

TRANSLATION FOR REFERENCE PURPOSES ONLY

This notice has been translated from the original Japanese text of the timely disclosure statement dated October 13, 2017 and is for reference purposes only. In the event of any discrepancy between the original Japanese and this translation, the Japanese text shall prevail.



October 13, 2017

To whom it may concern

Listed Company Name: Unicharm Corporation
Company Representative: Takahisa Takahara,
President and Chief Executive Officer
(Code Number: 8113; First Section, Tokyo Stock Exchange)
Contact Person: Atsushi Iwata,
Senior Executive Officer,
General Manager of Accounting Control and Finance Division
Telephone Number: +81-3-3451-5111

**Notice regarding Measures for Preventing Recurrence
Based on Investigation Report of Internal Investigation Committee**

Unicharm Corporation (the “Company”) has recognized the necessity of validation for the appropriateness in terms of periodical allocation of expenses including other items in the previous period related to our subsidiary Unicharm Consumer Products (China) Co., Ltd. (“UCCP”). Accordingly, the Company established the Internal Investigation Committee (the “Committee”) with outside specialists as the outside committee members and has proceeded with the investigation.

The Company received the Committee’s Investigation Report on September 13, 2017 and examined specific measures to prevent recurrence based on the facts, cause analysis, and proposed measures to prevent recurrence stated in the report. The Company hereby announces that it has determined such measures as set out below.

Moving forward, in order to ensure proper financial reporting, the Company, UCCP and Unicharm (China) Co., Ltd. (“UCCH”) will implement the following measures to prevent recurrence and will rectify the discovered carryover of sales promotion expenses (“SPEs”), in addition to which it will ensure proper accounting practices through such means as close cooperation among all related personnel, pursue thorough compliance within the Company and its subsidiaries, and endeavor to rebuild confidence. Accordingly, we humbly ask for your understanding and continued support.

1. Raise awareness

(1) Pursue thorough compliance and improve compliance training

- (i) In order to improve awareness regarding compliance with laws and regulations and prevent problems from occurring, the Company addresses themes relating to compliance in the annual training for new employees and the training for personnel assigned overseas held two to three times per year, and the Legal Department and Accounting Control & Finance Division hold compliance seminars for directors and executive officers four to five times per year. In addition to that, the Company will also hold annually at regular times (a) compliance training for all division managers and for managerial staff seconded to affiliates in Japan and overseas, (b) training for third-year employees, and (c) compliance training for different levels of personnel, such as training for newly-appointed persons in charge of employee education. Moving forward, the Company will conduct compliance training as stated below.

TRANSLATION FOR REFERENCE PURPOSES ONLY

This notice has been translated from the original Japanese text of the timely disclosure statement dated October 13, 2017 and is for reference purposes only. In the event of any discrepancy between the original Japanese and this translation, the Japanese text shall prevail.

Compliance training plan:

Training type	Starting period, etc.
New employee training (new themes added)	Held annually from April to September
Training for personnel assigned overseas (new themes added)	Held annually in April (for July transferees) and October (for January transferees) and whenever else necessary for irregular transferees
Executive officer seminars (new themes added)	Held four to five times annually at monthly operational update meetings
(New) Compliance training for all division managers and for managerial staff seconded to affiliates in Japan and overseas	From 2018, held after the June and January board of directors meetings
(New) Training for third-year employees	From 2018, held annually in April
(New) Compliance training for different levels of personnel, such as training for newly-appointed persons in charge of employee education	From 2018, held annually in February, then held continually in three-year cycles

- (ii) The Company will conduct focused training through E-learning and other methods for any departments or themes regarding which compliance issues are found through means such as employee awareness surveys, which are conducted as one aspect of monitoring by the Company's Internal Audit Department and Legal Department.
- (iii) In order to address new risks and the globalization of business, the Company will launch a select project team of young employees in January 2018 to gradually revise "The Unicharm Way" (the Company's code of conduct for compliance), make the content easier to understand, and spread awareness of it throughout the Company.

(2) Improve awareness of financial accounting

By implementing the measures set out in (i) to (iii) below, the Company will improve the awareness of all the Company's employees regarding financial accounting and rectify its tendency to overemphasize managerial accounting.

- (i) Through the E-learning that the Company's Accounting Control & Finance Division has been conducting, the Company will provide lessons that focus on the differences between managerial accounting for the purpose of business management and financial accounting, which is institutional accounting, for all of the Company's employees by the end of December 2017, monitor the status of participation, and ensure that all employees complete and understand the lessons. Following that, the Company will continually provide E-learning lessons on fundamental matters relating to corporate accounting in general.
- (ii) The Company will gradually enhance and review its accounting rules and subordinate standards, manuals, and the like from December 2017 and will clarify standards for accounting procedures and the like, and the Company's Accounting Control & Finance Division and Internal Audit Department will oversee the status of compliance therewith.

TRANSLATION FOR REFERENCE PURPOSES ONLY

This notice has been translated from the original Japanese text of the timely disclosure statement dated October 13, 2017 and is for reference purposes only. In the event of any discrepancy between the original Japanese and this translation, the Japanese text shall prevail.

