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

May 9, 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: **May 11, 2018**
Planned Commencement Date of Dividend Payments: **—**
Preparation of Any Additional Explanatory Documents for Quarterly Financial Results: **Yes**
Holding of Any Briefing Session for Quarterly Financial Results: **No**

(Amounts are rounded to the nearest million yen)

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

(1) Consolidated financial results (1Q cumulative)

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

	Net Sales		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	%
1Q of Fiscal Year Ending December 31, 2018	160,936	10.0	21,824	21.3	16,138	24.7	14,178	22.3	3,470	(56.5)
1Q of Fiscal Year Ended December 31, 2017	146,259	0.2	17,993	28.9	12,941	26.2	11,589	18.6	7,983	—

	Basic Earnings Per Share	Diluted Earnings Per Share
	Yen	Yen
1Q of Fiscal Year Ending December 31, 2018	24.21	23.45
1Q of Fiscal Year Ended December 31, 2017	19.64	19.04

(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 March 31, 2018	721,093	454,412	387,572	53.7
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	–				
Fiscal Year Ending December 31, 2018 (projection)		12.00	–	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 corresponding period of 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
First Half	322,000	6.6	42,000	7.9	41,500	8.0	26,000	3.2	44.39
Full Year	687,000	7.1	94,000	8.2	93,000	0.1	59,000	11.8	100.73

(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, 5. Significant accounting policies" section on page 10.

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

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

As of March 31, 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 March 31, 2018:	35,097,927 shares
As of December 31, 2017:	35,097,927 shares

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

1Q of Fiscal Year Ending December 31, 2018:	585,736,392 shares
1Q of Fiscal Year Ended December 31, 2017:	589,949,304 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 4 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 first quarter of the fiscal year under review (January 1 to March 31, 2018), for overseas, in our key target countries, including China, Indonesia, Thailand and India, competition remained harsh. However, personal spending was solid in China and a modest economic recovery was sustained in Indonesia. In this environment, the Group proactively carried out sales activities of personal care products tailored to consumer needs, with a view to expanding its sales and market share.

In Japan, financial markets were unstable as stock prices plummeted temporarily in response to a downturn in the US stock market and stronger yen in early February. Despite this, personal spending was solid, and 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, profit before tax, profit for the period, and profit attributable to owners of parent in the first quarter of the fiscal year under review reached ¥160,936 million (up 10.0% year on year), ¥21,824 million (up 21.3% year on year), ¥16,138 million (up 24.7% year on year), and ¥14,178 million (up 22.3% 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 quite low even among emerging countries, the Company expanded its sales area and market share while promoting pants-type disposable diapers.

  In Japan, the Company enhanced the softness of its *moony Air Fit 4S, 5S*, a diaper for low-weight newborns from the *moony* brand, which fits comfortably on the baby's skin while preventing leakage. With its further softened waist tape that does not put pressure on the stomach and its narrowed absorbent section in the groin area, the newborn can keep positioning[*1] easier. The Company released this improved product for hospitals and maternity clinics and provide a more pleasant environment, especially for the ultra low-weight newborns (up to 1,000 grams) requiring special care. This *moony Air Fit* diaper for low-weight newborns has been praised as a revolutionary diaper that can be worn comfortably. It has also earned acclaim for its expansion into countries mainly in Asia (Japan, Thailand, Indonesia, Malaysia, Singapore, Vietnam, Myanmar, India, Taiwan, and Australia), winning the 2018 Outlook Asia Innovation Award, given to companies providing innovative products and services in Asian markets, at the Outlook Asia 2018 in Singapore Conference held by EDANA[*2]. Together with the Graduate School of Kyoto University, the Company carried out research based on developmental psychology on actions that motivate parents and children, and launched *Trepanman* as a new diaper that makes toilet training enjoyable for both parents and children. These diapers come with the world's first[*3] "Reward Stickers," "Find the Same Picture" game, and "Wakuwaku Drawing Space," which are patented technologies.

