Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending December 31, 2019 (January 1, 2019 through September 30, 2019); Flash Report [IFRS]

November 8, 2019

Listed Company Name: **Unicharm Corporation**
Listing: **First Section, Tokyo Stock Exchange**
Code Number: **8113**
URL: **http://www.unicharm.co.jp/**
Company Representative: **Takahisa Takahara, Representative Director, President and Chief Executive Officer**
Contact Person: **Hirotatsu Shimada, Executive Officer, General Manager of Accounting Control and Finance Division**
Telephone Number: **+81-3-3451-5111**
Scheduled Date to Submit Quarterly Securities Report: **November 12, 2019**
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, 2019 (January 1, 2019 through September 30, 2019)

(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, 2019	524,741	5.3	68,360	(9.8)	67,597	(8.5)	51,834	(1.2)	45,496	(3.4)	43,596	(2.7)
Q3 of Fiscal Year Ended 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)

(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, 2019	76.49	75.96
Q3 of Fiscal Year Ended December 31, 2018	79.85	77.80

(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, 2019	809,804	518,079	454,161	56.1
As of December 31, 2018	795,483	503,670	441,456	55.5

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, 2018	–	12.00	–	12.00	24.00
Fiscal Year Ending December 31, 2019	–	14.00	–		
Fiscal Year Ending December 31, 2019 (forecast)				14.00	28.00

(Note) Changes in dividend forecasts recently disclosed: None

3. Forecast of Consolidated Financial Results for the Fiscal Year Ending December 31, 2019 (January 1, 2019 through December 31, 2019)

(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	730,000	6.1	100,000	5.1	96,500	5.4	63,500	3.5	106.91

(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): None

(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, (4) Notes to the condensed consolidated financial statements, 2. Significant accounting policies" section on page 12.

(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, 2019:	620,834,319 shares
As of December 31, 2018:	620,834,319 shares

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

As of September 30, 2019:	26,875,577 shares
As of December 31, 2018:	24,151,251 shares

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

Q3 of Fiscal Year Ending December 31, 2019:	594,767,734 shares
Q3 of Fiscal Year Ended December 31, 2018:	589,711,446 shares

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

* 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 Group'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 forecast of consolidated financial results" 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, 2019), while the operating environment of the Group overseas was affected by uncertainties over the outlook for the global economy due to the increasingly severe US-China trade conflict, the Brexit issues, oil supply risks in Saudi Arabia, etc., the Group proactively carried out sales activities for personal care products tailored to consumer needs and achieved sustainable growth.

In Japan, despite it being the period leading up to the consumption tax hike in October, last-minute demands were insignificant, and while personal spending has been steady, there were signs of bottoming out in cross-border e-commerce. Therefore, the Group continued to make proposals offering new value to stimulate demand for high value-added personal care products and worked to expand its markets.

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 ¥524,741 million (up 5.3% year on year), ¥68,360 million (down 9.8% year on year), ¥67,597 million (down 8.5% year on year), ¥51,834 million (down 1.2% year on year), and ¥45,496 million (down 3.4% 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 corporate brands and the *moony* series in China, where demand for high value-added imports from Japan that meet the needs for safety and security is high, as well as to promote pants-type disposable diapers. The Company also launched new Chinese-made *moony* series with better ventilation, in order to better meet diverse consumer needs in the Chinese market. Having acquired the shares of DSG (Cayman) Limited, which owns the *BabyLove*, *Fitti* and *PetPet* brands, the Company continued to pursue synergies to drive dramatic growth in the Southeast Asia region. 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 Saudi Arabia, the Company continued offering products tailored to consumer needs, in an effort to maintain the top share in the market[*1], which it achieved in the previous year.

  In Japan, in addition to promoting sales of the *Natural moony* series (the first disposable diaper in Japan[*2] to use organic cotton for the top sheet) and the *moony Air Fit* series, which prevents leakage, the Company started a flat-rate service for disposable baby diapers for nursery schools in partnership with BABY JOB Co., Ltd., a supplier of childcare personnel services, in order to reduce the burden on increasing dual-income households and to give parents more enjoyment as they raise their babies.

