Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending December 31, 2018 (January 1, 2018 through June 30, 2018); Flash Report [IFRS]

August 6, 2018

Listed Company Name: **Unicharm Corporation**
Listing: **First Section, Tokyo Stock Exchange**
Code Number: **8113**
URL: **http://www.unicharm.co.jp/**
Company Representative: **Takahisa Takahara, President and Chief Executive Officer**
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Planned Filing Date of Quarterly Securities Report: **August 8, 2018**
Planned Commencement Date of Dividend Payments: **September 3, 2018**
Preparation of Any Additional Explanatory Documents for Quarterly Financial Results: **Yes**
Holding of Any Briefing Session for Quarterly Financial Results: **Yes (Securities Analysts, Institutional Investors)**

(Amounts are rounded to the nearest million yen)

1. Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending December 31, 2018 (January 1, 2018 through June 30, 2018)

(1) Consolidated financial results (2Q cumulative)

(Figures in percentage represent increases or decreases from the same period last year)

	Net Sales		Core Operating Income		Profit Before Tax		Profit for the Period		Profit Attributable to Owners of Parent		Total Comprehensive Income	
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%
2Q of Fiscal Year Ending December 31, 2018	325,685	7.8	47,269	21.4	45,418	18.2	32,956	19.3	30,001	19.1	18,810	(28.5)
2Q of Fiscal Year Ended December 31, 2017	301,980	1.5	38,941	6.6	38,429	24.7	27,623	27.3	25,198	28.0	26,302	—

(Note) Core operating income is calculated by deducting selling, general and administrative expenses from gross profit.

	Basic Earnings Per Share	Diluted Earnings Per Share
	Yen	Yen
2Q of Fiscal Year Ending December 31, 2018	51.10	49.59
2Q of Fiscal Year Ended December 31, 2017	42.80	41.48

(2) Consolidated financial position

	Total Assets	Total Equity	Equity Attributable to Owners of Parent	Ratio of Equity Attributable to Owners of Parent
	Millions of Yen	Millions of Yen	Millions of Yen	%
As of June 30, 2018	739,448	484,947	424,976	57.5
As of December 31, 2017	736,644	453,029	387,567	52.6

2. Cash Dividends

	Annual Dividends				
	1st Q-End	2nd Q-End	3rd Q-End	Year-End	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal Year Ended December 31, 2017	–	9.00	–	11.00	20.00
Fiscal Year Ending December 31, 2018	–	12.00			
Fiscal Year Ending December 31, 2018 (projection)			–	12.00	24.00

(Note) Changes in dividend projections recently disclosed: None

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

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

	Net Sales		Core Operating Income		Profit Before Tax		Profit Attributable to Owners of Parent		Basic Earnings Per Share
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Yen
Full Year	687,000	7.1	94,000	8.2	93,000	0.1	59,000	11.8	99.14

(Note) Changes in results projections recently disclosed: None

*** Notes**

(1) Changes in major subsidiaries during the period (or any change of specified subsidiaries accompanying a change in the scope of consolidation): None

(2) Changes in accounting policies or estimates

(i) Changes in accounting policies required by IFRS: Yes
(ii) Changes in accounting policies other than item (i) above: None
(iii) Changes in accounting estimates: None
(Note) For the details, please refer to "2. Condensed Consolidated Financial Statements and Significant Notes Thereto, (5) Notes to the condensed consolidated financial statements, 2. Significant accounting policies" section on page 11.

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

(i) Number of issued and outstanding shares (including treasury shares):

As of June 30, 2018:	620,834,319 shares
As of December 31, 2017:	620,834,319 shares

(ii) Number of treasury shares as of end of period:

As of June 30, 2018:	25,712,368 shares
As of December 31, 2017:	35,097,927 shares

(iii) Average number of shares during the period (accumulated total):

2Q of Fiscal Year Ending December 31, 2018:	587,077,176 shares
2Q of Fiscal Year Ended December 31, 2017:	588,681,583 shares

* The quarterly financial results summary is not part of the quarterly review by certified public accountants or an audit corporation.

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

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

(2) Projections stated herein are based on the currently available information and the Company's assumptions that were judged to be valid as of the announcement date hereof, and are not intended to be a promise by the Company to achieve these projections. Therefore, actual results may differ for various factors. Please refer to "1. Qualitative Information on Financial Results, (3) Explanation of future estimate information such as consolidated financial results projections" section on page 5 for more information concerning the assumptions used for projections of financial results and other notes on proper use.

