



Integrated Report **2020**  
(Annual Report)



**unicharm**  
ユニチャーム

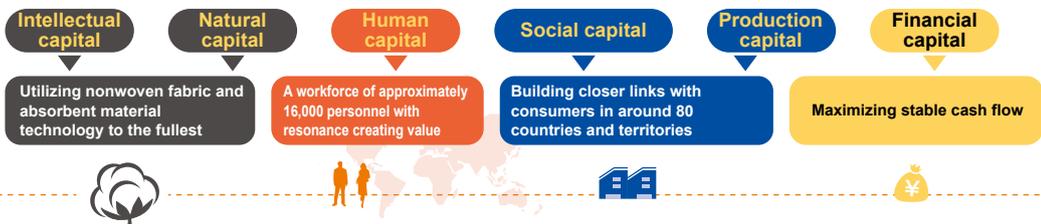
Gentle care for life

# Unicharm's Value Creation Model

Unicharm Corporate Philosophy

**NOLA&DOLA** Release consumers from various burdens imposed on them, from babies, to the elderly.

Six Types of Capital at Unicharm



Key Issues Identified by Unicharm



Unicharm's Value Creation



Unicharm's Vision for Society [Unicharm's role in society]



Important CSR themes

1. Lengthening healthy life expectancy
2. Supporting women's independence and improving hygiene
3. Contributing to global environment
4. Contributions to the community and respecting people
5. Strengthen the company's organization and ensure fair business practices

## Editorial policy

Unicharm is striving to increase corporate value while also helping to solve issues faced by society worldwide. In line with that objective, we publish Integrated Reports referencing the International Integrated Reporting Framework developed by the International Integrated Reporting Council (IIRC). Our goal is to provide more non-financial information to stakeholders, helping them gain a detailed picture of the links between our strategies and the social impact of our business. Integrated Report 2020 includes a discussion between the President and an institutional investor, covering topics such as Unicharm's strengths and how they support sustained value creation, as well as policies Unicharm is implementing to realize its corporate philosophy. The report also provides information about Unicharm's corporate history, business activities, business model and how the Sustainable Development Goals (SDGs) dovetail with our efforts to solve issues faced by society. In principle, we do not produce hard copies of this report, which is only available on Unicharm's corporate website in order to minimize environmental impact.

Scope of report: Unicharm Corporation and its domestic and overseas consolidated subsidiaries, as well as information about some non-consolidated subsidiaries and affiliates.

\* Detailed financial information is disclosed in securities filings, while detailed non-financial information can be found in CSR Reports.

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Paralym Art aims to help artists with disabilities become financially independent by supporting their business activities.

**Cover: "Spiral Light" Sakura**

Born in 1999, Sakura has been diagnosed on the autism spectrum (pervasive development disorder). She creates picture books and other artworks and has enjoyed drawing from an early age. Sakura joined special educational support classes in grade two of junior high school. She later moved to a special support high school, where she was encouraged to register with Paralym Art by her art club advisor. She currently creates artwork at Paralym Art while working for a special subsidiary that provides employment opportunities for people with disabilities.

# Targeting sustained growth driven by innovation based on backcasting

Takahisa Takahara  
President and CEO



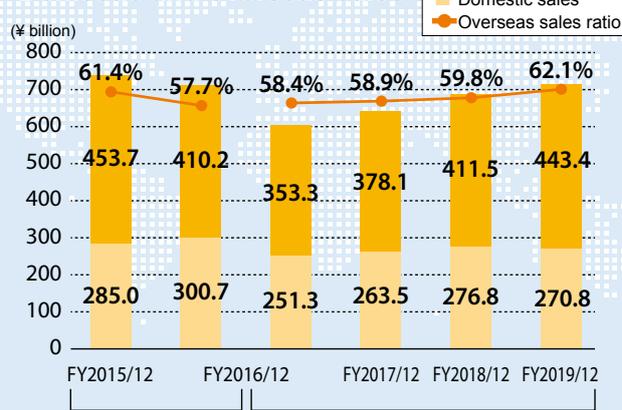

## Profits decline despite record sales

Thank you for taking an interest in Unicharm.

