

Integrated Report 2017
(Annual Report)



unicharm
ユニチャーム

Gentle care for life

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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 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 2017, 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. We have also fully updated the section “Unicharm: A Story of Sustained Growth,” which clearly sets out the relationship between our efforts to address social issues and growth in the Group’s corporate value.

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



We are a supporter of art created by people with disabilities.

Paralym Art aims to help artists with disabilities become financially independent by supporting their business activities.

Cover: “Our Dreams” by Risa Matsuda

Risa is an eight year old from Fukushima Prefecture. She created this work of art by using her hands to tear up pieces of paper she painted with her feet and then applying these pieces as a collage. She portrays both yellow and red colors on this collage.

Our dreams are waiting before the time when we are walking.
This moment in time that I am creating now will color my future.

Risa created this work of art with a positive outlook on life, while also enjoying the moment.

Message from the President

Unicharm shall continue to supply the world-first and world-#1 product & services that can provide all people around the world with comfort, deep impression and joy for contributing to realize the “Cohesive Society” in which they can always be brightening through their independence and mutual support.

Record ordinary income and net income

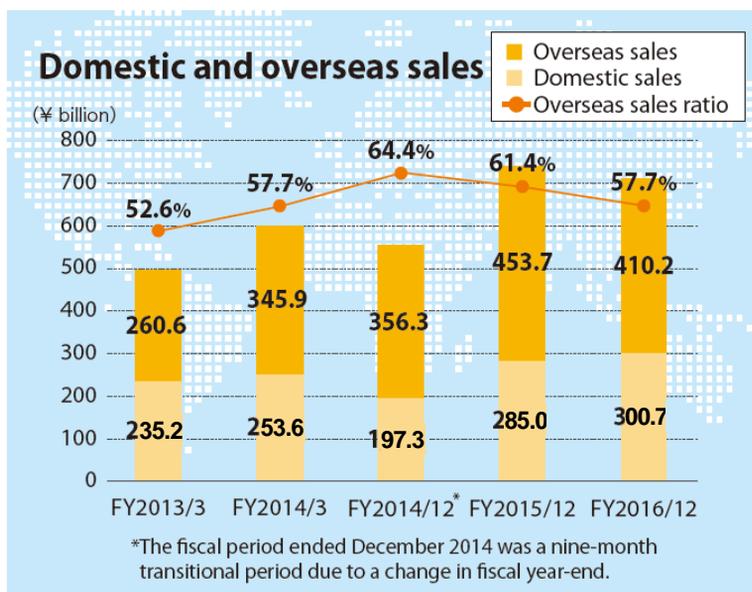
In fiscal 2016, ended December 31, 2016, Unicharm reported net sales of ¥710.9 billion, decreased by ¥27.7 billion year on year, and operating income of ¥78.2 billion, decreased by ¥1.6 billion. Consolidated results were affected by the strong yen and fluctuations in emerging market currencies, an increase in business restructuring costs related to distribution channels in China and other areas of our business, and upfront investment costs to develop new markets. However, we reported ordinary income of ¥71.8 billion and profit attributable to owners of parent of ¥44.1 billion, beating our targets. Both figures were also record highs for the company.

Going forward, we will step up efforts to transform the company and continue to create new value across our business, aiming to fulfill our responsibility to society and improve earnings.

Effective from the first quarter of fiscal 2017, ending December 31, 2017, we have voluntarily adopted International Financial Reporting Standards (IFRS) for the Group’s consolidated financial statements and accounting documents, replacing the existing Japanese Generally Accepted Accounting Principles (J-GAAP). This decision was taken to facilitate international comparison of financial information and to improve the quality of business management.



Takahisa Takahara
President and CEO

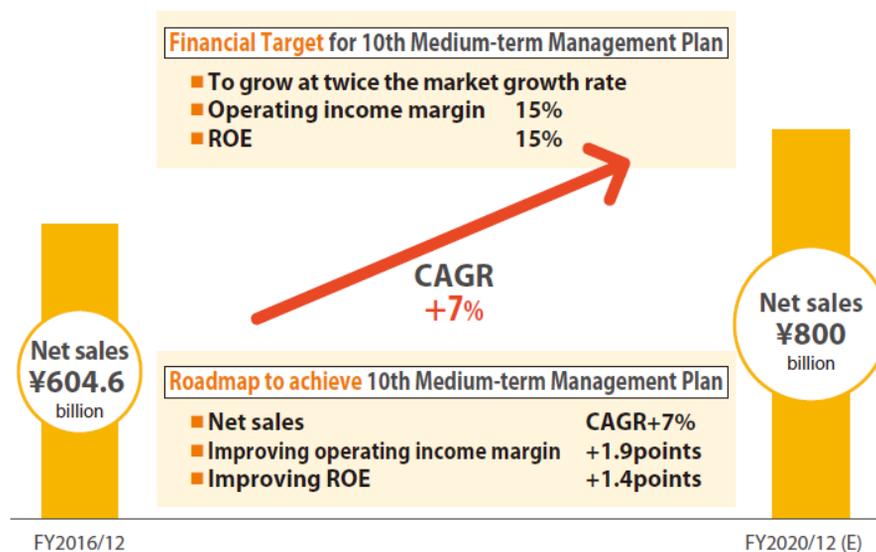


Realizing distinctive differentiation by mutation

Demand for the kind of daily necessities that Unicharm produces is rising worldwide. However, our operating environment is changing rapidly, driven by the new values of Millennials – the next demographic group to lead consumption trends – and by developments in information technology.

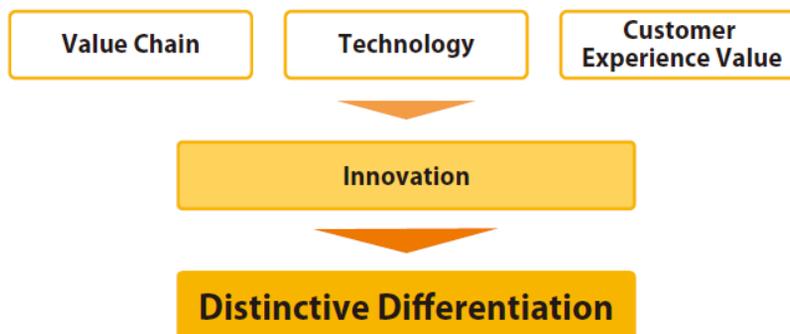
In response to those trends, we have created a vision for the kind of company we want Unicharm to be in 2030. Our 10th Medium-term Management Plan is the first step on the road to realizing that vision. Under the plan, we aim to harness the power of innovation to create a clear difference with our competitors in three areas: value chain, technology and customer experience value.

10th Medium-term Management Plan (IFRS)



*CAGR (compound annual growth rate) excludes exchange rate fluctuation

*Businesses with already high market share grow at average market growth rate.



Mutation is particularly important in the third area, customer experience value. Our goal is to take the concept of experience value to an even higher level. Through continued mutation that gives customers greater enjoyment and pleasure when they use Unicharm products, we aim to make the Unicharm brand even stronger so that it remains one of the most trusted and liked brands in the market.

Aiming to realize cohesive societies

People aged 65 or older are projected to account for roughly 30% of Japan's population by 2020. That means we have to build cohesive societies where people of all ages support each other. I believe we have to create communities where people can live normally with humanity and mutual respect, replacing the current emphasis on sharing the load.

Since launching disposable adult diapers in 1987, Unicharm has consistently proposed new approaches in nursing care. In 1988, we launched *Lifree Nyotori Pad* – urine absorption pads for adult diapers to reduce costs and make incontinence care easier. We followed that in 1995 with *Lifree Rehabili-Pants*, which was aimed at reducing the number of elderly people confined to bed by encouraging greater independence in incontinence care. Today we are focusing on extending the healthy life expectancy of elderly people with products such as *Lifree Thin Light & Comfortable Incontinence Pants*, which give them more control over incontinence care. We are also working to raise awareness and understanding of specialist urinary incontinence care products to give the elderly greater confidence when going out, which helps to foster a deeper connection with society. In 2016, we launched a new program called Social Walking*, which is designed to extend the healthy life expectancy of elderly people by giving them more contact with the wider world to prevent dementia disease.

Ageing is also a growing problem for pets. Living with pets has been shown to help maintain and enhance the mental and physical wellbeing of pet owners. Pets also give us great joy. They can therefore play a role in extending healthy life expectancy. After moving into the pet care market in 1986, Unicharm launched disposable diapers for pets in 2001 with the aim of creating a society where pets and their families can live together in harmony and happiness. We have rolled out other products since then to make it easier for pets and people to co-exist, such as a deodorizing toilet system for hygienic indoor pet care, and *Manner Wear* disposable pet diapers that alleviate pet owner concerns about taking their pets outdoors.

*As the name suggests, the program is about socializing while walking, which is seen as a fun, easy and effective way of preventing dementia disease (Unicharm project run under the supervision of the Tokyo Metropolitan Institute of Gerontology).

Paying stable returns to shareholders

One of our top priorities at Unicharm is to return an appropriate level of profits to shareholders, which is also important from the standpoint of capital efficiency. We are committed to paying stable returns while at the same time strengthening the Company to boost earnings and actively investing in our business to drive growth.

For fiscal 2016, ended December 31, 2016, we paid a year-end dividend of ¥8.00 per share, the same amount as our initial dividend forecast.

In fiscal 2017, in accordance with our shareholder return policy, we will place 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 plan to pay a full-year dividend of ¥18.00 per share for fiscal 2017, an increase of ¥2.00 from the previous fiscal year.

At Unicharm, we are committed to more than just supporting customers through our business activities. We are striving to realize sustained growth in corporate value by promoting sound business management that delivers value to all the stakeholders who support us: our shareholders, business partners, employees and society as a whole. We look forward to your continued support in the year ahead.

March 2017

Takahisa Takahara

President and CEO





Unicharm: A Story of Sustained Growth

More than 50 years of continued growth

We realized early on that our domestic market was maturing, prompting us to actively start developing our overseas operations in the 1980s. Since then, we have expanded our reach into a wide range of overseas markets – advanced and emerging – supporting steady growth in earnings. In the space of just over 50 years since 1961, when Unicharm was founded, we have grown into a company with annual sales of roughly ¥700 billion.



*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

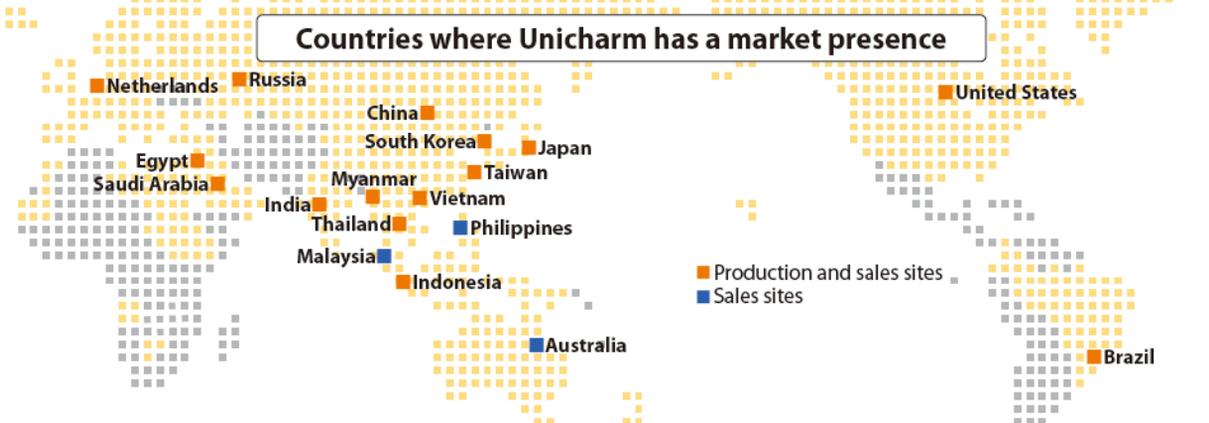
High market shares in each category

(Based on research by Unicharm, 2016)



Unicharm has positioned the fast-growing Asia region as its priority market. We have already secured leading market shares in disposable baby 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 our 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.

A presence in roughly 80 countries and regions worldwide



All our feminine care products, disposable baby diapers, disposable adult diapers and pet care products play an indispensable role in making everyday life cleaner and more hygienic. Demand for those products is growing in all regions worldwide. In emerging markets, rising incomes are spurring demand for disposable baby diapers and feminine care products. In advanced markets, demand for pet care products and disposable adult diapers is gaining momentum, driven by aging societies, and that trend is likely to emerge in Asia and other markets as well. Consumers in both advanced and emerging markets also want better quality products, leading to rising demand for high-quality products.

Raising quality to help solve social issues

NOLA & DOLA

Necessity of Life with Activities & Dreams of Life with Activities

Eliminating discomfort

(transformative change from negative to zero)

Changing from no discomfort to feeling good

(transformative change from zero to plus alpha)

Guided by our corporate slogan, NOLA & DOLA, we have been striving to make life more comfortable for people worldwide.

In the years since Unicharm was founded in 1961, we have made steady progress in eliminating some of the issues people face in their lives every day – discomfort, inconvenience and unsanitary conditions – as expressed by the NOLA part of our slogan. However, we have really only just begun to address DOLA. We still need to raise our game so that our products and services give customers greater enjoyment and pleasure.

Our goal is to create and supply products that drive major positive changes in peoples' lives, helping us to generate further growth as the most trusted brand in the sector.

Making life more comfortable for women and children



Since the first days of the Company, we have consistently sought to make life more comfortable for women, supporting their efforts to take a more active role in society. Unicharm started out in the 1960s as a manufacturer of feminine care products. Dramatic improvements in the absorbency of those products have given women more independence during their periods. In the 1980s, we also started manufacturing and selling disposable baby diapers, helping to significantly reduce the burden of child rearing.