Contents of Exhibit

1. Qualitative Information on Financial Results

(1) Explanation of operating results

In the second quarter of the fiscal year under review (January 1 to June 30, 2018), for overseas, in our key target countries, including China, Indonesia, Thailand and India, competition remained harsh. However, the Group achieved solid growth, and proactively carried out sales activities for personal care products tailored to consumer needs, with a view to achieving sustainable growth.

In Japan, although raw material prices rose and uncertainty was aggravated by factors such as the increasingly severe trade dispute under the Trump administration in the US, the economy continued to recover and there were signs of recovery in personal spending as well. The Group continued to make proposals offering new value to stimulate demand for high value-added personal care products. These efforts resulted in stable growth.

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

As a result, the Company's net sales, core operating income, profit before tax, profit for the period, and profit attributable to owners of parent in the second quarter of the fiscal year under review reached ¥325,685 million (up 7.8% year on year), ¥47,269 million (up 21.4% year on year), ¥45,418 million (up 18.2% year on year), ¥32,956 million (up 19.3% year on year), and ¥30,001 million (up 19.1% year on year), respectively.

Financial results by segment are as described below.

1) Personal Care Business

● Baby Care Business
Overseas, the Company continued to strengthen its internet sales and worked to build name recognition for the *moony* series in China, where demand for high value-added imports from Japan, which meet the needs for safety, is high, as well as to promote pants-type disposable diapers. In India, where the use of disposable diapers is still low even among emerging countries, the Company expanded its sales area and market share while promoting pants-type disposable diapers. In addition, in Vietnam the Company endeavored to expand its market share of the *Bobby* brand by extending the distribution in local areas.

In Japan, we launched *moony man Sweat Free* in the *moony* brand, which fits comfortably on the baby's skin while preventing leakage. This limited-time product only available during spring and summer has a sweat-absorbing sheet on the backside to completely absorb perspiration and keep baby's skin dry. In addition, the Company made refinements to the *Mamy Poko* series, which has a charming Disney character design and an affordable price, as well as impressive performance. The absorber now uses a gel that quickly absorbs large volumes of urine repeatedly for a maximum of 12 hours*, and the shape was redesigned to prevent leaks for the long term even for babies that move around a lot. By relieving parents from worries about leaks, we have given them more enjoyment as they raise their babies.

* There are individual differences in the volume of urine a baby produces.

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

In Japan, with the *SOFY* brand, which encourages women to spread their wings, the Company launched the *SOFY Center-in Happy Catch* in the *Center-in* series, familiar for its "IN the pouch, GO fashionable!" approach. This new product prevents leaks and has a charming design tailored to the lifestyle and tastes of middle school and high school girls. The Company also launched the *SOFY* menstruation management application, available for free in the App Store and Google Play, so that young girls who are experiencing menstruation for the first time can learn to manage their cycle themselves and mothers can become familiar with their daughters' cycles to provide support. The Company has endeavored to ensure that young girls can go on with their regular lives with peace of mind. The Company also launched the *SOFY Panty Liner COOL* as a limited summer edition. This cool liner is perfect as it provides a feeling of refreshment from the moment it's put on and reduces stuffiness in the hot summer with a feeling of freshness. The Company has strived to propose its high value-added products utilizing its proprietary nonwovens technology to free women from their physical and emotional constraints while examining the structures of women's bodies and minds from a scientific perspective.

- Health Care Business

  In the overseas markets, populations in Taiwan, Thailand, Indonesia and China are aging even faster than in Japan, which will boost the demand for adult excretion care products. The Company moved ahead with preparations to spread the care model established in Japan to Asian regions.

  In the domestic market, which continues to grow as Japan's population of the elderly increases, the Company has been working to educate the public about products that enable elderly people to continue with their current lifestyle as before. In the light incontinence care products line, with the *Lifree Comfortable Pads* series of incontinence care products for men that are designed to prevent urine leakage and stains on trousers, and the *Charm Nap* brand, which brings happiness to daily life with its absorbent care, the Company continued its activities aimed at removing resistance to using these products by conveying that anyone can have light inconsistence. In the *Lifree* brand of adult disposable diapers and incontinence care products, the Company launched the *Lifree Comfortable Pads* series for women, which includes the world's first[*1] "speed in sheet" to instantly absorb urine containing impurities. This product is an example of the kind of product the Company develops for long-term use with peace of mind so that users can enjoy their daily lives as usual. The Company is also working to combat social problems associated with an aging population, such as home confinement and dementia, by holding regular *Lifree* "Social Walking[*2]" events that help prevent dementia by encouraging people to continue working purposefully with society through initiatives that everyone can participate in. In addition, The Company offers NAVI for Adult Diapers, which uses an artificial intelligence chatbot[*3] — the first in the adult diaper industry — to answer questions about excretion care 24 hours a day, 365 days a year. In these ways, the Company supports a healthy mentality and body. The Company has also actively promoted its products through TV commercials, on its website, during over-the-counter consultations at shops, and by creating shelf space at retailers based on daily activities to take the lead in the market for excretion care products.

