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

November 5, 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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Scheduled Date to Submit Quarterly Securities Report: **November 7, 2018**
Scheduled Date to Commence Dividend Payments: **—**
Preparation of Supplementary Material on Quarterly Financial Results: **Yes**
Holding of Quarterly Financial Results Presentation Meeting: **Yes (Securities Analysts, Institutional Investors)**

(Amounts are rounded to the nearest million yen)

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

(1) Consolidated financial results (Q3 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	%
Q3 of Fiscal Year Ending December 31, 2018	498,115	7.0	75,808	13.8	73,905	10.4	52,475	8.9	47,086	7.9	44,805	(14.6)
Q3 of Fiscal Year Ended December 31, 2017	465,592	7.5	66,632	26.0	66,966	37.7	48,177	36.0	43,622	34.7	52,441	–

(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
Q3 of Fiscal Year Ending December 31, 2018	79.85	77.80
Q3 of Fiscal Year Ended December 31, 2017	74.21	71.89

(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 September 30, 2018	788,950	507,194	444,206	56.3
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 (forecast)				12.00	24.00

(Note) Changes in dividend forecasts recently disclosed: None

3. Forecast of 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	98.91

(Note) Changes in results forecasts 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): Yes

Newly included: 1 company

Company name: DSG International (Thailand) Public Company Limited

(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. Changes in major subsidiaries during the period" section on page 11.

(2) Changes in accounting policies and accounting 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, 3. Significant accounting policies" section on page 11.

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

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

As of September 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 September 30, 2018:	24,346,661 shares
As of December 31, 2017:	35,097,927 shares

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

Q3 of Fiscal Year Ending December 31, 2018:	589,711,446 shares
Q3 of Fiscal Year Ended December 31, 2017:	587,798,053 shares

* The quarterly financial results report is exempt from quarterly review by certified public accountants or an audit corporation.

* Explanation regarding proper use of the forecasts 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) Forecasts 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 forecasts. 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 forecasts" section on page 5 for more information concerning the assumptions used for forecasts 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 third quarter of the fiscal year under review (January 1 to September 30, 2018), for overseas, despite uncertainties such as interest rates raise in the US and currency depreciation in emerging countries, in our key target countries, including China, Indonesia, Thailand and India, economies showed signs of solid growth, and the Group 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 the economy was affected by factors such as trade disputes with the US, and a succession of natural disasters, 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 third quarter of the fiscal year under review reached ¥498,115 million (up 7.0% year on year), ¥75,808 million (up 13.8% year on year), ¥73,905 million (up 10.4% year on year), ¥52,475 million (up 8.9% year on year), and ¥47,086 million (up 7.9% 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 and security, is high, as well as to promote pants-type disposable diapers. In addition, the Company acquired shares of DSG (Cayman) Limited, which owns the *BabyLove*, *Fitti* and *PetPet* brands, and began initiatives to achieve high rates of growth in the Southeast Asia region, particularly in Thailand and Malaysia. 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 Vietnam the Company endeavored to expand its market share of the *Bobby* brand by extending the distribution in local areas.

  In Japan, the Company updated the products in the *moony* series, which fits comfortably on the baby’s skin while preventing leakage, by applying patented “covering high waist” technology* to L- and Big-sized products of *moony man Air Fit* and L-and Big-sized products of *Natural moony man* that uses organic cotton for the top sheet, a sensible choice for baby’s skin while preventing leakage. The new technology provides a firm fit to the rounded belly characteristic of infants, allowing clean coverage all the way up to the navel preventing the diaper to slide down. Driven by the desire for all babies to develop healthily and with a smile on their faces, the Company also supported creating an optimal environment for the growing number of low-weight (less than 2,500 g) newborns, through its collaboration with Japan DC Research Association on the “Project for Supporting Tiny Lives” campaign, a movement that supports low-weight newborns. In addition, the Company strengthened relations in the *Mamy Poko* series, which has a charming Disney character design and superior absorbency, as well as sub-category products such as *Oyasumi Man*, a brand exclusive for nighttime wear, in an effort to give parents more enjoyment as they raise their babies.

  * Constructed so that the edge of the waist area uses only stretchy, non-woven fabric, while the side edges of the waist area of the crotch use layers of stretchy, non-woven fabric and rubber threads.

