

Integrated Report **2019**
(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 solve issues faced by society worldwide. Given this objective, we publish Integrated Reports referencing the International Integrated Reporting Framework developed by the International Integrated Reporting Council (IIRC). Our goal is to provide more non-financial information to stakeholders, helping them gain a more detailed picture of the links between our strategies and the social impact of our business. With our Integrated Report 2019, we have overhauled report content in order to provide more basic information about Unicharm, such as corporate history, business activities and strengths, and explain how our efforts to solve issues faced by society are connected to the Sustainable Development Goals (SDGs). In principle, we do not produce hard copies of this report, which is only available on our corporate website to minimize environmental impact.

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

* Detailed financial information is disclosed in securities filings, while detailed non-financial information can be found in CSR Reports.



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: "Blossoming"

By Kazuilo

"I'm still developing and searching for my style. I hope to find my own artistic voice."

Message from the President

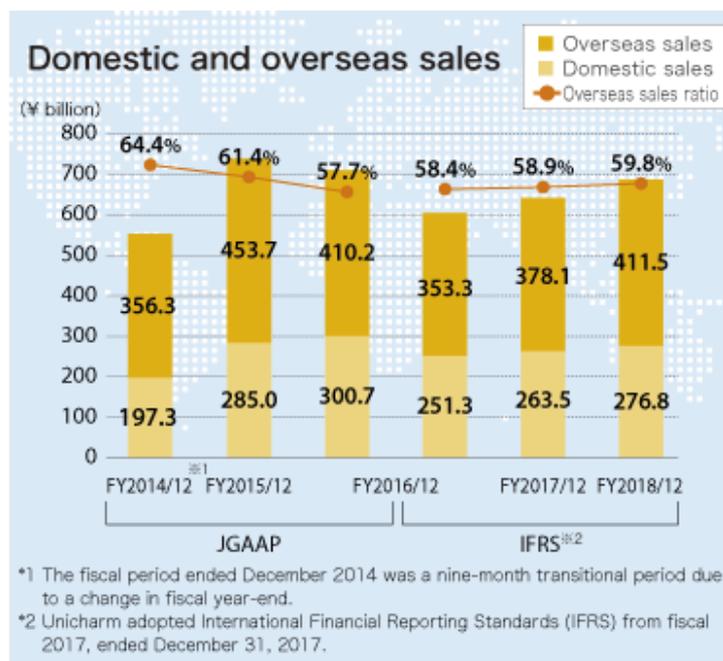


Takahisa Takahara
President and CEO

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 sales and core operating income, better profitability

In fiscal 2018, ended December 31, 2018, Unicharm reported record net sales and core operating income. Net sales rose ¥46.6 billion (7.3%) year on year to ¥688.3 billion and core operating income increased ¥8.3 billion (9.5%) to ¥95.1 billion. Profitability also improved. In domestic operations, exports to China increased, supported by continued firm demand for products made in Japan, while our shift to high value-added products underpinned high margins. In Asia, we achieved strong rates of growth in China, Vietnam and India, our business in India was consistently profitable and profit margins in Indonesia improved. Those factors helped absorb the impact of higher marketing expenses, distribution costs and input prices, supporting a 0.3 percentage point rise in the core operating income margin to 13.8%. We also made good progress toward the targets in our 10th Medium-term Management Plan (ending December 31, 2020) – net sales compound annual growth rate (CAGR) of 7%, core operating income margin of 15% and ROE of 15%.



After starting out in 1961 as a manufacturer and supplier of building materials, we switched our focus in 1963 to making and selling sanitary napkins, with the aim of helping to make life better and more comfortable for women. In addition to building materials, we moved into a range of other business fields, including early childhood education, wedding services and holiday resorts. In the 2000s we started overhauling that diverse business portfolio, focusing on areas where we could harness our nonwoven fabric and absorbent material processing and molding technologies developed for feminine care products. Today, Unicharm channels its business resources into disposable baby diapers, adult incontinence care products, household products and pet care products – all areas where we can leverage our nonwoven fabric and absorbent material processing and molding technologies. We now serve a diverse range of customers in roughly 80 countries and regions worldwide. Our goal is to continue generating sustained growth, motivated by our desire to “maintain our No.1 position through continued and dedicated service.”

Plenty of scope for further growth in nonwoven fabric and absorbent material products

The types of products we supply are indispensable for hygienic and healthy lives, and demand for them is expanding worldwide. In developed countries, demand is growing for adult incontinence care products and pet care products as societies age. In emerging countries, economic expansion is spurring an increase in the number of people using feminine care products and disposable baby diapers. Rising income levels in Asia are also behind growing demand for high value-added products. In 2019 we completed construction of our fourth domestic plant, the first to be built since 1993. The new plant in Fukuoka Prefecture, Kyushu, has been built to address rising demand for high-quality products made in Japan and projected growth in demand for our products in countries in Asia, which face the same issue of aging populations as Japan and China. The new plant will also help minimize disruption to our operations in the event of a large earthquake or other major natural disaster. We see enormous potential for our products worldwide, as there are still plenty of blank spaces in our global market coverage in both emerging and developed countries.

Our corporate philosophy and 10th Medium-term Management Plan

The world faces a diverse array of social challenges highlighted by the Sustainable Development Goals (SDGs) and COP21, such as aging populations and declining birthrates in Japan and other developed countries, global environmental issues, and poverty and hygiene issues in emerging countries. Helping to resolve these challenges through our core business, by focusing on achieving sustainability with an emphasis on environmental, social and governance (ESG) factors, coincides with efforts to fulfill our corporate philosophy of NOLA & DOLA (Necessity of Life with Activities & Dreams of Life with Activities). NOLA & DOLA embodies our vision of helping people worldwide lead richer lives and fulfill their dreams by offering a wide range of products for babies through to the elderly that make life easier by supporting the mind and the body. Our mission is to “continually support people’s lives and dignity.” Guided by our NOLA & DOLA philosophy, we are working to help build cohesive societies where all generations live alongside each other, providing support and assistance. To achieve that goal, we have incorporated specific action plans into our current 10th Medium-term Management Plan. Looking back over the years since Unicharm was founded in 1961, we have achieved a measure of success in eliminating discomfort that people face in their lives every day, as expressed by the NOLA part of our corporate philosophy. However, we still have much work to do to address DOLA – helping to make their dreams a reality. To achieve DOLA, we first need to attain the goals in our 10th Medium-term Management Plan and generate sustained growth. Specifically, we aim to leverage digital technologies, carefully monitor and adapt to consumers’ changing values, work towards the SDGs and realize our vision of cohesive societies.

10th Medium-term Management Plan (Based on IFRS)



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

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

Stepping up our response to changes in the business environment with a new management model based on the OODA loop

We have updated our management approach to match the new realities of our operating environment. We previously used the SAPS Model, which was based on a weekly plan-do-check-act (PDCA) cycle. However, amid advances in IT and globalization, changes in our operating environment worldwide have exceeded our previous assumptions. With constant change now the “new normal,” we realized that the Group was unable to respond flexibly using the existing SAPS Model, which was developed at a time when such extreme changes in the operating environment were not anticipated. To respond to the ever-changing conditions, we need to constantly improvise our approach by taking action based on developments in the business environment, rather than spending too much time on planning. Under our new management model based on the observe-orient-decide-act (OODA) loop, we start by observing the situation then responding flexibly to conditions, without putting too much emphasis on the planning phase. Also, we need to drill deep into the reasons for changes in the operating environment, rather than just passively monitoring the situation. To help us make the right decisions about actions we need to take with the OODA loop, all our employees need to fine-tune their senses and use their powers of intuition from years of frontline business experience to anticipate changes in the operating environment. Under the OODA loop management model, we will continuously and carefully observe consumers and use any insights to rapidly adjust our product and service lineup, aiming to ultimately build cohesive societies that empower people of all generations.

Protecting the global environment and reinforcing governance

As a manufacturer of consumable goods, Unicharm takes its responsibility as a supplier of disposable products very seriously. We also have to take environmental factors into account in our manufacturing activities. That’s why we formulated and are implementing our Eco Plan 2020 medium-term environmental targets. Specifically, we aim to do our part to solve a range of high-profile environmental issues, such as building recycling-oriented societies that generate less waste, promoting sustainable procurement that takes into account resource use, and mitigating the impact of climate change across the entire value chain. In particular, we are focusing on extracting and reusing resources from used disposable diapers to help create a sustainable, recycling-oriented society. Through our research efforts, we have succeeded in creating technology that extracts pulp and superabsorbent polymer from used disposable diapers and restores them to a quality higher than unused materials. We are currently testing the recycling process in a joint demonstration trial with the City of Shibushi in Kagoshima Prefecture with a view to establishing it as a viable recycling system in Japan and overseas.

We formulated the Unicharm Group Policy on Human Rights and the Unicharm Group Sustainable Procurement Guidelines in 2017. Based on those documents, we are working with business partners to fulfill our shared corporate social responsibility. As part of our efforts to mitigate the impact of climate change, Unicharm signed up to the Science-based Targets (SBT) initiative in June 2018, referencing recommendations from the Task Force on Climate-related Financial Disclosures (TCFD). Going forward, we will flesh out our next Eco Plan 2030 and fulfill our corporate social responsibility.

To meet the expectations of stakeholders from a global perspective, Unicharm moved to an audit & supervisory committee corporate governance structure in 2015 in order to reinforce supervision of executive actions by the Board of Directors and to improve transparency and efficiency in decision-making processes through greater involvement of outside directors in oversight. Also, at the Annual General Meeting of Shareholders in March 2019, we adjusted the composition of the Board of Directors to increase the ratio of independent outside directors to one-third of the board. In addition, we appointed outside directors to chair the Nomination Committee and the Remuneration Committee, which are each composed of two independent outside directors, one representative director and one non-executive director. Our aim is to increase objectivity in decision-making processes and to further separate management oversight and executive functions.

Paying stable returns to shareholders

At Unicharm, one of our top priorities 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 the business to drive growth.

For fiscal 2018, ended December 31, 2018, we paid a full-year dividend of ¥24.00 per share, an increase of ¥4.00 from the previous fiscal year, in line with our initial dividend forecast. We have now raised the dividend for 17 consecutive fiscal years.

In fiscal 2019, 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 ¥28.00 per share for fiscal 2019, an increase of ¥4.00 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 2019

Takahisa Takahara

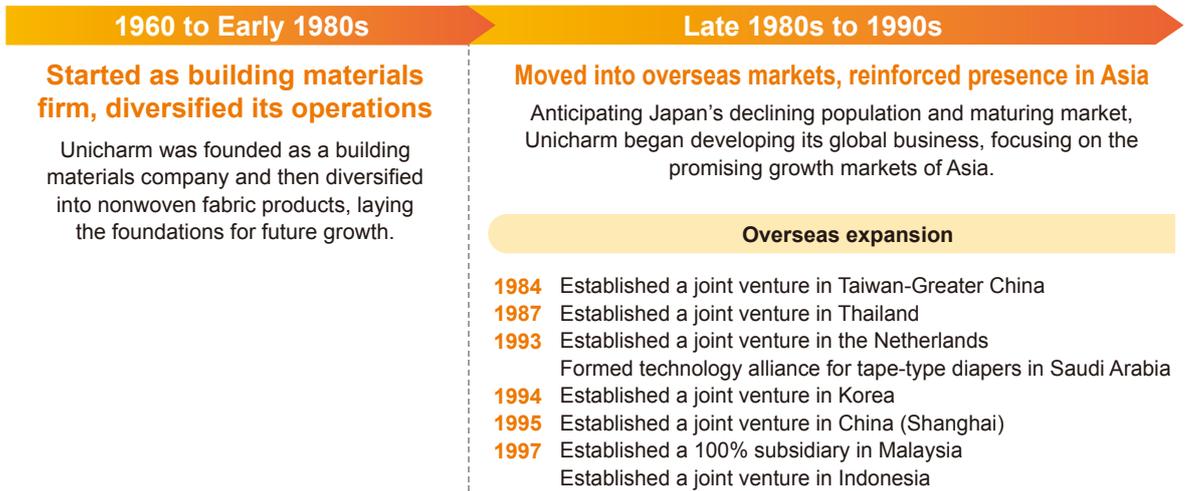
President and CEO



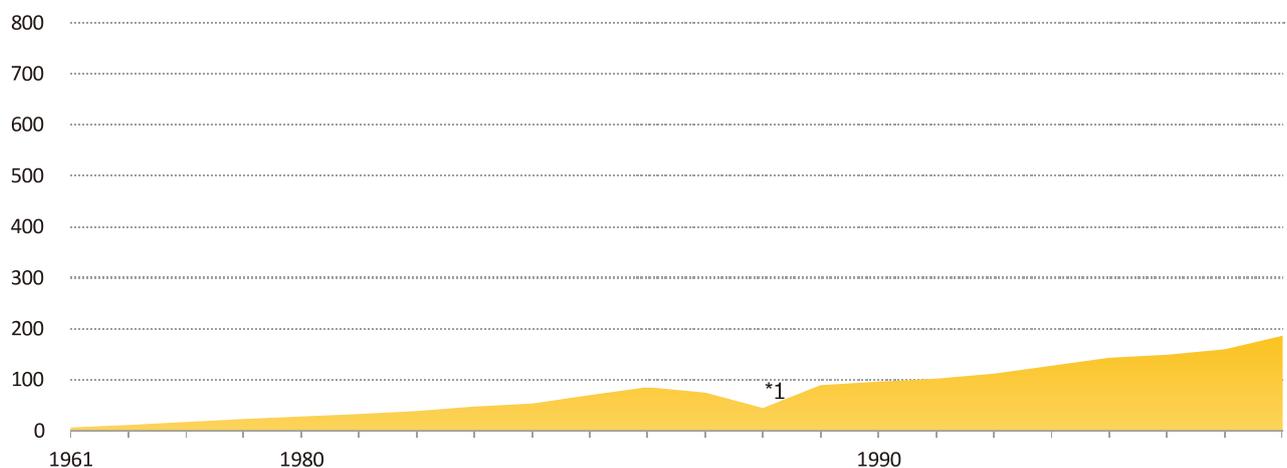
About Unicharm

Unicharm's Growth Story

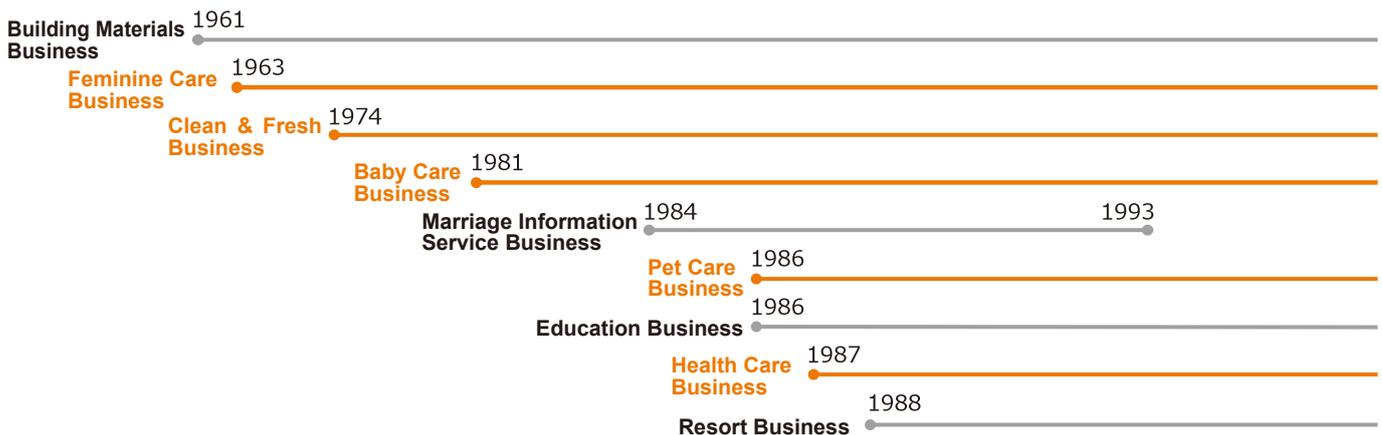
Since becoming a manufacturer of feminine care products in 1963 with the start of sanitary napkin production and sales, Unicharm has led the industry as a pioneer, developing numerous innovative technologies and products. In addition to Unicharm's original business of building materials, we moved into a range of other business fields, including early childhood education, wedding services and holiday resorts. In the 2000s we started overhauling that diverse business portfolio, focusing on areas where we could harness our nonwoven fabric



Long-term sales trends (¥ billion)



*1 The fiscal period ended March 1988 was a six-month transitional period due to a change in fiscal year-end.



and absorbent material processing and molding technologies developed for feminine care products. Unicharm has also moved into baby care products, health care products and household products, extending its reach into a wider range of everyday areas to support people involved in childcare, nursing care and housework. Anticipating Japan's maturing market, Unicharm also actively started developing its overseas operations in the 1980s. Unicharm now has a presence in more than 80 countries worldwide.

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



2000s **2010s**

Tightened business focus, rebuilt foundations for growth

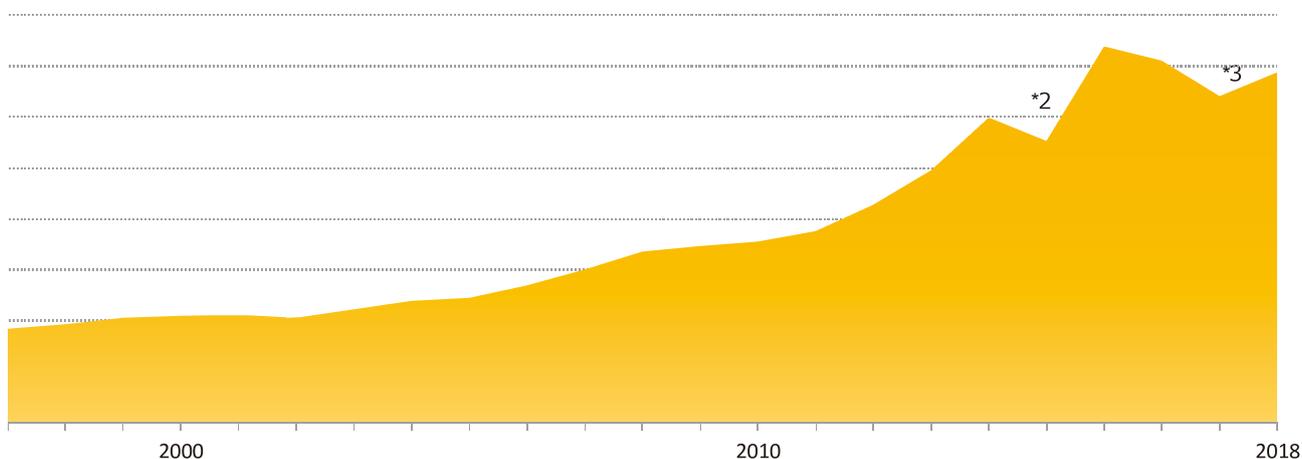
Unicharm channeled business resources into nonwoven fabric and absorbent material products and rebuilt its foundations for growth, while also accelerating business expansion in Asia.

Stepping up growth through further globalization

Unicharm is accelerating growth, driven by dramatic expansion in the Asia market. It is also moving into Africa and South America.

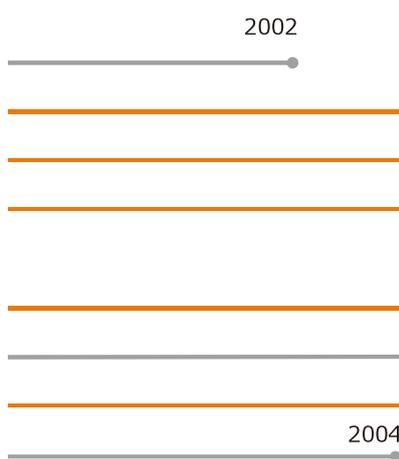
Overseas expansion

- | | |
|---|--|
| <ul style="list-style-type: none"> 2002 Established a joint venture in the Philippines 2005 Gulf Hygienic Industries of Saudi Arabia was made a subsidiary 2006 Established a 100% subsidiary in Vietnam
Established a joint venture in Korea 2008 Acquired Australian Pacific Paper Products and made it a wholly owned subsidiary
Established a wholly owned subsidiary in India
Wholly owned subsidiary established in Russia by joint venture Unicharm Mölnlycke Rus LLC 2009 Wholly owned subsidiary established in U.S. by joint venture Unicharm Mölnlycke Rus LLC | <ul style="list-style-type: none"> 2010 Established a consolidated subsidiary in Egypt 2011 Acquired Sumitomo Corporation's 51% stake in U.S. pet-care products supplier, The Hartz Mountain Corporation Acquired Diana Joint Stock Company, a manufacturer and supplier of hygiene products in Vietnam 2013 Acquired Myanmar Care Products Limited, a manufacturer and supplier of hygiene products in Myanmar 2014 Established a joint venture in Brazil 2018 Acquired DSG International (Thailand) Public Company Limited, which has business sites in Thailand, Malaysia, Indonesia and Singapore |
|---|--|



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

*3 Unicharm adopted International Financial Reporting Standards (IFRS) from fiscal 2017, ended December 31, 2017.



About Unicharm

Unicharm's Business Expansion

Unicharm operates businesses in roughly 80 countries and regions around the world. The types of products we sell are indispensable for hygienic and healthy lives, and demand for them is expanding in many regions worldwide. Thanks to our position as a specialist manufacturer, we can supply high value-added products that are popular with consumers in Japan and overseas.