  *1: Maintaining a curved position similar to that in the womb
  *2: EDANA (European Disposables And Nonwovens Association)
  *3: Among pants-type disposable diapers manufactured by major global brands (survey by Unicharm Corporation, in February 2018)
- 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, as more women are active both in their work and private lives, the Company proposed high value-added products utilizing its proprietary nonwovens technology with the *SOFY Hada Omoi* series, which is gentle on sensitive skin, the *SOFY Air Fit Slim* series that give users a new sense of comfort that they are not wearing a napkin, the *SOFY Ultra Sound Sleep* series, which prevents any and all leaks in 360°, and the stylish *Center-in* brand. With these products, the Company endeavored to free women from 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 are aging even faster than in Japan in Taiwan, Thailand, Indonesia and China, which has boosted 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 *Lifree Bottom Clean Shower* in late April. It can be used to wash bottoms to keep them clean and fresh, thus alleviating the burden for both home care workers and the person being cared for. In addition to offering a clean and pleasant incontinence care environment, the Company started its NAVI for Adult Diapers, which uses an artificial intelligence chatbot* — the first in the adult diaper industry — to answer questions about excretion care 24 hours a day, 365 days a year. 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.

* 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 and 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, as part of its efforts to revitalize the market. In the *Wave* brand with its cleaning proposal that a single sheet of this product can clean the entire house, the Company responded to changing ideas about cleaning in recent years that have resulted in customers selecting cleaning goods with attractive appearance by launching a limited edition of *Wave Handy Wiper Trial Set*, consisting of a wiper in pastel colors reminiscent of spring (blue, pink, and green) and "Wave-kun," its brand character, on the package. The Company proposes these products in order for customers have fun to select cleaning goods and make cleaning easy with them.

As a result, net sales and segment profit (core operating income) for the personal care business for the fiscal period under review were ¥141,223 million (up 11.4% year on year) and ¥22,856 million (up 33.3% 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, in the *Deo Toilet* brand, a system toilet for cats that is simple to care for and emits no smell even in a closed room[*1], the Company endeavored to increase sales with a campaign in which users who post pictures of their *Deo Toilet* decorated with the sticker included in the *Deo Toilet Unit Set* can win a food bowl with a unique design specially made for their cat.

In the domestic pet food market, in the *Grand Deli* brand of dog food, which focuses on high-quality ingredients with a well-balanced colors and a balance of flavor, taste and nutrition, the Company launched the *Grand Deli Soft and Easy-to-Eat Ultra-Small Morsels*, which is easy for ultra-small dogs[*2] with small mouths to eat. This line offers products for dogs at all life stages, and for dogs thirteen years or older, to promote a long life. In addition, the Company launched a cream cheese flavor in its *Grand Deli Ottotto* brand, dog snacks with crispy texture jointly developed with Morinaga & Co., Ltd.[*3], to meet the needs of owners who want to enjoy their snack time with their pets.

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.

*1: When used by one cat (up to 8 kg in weight) for one week
*2: Ultra-small dog: Less than 5 kg; Small dogs: 5 to 7 kg
*3: Snacks for dogs jointly developed for the first time by Unicharm Corporation and Morinaga & Co., Ltd. (as of March 2017)

As a result, net sales and segment profit (core operating income) for the pet care business for the fiscal period under review were ¥18,039 million (up 0.3% year on year) and ¥1,906 million (up 3.4% 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 ¥1,674 million (up 8.8% year on year) and a loss of ¥32 million (segment profit (core operating income) was a loss of ¥198 million in the first quarter of the previous fiscal year).

(2) Explanation of financial position

(Assets)
Total assets as of the end of the first quarter were ¥721,093 million (down 2.1% compared with the end of the previous fiscal year). The major increase was ¥12,186 million in other current financial assets mainly due to investment securities, and the main decreases were ¥14,777 million in trade and other receivables, ¥6,757 million in property, plant and equipment, and ¥3,869 million in cash and cash equivalents.

(Liabilities)
Liabilities as of the end of the first quarter were ¥266,682 million (down 6.0% compared with the end of the previous fiscal year). The major decreases were ¥8,146 million in trade and other payables, ¥4,678 million in income tax payables and ¥3,342 million in other current liabilities mainly due to accrued bonuses.