During the past year, Unicharm continued to supply the world-first and world-#1 product & services that can provide all people around the world with comfort, deep impression and joy for contributing to realize the “Cohesive Society” in which they can always be brightening through their independence and mutual support.

In fiscal 2019, ended December 31, 2019, Unicharm reported higher sales but lower profits. Consolidated net sales increased ¥25.9 billion (3.8%) year on year to ¥714.2 billion, core operating income declined ¥5.3 billion (5.6%) to ¥89.8 billion and profit attributable to owners of parent fell ¥15.2 billion (24.8%) to ¥46.1 billion.

### Domestic and overseas sales



\* Unicharm adopted IFRS from fiscal 2017, ended December 31, 2017.

## Fulfilling our social responsibility and increasing corporate value

Amid rapidly growing interest in environmental, social and governance (ESG) investing, various stakeholder groups are increasingly focusing on companies that can play a meaningful role in society through their business activities and that have the potential to grow over the medium and long term. Investors are also carefully evaluating companies based on those criteria.

Given that trend, companies need to show they have the capability to build business models that help to realize the Sustainable Development Goals (SDGs), using earnings performance to prove they can identify and take advantage of growth opportunities over the longer term.

At Unicharm, realizing the SGDs is our purpose, and we are using a backcasting approach to achieve it across three layers – Mission, Vision and Value – to drive innovation and deliver sustained growth.

Our Mission is to create a society where people live in harmony with the global environment, other people and their pets. Our Vision is the Group’s corporate philosophy of NOLA & DOLA (Necessity of Life with Activities & Dreams of Life with Activities), which sets out how we aim to achieve our Mission. NOLA is about solving issues, while DOLA is about defining the issues – dreams and ideals – that we need to tackle. In other words, we need to harness our core competence – technology that converts discomfort for consumers into comfort. That is anchored by Value, which is derived from our “Management with Resonance” management model that has been rolled out across our organization worldwide.

To ensure all our employees are working together to realize the dreams and ideals of our customers, the whole Group is working in unison to advance “Management with Resonance,” which will help Unicharm become a company that makes life better for people everywhere and creates a cohesive society. We have been implementing a range of activities with that objective. Specifically, we are developing and commercializing a used disposable diaper recycling system that helps to protect forests and the global environment; developing, manufacturing and selling eco-friendly products; working to extend healthy life expectancy; implementing activities to increase understanding about periods and childcare; and providing employment opportunities for women in the Middle East. In January 2020, we also established a new ESG Division tasked with reinforcing the Group’s ESG initiatives. Going forward, we will work even harder to fulfill our social responsibility and increase corporate value to support the Group’s sustained growth.



## Paying stable shareholder returns and creating a cohesive society

At Unicharm, one of our top priorities is to return an appropriate level of profits to shareholders, which is also important from the standpoint of capital efficiency. We are committed to paying stable returns while at the same time strengthening the Company to boost earnings and actively investing in the business to drive growth.

For fiscal 2019, ended December 31, 2019, we paid a full-year dividend of ¥28.00 per share, an increase of ¥4.00 from the previous fiscal year, in line with our initial dividend forecast. We have now raised the dividend for 18 consecutive fiscal years.

In fiscal 2020, in accordance with our shareholder return policy, we will put priority on business investment to deliver sustained growth, while continuing to pay a stable and sustained dividend based on medium- to long-term growth in consolidated earnings. Where necessary, we also intend to buy back shares on a flexible basis to increase the total shareholder return ratio to 50%. We plan to pay a full-year dividend of ¥32.00 per share for fiscal 2020, an increase of ¥4.00 from the previous fiscal year.

By listening more closely to consumers and staying committed to them, the entire Unicharm Group will strive to provide products and services that help create a cohesive society where people of all generations can lead independent lives. We look forward to your continued support in the year ahead.