- (iii) By the end of January 2018, the Company will redefine the functions of and clarify the division of roles between the Corporate Planning Division, which is responsible for managerial accounting, and the Accounting Control & Finance Division, which is responsible for financial accounting, in addition to which the Company will increase knowledge and awareness of both managerial accounting and financial accounting by promoting the exchange of personnel.

2. Strengthen the checks and balances function of the Accounting Department of UCCH

- (1) Increase the number of people assigned from the Company's Accounting Control and Finance Division

From April 1, 2017, the Company increased the number of people assigned from the Company's Accounting Control & Finance Division to UCCH's Finance Department by one, thereby increasing both the quantity and quality of the Company's communication with UCCH and UCCP. Furthermore, from January 1, 2018, the Company will dispatch one more person from the Company's Accounting Control & Finance Division, further strengthening that communication.

- (2) Separate financial accounting and managerial accounting functions

From January 1, 2018, the Company will make UCCH's General Management Department, to which its Finance Department belongs, independent from the control of the senior manager of the General Planning Department, which is responsible for business progress management, thereby separating financial accounting and managerial accounting functions, increasing the independence of UCCH's Finance Department, and clarifying who is responsible.

3. Strengthen the audit system

- (1) Internal audit methods, etc.

In internal audits of UCCP conducted jointly by the Company's Internal Audit Department and UCCH's Audit Department, (i) the SPE carryover that occurred on this occasion will be the top priority to be addressed, and (ii) auditing of whether other expenses, not only SPEs, are recorded in the correct financial period will be a priority matter as well. Additionally, procedures for verifying the appropriateness of accrued SPEs at the end of the period will be clarified and added to the business process for internal controls under the Financial Instruments and Exchange Act by the end of December 2017.

- (2) Measures following internal audits

Moving forward, UCCH's Audit Department will report internal audit results to UCCH's Chairman and other managerial staff, in addition to which it will continually verify the progress of improvements using a standard form, including follow-up on the progress of remedial measures for each matter to be addressed, and will steadily work towards remedying those matters.

- (3) Utilizing outside experts, etc.

In order to improve internal audit procedures and the ability to respond to audit results, the Company will utilize necessary outside resources such as attorneys or certified public accountants. Additionally, moving forward, the Company will provide opportunities at least once per year for officers and employees of the Company's Internal Audit Department and UCCH's Audit Department to receive outside education or training in order to improve their auditing capabilities and accounting knowledge and will require that such education or training be completed, thereby strengthening the

TRANSLATION FOR REFERENCE PURPOSES ONLY

This notice has been translated from the original Japanese text of the timely disclosure statement dated October 13, 2017 and is for reference purposes only. In the event of any discrepancy between the original Japanese and this translation, the Japanese text shall prevail.

audit system.

(4) Strengthening organizational structure

- (i) From January 1, 2018, UCCH's Audit Department will report directly to UCCH's Chairman, thereby ensuring the Audit Department's independence and strengthening its function of providing checks and balances on the department responsible for business progress management and the senior manager of that department.
- (ii) From January 1, 2018, the current five-member team of the Company's Internal Audit Department will be expanded by several members, thereby improving the quality and quantity of internal audits.

4. Strengthen governance of subsidiaries

(1) Reporting and sharing internal audit results

- (i) Audits conducted jointly by the Company's Internal Audit Department and UCCH's Audit Department

For issues discovered through joint audits, the Company's Internal Audit Department will ensure early resolution of those issues by reporting the issues and improvement measures to the Company's CEO and Audit & Supervisory Committee more promptly and by promptly communicating instructions and requests in response to those reports to UCCH's Chairman and other managerial staff.

- (ii) Results of audits conducted solely by UCCH'S Audit Department

For issues discovered through audits conducted solely by UCCH's Audit Department, the Audit Department will report those issues to the Company's Internal Audit Department on each occasion, and the Company will newly establish a venue for UCCH's Audit Department to report directly to the Company's CEO and Audit & Supervisory Committee, thereby achieving quicker improvements and further strengthening the Audit & Supervisory Committee's function of overseeing management.

- (iii) Strengthen follow-up for improvements

Cooperation between UCCH's Audit Department and the Company's Internal Audit Department will be further deepened, and moving forward, for issues discovered through internal audits stated in (i) and (ii) above, progress regarding the status of improvements and policies in response to matters not yet addressed will be managed at monthly report meetings between UCCH's Audit Department and the Company's Internal Audit Department, thereby strengthening follow-up to issues.