Personal Care Business

Baby Care Business

Major products

Disposable baby diapers



Market share in key regions

Japan No. 1 	China No. 4	Indonesia No. 1
Thailand No. 1 	Vietnam* No. 1 	India No. 2
Saudi Arabia No. 2 	*6 major cities: Hanoi, Hai Phong, Danang, Nha Trang, Ho Chi Minh City and Cantho	

Feminine Care Business

Major products

Feminine care products

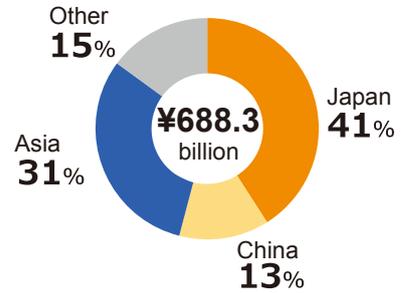


Market share in key regions

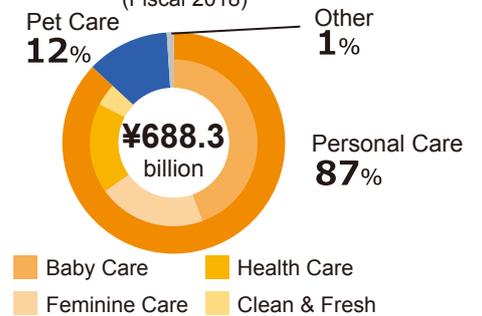
Japan No. 1 	China No. 2 	Indonesia No. 1
Thailand No. 1 	Vietnam* No. 1 	
*114 major cities		



Net sales by geographic area (Fiscal 2018)



Net sales by business segment (Fiscal 2018)



Health Care Business

Major products

Adult incontinence care products



Market share in key regions

Japan
No. 1

Thailand
No. 1

Taiwan-Greater China
No. 1

Indonesia
No. 1

Vietnam*
No. 1

*6 major cities: Hanoi, Hai Phong, Danang, Nha Trang, Ho Chi Minh City and Cantho

Clean & Fresh Business

Major products

Home care products



Market share in key regions

Japan
Wet tissue
No. 1



Japan
Cosmetic puffs
No. 1



Pet Care Business



Major products

Pet food and pet toilet care products



Market share in key regions

Japan
Pet toiletry
No. 1



Japan
Pet food
No. 2



U.S.
Pet toiletry

No. 1



(Unicharm research, 2018)

About Unicharm

Unicharm's Business Model

Unicharm makes maximum use of its own business resources, combining them in organic ways. We channel business resources into nonwoven fabric and absorbent material businesses, while our high-achieving personnel develop highly competitive products tailored to the needs of each market and region worldwide. Cash flow generated by those products is reinvested in growth businesses, creating a positive cycle.

Utilizing nonwoven fabric and absorbent material technology to the fullest

Focusing on nonwoven fabric and absorbent material businesses + α



Our goal is to help solve issues faced by society by offering new value to consumers ahead of competitors. Specifically, we want to create value by adding services to our existing lineup of high value-added products that incorporate our nonwoven fabric and absorbent material processing and molding technologies. We also plan to protect and leverage our intellectual property and increase patent applications in overseas markets as part of global expansion, based on our industry-leading rates for patent application and registration.

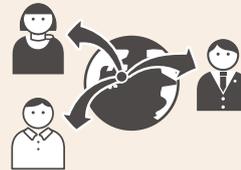
R&D costs
in fiscal 2018
¥6,621 million

Intellectual capital

Natural capital

Training highly skilled staff to develop products for consumer needs

Appointing "resonant personnel" to overseas positions



To ensure our expansion into overseas markets has a greater chance of success, we are actively appointing internationally minded "resonant personnel" with a deep understanding of Unicharm's DNA, corporate culture and strategies to positions overseas. Those personnel are increasing our chances of success overseas by transferring our winning patterns from Japan and adapting them to the cultures and needs of overseas markets. To retain those employees, we communicate closely with them through frontline on-the-job (OJT) training and train up the next generations of "resonant personnel."

Actively using the insights of Millennials

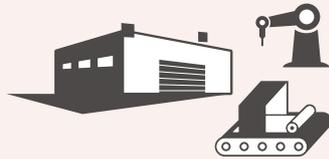


The Millennial generation is a demographic cohort born between 1982 and 2000 and is seen as having distinctly different values. Also known as Millennials, this group is increasingly driving consumption in markets today. In response to that trend, we have selected a group of Unicharm employees in their 20s and 30s and are reflecting their unique insights in management strategy.

Human capital

Building closer links with consumers in around 80 countries and territories

Building a production framework to meet rising demand



We are expanding our production sites and optimizing our manufacturing framework to address rising demand for our products. We are also pushing ahead with the development of smart factories, which will combine Unicharm's unique technologies and know-how with the latest advances in AI, IoT and robotics.

**Capital outlay
in fiscal 2018
¥42,232 million**

Empowering women and increasing brand value



In countries and regions where there is poor understanding about menstruation and a lack of social infrastructure, we are working with governments and local NGOs to help women play a greater role in society. Those efforts also help to increase recognition of the Unicharm name overseas and improve our brand image.

Social capital

Teaming up with leading wholesalers overseas

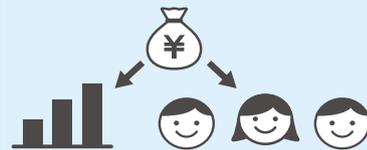


We are rapidly expanding our sales areas overseas by building strong networks with leading wholesalers in local markets and promoting early uptake of our products.

Production capital

Maximizing stable cash flow

Actively investing in growth and paying stable returns to shareholders



To ensure Unicharm regularly captures major business opportunities, we actively allocate management resources to growth business. Also, by improving profitability, we aim to increase return on equity (ROE) to 15% or higher by 2020 and consistently increase shareholder returns, aiming for a total return ratio of 50%.

Financial capital

Special Feature: A Discussion about Product Development

Earnings have been firm in the feminine care business for the last few years. Sales growth is being driven by many new products, some of which have been developed overseas, as well as in Japan. To explore those trends, we talk to Chikara Oka, the executive officer in charge of the global feminine care business, and Yuki Noda, who heads product development in the business.



Chikara Oka

Executive Officer
General Manager, Global Feminine Care Division

Since joining Unicharm in 1987, Chikara Oka has built a 25-year career in marketing, mainly in the baby care and feminine care businesses. He also spent eight years working for Unicharm in China, returning in 2017.

Yuki Noda

Department Manager, Research & Development
Department, Global Feminine Care Division

Yuki Noda has exclusively focused on feminine care product development in the 21 years since he joined Unicharm in 1998. He also has experience in materials development.

How product development supports the strong-performing Feminine Care Business

New product ideas born from consumer needs and market insights

Noda Unicharm adopted a new division structure in January 2019. Under the new structure, all feminine care business functions, from marketing through to product development, are carried out by the global feminine care business division. It's only been a few months since we moved to the new structure, but what are your impressions?

Oka Marketing teams and product development teams have always communicated closely with each other, but bringing them under the same organization has increased the time they work together, further improving communication. Marketing teams focus on consumer needs, while development teams are interested in getting ideas for new products from market insights. Approaching discussions from those two different angles deepens understanding of consumers, leading to new product ideas. In that sense, I think the new structure is having a positive impact.

Noda I agree, the reorganization has removed walls between different departments. Development and marketing teams have become open, creating a culture where they are freer to speak their minds while also respecting the specialist knowledge of their counterparts.

Oka To give an example, marketing personnel are now more likely to pick up the phone and speak to the development team if they see something that catches their eye in product development test results. If the topic is hard to discuss over the phone, they can use video conferencing instead. In some cases, production staff and engineers also take part in discussions, helping to enhance communication. Dialogue between teams in different countries is also one of Unicharm's strengths. Marketing and development teams both actively encourage locally hired overseas staff to provide their opinions on products, such as what improvements need to be made to help products sell better or satisfy customers in local markets. I think that kind of communication is one of the reasons Unicharm has developed so many successful products overseas.



Using three perspectives in product development

Noda We have to use three different perspectives in product development – insect, bird and fish. Let me explain. First, our local subsidiaries need to have the eyes of insects to minutely observe consumer habits in each country and region. Second, head office needs to have the overarching view of birds to see and learn from successes and failures when product ideas are transferred to other markets. Third, and most importantly, local subsidiaries and head office need to share their knowledge, using the eyes of fish to rapidly see any changes in the tide of consumer behavior. By working closely and diligently together, local subsidiaries and head office can identify potential needs, helping us to consistently develop products that match the requirements of local markets.

Oka With marketing we have to accurately understand what drives local consumers. By visiting overseas subsidiaries and talking with local staff, head office can get a more accurate picture of actual conditions on the ground in local markets.

Noda But if we stay in certain areas too long, we can become biased with preconceived notions, preventing us from noticing small changes in the environment. As a company keeping an eye on global markets, Unicharm head office needs to be able to identify what features of a market are unique to that country and suggest products that are more likely to satisfy local needs. One of head office's key roles is to guide local product development to ensure it heads in the right direction.

Know, discuss and think about markets

Noda What approach do you take when visiting local markets?

Oka I think it's important to thoroughly know, discuss and think about markets. Observing how local consumers live and shop gives us insights into new product ideas.

Noda Over the last year, we've had more opportunities to visit overseas markets together. On many occasions, I've seen you go into local retailers, and in an instant, get a picture of what's happening in the market and the state of the competition, simply by looking at products on the shelves. You then pass on insights about what Unicharm needs to do to local marketing and product development staff. I've also seen you talk to people in stores for more than an hour. I've been impressed by your passion for the job and the sharp observations you make about local markets.

Oka Visiting local stores and businesses to understand conditions with your own eyes and ears is low-key work. But repeated visits by marketing and development staff will sharpen their senses. Things they see could leave a lasting impression, which they can discuss later with local staff and other people on their team, potentially triggering a flash of inspiration or a new product idea.

Noda That's right. Approaching issues as a challenge to be tackled could lead to new ideas that might otherwise have been overlooked.

Products that do not stand out in the market have no real value

Oka In product development, we have to predict changes in consumer habits and grasp consumers' underlying needs. Information gleaned from consumer surveys is most likely already in the hands of competitors as well, so it's very important to find ways of identifying consumers' underlying needs, which even they haven't noticed yet. To do that, we have to sharpen our instincts and senses.

Noda Indeed. In many cases survey respondents aren't completely honest with their answers. The same test product affects people in different ways – it may leak for some, but not for others. We have to look into the reasons for those issues, as well ensure consumers see that the basic non-leak, stay-dry and comfort characteristics of our products are better than those of our competitors.

Oka I agree. One of the key features of Unicharm is its complete commitment to products. We want consumers to be able to notice the quality of our products without seeing our brand on the packaging.

Noda Many of our product development engineers are craftsmen at heart. They tend to expect consumers to like their products because they've invested so much time and effort into creating them. However, developing products based on your own feelings will only lead to a stream of very similar products. That's where digital technology becomes important. Unicharm is rolling out digital technology because it gives us effective insights into consumers' subconscious needs and buying habits.

Oka If we can't develop products that stand out in the market, we won't be able to sustain sales or market share growth for any length of time. To do that, every Unicharm employee needs to realize that their individual business activities help to lift quality of life for consumers. One of Unicharm's Three DNAs is "Maintain our No.1 position through continued and dedicated service." In other words, everyone in the Company has to be committed to providing outstanding customer satisfaction at all times. That ideal will underpin trust between product development and marketing teams, allowing us to speak our minds honestly with each other.

Noda Unicharm is capable of developing innovative new materials and it can use its non-woven material processing and molding technologies to add value to products that goes beyond basic material development. That means there are plenty of business opportunities ahead for the Group.

Emphasis should be on "what's right" not "who's right"

Noda Nurturing human resources is critical to supporting Unicharm's sustained growth. What is the marketing division doing in that respect?

Oka In many cases, we use on-the-job training (OJT) for routine work. We make use of specialist training documents and manuals, but marketing is a relatively new field of study, so when we're out in the field, we tend to ask trainees what they would do when faced with certain situations. From our experience, that is the quickest way to increase employee skills.

Noda In my case, during team meetings, I put forward different opinions on purpose, hoping that my team members will take the bait and argue against me. My aim is to debate different theories but also to encourage employees to passionately assert their views. That kind of conversation helps to develop their cognitive abilities.

Oka An organization that is focused on "who's right" will never create new things. That's why it's important for everyone to be always looking for "what's right." Any organization will start to decline if it's easier to follow somebody's opinion and not think for yourself.



Sofy products never stray from what consumers want

Noda What does the feminine care business need to do to maintain its current strong performance?

Oka We have to keep offering new product ideas. Even if the price point for *Sofy* is a bit higher than rival products, consumers will probably continue to choose the brand if we can make sure they understand that *Sofy* products are always of the highest quality and the *Sofy* brand is always there for them. That price premium can then be reinvested in marketing activities that communicate the value of our products, or to support adequate investment in product development, creating a positive cycle. To achieve that, we have to identify and understand what drives consumers and what they base their decisions on.

Noda Yes, we need to know what consumers want from feminine hygiene products – for absorbency, extended stay-dry qualities, or for comfort. And we have to accurately understand why they make buying decisions and reflect that in our own products.

Oka Basic functions are important, but so are secondary functions such as design, portability and after-use disposal.

Noda Yes, the *Sofy* Cooling Fresh sanitary napkins we launched in Thailand lean more towards those secondary functions. The napkins have become hit products, thanks to a newly developed cooling sheet that eliminates stuffiness and odor and maintains a cool, fresh feeling. Products that meet consumers' high standards in basic functions, but also stand out in the market due to their secondary functions, are likely to become important in the market going forward.

Oka Our *Center-in Compact* pads are selling well in China. Women are increasingly using smaller handbags due to the shift to smartphone payments, which means feminine hygiene products also have to be more compact. Some women in China also use social media to show what products they're using, spurring demand for stylish packaging designs.

Noda If we can win the trust of consumers with our *Sofy* brand, we should be able to make them fans of other Unicharm products later in life. Going forward, we'll continue to work hard on developing new products that exceed the expectations of consumers.

Oka To identify underlying needs, we'll have to make full use of digital technology and ensure close communication between marketing and product development teams. I look forward to working with you and the product development team in the years ahead.

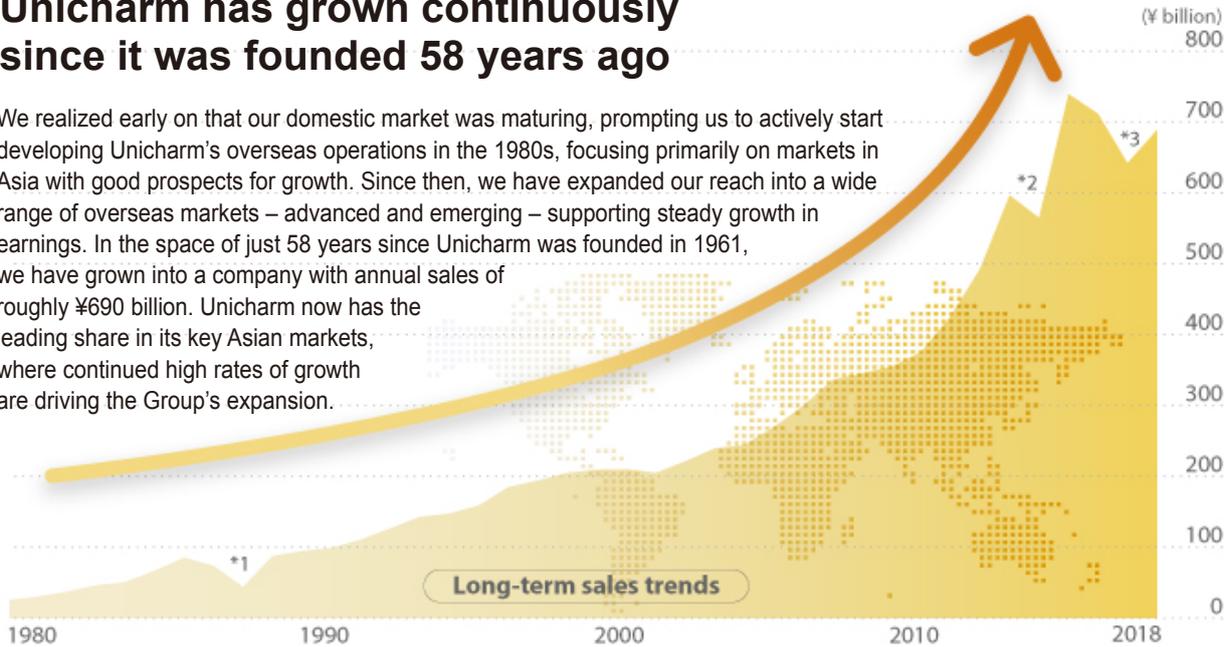


Unicharm: A Story of Sustained Growth

Chapter 1 Growth record and business overview

Unicharm has grown continuously since it was founded 58 years ago

We realized early on that our domestic market was maturing, prompting us to actively start developing Unicharm's overseas operations in the 1980s, focusing primarily on markets in Asia with good prospects for growth. 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 58 years since Unicharm was founded in 1961, we have grown into a company with annual sales of roughly ¥690 billion. Unicharm now has the leading share in its key Asian markets, where continued high rates of growth are driving the Group's expansion.



*1 The fiscal period ended March 1988 was a six-month transitional period due to a change in fiscal year-end.

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

*3 Unicharm adopted International Financial Reporting Standards (IFRS) from fiscal 2017, ended December 31, 2017.

Unicharm's corporate culture

The company can be No.1 only if it remains dedicated to providing outstanding customer satisfaction at all times. As the No.1 company, we are obliged to continue providing exceptional satisfaction that no other has ever provided. To achieve this purpose, all employees need to be united in knowledge and actions so as to continue to do our best.



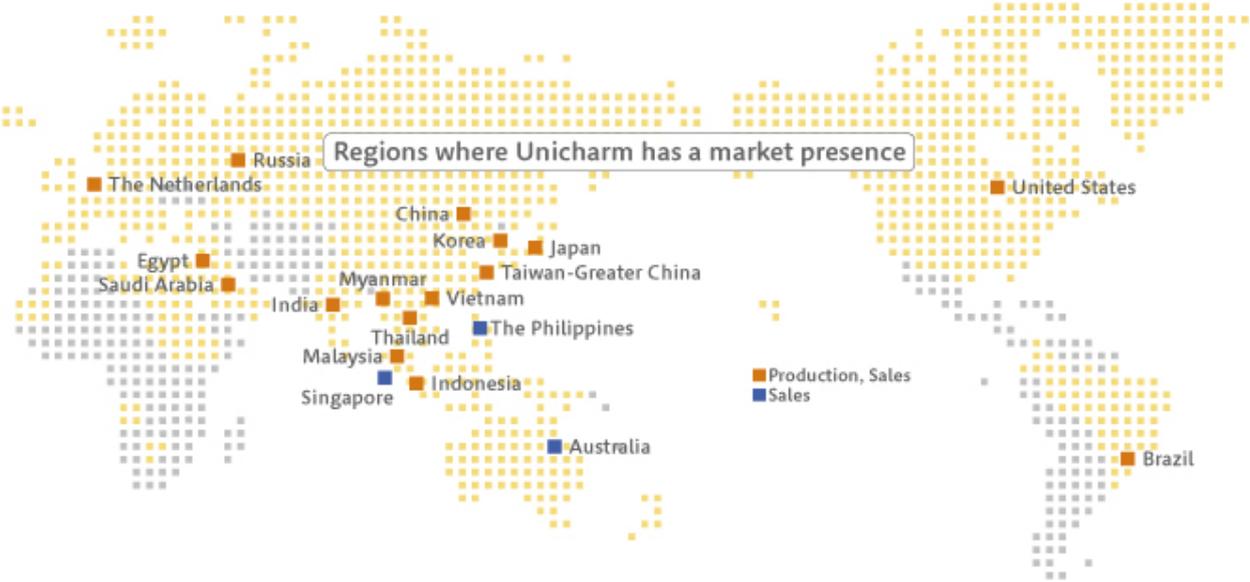
Starting out with just 24 employees in 1961, Unicharm has grown into a corporate group with more than 16,000 staff. Unicharm's activities now extend far beyond Japan, mainly focusing on Asia but also covering many regions worldwide such as the Middle East and Europe. Despite undergoing dramatic changes, Unicharm has remained true to its corporate culture and spirit from the earliest days of the Company, which have been distilled into "Three DNAs." The Three DNAs represent Unicharm's values, which underpin the Company's activities and are shared by everyone from senior management down to each employee.

Supplying indispensable products to a wide range of customers in many regions worldwide

	Infants	Young Adults	Middle-aged	Elderly	Pets
Personal Care Business					
Baby Care	●				
Feminine Care		●	●		
Clean & Fresh	●	●	●	●	
Health Care			●	●	
Pet Care Business					●

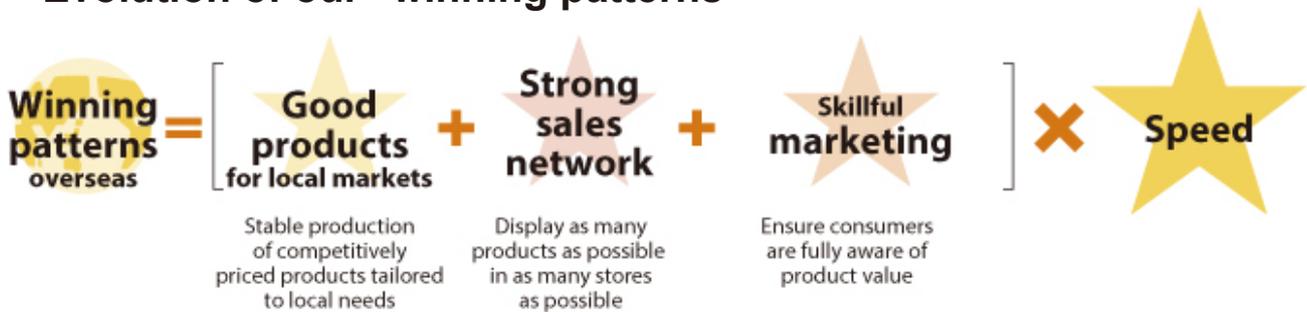
We channel management resources into nonwoven fabric and absorbent material businesses, allowing us to launch products that accurately meet customer needs ahead of rivals, thanks to our position as a specialist manufacturer. Backed by powerful technical capabilities, we supply a balanced range of products for pet owners and people of all ages – from babies to the elderly – limiting our exposure to demographic changes and supporting Unicharm’s sustained growth

A presence in roughly 80 countries and regions worldwide



Unicharm has expanded its business globally and now has a presence in around 80 countries and regions worldwide. We divide our markets into two main types based on the business model we use: direct market participation and technical support. We are investing heavily in regions with the potential for long-term growth, such as Asia, the Middle East, North Africa and South America. In those regions, we are setting up our own manufacturing and sales operations and transferring management authority to local subsidiaries, giving us the ability to respond rapidly to changes in local consumer needs. In contrast, in the large but maturing markets of North America and Europe, we are generating stable earnings by minimizing our investment outlay through technology licensing agreements with local partners.