March 2020

Takahisa Takahara

President and CEO

## Special Feature: Discussion with the President

Commons Asset Management is a fund management company that invests using a long-term horizon of 30 years. It is also a long-term investor in Unicharm, going back more than a decade to when its first fund was established. We invited Ken Shibusawa, Commons Asset Management's Chairman and Chief ESG Officer, to take part in a discussion with Takahisa Takahara, Unicharm's President and CEO, about Unicharm's strengths and how they are supporting sustained growth.



### Takahisa Takahara

Unicharm Corporation  
President and CEO

### Ken Shibusawa

Chairman and Chief ESG Officer  
Commons Asset Management Inc.

After working for a foundation involved in international relations, Mr. Shibusawa changed careers, moving to the US to gain an MBA and work in the financial sector. He worked in Japanese government bond and forex option trading and in equities derivatives sales at an overseas financial institution before becoming the representative in Japan for a large US hedge fund. Mr. Shibusawa left the hedge fund in 2001 to pursue his own interests, establishing Commons Inc. in 2007. He was appointed Chairman of Commons Asset Management in 2008.

## What is Unicharm's "invisible value"?

### Creating deeper connections with consumers worldwide makes us more attuned to new ideas

**Shibusawa** It's a great honor to be chosen to take part in the first Discussion with the President for Unicharm's Integrated Report. Our Commons 30 Fund invests in companies by assessing "visible value" and "invisible value." Putting figures on profitability gives us "visible value," but financial value is the tip of the iceberg that only shows past performance. To assess a company's long-term and sustained growth potential, we have to look at "invisible value." At Commons Asset Management, we define non-financial "invisible value" as four overlapping layers, which is the part of the iceberg below the water line. "Competitiveness" and "management capabilities" are two of those layers. Numerical values can be used to show performance in those areas, but they don't tell the whole picture. Another key layer is "communication," which includes dialogue within the company as well as with outside stakeholders. The deepest layer below the water is "corporate culture." The deeper we go, the harder it is to express value in numerical terms. For me, the most interesting aspect of Unicharm is its corporate culture, particularly "find reason within ourselves," one of Unicharm's Three DNAs. Can you explain this in more detail please?

**Takahara** Unicharm's Three DNAs are "changing values," "find reason within ourselves" and "maintain our No.1 position through continued and dedicated service." They are the main source of the Group's corporate value. "Find reason within ourselves" encourages people to learn and grow from their mistakes. People tend to avoid taking responsibility if something goes wrong, but they are quicker to take the credit when something goes right. Unfortunately, that approach will not necessarily help them grow and develop. Whatever the outcome, we want our employees to look for the reasons within themselves without blaming people around them or the situation.

Unicharm has been hiring more overseas personnel in recent years. To make the Three DNAs easier to understand for them as well, we've reframed them as "BOP-ship." The B in BOP-ship stands for "Best practice-ship," which refers to learning best practice worldwide, not just in Japan, and sharing it among all our employees. The O stands for "Ownership," which encourages employees to take ownership of all their work. And the P stands for "Partnership," because we want our employees to be considerate, or altruistic, in their interactions with society, colleagues and line managers. By following the principles of "BOP-ship," we think our employees will grow and develop even faster by learning from their mistakes, as well as their successes.

**Shibusawa** Listening to your explanation, I get the impression that you're also describing some of the complex challenges you faced after being appointed Unicharm's second president at the relatively young age of 39. Those experiences appear to have informed your insights into Unicharm's corporate culture. Unicharm provides various value to society, but what elements of that value are unique?

**Takahara** For me, that's obvious – Unicharm's extensive product range for all age groups – from babies through to the elderly – as well as pets. They are the main source of our value because they're all designed to support the mind and body by helping to make life easier in various ways, and they can be used through all stages of life. Thanks to many years of supplying those products to diverse consumers worldwide – young and old, male and female – we've developed new approaches and become more attuned to different ideas. That process increases Unicharm's "invisible value," which also boosts "visible value" and drives sustained growth. I think that's the biggest difference between Unicharm and other companies.