- 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 a new variant in the *SOFY Center-in Happy Catch* series, the *SOFY Center-in Happy Catch Daytime Use for Extra Long 26 cm*, which has a charming "Oshaneko"* design tailored to the lifestyle and tastes of middle school and high school girls, while also offering prevention against leaks. This augments the brand lineup by offering a product that can be used with confidence even during longer daytime events, such as school festivals and school trips. The Company has strived to propose its high value-added products utilizing its proprietary non-woven technology to free women from their physical and emotional constraints, while examining the structures of women's bodies and minds from a scientific perspective, and to deliver initiatives that allow women to lead healthier lives and express their individuality, as exemplified by the Company's support for the pink ribbon movement for 11 consecutive years since 2008.

* This made-up Japanese word suggests a chic and cute cat.

● 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 Thailand, the Company acquired shares of DSG (Cayman) Limited, the owner of the *Certainty* brand, in order to build a superior market position in the market for adult disposable diapers, and have begun various initiatives aimed at accelerating the spread of such products.

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 offers NAVI for Adult Diapers, which uses an artificial intelligence chatbot[*1] — 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 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. 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.

In the *Cho-kaiteki* mask brand, which protects daily health and supports a safe and comfortable lifestyle, following the increasing adoption of mask usage by kindergarteners and early elementary grades children, the Company launched *Cho-kaiteki Mask For Kids (for kindergartener)* and *Cho-kaiteki Mask For Kids (for early elementary grades)*, which provide a perfect fit for the smaller faces of kindergarten and early elementary grades children. In this way the Company strove to offer a range of masks suitable for comfortable year-round use by both children and adults, and to revitalize the market.

*1: A program that engages in dialogue instead of a person (or a system that includes this function)
*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).

● 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 Company recommended ways to make daily life comfortable with the *Silcot Wet Tissues* series, which is a box of wipes that enables users to clean quickly with just one hand, and the *Wave* brand, using its cleaning proposal that a single sheet of this product can clean the entire house. The Company also took steps to revitalize the increasingly diversified cosmetic cotton market and promote sales by implementing campaigns in the *Silcot Cotton* series, which maintains the health of the skin as it changes on a daily basis and which makes everyday maintenance easier and more effective, for the *Silcot Sponge Touch Moisturizing Cotton*, which makes skin amazingly moist using 50% less lotion[*1], and for the *Silcot Wiping Cotton Silky Cut* products, made from Japan's first superfine filament[*2], which easily removes even microscopic dirt, as well as actively worked to capture demand from foreign visitors to Japan.

*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 ¥434,760 million (up 7.6% year on year) and ¥68,791 million (up 14.6% 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, with the number of toilet sheets used in cat toilets on an upward trend due to an increase in recent years in the number of owners installing cat toilets in their living space in order to spend more time with their pets, as well as a rise in "multiple pet owners" owning more than one cat, in the *Deo Toilet* brand, the Company launched the *Deo Toilet Deodorizing Sheet High-Capacity 20-Sheet* and the *Deo Toilet Soft Scented Deodorizing Design Sheet with Natural Garden Fragrance*, to meet the needs of pet owners for high capacity.

In the domestic pet food market, in the *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 Company launched the *Grand Deli Chicken White Meat with Broccoli and Pumpkin* pouch products, in both loose shredded and jelly-soaked types, which use 100% domestic chicken meat and promote healthy eating with a great flavor. In addition, the Company launched the first fruit flavor, *Grand Deli Banana & Apple*, in its *Grand Deli Ottotto* brand series of dog snacks with a crispy texture, jointly developed with Morinaga & Co., Ltd.* to meet the needs of owners who want to enjoy their snack time with their pets.

In cat food, in the *Silver Spoon* brand that uses plenty of the good-quality fish that cats love so that they are completely absorbed in their food until the very last bite, for both the "Kitten" products and the "Older Cat" products for cats of 15 years or so, the Company launched a *Silver Spoon Assorted Pack* with a blend of tuna, bonito and white chicken meat, broadening the line-up of products focused on maintaining health and nutritional balance.

In the North American market, sales have remained steady in sheets for dogs with the use of Japanese technology and in wet-type snacks for cats, 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 and dollar stores, single-price store that is specific to US.

* Snacks for dogs jointly developed for the first time by Unicharm Corporation and Morinaga & Co., Ltd.

