



Annual Report 2014

Year ended March 31, 2014

— **Strategy and Progress** —

Message from the President

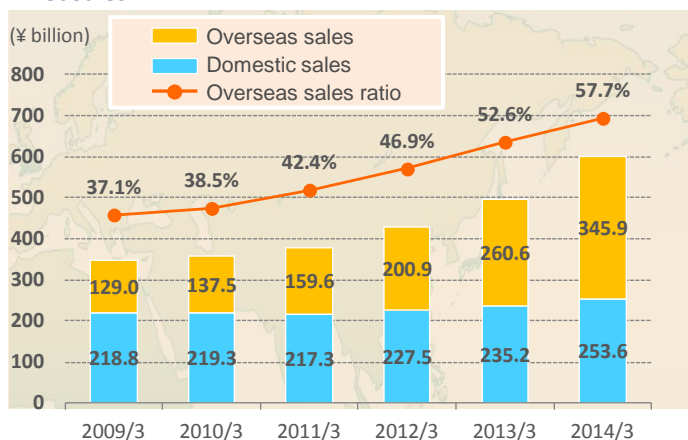
We constantly provide the world's No.1
and unprecedented products and services
to everybody around the globe,
and deliver comfort, impression and satisfaction.

Another year of record sales and operating income

In fiscal 2014, ended March 31, 2014, Unicharm reported net sales of ¥599.4 billion, an increase of ¥103.7 billion from the previous fiscal year, and operating income of ¥67.2 billion, up ¥7.8 billion year on year. We have now reported record net sales each fiscal year for the last 12 years and record operating income for the last seven years. In domestic operations, we achieved growth that outstripped the market average. This reflected efforts to strengthen the relationship between high value-added products and product subcategories such as training pants in the baby care business, and steps to reinforce the lineup of light incontinence products in the health care business. In overseas operations, we continued to register strong growth in Indonesia and other markets in Asia. Sales in the region now account for 42.8% of consolidated net sales, up 4.6 percentage points year on year. The Asia market now compares



Net Sales



Takahisa Takahara
President and CEO

in size with our home market of Japan. As a result of this growth, overseas sales now account for 57.7% of consolidated net sales, up 5.1 percentage points year on year. We forecast continued strong growth overseas, mainly supported by sustained expansion in the Asia region. For the fiscal period ending December 31, 2014, the whole Unicharm Group will work together to deliver another year of record net sales and operating income.

Generating new growth, centered on Southeast Asia and India

In the fast-growing markets of Southeast Asia and India, we have been actively conducting strategic investment and extending our sales areas.

In Indonesia, where the baby care business and feminine care business both have dominant market shares, we are extending our sales reach into outlying areas. To support this push, we opened our third factory in Indonesia (Surabaya, East Java), in order to increase production capacity and make product distribution more efficient. In India, which is likely to see market expansion, we worked to promote pants-type disposable baby diapers and other baby diaper products, helping us secure the No.2 market share. We also steadily increased the number of cities where we have a sales presence.

In our most important market of China, we stepped up sales efforts in outlying areas and cities and increased the number of cities with a Unicharm sales presence.

We plan to continue extending our sales areas in China to drive sustained growth.

Moving into Brazil's high-growth market

The target market for disposable baby diapers in Brazil is roughly 8 million users, nearly three times the size of Japan's market. The market is growing at an annualized rate of 7%, supported by growth in Brazil's middle class. Brazil is also the location for our first factory in Latin America. Production at the facility started this spring. We aim to generate stable profits in Brazil, while also using our reputation for quality and our lineup of pants-type disposable baby diapers to stand out in the market.

Ninth Medium-Term Management Plan under way

We have positioned our new ninth Medium-Term Management Plan, which runs from April 2014 to December 2016, as a key step on the road to achieving our goal of ¥1.6 trillion in consolidated net sales in 2020. For the period up to 2020, we have also set a number of performance indicators: annualized sales growth of 15%, an operating margin of 15% and ROE of 15%. We are also targeting consolidated net sales of ¥913.1 billion in the fiscal year ending December 2016. We plan to continue strategically strengthening core businesses and regions in order to achieve those targets.

Paying stable returns to shareholders

Returning profits to shareholders is one of our most important management policies. Based on this thinking, we plan to reinforce Unicharm's corporate structure and actively increase business investment to drive growth, while at the same time paying stable dividends and buying back shares. For fiscal 2014, we paid a year-end dividend of ¥20.0 per share, ¥2.0 higher than our forecast at the start of the fiscal year. As a result, the full-year dividend was ¥38.0 per share. In the next fiscal period, based on our shareholder return policy, we will put priority on business investment to realize 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. The next fiscal period is a nine-month transitional period due to a change in the Company's fiscal year-end. However, we still intend to pay an annual dividend of ¥38.0 per share, including an interim dividend of ¥19.0 per share.

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

September 2014



Takahisa Takahara
President and CEO

Strategy and Progress 2014

Progress

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Unicharm reported record sales for the twelfth straight year and record operating income for the seventh straight year.

Net sales

¥599.4 billion
(20.9% increase ↑)

Operating income

¥67.2 billion
(13.0% increase ↑)

Overseas sales to net sales ratio

57.7%
(up 5.1 percentage points ↑)

Main Topics in 2014

→ Management Vision

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



→ 1 Stepping up Growth in Emerging Markets



→ 2 Baby Care Business in Japan: Leveraging the strengths of two brands to revitalize the market



→ 3 Feminine Care Business in Japan: Launching high value-added products in growth segments



→ 4 Health Care Business in Japan: Market expansion taking off, driving domestic earnings



→ 5 Pet Care Business: Stepping up overseas expansion



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→ 7 Social Contribution: Tackling social issues through our business activities



→ 8 Corporate governance



Management Vision

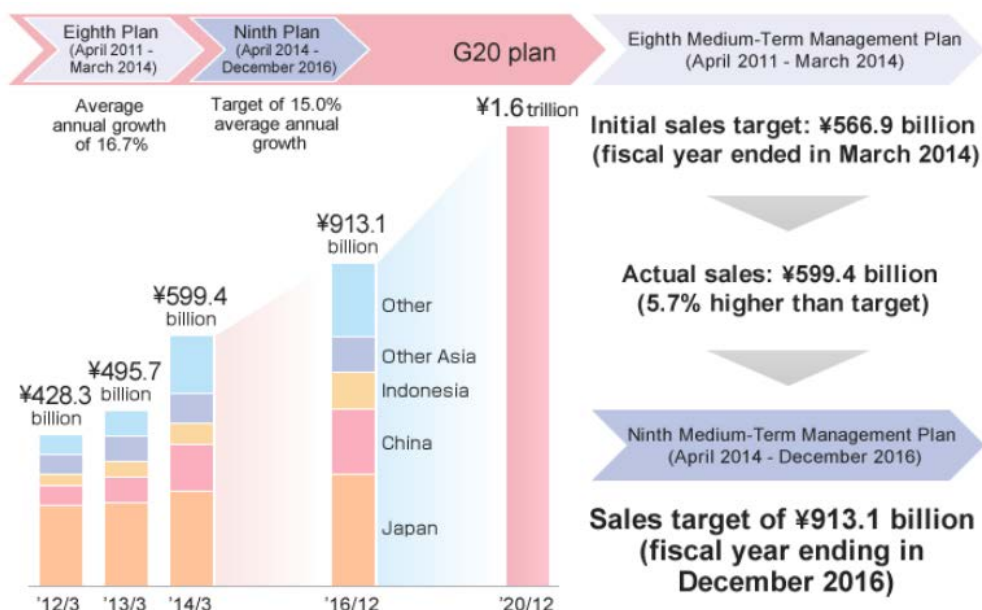
We constantly provide the world's No.1 and unprecedented products and services to everybody around the globe, and deliver comfort, impression and satisfaction.

Unicharm supplies feminine care products, disposable baby diapers, adult incontinence care products and a wide range of other products that support the mind and body, helping to make life easier for people in roughly 80 countries worldwide where our products are sold. We have led the market in delivering new value by leveraging the nonwoven fabric and absorbent material processing and forming technology developed since the first days of the Company. As a result, we now rank third in the global market for nonwoven fabric and absorbent material products with a share of roughly 9%. We are also the market leader in Asia, with a share of around 27%.

We see the potential for continued strong growth in our business fields worldwide. In emerging markets, demand for disposable baby diapers and feminine care products is growing rapidly on the back of rising income levels. Amid this trend, we plan to secure a dominant share of the fast-growing Asian market and build a stronger presence worldwide using the strengths we have cultivated in Asia. At the same time, we will reinforce our business base in pet care products and adult incontinence care products, two areas where demand is expected to expand over the medium and long term.

Ninth Medium-Term Management Plan

Under our ninth Medium-Term Management Plan, which runs from April 2014 to December 2016, we aim to tap into rapidly rising demand for disposable baby diapers and feminine care products in emerging markets to drive growth, as well as step up efforts to expand our sales area into other emerging markets in Africa and Latin America. As part of those efforts, we started selling disposable baby diapers in Brazil in spring 2014 after opening a new factory, our first in Latin America.



Working toward our long-term vision for 2020

We announced our long-term management goals for 2020 along with our Ninth Medium-Term Management Plan. This long-term vision is based on the concept of three 15% targets: delivering sales growth of 15% year on year while increasing profitability and capital efficiency to achieve an operating income to net sales ratio of 15% and ROE of 15%.