**Shibusawa** Some of Unicharm's key phrases are "cohesive society" and "management with resonance," which give a strong impression of the importance of living in harmony with others, rather than as an individual. Companies today are expected to maximize value for all stakeholders, from shareholders and employees to society as a whole. What's your view?

**Takahara** You're right. Profits are of course important, but as business leaders, I think the greatest value we can provide is to help employees achieve personal fulfillment within the corporate organization. That means more than simply reaching their individual goals. While we respect and emphasize the uniqueness of every one of our employees, they have to align their goals with those of the organization in order to balance personal fulfillment through their work with the objectives of the Unicharm Group. To achieve that, we need to hire and evaluate employees impartially and fairly and create workplaces where everybody can show their abilities. Specifically, we are actively pushing ahead with work-style reforms, such as introducing home working systems, support for second jobs, and systems that help employees balance work with nursing care commitments.

Unicharm wants to create a cohesive society, which is another we are helping employees achieve personal fulfillment in line with the goals of the organization. A cohesive society is one where pets and people of all ages with no familial connection support each other. At Unicharm, we can help create that kind of society in various ways. We can support active lives through incontinence care with light incontinence pads, pants-type rehabilitation diapers and other products; contribute to longer healthy life expectancy through our Social Walking program, which aims to prevent dementia; and when nursing care does become necessary, reduce the burden on people being cared for and their carers with adult disposable diapers, contributing to a more humane, supportive society.

## Unicharm's corporate philosophy is to use its core business to solve emerging issues in society

**Shibusawa** To improve cooperation across the Group, you're introducing a new management model based on the OODA Loop. Under the model, you carefully monitor the nature of each issue faced by the business and use frontline employees to assess the situation on an ongoing basis and develop responses independently. OODA loop seems to be a vital element of Unicharm's organization. To make the best decisions, employees need to sharpen their ability to make sense of the situation around them. What do you think?



## Discussion with the President

**Takahara** Developed by United States Air Force Colonel John Boyd, OODA Loop is a decision-making theory based on the observe–orient–decide–act cycle. With OODA Loop, we aim to use first-hand information gathered directly from the business frontline to understand specific situations, fine-tune the senses of frontline employees and combine that with their business experience and acumen to help them make decisions independently. As you rightly point out, it takes time and considerable mental effort to acquire the skills needed for that approach. Before OODA Loop we used the SAPS Model, which emphasized the plan-do-check-act (PDCA) cycle. Specifically, with the SAPS Model, we developed a plan (schedule), implemented the plan (action), assessed the impact of the plan and identified areas for improvement or consideration (performance), and used that feedback to develop the next plan (schedule). That process was followed on a weekly basis. The SAPS Model had a significant impact on our business in the 1990s and 2000s, supporting rapid business expansion in emerging markets, particularly in Asia. However, the SAPS Model's weak point was that it was too wedded to the initial schedule and plan, which stood in the way of desired outcomes when the situation changed. In 2008, chemical substances were discovered in baby milk powder in China, leading to growing concerns about the quality of Chinese products. That spurred a spike in demand for Japanese-made products such as disposable diapers, which were seen as safer. Our policy has been to make products locally for local demand. Unicharm diapers sold in China were made in China to the same high standards as our Japanese-made products, so we were confident about product safety. However, Chinese consumers wanted what they thought were safer and more reliable products from Japan. Unfortunately, we didn't identify that shift quickly enough, missing the opportunity to fully capitalize on the surge in demand. The lesson we learnt is that we need to monitor consumer trends more closely, using local staff who understand local customers to support decision-making by Japanese employees at head office. That review of the situation led to the adoption of OODA Loop. I also make visits to observe the business frontline, which has helped me notice problems in our original plans on many occasions. Already, some of our markets in Asia are mature, and unforeseen changes caused by continued advances in IT and globalization could occur at any time. In this “new normal” environment, we need an organization capable of radical shifts in direction. Specifically, we have to constantly adjust our approach – identifying signs of change and improvising in response to ongoing developments in the operating environment, without sticking too much to our original plans. That approach is especially effective in mature markets where we need to identify what is really happening on the ground.