As a result, net sales and segment profit (core operating income) for the pet care business for the fiscal period under review were ¥58,251 million (up 2.1% year on year) and ¥6,950 million (up 4.0% 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 ¥5,104 million (up 9.3% year on year) and ¥67 million (segment profit (core operating income) was a loss of ¥86 million in the third quarter of the previous fiscal year).

(2) Explanation of financial position

(Assets)
Total assets as of the end of the third quarter were ¥788,950 million (up 7.1% compared with the end of the previous fiscal year). The major increases were ¥49,975 million in intangible assets, ¥13,275 million in inventories, ¥13,075 million in property, plant and equipment and ¥11,178 million in other current financial assets mainly due to investment securities, and the main decrease was ¥40,510 million in cash and cash equivalents.

(Liabilities)
Liabilities as of the end of the third quarter were ¥281,756 million (down 0.7% compared with the end of the previous fiscal year). The major increases were ¥7,176 million in trade and other payables and ¥6,819 million in other current liabilities mainly due to accrued expenses and ¥1,274 million in deferred tax liabilities, and the main decrease was ¥17,268 million in bonds and borrowings.

(Equity)
Total equity as of the end of the third quarter was ¥507,194 million (up 12.0% compared with the end of the previous fiscal year). The major increases were ¥47,086 million in profit attributable to owners of parent and ¥20,724 million decrease in treasury shares, and the major decrease was ¥13,585 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 third quarter was 56.3%.

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

Regarding full-year financials results forecasts, 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)	Q3 of Fiscal Year Ending December 31, 2018 (as of September 30, 2018)
Assets			
Current assets			
Cash and cash equivalents		169,903	129,393
Trade and other receivables		98,821	98,708
Inventories		60,529	73,804
Other current financial assets		59,119	53,410
Other current assets		18,805	24,052
Total current assets		407,176	379,367
Non-current assets			
Property, plant and equipment		228,521	241,597
Intangible assets		46,563	96,538
Deferred tax assets		9,451	9,353
Investments accounted for using equity method		733	763
Other non-current financial assets		33,631	50,519
Other non-current assets		10,568	10,814
Total non-current assets		329,467	409,583
Total assets		736,644	788,950

(Millions of Yen)

	Notes	Fiscal Year Ended December 31, 2017 (as of December 31, 2017)	Q3 of Fiscal Year Ending December 31, 2018 (as of September 30, 2018)
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables		138,480	145,657
Bonds and borrowings		6,189	13,627
Income tax payables		11,070	9,981
Other current financial liabilities		239	1,232
Other current liabilities		38,001	44,819
Total current liabilities		193,979	215,316
Non-current liabilities			
Bonds and borrowings		58,000	33,294
Deferred tax liabilities		18,227	19,501
Retirement benefit liabilities		8,225	8,368
Other non-current financial liabilities		2,111	2,120
Other non-current liabilities		3,073	3,157
Total non-current liabilities		89,636	66,440
Total liabilities		283,615	281,756
Equity			
Equity attributable to owners of parent			
Capital stock		15,993	15,993
Share premium		421	10,233
Retained earnings		434,298	467,893
Treasury shares		(67,652)	(46,928)
Other components of equity		4,509	(2,984)
Total equity attributable to owners of parent		387,567	444,206
Non-controlling interests		65,461	62,988
Total equity		453,029	507,194
Total liabilities and equity		736,644	788,950

(2) Condensed consolidated statement of income

(Millions of Yen)

	Notes	Q3 of Fiscal Year Ended December 31, 2017 (January 1, 2017 – September 30, 2017)	Q3 of Fiscal Year Ending December 31, 2018 (January 1, 2018 – September 30, 2018)
Net sales	4	465,592	498,115
Cost of sales		(285,348)	(303,115)
Gross profit		180,245	195,000
Selling, general and administrative expenses	6	(113,612)	(119,192)
Other income		962	1,302
Other expenses		(1,394)	(1,383)
Financial income		2,735	2,399
Financial costs		(1,970)	(4,221)
Profit before tax		66,966	73,905
Income tax expenses		(18,790)	(21,430)
Profit for the period		48,177	52,475
Profit attributable to			
Owners of parent		43,622	47,086
Non-controlling interests		4,555	5,389
Profit for the period		48,177	52,475
Earnings per share attributable to owners of parent			
Basic earnings per share (Yen)		74.21	79.85
Diluted earnings per share (Yen)		71.89	77.80