Evolution of our "winning patterns"

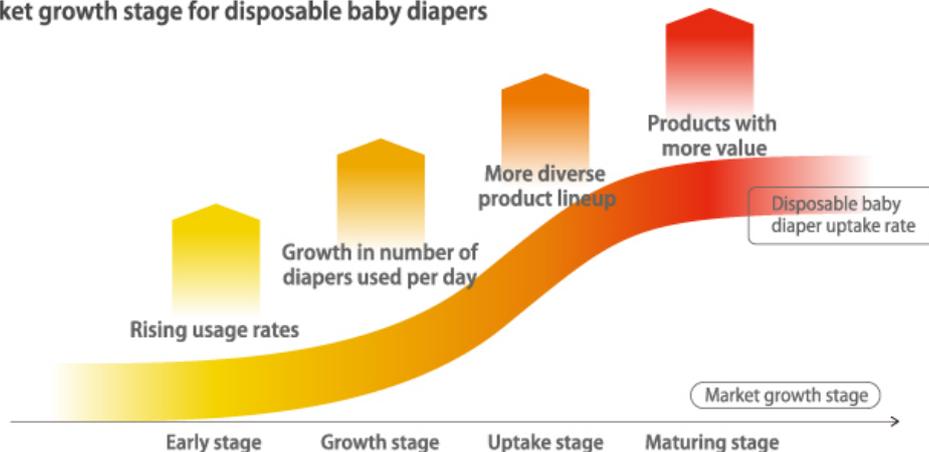


The popularity of Unicharm products in many consumer markets around the world reflects our efforts to develop products tailored to the cultures and living environments of each country and region, backed by detailed research into local lifestyles and consumption habits. At the same time, we have been working to distribute our products to as many retailers as possible and communicating the value of our product range to the fullest by working with retailers to create shopper-focused sales areas using digital technology.

To remain competitive amid rapid advances in IT and globalization, 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.

Implementing strategies for each phase of market growth

Market growth stage for disposable baby diapers



Unicharm implements clear strategies tailored to each stage of market growth: early stage, growth stage, uptake stage and mature 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.

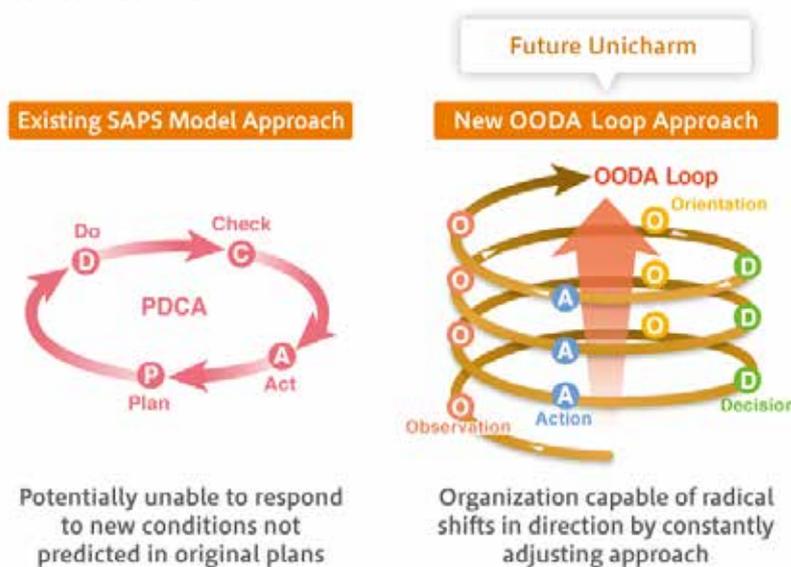
There is a close correlation between market uptake rates for nonwoven fabric and absorbent material products and per capita GDP in each country. Our research shows that uptake rates for feminine care products and disposable baby diapers jump sharply when per capita GDP exceeds \$3,000. When per capita GDP rises to a high level, uptake for feminine care products and disposable baby diapers reaches a ceiling, but market uptake increases for disposable adult diapers and pet care products. Demand for feminine care products and disposable baby diapers is currently growing across many emerging markets in Asia, Africa and South America. Going forward, we also anticipate rising demand for disposable adult diapers and pet care products in Asia, as well as in advanced markets.

Implementing our strategies using “Management with Resonance” – close cooperation between management and frontline employees



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. To ensure our business strategies have a greater chance of success, we are also nurturing internationally minded “resonant personnel” who have a deep understanding of Unicharm’s DNA, corporate culture and strategies, and actively sending them to positions overseas.

Introducing a new management approach to create an organization that “thinks on the hoof”

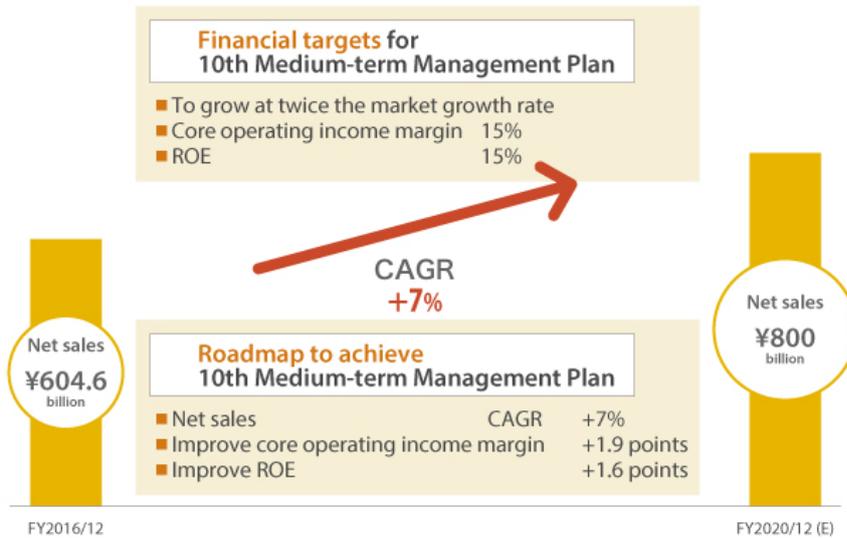


Dramatic and unexpected change on a daily basis, spurred by advances in IT and globalization, has become the “new normal” in recent years. To generate sustained growth under those conditions, we need an organization capable of radical shifts in direction. Specifically, we have to constantly adjust our approach – identifying signs of change and improvising in response to ongoing developments in the operating environment, without sticking too much to our original plans. To create that kind of organization, we have introduced a new management approach based on the observe-orient-decide-act (OODA) loop, which is an evolution of our previous SAPS Model that emphasized the plan-do-check-act (PDCA) cycle. Our aim is to create an organization where employees use their initiative to make decisions and take actions themselves, with each frontline employee assessing the situation using first-hand information from the business frontline to understand specific situations, fine-tuning their senses and combining their intuition with business experience and expertise.

Medium-term Management Plan to support sustained growth

In 2016 we formulated our 10th Medium-term Management Plan, which is designed to drive rapid growth by accelerating the globalization of our business. Under the plan, we aim to create cohesive societies and help solve issues faced by society while targeting consolidated net sales of ¥800 billion, average annual sales growth of 7%, a core operating income margin of 15% and ROE of 15%.

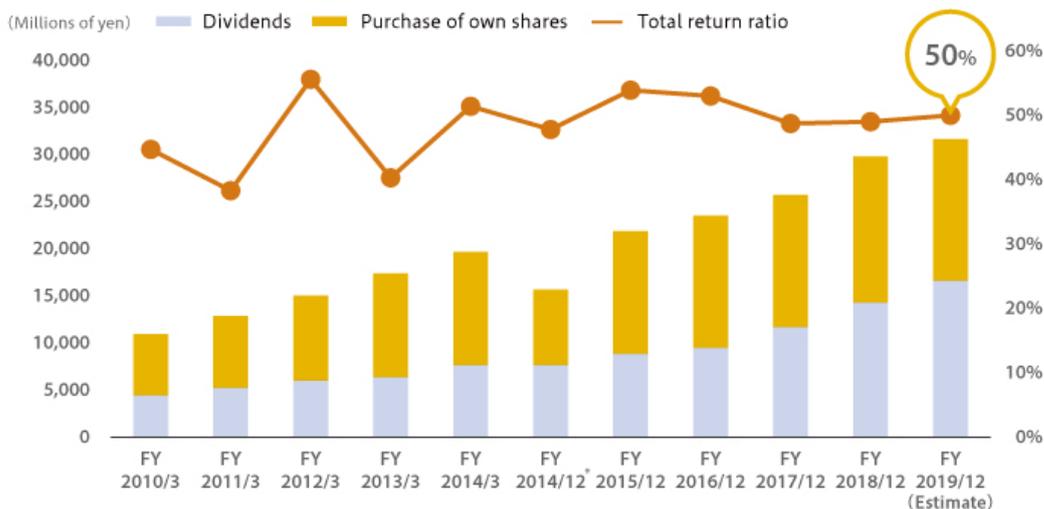
10th Medium-term Management Plan (Based on IFRS)



* CAGR (compound annual growth rate) excludes exchange rate fluctuation.
 * Businesses with already high market share grow at average market growth rate.

Maintaining our policy of paying stable returns to shareholders

As part of our Beliefs and Pledges and Corporate Principles of Action, which form the Unicharm Group's Action Guidelines, we have made a clear commitment to shareholders to operate the business in a way that meets their expectations for growth and delivers industry-leading returns to shareholders. Our basic policy on shareholder returns, which is anchored by the Action Guidelines, emphasizes two key points: the need to invest in our business to support growth over the medium to long term, and paying stable dividends to shareholders. As a result of that policy, we have raised the dividend for 17 consecutive fiscal years through to fiscal 2018, ended December 31, 2018.



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

Creating a brand that is trusted around the world

NOLA & DOLA
Necessity of Life with Activities & Dreams of Life with Activities



Guided by our corporate slogan, NOLA & DOLA, we have been working to make life more comfortable for people worldwide. Looking back over the years since Unicharm was founded in 1961, we have achieved a measure of success 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 – supplying products and services that give our customers greater enjoyment and pleasure.

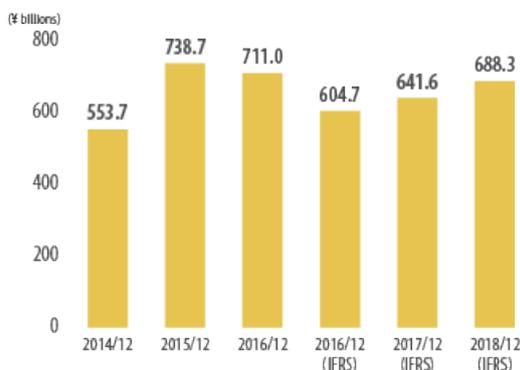
As IT becomes more advanced and consumers' buying habits become more diverse, digital technology will play a vital role in helping us accurately respond to the needs of customers. Instead of relying on our gut feelings or past experience, we will analyze buying history to visualize shopping habits and tailor marketing strategies to individual needs. Through that process, we aim to make Unicharm a trusted brand around the world.

Going forward, we will continue to provide world-first and world-leading products and services and deliver comfort, impression and satisfaction, aiming to create a cohesive society where people everywhere lead independent lives and support each other.

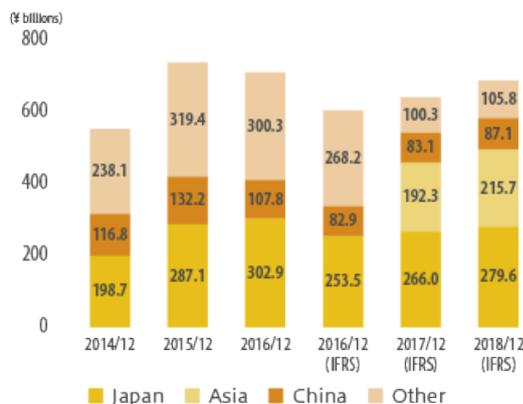
Financial and Non-Financial Highlights

Financial Highlights

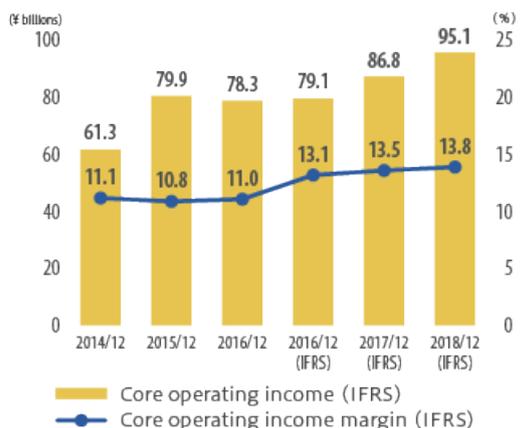
Net sales



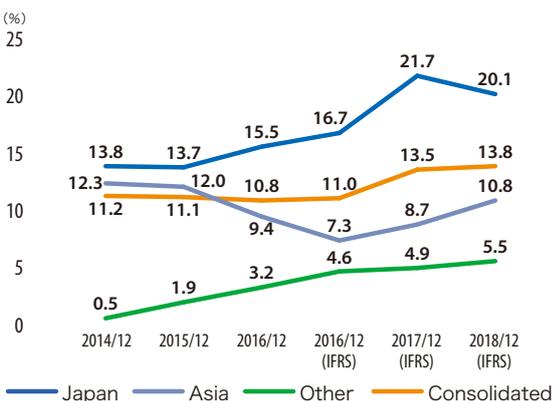
Net sales by geographic area



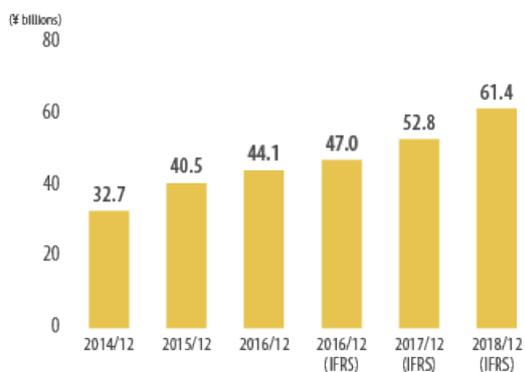
Core operating income (IFRS)/ Core operating income margin (IFRS)



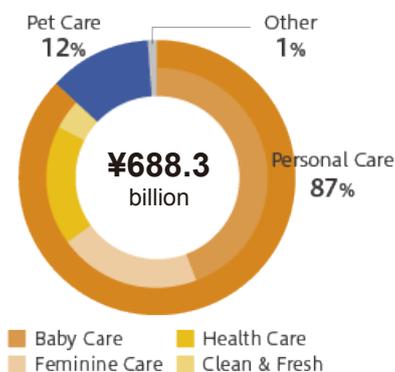
Core operating income margin by geographic area (IFRS)



Profit attributable to owners of parent (IFRS)



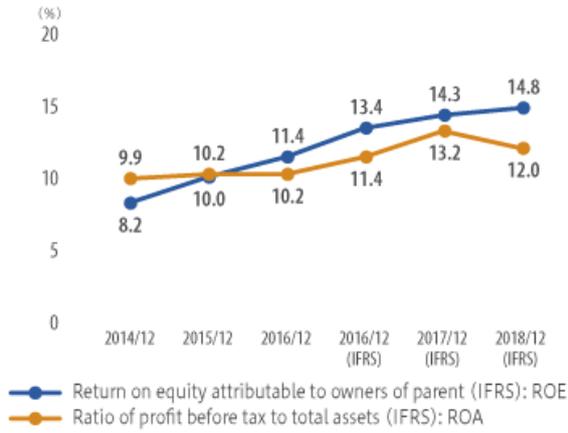
Net sales by business segment



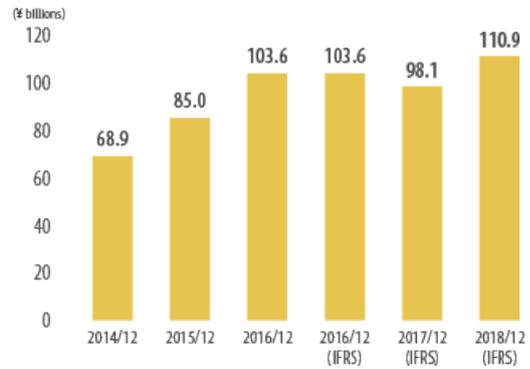
Notes:

1. Fiscal 2014, ended December 31, 2014, was a nine-month transitional period due to a change in fiscal year-end.
2. Unicharm adopted IFRS from fiscal 2017, ended December 31, 2017.
3. Core operating income is gross profit after deducting selling, general and administrative expenses.
4. The Company conducted 1-for-3 stock split on October 1, 2014. Per share data have been adjusted retroactively to reflect the impact of the stock split.

ROE, ROA



Cash flows from operating activities



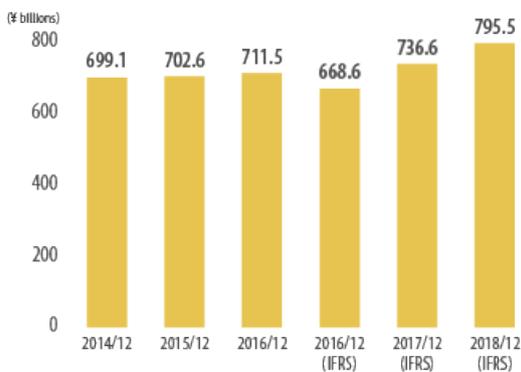
Basic earnings per share



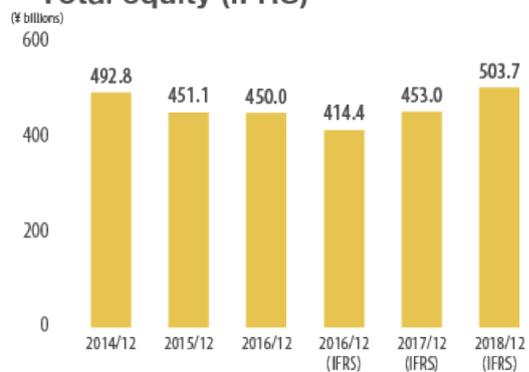
Cash dividends per share/ Consolidated dividend payout ratio



Total assets



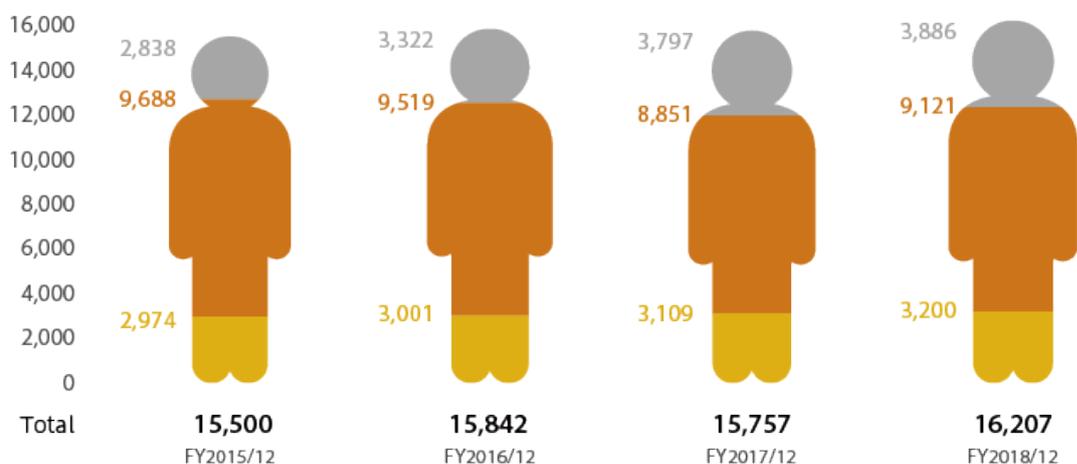
Shareholders' equity/ Total equity (IFRS)



Non-Financial Highlights

Number of employees by geographic area

 Japan
  Asia
  Other



Total Unicharm Group employees (Fiscal year ended December 31, 2018)



Ratio of female employees in Unicharm Group (Fiscal year ended December 31, 2018)



Ratio of female managers in domestic operations (Fiscal year ended December 31, 2018)



Ratio of female managers in Asia (excluding Japan) (Fiscal year ended December 31, 2018)



Total hours worked per employee (Fiscal year ended December 31, 2018)



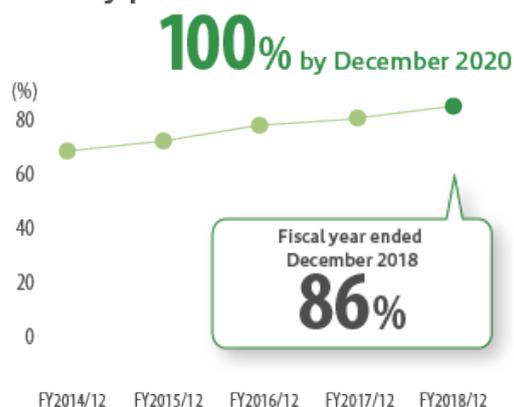
Employee turnover rate (Fiscal year ended December 31, 2018)



*Employees on the payroll of Unicharm

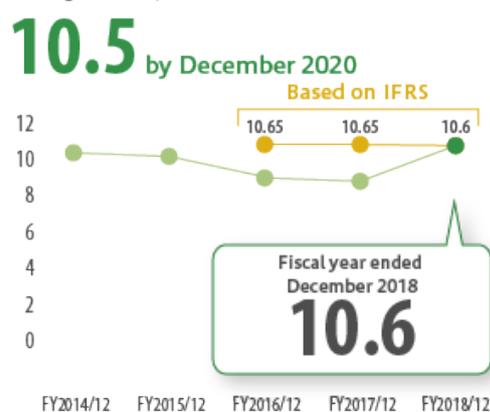
*Employee turnover rate=Number of terminated employees (except for retirement at mandatory retirement age, promotion to board members or transfer within the group) / Number of employees at the end of each fiscal year

Percentage of environmental-friendly products



CO₂ emissions volume

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



Eco Plan 2020

	Implementation Items	2015 results	2016 results	2017 results	2018 targets	2018 results	Evaluation	2019 targets	2020 targets
1 Reduction of waste	Recovery technologies for used disposable diapers Japan	Established technologies	Starting with local governments	Start experiments	Cycle model establishment	Cycle model establishment	○	Start cycle model	Full-scale operations
	Recycling of product loss Overseas	2,000 tons	2,600 tons	2,600 tons	3,000 tons	4,300 tons	○	4,000 tons	4,000 tons
2 Procurement of sustainable materials	Third-party assurance of paper and pulp suppliers Japan	82%	80%	94%	95%	95%	○	97%	100%
	Third-party assurance of paper and pulp suppliers Overseas	-	84%	87%	90%	90%	○	92%	100%
	Third-party assurance of palm oil suppliers Japan	0%	Start of investigation	Understanding completion	Performance achievement 10%	2%	×	10%	100%
3 Measures for climate change	Environmental-friendly Products Japan	72%	78%	80%	83%	86%	○	93%	100%
	Products with the Eco Charming* label Japan	50%	56%	58%	60%	66%	○	60%	60%
	Products with the Eco Charming* label Overseas	0%	Survey	Understanding completion	Operation start	Start of operation delayed	×	Operation start	10%
	CO ₂ emissions base unit during manufacturing compared to 2015 Japan	Base year	-2.4%	-4%	-6%	-6%	○	-8%	-10%
	CO ₂ emissions base unit during manufacturing compared to 2015 Overseas	Base year	-	-3%	-6%	-6%	○	-8%	-10%
	Collection of overseas site data Compared to sales	73%	77%	81%	83%	83%	○	85%	80%

* 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.