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



Building the operating base we need to achieve our targets

Amid increasing competition with leading rivals from the US and Europe and with companies in local markets, Unicharm needs to speed up decision making and strategy implementation to deliver further growth. We are therefore adopting a global management approach in markets worldwide by transferring greater responsibility and authority to overseas subsidiaries. As part of that process, we are selecting and training employees who will take on the role of driving Unicharm's growth ten years from now. We have also changed our fiscal year-end to December in order to promote integrated Group management and boost management efficiency by accessing more accurate and timely business data.

Progress1

Stepping up Growth in Emerging Markets



Growth in Asia driving consolidated earnings

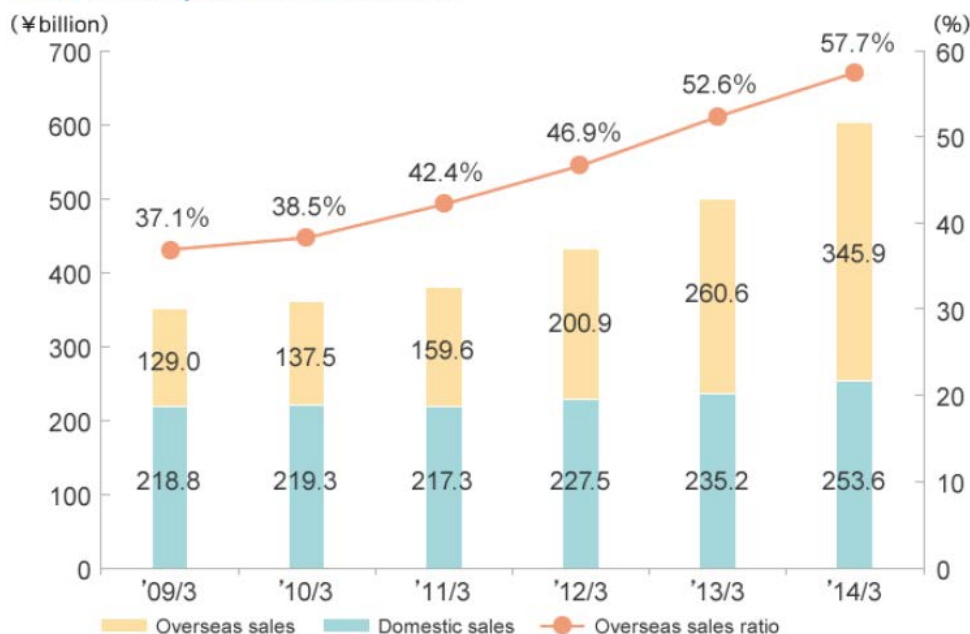
The rate of market uptake for disposable baby diapers and feminine care products continues to rise rapidly in the Asia region on the back of economic growth. Supported by rising demand in Southeast Asian countries such as Indonesia, Vietnam and Thailand, as well as in India, Unicharm's sales in Asia in fiscal 2014 rose 35% year on year to ¥256.2 billion. As a result, overseas sales accounted for a record 57.7% of consolidated net sales, an increase of 5.1 percentage points from the previous fiscal year.

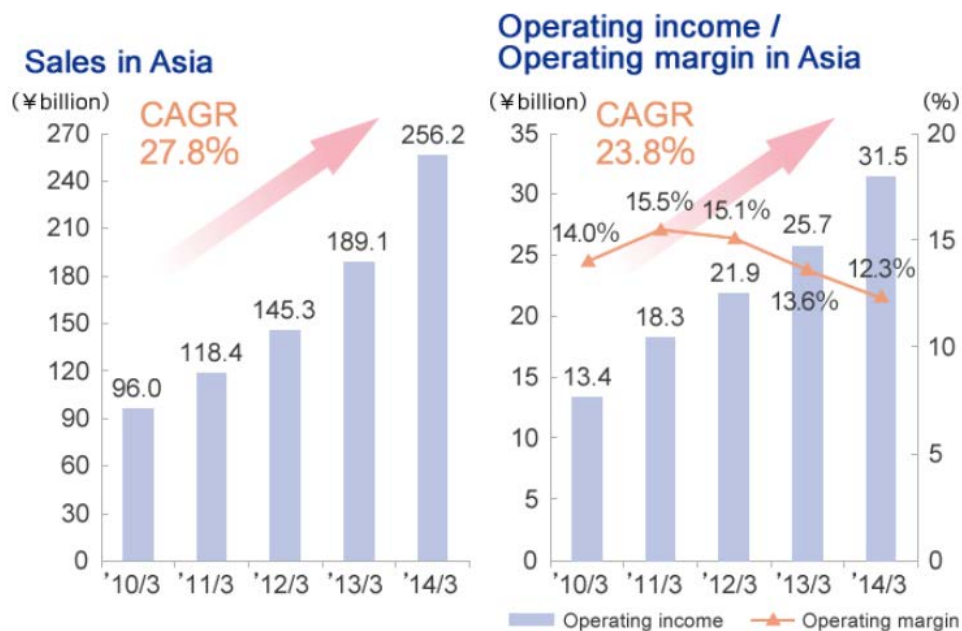
In Asia, demand for our products is emerging simultaneously in many markets across the region, so we are actively channeling our business resources into those areas to drive further growth. We have positioned China and India - two countries with vast populations - as our priority markets for the medium and long term. We aim to expand our sales areas in those countries while increasing market share. We will also use our unique nonwoven fabric technology to develop and launch products tailored to local needs in an effort to expand the user base.

In Asia, Unicharm is actively working to create job opportunities for local women and supporting efforts to improve hygiene, such as running programs that educate women about the mechanism of menstruation and giving them better knowledge about the types of feminine care 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 lead to stronger demand for the daily necessities that we produce and raise awareness of the Unicharm brand in local markets.

Also, over the medium and long term, we forecast rising demand for our healthcare products in Asia, where societies are expected to age rapidly. Given this outlook, we plan to extend our Japanese care model across the Asia region, leveraging our experience in the world's most rapidly aging society.

Sales in Japan and overseas





China: Extending our sales reach into inland regional cities

In China, demand for disposable baby diapers and feminine care products is now growing in inland cities as well, supported by rising income levels. We are therefore extending our sales reach into those inland markets. As of December 2013, we had a sales presence in 1,000 Chinese cities, and sales in China have grown to account for more than 15% of consolidated net sales.

In the baby care business, we plan to step up the pace of growth by revitalizing the market for standard-type and economy-type disposable baby diapers and by promoting wider uptake. In the standard-type market, China's largest disposable diaper category, we are offering new value propositions, such as different designs for boys and girls, thinner diapers and new products that offer significant improvements in absorbency. In the specialty baby product store retail channel, which is expected to grow strongly, we are aiming to accelerate growth by achieving high product distribution rates and expanding sales of new products. In coastal cities, where incomes are higher than inland areas, demand for high-price products is growing strongly. We are addressing this demand with products imported from Japan and actively promoting our products through e-commerce sites and other expanding retail channels.

In China, the feminine care business achieved average annual growth of 29% in the three years from 2011 to 2013. This growth has given Unicharm the second highest market share in feminine care products. Going forward, we plan to drive growth by continuing to introduce products with better performance and designs targeted at younger consumers.



Indonesia: A new factory to support further expansion

In Indonesia, Unicharm's sales have grown at roughly 30% on a local currency basis for nine consecutive years. In the baby care business, we launched Mamy Poko Pants Standar disposable baby diapers aimed at middle-class consumers in 2007. These diapers have proved to be very popular, while product renewals and sales area expansion have helped us capture over 60% of the disposable diaper market in Indonesia. In the feminine care business, we have launched a number of products tailored to local preferences that are kind on the skin. These products have been well received and we now have a market share of nearly 40%. We are targeting further growth by expanding our lineup of thinner products and by accelerating the rate of uptake.

Indonesia is estimated to have around 3,000 inhabited islands. To grow sales further, we will need to step up efforts to extend our distribution network from Jakarta into regional cities in the East and into outlying island areas. To support this push, we opened our third factory in Indonesia (Surabaya, East Java) in 2013, creating a distribution system to rapidly deliver products to East Java and North Sumatra. Competition is likely to become tougher in Indonesia as more companies move into the market. However, we intend to use our first-mover advantage to increase market share.



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

Unicharm has already built a dominant market position in Thailand. Our baby care business has over 60% of the market and our feminine care business has around 50%. Sales on a local currency basis are expanding at roughly 15%, supported by active efforts to expand the product lineup and moves into supermarket and convenience store retail channels.

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

In the feminine care business, we are aiming to create new markets by offering new value propositions in the skin care market segment. We have expanded our lineup with products such as Sofy Extra Dry, a new skin care-type product designed for local needs.



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

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

In the baby care business, we have the leading market share in Vietnam's two main cities and over 40% of the national market. We are targeting further growth in market share by rolling out sales campaigns that link TV commercials with in-store promotions and by expanding the product lineup with more pants-type diapers.

In the feminine care business, our market share is rising on the back of efforts to increase brand value by strengthening links between advertising campaigns and in-store promotions.

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



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

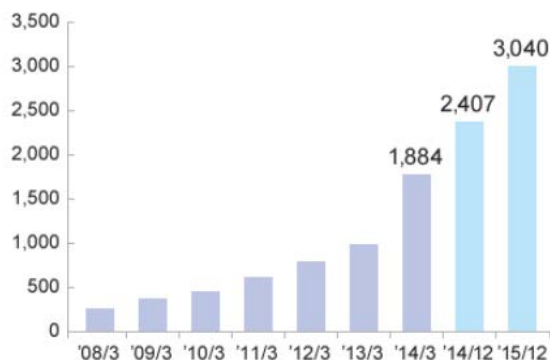
Unicharm has seen strong growth in India since 2009, when we launched disposable baby diapers on a full-scale basis. In fiscal 2013, sales growth accelerated to roughly 100% year on year, supported by efforts to promote economy pants-type disposable diapers that are sold individually. Unicharm's share of the disposable baby diaper market also topped 20%. India is estimated to have around 5,100 cities. As of March 2014, our sales presence had reached roughly 1,900 of those cities.