(Equity)
Total equity as of the end of the first quarter was ¥454,412 million (up 0.3% compared with the end of the previous fiscal year). The major increase was ¥14,178 million in profit attributable to owners of parent, and the major decrease was ¥10,132 million in other components of equity mainly due to foreign currency translation adjustment.

(Ratio of equity attributable to owners of parent)
Ratio of equity attributable to owners of parent as of the end of the first quarter was 53.7%.

(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)	1Q of Fiscal Year Ending December 31, 2018 (as of March 31, 2018)
Assets			
Current assets			
Cash and cash equivalents		169,903	166,034
Trade and other receivables		98,821	84,043
Inventories		60,529	61,043
Other current financial assets		59,119	59,447
Other current assets		18,805	19,243
Total current assets		407,176	389,810
Non-current assets			
Property, plant and equipment		228,521	221,764
Intangible assets		46,563	43,932
Deferred tax assets		9,451	9,240
Investments accounted for using equity method		733	715
Other non-current financial assets		33,631	45,489
Other non-current assets		10,568	10,143
Total non-current assets		329,467	331,283
Total assets		736,644	721,093

(Millions of Yen)

	Notes	Fiscal Year Ended December 31, 2017 (as of December 31, 2017)	1Q of Fiscal Year Ending December 31, 2018 (as of March 31, 2018)
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables		138,480	130,335
Bonds and borrowings		6,189	5,592
Income tax payables		11,070	6,393
Other current financial liabilities		239	500
Other current liabilities		38,001	34,659
Total current liabilities		193,979	177,479
Non-current liabilities			
Bonds and borrowings		58,000	56,553
Deferred tax liabilities		18,227	19,399
Retirement benefit liabilities		8,225	8,072
Other non-current financial liabilities		2,111	2,122
Other non-current liabilities		3,073	3,057
Total non-current liabilities		89,636	89,202
Total liabilities		283,615	266,682
Equity			
Equity attributable to owners of parent			
Capital stock		15,993	15,993
Share premium		421	2,808
Retained earnings		434,298	442,048
Treasury shares		(67,652)	(67,652)
Other components of equity		4,509	(5,624)
Total equity attributable to owners of parent		387,567	387,572
Non-controlling interests		65,461	66,839
Total equity		453,029	454,412
Total liabilities and equity		736,644	721,093

(2) Condensed consolidated statement of income

(Millions of Yen)

	Notes	1Q of Fiscal Year Ended December 31, 2017 (January 1, 2017 – March 31, 2017)	1Q of Fiscal Year Ending December 31, 2018 (January 1, 2018 – March 31, 2018)
Net sales	3	146,259	160,936
Cost of sales		(90,575)	(98,137)
Gross profit		55,685	62,799
Selling, general and administrative expenses	4	(36,892)	(38,068)
Other income		260	635
Other expenses		(585)	(48)
Financial income		1,190	818
Financial costs		(1,666)	(4,312)
Profit before tax		17,993	21,824
Income tax expenses		(5,052)	(5,686)
Profit for the period		12,941	16,138
Profit attributable to			
Owners of parent		11,589	14,178
Non-controlling interests		1,352	1,960
Profit for the period		12,941	16,138
Earnings per share attributable to owners of parent			
Basic earnings per share (Yen)		19.64	24.21
Diluted earnings per share (Yen)		19.04	23.45

Reconciliation of changes from gross profit to core operating income

(Millions of yen)

Gross profit	55,685	62,799
Selling, general and administrative expenses	(36,892)	(38,068)
Core operating income (*)	18,793	24,731

* 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	1Q of Fiscal Year Ended December 31, 2017 (January 1, 2017 – March 31, 2017)	1Q of Fiscal Year Ending December 31, 2018 (January 1, 2018 – March 31, 2018)
Profit for the period		12,941	16,138
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		–	533
Remeasurements related to net defined benefit liabilities (assets)		14	14
Subtotal		14	
Items that may be reclassified to profit or loss			547
Changes in fair value of available-for-sale financial assets		1,233	–
Changes in fair value of cash flow hedges		(10)	15
Exchange differences on translation in foreign operations		(6,195)	(13,230)
Subtotal		(4,972)	(13,215)
Total other comprehensive income, net of tax		(4,958)	(12,668)
Total comprehensive income		7,983	3,470
Total comprehensive income attributable to			
Owners of parent		7,762	4,061
Non-controlling interests		221	(590)
Total comprehensive income		7,983	3,470