- Regarding the reduction of waste, the above assessment is based on the start of verification testing in the City of Shibushi in 2018 and the conversion of 4,300t/year of product loss during the manufacturing stage into cat incontinence care products.
- Regarding procurement of sustainable materials, forest-derived raw materials, which have received third-party certification as sustainable paper and pulp due to the cooperation of suppliers, were procured in line with plan. The above assessment for palm oil is based on the conversion of some products to different materials.
- Regarding measures to tackle climate change, we achieved our targets for reducing CO₂ emissions per unit of production for eco-friendly products at the manufacturing stage, but the use of the Eco Charming label system was halted in overseas markets, resulting in the above assessment.

Change in Business Environment and Unicharm's Approach

Unicharm's businesses play a vital role in society by supporting healthy, hygienic lives. Societies worldwide face many challenges, such as aging populations, the need for hygienic environments, and global environmental issues. We aim to help solve those challenges through our business activities, while also increasing the Group's corporate value.



Business Strategies

- Baby Care Business**
 Improving the childcare experience
- Feminine Care Business**
 Creating more freedom for women by harnessing the science of comfort
- Health Care Business**
 Helping people get more pleasure from life
- Clean & Fresh Business**
 Creating a comfortable and clean environments
- Pet Care Business**
 Creating comfortable lives for pets based on health and cleanliness

Financial Goals

Net sales	
Fiscal 2018 result	¥688.3 billion
Fiscal 2020 target	¥800 billion

CAGR (compound annual growth rate)	
Fiscal 2017-2020 target	7%

Core operating income margin	
Fiscal 2018 result	13.8%
Fiscal 2020 target	15%

ROE	
Fiscal 2018 result	14.8%
Fiscal 2020 target	15%

ESG Initiatives

E Reduce environmental impact
Cut waste in manufacturing

S Exist in harmony with local communities
Supply chain management

G OODA loop approach
Management with resonance
Compliance
Quality management

Environmental and Social Goals

Percentage of environmental-friendly products (Japan)	
Fiscal 2018 result	86%
Fiscal 2019 target	93%

Unit energy consumption (GJ) / sales (¥ millions)	
Fiscal 2018 result	10.6
Fiscal 2019 target	10.5

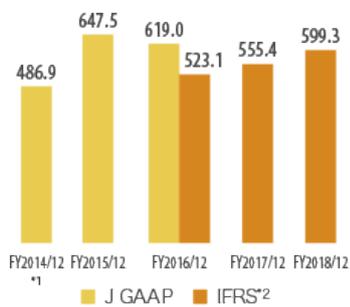
Support for education about menstruation (persons)	
Fiscal 2018 result	288,663
Fiscal 2019 target	283,850

Taking part in a social walking program (persons)	
Fiscal 2018 result	794
Fiscal 2019 target	1,300

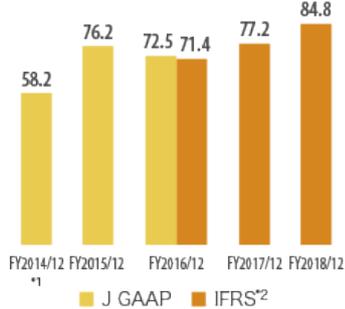
Review of Operations

Personal Care Business

Net Sales (¥ billion)



Core Operating Income (¥ billion)



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

*2 Unicharm adopted IFRS from fiscal 2017, ended December 31, 2017.

SWOT Analysis

Strengths

- Leading position in Asia market
- Nonwoven fabric and absorbent material processing and molding technologies
- Product range targeting a wide range of users, from babies and the elderly to pet owners
- Product development capabilities that anticipate consumer needs
- Rapid strategy implementation
- Overseas business development capabilities
- Geographical risk hedging with operations in many regions, from emerging markets to developed economies
- Industry-leading patent application and registration rates

Weaknesses

- Responsibility for resource depletion (Disposable products)
- High ratio of materials derived from crude oil
- Lack of personnel skilled in digital technologies

Opportunities

- Rising income levels and emerging needs for improved hygiene in emerging markets
- Rising demand for safe products that offer peace of mind, and demand for high value-added products
- Increase in elderly people aiming for healthy retirement (extended healthy life expectancy)

Threats

- Risks related to the population structure
- Overseas business risk and forex risk
- Risks related to the reliability of products
- Risks related to intellectual property including patents and trademarks
- Risks related to environmental problems
- Risk of market entrants from other sectors



Baby Care Business

Improving the childcare experience

Basic business strategy

Japan

As Japan's diaper market matures and the birthrate declines, we will continue to offer innovative value proposals and raise awareness about hygiene and comfort issues, aiming to make childcare easier and more enjoyable.

Asia

Amid growing demand for disposable baby diapers, which is being spurred by rising incomes, we will play our part in creating healthy, hygienic environments for raising children by launching products tailored to local needs.

– Regions with high market uptake rates for disposable diapers

We will roll out high value-added products already sold in Japan to help make life more comfortable and reduce the burden of raising children.

– Regions with low market uptake rates for disposable diapers

We will expand our sales areas, mainly for economy-type products that offer a good balance between quality and price, aiming to improve hygiene conditions and reduce the burden of raising children.

Japan

Revitalizing the market by offering innovative, premium products and creating customer experience value

As the domestic diaper market matures, we are continuing to offer innovative value proposals and actively raise awareness about hygiene and comfort issues, supporting sales growth ahead of the market average. With our *moony* brand, which has the highest levels of quality in our disposable diaper range, we have focused on addressing needs for high value-added products, mainly with our *Natural moony* range of diapers, the first in Japan to have organic cotton-based surface sheets*. That approach has driven growth in our *moony* brand and in subcategories such as pants-type training diapers, helping Unicharm retain its leading position in Japan with a roughly 35% share of the market, while also stabilizing average sales prices. We are also aiming to revitalize the market by creating innovative product technologies for each stage of infant development.

Unicharm also provides a toilet training app that is fun for parents and children to use together. We have added a new night-time mode to help children overcome bed-wetting, which is part of our efforts to encourage good bedtime and morning toilet habits.

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



Toilet training with the Moony-chan
<http://www.unicharm.co.jp/trepanman/toitore/index.html>



Asia

China

Continued strong growth supported by Japanese-made high value-added products and pants-type diapers, mainly through online channels

In China, we are seeing rising demand for high-quality, Japanese-made high value-added disposable diapers and pants-type disposable diapers that are reliable and safe. Unicharm's strong position in pants-type diapers means it is well-placed to benefit from the current business environment.

Against that backdrop, Unicharm is introducing Japanese-made *moony* pants-type diapers and actively investing in marketing. Those efforts are strengthening product brands and our corporate brand, supporting continued strong sales growth through cross-border e-commerce channels and regular import channels. We aim to maintain that momentum by offering products that address a wide range of different needs and by increasing shipments to regional cities.



Indonesia

Brand development supporting continued strong growth

Unicharm remains the dominant market leader in Indonesia with a share of roughly 50%. That position has been built by improving the product lineup and offering a wider choice of high value-added products. We are using TV commercials linked to in-store promotions to develop our brands. We also sell products for a broad range of customer categories, from economy-type disposable diapers to standard and premium-type products.



India

Steady strong growth, consistently profitable since startup of new plant

Since entering the India market in 2008 with the launch of pants-type disposable baby diapers, we have steadily expanded our sales areas. That has supported double-digit sales growth, exceeding the pace of market growth. Unicharm has taken second spot in the market with a share of roughly 35% and sales of pants-type products have grown to account for around 94% of our total diaper sales. Unicharm's operations in India have been consistently profitable since fiscal 2018. Going forward, we will continue to target steady strong growth while also working to lift uptake rates for disposable diapers.

Thailand

Direct sales and shift to premium products driving continued growth

Unicharm's sales in Thailand continue to grow at a steady rate, supported by moves to expand distribution channels through direct sales and by a shift to premium products. Unicharm is the leading company in the market with a share of roughly 60%. Including DSG International (Thailand) Public Company Limited, which we acquired in September 2018, Unicharm is the dominant player in the Thai market with a combined share of around 87%. We aim to maintain the current pace of strong growth by actively investing in marketing and offering new value proposals.



Vietnam

Increased brand promotion behind sustained high growth

Efforts to expand sales areas have paid off, with Unicharm retaining its leading position in the market with a share of roughly 51% and sales of pants-type diapers growing to account for about 66% of total diaper sales. 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 technology and marketing expertise with Diana's sales network and understanding of local consumers. We are also offering free samples to maternity hospitals and investing heavily in other ways to build our brands, particularly those aimed at newborns and very young infants.



Review of Operations



Feminine Care Business

Creating more freedom for women by harnessing the science of comfort

Basic business strategy

Japan

Backed by scientific research, we will provide products and services that empower women, allowing them to lead normal, comfortable lives without physical and mental barriers.

Asia

Demand for feminine care products is growing in Asia on the back of rising incomes. In response, we will launch products designed for local needs and provide information about periods to help women play a more active role in society and support the region's economic development.

– Regions with low market uptake rates for feminine care products

We will launch feminine care products designed for local needs and expand sales areas, as well as provide ongoing education programs about first periods to help women secure job opportunities and take a more active role in society.

– Regions with high market uptake rates for feminine care products

We will launch high value-added products designed for local needs and build sales channels to make our products more accessible, aiming to make periods easier for women.

Japan

Revitalizing the market by continuing to offer new products with innovative technologies

Unicharm is the market leader in Japan with a share of roughly 49%. We continue to achieve steady growth in the domestic market by launching high value-added products and by offering value proposals in tune with women's increasingly diverse lifestyles, such as standard-type products, premium-type products and products with stylish designs. Amid a maturing market characterized by a shrinking target demographic, we are increasing the average sales price by launching high value-added products that stand out in the market. As part of that approach, we recently launched *Sofy Center-in Happy Catch*, a worry-free napkin product with a cute design tailored to the lifestyles and fashions of girls at junior and senior high schools. We also work to inform girls about their periods and health. One way we are doing that is with a free *Sofy* app for girls approaching their first period. The app gives them the independence to manage their own periods and also helps mothers predict the timing of their daughter's menstrual cycle so they can provide the best support.



Sofy app to manage the timing of first periods – easy to use for mothers and daughters



https://jp.sofygirls.com/ja/girls/after_period/app_girls_05.html

Asia

China

Building brands aimed at young women to maintain high levels of profitability

Unicharm is second in the China market with a share of roughly 17%. We continue to enjoy strong support from young women in China thanks to our high value-added products, which offer high quality and have cute packaging designs. Also, Unicharm's online sales are outpacing growth in China's rapidly expanding e-commerce market. Our online sales have risen to account for about 20% of total sales and we now have the leading position in the online market. Going forward, we aim to capture the top share in China by rapidly developing sales channels and increasing the number of sales areas where Unicharm is the market leader.



Indonesia

Generating strong growth by consistently launching high value-added products

Unicharm is the market leader in Indonesia with a share of roughly 39%. We are maintaining a high rate of growth by investing heavily in marketing to build local brands. The average sale price has risen approximately 7% and profitability is also improving, supported by a continued focus on high value-added products.



Thailand

Targeting further growth by moving into new market segments

Unicharm is also the market leader in Thailand with a share of roughly 57%. We are achieving strong growth by expanding our lineup of products in the "cool and fresh" segment and by consistently offering new value proposals, such as overnight shorts-type sanitary napkins.



Vietnam

Rolling out a stream of high value-added products to drive strong growth

Unicharm's sales are outpacing market growth in Vietnam, supported by high value-added products and a wider choice of products that are creating new market segments. Investing in sales promotion to reinforce brands and expanding distribution areas have helped Unicharm retain its dominant position in Vietnam, where it has a market share of roughly 52%.



India

Continued strong growth supported by measures to promote uptake

Aggressive marketing activities are supporting continued strong growth in India, but uptake rates for feminine care products remain low due to a lack of education and understanding about periods. To address that issue, Unicharm launched an educational program about first periods in 2013 to educate young women about the mechanism of menstruation and provide accurate information about feminine care products. The aim is to improve understanding and lift uptake rates, which should also help Unicharm maintain strong growth in India.



Review of Operations



Health Care Business

Helping people get more pleasure from life

Basic business strategy

Japan

Our goal is to ensure our loved ones can live their lives with dignity. We will supply products and develop new ideas such as exercise programs to prevent dementia, aiming to help extend healthy life expectancy and reduce the burden on people being cared for and their carers.

Asia

In Asia, where demand for adult incontinence care products is growing, we are introducing our Japanese care model to reduce the burden on people being cared for and their carers.

Japan

Expanding the market by developing products that extend healthy life expectancy and by making a sustained contribution to society

Since moving into the disposable adult diaper market in 1987, Unicharm has led the industry in promoting wider uptake 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%.

In the light incontinence category, we have used activities to increase awareness about the widespread issue of urinary incontinence and launched products that alleviate concerns about the condition. Those efforts have supported strong growth in the retail store channel, with Unicharm continuing to retain its dominant position in the light incontinence category with a market share of 58%. In the moderate and heavy category, we offer products that help seniors maintain and recover their ability to perform daily tasks and help them gain control over their incontinence.

To encourage even wider use 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.

Meanwhile, in a first for the industry, we launched an online Disposable Adult Diaper Selection Guide that uses an artificial intelligence-powered virtual assistant*1 to provide 24-hour support throughout the year to answer any questions about incontinence care. As Japan's society ages, more seniors face issues such as loneliness and dementia. To create more opportunities for seniors to interact with society and other people, we started an initiative called Social Walking*2 in 2016. Also, as part of our efforts to create a cohesive society where people and pets support each other, we launched a new animal therapy program to motivate and lift the mood of seniors to encourage them to keep going with their rehabilitation programs.

Our face mask range is seeing strong growth, driven by efforts to market them as products for use all year round and by a broader lineup to address demand for comfortable face masks.



Disposable Adult Diaper Selection Guide
<https://jp.lifree.com/ja/product/adult/choose/navi.html>



*1 A type of computer program or system that conducts conversations instead of people

*2 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).

Asia

Expanding our lineup and reinforcing our market position in Indonesia, where uptake rates are rising

In Indonesia, where uptake rates are rising steadily, many seniors are responsible for their own incontinence care. That is driving uptake of pants-type disposable adult diapers – a category where Unicharm has a strong position – supporting continued strong growth in our local business. A large proportion of the Indonesian population is Muslim, so we are taking every step to ensure our products can be used with confidence by as many people as possible, such as securing halal certification for diapers to show they are manufactured in accordance with the rules of Islam. We are also actively promoting our products through supermarkets and other modern retail channels.

In the future, we plan to secure halal certification for other products such as disposable baby diapers and feminine care products.



Stepping up global expansion by acquiring local firms

Targeting faster global expansion and a step-change in growth, Unicharm acquired DSG (Cayman) Limited (DSGCL), a manufacturer and supplier of baby and adult disposable diapers with operations in Thailand, Malaysia, Indonesia and Singapore. DSGCL's brand portfolio includes *BabyLove*, *Fitti* and *PetPet* disposable baby diapers and *Certainty* disposable adult diapers. It has a large market share and high brand visibility in Southeast Asia. The company is building a dominant position in disposable adult diapers in Thailand, which is projected to see even faster population aging than Japan. The addition of DSGCL to the Unicharm Group will enhance Unicharm's product lineup and market position in Southeast Asia, especially in Thailand and Malaysia, realize economies of scale and reduce costs through the integration of operational functions such as logistics. By pursuing those synergies, we aim to accelerate Unicharm's growth in Southeast Asia.



Expanding sales areas for face masks and raising awareness

Demand for face masks is gaining momentum in India, China and other countries with serious air quality problems. We aim to help people lead healthier lives by expanding sales areas for face masks and raising awareness of air quality issues.



Review of Operations



Clean & Fresh Business

Creating a comfortable and clean environments

Basic business strategy

Japan

Our goal is to help make everyday life more productive and comfortable by offering products in tune with changing living environments and lifestyles.

Asia

Amid growing demand for home care products, spurred by rising incomes, we will move into new markets and help create more hygienic environments.

Japan

Stepping up efforts to develop products in line with changing lifestyles

In the clean & fresh business, both domestic demand and inbound demand are rising, partly due to Unicharm's effective digital communication strategies. Demand for our *Silcot Wet Tissue* range of wet wipes continues to grow strongly on the back of aggressive investment in marketing and the launch of products for different applications. The range includes *Silcot Uruuru Sponge Facial Cotton Sheets*, which have won a prize in the annual @cosme best cosmetics awards for three straight years*¹. In the latest awards, the product was inducted into the cosmetics hall of fame.

* Winner of best beauty product in the 2016 and 2017 @cosme best cosmetics awards, inducted into the @cosme best cosmetics awards hall of fame in 2018.



Advice on effective use of Wave products
<http://www.unicharm.co.jp/wave/house/index.html>



Surprising uses for cotton – see some secret tips from beauty researchers
<http://www.unicharm.co.jp/silcot/skincare/howto.html>

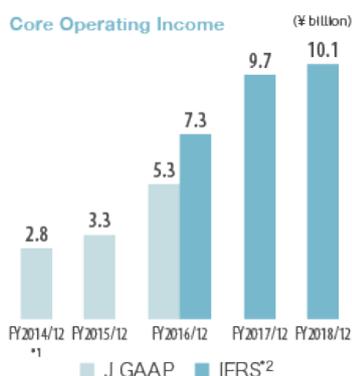
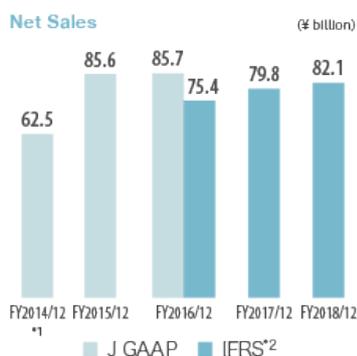


Asia

We are also seeing rising demand for our *Silcot* cosmetics cotton products, *Silcot Wet Tissue* range and *Wave* cleaning products in China, Taiwan-Greater China, Vietnam and other markets in Asia, supporting strong growth in the clean & fresh business. Going forward, we will continue to expand sales areas and product lineups to meet rising demand.

Pet Care Business

Creating comfortable lives for pets based on health and cleanliness



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

*2 Unicharm adopted IFRS from fiscal 2017, ended December 31, 2017.

SWOT Analysis

Strengths

- Nonwoven fabric and absorbent material processing and molding technologies
- Broad range of products from pet food to pet toiletries
- Product development capabilities that anticipate consumer needs
- Rapid strategy implementation
- Overseas business development capabilities

Weaknesses

- Responsibility for resource depletion (Disposable products)
- High ratio of materials derived from crude oil
- Lack of personnel skilled in digital technologies

Opportunities

- Growth in number of pets due to rising income levels in emerging countries
- Rising demand for safe products that offer peace of mind, and demand for high value-added products
- More people seeking comfort from pets
- Rising demand for pet toiletries due to growing trend of raising pets indoor

Threats

- Overseas business risk and forex risk
- Risks related to the reliability of products
- Risks related to intellectual property including patents and trademarks
- Risks related to environmental problems
- Risk of market entrants from other sectors

Basic business strategy

Japan

Aging is a growing issue for pets, as well as people. To increase healthy life expectancy and create a cohesive society where pets and people can live long and rich lives together, we will work to create new markets and develop products that support all aspects of pets' lives.

Asia

We supply a wide range of high value-added pet food and pet toiletry products incorporating Unicharm technologies from Japan, helping to improve health and hygiene for people living with pets.

Japan

Revitalizing the market by reinforcing our 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. Despite weak growth in the number of pets in Japan, sales increased roughly 6% year on year and Unicharm retained the leading domestic share in the pet food and pet toiletries market.



In pet food, we are offering more healthy pet food choices for specific segments based on requirements such as breed, age and health condition. In particular, as pets become older, we are expanding our lineup of products aimed at pets aged 15 years and older.