**Shibusawa** I now see why observation is such a crucial element of OODA Loop. In that sense, you always need your eyes and ears open to keep on top of developments worldwide. As part of that, what issues in society do you think Unicharm needs to help tackle?

**Takahara** We have to develop recyclable products. For a company like Unicharm that makes disposable diapers, feminine care products and other disposable products, eco-friendly manufacturing is something we take very seriously. Production of adult disposable diapers is rising each year as societies age. In line with that trend, the cost of incinerating used diapers is rising and CO<sub>2</sub> emissions from waste incineration are increasing. To address that issue, we launched a project in 2015 to recycle materials from used diapers. The project has succeeded in creating technology that extracts pulp and superabsorbent polymer (SAP) from used disposable diapers. Diapers made from recycled materials look and feel exactly the same as ordinary diapers. A proprietary ozone treatment process neutralizes bacteria contained in human waste, and the recycled high-quality pulp is as safe and hygienic as virgin pulp. Twenty years ago, when people weren't as anxious about global environmental issues as they are today, we probably wouldn't have been able to commercialize recycled diapers because of hygiene concerns. Amid changing attitudes, Unicharm employees have steadily built up the necessary technology to bring us to the point of commercialization.





**Shibusawa** I've touched the recycled diapers and I can't see any difference with ordinary diapers. Concerns about hygiene might make some consumers averse to the idea of recycled materials in diapers, but overcoming those concerns would be an important step towards building a recycling-oriented society, potentially leading to the creation of new markets. How much energy is needed to recycle disposable diapers?

**Takahara** After trialing the recycling system to examine its real-world impact from various perspectives, we found that it has the potential to reduce greenhouse gas emissions by 87% compared with diapers made from virgin pulp and incinerated after use. Also, by reusing water in the diaper material cleaning and separation process, we improved process efficiency and reduced the amount of waste water that is discharged. We estimate recycling a year's worth of adult disposable diapers used by 100 people would reduce waste by the equivalent of roughly 23 garbage truck loads (two-ton trucks) and prevent the destruction of 100 trees.

**Shibusawa** Raising public awareness is important to drive uptake of recycled diapers. Using easy-to-understand explanations, like your visualization of waste reduction with the image of 100 trees, would give ordinary consumers a clearer picture. With environmental issues attracting increased attention, we could get to the point where recycled disposable diapers become the norm, spurring demand from consumers who refuse to use non-recycled products.

**Takahara** Unicharm plays an important role in society by supplying products that are vital to healthy, hygienic lives. With societies worldwide facing many challenges, such as aging populations, the need for hygienic environments, and global environmental issues, we've been working for some time to realize our corporate philosophy – solve issues faced by society through our core business. Against that backdrop, the United Nations has adopted the Sustainable Development Goals (SDGs), spurring greater interest in solving those issues. That trend aligns with Unicharm's values and strategic direction.

**Shibusawa** Waste separation is already a well-entrenched custom in Japanese society that could be used as a model for other countries. If Unicharm can launch a recycled disposable diaper business, your recycling technology has the potential to become the standard in the industry.

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## Raising issues that stand in the way of an ideal future

**Shibusawa** Earlier, you mentioned how Unicharm employees had built up a variety of technologies to recycle disposable diapers. Unicharm's corporate culture of encouraging employees to take the initiative probably had a role to play in that success. Of course, the creation of new value also costs money, so what are your targets for investment in research and development?