India has a vast population of around 1.2 billion and uptake of disposable diapers is still low compared with other emerging markets. Consequently, in the future, we think India could grow to become an even larger market than China. We are targeting further growth in India by extending our sales areas to secure new users and by promoting our pants-type disposable baby diapers, a category where Unicharm already has a strong position.

With demand set to expand sharply, we plan to begin work on our second factory in India, aiming to start operations in 2015. The new factory, located in Southern India, is part of wider efforts to strengthen our local manufacturing framework in order to boost production capacity and give us the capability to supply all areas of India.



Number of cities in operation



Myanmar: Expanding our business through synergies with Mycare

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

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

In spring 2014, we started production at our new factory in the state of Sao Paulo. Our disposable baby diapers are now sold in around 1,000 supermarkets, mainly aimed at wealthy and middle-class consumers. Brazil is an attractive market for Unicharm. The target market for disposable baby diapers is roughly 8 million users, nearly three times the size of Japan's market, and demand is expanding due to, growth in Brazil's middle class. We aim to tap into this demand by using our strengths in pants-type diapers to stand out in the market.

Progress2

Baby Care Business in Japan: Leveraging the strengths of two brands to revitalize the market



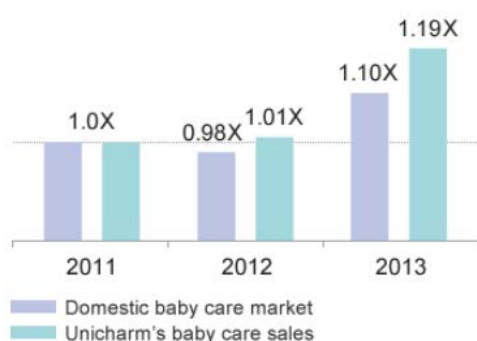
Unicharm has captured the leading market share in Japan by leveraging the strengths of two brands - Moony, which has the highest levels of quality in our disposable baby diaper range, and Mamy Poko, which offers an excellent balance between quality and price. As the domestic diaper market has matured, we have reinforced these brands by offering new value propositions, helping us to achieve sales growth that exceeded the market average.

Our Moony disposable diapers have proved popular with consumers because they are kind on sensitive skin. We have added a number of new products to the range, such as Moony Airfit diapers, which feature world-first curve-shaping technology that matches the unique body shape of each baby. This technology prevents leaks without the need for a tight fitting diaper. Following on from this product, we launched Moonyman Airfit diapers, which have a pants-type design to prevent gaps around the legs, no matter how active the baby, and soft stretchy gathers to ensure the perfect fit.

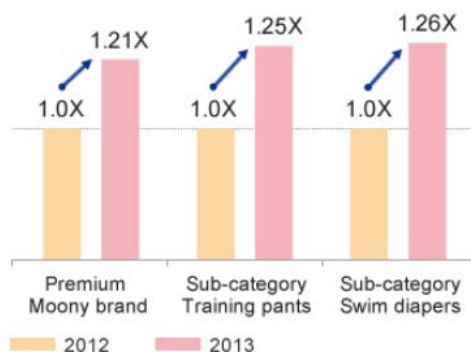
In the Mamy Poko range, we launched new limited-edition products in autumn 2013 to mark the brand's 30th anniversary. The new diapers feature Halloween motif designs and improvements to the well-known basic non-leak, stay-dry qualities of our Mamy Poko products.

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

Baby Care Market and Sales



Sales by Brand





Moony Airfit



Moonyman Airfit



Mamy Poko
©DISNEY



Mamy Poko Pants

Moony Airfit, Moonyman Airfit win Good Design Awards

Unicharm's role in driving the ongoing development of disposable diaper design has been recognized with our Moony Airfit diapers. These diapers feature proprietary world-first curve-shaping technology that matches the unique body shape of each baby and offer significant improvements in leak prevention and fit.

Our Moonyman Airfit diapers have also been praised for their intelligent design, which is based on an innovative structure that reduces the pressure on the baby's skin and alleviates the problem of leaks by almost doubling the area of fabric around the legs.

We will continue to focus on balancing the two contradictory goals of reducing pressure on skin and preventing leaks while developing diapers that are reliable and offer peace of mind.



GOOD DESIGN AWARD 2013

BEST 100



Moony Airfit®



Moonyman Airfit®

Progress3

Feminine Care Business in Japan: Launching high value-added products in growth segments



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

In our Sofy brand, which is marking its 30th anniversary, we sell Sofy Hada Omoi sanitary napkins for sensitive skin during menstruation. We have recently updated the range with industry-first sheets that can absorb thicker menstrual flows and are even kinder on the skin.

In the Sofy Super Sound Sleep Ultra Fit Slim range of sanitary napkins for nighttime use, which are comfortable but also highly absorbent, we have added curve-shaping wings at the rear of the napkin to offer the highest levels of nighttime comfort. This is innovation is a first for Japan and has already been granted a patent.

In Japan, women are becoming more active due to changing lifestyles and an increase in the number of working women. This is fueling rising demand for feminine care products that are kinder on the skin and more comfortable and absorbent. Unicharm has continued to create innovative products based on careful monitoring of women's concerns and trends in their increasingly diverse lifestyles. This approach has helped us to secure an even larger share of Japan's feminine care market. Going forward, we plan to launch high value-added products in growth segments in order to increase our market share further and boost profitability.



Sofy Hada Omoi



Sofy Hada Omoi
Ultra Super Slim Nighttime



Sofy Super Sound Sleep
Ultra Fit Slim

Progress4

Health Care Business in Japan: Market expansion taking off, driving domestic earnings



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

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

Moderate incontinence products

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

In recent years, there has been an increase in the number of elderly people leading active social lives through travel, shopping and other pastimes. This trend has led to growing demand for disposable adult diapers that are more like normal underwear and less bulky so that they do not affect everyday clothing. In response, we updated the products in our Lifree range to make walking easier in our pants-type diapers. Also, in February 2014, we launched Lifree Shitagi Kankaku Ultra Thin Pants for a limited time only. The diapers have separate designs for men and women and are intended to feel more like underwear.



Lifree Shitagi Kankaku Ultra
Thin Pants



Lifree Zurezu ni Anshin
Disposable Diapers –
Replacement Pads



Lifree Thin Light & Comfortable
Incontinence Pants

At Unicharm, our aim is to stand out in the market by improving the performance of our products, which will make life easier for people who are receiving care for incontinence by helping them to lead more independent lives. We will also work to reinforce our already dominant position in the market by offering new value propositions in areas such as thinness, peace of mind, and pants and pad hybrid designs.

Light incontinence products

In the light incontinence and urinary incontinence care market, Unicharm is leading market growth in Japan with two brands - the liner-type Charm Nap range and the napkin-type Lifree range.

The market for urinary incontinence care products continues to expand, but there is still some resistance to using incontinence care products, with many people opting to use sanitary napkins instead. In response, we are using in-store advertising, TV commercials and online advertising to communicate the benefits of incontinence care products in order to accelerate uptake.

Also, since 2013, we have worked to change the way the activities of daily living (ADLs) are defined, proposing a new group of activities called ADL-0 that include light incontinence. This is part of our efforts to help extend the healthy life expectancy of elderly people in Japan.



Charm Nap PantyLiners



Lifree Sawayaka Pad

Progress5

Pet Care Business: Stepping up overseas expansion



The pet care market is growing worldwide

The pet care market continues to expand worldwide. We forecast growth in advanced economies, but also in emerging markets in South America and Asia, particularly China, where rising incomes and aging societies are likely to drive market expansion.

Unicharm plans to expand its pet care business by reinforcing its leading position in the domestic market and accelerating expansion overseas.

Japan: Revitalizing the market through product segmentation

Unicharm is developing new products to address consumer needs and working to create new markets. Our aim is to revitalize the market and boost sales through product segmentation.

In pet food, we are actively developing cat food products for different breeds, ages and the increasingly diverse preferences of owners, and to address potential needs. We have launched Silver Spoon Happy Crunch, a new crunchy snack for cats, and Silver Spoon Mitsuboshi Gelee Pouches, an easy-to-eat tasty gourmet product. In the dog food market, we are expanding our lineup in growth categories such as food for different breeds and low-fat food in order to revitalize the market. In pet toiletry products, we have created the male dog diaper category, supporting growth in market share. Going forward, we will continue to use the nonwoven fabric and absorbent material processing and forming technologies developed since the first days of Unicharm to create new products with unique functionality.



Silver Spoon
Happy Crunch



Silver Spoon
Mitsuboshi Gelee Pouches



Male Dog Diapers

North America: Targeting growth through synergies with Hartz

In the U.S. pet care market, which accounts for roughly 40% of the global market, we acquired The Hartz Mountain Corporation in 2011. Hartz is the leading U.S. pet care brand in eight product categories and we acquired the company to expand our business in the U.S. The U.S. pet care market is the world's largest, estimated to be worth around \$30 billion. We forecast continued strong growth in the market of around 4 - 5% annually. We are aiming to expand our U.S. pet care business by combining our technological and product development capabilities in pet toiletry and pet food products, with the brand power, marketing expertise and selling power of Hartz. As part of those efforts, Hartz actively promoted a new version of its Dog Pad toilet sheets in 2013. The product incorporates Unicharm's unique nonwoven fabric technology and is helping to boost market share in pet toiletry products. Sales of Hartz UltraGuard Pro Flea & Tick Drops are also growing steadily.