Today, we are expanding our approach overseas, where we are supporting the social advancement of women in emerging markets, particularly in Asia. In the Middle East, North Africa and South Asia, opportunities for women to study and work are severely limited in some regions due to cultural factors. Giving women more independence so that they can play a more active role in society is key to eliminating poverty and promoting local economic development. Our aim is to use the Unicharm approach to help women everywhere secure the opportunities they need to shine and fulfill their potential.

Extending healthy life expectancy and creating a cohesive society

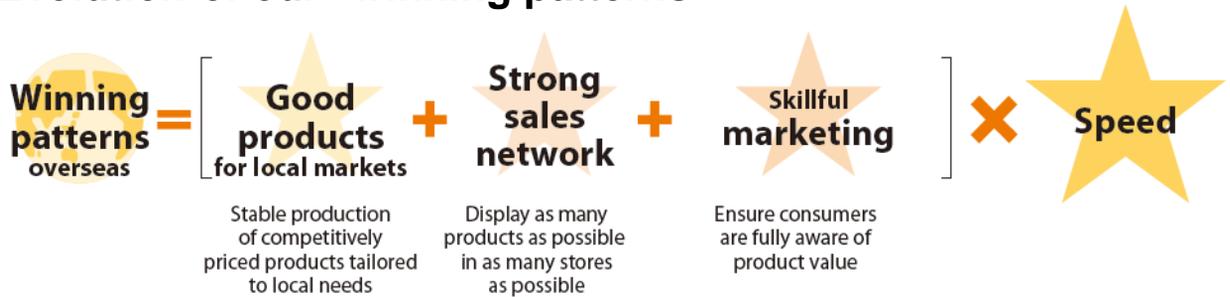


Unicharm is working to create a cohesive society where pets and their owners can live together in comfort.

We moved into the health care business from the 1980s, when the first estimates showed Japan's population was aging. In 1987, we began manufacturing and selling disposable adult diapers, followed by many other products aimed at extending the healthy life expectancy of elderly people, who until that point were often confined to bed. In 1986, we moved into another new field, the pet care business. Since then, we have sold pet food, pet hygiene products and a range of other products designed to make it easier for people to care for pets in the areas of health and hygiene.

In recent years, as aging has become a growing issue for pets as well as people, we have been working hard to create a cohesive society where pets and their owners can be together at all times, inside or outside, thanks to our pet toilet care products.

Evolution of our "winning patterns"

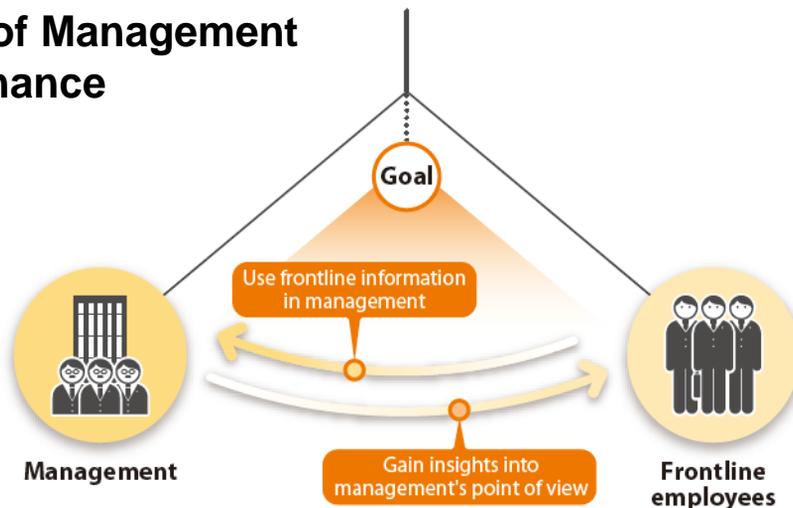


Unicharm has successfully transferred its winning patterns in Japan to overseas markets by tailoring them to local market conditions. However, amid dramatic changes in our operating environment, we now need to enhance the quality of those winning patterns to match new realities.

As values become more diverse worldwide, consumers want different things from their products, depending on their country or region. That's why it is important for us to identify what kind of product is best for each market. Also, amid growth in the so-called Millennial generation of consumers, who have distinctly different buying behavior, we have to develop a digital marketing strategy that utilizes social media and other tools.

Advances in IT and globalization mean all types of business resources – information, technology, production capacity and logistics networks – are accessible to any business. To remain competitive under those conditions, we have to think and act faster. Using a dynamic cycle of trial and error, we will adjust our winning patterns to match changes in the operating environment and transfer them to overseas markets.

Evolution of Management with Resonance



At Unicharm, management uses feedback from frontline operations to develop strategies that are carefully explained to employees, allowing our workforce to gain insights into management's point of view and act accordingly. This balanced approach to communication significantly improves the capacity of the whole organization, helping management and frontline employees work together towards shared goals. We call this "Management with Resonance," and it is a major factor behind the Group's growth. Amid far-reaching changes in our operating environment, we have to think and act more quickly and take this management approach to a new level.

Our organization has to be more agile so that we can rapidly implement strategies, adjust them through a dynamic process of trial and error until they are on the right trajectory, and rebuild them if necessary in a short space of time. To do that, we have to continually upgrade the capabilities of Management with Resonance. Also, as our Group becomes bigger and the number of overseas employees increases, we need to nurture resonant personnel who have an in-depth understanding of Unicharm's philosophy and Management with Resonance approach.

Mutation toward the realization of cohesive society



In recent years, dramatic and unexpected change spurred by almost daily advances in IT and globalization has become the new normal. To generate sustained growth under those conditions, we have to accept the changes happening in our operating environment and actively innovate to address sudden new realities.

Through continued innovation that gives our customers enjoyment and pleasure when they use Unicharm products and services, we aim to create a cohesive society where everybody from the very young to the very old, and even pets, can lead independent and comfortable lives.

We will continue to provide the world's No. 1 and unprecedented products and services to everybody around the globe and deliver comfort, impression and satisfaction, aiming to create a cohesive society where people everywhere lead independent lives and support each other.

Global issues

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. Specifically, in emerging markets, we sell feminine care products and disposable baby diapers priced at a reasonable level for local incomes. We also actively hire women to work in our local factories 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 lift income levels, which should ultimately translate into greater demand for our products and a stronger Unicharm brand in those countries.



Global issues

Challenges faced by the elderly and pets

Actively working to extend healthy life expectancy for people and pets

As societies age worldwide, extending healthy life expectancy is vital to help people live longer and richer lives. As a company that supports the mental and physical health of individuals, we have delivered improvements in healthy life expectancy through incontinence care. We are now turning our attention to loneliness and dementia disease among the elderly – other social issues that need to be addressed as societies age. One initiative we have launched is Social Walking*, which is aimed at increasing social participation through walking.

Aging is also an issue of pets. To increase healthy life expectancy and create a cohesive society where pets and people can live long and rich lives together, we are working to create new markets and develop new products that support all aspects of pets' lives, from hygiene products through to food.

* As the name suggests, the program is about socializing while walking, which is seen as a fun, easy and effective way of preventing dementia disease (Unicharm project run under the supervision of the Tokyo Metropolitan Institute of Gerontology).



Unicharm is working to create a cohesive society

Global issues

Reducing environmental impact

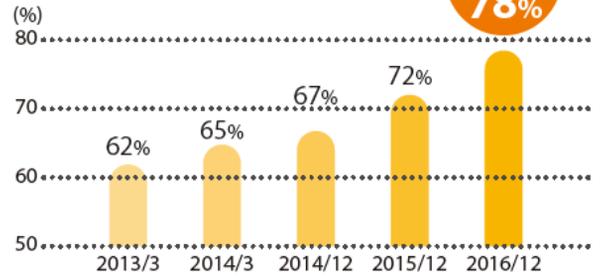
Increasing the ratio of environmental-friendly products to reduce our impact on the environment

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, 132 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.

* 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.

Ratio of environmental-friendly products



Reductions in CO₂ and waste



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 emerging markets.



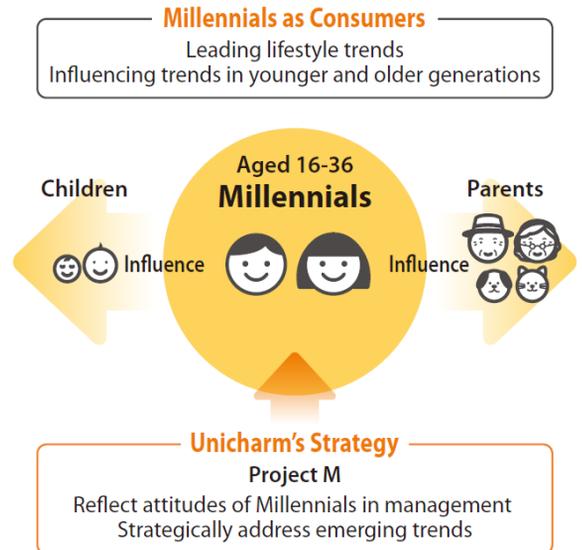
Striving to make life more comfortable for people worldwide

The Unicharm approach Insights from Millennials

Reflecting feedback from employees in their 20s and 30s in management

The Millennial generation is a demographic cohort born between 1982 and 2000 and is seen as having distinctly different values. Also known as the Millennials, this group is increasingly driving consumption in markets today. Millennials are also having an impact on the lifestyles of elderly people and other generations ahead of them.

To assess that impact, we selected a group of Unicharm employees in their 20s and 30s and incorporated their insights into management strategy. We also formulated management targets for 2030 centered on employees in the Millennials cohort. Using projections for the operating environment 10 years from now, we will adjust those management targets so that they remain on the right trajectory, while also ensuring any signs of change in the environment for the next three years are shared as accurately as possible across the Group. We aim to deliver sustained growth by rapidly innovating in areas such as personnel, business strategy and technology in unconventional ways to create new value.



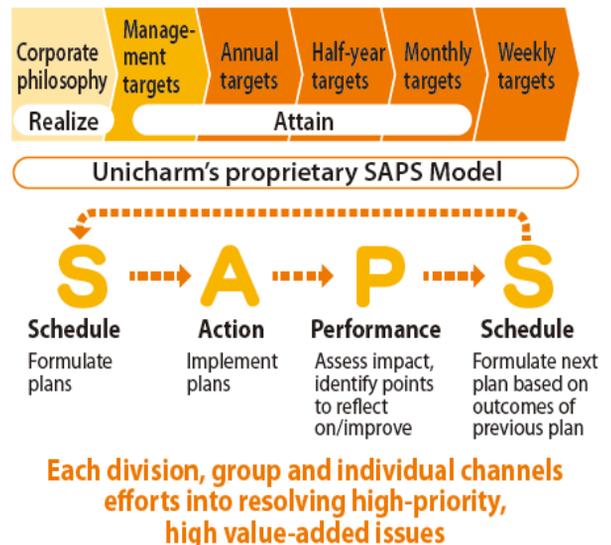
The Unicharm approach Management focused on frontline operations

Management with Resonance supported by our SAPS Model

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

Anybody can access secondary information from books or the internet, but it does not offer the same kind of insight as primary 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 Model to help managers use their valuable time more effectively. Under the SAPS Model, every employee channels their time and effort into resolving priority issues within their team, helping to eliminate unproductive activities from daily tasks.



Financial and Non-Financial Highlights

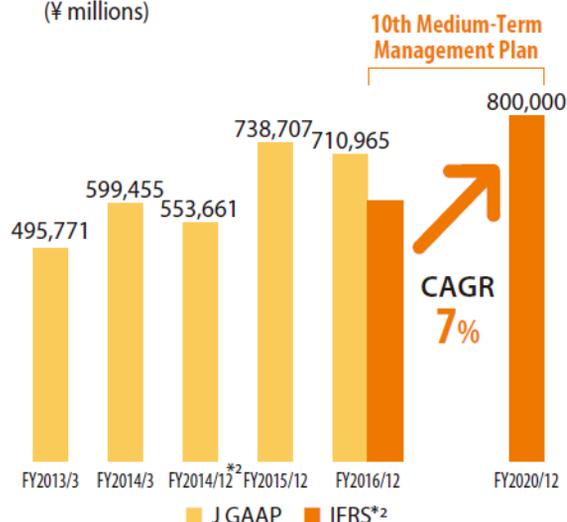
**Unicharm's
Management
Targets**

**Under the 10th Medium-Term Management Plan,
we are targeting consolidated net sales of ¥800 billion*1 in 2020.**

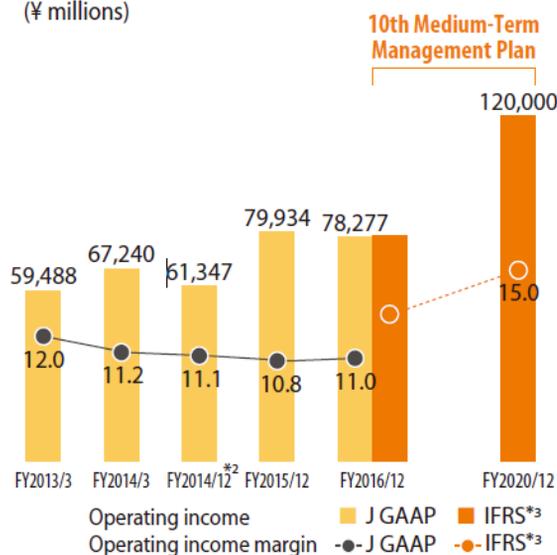
We aim to grow sales at an annual rate of 7% while also boosting profitability and capital efficiency.

■ Performance Targets

■ Growth potential
Sales growth 7%
(¥ millions)



■ Profitability
Operating income margin 15%
(¥ millions)



■ Capital efficiency
ROE 15%
(%)



*1 IFRS basis

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

*3 Unicharm voluntarily adopted International Financial Reporting Standards (IFRS) from fiscal 2017.

