years according to WIPO. We are also working to strengthen our intellectual property portfolio-building activities for our overseas business with patents, utility models, designs and trademarks.

Unicharm has applied for and used the trademark that protects Group brands in more than 160 countries around the world. At the same time, we are also actively protecting our rights to proprietary packaging. The operational and R&D Divisions cooperate closely with overseas subsidiaries concerning the control of counterfeit products both inside and outside the country, and take a firm stand in

protecting the Company's products and rights.

Unicharm is committed to cultivating a corporate culture that promotes the respect and protection of intellectual property rights of Unicharm and other companies, as articulated in the Unicharm Action Guidelines, by conducting employee training through a combination of on-the-job training, off-the-job training and e-learning to ensure that employees in Japan and overseas are fully aware of how to handle intellectual property rights at Unicharm.

Business Continuity Plan (BCP*)

Unicharm has been enhancing risk management since fiscal 2005. Our BCP Manual describes steps to ensure the safety of our employees and their families, deliver Unicharm products that are necessities for daily living to people in disaster-affected areas, as well as to those people who require them as soon as possible, and recover important corporate functions of Unicharm.

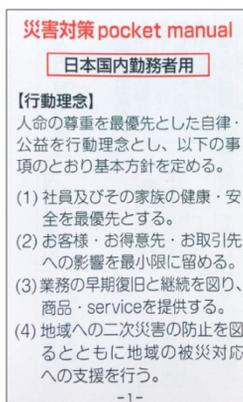
We are working to further enhance workplace safety through various initiatives. Specifically, we conduct e-learning sessions for all employees to raise awareness and encourage proactive responses, and we require all employees to carry a disaster response pocket manual for immediate reference during an emergency. We have also put systems in place that allow us to contact employees using smartphones, which they must carry at all times. This helps us to check their safety and maintain business continuity during emergencies.

In addition, we conduct disaster training drills at each business site, hold basic lifesaving courses and provide training that is tailored to the function of each division. We also hold a BCP training exercise called 3/11 Comprehensive Company-Wide Drill to help us prepare for a major earthquake directly underneath Tokyo or a large-scale interconnected earthquake involving the Tokai, Tonankai and Nankai plates. We carry out first response drills with an emphasis on confirming employee safety and the capabilities of disaster response headquarters, including checking the safety of all Unicharm employees in Japan. Collectively, these ongoing education and training initiatives are designed to reinforce our ability to respond to earthquakes, new strains of influenza and other emergencies.

In fiscal 2014, we conducted crisis communication activities for different situations depending on the type of emergency, based on the premise of disclosing information to minimize damage. This included conducting training with each internal division based on different pre-selected crisis situations, allowing us to confirm the effectiveness of our crisis response manuals.

Going forward, we will strengthen our global risk management capabilities to prepare for civil unrest, terrorism and other incidents to ensure we are prepared to handle any unforeseen events.

* BCP: Plan for the continued operation and recovery of core business activities soon after an emergency



Crisis response pocket manual



Crisis response training



Training exercise at the Shizuoka Factory

Consolidated Balance Sheets (Translation for reference purposes only)

Unicharm Corporation and Subsidiaries
March 31, 2014 and December 31, 2014

ASSETS	Millions of yen	
	2014/3	2014/12
Current assets		
Cash and deposits	¥ 108,901	¥ 138,781
Notes and accounts receivable - trade	67,687	88,563
Securities	3,013	—
Merchandise and finished goods	27,700	30,654
Raw materials and supplies	23,007	29,972
Work in process	920	1,806
Deferred tax assets	13,264	17,165
Other	20,785	14,950
Allowance for doubtful accounts	(90)	(121)
Total current assets	265,191	321,772
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	59,503	74,355
Machinery, equipment and vehicles, net	98,629	123,235
Land	18,661	19,697
Construction in progress	20,834	16,149
Other, net	6,788	6,644
Total property, plant and equipment	204,417	240,082
Intangible assets		
Goodwill	73,463	72,148
Other	22,021	24,030
Total intangible assets	95,485	96,178
Investments and other assets		
Investment securities	22,105	24,942
Deferred tax assets	27,776	7,313
Net defined benefit asset	860	3,828
Other	4,683	5,081
Allowance for doubtful accounts	(99)	(91)
Total investments and other assets	55,326	41,074
Total non-current assets	355,228	377,336
Total assets	¥ 620,419	¥ 699,108