Dog Pad toilet sheets



Hartz UltraGuard Pro
Flea & Tick Drops



Cat litter



Cat snacks

China: Targeting growth over the medium and long term

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

Progress6

Production Framework: Upgrading our manufacturing sites worldwide to meet rising demand



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

In China, currently our most important market, we are taking steps to ensure reliable and efficient product distribution. We opened a fourth factory in 2012 in Tianjin and we began building a fifth factory in Yangzhou, which is scheduled to come on stream in 2014. Efficient and reliable product distribution is challenging in China due to its size. We therefore plan to use our Tianjin and Yangzhou factories to supply inland markets and our three other factories in Shanghai to supply coastal areas.

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

In India, where demand is likely to grow dramatically, we started work on our second factory in the country to supply markets in the south of India.

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

Building an optimum manufacturing network

Egypt

New factory opened in 2012

India

Construction started on second factory in Southern India

Vietnam

Hanoi factory acquired through purchase of Diana in 2011; considering using the site to supply southern China

Indonesia

Third factory opened in 2013

Australia

Factory closed in 2013

Myanmar

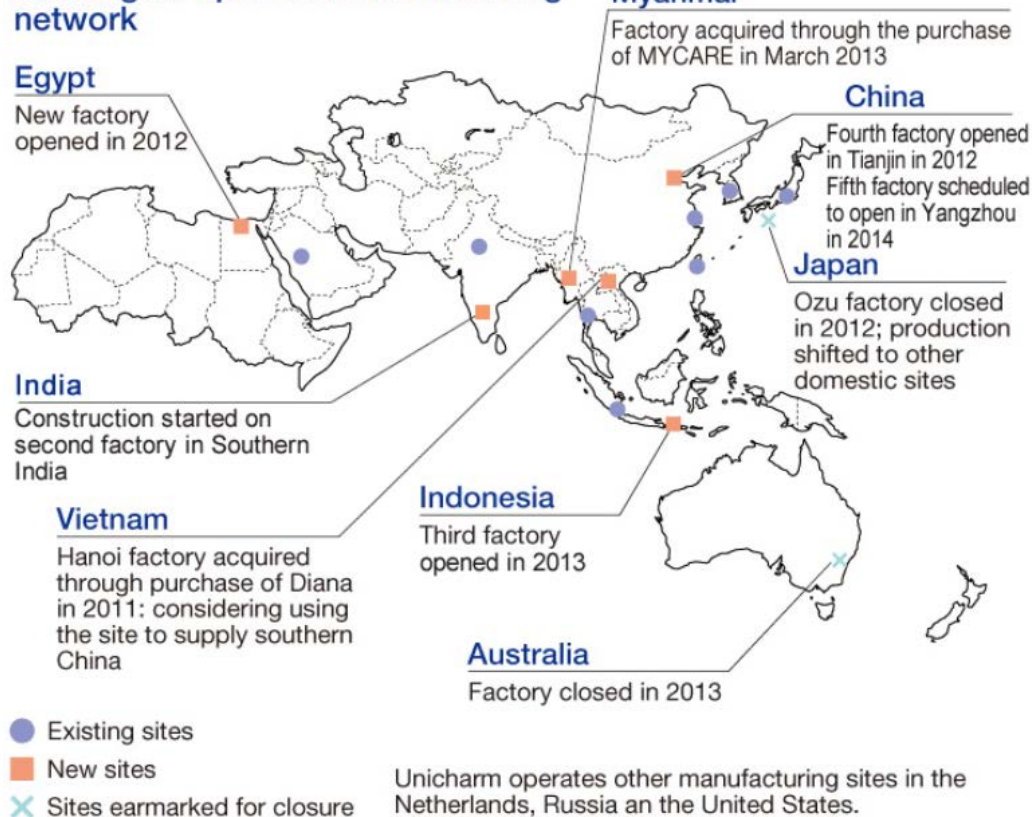
Factory acquired through the purchase of MYCARE in March 2013

China

Fourth factory opened in Tianjin in 2012
Fifth factory scheduled to open in Yangzhou in 2014

Japan

Ozu factory closed in 2012; production shifted to other domestic sites



Progress7

Social Contribution: Tackling social issues through our business activities



At Unicharm, we believe our business activities make a significant contribution to society. The fact that our products and services bring comfort, excitement and joy to people in Asia and around the world, not just in Japan, gives us immense pride and satisfaction. We are actively involved in a range of activities related to our business. Through our work in these areas, our goal is to make a difference to society in each country and win the support and trust of the public.

Overseas: Supporting the healthy development of emerging markets

We are actively helping women in emerging markets to take a more dynamic role in society and move into the workplace, which we believe will contribute to the development of their countries and the region as a whole. As part of overseas business development, we are working to improve the position of women in society across Asia, reduce poverty and achieve other targets in line with the United Nation's Millennium Development Goals.

Increasing job opportunities for women

After establishing a joint venture in Taiwan in 1984, we helped women move into the workplace by offering them job opportunities and by promoting wider use of sanitary napkins and baby disposable diapers. We also applied the principles of our NOLA & DOLA corporate philosophy in Taiwan and gradually introduced them into other countries in Asia and the Middle East, such as South Korea, Thailand, Saudi Arabia, China and Indonesia.

As a result, women now make up a high proportion of the workforce on our production lines. Also, through visits to retail stores, our female sales personnel make a significant contribution to improving understanding about our products and to ensuring customers are accurately informed. A large number of women also work in managerial positions.

We encourage all our employees, wherever they work, to share the principles of our corporate philosophy and to make a meaningful contribution through their jobs in order to help women become more independent.

Empowering women in Asia and the Middle East

In emerging countries in Asia and elsewhere, the use of hygiene products such as baby disposable diapers and sanitary napkins is still in its early stages. Women in some countries and regions still face limits in their everyday lives due to poor understanding about menstruation and a lack of social infrastructure. At Unicharm, we are working 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.

Initiatives in India

In some rural areas of India, there is no custom of using sanitary napkins. Old clothes are often used instead and many women have not heard of sanitary napkins. Working with local NGOs, we have launched a program to educate Indian women about the process of menstruation and the type of products that are available to them. By raising awareness about sanitary napkins and providing better education about menstruation, we believe we can encourage more women, who may be reluctant to leave the home, to attend school and take a more active role in society, while also improving understanding about hygiene.



Educating women about menstruation in schools and communities in Northern India

Initiatives in Other Countries

We are also working to improve the position of women in other countries where Unicharm has a market presence. In October 2012, we signed up to the Business Call to Action (BCtA)* initiative being promoted by the United Nations Development Program, which recognized our commitment to actively encouraging job opportunities for women by aiming to double the number of female employees in our business, as well as our goal to produce 40% of our sanitary products in MENA and Asia and sell them to low-income consumers in those regions.

Our aim is to continue providing world-first, leading products and services that bring comfort, excitement and joy to people throughout the world.

*Business Call to Action is a joint initiative launched in 2008 with a global network of members made up of companies, governments and development assistance agencies. The goal of the initiative is to evaluate and promote global efforts to reduce poverty and achieve sustainable development through business models that create employment, products and services for the world's poor, whether they be producers, consumers or workers.



Taking on the challenges of a rapidly aging society

Since launching Lifree disposable adult diapers in 1987, Unicharm has consistently proposed new approaches in nursing care. Our mission is to contribute to the development of society and support the nursing care industry by alleviating the burden of those being cared for and their carers and by extending the healthy life expectancy of elderly people.

Lifree: Helping the elderly live with dignity

Unicharm has led the development of Japan's adult incontinence care market, helping users to select the best product for their functional capabilities and offering a wide range of different products, such as pads for light urinary incontinence and absorbent pants-type products.

Lifree Rehabili-Pants, which we launched in 1995, were a major step forward in the nursing care field. Until that point, it was common in Japan's nursing care sector to leave elderly patients in bed to avoid moving them too much. However, our Rehabili-Pants were based on the concept of encouraging the elderly to visit the toilet themselves by making it easier to raise and lower the pants without assistance. This helped to promote the idea that patients could become more independent. Lifree Rehabili-Pants are still the de-facto standard in the sector today.

Humany nursing care robot

Japan's society is aging, but the nursing care sector faces a shortage of workers and the elderly are increasingly being cared for at home. Japan therefore needs to improve its nursing care capabilities. Aiming to reduce the burden of those being cared for and their carers, Unicharm began selling Humany automatic continence processing devices across Japan in 2009.

Diaper changing is a physically and mentally challenging part of nursing care. This is a particular problem at nighttime, when fewer staff are on duty and patients have to be woken up for diaper changes, preventing them from having a good night's sleep. We are aiming to encourage wider uptake of our Humany devices to solve the serious issue of sleepless nights caused by incontinence care.