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

- Clean and Fresh Business

  In the domestic market for clean and fresh products, the Company developed products in line with the changes in living environments and lifestyle changes targeted at the increasing number of customers who wish to keep their living spaces always spick and span by cleaning their homes easily within the limited time they spend at home. The development includes the adoption of the Moomin characters, popular across the generations, and its world view to the *Silcot Wet Tissues* series, which is a box of wipes that enables users to clean quickly with just one hand, as a package for limited edition products. The Company also ran a campaign in which customers could win limited novelty goods, and recommended ways to make daily life comfortable with the *Wave* brand, using its cleaning proposal that a single sheet of this product can clean the entire house. The Company also revitalized the diversifying cosmetic cotton market with products such as *Silcot Sponge Touch Moisturizing Cotton*, which makes skin amazingly moist with 50% less lotion[*1], and *Silcot Wiping Cotton Silky Cut*, made from Japan's first superfine filament[*2], which easily removes even microscopic dirt.

  *1: Compared to the Company's conventional products
  *2: The sheet covering the puff has a double-layered structure. The outer layer touching the skin consists of superfine filaments that are less than 10 µm in size and the inner part is made up of coarse

cellulose fibers. The survey covered cosmetic cotton from major brands in Japan. (survey by Unicharm Corporation, in October 2015)

As a result, net sales and segment profit (core operating income) for the personal care business for the fiscal period under review were ¥284,046 million (up 8.8% year on year) and ¥42,743 million (up 23.4% year on year), respectively.

2) Pet Care Business

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

In the domestic pet toiletry business, the Company launched the *Deo Toilet System Comfortably Wide* to provide comfortable spaces. This enables even large cats to turn around freely and find a comfortable position for excretion. This was inspired by the fact that one in four cat owners feel that their current toilet system is too narrow for their cat*.

In the domestic pet food market, the Company actively promoted sales and revitalized the market for its *Grand Deli* brand of dog food, which focuses on high-quality ingredients with well-balanced colors and a balance of flavor, taste and nutrition; the *Best Balance* brand of health food designed to give the best to each dog breed with a balance of nutrition, digestibility and taste; the *Silver Spoon* brand that uses plenty of the good-quality fish that cats love so that they are immersed in their food until the very last bite; and *Silver Spoon Three-Star Gourmet*, a premium food featuring luxurious tastes and smells.

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

* Survey of owners of cats living indoors (survey by Unicharm Corporation, in October 2017)

As a result, net sales and segment profit (core operating income) for the pet care business for the fiscal period under review were ¥38,126 million (up 0.9% year on year) and ¥4,496 million (up 1.6% year on year), respectively.

3) Other Businesses

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

As a result, net sales and segment profit (core operating income) in other businesses for the fiscal period under review were ¥3,512 million (up 11.2% year on year) and a profit of ¥29 million (segment profit (core operating income) was a loss of ¥112 million in the second quarter of the previous fiscal year).

(2) Explanation of financial position

(Assets)
Total assets as of the end of the second quarter were ¥739,448 million (up 0.4% compared with the end of the previous fiscal year). The major increases were ¥14,066 million in cash and cash equivalents and ¥7,636 million in other current financial assets, and the main decrease was ¥18,445 million in trade and other receivables.

(Liabilities)
Liabilities as of the end of the second quarter were ¥254,502 million (down 10.3% compared with the end of the previous fiscal year). The major decreases were ¥25,150 million in bonds and borrowings and ¥5,102 million in trade and other payables.

(Equity)
Total equity as of the end of the second quarter was ¥484,947 million (up 7.0% compared with the end of the previous fiscal year). The major increases were ¥30,001 million in profit attributable to owners of parent and ¥18,093 million decrease in treasury shares, and the major decreases were ¥13,205 million in other components of equity mainly due to foreign currency translation adjustment and ¥6,443 million in dividends paid to owners of parent.