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. To realize our vision of cohesive societies where pets and people live in harmony, we have developed *Manner Wear* pet toilet care products with clothing-style designs, so that owners can always take their pets with them when they go out. We also sell a cat toilet system called *Deotoilet* that makes it easier to hygienically care for cats indoors.

To address growing demand for nursing care for aging and immobile pets, we launched *Unicharm Pet Pro*, Japan's first pet nursing care system* aimed at veterinary hospitals. This product fits 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 technologies developed since the first days of Unicharm to develop new products with unique functionality, giving pleasure to owners by extending the healthy lives of their pets.

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



Overseas

North America

Targeting business expansion with 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 first days of the Company. Key products include flea and tick control products, toilet sheets for dogs incorporating Japanese technology and wet-type snacks for cats – a new concept in the U.S. market that we brought over from Japan. Sales of those products are growing, supporting Unicharm's leading share in the U.S. Also, in recent years we have shifted our sales focus to high value-added products, which account for a rising share of sales and are driving profit growth.

Going forward, we will continue to improve 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.



Emerging markets

Using strengths built up in Japan to accelerate overseas expansion

The pet care market continues to expand worldwide. We forecast continued growth in advanced economies, as well as in emerging markets in South America and Asia, particularly China, where rising incomes and aging populations are likely to drive market expansion. Leveraging our leading position in the domestic pet food and pet toiletry markets, we plan to step up the pace of overseas expansion to support further growth in the pet care business.

Unicharm's Value Creation Process and Key Challenges

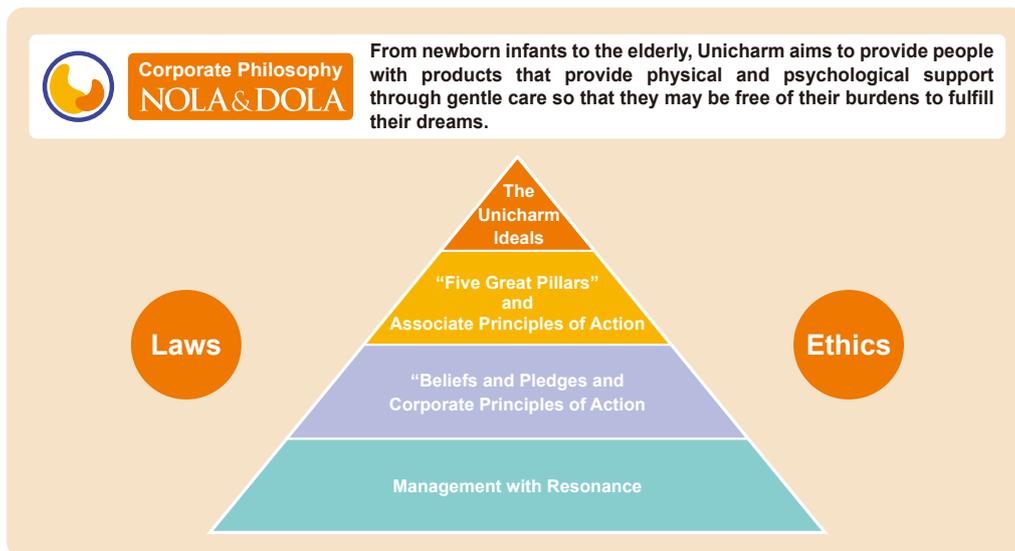
Unicharm Group's approach to CSR

Unicharm's corporate philosophy is "NOLA & DOLA" (Necessity of Life with Activities & Dreams of Life with Activities). Our concept of NOLA & DOLA: Necessities of Life with Activities & Dreams of Life with Activities, contains our hope that "from newborn infants to the elderly, Unicharm aims to provide people with products that provide physical and psychological support through gentle care so that they may be free of their burdens to fulfill their dreams." Our CSR is embodied by our commitment to achieve this aspiration through our business activities and to help resolve social issues in the process. In order to make this aspiration even more effective, Unicharm has established CSR Key Topics and Key Performance Index (KPI).

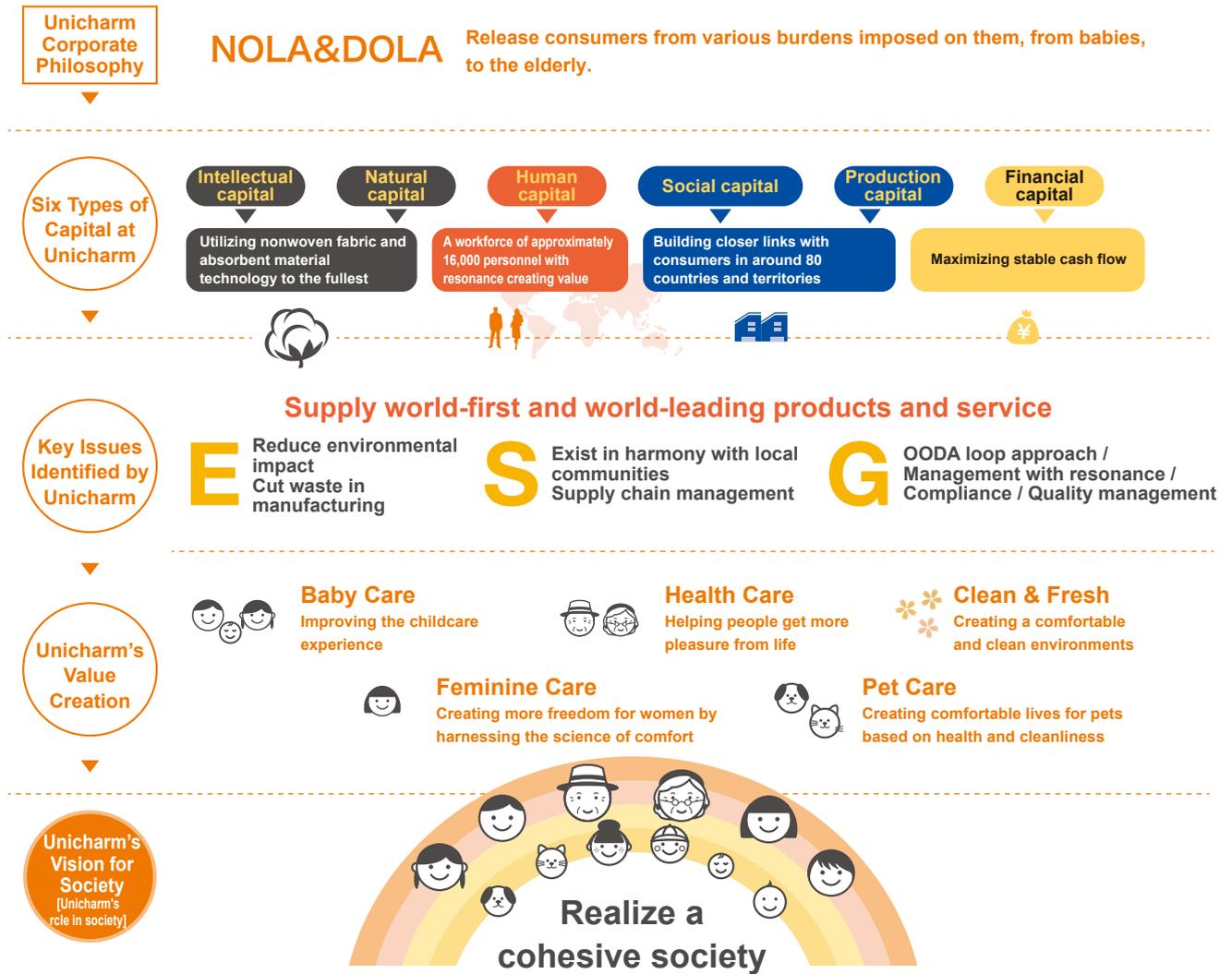
Unicharm Group's Value Creation Process

Philosophy

The Unicharm Ideals aim to realize our corporate philosophy and we have established the Beliefs and Pledges and Corporate Principles of Action along with the Five Great Pillars and Associate Principles of Action in order to implement the Unicharm Ideals.



Unicharm's Value Creation Model



Important CSR themes

In order to make our CSR key topics more effective, we have incorporated the perspective of stakeholders in establishing indicators (KPI).

1. Lengthening healthy life expectancy
2. Supporting women's independence and improving hygiene
3. Contributing to global environment
4. Contributions to the community and respecting people
5. Strengthen the company's organization and ensure fair business practices

Unicharm's Key Challenges

1. Lengthening Healthy Life Expectancy

Our basic approach and strategy

The aging of the population has proceeded more rapidly in Japan than in any other country in the world. In 2007, Japan became a “super-aging society” with over 21% of the population aged 65 or older. Improvements in medicine have led to an increased average life expectancy and a growing focus on “healthy-life expectancy” — the length of time for which people stay physically and mentally healthy and are able to live independently. Everyone wants to be able to maintain their own preferred lifestyle and a high level of well-being as they get older. Unicharm’s mission is to contribute to the extension of healthy-life expectancy by offering support for the maintenance of active lifestyles through the provision of continence care products, including lightweight continence pad, rehabilitation pants, etc.

Issues faced by society	Unicharm's initiatives
<ul style="list-style-type: none"> • Growth in number of elderly people requiring nursing care • Shortage of nursing care staff • Rising healthcare costs due to aging population 	<ul style="list-style-type: none"> • Provide incontinence care products to give the elderly more independence • Implement initiatives to prevent dementia • Create environments where people can live together with their pets

Contributing to the realization of the SDGs

Unicharm’s activities are in conformity with the United Nations Sustainable Development Goals (SDGs) objectives shown right. In the future, we will continue to leverage our company’s unique strengths to make an even greater contribution towards the solving of the world’s shared problems.



Background

“Healthy-life expectancy” is the period of time over which people are able to maintain their physical and mental health and independence without needing care as they get older. While the aging of the population has been accelerating, the number of people aged 65 or over who are still working has also been rising and there is growing awareness of the importance of taking steps to maintain one’s health — for example by exercising, etc. — so that people can avoid the need for care as they age and can continue to enjoy an active lifestyle that suits them.

Of the various effects of aging (what are sometimes referred to as “geriatric syndrome”), continence problems — including urinary incontinence, etc. — can have a particularly big impact on mental health. People who are worried about urinary incontinence tend to stop going out, may not get enough exercise and may find themselves gradually becoming isolated from society, among other negative effects.

At Unicharm, we are continuing to take measures aimed at making more people aware of how appropriate care can enable them to continue to enjoy an active lifestyle and we are striving to provide even better products, as one of the keys to realizing an extension of healthy-life expectancy.

Our activities

Provide incontinence care products to give the elderly more independence

New nursing care ideas to limit the number of bedridden elderly people

In the 1980s, when Unicharm started selling disposable adult diapers, a growing number of elderly people in Japan were being confined to bed. That reflected the common view at the time that it was better not to move nursing care residents more than necessary, leading to an increase in the number of bedridden elderly people. In 1995, we launched *Lifree Rehabili-Pants* to support a new rehabilitation-focused approach to nursing care that encouraged greater mobility, helped by disposable adult diapers that the elderly could put on and take off themselves. The launch of *Lifree Rehabili-Pants* led to a 15% decline in the number of bedridden elderly in Japan, while helping them retain their dignity and gain more independence. The new diapers also reduced the burden on people caring for the elderly.

Improving *Lifree* Pants to make them “easier to take off”

The basic concept of care provision has been changing, away from the type of care where care recipients have to rely fully on others to do everything for them, towards a new style of care where people do as much as possible for themselves, so that they are able to live a more independent lifestyle that suits their needs.

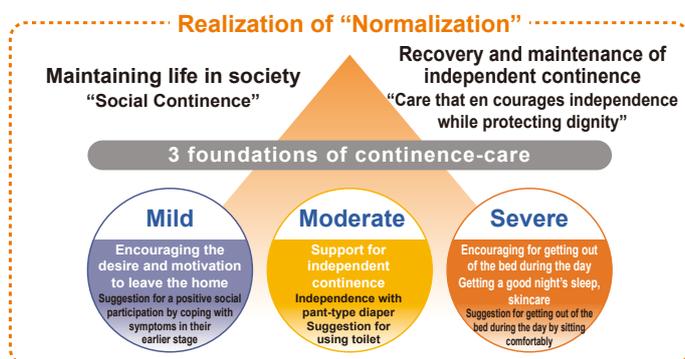
In the past, we have made several improvements to our *Lifree* Pants focused on the process of putting the pants on, with pant designs that are easy for people to put on without needing assistance, and which make sure that the pants fit snugly without gaps. However, consumer observation and research has shown us that people often need help with taking the pants off.

By using special patented stitching technology on both sides of the pants, we have been able to make sure that they stretch enough to be easy to put on and stay firm while they are being worn, but can be torn off using only half as much effort as was needed with conventional products.

New *Lifree* Pants state on the packaging that “Can be easily taken off by the wearer.” The TV commercial for the new pants also emphasize that they are easy to put on and easy to take off. The aim is to foster widespread dissemination of a new approach that encourages people to regain more autonomy in relation to their continence issues.

The fact that wearers of these new pants can do everything themselves, from putting the pants on to taking them off, helps them to retain their independence and to maintain their own preferred lifestyle as long as possible. In doing so, it contributes to the extension of healthy life expectancy.

3 Foundations of Continence-Care



Broader lineup of light incontinence products for men

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 focused on women, but a large number of men also suffer from the problem. To address this demand, we are expanding our *Lifree Sawayaka Pad* range for men for different levels of incontinence as part of wider efforts to help sufferers make an early intervention through self-care.

Implement initiatives to prevent dementia

Contributing to lengthening healthy life expectancy with *Lifree* “Social Walking®”

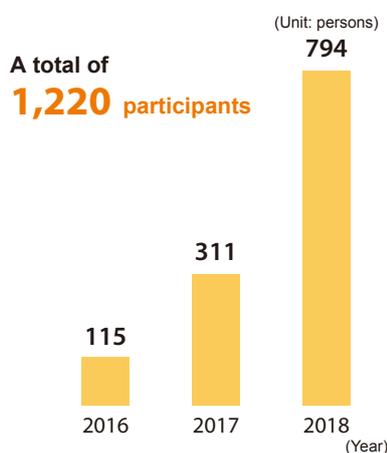
As Japan becomes a “super-aging society” of a kind that has never been seen in the world before, it is anticipated that dementia will be the single biggest factor necessitating care provision. For dementia prevention, there is widespread agreement that a good approach is to combine the “physiological approach” — which emphasizes regular exercise and a balanced diet — with the “cognitive approach,” which emphasizes maintaining human contact through hobbies, volunteering and involvement in neighborhood activities. Unicharm contributes to the extension of healthy life expectancy through our continence care products so that senior citizens can still keep going out as much as they want, even if they have continence issues. We have launched the *Lifree* “Social Walking” initiative, through which participants who are using Unicharm’s continence care products have the opportunity to walk while enjoying social interaction in a purposeful way, thereby fostering exercise and social participation and helping to prevent dementia. In FY2018, working in collaboration with the Japan Nordic Walk League, we held a total of 17 Social Walking experience activities, with over 700 people participating. We will continue to implement these activities in FY2019. In addition, in order to promote more widespread adoption of Social Walking, we are planning to work with local government authorities throughout Japan on the implementation of a “Social Walking Lecture Program.”

* “Social Walking” is a neologism that combines the words “social participation” and “walking” and is a walking program aimed at providing a way of preventing dementia that is easy for anyone to participate in by getting people walking in an enjoyable way. “Social Walking” is a program that seeks to foster social participation through walking, by bringing people into contact with other people and promoting involvement in volunteering activities and local community activities.



■ Social impact

No. of people participating in “Social Walking®”



Create environments where people can live together with their pets

Building a cohesive society where people and pets can live in harmony

Unicharm has been striving to improve living environments for pets through the development and sale of pet products such as pet food and pet care products. For many people, having contact with animals can put a smile on their face and help relieve stress. Contact with animals can also increase independence and improve quality of life for senior citizens receiving care. That's why Unicharm is taking steps to demonstrate the clear positive impact that people and animals can have on each other, aiming to build a cohesive society where people and pets can live in harmony with one another.

As part of those efforts, Unicharm started using scientific analysis to assess the potential psychological benefits of animal-assisted therapy in restoring people to health, such as a reduction in stress and a greater sense of security derived from interaction with animals. In 2018, in collaboration with the Japan Animal Hospital Association (JAHA), Unicharm conducted a study into animal-assisted therapy with the cooperation of senior citizens at Special Nursing Homes. The results obtained confirmed that interacting with animals was accompanied by an increase in happiness hormones, changes in the heart rate that indicated relaxation and an increase in the frequency with which participants smiled. In November 2018, we conducted additional research in which we measured the changes in hormone secretion and heart rate of dog owners and their dogs when engaged in walking the dog. The results demonstrated that there was an increase in the secretion of hormones denoting happiness for many of the participating people and their dogs after walking together for a distance of around 2km. To address the increase in the number of older pets requiring care (resulting from the increase in average pet lifespan due to improvements in pet-food and in medical treatment for pets), Unicharm develops and markets a range of pet care products, such as pet care mats, pet toilet-care sheets with enhanced breathability and sanitary products for pets.



Animal-assisted therapy in action



An aged dog with a member of the product development team

Unicharm's Key Challenges

2. Supporting Women's Independence and Improving Hygiene

Our basic approach and strategy

Unicharm has pursued manufacturing and selling of sanitary products and disposable diapers in the emerging markets in fast-growing Asia since the 1980s. Our never-changing hope is that we continue to deliver products and services to more women in the world that change their “discomfort” into “comfort.” We aim to make a contribution unique to Unicharm through helping women living in all regions to shine even more.

Issues faced by society	Unicharm's initiatives
<ul style="list-style-type: none"> • Hygiene issues in emerging markets • Lack of access to education about periods • Slow economic growth due to limited job opportunities for women 	<ul style="list-style-type: none"> • Reduce the burden of childcare by promoting uptake of disposable baby diapers • Raise awareness of first periods and menstruation through education and promote uptake of feminine care products to encourage women to take a more active role in society • Help to increase income levels for women by providing job opportunities

Contributing to the realization of the SDGs

Unicharm's activities are in conformity with the United Nations Sustainable Development Goals (SDGs) objectives shown right. In the future, we will continue to leverage our company's unique strengths to make an even greater contribution towards the solving of the world's shared problems.



Background

Aiming to provide continued support for women's autonomy and to expand opportunities for them to develop their full potential.

In South Asia, the Middle East and North Africa, women's opportunities to receive an education and to work are restricted because of cultural and social background. Although some progress has been made in this area in recent years, there are still many challenges affecting the social advancement of women. There are also some countries and regions where women's activities are limited during their menstruation because of deeply-entrenched customs.

Overcoming these issues in each country and region so that women can participate more actively in society is important not only from the perspective of achieving a gender equal society, but also in order to eliminate poverty and support regional economic development.

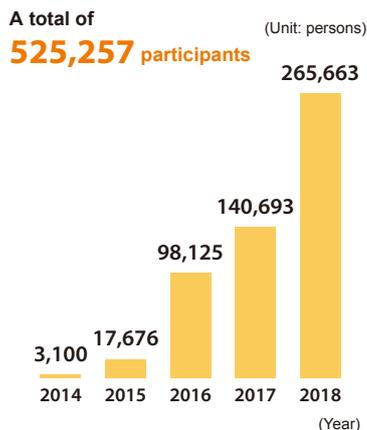
Utilizing the know-how developed in our business in Japan, we are pursuing various awareness-raising activities and the creation of work sites while expanding products and services suited to each country and region's characteristics, with the aim of helping women all over the world to enjoy more fulfilling lives.





Social impact

Number of people in emerging economies attending menarche education activities



Our activities

Reduce the burden of childcare by promoting uptake of disposable baby diapers

Economy-type disposable baby diapers launched in 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 as in Japan. To address that issue and realize our basic policy of providing world-first and world-leading products and services and deliver comfort, impression and satisfaction, we launched *MamyPoko Pants Standard* disposable baby diapers in Indonesia in 2007. With this product, we exhaustively scaled back functions that are not essential to emerging markets while retaining the basic leak-free, stay-dry characteristics of our diapers. *MamyPoko Pants Standard* diapers have helped to create more hygienic environments and reduced the burden of childcare for women. After Indonesia, we launched the diapers in India, where they have gained strong support from consumers in areas where disposable baby diaper uptake rates are still low, helping to spur expansion in the market.

Baby diapers specially designed for underweight new-born babies, to help safeguard these tiny lives

Currently, around one in ten of all babies born in Japan are underweight new-borns weighing less than 2,500g who need to be cared for in incubators in a Neonatal Intensive Care Unit (NICU). As underweight new-born babies are very small and regular baby diapers are too big for them, the staff at NICUs had the time-consuming task of either cutting regular diapers down to size or converting sanitary napkins for use as substitute diapers. In order to help remedy this situation, in 2015, Unicharm launched a new type of baby diapers specially designed for use on underweight new-born babies.

Since this new diaper product was first launched, additional improvements have been made every year, taking into account recommendations from physicians, nurses and other medical professionals working in NICUs. In 2016, Unicharm introduced a new version of the diaper that was designed so that it could be put on either way round and which also featured an indicator to show when the diaper needed changing, to avoid unnecessarily frequent diaper changes. Further improvements were made in 2017, with the absorbent material being made thinner and the tape softer, so that the diaper fits on the baby's body more naturally and more comfortably.



The new diaper product has perforations that make it possible to change diapers when the baby is lying in the fetal position.



Having perforations on the side means that the diaper can also be used as a pad.



The diaper has an indicator showing when the baby has peed, which can reduce the frequency of unnecessary diaper changes.

Raise awareness of first periods and menstruation through education and promote uptake of feminine care products to encourage women to take a more active role in society

Progress of menarche education program in Myanmar

Ending absences from school due to periods

In Myanmar, menstruation education is relatively undeveloped and people do not tend to have a good understanding of menstruation. The rate of sanitary pad usage is about 30% in Myanmar as a whole and about 20% in non-urban areas. As a result, many schoolgirls suffer from lower academic achievement because they miss classes during menstruation, which has become a significant social problem.