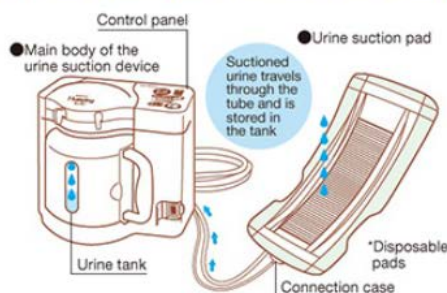
Humany automatic continence processing devices

Humany is an automatic continence processing device designed to help patients become more independent. An internal sensor in the urine suction pad senses when urine is present. The urine is then transferred to the temporary storage tank. This system helps patients who often need diaper changes or frequently visit the toilet at nighttime to get a good night's sleep.

Mechanism

● Key feature:

Urine collected by the suction pad is transferred to a temporary storage tank



The solutions we have developed to solve issues arising from the rapidly aging society in Japan, which is the first country in the world to face these problems, could also help China, South Korea and other countries in Asia, which are aging at an even faster rate than Japan. Leveraging Unicharm's strengths in the domestic market, we plan to extend our Japanese care model across the Asia region.

Japan: Contributing to society at a local level

Unicharm is grateful of the support it receives from customers. It therefore works to give back to the community in addition to generating profits.

Sixth year of Pink Ribbon activities

Pink Ribbon activities are held worldwide to raise awareness about the importance of early discovery, early diagnosis and early treatment of breast cancer. Unicharm supports these activities in Japan, China and Taiwan.

In Japan, we have now been supporting Pink Ribbon activities for six years. In October 2013, our employees took part in the Pink Ribbon Smile Walk Tokyo. Also, during 2013, we collected Pink Ribbon donations through our Sofy brand. We made donations to a breast cancer group based on the number of clicks on a Sofy Pink Ribbon Tsubuyaki Fund donation button on our Sofy website.

Pink Ribbon activities

Japan



Pink Ribbon Smile Walk Tokyo



Sofy Pink Ribbon Tsubuyaki Fund

Taiwan



Pink Ribbon Walk

Providing job opportunities for expectant mothers

Unicharm launched a hiring initiative from the fiscal 2016 new graduate recruitment year, called Fresh-Mom Recruitment. The initiative is aimed at expectant mothers who want to work at Unicharm but are hesitant about applying for a position due to pregnancy. Fresh-Mom Recruitment allows women who have received a provisional job offer from us to defer their start date at Unicharm until later (cut off age for the offer is 30). This is part of our wider efforts to create a workplace that respects diversity and gives individuals the opportunities to perform to the best of their abilities.

Progress8

Corporate governance



Basic stance on corporate governance

Basic stance

We strive to pursue proper corporate management principles in accordance with the Unicharm Ideals. We recognize the importance of achieving a balance between sustained increases in corporate value and fulfilling our corporate social responsibilities through business activities based on close cooperation between management and business execution divisions.

Management bodies related to oversight of management decisions and business execution and other corporate governance structures

1. Composition and operation of management bodies

Corporate structure	Company with a Board of Corporate Auditors
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Directors

Number of Directors permitted by the Articles of Incorporation	15
Terms of Directors permitted by the Articles of Incorporation	1 year
Chairman of the Board of Directors	President
Number of Directors	11
Appointment of external Directors	Under consideration

Corporate Auditors

Board of Corporate Auditors	Yes
Number of Corporate Auditors permitted by the Articles of Incorporation	4
Number of Corporate Auditors	4

Cooperation between Corporate Auditors, Accounting Auditor and Internal Audit Department

The Corporate Auditors work closely with the Accounting Auditor to inspect operations and assets at the head office and the Group's main business sites. They also request reports about the status of operations at subsidiaries and conduct inspections of operations and assets at major subsidiaries as needed. Also, in order to improve the reliability of financial statements, the Corporate Auditors and Accounting Auditor hold regular meetings every six months and additional meetings as needed. At these meetings, they share information about their respective audit plans and audit results, while also aiming to increase the effectiveness and efficiency of the audit process.

Full-time Corporate Auditors attend monthly Internal Audit Report Meetings. At these meetings, the Corporate Auditors receive the results of internal audits of executive business divisions, examine the effectiveness of the internal control system, and implement remedial measures and recommendations to improve the system. In addition, the Management Audit Department includes items in its audit plans that are deemed necessary for Corporate Auditors. Based on these plans, the department conducts audits and shares information with the Corporate Auditors in order to increase the effectiveness and efficiency of audits.

Selection of external Corporate Auditors	Yes
Number of external Corporate Auditors	2
Number of external Corporate Auditors classified as Independent Directors / Auditors	1

Independent Directors / Auditors

Number of Independent Directors / Auditors	1
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Other items related to Independent Directors / Auditors

The Company's Independent Directors / Auditors attend Board of Directors meetings, Business Plan Advisory Board meetings and Business Execution Council meetings to enhance communication with senior managers, receive reports about the business and risk management, and oversee and provide advice for key business decisions. They also hold regular meetings with Directors and senior managers to gain a more detailed understanding of overall operating conditions and issues faced by the Group. Based on this information, they suggest improvements where necessary.

Incentives

Incentives available to Directors	Stock option system
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Supplementary information

Directors are entrusted by shareholders with the responsibility of increasing shareholder value, as the success of their management strategies has a direct impact on shareholder profits through changes in the Company's market capitalization. In order to ensure this principle functions effectively, the Company has introduced an incentive-based stock option system that links Director remuneration with shareholder profits.

Staff eligible for stock options	Directors, employees, Directors of subsidiaries, employees of subsidiaries
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Supplementary information

The Company operates a stock option system for Directors and employees aimed at further leveraging and combining the individual strengths of the Group's personnel in order to realize Unicharm Ideals. Increasing the motivation of every executive and employee encourages them to achieve targets and leads to growth in corporate value, ultimately enabling the Group to meet the expectations of consumers, shareholders and employees. Consequently, in order to mobilize the combined strengths of the Group's personnel, we grant stock options to employees to reward them when corporate value (share value) increases significantly due to the achievement of the Group's medium-term management targets.

Director remuneration

Disclosure of remuneration for individual Directors	Partial disclosure
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Supplementary information

In the fiscal year ending December 31, 2014, the Company paid remuneration as defined in the Articles of Incorporation or approved by the Board of Directors totaling ¥641 million to 11 individuals.

Policy for determining remuneration amounts and calculation methods	No
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Support structure for external Directors / external Corporate Auditors

External Corporate Auditors and full-time Corporate Auditors convene regular meetings of the Board of Corporate Auditors, and where necessary, special meetings, to share information related to management issues as well as audit plans and audit results. The Corporate Auditors also hold regular meetings with Directors and senior managers to submit reports related to overall operating conditions and issues faced by the Group. The Company provides secretarial support to allow the Corporate Auditors to report and communicate appropriately and effectively with respect to these activities.

2. Business execution, audit, oversight, appointments, and remuneration decisions (overview of current corporate governance structure)

- Unicharm operates as a company with a Board of Corporate Auditors and also introduced an executive officer system in June 1999. The current management structure comprises 11 Directors, 21 Executive Officers (including 10 concurrently appointed as Directors) and four Corporate Auditors (including two external Corporate Auditors).
- The term of Directors has been set at one year to enhance management responsiveness and flexibility.
- The business execution structure is headed by the Company's President and Chief Executive Officer. Executive Officers are appointed annually to lead each executive business division.
- Business plans are discussed and decided at meetings of the Business Plan Advisory Board, which are attended by all Directors and Corporate Auditors in order to strengthen oversight of business execution. Unicharm has established a Business Execution Council to reinforce business execution in accordance with business plans. The Business Execution Council, which is chaired by the Company's President and Chief Executive Officer, meets each month. At council meetings, the Executive Officers and related business divisions use their knowledge of operating conditions across the Group to effectively and promptly resolve key issues that the Chairman raises each month. Corporate Auditors also attend council meetings to ensure internal control systems are operating effectively in each business division.
- Unicharm has established a Management Audit Department as its internal audit body. The Management Audit Department conducts internal audits of business divisions and creates internal audit reports highlighting issues and necessary remedial measures. These reports are submitted to the Company's President and Chief Executive Officer, the Board of Corporate Auditors and the business divisions that have been audited. In the event that issues are identified, remedial measures are formulated and implemented. The Management Audit Department monitors the outcomes of the remedial measures.
- The Group's risk management framework comprises the Corporate Social Responsibility Department (CSR Department), which is responsible for ensuring business ethics – a key element of the Group's business activities – and the Global Quality Assurance Department, which is responsible for quality assurance, environmental protection, compliance with pharmaceutical regulations, and product safety. The CSR Department and Global Quality Assurance Department are the Group's two key bodies tasked with ensuring appropriate business management, which brings together efforts to maximize customer satisfaction and reinforce business competitiveness. In the event of a crisis that has a material impact inside or outside the Group, the Company will work rapidly to gain an accurate picture of the situation and take steps to prevent further damage. Unicharm has also created a Crisis Response Communication Manual that is designed to protect the Group's corporate value by ensuring timely and appropriate communication with stakeholders during a crisis. This manual has been issued to all business divisions. Directors, Corporate Auditors and employees are required to carry pocket versions of the manual at all times, allowing them to refer to and comply with policy when needed.
- Unicharm has contracted PricewaterhouseCoopers Aarata as its Accounting Auditor. As part of the accounting audit process, the Accounting Auditor provides advice that leads to improvements in the Group's operations. There are no special conflicts of interest between the Company and the Accounting Auditor or between the Company and individuals at the Accounting Auditor who are responsible for conducting audits of the Company.