(Ratio of equity attributable to owners of parent)
Ratio of equity attributable to owners of parent as of the end of the second quarter was 57.5%.

(3) Explanation of future estimate information such as consolidated financial results projections

Regarding full-year financials results projections, there were no changes from the announcement made on February 16, 2018.

2. Condensed Consolidated Financial Statements and Significant Notes Thereto

(1) Condensed consolidated statement of financial position

(Millions of Yen)

	Notes	Fiscal Year Ended December 31, 2017 (as of December 31, 2017)	2Q of Fiscal Year Ending December 31, 2018 (as of June 30, 2018)
Assets			
Current assets			
Cash and cash equivalents		169,903	183,968
Trade and other receivables		98,821	80,376
Inventories		60,529	63,921
Other current financial assets		59,119	52,098
Other current assets		18,805	19,935
Total current assets		407,176	400,297
Non-current assets			
Property, plant and equipment		228,521	225,415
Intangible assets		46,563	44,413
Deferred tax assets		9,451	9,482
Investments accounted for using equity method		733	736
Other non-current financial assets		33,631	48,289
Other non-current assets		10,568	10,817
Total non-current assets		329,467	339,151
Total assets		736,644	739,448

(Millions of Yen)

	Notes	Fiscal Year Ended December 31, 2017 (as of December 31, 2017)	2Q of Fiscal Year Ending December 31, 2018 (as of June 30, 2018)
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables		138,480	133,379
Bonds and borrowings		6,189	4,847
Income tax payables		11,070	11,606
Other current financial liabilities		239	520
Other current liabilities		38,001	38,825
Total current liabilities		193,979	189,176
Non-current liabilities			
Bonds and borrowings		58,000	34,192
Deferred tax liabilities		18,227	17,914
Retirement benefit liabilities		8,225	8,022
Other non-current financial liabilities		2,111	2,120
Other non-current liabilities		3,073	3,078
Total non-current liabilities		89,636	65,326
Total liabilities		283,615	254,502
Equity			
Equity attributable to owners of parent			
Capital stock		15,993	15,993
Share premium		421	9,290
Retained earnings		434,298	457,949
Treasury shares		(67,652)	(49,560)
Other components of equity		4,509	(8,697)
Total equity attributable to owners of parent		387,567	424,976
Non-controlling interests		65,461	59,971
Total equity		453,029	484,947
Total liabilities and equity		736,644	739,448

(2) Condensed consolidated statement of income

(Millions of Yen)

	Notes	2Q of Fiscal Year Ended December 31, 2017 (January 1, 2017 – June 30, 2017)	2Q of Fiscal Year Ending December 31, 2018 (January 1, 2018 – June 30, 2018)
Net sales	3	301,980	325,685
Cost of sales		(186,291)	(198,834)
Gross profit		115,689	126,850
Selling, general and administrative expenses	4	(76,747)	(79,582)
Other income		500	874
Other expenses		(1,391)	(374)
Financial income		1,327	1,675
Financial costs		(948)	(4,027)
Profit before tax		38,429	45,418
Income tax expenses		(10,806)	(12,462)
Profit for the period		27,623	32,956
Profit attributable to			
Owners of parent		25,198	30,001
Non-controlling interests		2,425	2,955
Profit for the period		27,623	32,956
Earnings per share attributable to owners of parent			
Basic earnings per share (Yen)		42.80	51.10
Diluted earnings per share (Yen)		41.48	49.59

Reconciliation of changes from gross profit to core operating income

(Millions of yen)

Gross profit	115,689	126,850
Selling, general and administrative expenses	(76,747)	(79,582)
Core operating income (*)	38,941	47,269

* Core operating income comprises gross profit less selling, general and administrative expenses. While it is not an indicator defined in IFRS, the Company voluntarily discloses this in the condensed consolidated statement of income and Note “3. Segment information” as the Company’s Board of Directors evaluates the performance of business segments based on core operating income, and it is believed to be a valuable benchmark for measuring the Company’s recurring business performance.