To create a solid foundation for these students so that they can actively participate in society in the future, it is imperative that we continue to spread knowledge about appropriate care during menstruation so that they can understand their bodily changes during adolescence in a positive light and confidently engage with their studies even during menstruation.

Unicharm and NGO develop first menarche education program to be approved by Myanmar government

In collaboration with the Japan International Cooperation Agency (JICA) and the Japanese Organization for International Cooperation in Family Planning (JOICFP), an international NGO, and working with the Myanmar Ministry of Health and Sports as the partner for local implementation, we have developed Myanmar's first government-approved menarche educational materials (for use in specific regions). We provided training in using the menarche teaching materials to local educators who then conducted menarche education for a total of 6,100 schoolgirls and also distributed Unicharm sanitary pads to them so that they could try using them and experience appropriate care. According to the results obtained in a survey conducted after this educational activity, many schoolgirls who received the menarche education made comments along the lines of: "I learned many things that I had not known before and I was able to gain correct knowledge of menstruation," and "I was able to have a positive conversation about menstruation with my mother." We also found that more than 70% wanted to keep using sanitary pads.

Measures to expand the scope of menarche education

In 2018, menarche education activities were implemented in 224 schools within Myanmar, reaching a total of approximately 262,150 schoolgirls; the results achieved included an increase in the overall level of knowledge regarding sanitary products and how to use them and an increase in the percentage of girls using sanitary pads. However, by comparison with neighboring countries, Myanmar has relatively few retail stores per head of population; there are few grocery stores or other stores in rural areas and those stores that do exist tend to be very small and do not carry sanitary products. This situation led to the development of a business model whereby sanitary pads would be sold at schools which schoolgirls would be going to on a daily basis. Some schools have already begun selling sanitary pads specially designed for schoolchildren in the 13 - 17 age range. Efforts are being made to expand the network of schools and retail outlets that sell sanitary pads, so that as many schoolgirls as possible (and their family members) will be able to use sanitary pads.



Menarche educational material developed for Myanmar



Sanitary pads specially designed for use by schoolgirls

Progress on menarche education in India

Expanding the implementation of menarche education programs throughout India

In India, most women in both urban and rural communities lack sufficient access to the information that they need to enable them to maintain a healthy lifestyle. A major focus of Unicharm's activities is on providing women with adequate information about health issues that can have a negative impact on their lives. In 2013, in cooperation with the Japan International Cooperation Agency (JICA) and local NGOs, Unicharm began promoting an educational program on the menstrual cycle mechanism and appropriate care in relation to the menstrual cycle called "Managing Menstruation: My Pride" for children, especially schoolgirls, in India. This program aims to help teenage girls in India maintain sanitary well-being and remain active with confidence during their menstrual cycle. In FY2018, the program was implemented at 35 schools, with a total of 3,513 schoolgirls taking part.

Comments from schoolchildren who received the menarche education included: "The content of the teaching was very good and a lot of useful information was presented. It brought home just how important it is to use sanitary pads. I want to try using *Sofy* sanitary pads."



Expanding the roll-out of menstruation education

In 2018, in addition to our existing menarche education activities for schoolgirls, we also launched awareness-raising activities to spread correct knowledge about menstruation among women in rural areas. "Mahila Sahayogi" ladies have been trained to act as sanitary product awareness-raisers, spreading accurate knowledge about menstruation within their local community; 3,575 rural women have already been encouraged to start using sanitary pads.

Unicharm has also collaborated with the Indian government on the implementation of menstruation workshops and activities to demonstrate how to use baby diapers (with the distribution of product samples) in 80 Anganwadi Centres. Menstruation workshops have also been held at child welfare institutions, police training institutes, prisons, nursing colleges, etc., with a total of 54,480 people taking part. The scope of this educational program, which was initially focused on schoolgirls, has been expanded to include rural women and adult women living in urban areas. Through these activities, Unicharm hopes to be able to contribute towards giving women in all age groups a better quality of life, and we will continue working towards this goal in the future.



Help to increase income levels for women by providing job opportunities

Expanding support for female employment in Saudi Arabia

Creating further opportunities for women's advancement

For cultural and religious reasons, women in Saudi Arabia are not permitted to be in the same room with, or speak to, men from outside their own family, and there are many restrictions on women's activities, including their activities in the workplace. With the aim of providing women with employment opportunities while still respecting local cultural traditions, in May 2012, Unicharm established a women-only factory in Saudi Arabia which is in full operation up until now. The factory's No. 3 plant, which was completed in 2017, features an improved working environment that includes a day-care center, a first-aid room and a cafeteria and rest area. Efforts have also been made to make production line work less onerous by implementing automation, etc., which also helps to enhance productivity.

Opportunities for women's advancement are expanding outside the factory as well. As of 2017, Unicharm already had two female marketers in Saudi Arabia, but in 2018, several female employees were assigned to the sales planning team. Undertaking activities such as distributing product samples on the streets, these female employees showed themselves to be highly motivated. In the future, Unicharm will continue to contribute towards the achievement of United Nations Sustainable Development Goals (SDGs) No. 5 (Achieve gender equality) and No. 10 (Fill the gap within and among countries) by providing support for women to achieve greater autonomy through the employment of women and efforts to enhance their employment environment.



Unicharm's Key Challenges

3. Contributing to Global Environment

Our basic approach and strategy

As a manufacturer of disposable products such as diapers and sanitary products, Unicharm recognizes that the achievement of environmental-friendly manufacturing is a vitally important issue that we cannot afford to neglect. Focusing on the utilization of paper pulp, which is made from wood, and on addressing the CO₂ emissions associated with the disposal of used products by incineration, we are taking steps to realize a recycling system for diapers. By establishing a cyclical model that covers the entire product lifecycle, we are contributing towards the realization of a sustainable society that is able to maintain economic growth while also safeguarding the global environment.

Issues faced by society	Unicharm's initiatives
<ul style="list-style-type: none"> • Global warming and climate change due to rising CO₂ emissions • Resource depletion 	<ul style="list-style-type: none"> • Develop disposable diaper recycling technology • Reduce energy and waste at business sites • Develop eco-friendly products

Contributing to the realization of the SDGs

Unicharm's activities are in conformity with the United Nations Sustainable Development Goals (SDGs) objectives shown right. In the future, we will continue to leverage our company's unique strengths to make an even greater contribution towards the solving of the world's shared problems.



Background

Disposable diaper recycling is a responsibility that Unicharm is committed to fulfilling

With elderly people coming to account for an ever larger share of the population, production of disposable adult incontinence diapers continues to increase. There is also a commensurate increase in the quantity of used disposable diapers that are incinerated. By volume, disposable diapers account for around 1/8th of total household waste. At the same time, incineration costs and the CO₂ emissions associated with incineration are increasing. A further point is that disposable diapers are made from paper pulp which is made of wood as its raw material; rising pulp usage thus leads to the increased consumption of forest resources.

The European Union (EU) has set a target of increasing the percentage of urban waste that is recycled to 65% by 2030 and steps are already being taken to recycle used disposable diapers. Unicharm too is implementing initiatives aimed at realizing improvements in various areas including reducing incineration costs and CO₂ emissions and achieving more efficient utilization of resources. Starting in 2015, Unicharm has been implementing a project to put the recycling of used diapers on a commercial footing. As a manufacturer of disposable diapers, we feel that we have a responsibility to do this and we are proceeding with related technology development and verification testing.

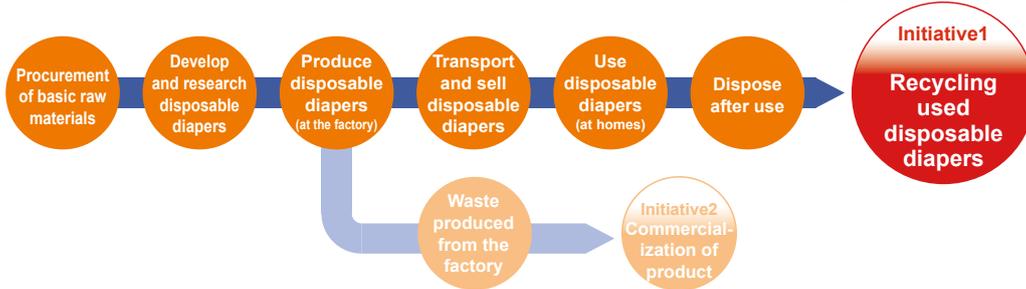
Our activities

Develop disposable diaper recycling technology

Activities towards recycling disposable diapers

Building our own unique recycling system

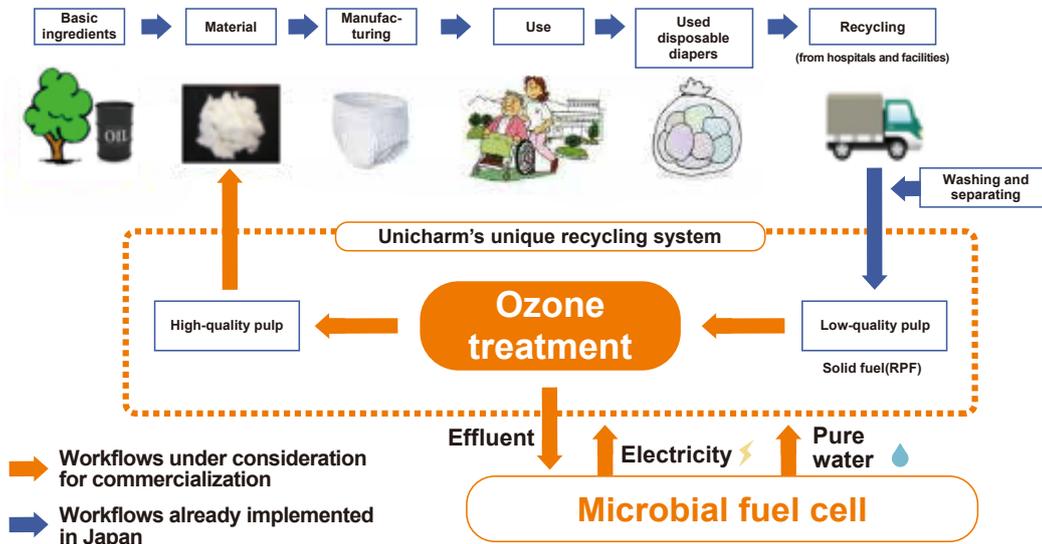
We aim to manufacture products that are environmentally friendly throughout their lifecycle.



Unicharm launched its used disposable diaper recycling program starting from 2015. By making recycling processing more efficient, we have succeeded in creating a recycling system that keeps processing fees down to the same level as the cost of incineration and which produces pulp of the same quality as pulp made from virgin material.

Unicharm's recycling-oriented model for disposable diapers

Our recycling system applies a unique ionization process to the pulp that we extract from used disposable diapers by means of cleaning and separation; the ionization process destroys the bacteria contained in the excretion. In this way, recycling is able to generate high-quality pulp that is just as hygienic and safe as virgin pulp. We also recycle the waste water generated in the cleaning and separation process thereby making processing more efficient and also reducing the amount of waste water that needs to be discharged. In addition, we undertook collaborative research with Hiroshima University to develop technology for the generation of electricity using the purification of recycled, concentrated waste water; in 2017, Unicharm was awarded a core patent for microbial fuel cell (MFC) processing.



Developing a recycling system in collaboration with the City of Shibushi

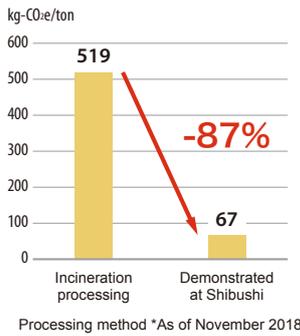
In order to be able to realize the recycling of used disposable diapers, it is vitally important to arrange collaboration with local government authorities and recycling firms on the collection and recycling of used diapers. Starting in May 2016, Unicharm has been collaborating on used disposable diaper recycling system verification testing with Shibushi City, Kagoshima Prefecture. The goal is to achieve full-scale separated collection and recycling of used diapers in Shibushi City by 2020.

Aiming to build a recycling system that can be adopted widely both within and outside Japan, we are fostering collaboration with other municipalities located near Shibushi City. In the future, we will continue to strengthen our efforts to realize the separated collection and recycling of used disposable diapers throughout Japan.

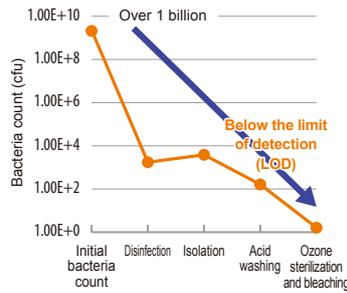
Examining ways of making the recycling of disposable diapers both environmental-friendly and people-friendly

We examined from multiple aspects what actual effects employing the recycling system would have. What we found was that the amount of greenhouse gas emitted could be substantially reduced, compared to burning used disposable diapers and creating new ones from virgin pulp. With the recycling approach, greenhouse gas emissions can be reduced by 87% compared to using incineration. We were also able to confirm that the safety and sanitation level of recycled pulp was also maintained at a high level similar to that of virgin pulp.

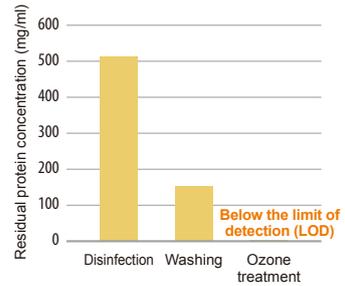
Greenhouse gas emission volume



Bacteria count in each process



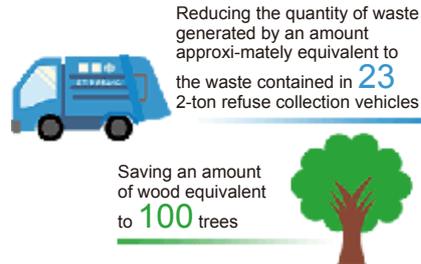
Amount of residual proteins



○ Greenhouse gas emission volume (compared to incineration disposal)
* Including the substitution effect from recycled product.

○ Bacteria count in each process and amount of residual proteins / Realizing the same high quality and the same level of cleanliness and whiteness as with virgin pulp made from wood

If adult diapers from 100 users are recycled over a one-year period, this would reduce the quantity of waste generated by an amount approximately equivalent to the waste contained in 23 2-ton refuse collection vehicles and would save an amount of wood equivalent to 100 trees. (Based on a survey conducted by Unicharm)



Reduce energy and waste at business sites

Realizing the goal of “zero waste”^{*1} by repurposing the waste generated by our factories on a commercial footing

We aim to manufacture products that are environmentally friendly throughout their lifecycle.

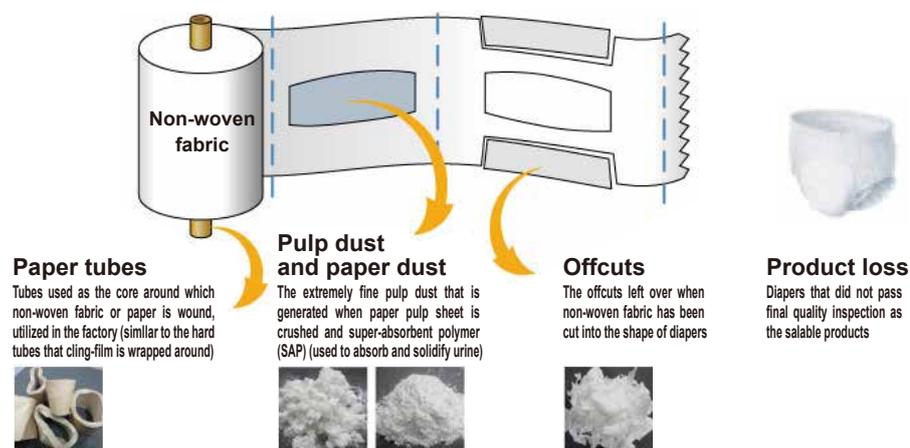


During the process of manufacturing disposable diapers, various types of waste are generated that are difficult to recycle, including product loss generated during production and the paper tubes, pulp dust and paper dust, offcuts, etc.^{*2} that are disposed of as waste by factories. Unicharm undertook repeated studies to determine whether these types of waste could be repurposed and found that it was possible to utilize this waste in the production of cat excretion care materials. After a process of experimentation, in 2011, Unicharm launched *Deo-Sand Cat Litter*[®] made using recycled waste. Currently, besides the waste generated during the disposable diaper production process, we are also working on effectively repurposing other hard-to-recycle materials that in the past have generally been incinerated, such as used tickets and stamps, used wallpaper, etc.

*1: Based on final disposal in landfill.

*2: See Figure “Waste generated in the disposable diaper production process.”

Waste generated in the disposable diaper production process



Deo-Sand[®] Scented Deodorizing Paper Litter[®]

Wastes collected from Unicharm factories in and outside Japan are cut up finely together with waste paper and the polymer-based absorbent material in the diapers is separated out. The finely-cut material is solidified to create Cat Litter pellets and the colored pellets are then coated with polymer-based absorbent material and paper dust to make *Deo-Sand*[®] Paper Sand. When a pet urinates on this product, the part that was urinated on dries solid and this part (only) can then be disposed of easily as burnable waste, making this an environmental-friendly product.



Initiatives to reduce CO₂ through products

Develop Eco Charming products

As a manufacturer of disposable products such as diapers and sanitary products, Unicharm recognizes that the achievement of environmental-friendly manufacturing is a vitally important issue that we cannot afford to neglect. Focusing on the utilization of paper pulp, which is made from wood, and on addressing the CO₂ emissions associated with the disposal of used products by incineration, we are taking steps to realize a recycling system for diapers. By establishing a cyclical model that covers the entire product lifecycle, we are contributing towards the realization of a sustainable society that is able to maintain economic growth while also safeguarding the global environment.

Our company has set a target ratio for environmental-friendly products as part of its environmental goal and is working on product development by having an environmental-friendly mind. Products with improved environmental performance are defined as environmental-friendly products based on an evaluation of whether environmental impacts are successfully reduced within the life cycle from the baseline figures of FY2005. Certification is performed by the CSR Division, which is independent from development, by calculating LCA (Life Cycle Assessment). In 2018, we achieved our goal of 83% environmental-friendly products. In 2019, we will work to further increase this percentage.

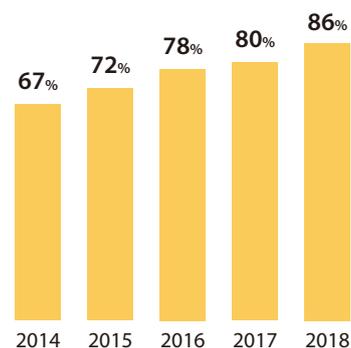
Additionally, Eco Charming products are a further evolved version of environmental-friendly products defined as top tier products that help contribute to the realization of a sustainable society. As of today, a total of 158 items fulfilled this definition (certification was extended to pet care products and institutional-use products in addition to personal care products starting in 2017). Going forward, we will continue to introduce environmental-friendly products as a means to lowering CO₂ emissions of procured materials and reducing CO₂ emissions during product disposal after use.

Utilization of SBT activities as a concrete climate change mitigation plan

In order to draft concrete climate change mitigation plans, our company has endorsed SBT (Science-based Targets), an international initiative, in May 2017 and uses the SDA tool (Ver. 8) to perform simulations up to 2050 and to draft reduction plans. In June 2018, in consultation with SBT, we received Japan's 17th certification for a plan that is aligned with the 2°C target.

Social impact Change in the ratio of environmental-friendly products

Results in 2018 **86%**



Reducing food waste in relation to fresh food products while safeguarding flavor

Unicharm has, for over 40 years now, been manufacturing and selling the tray mats on which fresh fish and meat are placed for sale in supermarkets. Conventional tray mats only function to soak up the fluids (blood etc.) that drip from the meat or fish. As a result, the product tended to dry out while that part that is contact with the tray mat got sticky; the use of this type of tray mat thus caused to deterioration in product freshness. Unicharm examined this issue to see whether it would be possible to address it using the non-woven fabric and absorbent material processing and forming technology that we have developed over the years and, in 2001, we launched *Fresh Master*, a tray mat product that not only absorbs fluids but also helps to keep products fresh. By only absorbing excess fluid, *Fresh Master* helps products to retain their freshness. Also, because the fluid drips do not remain on the tray mat film surface, the growth of unwanted bacteria can be controlled, making it less likely that the food will go bad. In addition, the fact that air can pass through the air-permeable film helps to reduce discoloration, which is a major cause of food having to be discarded. Today, many supermarkets are using Unicharm's *Fresh Master* tray mat products.

From our conversations with customers who gave us positive feedback about the impressive ability of *Fresh Master* to keep food fresh, it became apparent that, besides supermarkets, there was also a need for this kind of product in other types of business where fresh food is prepared and stored, such as restaurants. Responding to this need, in 2003, Unicharm launched large-sized *Fresh Master Freshness Preserving Absorbent Sheet*, designed for use in restaurants' and supermarkets' storage and food preparation areas. One head chef whose restaurant was using this new product commented happily that "Previously, when we were using kitchen paper etc. to put food on when it was in cold storage, the food would only last one day before it had to be thrown away because of discoloration or bad odor. Now that we have started using *Fresh Master Freshness-preserving Absorbent Sheet*, we can store food for three to four days with no problem, which has enabled us to realize a significant reduction in food loss." This new product can also be used effectively to prevent discoloration and malodor in meat or fish that is being "aged" (a process which has become increasingly popular in recent years) and we have received very positive comments about the product from sushi restaurants, etc.

The term "food loss" is used to refer to food products that are wasted despite the fact that they are safe to eat. According to Japan's Ministry of Agriculture, Forestry and Fisheries (MAFF), the restaurant sector accounts for around one-fifth of all food loss in Japan. Reducing food loss and food waste is vitally important for realizing a sustainable society. At meetings that Unicharm has held with restaurant operators, we have received many reports that using our *Fresh Master* products helps to reduce food loss. In the future, we will continue to develop products that contribute to reducing food loss.