  *1: Disposable baby diaper market within Saudi Arabia (cumulative sales amount from July 2018 to June 2019, per Nielsen)

  *2: Surface sheets of leading disposable baby diaper products in Japan (survey by Unicharm Corporation, in March 2016)

- Feminine Care Business
  For overseas, in China the Company's high-quality products featuring charming designs remain highly popular with the younger generation. Under such circumstances, the Company continued in its efforts to expand its sales area and the number of stores. 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 limited edition *SOFY Center-in Happy Catch nicola Model Design Package*, designed by models from "nicola," the leading teen magazine, to help middle and high school girls who are still unfamiliar with menstruation to develop a positive view of menstruation. This is a part of the *SOFY Center-in Happy Catch* series, which has a charming "Oshaneko" design tailored to the lifestyle and tastes of middle and high school girls. Moreover, with efforts such as by starting the "#NoBagForMe" project aimed at helping create a world in which everybody treats menses as an ordinary event and can feel free to talk about menstruation and sanitary products without hiding them, and by continuing with its support for the pink ribbon movement for 12 consecutive years since 2008, the Company strove to free women from their physical and emotional constraints and to realize a society in which all women can play an active role, leading healthier lives and expressing their individuality, while examining the structures of women's bodies and minds from a scientific perspective, in addition to working to offer high-value-added products using its proprietary non-woven fabric technology.

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

● Health Care Business

In the overseas markets, populations in Taiwan, Indonesia, Thailand, Vietnam 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 and Malaysia, where the Company acquired shares of DSG (Cayman) Limited, the manufacturer of the *Certainty* brand, in order to build a superior market position in the market for adult disposable diapers, the Company has conducted 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, in addition to its launch of the *Cho-kaiteki Mask Stuffy-Free Type BLACK*, *Cho-kaiteki Mask Regular Size Pink* and *Cho-kaiteki Mask For Kids (for kindergartener) Oyako Animal Pattern*, the Company made efforts to revitalize the market by selling *Cho-kaiteki Mask Regular Size 50-Packs* to meet bulk purchase needs before the increase in the consumption tax rate.

*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.

With regard to 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, the Company launched large-quantity packs that can be used generously for the *Silcot Sponge Touch Moisturizing Cotton*, which makes skin amazingly moist using 50% less lotion[*1], and took steps to revitalize the increasingly diversified cosmetic cotton market, together with the *Silcot Wiping Cotton Silky Cut* products, made from Japan's first superfine filament[*2], which easily removes even microscopic dirt, as well as to promote sales to capture demand from foreign visitors to Japan.

The Company has been working on reducing food wastage in relation to fresh foods with products such as *Cook Up* cooking paper for uses from food preparation, cooking, and storage to kitchen wipes, as well as introducing convenient usage methods such as maintaining the freshness of fresh foods, and *Fresh Master* tray sheets, which absorb excess moisture and let air through to prevent deterioration and discoloration of fresh foods.

*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 ¥457,298 million (up 5.2% year on year) and ¥60,687 million (down 11.8% 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 has made active efforts to revitalize the market and to offer products enabling pets to live hygienically and comfortably, with brands for dogs such as *Manner Wear* brand of diapers that seem more like clothing, enabling pet owners to go anywhere with their dogs whenever they want and *Deo Sheet* to help pet owners live comfortably on a daily basis in the living room, and brands for cats, such as *Deo Toilet* and *Deo Sand* with their amazing deodorizing effect, emitting no smell even in a closed room for one week[*].

In the domestic pet food market, the Company actively promoted sales of and revitalized the market with 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 absorbed 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 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 stores that are specific to US.

* When *Deo Toilet* brand products are used by one cat (up to 8 kg in weight) for one week

As a result, net sales and segment profit (core operating income) for the pet care business for the fiscal period under review were ¥62,703 million (up 7.6% year on year) and ¥7,576 million (up 9.0% 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 ¥4,740 million (down 7.1% year on year) and ¥97 million (up 45.4% year on year), respectively.