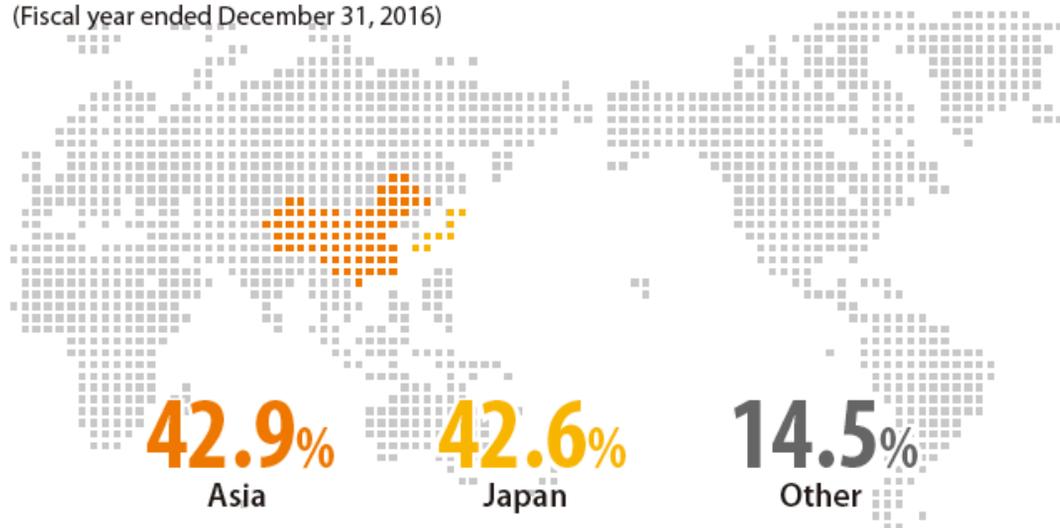
Unicharm's
Overseas
Expansion

We plan to push ahead with the globalization of our business to support continued growth.

We will actively channel management resources into growth markets.

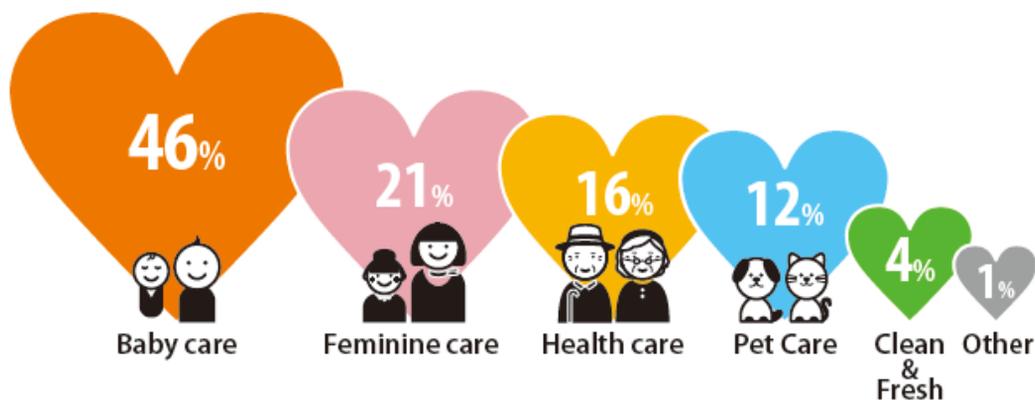
■ **Sales by geographical segment**

(Fiscal year ended December 31, 2016)



■ **Sales by business segment**

(Fiscal year ended December 31, 2016)

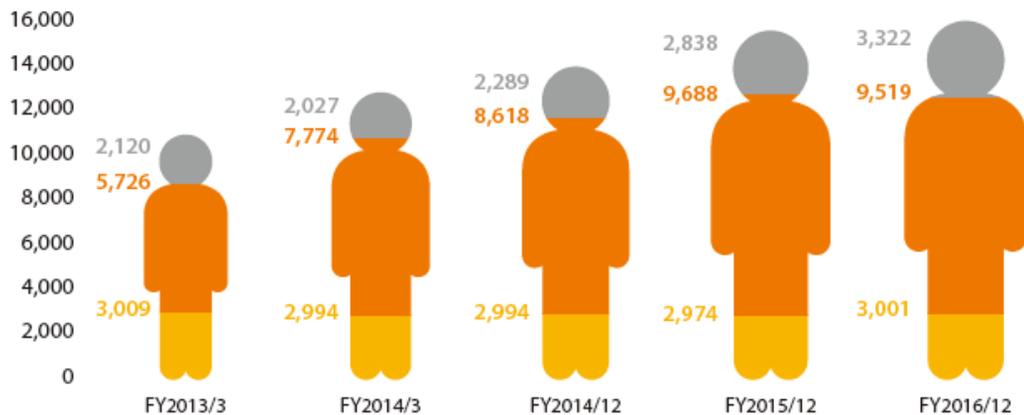


Unicharm's
People

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

Overseas personnel account for a high ratio of Unicharm's workforce and we are creating more opportunities for women across our organization. The number of female managers is also increasing.

■ Number of employees by geographical segment



■ Number of employees (As of December 31, 2016)



■ Ratio of female personnel worldwide (As of December 31, 2016)



■ Ratio of female managers in domestic operations (As of December 31, 2016)



■ Ratio of female managers in Asia excluding Japan (As of December 31, 2016)



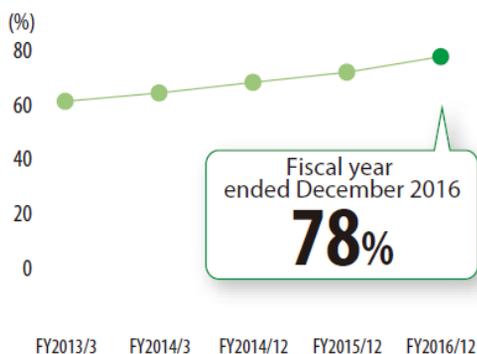
Unicharm and
the global
environment

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 environmental-friendly products

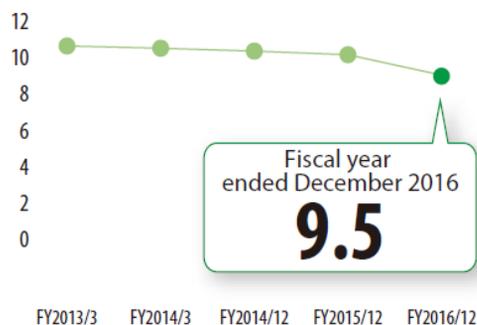
75% by December 2016



CO₂ emissions volume

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

10.5 by December 2016



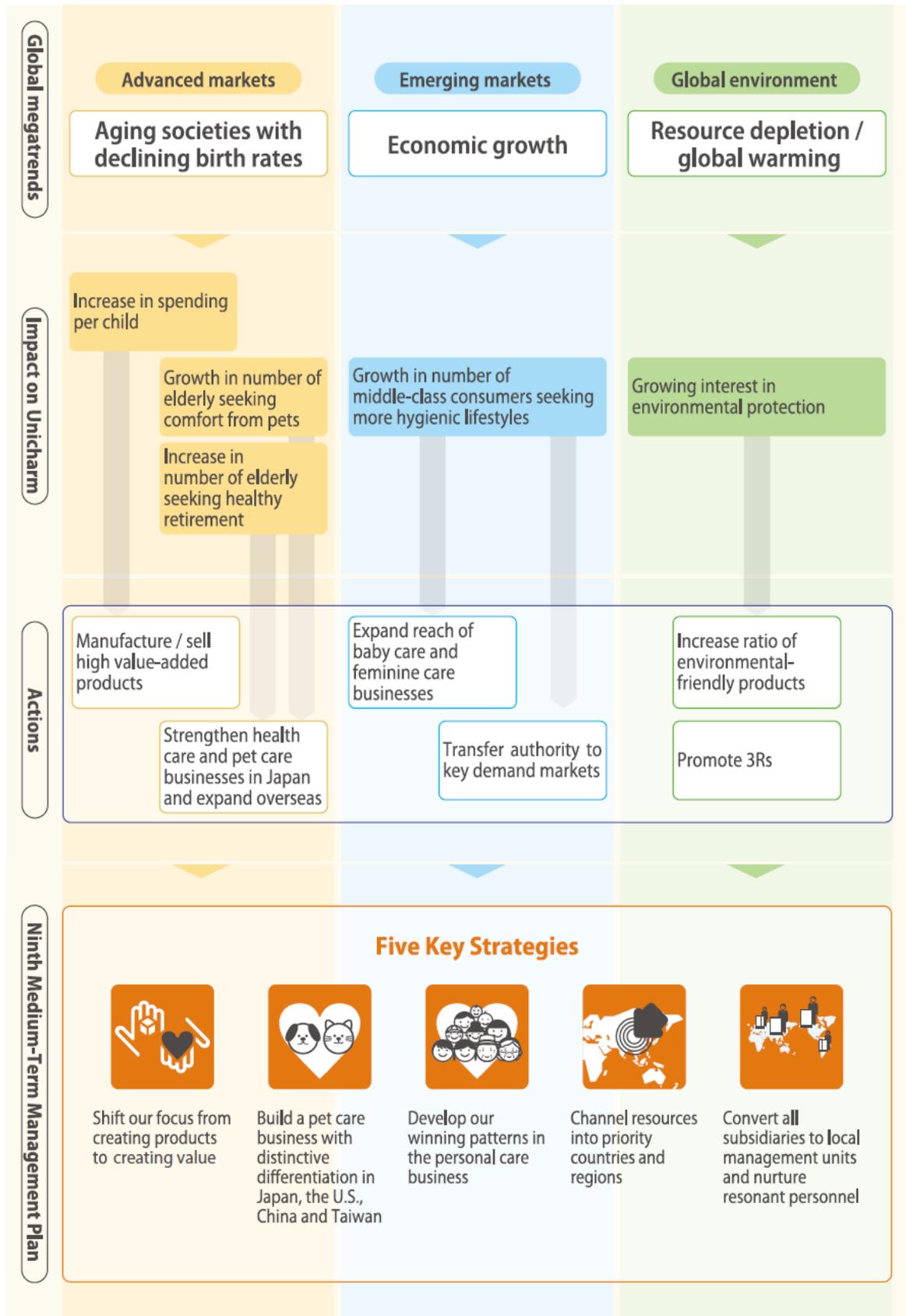
Eco Plan 2020

	Implementation items	2015 results	2016 results	2017 results	2020 targets
1 Reduction of waste	Recovery technologies for used disposable diapers Japan	Established technologies	Concluded agreement with the City of Shibushi	Trial operations	Full-scale operations
	Recycling or product loss overseas	2,000 tons	2,600 tons	2,600 tons	4,000 tons
2 Procurement of sustainable materials	Third-party verification of paper and pulp suppliers Japan	82%	80%	90%	100%
	Third-party verification of paper and pulp suppliers overseas	-	84%	85%	100%
	Third-party verification of palm oil suppliers Japan	0%	Start of investigation	Understanding of actual situation	100%
3 Measures to address climate change	Environmental-friendly products Japan	72%	78%	80%	100%
	Products with the Eco Charming label Japan	50%	56%	58%	60%
	Products with the Eco Charming label overseas	0%	Agreement	Start	10%
	CO ₂ emissions base unit during manufacturing compared to 2015 Japan	Base year	-2.4%	-2%	-10%
	CO ₂ emissions base unit during manufacturing compared to 2015 overseas	Base year	-	-2%	-10%

* 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.

Unicharm and the Changing World



Five Key Strategies (1)

Channel resources into priority countries and regions

Emerging markets in Asia and other regions

Fiscal 2016 highlights

- China's e-commerce market continued to expand, with demand for Japan-made disposable diapers and pants-type disposable diapers growing strongly due to their reputation for quality, safety and reliability.
- In Indonesia, where Unicharm is the clear market leader, we started work on improving profitability by upgrading our products.
- In India, which has a vast population, we achieved profitability in the second half of fiscal 2016. We expect our business in India to be profitable on a full-year basis in fiscal 2017.

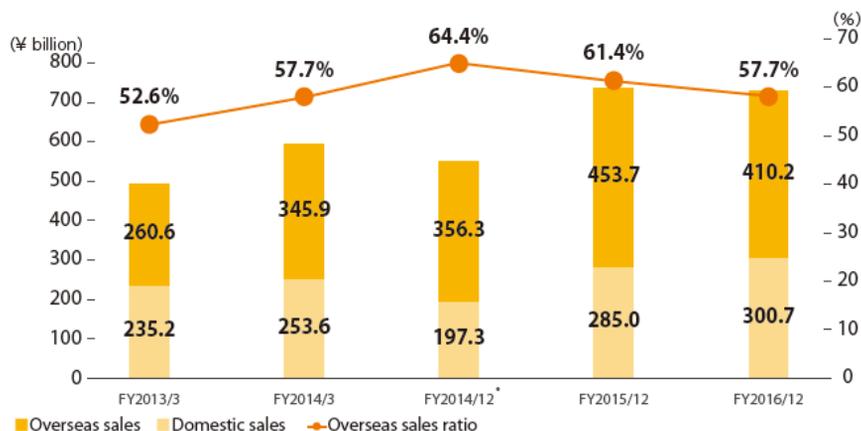
Aggressive marketing to promote wider uptake of our products

In fiscal 2016, ended December 31, 2016, sales in Asia declined 10.6% year on year to ¥305.0 billion and operating income fell roughly 30.8% to ¥22.3 billion, reflecting the impact of fluctuations in emerging market currencies and heavy spending on marketing. Asia's share of overseas sales dropped 3.7 percentage points to 57.7%.