< Certified Public Accountants who conduct audits of the Company >

Masahiro Yamamoto, Tsuyoshi Saito, Taisuke Shiino

< Composition of accounting audit support team >

Certified Public Accountants: 7 Other staff: 8

- The Company receives advice on legal matters from corporate lawyers.
- In accordance with Unicharm Ideals, we seek to pay an appropriate level of remuneration to Directors and Corporate Auditors in order to realize value for stakeholders. Taking into account factors such as the need to attract and retain highly capable individuals, offer incentives to increase earnings, and promote strategic planning capabilities, as well compliance requirements, the Company sets remuneration levels based on job responsibilities in accordance with limits determined by the 47th Annual General Meeting of Shareholders on June 26, 2007. Remuneration is also adjusted in line with changes in the operating environment. Following the enforcement of the Corporation Law, the Company's shareholders approved a resolution to abolish the retirement benefit system for Directors and Corporate Auditors at the 47th Annual General Meeting of Shareholders on June 26, 2007. Retirement bonuses for Directors and Corporate Auditors are now included in annual remuneration.

3. Reasons for selecting the current corporate governance system

In June 1999 we introduced an executive officer system to complement our director and corporate auditor structure. With this system, we have separated the decision-making and oversight functions of the Board of Directors from the executive functions of the Executive Officers. In addition, we have appointed two external Corporate Auditors to our four-member Board of Corporate Auditors. This has strengthened oversight of the Board of Directors and increased management transparency. Under this business management structure, we believe it is more appropriate to select directors from inside the Company who have a detailed knowledge of our business, in order to leverage the Group's strengths in frontline-focused management. However, we are considering the appointment of external Directors as a step to further increase the Group's corporate value and improve the management decision-making process.

Internal Control System

1. Basic stance on internal control and current status of internal control system

The Company has established an internal control system made up of the following elements:

1. System to ensure Directors and employees perform their duties in accordance with regulations and the Articles of Incorporation

- (1) In 1974 we created the Unicharm Ideals, which advocate the principle that society and companies should grow together. The document states: "We strive to pursue proper corporate management principles which combine corporate growth, associate well-being and the fulfillment of our social responsibilities." This is now an integral part of our management policy.
- (2) In 1999, to ensure our employees hold themselves to the highest ethical standards and comply with regulations and the Articles of Incorporation, we announced the Beliefs and Pledges and Corporate Principles of Action and the Five Great Pillars and Associated Principles of Action. Referencing the Unicharm Ideals, these documents clearly set out the Group's shared values and the employee code of conduct based on those values. Under the Beliefs and Pledges, we have made commitments to customers, shareholders, business partners, colleagues and society. The Five Great Pillars are creativity & innovation, ownership, spirit of challenge, leadership and fair play.

- (3) In 2004 we launched the Schedule-Action-Performance-Schedule (SAPS) Management Model, which emphasizes the principles of respecting human dignity and personal achievement. Every Monday at 8:00am Japan time, all Unicharm sites in Japan and overseas link up in a SAPS Management Meeting using a video conference system. The Group's Executive Officers, department heads and business site heads participate in the meeting, which is led by Unicharm's President and Chief Executive Officer. The President uses the meeting to communicate his management ideas and pass on the essence of his thinking to all employees as part of wider efforts to build a corporate culture that supports the autonomous functioning of the Group's corporate governance system. Based on management policy laid out in the meeting, frontline managers at business sites attached to all Unicharm's domestic and overseas companies hold small SAPS team meetings every week. During these meetings, participants report their progress toward weekly targets, share information and implement their own changes and improvements. Also, in 2005, we created a booklet titled The Unicharm Way. The booklet contains the Group's Code of Conduct, the Unicharm Handbook, the SAPS Management Model implementation manual, Information Security Policy, Social Media Policy and the Crisis Communication Manual. To ensure familiarity with its contents, all employees carry the booklet with them at all times and refer to it during morning meetings.
- (4) The Intellectual Property & Legal Department is responsible for legal compliance, while the Corporate Ethics Office in the CSR Department is responsible for dealing with employee conduct that does not infringe laws or regulations but may not be viewed as appropriate. Group employees in Japan can use Unicharm's Rin Rin Dial line to seek advice on compliance issues, while Group companies in China and Thailand have set up their own advice lines. Also, to complement the Rin Rin Dial line, Unicharm set up an internal reporting Compliance Hotline in April 2014 to strengthen compliance management across the Group.
- (5) A system has been put in place so that the Corporate Ethics Office, Directors or Corporate Auditors can report legal compliance or ethics issues to the head of the CSR Department. The head of the CSR Department then promptly investigates the content of the reports. For urgent, important or high-risk issues, the head of the CSR Department convenes a meeting of the Corporate Ethics Committee, which authorizes a solution after discussing measures to prevent reoccurrence. These preventative measures are implemented across the Group.
- (6) After investigating the facts and confirming the existence of a legal compliance or other issue, the Corporate Ethics Committee can immediately issue a cease and desist order, implement a punishment or take other steps in accordance with the Company's Employment Regulations.

2. System to store and manage information related to duties performed by Directors

- (1) In accordance with information management security rules, the Company records and stores information, documents and digital media ("documents" hereafter) related to duties performed by Directors.
- (2) In accordance with information management security rules, these documents are made available for viewing at all times.

3. Rules related to managing risk of loss and other systems

Risks that could have an impact on the Group's operations cover a wide area, including operational risk, legal compliance risk and financial reporting risk.

- (1) An Executive Officer appointed by the Board of Directors is responsible for coordinating the Company's management of operational risk.
- (2) Legal compliance risk is explained in (4) below.

- (3) An individual is selected by the Executive Officers to coordinate information management security. This individual is responsible for issuing regular reminders to employees about the use of IT devices and the handling of restricted information as part of wider efforts to reinforce the Group's risk response capacity. The Company's Information Security Policy comprises three parts: (1) information management security rules, (2) personal information protection rules and (3) human resources information management rules. The Intellectual Property & Legal Department is responsible for managing risk related to (1) and (2), while the Global Human Resources and Administration Division is responsible for (3). In January 2012, the Company created a new social media policy to raise awareness of the risks associated with using social media in business and private. The Company is working to ensure the policy is widely understood by employees across the Group.
- (4) The Company has created a Groupwide quality management system to manage risk related to product quality, based on the ISO 9001 standard for quality management systems. The Group's system covers six processes: marketing, product development, facility development, materials procurement, manufacturing, and sales / planning/ delivery. Also, based on the principle that high-quality products are dependent on high-quality business management, the Company conducts internal audits and contracts third parties to conduct audits in order to assess the appropriateness and effectiveness of the quality management system. The results of the audits are used to implement remedial and preventative measures and make ongoing improvements to the system. Unicharm Products Co., Ltd, which makes the Group's products, has established a Quality Assurance Department to lead product quality management, while quality management teams at each factory work to ensure high levels of quality in the product design stages. In addition, part of Unicharm's CSR Committee, which is responsible for promoting management's views on quality assurance across the Group, holds quarterly meetings to discuss quality assurance issues as part of Groupwide efforts to raise product quality. Overseas plants in China, South Korea, Taiwan, Thailand, Indonesia, Vietnam and Saudi Arabia have secured ISO 9001 certification and the Group is working to raise product quality across its operations worldwide.
- (5) Activities to protect the environment are given high priority in Unicharm's CSR program. The CSR Committee manages environmental risk by promoting activities aimed at tackling key environmental issues from a top-down perspective. Domestic Unicharm companies are implementing integrated management systems based on the ISO 14001 and ISO 9001 standards. As part of this process, some operations are subject to gate control and KPI management, and the PDCA cycle is being used to drive improvements. At key overseas business sites, the Group is implementing an environmental management system (EMS) based on the ISO 14001 standard in an effort to deliver ongoing improvements. All the Group's key domestic and overseas business sites have been awarded the ISO 14001 standard for EMS.
- (6) In order to manage financial reporting risk, the Executive Officer responsible for accounting and financial matters identifies key accounting items in accordance with decision-making rules and submits them to the Board of Directors. After deliberations by the board, the information is disclosed in an appropriate and timely manner.
- (7) The Company has formulated a Crisis Communication Manual as part of efforts to manage risk related to crises. The manual identifies nine specific areas of risk: product quality, the environment, product labeling, workplace safety, human rights, suppliers, senior management (abduction etc), natural disasters and information leaks. The Company aims to identify issues at an early stage and implement preventative measures before they become full-blown crises. Reporting routes and definitions for crises have also been established. In the event of a crisis, this will allow the Company to rapidly and accurately assess the situation and implement measures to prevent further damage. Also, the Company has created crisis response positions and organizations – Corporate Risk Officer, Crisis Management Team (CMT) and Crisis Response Team (CRT) – to ensure information is communicated to stakeholders in a timely and appropriate manner.
- (8) In accordance with the above regulations and manuals, the Management Audit Department works closely with related departments to conduct audits of routine risk management conditions at all Unicharm and Group divisions.

4. System to ensure Directors perform their duties efficiently

In the fiscal year ended March 31, 2005, Unicharm launched its SAPS Management Model, which is the culmination of all the Company's previous management approaches and emphasizes the principles of respecting human dignity and personal achievement. Under the SAPS model, each employee devotes half of their energy to analyzing current issues, and based on clearly defined management objectives, works to identify the causes. Time and resources are then channeled into solving high-priority issues. We use the following processes to ensure Directors perform their duties efficiently.