LIABILITIES AND NET ASSETS	Millions of yen	
	2014/3	2014/12
Liabilities		
Current liabilities		
Notes and accounts payable - trade	¥ 78,433	¥ 91,586
Short-term loans payable	7,709	27,979
Accounts payable - other	35,532	41,583
Income taxes payable	5,739	5,428
Provision for bonuses	4,763	5,027
Other	16,725	18,578
Total current liabilities	148,903	190,183
Non-current liabilities		
Long-term loans payable	21,000	5,420
Deferred tax liabilities	1,460	2,082
Net defined benefit liability	4,995	4,348
Other	11,907	4,229
Total non-current liabilities	39,364	16,081
Total liabilities	188,267	206,264
Net assets		
Shareholders' equity		
Capital stock	15,992	15,992
Capital surplus	46,385	46,358
Retained earnings	306,974	334,558
Treasury shares	(21,110)	(28,667)
Total shareholders' equity	348,242	368,242
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	9,058	11,329
Deferred gains or losses on hedges	2	65
Revaluation reserve for land	(157)	(157)
Foreign currency translation adjustment	21,118	44,426
Remeasurements of defined benefit plans	(4,128)	(4,254)
Total accumulated other comprehensive income	25,893	51,410
Subscription rights to shares	295	238
Minority interests	57,719	72,952
Total net assets	432,152	492,844
Total liabilities and net assets	¥ 620,419	¥ 699,108

Consolidated Statements of Income (Translation for reference purposes only)

Unicharm Corporation and Subsidiaries

Year ended March 31, 2014 and nine-month period ended December 31, 2014

	Millions of yen			
	2014/3		2014/12	
Net sales	¥	599,455	¥	553,661
Cost of sales		331,807		308,421
Gross profit		267,647		245,240
Selling, general and administrative expenses		200,407		183,892
Operating income		67,240		61,347
Non-operating income				
Interest income		1,325		1,280
Dividend income		339		363
Foreign exchange gains		2,129		4,015
Other		850		2,016
Total non-operating income		4,644		7,675
Non-operating expenses				
Interest expenses		358		287
Sales discounts		2,909		2,947
Other		703		261
Total non-operating expenses		3,971		3,496
Ordinary income		67,913		65,527
Extraordinary income				
Gain on sales of non-current assets		41		28
Gain on sales of investment securities		788		—
Gain on change in equity		4,745		—
Compensation for transfer		—		5,009
Other		108		—
Total extraordinary income		5,684		5,037
Extraordinary losses				
Loss on disposal of non-current assets		867		536
Amortization of goodwill		4,557		—
Other		271		—
Total extraordinary losses		5,695		536
Income before income taxes and minority interests		67,902		70,027
Income taxes - current		13,075		14,262
Income taxes - deferred		10,830		14,604
Total income taxes		23,905		28,867
Income before minority interests		43,996		41,160
Minority interests in income		5,780		8,428
Net income	¥	38,216	¥	32,731

Consolidated Statements of Comprehensive Income (Translation for reference purposes only)

Unicharm Corporation and Subsidiaries

Year ended March 31, 2014 and nine-month period ended December 31, 2014

	Millions of yen			
	2014/3		2014/12	
Income before minority interests	¥	43,996	¥	41,160
Other comprehensive income				
Valuation difference on available-for-sale securities		1,422		2,270
Deferred gains or losses on hedges		30		118
Foreign currency translation adjustment		20,142		30,944
Remeasurements of defined benefit plans, net of tax		—		(65)
Total other comprehensive income		21,595		33,267
Comprehensive income		65,592		74,428
Comprehensive income attributable to				
Comprehensive income attributable to owners of parent		55,596		58,237
Comprehensive income attributable to minority interests		9,995		16,190

Consolidated Statements of Changes in Shareholders' Equity (Translation for reference purposes only)

Unicharm Corporation and Subsidiaries

Year Ended March 31, 2014

(Millions of Yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	15,992	29,782	275,609	(43,030)	278,354
Changes of items during period					
Dividends of surplus			(6,851)		(6,851)
Net income			38,216		38,216
Purchase of treasury shares				(12,002)	(12,002)
Disposal of treasury shares		16,603		33,922	50,525
Net changes of items other than shareholders' equity					
Total changes of items during period	—	16,603	31,365	21,919	69,888
Balance at end of current period	15,992	46,385	306,974	(21,110)	348,242

	Accumulated other comprehensive income						Subscription rights to shares	Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of current period	7,635	(20)	(157)	3,955	—	11,413	677	38,755	329,201
Changes of items during period									
Dividends of surplus									(6,851)
Net income									38,216
Purchase of treasury shares									(12,002)
Disposal of treasury shares									50,525
Net changes of items other than shareholders' equity	1,422	23	—	17,162	(4,128)	14,480	(381)	18,963	33,062
Total changes of items during period	1,422	23	—	17,162	(4,128)	14,480	(381)	18,963	102,951
Balance at end of current period	9,058	2	(157)	21,118	(4,128)	25,893	295	57,719	432,152