However, demand for nonwoven fabric and absorbent material products remained very strong. Against that backdrop, we ran aggressive marketing campaigns in our priority markets of China, India and Indonesia to promote wider uptake of pants-type disposable diapers – a product category where Unicharm has a strong position. We also expanded our sales areas in those countries and worked to boost profitability.

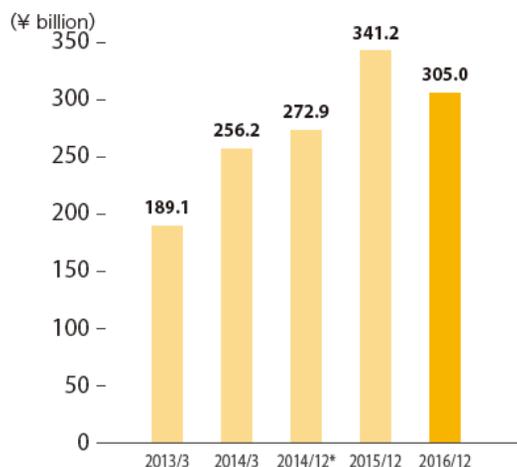
During fiscal 2016, we ran a wide range of initiatives in Asia, such as a program to improve living conditions for infants by providing easy-to-understand advice about the importance of baby hygiene. We also actively hired local women and provided female consumers with accurate information about the mechanism of menstruation and feminine care products. 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.

Domestic and overseas sales

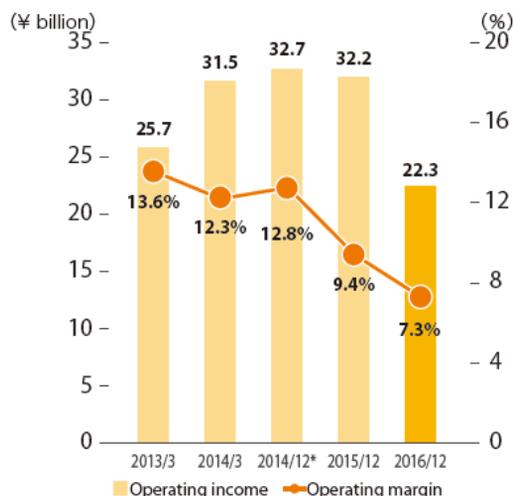


*The fiscal period ended December 2014 was a nine-month transitional period due to a change in fiscal year-end.

Sales in Asia



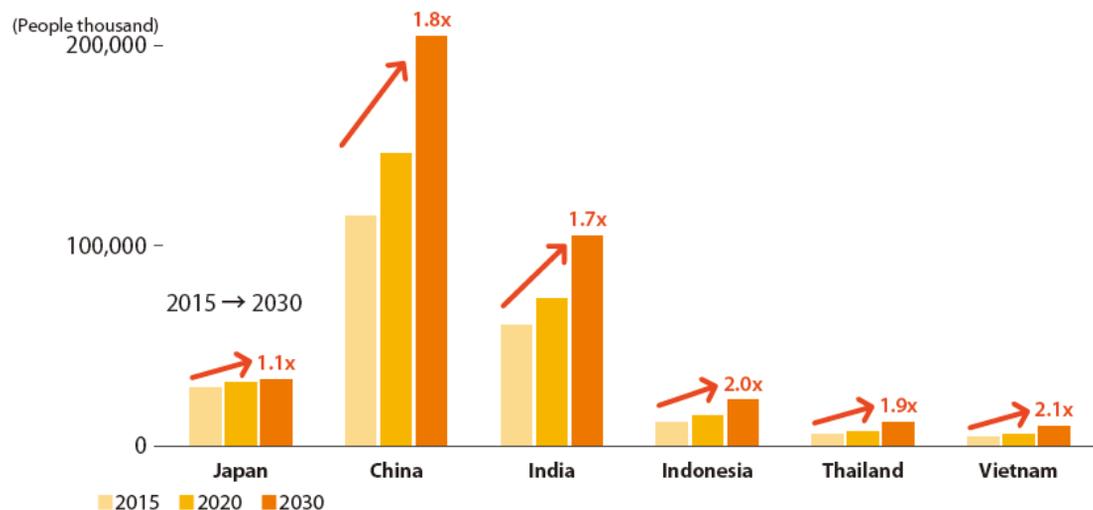
Operating income and operating margin in Asia



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

Some countries in Asia such as Taiwan, Thailand, Indonesia and China are currently aging at a faster rate than Japan, which is likely to spur rising demand for adult incontinence care products in the near term. Given this outlook, we plan to extend our Japanese care model across the Asia region by leveraging our experience in Japan – the world’s most rapidly aging society.

Number of elderly people in Asia (65 and older)



China: Steady growth for Japan-made disposable diapers, pants-type disposable diapers and the e-commerce market

In China, where the personal care market is roughly four times larger than Japan’s, demand for disposable baby diapers and feminine care products is growing as income levels rise. Demand for safe and reliable Japan-made products continues to rise and consumers are switching from physical retail stores to e-commerce channels to buy disposable baby diapers. By gradually adapting to these changes, sales of our Japan-made disposable diapers and pants-type disposable diapers have risen steadily and Unicharm’s sales in the e-commerce channel have grown at a faster rate than the market average.

•Baby care business

In China’s urban markets, a growing number of mothers are taking the health and safety of their babies even more seriously. This is spurring demand for our premium *moony* range of high-quality, Japan-made disposable baby diapers. Amid growth in China’s online market for baby care products, we have actively worked to raise awareness of Unicharm brands. As a result, Unicharm’s sales in the e-commerce channel are rising at around 66% year on year, outstripping growth in China’s e-commerce market. The *moony* brand is already popular with Japanese mothers, winning the Best Mother Award for the third year running in 2016. Chinese mothers are increasingly aware of the recognition *moony* has received, helping to drive steady sales of the brand in China.

On November 11 (Singles Day) in China, our *moony* disposable baby diapers (large size) were the top-selling item on the Tmall Global online shopping site. We will work to meet further growth in demand in the expanding e-commerce market, step up imports of products from Japan, and encourage wider uptake of pants-type disposable diapers while offering new value proposals.



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•Feminine care business

In our feminine care business in China, where the market is roughly four times larger than Japan’s, the attractive designs and high quality of Unicharm products have proved popular with younger women, helping us secure second spot in China’s feminine care market. New product categories and high value-added product proposals incorporating unique Unicharm proprietary technologies, such as our shorts-type sanitary napkins, have become particularly popular in China, helping to drive sales growth and lift profitability across our entire feminine care business. Mirroring the trend in disposable baby diapers, sales of feminine care products are growing steadily in the e-commerce channel. Against that backdrop, Unicharm’s feminine care product sales in the e-commerce channel are rising at around 73% year on year, outstripping market growth, just like our baby care products. We plan to increase market share further by rolling out marketing campaigns for premium products and by raising brand awareness.

We will also work to actively strengthen our e-commerce sales in China’s outlying regions and rural areas, where the online market is set to expand.



**Unicharm’s
feminine care
market share in China**



**No.2
17%**

(2016/1~2016/12)

Indonesia: Improving profitability by launching products tailored to local demand

Indonesia's economy has deteriorated, leading to slower growth in the number of disposable diapers used. A weaker local currency has also pushed up our raw material procurement costs. Those factors, along with changes in the operating environment, such as sales channel modernization and intensifying competition, have weighed on profitability in Unicharm's local operations. However, our baby care business remains the clear market leader in Indonesia and our feminine care business still holds the top market share. But we are starting to see positive signs of an upturn in consumer confidence, so we plan to turn around profitability in Indonesia by rolling out high value-added products with greater appeal. In the health care business, we worked to promote uptake of pants-type disposable adult diapers, supporting steady growth in sales, and we continued to drive growth in Indonesia as the dominant company in the market.

We will continue to implement initiatives to expand the Indonesian market further and improve profitability in order to deliver stable growth.

Unicharm's baby care market share in Indonesia



No.1
58%

(2016/1~2016/12)

Unicharm's feminine care market share in Indonesia



No.1
38%

(2016/1~2016/12)

Unicharm's health care market share in Indonesia



No.1
50%

(2015/12~2016/11)



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Thailand: Generating stable growth by launching products tailored to local conditions

Unicharm has already built a dominant market position in Thailand. Our baby care business has more than 60% of the market and our feminine care business has more than 50%. In the baby care business, we will continue to enhance our lineup of disposable baby diapers with products designed for local consumers, aiming to boost sales while maintaining profitability. In the feminine care business, we will generate strong growth and profits by continuing to offer new value proposals.

Unicharm's baby care market share in Thailand



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Unicharm's feminine care market share in Thailand



Vietnam: Achieving above-market rates of growth in all product segments

Our baby care business and feminine care business remain the market leaders in Vietnam’s main urban markets. In the baby care business, demand for Japan-made products is rising. To tap into that demand, we actively promoted our pants-type disposable diapers and expanded our sales areas, resulting in sales growth of 24% year on year. Sales in the feminine care business are also rising. We rolled out new high value-added products and new value proposals, spurring sales growth of 9% year on year. Our health care business now controls more than 70% of the market in Vietnam, thanks to efforts to promote wider uptake of our pants-type disposable adult diapers.

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 working closely with Diana, a local company acquired in 2011. We are combining our product development capabilities, manufacturing technologies and marketing expertise with Diana’s sales network and understanding of local consumers.

Unicharm’s baby care market share in Vietnam




No.1
45%

(2016/1~2016/12)

Major cities:
Hanoi, Hai Phong, Danang, Nha Trang,
Ho Chi Minh City and Cantho



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Unicharm’s feminine care market share in Vietnam




No.1
45%

(2016/1~2016/12)

36 Major cities



Unicharm’s health care market share in Vietnam




No.1
77%

(2016/1~2016/12)

Major cities:
Hanoi, Hai Phong, Danang, Nha Trang,
Ho Chi Minh City and Cantho



India: Targeting profits on a full-year basis in 2017

Since launching disposable baby diapers in India in 2009, we have actively worked to promote pants-type products. Those efforts have paid off, with pants-type diapers now accounting for over 80% of the disposable baby diaper market and sales are growing steadily. Our local operations became profitable in the second half of fiscal 2016 and we expect our India business to make a positive contribution to consolidated annual profits from fiscal 2017. After expanding our sales area into the south of the country, our market share reached 34% in 2016, and we are steadily closing the gap with the leading company. India has a vast population of around 1.2 billion and the number of newborn infants is roughly 23 times the level in Japan. Consequently, in the future, we think India has the potential to become an even larger market than China. Even compared with other emerging markets, the uptake rate for disposable baby diapers is still low in India. We therefore plan to target further growth by promoting our pants-type disposable baby diapers, a category where Unicharm already has a strong position, and by expanding our sales area and retail store coverage. We will also work to encourage wider uptake of feminine care products.

With demand expected to grow sharply, we are currently adding production capacity and building a distribution network to cover all areas of India. In 2015, we started operation of our second factory in India, located in the southern city of Sri, and plan to build a third factory in the west of the country.



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Myanmar: Streaming product development, manufacturing technologies and marketing capabilities to generate continued strong growth

Since our 2013 acquisition of Mycare, a leading manufacturer and distributor of hygiene products in Myanmar, we have built dominant market positions in our baby care and feminine care businesses by launching products suited to local needs and by expanding our lineup. Myanmar has a population of roughly 62 million, about the same as Thailand's, and we see real potential for further growth in the market going forward. We plan to expand our business in Myanmar by combining our product development capabilities, manufacturing technology and marketing expertise with Mycare's highly visible brands.



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Brazil: Improving profitability by promoting pants-type products and efficiently investing in marketing

In spring 2014, we started production at a new factory in the state of Sao Paulo. Using our strengths in pants-type disposable baby diapers to build a distinct position in the market, we have increased the number of stores that sell our products to around 54,000. Sales also continue to expand, and efficient spending on marketing is helping to boost profitability. Brazil is an attractive market for Unicharm. The target market for disposable baby diapers is roughly 9 million users, more than twice the size of Japan’s market, and demand is rising on the back of growth in Brazil’s middle class. We will continue to promote uptake of pants-type disposable baby diapers while working to tap into market growth.



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MENA region: Driving market growth by enhancing our lineup and expanding sales channels

The MENA region is an attractive market due to prospects for long-term growth in consumption, as the population is growing at an even faster rate than in the population powerhouses of China and India.

Our consolidated subsidiary in Saudi Arabia, Unicharm Gulf Hygienic Industries Ltd., is expanding its sales channels in the region, helping the baby care business to steadily gain market share. Sales in 2016 rose 10% year on year and profitability improved.

The company is also gaining market share in Egypt by expanding sales channels, and exports to neighboring countries are growing steadily. Geopolitical risks in the MENA region are a concern, but we will continue to actively expand sales channels to boost earnings.

Unicharm’s baby care market share in Egypt



Unicharm’s baby care market share in Saudi Arabia



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Japan

Fiscal 2016 highlights

- Baby care business and feminine care business both achieved stable growth, centered on high value-added products
- Health care business drove earnings due to an extensive product lineup and new value proposals

Baby care business: Increasing brand value by using innovative technologies to create high value-added products

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 *MamyPoko*, which offers an excellent balance between quality and price. As the domestic diaper market has matured, we have continued to offer innovative value proposals and actively raised awareness about hygiene and comfort issues, helping us achieve sales growth ahead of the market average and significantly boosting profitability. In our premium *moony* range, we launched the *Natural moony* series in October 2016, using organic cotton-based surface sheets to create high-quality diapers that are even kinder on babies' skin. Based on scientific principles, we have sought to create a disposable diaper that puts infants at ease by giving them the impression they are being held in their mothers' arms. We plan to use *Natural moony* to create a high-end premium market and we intend to reinforce our distribution framework in overseas markets.