(2) Explanation of financial position

(Assets)
Total assets as of the end of the third quarter were ¥809,804 million (up 1.8% compared with the end of the previous fiscal year). The major increases were ¥49,974 million in property, plant and equipment and ¥3,455 million in other current and non-current financial assets mainly due to time deposits with deposit terms exceeding three months, and the main decreases were ¥31,966 million in cash and cash equivalents and ¥7,678 million in other non-current assets mainly due to long-term prepaid expenses.

(Liabilities)
Total liabilities as of the end of the third quarter were ¥291,725 million (down 0.0% compared with the end of the previous fiscal year). The major increase was ¥43,846 million in other current and non-current financial liabilities mainly due to lease liabilities, and the main decreases were ¥15,572 million in trade and other payables, ¥12,618 million in bonds and borrowings, ¥9,690 million in other current liabilities mainly due to accrued consumption taxes and ¥6,120 million in income tax payables.

(Equity)
Total equity as of the end of the third quarter was ¥518,079 million (up 2.9% compared with the end of the previous fiscal year). The major increase was ¥45,496 million in profit attributable to owners of parent, and the major decreases were ¥15,475 million in dividends paid to owners of parent, ¥11,416 million in increase in treasury shares, and ¥7,200 million in other components of equity mainly due to exchange differences on translation in foreign operations.

(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 56.1%.

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

Regarding forecast of full-year financial results, there were no changes from the announcement made on February 14, 2019.

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, 2018 (as of December 31, 2018)	Q3 of Fiscal Year Ending December 31, 2019 (as of September 30, 2019)
Assets			
Current assets			
Cash and cash equivalents		135,065	103,099
Trade and other receivables		100,159	101,076
Inventories		71,939	68,921
Other current financial assets		53,520	66,021
Other current assets		23,758	28,268
Total current assets		384,441	367,386
Non-current assets			
Property, plant and equipment	2	240,628	290,602
Intangible assets		100,121	98,240
Deferred tax assets		9,418	9,306
Investments accounted for using equity method		778	898
Other non-current financial assets		49,991	40,945
Other non-current assets	2	10,106	2,428
Total non-current assets		411,042	442,418
Total assets		795,483	809,804

(Millions of Yen)

	Notes	Fiscal Year Ended December 31, 2018 (as of December 31, 2018)	Q3 of Fiscal Year Ending December 31, 2019 (as of September 30, 2019)
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables		153,494	137,922
Bonds and borrowings		18,834	23,489
Income tax payables		13,579	7,459
Other current financial liabilities	2	633	6,494
Other current liabilities		44,959	35,269
Total current liabilities		231,498	210,633
Non-current liabilities			
Bonds and borrowings		21,428	4,155
Deferred tax liabilities		21,084	21,170
Retirement benefit liabilities		11,358	11,776
Other non-current financial liabilities	2	1,212	39,196
Other non-current liabilities		5,233	4,795
Total non-current liabilities		60,316	81,092
Total liabilities		291,813	291,725
Equity			
Equity attributable to owners of parent			
Capital stock		15,993	15,993
Share premium		13,058	13,422
Retained earnings		480,457	511,415
Treasury shares		(52,776)	(64,192)
Other components of equity		(15,276)	(22,476)
Total equity attributable to owners of parent		441,456	454,161
Non-controlling interests		62,214	63,918
Total equity		503,670	518,079
Total liabilities and equity		795,483	809,804

(2) Condensed consolidated statement of income and Condensed consolidated statement of comprehensive income

Condensed consolidated statement of income

(Millions of Yen)

	Notes	Q3 of Fiscal Year Ended December 31, 2018 (January 1, 2018 – September 30, 2018)	Q3 of Fiscal Year Ending December 31, 2019 (January 1, 2019 – September 30, 2019)
Net sales	3	498,115	524,741
Cost of sales		(303,115)	(328,724)
Gross profit		195,000	196,017
Selling, general and administrative expenses	4	(119,192)	(127,657)
Other income		1,302	1,996
Other expenses		(1,383)	(1,198)
Financial income		2,399	2,354
Financial costs		(4,221)	(3,914)
Profit before tax		73,905	67,597
Income tax expenses		(21,430)	(15,763)
Profit for the period		52,475	51,834
Profit attributable to			
Owners of parent		47,086	45,496
Non-controlling interests		5,389	6,338
Profit for the period		52,475	51,834
Earnings per share attributable to owners of parent			
Basic earnings per share (Yen)		79.85	76.49
Diluted earnings per share (Yen)		77.80	75.96