Beef discoloration test — after three days of storage (showing the underside of the meat)
(Left) *Fresh Master*
(Right) Unicharm's meat paper product



Bluefin tuna that has been stored for six days
(Upper left and bottom left) *Fresh Master*
(Upper right and bottom right)
Unicharm's kitchen paper product

*All data are based on surveys conducted by Unicharm.

See below for more details about environment.

<http://www.unicharm.co.jp/english/csr/environment/index.html>



Unicharm's Key Challenges

4. Contributing to the Community

Our basic approach and strategy

Unicharm's CSR activities aim to help solve society's problems through our core business areas. Besides striving to make a contribution on a global scale, Unicharm is also serious about tackling problems that affect local communities that have a close relationship with Unicharm's business activities; as a good corporate citizen, we aim to make a positive contribution to these communities by making effective use of our company's unique strengths.

In addition, when the community is in a difficult situation due to sudden disasters etc., we would like to help in any way possible to support the minds and bodies of everyone who has been affected by the disaster. Many people have been affected by the serious damage due to the Great East Japan Earthquake that occurred on March 11, 2011. More recently, in 2018, the whole of Japan was affected by torrential rains, which were particularly severe in Western Japan. We would like to express our sincere sympathy to those who have been affected and also wish for a swift recovery of the affected areas. Since immediately after the Great East Japan Earthquake, Unicharm has delivered supplies and continually used the Matching Fund, set up to receive charitable donations from employees, to provide relief support. Through these activities, we will continue to deepen our interaction with local residents and make contributions to local communities.

Issues faced by society	Unicharm's initiatives
<ul style="list-style-type: none"> Climate change / frequent unusual weather events 	<ul style="list-style-type: none"> Activities to provide support for areas affected by natural disasters

Contributing to the realization of the SDGs

Unicharm's activities are in conformity with the United Nations Sustainable Development Goals (SDGs) objectives shown right. In the future, we will continue to leverage our company's unique strengths to make an even greater contribution towards the solving of the world's shared problems.



Our activities

Activities to provide support for areas affected by natural disasters

Continuing with our Matching Fund combing disaster relief support with electricity conservation

Our Matching Fund and Super Cool Biz and Warm Biz employee dress code activities, which were launched to provide disaster relief assistance and to promote electricity conservation, are now in their eighth year. The Matching Fund provides a matching donation equivalent to the price paid by Unicharm employees for original Unicharm polo shirts, jumpers etc. that can be worn at work; the money is used to provide support for areas affected by natural disasters. Donations made through the Matching Fund have been used to support disaster-affected areas through the provision of emergency supplies and care products to hospitals and other facilities thereby helping to enhance the quality of life of care recipients. Starting from 2016, Unicharm has also been donating to the MICHINOKU Future Fund, which aims to help children orphaned by natural disasters to realize their dream of continuing with their studies. We will continue to promote disaster area relief activities and energy conservation activities with our employees.

Support for areas affected by the torrential rains which affected Japan in July 2018.

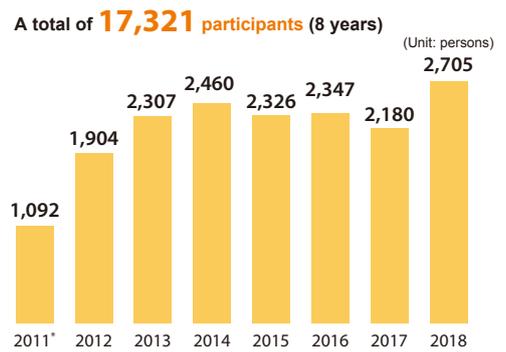
A truck carrying loaded with emergency supplies to help people living in affected areas.

Unicharm donated 5 million yen via the Japanese Red Cross Society and 5 million yen via local government authorities in affected districts, for a combined total of 10 million yen, to support emergency response and recovery efforts in areas affected by the torrential rains which Japan suffered in July 2018. These donations were made from the Matching Fund, whereby Unicharm matches donations made by employees with an equivalent amount. We also provided emergency supplies for the disaster-affected areas, including baby diapers, adult diapers, sanitary products, wet wipes, wet wipes for adult use, pet food, other pet products, etc.

In addition, staff from Unicharm's Chugoku and Shikoku region offices (which were located near the areas where retailers that are Unicharm customers had been affected by the torrential rains) and also younger employees from our Kinki and Kyushu region offices (which are slightly further afield) rushed to provide assistance as volunteers. Helping the affected retailers to recover from the disaster, they enabled a total of 31 stores to reopen within a period of around one month. In some cases, the stores could only be reached on foot because the roads were blocked, but the Unicharm employees still found a way to reach the stores and determined to provide all the help they could. Besides clearing mud out of store premises and dealing with inventory that had been damaged by flooding, because they were familiar with the stores and the products being sold, they were able to help rebuild the stores as places where consumers could find what they needed easily and shop conveniently. The employees who participated in this program reported feeling very happy to have been able to help the affected retailers.

Social impact

Total number of persons participating in the Super Cool Biz and Super Warm Biz activities to provide continued support to disaster-affected areas



* In 2011, only the Super Cool Biz activity was implemented.



A truck carrying loaded with emergency supplies to help people living in affected areas.

**Advice for protecting babies, for women, for senior citizens and for looking after pets
Unicharm launches the “My Style Bosai” microsite to provide information about the preparations needed in order to maintain good sanitary health in the event of a natural disaster**

In recent years, besides the extensive damage caused by the Great East Japan Earthquake and tsunami of 2011, Japan has also been affected by torrential rains, severe snowstorms, tornadoes, etc. In February 2019, with advice and guidance from NPO Mama Plug, we launched the “My Style Bosai” microsite on the Unicharm website, which uses discussions of people’s actual experiences to examine the various problems that can be associated with a natural disaster, focusing on the needs of different household environments, with the aim of helping people to reduce the hygiene risk that they, their family members and their pets are exposed to in the event of a natural disaster occurring.

“My Style Bosai” provides hygiene advice in the following areas: (1) What everyone needs to know to be prepared for and respond to a natural disaster; (2) Disaster readiness and response information for people with baby-care responsibilities; (3) Disaster readiness and response information for women; (4) Disaster readiness and response information for senior citizens; (5) Disaster readiness and response information for people providing at-home care; (6) Disaster readiness and response information for people with pets.



My Style Bosai
<http://www.unicharm.co.jp/csr-eco/mystylebosai/index.html>



See below for more details about our efforts in local communities.

<http://www.unicharm.co.jp/english/csr/society/index.html>



Unicharm's Key Challenges

5. Strengthen the Company's Organization and Ensure Fair Business Practices

Corporate Governance

Our basic approach and strategy

Unicharm believes that working towards sustainable growth and creation of medium-to-long term corporate value through efforts to cooperate appropriately with stakeholders and become a company supported and trusted by society leads to sound corporate management through the Unicharm Ideals. In order to achieve these targets, the basic policy towards corporate governance is to achieve transparent, fair, prompt and bold management through frank and proactive engagement that will gain the support of various stakeholders, initiatives in response to ESG issues and the further development of control environments to prevent mistakes by management.

See below for corporate governance report.

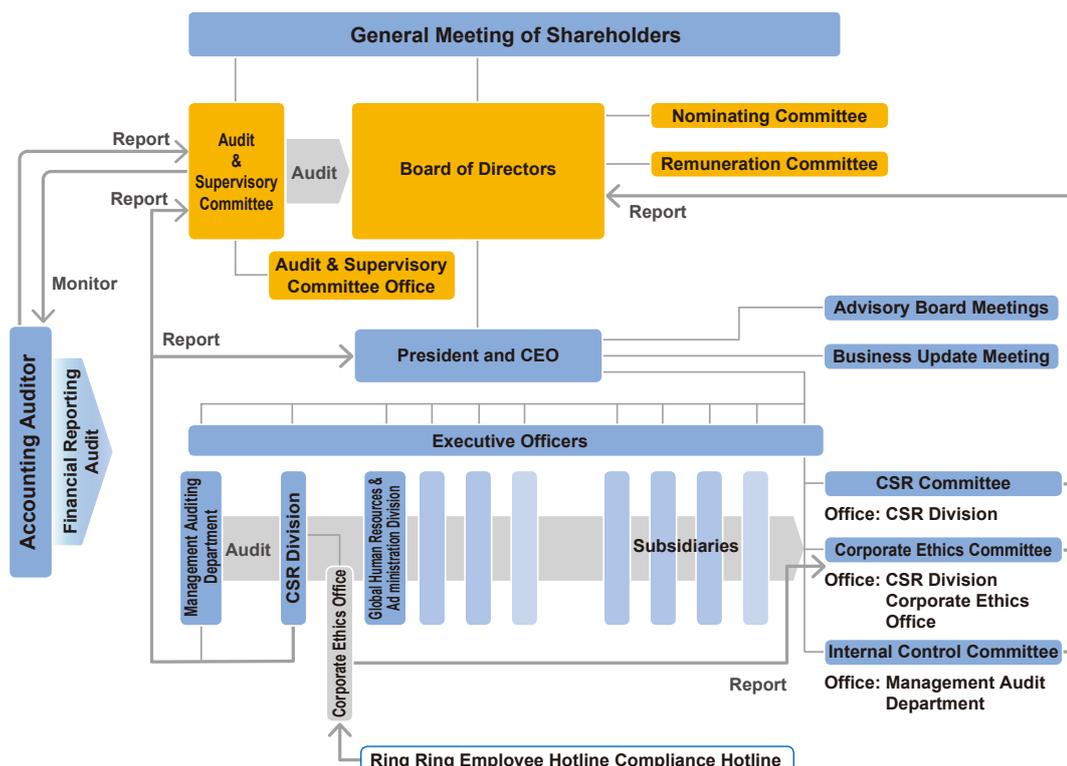
<http://www.unicharm.co.jp/english/about/corporate-governance/index.html>



Management structure

In May 2015, we moved to a “company with audit & supervisory committee governance structure” to meet the expectations of all our stakeholders in Japan and overseas from a global perspective by strengthening the oversight function of the Board of Directors toward management and bringing outside directors into the management process to increase transparency and efficiency. Members of the independent Audit & 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 helped to create a corporate culture and spirit based on compliance, appropriate collaborative relationships with stakeholders and sound business ethics.

■ Corporate Governance Structure (as of December 31, 2018)



Development of our internal control system

Unicharm 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, 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.

Compensation for directors and executive officers

Unicharm's policy on compensation for directors and executive officers is to ensure appropriate remuneration for each role and the level of responsibility. Decisions on compensation take into account a wide range of factors, such as motivating directors and executives to increase the Company's earnings and corporate value and the need to attract talented individuals.

To ensure the decision-making process is transparent and objective, the Compensation Committee discusses and makes decisions on remuneration. The committee comprises the President & CEO and all non-executive directors and independent outside directors. Independent outside directors account for half of the members on the committee, which is also chaired by an independent outside director.

Following the enforcement of the Companies Act, the Company's shareholders approved a resolution to abolish the retirement benefit system for directors and executive officers at the 47th Annual General Meeting of Shareholders on June 26, 2007. Directors and executive officers now only receive annual compensation.

To promote proactive management and ensure business strategy is executed and business targets are reached, Unicharm applies the following basic principles to compensation for directors and executive officers.

< Basic principles on compensation for directors and executive officers >

1. Compensation that contributes to sustainable growth and an improvement in corporate value over the medium and long term
2. Results-linked compensation structure that motivates directors and executive officers to complete business plans and attain earnings targets
3. Compensation levels that help the Company attract and retain talented personnel for senior management roles
4. Compensation determined through a highly transparent and objective decision-making process

< Unicharm's policy on compensation levels >

To rapidly respond to changes in the external environment and market conditions, the Company sets compensation based on benchmarks for director and executive pay at other companies of similar size in the same industry and other industries.

(Note) Compensation for directors and executive officers comprises basic pay and performance-linked pay. Compensation levels are determined based on a comparison of pay levels at other companies of similar size in the same industry and other industries, and on the Company's current financial position.

Basic pay is determined based on the level of responsibility for each role, while performance-linked pay is determined based on the Company's results in each fiscal year.

Compensation for non-executive directors and independent outside directors, which are independent from business execution, comprises only fixed pay.

< Standards for determining compensation for directors and executive officers >

Number	Standard	Accountability
1	Consolidated earnings (business plan)	1-1 Consolidated sales target
		1-2 Consolidated operating income
		1-3 Profit attributable to owners of parent
2	Earnings in applicable business division	2-1 Sales in applicable business division
		2-2 Profits in applicable business division
3	Company strategy	3 Priority strategies for each role
4	Business division strategy	4 Priority strategy in applicable business division

* Reference: In addition to stock options paid as a medium- to long-term incentive, the Compensation Committee is currently discussing the possibility of introducing a new medium- to long-term performance-linked stock-based compensation system based on performance and projected performance against targets in the medium- to long-term management plan.

Breakdown of compensation for directors

Role	Total compensation (millions of yen)	Totals for each type of compensation (millions of yen)	Number of directors receiving compensation
		Basic pay	
Directors (excluding audit committee members) (excluding outside directors)	584	584	8
Directors (audit committee members) (excluding outside directors)	10	10	1
Outside directors and audit committee members	19	19	2

(Notes) 1. Above includes directors who left office during the fiscal year.

2. Following the enforcement of the Companies Act, the Company's shareholders approved a resolution to abolish the retirement benefit system for directors and executive officers at the 47th Annual General Meeting of Shareholders on June 26, 2007. Directors and executive officers now only receive annual compensation.

Implementation status of the Board of Directors and Committees

In FY2018, the Board of Directors met 11 times and the Audit & Supervisory Committee met 12 times. The attendance rate was 93.3% for meetings of the Board of Directors and 100% for meetings of the Audit & Supervisory Committee. The attendance rate for Outside Directors and for Outside Audit & Supervisory Committee Members was 100% in both cases.

Selection Standards for Independent Directors

The selection standards for Independent Directors are indicated below.

<http://www.unicharm.co.jp/english/csr/governance/cg/pdf/eligibilitycriteria.pdf>



Compliance

Our basic approach and strategy

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.” Unicharm has created a booklet called The Unicharm Way which includes the Group’s Code of Conduct and other important compliance documents. Having been approved by the Board of Directors, The Unicharm Way has been distributed to and shared with everyone working at Unicharm Group companies, both within and outside Japan. It 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 and the Articles of Incorporation. In addition, Unicharm works to prevent acts that would lead to corruption including bribery, excessive entertainment and gifts through corporate activities, improper political contributions and insider trading, and to ensure compliance with labor standards. The President & CEO and executives continue to communicate the spirit set forth in The Unicharm Way to employees around the world in an effort to improve and instill an awareness of corporate ethics and ensure that all corporate activities are based on compliance.

Management structure

Unicharm has established a CSR Committee for the purpose of activity monitoring of all matters related to social responsibility centered around a framework of quality, safety and the environment in order to ensure the legality, fairness and soundness of corporate activities. A Compliance Hotline has been established as a consultation and whistle-blowing contact point for violation of laws and regulations, violations of internal regulations and major corporate ethics violations while the Ring-Ring Employee Hotline has been established as a consultation and whistle-blowing contact point for problems at the workplace such as internal harassment acts and human relationship issues as part of efforts to develop and enhance the compliance structure. A Corporate Ethics Office has been established as the contact point for the management of these bodies and, when a serious problem occurs, the President & CEO who serves as the chairman convenes a Corporate Ethics Committee with the standing members of the deputy chairman and members of the Audit & Supervisory Committee to resolve the issue; the Corporate Ethics Committee reports annually to the Board of Directors on the action that it has taken and the Committee’s effectiveness is periodically assessed. In addition, in order to conduct audits on whether business execution in each division is being conducted appropriately in accordance with laws, regulations, etc. and to provide advice as necessary, an Internal Audit Division that is independent from each business execution division and directly supervised by the President & CEO has been established and it conducts internal audits on Unicharm and subsidiaries. In addition, the Board of Directors has established policies for efforts to prevent all forms of corruption including demands and bribery and such efforts are also being conducted at related departments. In addition, the Sustainable Procurement Guidelines that aim to maintain fair relationships and prevent acts of corruption in transactions with suppliers clearly indicate the necessity of compliance with laws, regulations and social norms and fair trade as well as the prohibition of bribery and kickbacks, and promote the comprehensive prevention of corruption in transactions.

Whistle-blowing system

A Compliance Hotline has been established for Group employees, both within and outside Japan, including contract employees, as a consultation and whistle-blowing contact point in anonymity for violation of laws and regulations, violations of internal regulations and acts of corruption such as the taking and receiving of bribes etc. or major corporate ethics violations, while the Ring-Ring Employee Hotline has been established as a consultation and whistle-blowing contact point for problems at the workplace such as internal harassment acts and human relationship issues. Unicharm has also put in place a system that makes it easy for employees to consult with external organizations. The privacy of employees who use this system is respected and every effort possible is made to ensure that whistle-blowers are protected from harm; in addition, if it becomes necessary to involve a third party, the whistle-blower’s consent to this will be sought.

49 consultations (none of these related to compliance violations; there were four consultations regarding labor standards) were responded to in FY2018. We also set up and operate similar hotlines at our local subsidiaries in China and Thailand.

Initiatives to raise compliance awareness

The Unicharm Group Action Guidelines in The Unicharm Way that is distributed to all Group employee states the laws and regulations that should be taken into consideration in order to achieve our pledge to each stakeholder and aims to improve awareness of compliance in relation to issues such as corruption prevention. In addition, monitoring is conducted twice a year through an employee awareness survey.

To achieve our pledge to business partners (excerpt)

Prevention of unfair competition

We will always respond sincerely to business partners as we cooperate towards mutual growth in mutually prosperous relationships with them.

1. We will not acquire or use the business secrets of other companies through unauthorized methods for whatever reason.
2. In addition to not using any slanderous or fictitious expressions towards competitors, we will not use any expressions that could cause a misunderstanding.
3. We will provide entertainment and gifts to business partners within the scope of the general common sense. Entertainment and gifts will not be provided to any public officials or equivalent parties. We will not provide payments (facilitating payments) to facilitate public procedures.

In addition, an executive responsible for legal affairs will be specified at the insider information management administrator in the Insider Trading Prevention Regulations in an effort to prevent illegal acts. Transactions with a high level of risk that are similar to insider trading are prohibited as a general rule. In addition, it is obligatory to submit a trade notice for Unicharm's shares, etc. every time treasury shares are sold and cautionary information is released as appropriate that sets specific limits on trades of Unicharm's shares in consideration of circumstances including the positions and departments of executives and employees.

Compliance training and education

In order to raise the awareness of executives and employees towards compliance with laws and regulations, etc. and prevent the occurrence of compliance problems, compliance themes are incorporated in new employee training and training for employees posted overseas and the Legal Department and Accounting Control & Finance Division hold compliance study session for directors and executive officers several times a year. Through this training, efforts are made to thoroughly instill awareness on matters such as prohibitions on the taking and receiving of bribes and facilitating payments to public officials and the importance of compliance with antitrust laws. In addition, a wide variety of e-learning courses on matters such as the difference between managerial accounting and financial accounting have been established. The status of participation in these courses is monitored in an effort to ensure participation and instill understanding. Furthermore, quizzes related to legal knowledge are regularly posted on the internal intranet in an effort to spread awareness to ensure that employees do not unintentionally violate the law by introducing cases that can lead to misunderstandings.

Risk Management

Our basic approach and strategy

Unicharm pledges to continuously improve corporate value through global business activities and to sincerely conduct business activities in order to gain the trust of all stakeholders including customers, shareholders, business partners and local communities. In order to achieve this, Unicharm has established the Unicharm Ideals, the Five Great Pillars and Associate Principles of Action, the Beliefs and Pledges and Corporate Principles of Action and the Unicharm Group's Action Guidelines.

Gaining an appropriate understanding of the various risks that could have an effect to the realization of these objectives and preventing and minimizing the impact of such risks when they occur are positioned as important management issues. The Group has established a risk management system for the entire group that is implemented while continuously reviewing and improving ESG risk management. In addition to overseeing the code of conduct and code of ethics, the Board of Directors also analyzes and evaluates material ESG risks that are regularly reported by each department manager in order to deliberate and decide on improvement measures that are implemented by the Board of Directors independently from the Audit & Supervisory Committee. In addition, the CSR Committee learns about the importance of crisis management based on the theme of risk management. The main items that could become a business risk have been defined as follows and are deliberated by the CSR Committee.

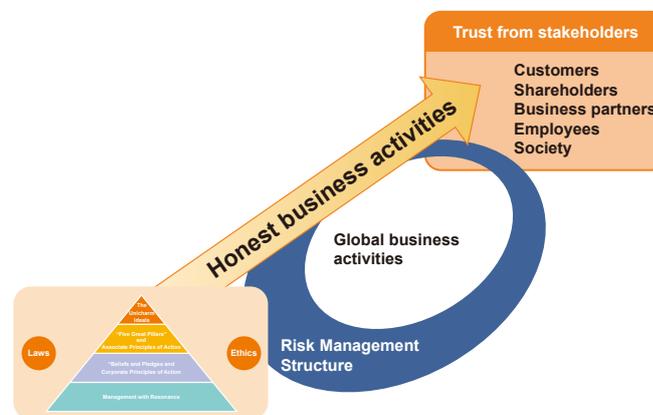
Major risks

- | | |
|--|---|
| <ol style="list-style-type: none"> 1. Risks related to the sales environment in conditions of intense competition 2. Risks related to the population structure 3. Overseas business risk 4. Raw materials price fluctuation risks 5. Risks related to the reliability of products 6. Risks relating to legal compliance violations | <ol style="list-style-type: none"> 7. Risks related to intellectual property including patents and trademarks 8. Risks related to environmental problems 9. Risks related to disasters and accidents 10. Risks related to acquisition, partnership, business consolidation, etc. 11. Information leakage risks |
|--|---|

For the management of these risks, Unicharm uses the ISO framework that also incorporates quality and environmental risks as important business risks as a manufacturer. In addition, individual management is conducted for risks including business continuity at the time of disasters.