Amid the shift to fewer children and nuclear families in Japan, another trend we are seeing is the growing number of women who have concerns about child birth and raising children, and who also want accurate information and peace of mind about products for their babies. We try to stand in their shoes and do what we can to alleviate those concerns. We provide useful information to new and expectant mothers and develop safe and reliable baby products, an approach that has helped our *moony air fit* and *moony man air fit* diapers win the Best Mother Award for three straight years from 2014 to 2016. We will continue to increase brand value and strengthen our presence in sub-categories such as training pants and swim diapers in order to energize the domestic diaper market.

In recent years, we have seen growing demand in Asia for disposable baby diapers with the same high quality as those sold in Japan. In response, we will continue to actively leverage our brand value to attract customers in order to generate stable growth.

***moony air fit* and *moony man air fit* diapers win Best Mother Award*1**

moony air fit and *moony man air fit* have won the Best Mother Award*1 for the third year in a row, a first for the award*2. The Best Mother Award*1 is run by the Japan Mothers Association and is based on the highest number of votes from 30,000 Japanese mothers currently raising children, referencing their views about features such as usability, convenience and design. Motivated by this prize, we will work to further improve our products and services to help create a society that makes it easier for women to raise children.



*1 Organized by NPO Japan Mothers Association (Head office: Minato Ward, Tokyo; Director: Tsubasa Ide) as part of its efforts to support child rearing and mothers, based on votes from mothers.

*2 *moony air fit* and *moony man air fit* received the 6th Best Mother Award in 2014, the 7th Best Mother Award in 2015, and the 8th Best Mother Award in 2016.



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**Unicharm's
baby care
market share in Japan**



**No.1
34%**

(2016/1~2016/12)

Feminine care business: Highest-ever market share due to a steady stream of high value-added products

Despite a maturing market, our feminine care business is growing by continuing to offer new value proposals tailored to women's changing lifestyles and by leveraging our nonwoven fabric technology to launch high value-added products. In Japan, women are taking a more active role in society due to changing lifestyles and an increase in the number of working women. This is spurring growing demand for well-designed feminine care products that are gentle on the skin, more comfortable and absorbent. We have launched products to address those needs, leading to steady growth in sales and our highest-ever market share in Japan.

Unicharm has continued to create a steady stream of innovative products by carefully monitoring women's concerns and the latest trends in their increasingly diverse lifestyles. This approach has helped us generate stable growth. We have also actively contributed to society through our Pink Ribbon campaign and other socially conscious initiatives. Going forward, we will target further gains in market share and profitability by continuing to launch high value-added products backed by scientific research, aiming to help women overcome physical and mental constraints.



**Unicharm's
feminine care
market share in Japan**



**No.1
48%**

(2016/1~2016/12)

Health care business: Energizing the market through active efforts to extend healthy life expectancy

Since moving into the disposable adult diaper market in 1987, Unicharm has led the industry in promoting wider use of adult incontinence care products in Japan. We have developed products that address consumer needs in both the moderate and light adult incontinence categories and worked to create new markets. As a result, the health care business has built a dominant position in the retail market with a share of over 50%.

The target market for incontinence care products is likely to expand further in Japan. To tap into this growth, we aim to clearly stand out in the market by offering a wider choice of products and new value proposals in order to strengthen our already dominant position in the market and generate sustained growth. In parallel with those efforts, we are actively working to make a positive impact on society by extending healthy life expectancy through activities that improve the health and independence of Japan's elderly. One of those initiatives is Social Walking*, which is aimed at ending loneliness among the elderly by giving them a purpose to go outside and socialize. Our goal is to support outdoor activities, backed by appropriate incontinence care, as a way of preventing dementia disease.

* As the name suggests, the program is about socializing while walking, which is seen as a fun, easy and effective way of preventing dementia disease (Unicharm project run under the supervision of the Tokyo Metropolitan Institute of Gerontology).



Social Walking

Unicharm's
health care market
share in Japan (retail)



No.1
56%

(2016/1~2016/12)

•Moderate incontinence products

To encourage even wider user of disposable adult diapers, we are working with retail stores to create sales areas that make it easier for shoppers to select the right products. Also, through partnerships with many retailers, we provide advice to shoppers about how best to use our products. The continued use of toilet facilities plays an important role in maintaining activities of daily living, motivation and care levels. In support of that, we have introduced patented elastic snug-fit gather technology for leg areas in our *Lifree Pants* range of disposable adult diapers, which are close-fitting but easy to put on. The improved technology allows users to wear our pants-type diapers for even longer periods.

We will continue to work on building a distinctive difference in the market by improving our products so that people receiving incontinence care can lead more comfortable and independent lives.



•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. The urinary incontinence care market is expanding, spurred by recent growth in the number of active seniors who take part in leisure activities. Until recently, the light incontinence market was focused on women, but a large number of men also suffer from this problem. To address this demand, we launched *Lifree Comfortable Thin Pads for Men* in 2014. This product, which is specially designed to be discreet and prevent staining, is aimed at men who avoid going out due to concerns about light incontinence. Also, amid growth in the market, we have expanded our lineup to give users more options to select the best products for their needs. This has supported strong growth, with sales of our light incontinence products for men rising at an average annual rate of more than 60% in the last three years. Our products are winning acclaim as well. For the first time, *Lifree Sawayaka Slim-type Pads for Men Light Use* received an award for excellence in the 2016 Nikkei Superior Products and Services Awards*, recognizing the product's technology development potential, distinctiveness and growth prospects, among other attributes.

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 stepping up efforts to extend the healthy life expectancy of elderly people in Japan.

Going forward, we will continue to offer new value proposals for unmet needs and promote wider uptake of our products by using retail stores, TV commercials and the internet to increase acceptance of the idea that light incontinence is a common problem and to communicate the benefits of our incontinence care products.

* A group of awards presented annually by The Nikkei and its sister publications, recognizing excellence in new products and services. In last year's awards, the 35th edition, the best products and services were selected from a field of roughly 20,000 candidates.



Lifree Sawayaka Slim-type Pads for Men Light Use received the Nikkei Marketing Journal (MJ) Award for Excellence in the 2016 Nikkei Superior Products and Services Awards.

Manufacturing Framework

Fiscal 2016 highlights

- Third factory to be built in India to tap projected strong growth in demand
- Reinforced our manufacturing framework in Japan and acquired land for a new factory to maintain and expand the production base

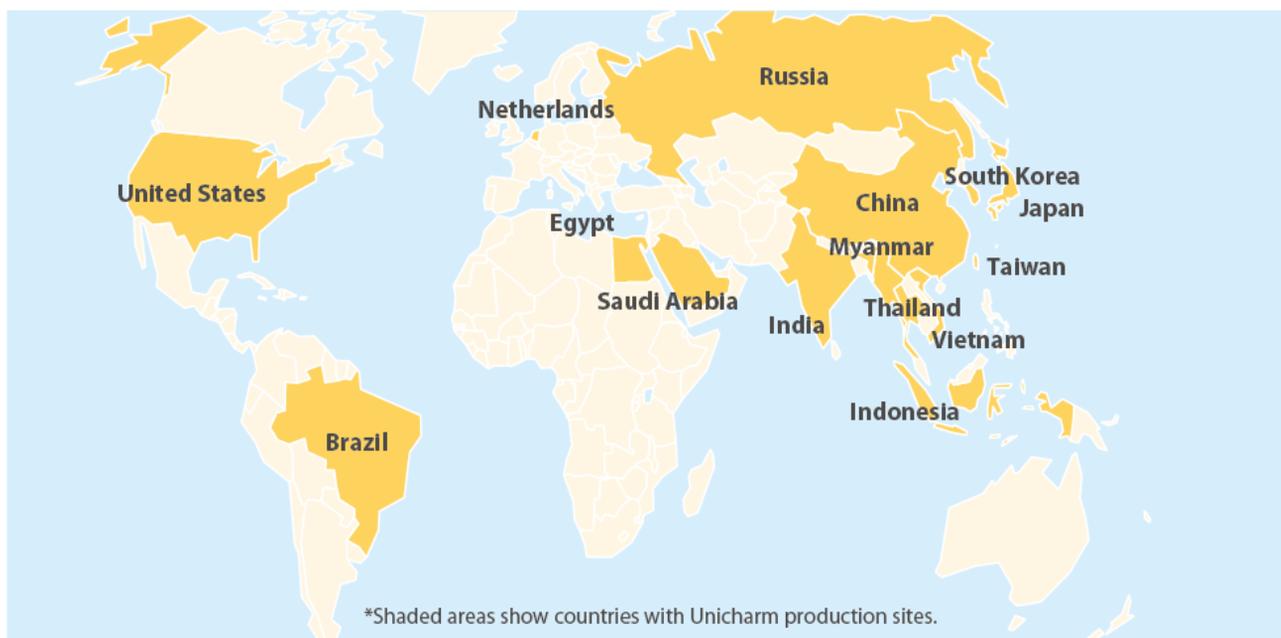
Upgrading our domestic manufacturing framework to meet rising demand for Japan-made products

Demand for disposable diapers, feminine care products and adult incontinence care products is projected to continue rising, so we are actively increasing production capacity and optimizing our manufacturing framework. In India, where demand is projected to grow sharply, we started operations at our second factory, which supplies the south of the country, in 2015. We also plan to build a third factory in India, which will be located in the west of the country.

In Japan, we acquired land in Kanda-machi, Miyako-gun in Fukuoka Prefecture to build a new factory, which we plan to start up in 2018. The site will be used to expand exports to China and other parts of Asia, where demand for safe and reliable Japan-made products is rising, and to reinforce our domestic manufacturing framework and maintain and expand our production base. The new factory will also lead to greater efficiency in domestic logistics. Moreover, we plan to use the site in an emergency capacity to maintain supplies of products after a major natural disaster or other event that halts operations at production facilities, giving us a stronger distribution framework from the standpoint of business continuity.

The Unicharm Group aims to support local jobs and economies while also continuing to offer innovative product proposals that energize markets and support sustained growth.

Production sites



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 identify 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 molding technologies developed since the first days of Unicharm to constantly improve the basic functions of our products: kindness on the skin, leak-free, stuffiness-free qualities, and looser fit. In overseas markets, we are actively launching high-quality products developed with domestic nonwoven fabric and absorbent material processing and molding 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 future needs ahead of competitors and develop a steady stream of innovative new products to ensure we consistently exceed consumer expectations.

Also, as part of our efforts to help improve the global environment, we are developing new technology to recycle used disposable diapers. We are currently testing the technology together with a local government and a waste recovery company in Japan.

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 for many people because incomes are still low. As a result, baby diapers are not as widely used in some markets as in Japan.

At Unicharm, our mission is to deliver comfort, a good impression and satisfaction to everybody around the globe. 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 leak-free, stuffiness-free qualities of our diapers. These scaled-back products have proved to be very popular with many consumers in countries where the take-up rate for disposable baby diapers is still low.

Case study (2): Disposable baby diapers for Japan

In Japan, where the market for diapers is maturing, there is growing demand for high-quality disposable baby diapers that are kinder on the skin. In 2016, to address that demand, we launched *Natural moony*, a premium line of diapers with improved levels of comfort. To give mothers greater confidence in using the diapers for their newly born babies, *Natural moony* have Japan's first-ever*¹ organic cotton surface sheets – the part that touches the baby's skin – increasing softness by 20%*². Also, by using a purely plant-derived hydrophilic agent, we have created a surface sheet that is only mildly acidic, matching the natural level of skin acidity.

We plan to launch *Natural moony* in other markets across Asia to tap into growing demand for disposable baby diapers with the same high quality as those sold in Japan.

*1 Surface sheets of leading disposable baby diaper products in Japan, Unicharm research, March 2016

*2 Changes in thickness under compression, compared with existing Unicharm products



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Case study (3): Diapers for low birth weight babies

An increasing number of babies are being born with low birth weights (below 2,500g). In response to that trend, we launched *moony air fit newborn premie* for hospitals in Japan in 2014. The specially designed diapers are also available in overseas markets.

In Taiwan, our diapers helped one mother who gave birth to a premature baby boy of 339g in just the 24th week of pregnancy. Our diapers allowed hospital staff to change the baby without having to adjust its position. We look forward to seeing our diapers help premature babies grow healthier and stronger in neonatal intensive care units (NICU) around the world.



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Case study (4): Supporting local communities

Unicharm is doing its part to help families raise healthy children. In Shikokuchuo City, Ehime Prefecture, we sponsor the Baby Disposable Diaper Provide Project, and in Kakegawa City, Shizuoka Prefecture, where we have a manufacturing site, we give disposable baby diapers as gifts to parents when they register the birth of their child. Since 2017, we have also been working with Kakegawa City to develop disaster response measures and promote healthy lifestyles as part of our wider commitment to supporting the local community.

Case study (5): Adult incontinence care products for Japan

In Japan, where the population is aging rapidly, we offer incontinence care products in three categories – light, moderate and heavy – for different levels of incontinence and lifestyles. Our goal is to help elderly people lead independent and comfortable lives for as long as possible. Until recently, the light incontinence market was centered on women, but a large number of men also suffer from this problem. To address this demand, we launched *Lifree Sawayaka Pads for Men* and a wide range of other products for different levels of incontinence to help sufferers make an early intervention through self-care.

In tape-type products, we have launched products with patented perfect-fit gap-free gather technology to reduce leaks around legs that have become thinner through age or lack of exercise. This technology has reduced leaks by 75%



We also held trial Social Walking* events in Tokyo and Osaka, where they have been very popular with all participants. The events are aimed at ending elderly loneliness by giving people a purpose to get outside and socialize.

* As the name suggests, the program is about socializing while walking, which is seen as a fun, easy and effective way of preventing dementia disease (Unicharm project run under the supervision of the Tokyo Metropolitan Institute of Gerontology).