Reconciliation of changes from gross profit to core operating income

(Millions of Yen)

Gross profit	195,000	196,017
Selling, general and administrative expenses	(119,192)	(127,657)
Core operating income (*)	75,808	68,360

* 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 Group's recurring business performance.

Condensed consolidated statement of comprehensive income

(Millions of Yen)

	Notes	Q3 of Fiscal Year Ended December 31, 2018 (January 1, 2018 – September 30, 2018)	Q3 of Fiscal Year Ending December 31, 2019 (January 1, 2019 – September 30, 2019)
Profit for the period		52,475	51,834
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	(205)
Remeasurements related to net defined benefit liabilities (assets)		113	(56)
Subtotal		3,110	(260)
Items that may be reclassified to profit or loss			
Changes in fair value of cash flow hedges		48	(30)
Exchange differences on translation in foreign operations		(10,828)	(7,948)
Subtotal		(10,780)	(7,978)
Total other comprehensive income, net of tax		(7,670)	(8,238)
Total comprehensive income		44,805	43,596
Total comprehensive income attributable to			
Owners of parent		41,804	40,061
Non-controlling interests		3,000	3,536
Total comprehensive income		44,805	43,596

(3) Condensed consolidated statement of changes in equity

Third Quarter of the Fiscal Year Ended 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

Third Quarter of the Fiscal Year Ending December 31, 2019 (January 1, 2019 – September 30, 2019)

(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, 2019		15,993	13,058	480,457	(52,776)	(15,276)	441,456	62,214	503,670
Cumulative effects of changes in accounting policies	2	–	–	(530)	–	–	(530)	(23)	(554)
Restated balance at January 1, 2019		15,993	13,058	479,927	(52,776)	(15,276)	440,926	62,190	503,116
Profit for the period		–	–	45,496	–	–	45,496	6,338	51,834
Other comprehensive income		–	–	–	–	(5,435)	(5,435)	(2,803)	(8,238)
Total comprehensive income		–	–	45,496	–	(5,435)	40,061	3,536	43,596
Purchase of treasury shares		–	–	–	(15,001)	–	(15,001)	–	(15,001)
Conversion of convertible bond-type bonds with share acquisition rights		–	364	–	3,584	(298)	3,650	–	3,650
Dividends		–	–	(15,475)	–	–	(15,475)	(2,061)	(17,536)
Equity transactions with non-controlling interests		–	–	–	–	–	–	253	253
Transfer from other components of equity to retained earnings		–	–	1,467	–	(1,467)	–	–	–
Total transactions with owners		–	364	(14,008)	(11,416)	(1,765)	(26,825)	(1,808)	(28,633)
Balance at September 30, 2019		15,993	13,422	511,415	(64,192)	(22,476)	454,161	63,918	518,079

(4) Notes to the condensed consolidated financial statements

1. Notes regarding going concern assumptions

   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, 2018 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 is the accounting standard adopted by the Group from the first quarter of the fiscal year ending December 31, 2019.

Standard number	Standard title	Overview of new and revised standards
IFRS 16	Leases	Revisions of accounting procedures relating to lease transactions

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 16 “Leases” (hereafter “IFRS 16”), the Group has not restated the consolidated financial statements for the previous fiscal year.

<u>Adoption of IFRS 16</u>

The Group has changed its accounting policies relating to leases as follows.

At the lease commencement date, the right-of-use asset is recognized at acquisition cost and the lease liability is recognized as the present value of the lease payments not paid as of the lease commencement date.