**Takahara** We separate investment into upstream technology development and downstream product development. In the first area, we keep tight control on investment in nonwoven fabric and absorbent material technology by working closely with other companies through open innovation. However, we channel the bulk of our investment into the second area, aiming to spend 5% of consolidated net sales on product development. At the moment, the key theme for us in product development is visualizing the increasingly diverse values of consumers. Many consumers who buy Unicharm's mainstay disposable diaper and feminine care products are reluctant to provide us with clear opinions about the products, and in many cases, positive feedback in market research questionnaires fails to translate into actual buying behavior. That's why we're now using digital technology to visualize consumer feedback about products based on biological data, and digital marketing tools to understand what type of information has the greatest impact on consumer buying behavior.

## Discussion with the President



**Shibusawa** In the Showa era, Japan's population pyramid graph was a conventional pyramid shape, showing a large proportion of people in younger age groups. However, in the Heisei era, the graph changed into a gourd shape as the number of first- and second-generation baby boomers increased. From 2020 onward, the shift to an inverted pyramid shape is set to accelerate. In other words, over the next few decades, we're going to transition to a society and workforce where younger people, the so-called Millennials and Generation Z, will have to develop templates for success, replacing those that have worked until now. Given that outlook, I think 2020 will be an important turning point for Japanese society, and by extension, Unicharm's position in the market. What's your vision for Unicharm 10 years from now?

**Takahara** Young people are always the driving force behind our values today, so it's the responsibility of people in our generation to help them find the right direction as they create new trends. Our "Management with Resonance" approach is perfect for encouraging the growth and development of junior employees. Unicharm's corporate culture is about bringing all employees together to create an unlimited capability that is far greater than the sum of its parts. To do that, we have to ensure all our employees are heading in the same direction based on a shared vision, and that everyone clearly understands the role they have to play. Realizing our NOLA & DOLA\* corporate philosophy will of course be crucial to that process. The NOLA part of our philosophy refers to solving issues that people face in their lives every day – discomfort, inconvenience and unsanitary conditions – and over the past 59 years Unicharm has achieved success in that area by supplying products that tackle those issues. DOLA, the other part of the philosophy, is about supplying products and services that give our customers greater enjoyment and pleasure. Using a backcasting approach to envisage the steps we need to take to achieve our vision and ideals for Unicharm, we anticipate a number of challenges over the next 30 years, and DOLA is likely to be central to what consumers want during that period.

\*Necessity of Life with Activities & Dreams of Life with Activities

**Shibusawa** So, NOLA is based on forecasting, and DOLA is based on backcasting. The United Nations adopted the SDGs in 2015. I think the SDGs are a good tool for backcasting to help companies identify new areas for value creation, and they align well with the DOLA part of Unicharm's philosophy. I'm excited to see what kind of new value Unicharm creates when it launches the disposable diaper recycling business.

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## Differences in communication explain disparities between companies

**Shibusawa** As Japan's population shrinks and ages, diversity management is being used by companies to attract and retain staff and to increase their ability to respond to diversifying market needs and risks. What is Unicharm's stance on diversity management?

**Takahara** I agree with your definition about diversity management. Unicharm is also working to create a more diverse workforce with a mix of genders, ages and nationalities. There's also considerable diversity in the Japanese population. For example, you and I were born in the same year, but we're different in many ways because of the experiences that make us who we are. Working with people from different backgrounds stimulates us and helps us to improve.

**Shibusawa** What approaches do you use when communicating with your diverse workforce?

**Takahara** Every morning I send email greetings to employees celebrating their birthdays. To date, I've sent close to 20,000 birthday emails. Every email is different and I write them based on the recipient's career at Unicharm, such as the different posts they've worked in, and the direct interactions I've had with them. In some cases, I don't receive replies from employees for many years, but I continue to send emails, which can suddenly lead to a reply out of the blue. Employees use their replies to raise issues about the company or their workplaces, or to put forward ideas they might have, while some give me an update about what's happening in their lives. I keep all their replies, which gives me a good idea of how their careers are developing. I also host a lunch for junior employees every month and make a point of eating together with local staff when I visit overseas sites. Junior employees are also selected to work with the president's secretary for a two-month period to increase the number of employees who have a deeper understanding of how senior managers think and operate. They have to submit daily reports about their work experience, which can sometimes show that one explanation is not enough to get our message through. If that's the case, we try a different approach by adjusting our explanation.