- (1) During the third quarter of each fiscal year, the President and Chief Executive Officer submits the Group Policy Outline to the Board of Directors. After approval by the Board of Directors, Executive Officers responsible for each business division and functional division communicate the Group Policy Outline to the whole Group by convening meetings made up of people from their division or department. The same process is used to communicate the Group's Medium-Term Management Plan, which is renewed every three years.
- (2) In the fourth quarter of each fiscal year, each business division and functional division breaks down the individual strategies in the Group Policy Outline into coherent but separate policy documents for each section under its control. These policy documents are submitted to the Business Plan Advisory Board, which is made up of all Directors and Corporate Auditors. Also during the second quarter, the Global Marketing Department works with related business divisions to create policy documents for each business for the second half of the fiscal year. These documents are then submitted to the Business Plan Advisory Board. Through this process, the Groupwide Medium-Term Management Plan and business strategies shared by all Directors and employees are translated into full-year and half-year strategic targets for each division and office.
- (3) The Corporate Planning Division and Accounting Control and Finance Division formulate half-yearly targets for each business division and Group company in order to put the Medium-Term Management Plan into practice. In principle, when making decisions on capital investment and new businesses, priority is placed on their potential contribution to the goals of the Medium-Term Management Plan.
- (4) At the Business Execution Council, which meets every month, Executive Officers submit their responses to key points highlighted by the President and Chief Executive Officer prior to the meeting. The Accounting Control and Finance Division also uses the meeting to report and explain differences between targets and performance for each business and subsidiary, including overseas companies. Representatives from overseas business sites take part in the meetings through video links, ensuring information is communicated to all parts of the Group.
- (5) In the event that targets are missed, factors behind the shortfalls are analyzed and remedial measures developed to eliminate or reduce their impact. These measures are communicated to small frontline teams, which implement ongoing improvements through repeated analysis of the causes.
- (6) The Company has established a Financial Results Committee chaired by the head of the Accounting Control and Finance Division. The committee works to support the efficient operation of the Group by ensuring investors and other stakeholders understand the Company's aims as defined in its corporate philosophy – the Unicharm Ideals – and its vision set out in the Global 20 Blue Sky Plan. Specifically, the committee is tasked with disclosing financial results and information related to the General Meeting of Shareholders in an appropriate and timely manner, in accordance with regulations and the Articles of Incorporation. The President and Chief Executive Officer also takes a lead role in information disclosure.

5. System to ensure appropriate business operations by the Unicharm Group

- (1) Unicharm and its Group companies are bound together by a shared corporate philosophy comprising the Unicharm Ideals, Beliefs and Pledges and Corporate Principles of Action, and the Five Great Pillars and Associated Principles of Action, which are all supported by Unicharm's Three DNAs: (1) maintain our No.1 position through continued and dedicated service, (2) changing values, and (3) find reason within ourselves. In 1986, the Company created its first Unicharm Handbook and released the fifth edition in 2010. The handbook is used to create a shared corporate culture for the whole Unicharm Group and forms the basis for fostering understanding about legal compliance.
- (2) The Company and Group companies have established shared decision-making rules. These rules clearly set out which decisions require approval from the parent company and which decisions can be taken independently by Group companies. This has created a well-defined decision-making process for the Group.
- (3) In order to create an internal control system for the Company and Group companies, an Internal Control Committee was established to build an internal control system at Group companies. A framework has also been created to ensure discussions, information sharing, directives and requests about internal control systems are conducted efficiently between the Company and Group companies.
- (4) The Company's Management Audit Department conducts internal audits of the Company and Group companies. Results of the audits are reported to the President and Chief Executive Officer and to the Corporate Auditors.
- (5) As explained in 4. (4) above, numerical targets are set for each Group company as part of Groupwide business objectives. Individual company performance versus these targets is reviewed at the monthly Business Execution Council in order to promote the Plan-Do-Check-Next Action (PDCNA) process at Group companies through the SAPS Management Model.
- (6) As explained in 1. (4) above, the Company has set up a whistle blower system for employees at Group companies.
- (7) The Company uses its Groupwide internal portal site i-Navi to share information with Group companies, such as its management philosophy and code of behavior. The site is also used to provide e-learning courses to enhance the skills of Unicharm employees.

6. Items related to support staff requested by the Corporate Auditors

- (1) The Company has four Corporate Auditors, including two full-time Corporate Auditors and two external Corporate Auditors. The Company has adopted a corporate governance system centered on the Board of Corporate Auditors.
- (2) The Company established a Corporate Auditor Office in the fiscal year ended March 31, 2008 to provide support to the Corporate Auditors.
- (3) The Management Audit Department works with the Internal Audit Report Meeting and the Board of Corporate Auditors to conduct audits of areas requested by the Corporate Auditors. The results of these audits are submitted to the Board of Corporate Auditors.

7. Independence of Corporate Auditor support staff from the Directors

To ensure the independence of the Corporate Auditor support staff, all personnel decisions such as appointments and transfers require the prior approval of the full-time Corporate Auditors.

8. Systems for Directors and employees* to report to Corporate Auditors and other reporting systems

- (1) Based on discussions with the Corporate Auditors, the Board of Corporate Auditor regulations now include the following items that Directors are required to report to the Corporate Auditors.
 1. Resolutions passed by the Board of Directors
 2. Matters that could have material impact on the Company
 3. Key monthly developments in the management situation
 4. Key matters related to internal audits and risk management
 5. Major violations of laws, regulations or the Articles of Incorporation
 6. Violations of laws, regulations or the Articles of Incorporation or major ethics violations reported to the Corporate Ethics Office via the whistle blower system.
 7. Other significant matters related to product quality or the environment
- (2) Employees with information related to 2. and 5. above can report directly to the Corporate Auditors.
- (3) Corporate Auditors attend meetings of the following bodies:
 1. Board of Directors
 2. Business Plan Advisory Board
 3. Business Execution Council
 4. Financial Results Committee
 5. Internal Audit Report Meeting
 6. Internal Control Committee
 7. CSR Committee
- (4) Corporate Auditors have access to the following documents, approval requests and reports:
 1. Decisions made by the President and Chief Executive Officer
 2. Matters related to legal compliance
 3. Matters related to risk management
 4. Matters related to internal audits
 5. Matters related to systemic revisions such as changes to accounting policy and standards
 6. Matters related to litigation and legal disputes
 7. Matters related to accidents, fraud, complaints or other issues
 8. Results of public investigations and third-party audits
 9. Information related to administrative actions issued by government agencies

9. Other systems to ensure Corporate Auditors conduct audits effectively

The Board of Corporate Auditors holds monthly meetings with the President and Chief Executive Officer and half-yearly meetings with the Accounting Auditor to exchange opinions.

* "Employee" used above is as defined in the Corporation Law.

2. Basic policy and measures to deal with antisocial forces

Under its Beliefs and Pledges, the Company has made a commitment to society. As part of the Code of Conduct designed to realize this commitment, Unicharm has no dealings whatsoever with antisocial forces and stands firmly against any requests from antisocial forces.

Measures to deal with antisocial forces

Unicharm believes laws, regulations and business ethics play a crucial role in eliminating the influence of antisocial forces. Consequently, the Company ensures all Unicharm Group Directors, Corporate Auditors and employees understand and follow the Group's Code of Conduct, and works closely with the police and other external specialist organizations to gather and manage information about antisocial forces. Going forward, the Company intends to continue raising understanding and awareness among employees and create response manuals in order to further build and strengthen internal systems to exclude the influence of antisocial forces.

Consolidated Balance Sheet (Translation for reference purposes only)

Unicharm Corporation and Subsidiaries

March 31, 2014 and 2013

ASSETS	Millions of yen	
	2013	2014
Current assets:		
Cash and deposits	¥ 74,321	¥ 108,901
Notes and accounts receivable	60,349	67,687
Marketable securities	11,212	3,013
Merchandise and finished goods	26,254	27,700
Raw materials and supplies	17,669	23,007
Work in progress	861	920
Deferred tax assets	13,917	13,264
Other current assets	6,227	20,785
Allowance for bad debts	(85)	(90)
Total current assets	210,728	265,191
Fixed assets:		
Tangible fixed assets:		
Buildings and other structures (net)	44,695	59,503
Machinery, equipment and vehicles (net)	79,177	98,629
Land	17,501	18,661
Construction in progress	15,011	20,834
Other tangible fixed assets (net)	6,743	6,788
Total tangible fixed assets	163,129	204,417
Intangible fixed assets:		
Goodwill	76,686	73,463
Other intangible fixed assets	20,707	22,021
Total intangible fixed assets	97,394	95,485
Investments and other assets:		
Prepaid pension expenses	5,615	—
Net defined benefit asset	—	860
Investments in marketable securities	19,664	22,105
Deferred tax assets	36,616	27,776
Other investments	2,070	4,683
Allowance for bad debts	(164)	(99)
Total investments and other assets	63,803	55,326
Total fixed assets	324,326	355,228
Total assets	¥ 535,055	¥ 620,419