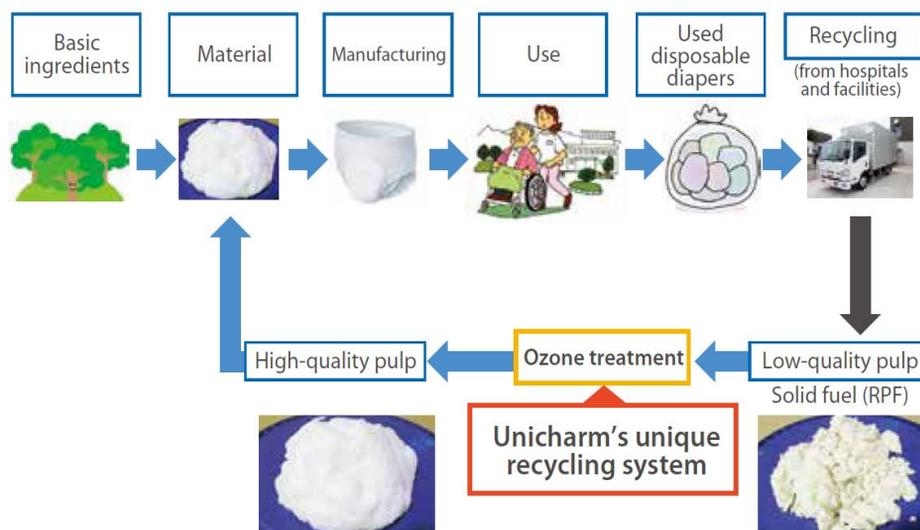
Social Walking

Case study (6): Recycling used disposable diapers

Some disposable diapers are already recycled, but potentially infectious bacteria contained in human waste have prevented the reuse of low-quality paper pulp in new disposable diapers. Also, superabsorbent polymer (SAP) contained in disposable diapers makes recycling difficult, as it tends to clog up recycling equipment. As a maker of consumer products, Unicharm is working to protect the environment by developing a recycling system that uses proprietary ozone treatment technology to hygienically extract high-quality pulp from used diapers. In the initial stage, low-quality pulp is extracted from the diapers. This pulp is then treated with our ozone system, which oxidizes the SAP and separates it into water and carbon dioxide. The resulting high-quality pulp is as clean and hygienic as virgin pulp, allowing it to be reused in new products.

In Shibushi City, Kagoshima Prefecture, we have teamed up with the local government and a waste recovery company to operate our recycling system on a trial basis. The goal is to start full-scale separate collection and recycling of used diapers in Shibushi City by 2020.

A cyclic model for disposable diapers: The ideal recycling system



< 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 as part of active digital marketing campaigns and in-store sales promotions 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 goal, 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 building 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 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.

•Helping women in emerging markets take a more 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 have been working with local NGOs and other groups since 2013 to educate women about the mechanisms of menstruation and the types of products that are available to them. We are also expanding this program into Indonesia and Myanmar. In Myanmar, we developed the country's first government-certified education materials about menstruation.



Educating schoolgirls about menstruation



Number of students attending the menarche education program in India

120,000
(in 4 years)

Five Key Strategies (3)

Develop our winning patterns in the personal care business

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 winning patterns in Japan to the different local needs and cultures of overseas markets.

Moving into growth markets and rapidly increasing market share

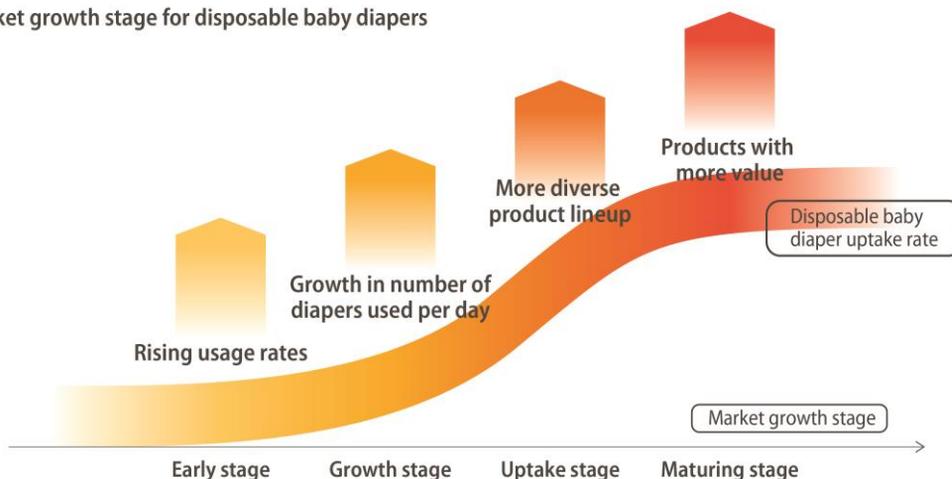
Going forward, we aim to secure strong market positions in promising growth markets to create new markets and build local production and sales networks rapidly. There is a close correlation between market uptake rates for nonwoven fabric and absorbent material products and per capita GDP in each country. 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 stage, growth stage, uptake stage and matured stage. 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.

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

Market growth stage for disposable baby diapers



Five Key Strategies (4)

Build a pet care business with distinctive differentiation in Japan, the U.S., China and Taiwan

Fiscal 2016 highlights

- Achieved stable growth in Japan – a market where pets are aging – by launching high value-added products aimed at creating a cohesive society
- Generated further growth in the U.S. by launching products based on technology from Japan, leading to the creation of new market categories

The pet care market is growing worldwide

The pet care market continues to expand worldwide. We forecast growth in advanced economies, as well as 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 by reinforcing brands and launching high value-added products

Our goal is to create a cohesive society where people and their pets can live long and rich lives. To realize this goal, we are creating new markets and developing new products that provide support for all aspects of pets' lives, from hygiene through to food.

As pets become older, we are offering a wider choice of healthy pet food options for specific segments, based on requirements such as breed, age and health condition.

In pet toiletry products, we are using the nonwoven fabric and absorbent material processing and molding technologies developed since the early days of Unicharm to actively develop new markets, aiming to create clean and hygienic environments for owners and their pets whenever and wherever they need them. Despite slow growth in the number of pets in Japan, our efforts led to sales growth of 9% year on year in 2016, helping us maintain our leading position in the domestic market.



Also in 2016, to address growing demand for nursing care for aging and immobile pets, we launched Japan's first-ever pet nursing care system*, *Unicharm Pet Pro*, aimed at veterinary hospitals. This product fits in with our broader range of pet care products designed to reduce the burden on both pets and their owners. Going forward, we will continue to use the technologies developed since the first days of Unicharm to develop new products with unique functionality, giving joy to owners by extending the healthy lives of their pets.

* In major pet nursing care product categories in Japan (Unicharm research, October 2016)

North America: Targeting business expansion using products incorporating Japanese technology

Since acquiring The Hartz Mountain Corporation in 2011, Unicharm has achieved stable growth in the U.S. by launching products that incorporate technologies developed since the very first days of the Company. One of those products is wet-type snacks for cats – a new product concept for the U.S. market. Sales of the snacks, which incorporate our know-how from Japan, are expanding in the U.S. We intend to boost profitability and expand our pet care business in the U.S. by combining our technical and product development capabilities in pet toiletry and pet food products with the brand power, marketing expertise and selling power of Hartz.



Five Key Strategies (5)

Convert all subsidiaries to local management units (LMUs) and nurture resonant personnel

Accelerate strategy implementation by delegating more authority to overseas subsidiaries

Aiming to become a more global company, Unicharm is transferring greater 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 competition from other companies in the sector is intensifying. We also face rapid developments in our operating environment, such as a shift in the retail market from physical stores to e-commerce channels and growing demands from consumers for high value-added products. 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 delegating authority 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.

Developing global business people and actively using the skills of the Millennial generation

Another way we are working to become a more global company is by transferring and adapting our winning patterns in Japan to the cultures and needs of overseas markets. To do this, we need global business people who have a deep understanding of Unicharm's DNA, corporate culture and business strategy. We are actively sending those internationally minded people to overseas business sites to ensure our corporate DNA takes root, and training up the next generation of employees to ensure our human resources are not depleted. Also, amid far-reaching changes in our operating environment, we are drawing on input from Millennials – a demographic cohort born between 1982 and 2000 with different ways of thinking from previous generations – in order to predict developments in the business environment and help us to continue generating new value and growth.

“Dementia disease supporter**” learning modules added to training courses for new employees

In 2010, we added a nursing care practical learning module to training courses for new employees. The module gives our employees the opportunity to spend time with customers in our health care business to learn more about their everyday lives. The experience gives them a better understanding of how our products are used, which they can then use in their own work at Unicharm. In April 2017, we also added the Dementia disease supporter* learning module to new employee training courses. Participants gain a deeper understanding about dementia disease and learn about the important role social activities play in preventing dementia disease and caring for people with the condition. The goal of the module is to cultivate personnel who can contribute to the creation of a cohesive society.

* People who have the right expertise and understanding to support dementia sufferers and their families.

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

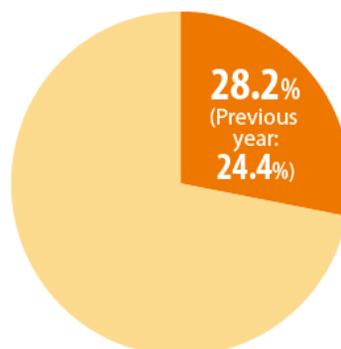
Since 1984, when we set up a joint venture in Taiwan, we have worked to create more employment opportunities for local women. As a result of this approach, women now make up a high proportion of the workforce on our production lines in Asia, and our female sales personnel, through visits to retail stores, 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 across our organization.

In 2012, we opened a factory in Saudi Arabia's capital Riyadh that employs only women, in accordance with Islam's strict rules in Saudi Arabia. Since then, we have increased the number of employees, expanded production lines and used female team leaders to manage the factory floor, resulting in a significant improvement in productivity. Since 2015, we have upgraded the factory's facilities, expanding the production lines operated by women while ensuring all necessary special consideration is given to local dress and customs. The upgrade to the factory has reduced workload but increased productivity, and the addition of a new onsite childcare facility – something many employees had requested – has created an environment where female staff can work with peace of mind.



Training session for women at our factory in Saudi Arabia, where full consideration is given to local dress and customs

Female manager ratio in Asia



*Ratio of managerial positions in Asia (excluding Japan) that are filled by women (as of December 31, 2016)

Management Structure and Corporate Governance

Ideal vision

We aim to achieve growth and fulfill our social responsibilities through transparent management and proactive information disclosure.

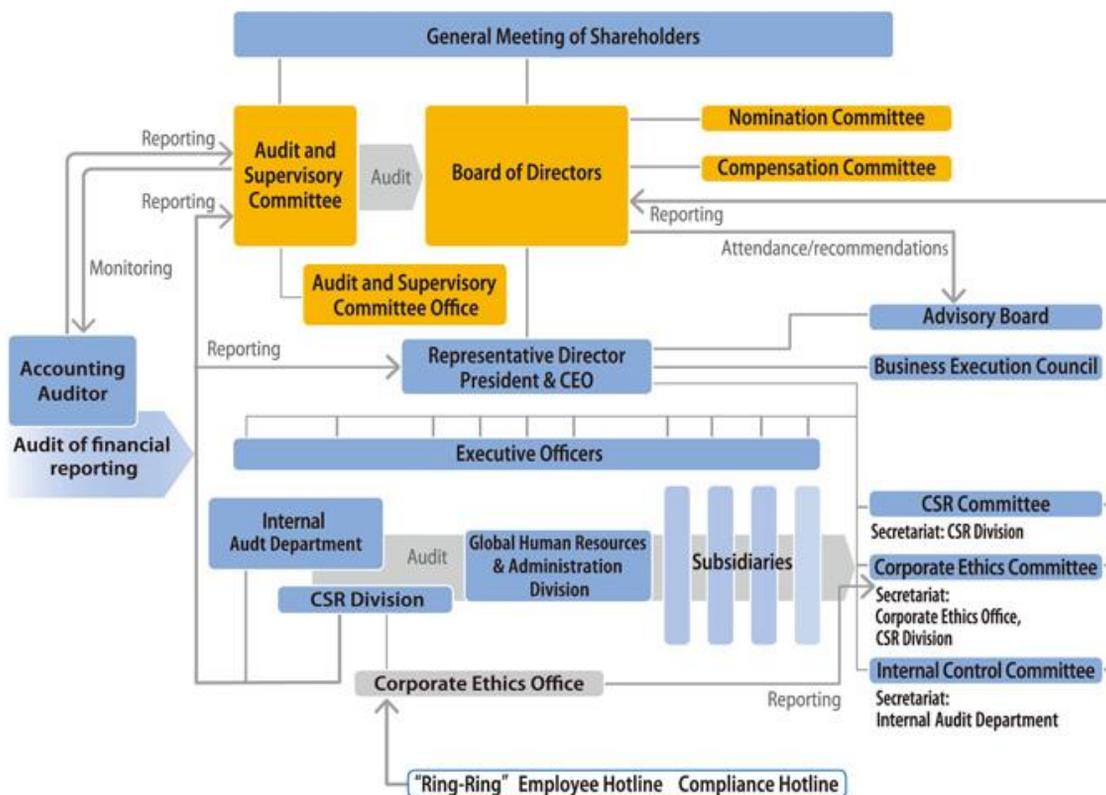
Corporate Governance

Unicharm strives to pursue proper corporate management through the Unicharm Ideals. We aim to secure the support and trust of society by delivering sustainable growth and long-term corporate value through business activities based on close cooperation between management and executive divisions, and by working closely and appropriately with all our stakeholders.