(4) Condensed consolidated statement of changes in equity

First Quarter of the Fiscal Year Ended December 31, 2017 (January 1, 2017 – March 31, 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		–	–	11,589	–	–	11,589	1,352	12,941
Other comprehensive income		–	–	–	–	(3,826)	(3,826)	(1,131)	(4,958)
Total comprehensive income		–	–	11,589	–	(3,826)	7,762	221	7,983
Purchase of treasury shares		–	–	–	(7,000)	–	(7,000)	–	(7,000)
Dividends		–	–	(4,727)	–	–	(4,727)	(450)	(5,177)
Share-based payments		–	–	–	–	141	141	–	141
Transfer from other components of equity to retained earnings		–	–	9	–	(9)	–	–	–
Total transactions with owners		–	–	(4,718)	(7,000)	132	(11,586)	(450)	(12,037)
Balance at March 31, 2017		15,993	–	398,671	(60,652)	(5,737)	348,274	62,059	410,334

First Quarter of the Fiscal Year Ending December 31, 2018 (January 1, 2018 – March 31, 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		–	–	14,178	–	–	14,178	1,960	16,138
Other comprehensive income		–	–	–	–	(10,118)	(10,118)	(2,551)	(12,668)
Total comprehensive income		–	–	14,178	–	(10,118)	4,061	(590)	3,470
Dividends		–	–	(6,443)	–	–	(6,443)	(390)	(6,833)
Equity transactions with non-controlling interests		–	2,388	–	–	–	2,388	2,358	4,746
Transfer from other components of equity to retained earnings		–	–	15	–	(15)	–	–	–
Total transactions with owners		–	2,388	(6,428)	–	(15)	(4,055)	1,968	(2,087)
Balance at March 31, 2018		15,993	2,808	442,048	(67,652)	(5,624)	387,572	66,839	454,412

(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 reporting period.

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 reporting period 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 reporting period 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)

	1Q of Fiscal Year Ended December 31, 2017 (January 1, 2017 – March 31, 2017)					
	Reportable segment				Adjustments	Amounts reported in condensed consolidated statements
	Personal care	Pet care	Other	Total		
Sales to external customers	126,732	17,988	1,538	146,259	–	146,259
Sales across segments (Note)	–	–	8	8	(8)	–
Total segment sales	126,732	17,988	1,546	146,267	(8)	146,259
Segment profit (Core operating income)	17,148	1,843	(198)	18,793	–	18,793
Other income						260
Other expenses						(585)
Financial income						1,190
Financial costs						(1,666)
Profit before tax						17,993

(Millions of Yen)

	1Q of Fiscal Year Ending December 2018 (January 1, 2018 – March 31, 2018)					
	Reportable segment				Adjustments	Amounts reported in condensed consolidated statements
	Personal care	Pet care	Other	Total		
Sales to external customers	141,223	18,039	1,674	160,936	–	160,936
Sales across segments (Note)	–	–	6	6	(6)	–
Total segment sales	141,223	18,039	1,680	160,942	(6)	160,936
Segment profit (Core operating income)	22,856	1,906	(32)	24,731	–	24,731
Other income						635
Other expenses						(48)
Financial income						818
Financial costs						(4,312)
Profit before tax						21,824

(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)

	1Q of Fiscal Year Ended December 31, 2017 (January 1, 2017 – March 31, 2017)	1Q of Fiscal Year Ending December 31, 2018 (January 1, 2018 – March 31, 2018)
Freight-out expenses	9,229	10,610
Promotion expenses	4,540	4,683
Advertising expenses	4,990	4,590
Employee benefits expense	8,404	8,560
Depreciation and amortization expense	1,231	1,312
Research and development expense	1,656	1,566
Others	6,841	6,748
Total	36,892	38,068