(3) Condensed consolidated statement of comprehensive income

(Millions of Yen)

	Notes	2Q of Fiscal Year Ended December 31, 2017 (January 1, 2017 – June 30, 2017)	2Q of Fiscal Year Ending December 31, 2018 (January 1, 2018 – June 30, 2018)
Profit for the period		27,623	32,956
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		—	1,600
Remeasurements related to net defined benefit liabilities (assets)		(22)	118
Subtotal		(22)	1,718
Items that may be reclassified to profit or loss			
Changes in fair value of available-for-sale financial assets		3,686	—
Changes in fair value of cash flow hedges		(48)	40
Exchange differences on translation in foreign operations		(4,937)	(15,904)
Subtotal		(1,299)	(15,864)
Total other comprehensive income, net of tax		(1,321)	(14,146)
Total comprehensive income		26,302	18,810
Total comprehensive income attributable to			
Owners of parent		24,796	18,738
Non-controlling interests		1,506	72
Total comprehensive income		26,302	18,810

(4) Condensed consolidated statement of changes in equity

Second Quarter of the Fiscal Year Ended December 31, 2017 (January 1, 2017 – June 30, 2017)

(Millions of yen)

	Notes	Equity attributable to owners of parent						Non-controlling interests	Total equity
		Capital stock	Share premium	Retained earnings	Treasury shares	Other components of equity	Total		
Balance at January 1, 2017		15,993	—	391,800	(53,652)	(2,042)	352,098	62,289	414,387
Profit for the period		—	—	25,198	—	—	25,198	2,425	27,623
Other comprehensive income		—	—	—	—	(402)	(402)	(920)	(1,321)
Total comprehensive income		—	—	25,198	—	(402)	24,796	1,506	26,302
Purchase of treasury shares		—	—	—	(14,000)	—	(14,000)	—	(14,000)
Dividends		—	—	(4,727)	—	—	(4,727)	(2,359)	(7,085)
Change of scope of consolidation		—	—	(34)	—	—	(34)	—	(34)
Equity transactions with non-controlling interests		—	59	—	—	—	59	49	108
Share-based payments		—	—	—	—	233	233	—	233
Transfer from other components of equity to retained earnings		—	—	(12)	—	12	—	—	—
Total transactions with owners		—	59	(4,773)	(14,000)	245	(18,469)	(2,310)	(20,779)
Balance at June 30, 2017		15,993	59	412,225	(67,652)	(2,199)	358,426	61,485	419,910

Second Quarter of the Fiscal Year Ending December 31, 2018 (January 1, 2018 – June 30, 2018)

(Millions of Yen)

	Notes	Equity attributable to owners of parent						Non-controlling interests	Total equity
		Capital stock	Share premium	Retained earnings	Treasury shares	Other components of equity	Total		
Balance at January 1, 2018		15,993	421	434,298	(67,652)	4,509	387,567	65,461	453,029
Profit for the period		—	—	30,001	—	—	30,001	2,955	32,956
Other comprehensive income		—	—	—	—	(11,263)	(11,263)	(2,883)	(14,146)
Total comprehensive income		—	—	30,001	—	(11,263)	18,738	72	18,810
Purchase of treasury shares		—	—	—	(0)	—	(0)	—	(0)
Conversion of convertible bond-type bonds with share acquisition rights		—	6,482	—	18,093	(1,849)	22,726	—	22,726
Dividends		—	—	(6,443)	—	—	(6,443)	(7,921)	(14,364)
Equity transactions with non-controlling interests		—	2,388	—	—	—	2,388	2,358	4,746
Transfer from other components of equity to retained earnings		—	—	94	—	(94)	—	—	—
Total transactions with owners		—	8,869	(6,349)	18,093	(1,943)	18,670	(5,563)	13,108
Balance at June 30, 2018		15,993	9,290	457,949	(49,560)	(8,697)	424,976	59,971	484,947

(5) Notes to the condensed consolidated financial statements

1. Notes regarding the Company's position as going concern

None.

2. Significant accounting policies

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

Quarterly income tax is calculated based on the estimated annual average effective tax rate.

The following are the accounting standards adopted by the Group from the first quarter of the fiscal year ending December 31, 2018.

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

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

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

(1) Adoption of IFRS 9

The Group has adopted IFRS 9 from the first quarter of the fiscal year ending December 31, 2018 and revised the accounting policies pertaining to non-derivative financial assets as follows:

(i) Initial recognition and measurement

The Group classifies financial assets which it holds into the following categories: (a) financial assets measured at amortized cost, (b) equity instruments measured at fair value through other comprehensive income, and (c) financial assets measured at fair value through profit or loss. This classification is determined at initial recognition of the financial assets.

The Group initially recognizes trade and other receivables on the date of occurrence. Other financial assets are recognized initially on the trade date at which the Group becomes a party to the contract. At initial recognition, all financial assets are measured at fair value. However, in the case of a financial asset that is not classified as a financial asset measured at fair value through profit or loss, it is measured at the fair value plus any transaction costs directly attributable to the acquisition of the financial asset. The transaction costs of financial assets measured at fair value through profit or loss are recognized in profit or loss.