In 1999, we introduced an executive officer system to separate management oversight and executive functions, and in May 2015 we moved to a “company with audit and supervisory committee” governance structure to meet the expectations of all our stakeholders in Japan and overseas from a global perspective. This new system has strengthened oversight of the executive functions of the Board of Directors and brought outside directors into the management process to increase transparency and efficiency.

Under this structure, members of the independent Audit and Supervisory Committee have voting rights on the Board of Directors and the committee actively uses the Company’s internal control system to carry out audits. This has strengthened audit and oversight of management by outside directors, helping to create a corporate culture and climate spirit based on compliance, appropriate collaborative relationships with stakeholders and sound business ethics. All this underpins our fundamental stance on corporate governance as a global company: conduct business activities balanced between growth and discipline.

Corporate Governance System (As of March 31, 2017)



Our internal control system

The Unicharm Group formulated its Basic Policy for Establishing an Internal Control System in accordance with 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 reassessment of risks for each company in the Unicharm Group, reviews target countries for J-SOX assessment and revises the scope of business processes requiring evaluation. At the same time, the committee works to improve the reliability of financial reporting by promoting the establishment and operation of an internal control system and effective assessments.

We are making ongoing improvements to this internal control system from a global perspective by taking into account regulatory developments in countries overseas where the Group operates.

Compliance

Our attitude towards compliance

Our management policy is expressed in the Unicharm Ideals, which state: “we strive to pursue proper corporate management principles which combine corporate growth, associate well-being and the fulfillment of our social responsibilities.”

Initiatives to raise compliance awareness

Unicharm has created a booklet called The Unicharm Way, which includes the Group’s Code of Conduct and other important compliance documents. The booklet forms the basis of our compliance system and is designed to remind all directors and employees to hold themselves to the highest ethical standards and comply with all rules and regulations.

We also run regular training programs to raise awareness of compliance among directors and employees and educate them about specific laws and regulations relevant to their respective work duties. As part of these efforts, we make sure our personnel understand that bribing public officials and making facilitating payments are banned and emphasize the importance of upholding antitrust laws. In Japan, Group employees can consult on compliance issues by phoning our Ring-Ring Employee Hotline. In fiscal 2016, we received 19 requests for advice. We also operate similar hotlines in China and Thailand. In addition to the Ring-Ring Employee Hotline, an internal whistleblowing hotline called the Compliance Hotline has been available to employees since April 2014 to support compliance management.

Risk Management

Rigorous information security

To ensure rigorous information security, the Unicharm Group has set out 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 these rules are strictly observed and to prevent information leaks, Unicharm has established an Information Management Security Committee, which develops Groupwide information management security initiatives and carries out employee education and ongoing monitoring. In fiscal 2016, we ran computer-related security courses through our e-learning portal. Through the courses, participants confirmed security procedures that they are required to follow. One day every month has been earmarked as an information management day, when we highlight a different security topic each month to remind employees about the risk of specific information leaks. At the same time, as a physical measure to prevent against information leaks through the loss or steal of computers, we have been implementing an IT environment since 2016 where data cannot be stored on the computers themselves.

Protecting intellectual property

The Intellectual Property Division centralizes the management of the Group's intellectual property assets and formulates and executes intellectual property strategies linked to Unicharm's business and development strategies.

As a patent application strategy, we intend to protect and utilize business and developmental results as intellectual property, along with reinforcing overseas patent applications in line with the global development of our business. As a result, we have captured a top-class share in the industry with the application rate for global patents at approximately 80% (2014) and the registration rate for Japanese patents at approximately 92% (2015) (taken from the Patent Administration's Annual Report 2016). In order to raise the quality of our patent applications, we use the Japan Patent Office's Collective Examination for IP Portfolio Supporting Business Strategy and we have signed up as the first user worldwide of the ASEAN Patent Examination Cooperation (ASPEC) program. By actively applying for patents at an early stage in Japan and overseas, we are enhancing our ability to build a portfolio of intellectual property such as patents, utility models, designs and trademarks.

Unicharm has applied for and secured trademarks that protect the Group's brands in more than 160 countries around the world, and we are also protecting our rights to proprietary packaging. In 2015, we also secured the rights to the "unicharm" and "moony" moving trademarks under the Japan Patent Office's system for new types of trademarks. Unicharm was the first company in the disposal diaper sector to apply for trademarks under this new system. Also, in 2016, we proactively licensed catchphrase trademarks such as Sofy's brand message, "Flap my wings and fly!". In August 2016, the Sofy jingle became the first sound trademark to be licensed as a foreign trademark in China.

Unicharm also takes a firm stance on protecting its intellectual property, including filing lawsuits against infringements or unauthorized use. Our business and product development divisions cooperate closely with overseas subsidiaries and work with local governments to eliminate unauthorized and counterfeit products in Japan and overseas such as Asia, ASEAN, the Middle East and Africa. 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 internal compliance issues related to such things as patents, trademarks and misleading representations, etc.

As part of our public activities, we seek to provide advice on and influence international policy with respect to intellectual property by actively exchanging opinions with patent offices in Japan, Asia and the ASEAN area.

Business Continuity Plan (BCP*)

Unicharm has been strengthening 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 operations of Unicharm, particularly head office functions.

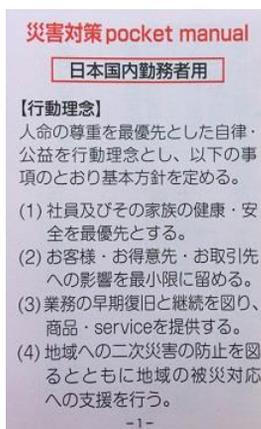
We are working to further enhance workplace safety through various initiatives. Specifically, we conduct e-learning sessions for all employees to raise awareness and encourage proactive responses, and we require all employees to carry a disaster response pocket manual for immediate reference during an 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 confirm their safety and maintain business continuity during emergencies.

In addition, we conduct disaster training drills at each business site, hold basic survival 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. Even on holidays 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. Due to these efforts, we received a letter of appreciation from the Tokyo Fire Department in 2015.

In 2016, from the perspective of maintaining and expanding the production structure, we acquired factory land for new supply bases in Kanda Town, Kyoto County, Fukuoka Prefecture. We are making preparations for a safe and secure supply system in the event that the existing production base ceases operation due to a natural disaster or other such event.

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 rapid recovery of core business activities after an emergency



Crisis response pocket manual



Crisis response training



Survival course at head office

Officers (as of March 30, 2017)

Directors



Keiichiro Takahara
Director, Founder



Takahisa Takahara
President & CEO



Gumpei Futagami
Director, Vice President and
Managing Executive Officer of the
Company
Chairman of the Hartz Mountain
Corporation



Eiji Ishikawa
Director, Managing Executive Officer
Chief Quality Officer and General
Manager of Global Research &
Development Division
Representative Director, President &
CEO of Unicharm Products Co., Ltd.



Shinji Mori
Director, Managing Executive Officer
General Manager of Japan Sales
Head Office



Kennosuke Nakano
Director, Managing Executive Officer
General Manager of Japan Pro-care
Sales Head Office



Masakatsu Takai
Director, Senior Executive Officer
General Manager of PetCare
Production Division



Yoshihiro Miyabayashi
Director, Senior Executive Officer
Chairman, President of Unicharm
(China) Co., Ltd.,
Chairman, President of Unicharm
Consumer Products (China) Co., Ltd.,
Chairman of PT Uni-Charm Indonesia,
Chairman of Unicharm India Private Ltd.,
and President of UniCharm (Philippines)
Corp.



Kimisuke Fujimoto

Director, Audit & Supervisory Committee Member (Outside Director)

Reasons for Appointment

Mr. Kimisuke Fujimoto has a long track record working for financial institutions and a broad understanding of finance.

Main Activities

Mr. Fujimoto has attended 16 out of 16 meetings of the Board of Directors and 15 out of 15 meetings of the Audit and Supervisory Committee, providing appropriate advice about agenda points and other topics of discussion as required.



Takashi Mitachi

Director, Audit & Supervisory Committee Member (Outside Director)

Reasons for Appointment

Mr. Mitachi has a long track record working for a consulting company and a broad understanding of corporate management strategy.



Shigeru Asada

Director, Audit & Supervisory Committee Member (Outside Director)

Reasons for Appointment

Mr. Asada has a long track record working for the financial management division and a broad understanding of finance and accounting.

Please scan the QR code to view career summary bios.



<http://www.unicharm.co.jp/english/about/overview/index.html>

Executive Officers

- President and Chief Executive Officer
- Vice President and Managing Executive Officer
- Managing Executive Officer
- Managing Executive Officer
- Managing Executive Officer
- Senior Executive Officer

- Takahisa Takahara**
- Gumpei Futagami**
- Eiji Ishikawa**
- Shinji Mori**
- Kennosuke Nakano**
- Masakatsu Takai**
- Yoshihiro Miyabayashi**
- Hiromitsu Kodama**
- Kenji Takaku**
- Yukihiro Kimura**
- Atsushi Iwata**
- Seiichi Motoi**

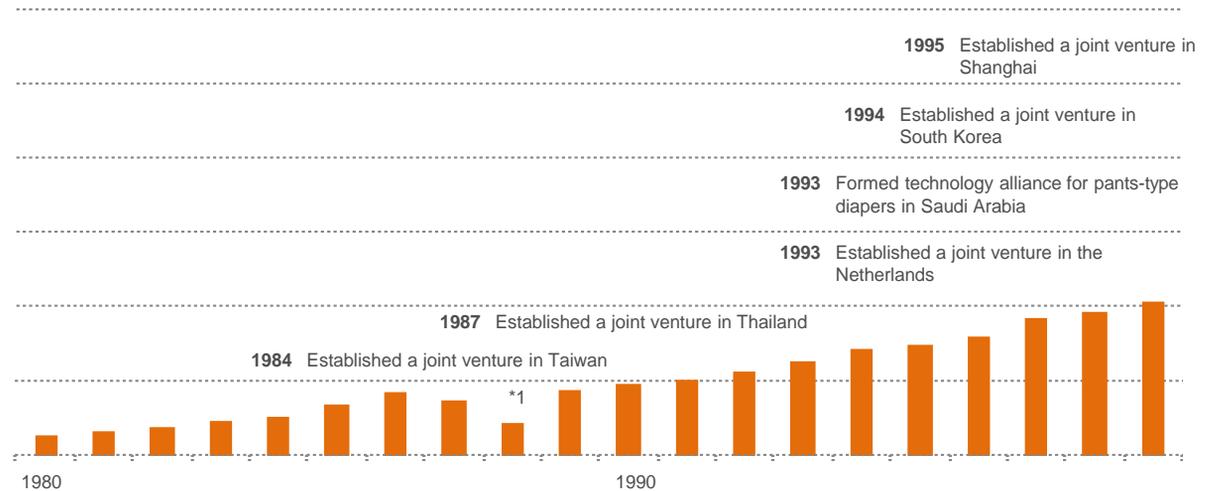
- Executive Officer **Masaaki Takahashi**
- Executive Officer **Toshiro China**
- Executive Officer **Toshifumi Hikosaka**
- Executive Officer **Tadashi Nakai**
- Executive Officer **Shinobu Seki**
- Executive Officer **Tetsuya Shite**
- Executive Officer **Masayuki Daiyo**
- Executive Officer **Tetsuo Ukai**
- Executive Officer **Satoru Kiuchi**
- Executive Officer **Takahiro Bato**
- Executive Officer **Tsutomu Kido**

Unicharm Corporate History

A growth story focused on Asia

Unicharm started to actively develop its business overseas from the 1980s and now has operations in more than 80 countries worldwide. With advanced economies facing aging societies and emerging markets needing to tackle hygiene issues, Unicharm has the opportunity to make a difference in a growing number of areas.

Net sales



*1 The fiscal period ended March 1998 was a six-month transitional period due to a change in fiscal year-end.

Business Topics

- 1974 Founded Unicharm Corporation
- 1976 Listed stock on the Second Section of the Tokyo Stock Exchange
- 1976 Launched *Charm Nap Mini*, slim napkins
- 1976 Launched *Charm Soft Tampon*
- 1981 Launched *moony*, disposable diapers
- 1982 Launched *Sofy*, shaped feminine napkins
- 1983 Launched *MamyPoko*, disposable diapers
- 1985 Company stock designated to be listed on the First Section of the Tokyo Stock Exchange
- 1986 Commenced pet care business
- 1987 Launched *Lifree*, disposable diapers for adults
- 1988 Launched *Lifree Urine Absorption Pad*, incontinence pads
- 1990 Launched *Trepanman*, training pants
- 1990 Launched *Oyasumi Man*, pants for bed-wetting children
- 1991 Launched *moony man* pants-type diapers
- 1992 Launched *moony man* pants-type diapers
- 1993 Launched *MamyPoko*, diapers designed with Disney characters
- 1994 Technical Center completed – base for research and development
- 1996 Obtained ISO9002 certification for the factory in Taiwan
- 1997 Commenced procedures for acquiring ISO14001 certification

Products

1976 Launched *Charm Nap Mini*, slim napkins



1980 Launched *Charm Soft Tampon*

1981 Launched *moony*, disposable diapers



- 1982 Launched *Sofy*, shaped feminine napkins
- 1983 Launched *MamyPoko*, disposable diapers
- 1987 Launched *Lifree*, disposable diapers for adults
- 1988 Launched *Lifree Urine Absorption Pad*, incontinence pads

1990 Launched *Trepanman*, training pants

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1992 Launched *moony man* pants-type diapers



1993 Launched *MamyPoko*, diapers designed with Disney characters

Please scan the QR code to view Unicharm's corporate history.