Right-of-use assets are depreciated over the useful life of the right-of-use asset or the period of the lease, whichever is shorter, from the lease commencement date, and are included in property, plant and equipment or intangible assets in the consolidated statement of financial position.

Lease liabilities are measured at amortized cost using the effective interest method and are shown in other financial liabilities in the consolidated statement of financial position. Lease payments are allocated between financial costs and the amount of the lease liability remaining to be repaid, so that there is a fixed interest rate on the balance of the lease liability. Financial costs are shown separately from depreciation of right-of-use assets in the consolidated statement of income.

At the start of the contract, the Group identifies whether a contract meets the definition of a lease or includes a lease, based on the substance of the contract. If the contract transfers the right to control the use of an identified asset for a period of time in exchange for a consideration, the contract is deemed to be a lease or to contain a lease.

In the case of short-term leases and leases of low value underlying assets with lease terms of less than twelve months, the Group does not recognize right-of-use assets and lease liabilities. The Group recognizes the total lease payments in profit or loss using the straight-line method over the lease term.

With the adoption of IFRS 16, the former distinction between traditional operating leases and finance leases no longer applies, and in principle all right-of-use assets and lease liabilities are recognized. The lease liability is measured as the present value of the lease payments not paid at the date of initial application, which is discounted using the Group’s incremental borrowing rate as of January 1, 2019. The weighted average of the lessee’s incremental borrowing rates is 1.1%.

The main impact on the condensed consolidated statement of financial position is as follows. The impact on the condensed consolidated statement of income is insignificant.

(Millions of Yen)

IAS 17 (as of December 31, 2018)		Changes in recognition, presentation and classification	IFRS 16 (as of January 1, 2019)	
Property, plant and equipment	240,628	47,865	288,493	Property, plant and equipment
Intangible assets	100,121	2	100,123	Intangible assets
Deferred tax assets	9,418	65	9,484	Deferred tax assets
Other non-current assets	10,106	(7,125)	2,981	Other non-current assets
Total assets	795,483	40,808	836,291	Total assets
Other current financial liabilities	633	4,749	5,382	Other current financial liabilities
Other current liabilities	44,959	(64)	44,895	Other current liabilities
Deferred tax liabilities	21,084	(189)	20,895	Deferred tax liabilities
Other non-current financial liabilities	1,212	37,001	38,214	Other non-current financial liabilities
Other non-current liabilities	5,233	(136)	5,097	Other non-current liabilities
Retained earnings	480,457	(530)	479,927	Retained earnings
Non-controlling interests	62,214	(23)	62,190	Non-controlling interests
Total liabilities and equity	795,483	40,808	836,291	Total liabilities and equity

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.

In the personal care business, the Group manufactures and sells baby care products, feminine care products, health care products, and clean and fresh products. 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 consolidated financial statements. The segment profit is the core operating income (comprising gross profit less selling, general and administrative expenses), which is the key performance indicator 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, 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

(Millions of Yen)

	Q3 of Fiscal Year Ending December 31, 2019 (January 1, 2019 – September 30, 2019)					
	Reportable segments				Adjustments	Amounts reported in condensed consolidated statements
	Personal care	Pet care	Other	Total		
Sales to external customers	457,298	62,703	4,740	524,741	–	524,741
Sales across segments (Note)	–	–	28	28	(28)	–
Total segment sales	457,298	62,703	4,768	524,769	(28)	524,741
Segment profit (Core operating income)	60,687	7,576	97	68,360	–	68,360
Other income						1,996
Other expenses						(1,198)
Financial income						2,354
Financial costs						(3,914)
Profit before tax						67,597

(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)

	Q3 of Fiscal Year Ended December 31, 2018 (January 1, 2018 – September 30, 2018)	Q3 of Fiscal Year Ending December 31, 2019 (January 1, 2019 – September 30, 2019)
Freight-out expenses	32,663	35,803
Promotion expenses	14,937	15,512
Advertising expenses	16,295	15,825
Employee benefits expenses	25,524	27,178
Depreciation and amortization expenses	3,906	6,990
Research and development expenses	4,849	5,405
Others	21,019	20,945
Total	119,192	127,657