(2) Measures to strengthen management systems of Unicharm Group companies

- (i) At meetings of the Advisory Board held twice per year, the Company will have each Unicharm Group company explain the appropriateness of its management plans, including sales, profits, and SPEs, and will strengthen guidance for improving SPE management by requesting explanations for significant increases or decreases in SPEs and having all the directors and executive officers monitor any such changes.
- (ii) From January 2018, the Company's Corporate Planning Division and Accounting Control & Finance Division will participate in monthly operational update meetings held by each of important Unicharm Group companies (in China, Indonesia, Thailand, and India) that have a large impact on consolidated accounts, will confirm whether there are any irregularities or

TRANSLATION FOR REFERENCE PURPOSES ONLY

This notice has been translated from the original Japanese text of the timely disclosure statement dated October 13, 2017 and is for reference purposes only. In the event of any discrepancy between the original Japanese and this translation, the Japanese text shall prevail.

unusual matters in regard to not only sales, profits, and expense items, but also the management situation in general, and will as necessary cooperate with the Company's Internal Audit Department to conduct thorough investigations and provide guidance for improvements.

- (iii) From January 2018, at important Unicharm Group companies, a structure that prevents distorted financial accounting due to overemphasis on managerial accounting will be developed by clearly separating financial accounting duties from managerial accounting duties and having the person responsible for financial accounting coordinate both areas of duties.

(3) Changes to personnel affairs systems

From January 2018, the final reporting line of each manager seconded to a Unicharm Group company who is in charge of an accounting department will include the executive officer in charge of the Company's Accounting Control & Finance Division in addition to the person in charge of that Unicharm Group company, and the independence of the managers in charge of the accounting departments will be ensured by having that executive officer involved in personnel affairs including the evaluation of that manager, thereby strengthening the governance of Unicharm Group companies.

5. Improve systems concerning SPE management

(1) Reduce incentives for sales representatives concerning SPE applications

From January 2018, by adding a profit indicator where SPEs, etc. are deducted from gross sales to the incentive system for sales representatives, the mindset and evaluation system that overemphasized gross sales will be changed, and excessive SPE applications from sales representatives will be reduced.

(2) Develop and strengthen SPE management systems

UCCP will require that lessons focusing on the differences between managerial accounting and financial accounting be completed through the E-learning that the Company's Accounting Control & Finance Division has been conducting, thereby increasing knowledge of accounting affairs. Additionally, from January 2018, UCCP will endeavor to expand the roles of local personnel familiar with local SPE management, improve communication issues arising from language abilities in both quality and quantity through direct communication between people in charge of managing sales promotions and sales representatives, and strengthen involvement at each stage of SPE processing. Furthermore, UCCP will improve transparency by promoting standardization of the SPE management business process, mainly through system improvements, and will supplement management capabilities.

(3) Manage budget vs. actual

- (i) Every month from January 2018, UCCP's Sales Management Department will monitor the results of the business process outsourcing company's (the "BPO") verification of the correspondence between planned SPEs and actual SPEs, thereby creating a system that is able to promptly identify the causes of inconsistencies and take remedial measures.
- (ii) From the end of December 2017, UCCH's Finance Department will verify the appropriateness of UCCP's SPE provision amounts both in advance and afterwards, and if any irregularity in discrepancy between the planned figures and actual figures or in provision balances is found, it will cooperate with the Sales Department to identify the cause and take remedial measures, thereby continually endeavoring to maintain and improve the accuracy of provisions.

(4) Make the sales and SPE management system more appropriate

TRANSLATION FOR REFERENCE PURPOSES ONLY

This notice has been translated from the original Japanese text of the timely disclosure statement dated October 13, 2017 and is for reference purposes only. In the event of any discrepancy between the original Japanese and this translation, the Japanese text shall prevail.

- (i) By the end of March 2018, UCCP will modify the sales and SPE management system to include a new item for “Month Conducted” so that, if there are reasonable grounds for doing so, it is possible to record and pay SPEs not registered by the previous month in the current month.
 - (ii) In order to confirm the operating status of various main systems relating to financial accounting used by UCCP, such as the sales and SPE management system and SAP, and to discover issues with those systems, the Company’s Business Process Transformation Department will hold monthly meetings with UCCH’s General Planning Department, Finance Department, and Business Process Transformation Department (the IT Department).
- (5) Ensure correspondence between the sales and SPE management system and SAP
- (i) At present, UCCH’s Finance Department confirms the correspondence between the monthly sales promotion accounting records output from the sales and SPE management system by the BPO and a list of SPEs created by manually transcribing SAP data, but because there is the possibility of mistakes when transcribing that data, by the end of March 2018, UCCP will modify the system so that the list of SPEs is automatically outputted from SAP. Until that modification is completed, the Company will ensure that the confirmation work by the BPO and UCCH’s Finance Department is thoroughly conducted and will add an operating rule that after the confirmation work currently performed by the employees, UCCH’s Finance Department Manager will also perform a final confirmation.
 - (ii) At present, UCCH manually oversees on a daily basis whether the sales and SPE management system and logistics system are linked with SAP; however, because there is a limit to continual, manual monitoring, and because even if an error between the systems is detected, the IT Department only fixes it as a “system error,” improvements will be made to the relevant systems moving forward so that each system will confirm itself that it is operating normally and will promptly provide a warning if any error occurs. An operating rule will be added and put into practice from December 2017 that, when there is a warning, the details of the error that occurred must be reported by the IT Department to UCCH’s Finance Department.

End