<http://www.unicharm.co.jp/english/about/history/index.html>

2014 Commenced manufacture and sale in Brazil

2013 Acquired a hygiene products company in Myanmar

2011 Acquired a hygiene products company in Vietnam

2011 Acquired a major pet-care products supplier in USA

2011 Established a holding company in China

2010 Established a consolidated subsidiary in Egypt (¥ billion) 800

2008 Established a wholly owned subsidiary in India

2008 Acquired Australian Pacific Paper Products and made it a wholly owned subsidiary

2006 Established a 100% subsidiary in Vietnam

2005 Gulf Hygienic Industries of Saudi Arabia was made a subsidiary

2002 Established a joint venture in the Philippines

1997 Established a joint venture in Indonesia

1997 Established a 100% subsidiary in Malaysia



*2 The fiscal period ended December 2014 was a nine-month transitional period due to a change in fiscal year-end.

2000 Established Continence Support Research Institute

2001 Keichiro Takahara assumed the office of Chairman and Representative Director
Takahisa Takahara assumed the office of President and Representative Director

2005 Unicharm PetCare Corporation stock designated to be listed on the First Section of the Tokyo Stock Exchange

2006 Announced participation in the United Nations Global Compact

2009 Established Unicharm Humancare Corporation
Unicharm Humancare Corporation releases *Humany*, a urine aspirator.

2010 Merged Unicharm PetCare Corporation

2012 Approved as a member of "Business Call to Action (BCtA)" led by United Nations Development Programme (UNDP)

1995 Launched *Lifree Rehabili-Pants*, pants-type diapers for adults



1997 Launched *Charm Nap Sawayaka Liners*, special incontinence panty liners



1999 Launched *Lifree Sawayaka Pads* for light incontinence

2001 Launched *moony man Hai-Hai-yo*, pants-type diapers for crawling babies
Launched *Pet Diapers*

2004 Launched *moony man Mizu-Asobi Pants*, pants-type diapers for children to use when playing with water

2007 Launched *Sofy Hadaomoi*, feminine napkins for sensitive skin prone to irritation

2010 Launched *moony Pants Shitagijitate*, pants-type disposable diapers for babies
Launched a new disposable diaper for adults, *Lifree Ultra-Thin Underwear-like Pant-Diaper*

2013 Launched *moony air fit*, a world-first disposable baby diaper that smoothly fits to round-shaped skeletal structure of infant



2014 Launched *Lifree Sawayaka Pad for Men*, a new incontinence-care product for men

2014 Launched a new incontinence-care product for dogs, *Manner Wear*

2016 Launched *Natural moony*, premium disposable diapers with organic cotton-based surface sheets

Key Financial and Non-Financial Data for the Last 10 Years

	2008/3	2009/3	2010/3	2011/3
For the Fiscal Period:				
Net sales	336,864	347,849	356,825	376,947
Overseas sales to net sales ratio	36.9%	37.1%	38.5%	42.4%
Cost of sales	196,130	206,209	193,012	203,394
Selling, general and administrative expenses	107,002	106,756	118,747	126,991
Operating income	33,731	34,883	45,066	46,561
Profit attributable to owners of parent	16,683	17,127	24,463	33,560
Net income per share (¥) *1	28.82	29.81	42.85	59.37
Cash dividends per share (¥) *1	5.11	6.00	7.67	9.33
Consolidated payout ratio	17.7%	20.1%	18.1%	31.4%
Net cash provided by operating activities	45,308	21,978	55,032	(17,239)
Net cash used in investing activities	(10,091)	(44,316)	(22,239)	(69,527)
Free cash flows	35,217	(22,338)	32,793	(86,766)
Capital expenditures	17,370	14,573	24,750	82,655
Depreciation	15,040	17,101	16,393	14,620
Amortization of goodwill	N/A	N/A	N/A	2,760
Research and development costs	4,504	4,459	4,558	4,953
Fiscal Year-end:				
Total assets	275,435	278,313	307,773	444,015
Property, plant and equipment	86,463	84,247	95,356	98,389
Long-term debt—less current maturities	1,451	1,206	943	47,354
Net assets	179,170	185,590	207,413	219,632
Equity ratio	58.9%	60.2%	59.7%	45.5%
Number of employees	6,461	6,904	7,108	7,317
(including overseas employees)	3,441	3,875	4,055	4,297
Ratios:				
Operating income to net sales	10.0%	10.0%	12.6%	12.4%
Net income to net sales	5.0%	4.9%	6.9%	8.9%
Gross profit to net sales	41.8%	40.7%	45.9%	46.0%
SG&A expenses to net sales	31.8%	30.7%	33.3%	33.7%
ROE	10.3%	10.4%	13.9%	17.4%
ROA (Ordinary income to assets)	11.9%	11.4%	15.6%	11.5%
Stock Prices:				
High (¥) *1	884	959	1,024	1,148
Low (¥) *1	693	638	639	897
Environment-related Ratios:				
Reduction in CO ₂ emissions volume *3	12.1	11.8	11.3	11.4
Reduction in industrial waste at three main plants	-2.1%	-13.6%	-11.9%	-11.9%
Recycling rate in industrial waste at three main plants	99.0%	99.0%	98.9%	99.2%
Percentage of environmental-friendly products	—	36%	59%	55%

(Note) Amounts have been rounded down.

*1 The Company conducted 1-for-3 stock splits on October 1, 2010 and on October 1, 2014. Per share data have been adjusted retroactively to reflect the impact of the stock splits.

*2 Fiscal 2014, ending December 31, 2014, was a nine-month transitional period due to a change in fiscal year-end.

*3 Energy usage (GJ) / net sales (¥ millions)

						(Millions of yen)
2012/3	2013/3	2014/3	2014/12*2	2015/12	2016/12	
428,391	495,771	599,455	553,661	738,707	710,965	
46.9%	52.6%	57.7%	64.4%	61.4%	57.7%	
233,936	268,743	331,807	308,421	406,521	376,510	
142,554	167,539	200,407	183,892	252,250	256,178	
51,900	59,488	67,240	61,347	79,934	78,277	
26,981	43,121	38,216	32,731	40,511	44,134	
48.32	77.92	64.10	54.33	67.55	74.29	
10.67	11.33	12.67	12.73	14.80	16.00	
22.1%	14.5%	19.8%	23.4%	21.9%	21.5%	
59,570	68,758	95,659	68,892	85,009	103,604	
(58,861)	(53,304)	(58,220)	(36,741)	(68,166)	(42,612)	
709	15,454	37,439	32,151	16,843	60,992	
69,498	52,340	51,908	41,756	47,993	39,436	
13,257	16,814	22,101	20,393	27,343	26,750	
3,899	4,239	9,203	3,769	4,640	4,519	
4,733	5,098	5,265	4,248	5,993	6,070	
472,497	535,055	620,419	699,108	702,601	711,541	
116,821	163,129	204,417	240,082	247,808	244,325	
35,219	23,000	21,000	5,420	10,757	12,084	
243,207	329,201	432,152	492,844	451,091	449,974	
45.1%	54.2%	60.3%	60.0%	55.1%	54.4%	
10,287	10,855	12,795	13,901	15,500	15,843	
7,260	7,846	9,801	10,907	12,526	12,842	
12.1%	12.0%	11.2%	11.1%	10.8%	11.0%	
6.3%	8.7%	6.4%	5.9%	5.5%	6.2%	
45.4%	45.8%	44.6%	44.3%	45.0%	47.0%	
33.3%	33.8%	33.4%	33.2%	34.1%	36.0%	
13.0%	17.2%	11.5%	8.2%	10.0%	11.4%	
10.6%	12.9%	11.8%	9.9%	10.2%	10.2%	
1,473	1,877	2,230	3,010	3,398	2,668	
997	1,345	1,683	2,359	2,045	2,001	
11.0	10.8	11.0	10.5	10.3	9.5	
-15.3%	-11.4%	-8.9%	-13.3%	-3.5%	-22.1%	
99.2%	99.1%	99.4%	99.5%	99.5%	99.5%	
55%	56%	62%	67%	72%	78%	

Consolidated Balance Sheets

(Millions of yen)

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

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(Millions of yen)

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

Consolidated Statement of Income

(Millions of yen)

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

Consolidated Statement of Comprehensive Income

	(Millions of yen)	
	2015/12	2016/12
Profit	48,488	48,702
Other comprehensive income		
Valuation difference on available-for-sale securities	(164)	(4,116)
Deferred gains or losses on hedges	(146)	24
Foreign currency translation adjustment	(13,536)	(17,845)
Remeasurements of defined benefit plans, net of tax	(1,930)	(2,130)
Total other comprehensive income	(15,778)	(24,068)
Comprehensive income	32,710	24,634
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	27,769	23,453
Comprehensive income attributable to minority interests	4,941	1,180

Consolidated Statement of Changes in Shareholders' Equity

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

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	15,992	46,358	334,558	(28,667)	368,242
Changes of items during period					
Dividends of surplus			(8,293)		(8,293)
Profit attributable to owners of parent			40,511		40,511
Purchase of treasury shares				(13,000)	(13,000)
Disposal of treasury shares		(72)		566	493
Purchase of shares of consolidated subsidiaries		(39,426)			(39,426)
Net changes of items other than shareholders' equity					—
Total changes of items during period	—	(39,499)	32,218	(12,434)	(19,715)
Balance at end of current period	15,992	6,858	366,777	(41,101)	348,527

	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	11,329	65	(157)	44,426	(4,254)	51,410	238	72,952	492,844
Changes of items during period									
Dividends of surplus									(8,293)
Profit attributable to owners of parent									40,511
Purchase of treasury shares									(13,000)
Disposal of treasury shares									493
Purchase of shares of consolidated subsidiaries									(39,426)
Net changes of items other than shareholders' equity	(164)	(72)	—	(10,622)	(1,882)	(12,742)	38	(9,332)	(22,036)
Total changes of items during period	(164)	(72)	—	(10,622)	(1,882)	(12,742)	38	(9,332)	(41,752)
Balance at end of current period	11,164	(6)	(157)	33,804	(6,136)	38,667	276	63,619	451,091

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

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	15,992	6,858	366,777	(41,101)	348,527
Changes of items during period					
Dividends of surplus			(9,175)		(9,175)
Profit attributable to owners of parent			44,134		44,134
Purchase of treasury shares				(14,000)	(14,000)
Disposal of treasury shares		(351)		1,449	1,097
Change of scope of consolidation			(347)		(347)
Purchase of shares of consolidated subsidiaries		(920)			(920)
Net changes of items other than shareholders' equity					
Total changes of items during period	—	(1,271)	34,611	(12,551)	20,788
Balance at end of current period	15,992	5,586	401,388	(53,652)	369,316

	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	11,164	(6)	(157)	33,804	(6,136)	38,667	276	63,619	451,091
Changes of items during period									
Dividends of surplus									(9,175)
Profit attributable to owners of parent									44,134
Purchase of treasury shares									(14,000)
Disposal of treasury shares									1,097
Change of scope of consolidation									(347)
Purchase of shares of consolidated subsidiaries									(920)
Net changes of items other than shareholders' equity	(4,116)	11	—	(14,426)	(2,149)	(20,680)	68	(1,294)	(21,906)
Total changes of items during period	(4,116)	11	—	(14,426)	(2,149)	(20,680)	68	(1,294)	(1,117)
Balance at end of current period	7,047	4	(157)	19,378	(8,286)	17,987	345	62,325	449,974

Consolidated Statement of Cash Flows

(Millions of yen)

	2015/12	2016/12
Cash flows from operating activities		
Profit before income taxes	77,340	73,794
Depreciation	27,343	26,750
Impairment loss	—	1,355
Amortization of goodwill	4,640	4,519
Interest and dividend income	(2,186)	(3,362)
Interest expenses	588	611
Foreign exchange losses (gains)	7,203	5,832
Loss (gain) on sales and retirement of non-current assets	503	1,010
Loss (gain) on sales of investment securities	(4,214)	(5,066)
Decrease (increase) in notes and accounts receivable – trade	(12,315)	1,953
Decrease (increase) in inventories	(4,356)	3,209
Increase (decrease) in notes and accounts payable – trade	5,064	2,680
Increase (decrease) in other current liabilities	(336)	6,066
Other, net	(1,706)	(1,316)
Subtotal	97,569	118,039
Interest and dividend income received	2,019	2,274
Interest expenses paid	(683)	(570)
Income taxes refund	1,064	658
Income taxes paid	(14,959)	(16,798)
Net cash provided by (used in) operating activities	85,009	103,604
Cash flows from investing activities		
Payments into time deposits	(36,035)	(17,218)
Proceeds from withdrawal of time deposits	9,280	13,603
Purchase of property, plant and equipment and intangible assets	(46,575)	(37,861)
Proceeds from sales of property, plant and equipment and intangible assets	690	216
Purchase of investment securities	(15)	(6,500)
Proceeds from sales of investment securities	4,467	5,146
Other, net	20	2
Net cash provided by (used in) investing activities	(68,166)	(42,612)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(1,678)	2,527
Proceeds from long-term loans payable	6,000	4,812
Repayments of long-term loans payable	(22,200)	(3,163)
Proceeds from issuance of convertible bond-type bonds with subscription rights to shares	54,750	—
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(50,742)	(988)
Purchase of treasury shares	(13,000)	(14,000)
Cash dividends paid	(8,284)	(9,173)
Cash dividends paid to minority shareholders	(1,500)	(2,609)
Proceeds from share issuance to minority shareholders	117	232
Proceeds from exercise of share options	427	949
Other, net	(723)	(127)
Net cash provided by (used in) financing activities	(36,835)	(21,540)
Effect of exchange rate change on cash and cash equivalents	(5,085)	(3,375)
Net increase (decrease) in cash and cash equivalents	(25,078)	36,076
Cash and cash equivalents at beginning of period	127,044	101,966
Cash and cash equivalents at end of period	101,966	138,042