LIABILITIES AND NET ASSETS	Millions of yen	
	2013	2014
Liabilities:		
Current liabilities:		
Notes and accounts payable	¥ 53,185	¥ 78,433
Short-term loans payable	6,228	7,709
Accrued amount payable	37,207	35,532
Accrued corporate taxes, etc.	3,234	5,739
Reserve for bonuses	4,335	4,763
Other current liabilities	17,355	16,725
Total current liabilities	121,547	148,903
Long-term liabilities:		
Bonds with share warrants payable	53,333	—
Long-term loans payable	23,000	21,000
Deferred tax liabilities	1,576	1,460
Reserve for severance benefits	2,925	—
Net defined benefit liability	—	4,995
Other long-term liabilities	3,472	11,907
Total long-term liabilities	84,306	39,364
Total liabilities	¥ 205,854	¥ 188,267
Net Assets:		
Shareholders' equity:		
Capital stock	¥ 15,992	¥ 15,992
Additional paid-in capital	29,782	46,385
Retained earnings	275,609	306,974
Treasury shares	(43,030)	(21,110)
Total shareholders' equity	278,354	348,242
Accumulated other comprehensive income:		
Unrealized gains (losses) on available-for-sale securities	7,635	9,058
Gains (losses) on deferred hedges	(20)	2
Land revaluation difference	(157)	(157)
Foreign currency translation adjustment	3,955	21,118
Remeasurements of defined benefit plans	—	(4,128)
Total accumulated other comprehensive income	11,413	25,893
Subscription rights to shares	677	295
Minority interests	38,755	57,719
Total net assets	329,201	432,152
Total liabilities and net assets	¥ 535,055	¥ 620,419

Consolidated Statement of Income (Translation for reference purposes only)

Unicharm Corporation and Subsidiaries

Years Ended March 31, 2014 and 2013

	Millions of yen			
	2013		2014	
Net sales	¥	495,771	¥	599,455
Cost of sales		268,743		331,807
Gross profits		227,028		267,647
Selling, general and administrative expenses		167,539		200,407
Operating income		59,488		67,240
Non-operating income:				
Interest received		923		1,325
Dividends received		287		339
Foreign exchange gains		7,630		2,129
Other non-operating income		853		850
Total non-operating income		9,695		4,644
Non-operating expenses:				
Interests paid		284		358
Sales discount		3,727		2,909
Other non-operating expenses		159		703
Total non-operating expenses		4,171		3,971
Ordinary income		65,012		67,913
Extraordinary income:				
Gain on sale of fixed assets		42		41
Gain on sales of invested marketable securities		—		788
Gain on change in equity		—		4,745
Other extraordinary income		3		108
Total extraordinary income		45		5,684
Extraordinary losses:				
Losses on disposal of fixed assets		616		867
Business structure improvement expenses		95		—
Amortization of goodwill		—		4,557
Other extraordinary losses		62		271
Total extraordinary losses		774		5,695
Income before taxes and other adjustments		64,283		67,902
Corporate tax, inhabitant tax and business tax		9,763		13,075
Adjustments on corporate tax, etc.		5,608		10,830
Total corporate tax, etc.		15,371		23,905
Income before minority interests		48,912		43,996
Minority interests		5,790		5,780
Net income	¥	43,121	¥	38,216

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

Unicharm Corporation and Subsidiaries

Years Ended March 31, 2014 and 2013

	Millions of yen			
	2014		2013	
Income before minority interests	¥	48,912	¥	43,996
Other comprehensive income				
Unrealized gains (losses) on available-for-sale securities		3,455		1,422
Gains (losses) on deferred hedges		11		30
Foreign currency translation adjustment		19,602		20,142
Total other comprehensive income		23,070		21,595
Comprehensive income	¥	71,982	¥	65,592
Of which:				
Comprehensive income attributable to owners of the parent	¥	61,897	¥	55,596
Comprehensive income attributable to minority interests		10,084		9,995

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

Unicharm Corporation and Subsidiaries

Year Ended March 31, 2013

(Millions of Yen)

	Shareholders' Equity				
	Capital Stock	Additional paid-in capital	Retained earnings	Treasury shares	Total shareholders' equity
Balance as of the end of the preceding consolidated fiscal year	15,992	18,802	238,568	(52,925)	220,437
Balance as of the end of the consolidated fiscal year					
Payment of dividends			(6,080)		(6,080)
Net income			43,121		43,121
Acquisition of treasury shares				(11,001)	(11,001)
Disposal of treasury shares		10,979		20,897	31,877
Changes (net amount) of items other than shareholders' equity during the consolidated fiscal year					
Total changes during the consolidated fiscal year	—	10,979	37,041	9,895	57,917
Balance as of the end of the consolidated fiscal year	15,992	29,782	275,609	(43,030)	278,354

	Accumulated other comprehensive income						Subscription rights to shares	Minority interests	Total net assets
	Unrealized gains (losses) on available-for-sale securities	Gains (losses) on deferred hedges	Land revaluation difference	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance as of the end of the preceding consolidated fiscal year	4,180	(13)	(157)	(11,372)	—	(7,362)	958	29,174	243,207
Balance as of the end of the consolidated fiscal year									
Payment of dividends									(6,080)
Net income									43,121
Acquisition of treasury shares									(11,001)
Disposal of treasury shares									31,877
Changes (net amount) of items other than shareholders' equity during the consolidated fiscal year	3,455	(6)	—	15,327	—	18,776	(281)	9,581	28,076
Total changes during the consolidated fiscal year	3,455	(6)	—	15,327	—	18,776	(281)	9,581	85,993
Balance as of the end of the consolidated fiscal year	7,635	(20)	(157)	3,955	—	11,413	677	38,755	329,201

Year Ended March 31, 2014

(Millions of Yen)

	Shareholders' Equity				
	Capital Stock	Additional paid-in capital	Retained earnings	Treasury shares	Total shareholders' equity
Balance as of the end of the preceding consolidated fiscal year	15,992	29,782	275,609	(43,030)	278,354
Balance as of the end of the consolidated fiscal year					
Payment of dividends			(6,851)		(6,851)
Net income			38,216		38,216
Acquisition of treasury shares				(12,002)	(12,002)
Disposal of treasury shares		16,603		33,922	50,525
Changes (net amount) of items other than shareholders' equity during the consolidated fiscal year					—
Total changes during the consolidated fiscal year	—	16,603	31,365	21,919	69,888
Balance as of the end of the consolidated fiscal year	15,992	46,385	306,974	(21,110)	348,242

	Accumulated other comprehensive income						Subscription rights to shares	Minority interests	Total net assets
	Unrealized gains (losses) on available-for-sale securities	Gains (losses) on deferred hedges	Land revaluation difference	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance as of the end of the preceding consolidated fiscal year	7,635	(20)	(157)	3,955	—	11,413	677	38,755	329,201
Balance as of the end of the consolidated fiscal year									
Payment of dividends									(6,851)
Net income									38,216
Acquisition of treasury shares									(12,002)
Disposal of treasury shares									50,525
Changes (net amount) of items other than shareholders' equity during the consolidated fiscal year	1,422	23	—	17,162	(4,128)	14,480	(381)	18,963	33,062
Total changes during the consolidated fiscal year	1,422	23	—	17,162	(4,128)	14,480	(381)	18,963	102,951
Balance as of the end of the consolidated fiscal year	9,058	2	(157)	21,118	(4,128)	25,893	295	57,719	432,152

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

Unicharm Corporation and Subsidiaries

Years Ended March 31, 2014 and 2013

	Millions of yen			
	2013		2014	
Cash flows from operating activities:				
Income before taxes and other adjustments	¥	64,283	¥	67,902
Depreciation charges		16,814		22,101
Amortization of goodwill		4,239		9,203
Receipt of interests and dividends		(1,211)		(1,664)
Payment of interests		284		358
Foreign exchange losses (gains)		(6,117)		(1,422)
Losses (gains) on sale of tangible fixed assets		566		813
Losses (gains) on change in equity		—		(4,745)
Decrease (increase) in trade receivables		(4,436)		(3,542)
Decrease (increase) in inventories		(7,344)		(3,017)
Increase (decrease) in trade payables		5,690		21,872
Increase (decrease) in other current liabilities		3,151		(59)
Other		2,416		(2,188)
Sub-total		78,336		105,609
Interests and dividends received		1,222		1,635
Interests paid		(322)		(347)
Refunds of corporate taxes, etc. received		1,393		266
Corporate taxes, etc. paid		(11,871)		(13,013)
Proceeds from insurance income		—		100
Proceeds from compensation for removal		—		1,408
Cash flows from operating activities	¥	68,758	¥	95,659
Cash flows from investing activities:				
Payments into time deposits	¥	(20,543)	¥	(11,182)
Proceeds from withdrawal of time deposits		12,360		14,267
Expenditure on acquisition of marketable securities		(6,798)		—
Income from sale and redemption of marketable securities		10,198		—
Expenditure on acquisition of tangible fixed assets		(47,875)		(58,738)
Income from sale of tangible fixed assets		170		44
Expenditure on acquisition of intangible fixed assets		(836)		(1,187)
Expenditure on acquisition of investment securities		(11)		(168)
Other		30		(1,255)
Cash flows from investing activities	¥	(53,304)	¥	(58,220)
Cash flows from financing activities:				
Increase (decrease) in short-term loans payable	¥	(2,029)	¥	805
Expenditure on repayment of long-term debt		(12,874)		(2,223)
Redemption of convertible bonds		—		(5,630)
Expenditure on acquisition of treasury shares		(11,001)		(12,002)
Dividends paid		(6,078)		(6,849)
Dividends paid to minority shareholders		(1,078)		(1,182)
Income from payments by minority shareholders		519		12,384
Proceeds from exercise of stock option		4,048		2,443
Other		(159)		(251)
Cash flows from financing activities	¥	(28,653)	¥	(12,505)
Currency translation effect on cash and cash equivalents	¥	5,484	¥	4,353
Increase (decrease) in cash and cash equivalents	¥	(7,714)	¥	29,286
Amount of cash and cash equivalents outstanding at beginning of period	¥	75,926	¥	68,211
Amount of cash and cash equivalents outstanding at end of period	¥	68,211	¥	97,498