Reconciliation of changes from gross profit to core operating income

(Millions of yen)

Gross profit	180,245	195,000
Selling, general and administrative expenses	(113,612)	(119,192)
Core operating income (*)	66,632	75,808

* 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 “4. 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	Q3 of Fiscal Year Ended December 31, 2017 (January 1, 2017 – September 30, 2017)	Q3 of Fiscal Year Ending December 31, 2018 (January 1, 2018 – September 30, 2018)
Profit for the period		48,177	52,475
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		–	2,997
Remeasurements related to net defined benefit liabilities (assets)		(44)	113
Subtotal		(44)	3,110
Items that may be reclassified to profit or loss			
Changes in fair value of available-for-sale financial assets		2,870	–
Changes in fair value of cash flow hedges		(68)	48
Exchange differences on translation of foreign operations		1,507	(10,828)
Subtotal		4,309	(10,780)
Total other comprehensive income, net of tax		4,265	(7,670)
Total comprehensive income		52,441	44,805
Total comprehensive income attributable to			
Owners of parent		47,722	41,804
Non-controlling interests		4,719	3,000
Total comprehensive income		52,441	44,805

(4) Condensed consolidated statement of changes in equity

Third Quarter of the Fiscal Year Ended December 31, 2017 (January 1, 2017 – September 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		–	–	43,622	–	–	43,622	4,555	48,177
Other comprehensive income		–	–	–	–	4,100	4,100	164	4,265
Total comprehensive income		–	–	43,622	–	4,100	47,722	4,719	52,441
Purchase of treasury shares		–	–	–	(14,000)	–	(14,000)	–	(14,000)
Dividends		–	–	(9,998)	–	–	(9,998)	(2,510)	(12,509)
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		–	–	(23)	–	23	–	–	–
Total transactions with owners		–	59	(10,055)	(14,000)	256	(23,740)	(2,462)	(26,202)
Balance at September 30, 2017		15,993	59	425,366	(67,652)	2,314	376,080	64,546	440,626

Third Quarter of the Fiscal Year Ending December 31, 2018 (January 1, 2018 – September 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		–	–	47,086	–	–	47,086	5,389	52,475
Other comprehensive income		–	–	–	–	(5,281)	(5,281)	(2,389)	(7,670)
Total comprehensive income		–	–	47,086	–	(5,281)	41,804	3,000	44,805
Purchase of treasury shares		–	–	–	(0)	–	(0)	–	(0)
Conversion of convertible bond-type bonds with share acquisition rights		–	7,424	–	20,725	(2,118)	26,031	–	26,031
Dividends		–	–	(13,585)	–	–	(13,585)	(7,984)	(21,569)
Change of scope of consolidation		–	–	–	–	–	–	68	68
Equity transactions with non-controlling interests		–	2,388	–	–	–	2,388	2,442	4,830
Transfer from other components of equity to retained earnings		–	–	94	–	(94)	–	–	–
Total transactions with owners		–	9,812	(13,491)	20,724	(2,211)	14,834	(5,474)	9,360
Balance at September 30, 2018		15,993	10,233	467,893	(46,928)	(2,984)	444,206	62,988	507,194

(5) Notes to the condensed consolidated financial statements

1. Notes regarding going concern assumptions

   None.

2. Changes in major subsidiaries during the period

   For the third quarter of the fiscal year under review, following the acquisition of the entire shares of DSG (Cayman) Limited, that company along with its subsidiaries comprising DSG International (Thailand) Public Company Limited and eight other companies, were included in the scope of consolidation.

   DSG International (Thailand) Public Company Limited falls under the category of specified subsidiaries.

3. 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 in order 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.

4. 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)

	Q3 of Fiscal Year Ended December 31, 2017 (January 1, 2017 – September 30, 2017)					
	Reportable segments				Adjustments	Amounts reported in condensed consolidated statements
	Personal care	Pet care	Other	Total		
Sales to external customers	403,877	57,048	4,668	465,592	–	465,592
Sales across segments (Note)	–	–	21	21	(21)	–
Total segment sales	403,877	57,048	4,689	465,613	(21)	465,592
Segment profit (Core operating income)	60,037	6,681	(86)	66,632	–	66,632
Other income						962
Other expenses						(1,394)
Financial income						2,735
Financial costs						(1,970)
Profit before tax						66,966

(Millions of Yen)