(a) Financial assets measured at amortized cost

Of the financial assets held by the Group, those that meet both of the following conditions are classified as financial assets measured at amortized cost:

- The financial asset is held within a business model whose objective is to hold financial assets to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, financial assets are measured at amortized cost using the effective interest method, less any impairment loss. Amortization using the effective interest method and gains or losses arising in the event of derecognition are recognized in profit or loss of the reporting period.

(b) Equity instruments measured at fair value through other comprehensive income

Of the financial assets other than those measured at amortized cost, equity instruments for which the Group made an irrevocable election at initial recognition to present subsequent changes in the fair value in other comprehensive income are classified as equity instruments measured at fair value through other comprehensive income.

Subsequent to initial recognition, the financial assets are measured at fair value and changes in the fair value are recognized in other comprehensive income. In the event of derecognition of the relevant financial asset, the cumulative amount of gains or losses recognized through other comprehensive income is directly transferred to retained earnings.

Dividends from the relevant financial asset are recognized in profit or loss.

(c) Financial assets measured at fair value through profit or loss

Financial assets, other than those measured at amortized cost and equity instruments measured at fair value through other comprehensive income, are classified as financial assets measured at fair value through profit or loss.

Subsequent to initial recognition, the financial assets are measured at fair value and changes in the fair value are recognized in profit or loss.

(ii) Impairment of financial assets

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

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

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

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

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

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

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

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

(Millions of Yen)

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

(2) Adoption of IFRS 15

The Group has adopted IFRS 15 from the first quarter of the fiscal year ending December 31, 2018 and changed its accounting policies relating to revenue recognition as follows.

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

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

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

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

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

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

The impact of the application of IFRS 15 is insignificant.

3. Segment information

(1) Overview of reportable segments

The Group's reportable segments are part of its organizational units whose financial information is individually available, and are subject to regular review by its Board of Directors, the chief operating decision maker, for the purpose of deciding the allocation of its managerial resources and evaluating its business performance.

The Group is composed of three businesses, namely the personal care business, the pet care business and other businesses as its basic units, and has been engaged in its business activities by comprehensively developing domestic and overseas strategies by business unit.

Therefore, the “personal care business,” the “pet care business,” and “other businesses” constitute the Group’s reporting segments.

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

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

(2) Sales and results by reportable segment

Sales and results by reportable segment are as follows.

(Millions of Yen)

	2Q of Fiscal Year Ended December 31, 2017 (January 1, 2017 – June 30, 2017)					
	Reportable segments				Adjustments	Amounts reported in condensed consolidated statements
	Personal care	Pet care	Other	Total		
Sales to external customers	261,051	37,770	3,158	301,980	–	301,980
Sales across segments (Note)	–	–	17	17	(17)	–
Total segment sales	261,051	37,770	3,174	301,996	(17)	301,980
Segment profit (Core operating income)	34,629	4,424	(112)	38,941	–	38,941
Other income						500
Other expenses						(1,391)
Financial income						1,327
Financial costs						(948)
Profit before tax						38,429

(Millions of Yen)

	2Q of Fiscal Year Ending December 31, 2018 (January 1, 2018 – June 30, 2018)					
	Reportable segments				Adjustments	Amounts reported in condensed consolidated statements
	Personal care	Pet care	Other	Total		
Sales to external customers	284,046	38,126	3,512	325,685	–	325,685
Sales across segments (Note)	–	–	16	16	(16)	–
Total segment sales	284,046	38,126	3,528	325,700	(16)	325,685
Segment profit (Core operating income)	42,743	4,496	29	47,269	–	47,269
Other income						874
Other expenses						(374)
Financial income						1,675
Financial costs						(4,027)
Profit before tax						45,418

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

4. Selling, general and administrative expenses

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

(Millions of Yen)

	2Q of Fiscal Year Ended December 31, 2017 (January 1, 2017 – June 30, 2017)	2Q of Fiscal Year Ending December 31, 2018 (January 1, 2018 – June 30, 2018)
Freight-out expenses	19,667	21,390
Promotion expenses	9,927	10,224
Advertising expenses	11,208	11,096
Employee benefits expense	16,938	17,097
Depreciation and amortization expense	2,480	2,611
Research and development expense	3,293	3,199
Others	13,235	13,966
Total	76,747	79,582