Nine-month period ended December 31, 2014

(Millions of Yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	15,992	46,385	306,974	(21,110)	348,242
Cumulative effects of changes in accounting policies			2,682		2,682
Restated balance	15,992	46,385	309,657	(21,110)	350,925
Changes of items during period					
Dividends of surplus			(7,830)		(7,830)
Net income			32,731		32,731
Purchase of treasury shares				(8,008)	(8,008)
Disposal of treasury shares		(27)		451	424
Net changes of items other than shareholders' equity					
Total changes of items during period	—	(27)	24,901	(7,556)	17,317
Balance at end of current period	15,992	46,385	334,558	(28,667)	368,242

	Accumulated other comprehensive income						Subscription rights to shares	Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of current period	9,058	2	(157)	21,118	(4,128)	25,893	295	57,719	432,152
Cumulative effects of changes in accounting policies								9	2,692
Restated balance	9,058	2	(157)	21,118	(4,128)	25,893	295	57,729	434,844
Changes of items during period									
Dividends of surplus									(7,830)
Net income									32,731
Purchase of treasury shares									(8,008)
Disposal of treasury shares									424
Net changes of items other than shareholders' equity	2,270	63	—	23,308	(126)	25,516	(57)	15,223	40,681
Total changes of items during period	2,270	63	—	23,308	(126)	25,516	(57)	15,223	57,999
Balance at end of current period	11,329	65	(157)	44,426	(4,254)	51,410	238	72,952	492,844

Consolidated Statements of Cash Flows (Translation for reference purposes only)

Unicharm Corporation and Subsidiaries

Year ended March 31, 2014 and nine-month period ended December 31, 2014

	Millions of yen	
	2014/3	2014/12
Cash flows from operating activities		
Income before income taxes and minority interests	¥ 67,902	¥ 70,027
Depreciation	22,101	20,393
Amortization of goodwill	9,203	3,769
Interest and dividend income	(1,664)	(1,643)
Interest expenses	358	287
Foreign exchange losses (gains)	(1,422)	(6,314)
Loss (gain) on sales and retirement of property, plant and equipment	813	498
Loss (gain) on change in equity	(4,745)	—
Compensation for removal	—	(5,009)
Decrease (increase) in notes and accounts receivable - trade	(3,542)	(13,584)
Decrease (increase) in inventories	(3,017)	(5,568)
Increase (decrease) in notes and accounts payable - trade	21,872	8,349
Increase (decrease) in other current liabilities	(59)	2,928
Other, net	(2,188)	(51)
Subtotal	105,609	74,083
Interest and dividend income received	1,635	1,656
Interest expenses paid	(347)	(240)
Proceeds from insurance income	100	1,154
Proceeds from compensation for removal	1,408	6,205
Income taxes refund	266	719
Income taxes paid	(13,013)	(14,685)
Net cash provided by (used in) operating activities	95,659	68,892
Cash flows from investing activities		
Payments into time deposits	(11,182)	(1,602)
Proceeds from withdrawal of time deposits	14,267	5,579
Purchase of property, plant and equipment	(58,738)	(42,303)
Proceeds from sales of property, plant and equipment	44	879
Purchase of intangible assets	(1,187)	(360)
Purchase of investment securities	(168)	(2,722)
Proceeds from sales of investment securities	1,006	3,790
Other, net	(2,261)	(2)
Net cash provided by (used in) investing activities	(58,220)	(36,741)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	805	174
Proceeds from long-term loans payable	—	5,508
Repayments of long-term loans payable	(2,223)	(1,000)
Redemption of convertible bonds	(5,630)	—
Purchase of treasury shares	(12,002)	(8,008)
Cash dividends paid	(6,849)	(7,834)
Cash dividends paid to minority shareholders	(1,182)	(1,552)
Proceeds from share issuance to minority shareholders	12,384	525
Proceeds from exercise of share options	2,443	367
Other, net	(251)	(233)
Net cash provided by (used in) financing activities	(12,505)	(12,054)
Effect of exchange rate change on cash and cash equivalents	4,353	9,449
Net increase (decrease) in cash and cash equivalents	29,286	29,546
Cash and cash equivalents at beginning of period	68,211	97,498
Cash and cash equivalents at end of period	¥ 97,498	¥ 127,044