	Q3 of Fiscal Year Ending December 31, 2018 (January 1, 2018 – September 30, 2018)					
	Reportable segments				Adjustments	Amounts reported in condensed consolidated statements
	Personal care	Pet care	Other	Total		
Sales to external customers	434,760	58,251	5,104	498,115	–	498,115
Sales across segments (Note)	–	–	23	23	(23)	–
Total segment sales	434,760	58,251	5,126	498,138	(23)	498,115
Segment profit (Core operating income)	68,791	6,950	67	75,808	–	75,808
Other income						1,302
Other expenses						(1,383)
Financial income						2,399
Financial costs						(4,221)
Profit before tax						73,905

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

5. Business combinations

Q3 of Fiscal Year Ended December 31, 2017 (January 1, 2017 – September 30, 2017)

None.

Q3 of Fiscal Year Ending December 31, 2018 (January 1, 2018 – September 30, 2018)

(1) Overview of business combinations

On September 25, 2018, the Company acquired 100% shares of DSG (Cayman) Limited (hereafter "DSGCL").

The Company has proactively expanded its business especially in high growth markets in Asia, as an important part of its strategy to concentrate on priority countries and regions.

DSGCL Group is a corporate group manufacturing and distributing disposable diapers for babies and adults, with business locations in Thailand, Malaysia, Indonesia and Singapore. DSGCL's baby diaper brands include *BabyLove*, *Fitti* and *PetPet*, while its adult diaper brands include *Certainty*. The group has a solid market share and a high level of recognition in Southeast Asia. Especially in Thailand, where its population aging is expected to outpace that of Japan in the future, the group has built a leading position.

The Company has decided on the acquisition this time based on conviction that the addition of DSGCL Group to the Group will help (i) expand and improve our product lineup, enhance our market position and realize the economies of scale in the Southeast Asia region, particularly in Thailand and Malaysia, and (ii) generate cost and other synergies through integration of logistics and other functions. In the years ahead, the Company would like to pursue those synergies to further drive growth in the Southeast Asia region.

(2) The fair values of the consideration paid, assets acquired and liabilities assumed as of the acquisition date

(Millions of Yen)

	Amount
The fair value of the consideration paid in cash	59,901
The fair values of assets acquired and liabilities assumed	
Current assets	12,991
Non-current assets	11,034
Current liabilities	(10,547)
Non-current liabilities	(4,353)
The fair values of assets acquired and liabilities assumed (net)	8,765
Goodwill	51,135

With regard to the assets acquired and liabilities assumed, because the allocation of acquisition cost had not been completed by the end of the third quarter under review, the calculations presented here are provisional, and based on information available at the time.

The acquisition-related costs for the business combination amounted to ¥688 million, and were recorded in other expenses in the condensed consolidated statement of income for the third quarter of the fiscal year under review.

The main components of goodwill are the synergies with the existing business, and the excess earnings power, that are expected to be generated by the acquisition.

6. Selling, general and administrative expenses

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

(Millions of Yen)

	Q3 of Fiscal Year Ended December 31, 2017 (January 1, 2017 – September 30, 2017)	Q3 of Fiscal Year Ending December 31, 2018 (January 1, 2018 – September 30, 2018)
Freight-out expenses	30,111	32,663
Promotion expenses	14,575	14,937
Advertising expenses	15,363	16,295
Employee benefits expense	24,989	25,524
Depreciation and amortization expense	3,764	3,906
Research and development expense	4,798	4,849
Others	20,012	21,019
Total	113,612	119,192

7. Significant subsequent events

(Purchase of treasury shares)

At the meeting of the Board of Directors of the Company held on November 5, 2018, the Company resolved to purchase treasury shares under the provision of the Company's Articles of Incorporation based upon Article 459 (I) (i) of the Companies Act as follows.

(1) Reason for conducting purchase of treasury shares

To deliver even more returns to shareholders and to enable a flexible capital policy in response to changes in the business environment.

(2) Details of the share acquisition

1. Type of shares to be acquired: Company's common shares
2. Total number of shares to be acquired: 5.5 million shares (upper limit)
   (Ratio of total number of issued shares (excluding treasury shares): 0.92%)
3. Total share acquisition cost: 15,500 million yen (upper limit)
4. Acquisition period: November 6, 2018 – December 20, 2018
5. Acquisition method: Purchase on the Tokyo Stock Exchange
   (through discretionary investment by a securities company)