Primary reference frameworks

- COSO • ISO9001 • ISO14001 • ISO10002 • ISO13485 • ISO14971



Unicharm's Corporate Philosophical Framework

Management structure

The CSR Committee that is the cross-organizational structure for the support of CSR, and which is chaired by the President & CEO with the Vice President & Executive Officer acting as deputy chair, considers sharing risk management issues and measures to be one of the important themes that need to be addressed. The themes deliberated by the CSR Committee and the results of these deliberations are regularly reported to the Board of Directors by the Vice President with the aim of sharing this information with Directors and members of the Audit & Supervisory Committee.

In addition, the Unicharm Group Action Guidelines have been established as action guidelines for actions by employees in recognition of major risks including the prohibition of insider trading, compliance with antitrust laws, the elimination of child labor and forced labor and the protection of personal information. In response to risks of corruption that have a high probability of occurring in society including insider trading and bribery, efforts are made to prevent corruption that include the provision of cautionary information to employees on insider trading using the internal intranet, training for employees posted overseas and the provision of cautionary information through e-learning as strengthened compliance training for employees engaged in operations in regional business activities are conducted, as well as the implementation of internal audits.

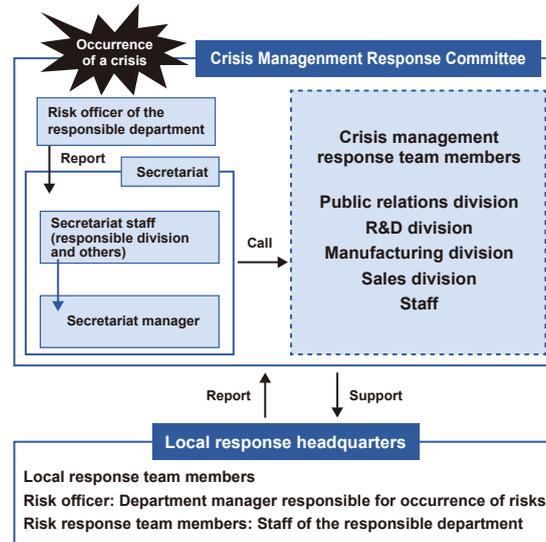
Response to the occurrence of ESG risks

If a major crisis occurs, a Crisis Management Response Committee will be established and endeavor to respond quickly and appropriately and achieve a prompt recovery based on the Crisis Communication Manual established as a regulation related to crisis management. An emergency in which the above risks are realized is considered a crisis and Unicharm positions the 12 items below as major crises. When such a crisis occurs, Unicharm fulfills its social responsibility by assessing the situation swiftly and accurately in accordance with the Crisis Communication Manual, working to prevent the expansion of damage and communicating appropriately with stakeholders. A handy manual has been distributed to every employee for the purpose of responding promptly when an ESG risk has emerged and a crisis has occurred. In addition, a structure has been established to respond to risks by the Crisis Management Response Committee in cooperation with internal related departments.

Major crises

- | | |
|-----------------------------------|---------------------------------------|
| 1. Quality | 7. Top/executives related |
| 2. Environment | 8. Disaster |
| 3. Representations | 9. Information accidents |
| 4. Occupational safety | 10. Reputational damage |
| 5. Human rights | 11. Pandemics |
| 6. Supplier/vendor related | 12. Disputes/political changes |

Crisis Response Organization



Rigorous information security

To ensure rigorous information security, Unicharm 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 and Specific Personal Information Handling 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. 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. Meanwhile, as a physical measure to prevent against information leaks through the loss or theft of devices, we completed the adoption of computers that cannot store data, the development of a cloud environment in which data and systems can only be used on a server and the creation of an environment in which systems can be used anywhere, at any time, without needing to take office PCs out of company premises, thereby making it possible to impose restriction on the taking of office PCs out of the office.

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 in an aim to put in practice an IP landscape in which intellectual property is useful for management decision making. 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 70% (2015) and the registration rate for Japanese patents at 96% (2017) (data taken from the Patent Administration's Annual Report 2018). In addition, as Unicharm is focusing on the development of environmental-friendly products and technologies, it has acquired patents related to the basic technologies for obtaining sanitary and safe high-quality pulp from used disposable diapers and patents related to processing methods that enable water purification at the same time as power generation using waste-fueled microbial fuel cells in the pulp acquisition process. Going forward, Unicharm will work to protect and use intellectual property at the same time as the development of technologies for practical application. Meanwhile, 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 order to raise the quality of our intellectual property rights, we actively use the Japan Patent Office's Collective Examination for IP Portfolio Supporting Business Strategy, we have signed up as the first user worldwide of the ASEAN Patent Examination Cooperation (ASPEC) program and we have acquired the first registration for the Patent Prosecution Highway Plus agreed to by the Japan Patent Office and the Brunei Darussalam Intellectual Property Office. For trademarks, we have acquired registration in Japan and China for *Moony* and *Sofy* audio and signed up as the first user worldwide in Thailand as part of efforts in Japan and overseas to enhance our ability to build a portfolio of intellectual property such as patents and trademarks.

Unicharm also takes a firm stance on protecting its intellectual property rights, including filing lawsuits against their infringements or unauthorized use. Its IP division closely cooperates with business and product development divisions as well as overseas subsidiaries and works with local governments to eliminate unauthorized and counterfeit products in Japan and overseas such as Asia, ASEAN, the Middle East and Africa and online in e-commerce. 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. We have formulated a business continuity plan (BCP) to help us prepare for a major emergency that could occur in Japan such as an earthquake directly underneath Tokyo or a large-scale interconnected earthquake involving the Tokai, Tonankai and Nankai plates. We have assumed the scenario of an earthquake (intensity of approximately upper 6) with an epicenter under the Tokyo metropolitan area in an area that includes the head office, adjacent plants and sales offices, and we have prepared impact assessments and damage assumptions, etc., considered alternative measures and established organization structures and backup structures to ensure the safety of employees and their families and continue business if an actual emergency occurs, and conducted ongoing evacuation drills assuming the occurrence of such an emergency based on this scenario.

Overview of the business continuity plan (BCP)

(1) Basic requirements

Basic policy/Assumed risks/Impact assessment/Assumed damage/Main elements

(2) Confirmation of safety and well-being of employees and their family members

Ensuring and saving lives

(3) Concrete measures for business continuity

Organizational structure and command structure/Securing important bases/External information/Dissemination and information sharing/Backup/Provision of products and services

(4) Important items that should be supported along with business continuity

Cooperation with and contributing to the community

(5) Measures necessary for implementing the business continuity plan (BCP)

Education and training/Inspections, corrective action and reviews

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 distribute a disaster response pocket manual for immediate reference during an emergency to all employees. We have put systems in place that allow us to contact employees using smartphones, which they must carry at all times, to help 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 and 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.



Crisis response training



Survival course at the head office

In 2017, we conducted ongoing training and drills including drills assuming the nighttime evacuation of production bases. Going forward, we will develop systems for responding to all incidents that can be assumed by strengthening risk countermeasures on a global level that incorporate risks such as uprisings or terrorism overseas.

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

Establishing a smart factory in Kyushu that aims to effectively integrate people, knowhow and equipment

Unicharm's main production facilities are located in Fukushima, Shizuoka and Shikoku, which means that they are at risk of being damaged in the event of a major earthquake occurring in the Nankai Trough (it is anticipated that an earthquake of this type could cause serious damage in Western Honshu and in the Chubu region). With this in mind, in 2019, we completed construction of a new Kyushu Plant, the aim of which is to effectively integrate people, knowhow and equipment. By adopting Internet of Things (IoT) technology that permits communication of factory on-site data in a timely manner, the new Kyushu Plant is able to realize enhanced levels of safety and productivity. In terms of environmental protection, the new Plant features over 70 energy-saving machines that help to reduce carbon dioxide emissions and with regard to reducing water consumption, by switching over from water-cooled equipment to air-cooled equipment for the Plant's ancillary equipment, we have succeeded in reducing the amount of waste water discharged by the Plant to zero. In addition, by adopting driverless transporter vehicles and robots, we have "automated"* the movement of heavy items within the Plant and related materials supply operations, thereby reducing the amount of effort that workers need to exert and enhancing efficiency. In the future, we will be examining ways to extend the adoption of smart technologies to our existing plants and realizing effective business continuity planning (BCP) through our new production system which effectively diversifies risk.

* "Autonomation" is a form of automation that aims to integrate the expert skills and knowhow that human workers possess with digital technology.

Risk management information website

In FY2017, we added a Risk Management Information Website to our corporate Intranet, focused on potential risks to the lives of Unicharm employees working within and outside Japan. The site specifies clear guidelines and criteria for responding to natural disasters, pandemics, occupational accidents, large-scale equipment-related accidents (all of the above are defined as safety risks), kidnapping, intrusion into and damaging of company facilities, terrorist attacks, riots, coups d'état and civil war. Information provided by Ministry of Foreign Affairs of Japan and by a risk management company that we have contracted with for this service is updated on a daily basis and, in FY2018, we compiled an "Overseas Risk Management Manual" which details procedures for responding to different types of event, structured by keywords and by time sequence; this has been added to the various manuals included in our corporate Intranet.



See below for more details about Corporate Governance.

<http://www.unicharm.co.jp/english/csr/governance/index.html>



See below for ESG Information List.

<http://www.unicharm.co.jp/english/csr/esg/index.html>



Officers (As of March 27, 2019)

Directors



Takahisa Takahara

President & CEO

Reasons for Appointment

Mr. Takahara has steered Unicharm's global strategy since 2001, when he was appointed representative director. In that time, the Unicharm Group has seen dramatic growth in sales, underscoring his capabilities as a business leader.



Eiji Ishikawa

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

Reasons for Appointment

Mr. Ishikawa has mainly been in charge of product development, manufacturing subsidiaries and other manufacturing-related divisions, driving improvements in product quality and expanding the Group's production network to sites worldwide.



Shinji Mori

Director, Vice President and Managing Executive Officer
General Manager of Japan Sales Head Office

Reasons for Appointment

Mr. Mori has extensive experience in Unicharm's sales divisions, where he has implemented the Group's online sales channel strategy and made a positive contribution to society by actively restructuring the business to support Unicharm's goal of creating cohesive societies for all people and pets.



Takashi Mitachi

Director, Audit & Supervisory Committee Member
(Outside Director)

Reasons for Appointment

Mr. Mitachi has a deep understanding of corporate management strategy due to an extensive track record of 24 years in corporate finance, accounting and management support.

Main Activities

Mr. Mitachi has attended 11 out of 11 meetings of the Board of Directors and 12 out of 12 meetings of the Audit & Supervisory Committee, providing appropriate advice about agenda points and other topics of discussion as required.



Hiroko Wada

Director, Audit & Supervisory Committee Member
(Outside Director)

Reasons for Appointment

Ms. Wada has a diverse track record in international business and experience in marketing.

* No activity records are available for fiscal 2018, as Ms. Wada was appointed to her post on March 27, 2019.



Gumpei Futagami

Director, Audit & Supervisory Committee Member

Reasons for Appointment

Mr. Futagami has extensive know-how as a senior business manager due to his experience as a director of the Company.

Main Activities

Mr. Futagami has attended 11 out of 11 meetings of the Board of Directors, providing appropriate advice about agenda points and other topics of discussion as required.

Executive Officers

President and Chief Executive Officer	Takahisa Takahara	Executive Officer	Shinobu Seki
Vice President and Managing Executive Officer	Eiji Ishikawa	Executive Officer	Tetsuya Shite
Vice President and Managing Executive Officer	Shinji Mori	Executive Officer	Masayuki Daiyo
Vice President and Managing Executive Officer	Kennosuke Nakano	Executive Officer	Tetsuo Ukai
Managing Executive Officer	Masakatsu Takai	Executive Officer	Satoru Kiuchi
Managing Executive Officer	Yoshihiro Miyabayashi	Executive Officer	Takahiro Batou
Senior Executive Officer	Hiromitsu Kodama	Executive Officer	Tsutomu Kido
Senior Executive Officer	Kenji Takaku	Executive Officer	Chikara Oka
Senior Executive Officer	Yukihiro Kimura	Executive Officer	Eijun Sato
Senior Executive Officer	Atsushi Iwata	Executive Officer	Hideo Kato
Senior Executive Officer	Seiichi Motoi	Executive Officer	Toru Morita
Executive Officer	Toshiro China	Executive Officer	Tsutomu Watanabe
Executive Officer	Toshifumi Hikosaka	Executive Officer	Hirotatsu Shimada
Executive Officer	Tadashi Nakai	Executive Officer	Hiroe Inaba
Executive Officer	Masaaki Takahashi		

Please scan the QR code to view career summary bios.



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

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

	2010/3 (JGAAP)	2011/3 (JGAAP)	2012/3 (JGAAP)	2013/3 (JGAAP)
For the Fiscal Period:				
Net sales (IFRS)	356,825	376,947	428,391	495,771
Overseas sales to net sales ratio (IFRS)	38.5%	42.4%	46.9%	52.6%
Cost of sales	193,012	203,394	233,936	268,743
Selling, general and administrative expenses	118,747	126,991	142,554	167,539
Operating income/Core operating income* ⁵ (IFRS)	45,066	46,561	51,900	59,488
Profit attributable to owners of parent (IFRS)	24,463	33,560	26,981	43,121
Basic earnings per share* ¹ (yen)	42.85	59.37	48.32	77.92
Cash dividends per share* ¹ (yen)	7.67	9.33	10.67	11.33
Consolidated dividend payout ratio	18.1%	31.4%	22.1%	14.5%
Cash flows from operating activities	55,032	-17,239	59,570	68,758
Cash flows from investing activities	-22,239	-69,527	-58,861	-53,304
Free cash flows	32,793	-86,766	709	15,454
Capital expenditures	24,750	82,655	69,498	52,340
Depreciation* ³	16,393	14,620	13,257	16,814
Amortization of goodwill	N/A	2,760	3,899	4,239
Research and development expense	4,558	4,953	4,733	5,098
Fiscal Year-end:				
Total assets	307,773	444,015	472,497	535,055
Property, plant and equipment	95,356	98,389	116,821	163,129
Long-term debt—less current maturities	943	47,354	35,219	23,000
Shareholders' equity/Total equity (IFRS)	207,413	219,632	243,207	329,201
Equity ratio/Ratio of equity attributable to owners of parent (IFRS)	59.7%	45.5%	45.1%	54.2%
Number of employees	7,108	7,317	10,287	10,855
(including overseas employees)	4,055	4,297	7,260	7,846
Ratios:				
Operating income to net sales ratio/Core operating income to net sales ratio (IFRS)	12.6%	12.4%	12.1%	12.0%
Net income to net sales ratio/Profit attributable to owners of parent to net sales ratio (IFRS)	6.9%	8.9%	6.3%	8.7%
Gross profit to net sales ratio	45.9%	46.0%	45.4%	45.8%
SG&A expenses to net sales ratio	33.3%	33.7%	33.3%	33.8%
ROE: Profit attributable to owners of parent to net assets/Return on equity attributable to owners of parent (IFRS)	13.9%	17.4%	13.0%	17.2%
ROA: Ordinary income to assets/Ratio of profit before tax to total assets (IFRS)	15.6%	11.5%	10.6%	12.9%
Stock Prices:				
High* ¹ (yen)	1,024	1,148	1,473	1,877
Low* ¹ (yen)	639	897	997	1,345
Environment-related Ratios:				
Reduction in CO ₂ emissions volume* ⁶	11.3	11.4	11	10.8
Recycling rate in industrial waste at three main plants	98.9%	99.2%	99.2%	99.1%
Percentage of environmental-friendly products	59%	55%	55%	56%

(Note) JGAAP amounts have been rounded down, IFRS amounts have been rounded off.

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

*3 Depreciation includes goodwill amortization costs.

*4 Unicharm adopted IFRS from fiscal 2017, ended December 31, 2017.

*5 Core operating income is gross profit after deducting selling, general and administrative expenses.

*6 Energy usage (GJ) / net sales (yen millions)

(Millions of yen)						
2014/3 (JGAAP)	2014/12 (JGAAP)* ²	2015/12 (JGAAP)	2016/12 (JGAAP)	2016/12 (IFRS)* ⁴	2017/12 (IFRS)* ⁴	2018/12 (IFRS)* ⁴
599,455	553,661	738,707	710,965	604,653	641,647	688,290
57.7%	64.4%	61.4%	57.7%	58.4%	58.9%	59.8%
331,807	308,421	406,521	376,510	376,842	393,101	423,005
200,407	183,892	252,250	256,178	148,695	161,707	170,178
67,240	61,347	79,934	78,277	79,116	86,838	95,107
38,216	32,731	40,511	44,134	46,971	52,772	61,353
64.1	54.33	67.55	74.29	79.06	89.85	103.73
12.67	12.73	14.80	16.00	16.00	20.00	24.00
19.8%	23.4%	21.9%	21.5%	20.2%	22.3%	23.1%
95,659	68,892	85,009	103,604	103,604	98,086	110,867
-58,220	-36,741	-68,166	-42,612	-42,612	-38,778	-113,400
37,439	32,151	16,843	60,992	60,992	59,308	-2,533
51,908	41,756	47,993	39,436	39,437	33,397	73,688
22,101	20,393	27,343	26,750	27,598	29,345	30,353
9,203	3,769	4,640	4,519	—	—	—
5,265	4,248	5,993	6,070	6,071	6,554	6,621
620,419	699,108	702,601	711,541	668,592	736,644	795,483
204,417	240,082	247,808	244,325	236,629	228,521	240,628
21,000	5,420	10,757	12,084	61,190	59,623	21,428
432,152	492,844	451,091	449,974	414,387	453,029	503,670
60.3%	60.0%	55.1%	54.4%	52.7%	52.6%	55.5%
12,795	13,901	15,500	15,843	15,843	15,757	16,207
9,801	10,907	12,526	12,842	12,842	12,648	13,007
11.2%	11.1%	10.8%	11.0%	13.1%	13.5%	13.8%
6.4%	5.9%	5.5%	6.2%	7.8%	8.2%	8.9%
44.6%	44.3%	45.0%	47.0%	37.7%	38.7%	38.5%
33.4%	33.2%	34.1%	36.0%	24.6%	25.2%	24.7%
11.5%	8.2%	10.0%	11.4%	13.4%	14.3%	14.8%
11.8%	9.9%	10.2%	10.2%	11.4%	13.2%	12.0%
2,230	3,010	3,398	2,668	2,668	3,078	3,892
1,683	2,359	2,045	2,001	2,001	2,436.50	2,767.50
11	10.5	10.3	9.5	9.5	9.4	10.6
99.4%	99.5%	99.5%	99.5%	99.5%	99.5%	99.4%
62%	67%	72%	78%	78%	80%	86%

Consolidated statement of financial position

(Millions of yen)

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

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(Millions of yen)

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

Consolidated statement of income

(Millions of yen)

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

Consolidated statement of comprehensive income

(Millions of yen)

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

Consolidated statement of changes in equity

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

(Millions of yen)

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

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

(Millions of yen)

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

Consolidated statement of cash flows

(Millions of yen)

	Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)
Cash flows from operating activities		
Profit before tax	92,926	91,561
Depreciation and amortization	29,345	30,353
Impairment losses	886	2,182
Interest and dividend income	(2,869)	(3,309)
Interest expenses	928	2,280
Foreign exchange loss (gain)	(547)	728
Loss (gain) on sale and retirement of fixed assets	898	598
Loss (gain) on sale of available-for-sale financial assets	(4,937)	–
Decrease (increase) in trade and other receivables	(7,583)	(85)
Decrease (increase) in inventories	(5,241)	(9,872)
Increase (decrease) in trade and other payables	8,388	15,994
Increase (decrease) in other current liabilities	6,826	4,434
Other	(3,023)	(3,281)
Subtotal	115,999	131,582
Interest and dividends received	2,721	3,224
Interest paid	(708)	(571)
Income taxes refund	8	1,283
Income taxes paid	(19,934)	(24,652)
Net cash provided by (used in) operating activities	98,086	110,867
Cash flows from investing activities		
Payments into time deposits	(65,952)	(21,697)
Proceeds from withdrawal of time deposits	46,937	28,607
Purchase of property, plant and equipment, and intangible assets	(32,598)	(43,303)
Proceeds from sale of property, plant and equipment, and intangible assets	64	313
Purchase of available-for-sale financial assets	(17)	–
Purchase of financial assets measured at amortized cost	–	(1,004)
Purchase of financial assets measured at fair value through profit or loss	–	(8,500)
Purchase of equity instruments measured at fair value through other comprehensive income	–	(13,931)
Proceeds from sale of available-for-sale financial assets	11,363	–
Proceeds from sale and redemption of financial assets measured at fair value through profit or loss	–	1,500
Proceeds from sale and redemption of equity instruments measured at fair value through other comprehensive income	–	802
Purchase of investments in subsidiaries resulting in change in scope of consolidation	–	(56,606)
Proceeds from sale of investments in subsidiaries resulting in change in scope of consolidation	1,424	411
Other	1	7
Net cash provided by (used in) investing activities	(38,778)	(113,400)
Cash flows from financing activities		
Net decrease (increase) in short-term borrowings	(3,334)	7,434
Proceeds from long-term borrowings	–	1,223
Repayments of long-term borrowings	(602)	(3,530)
Proceeds from sale of investments in subsidiaries not resulting in change in scope of consolidation	100	4,746
Payments for purchase of treasury shares	(14,000)	(15,500)
Dividends paid to owners of parent	(9,986)	(13,592)
Dividends paid to non-controlling interests	(2,715)	(8,455)
Other	(45)	(49)
Net cash provided by (used in) financing activities	(30,582)	(27,723)
Effect of exchange rate changes on cash and cash equivalents	3,135	(4,582)
Net increase (decrease) in cash and cash equivalents	31,860	(34,837)
Cash and cash equivalents at beginning of period	138,043	169,903
Cash and cash equivalents at end of period	169,903	135,065

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