**Shibusawa** I met the former chairman of a global company the other day, and he gave a similar explanation when I asked him how the company ensured its corporate philosophy was entrenched among the workforce. He said the best way was just to "repeat, repeat, repeat," using emails, social media, conversation, or whatever channels are available. That reminded me of other executives, who point out that "saying something once is not enough."

**Takahara** But you shouldn't say the same thing the same way 100 times. You have to adjust your message based on the reaction you get, or make the explanation clearer using examples to ensure senior managers and employees are heading in the same direction. That's the essence of "Management with Resonance." Decision-making is the most important part of a company president's job, but decision-making is very difficult to get right. When I say "get right," I mean understanding what frontline employees are really thinking, clarifying the situation from the standpoint of the president, and ensuring the organization is pulling in the right direction. I think differences in communication reveal disparities between companies.

**Shibusawa** Business leaders need to be good at making decisions, not judgments. Nobody knows the right answer, but when senior managers make a decision, it means nothing if the organization can't follow through. If they make the wrong decision, they can learn from their mistakes and adjust direction. That's an ongoing process. Companies where leaders get their message through to employees in every corner of the organization are strong companies. Employees are companies' greatest asset, but they don't appear as assets on the balance sheet. For investors trying to evaluate prospects for sustained value creation, employees are the most important factor in "invisible value." Thank you for your time today. It was interesting to participate in a discussion about so many important topics.

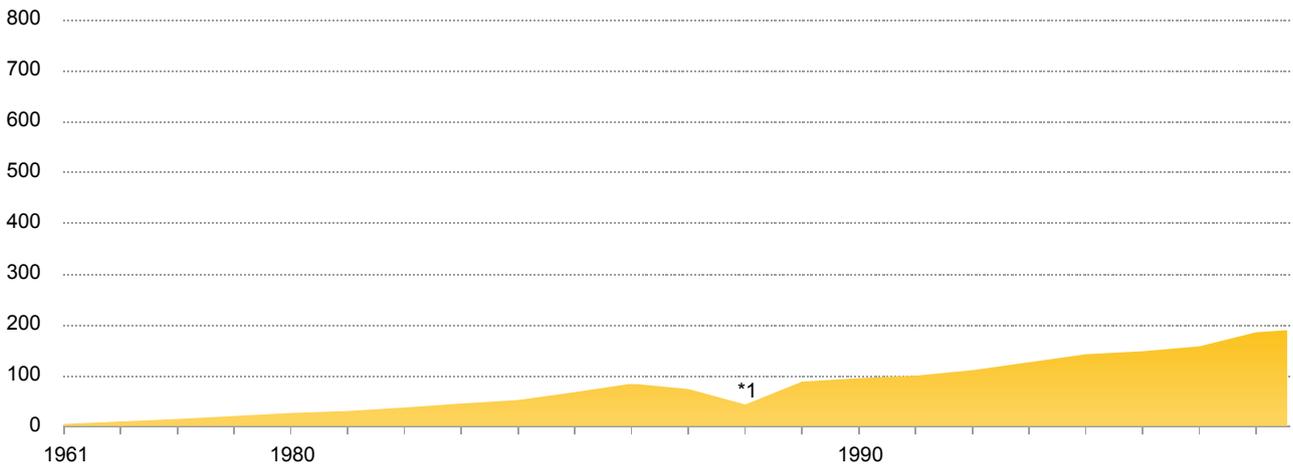
**Takahara** Unicharm will continue to encourage dialogue with investors and all other stakeholders as we work towards our goal of creating a cohesive society by fine-tuning our approaches and our openness to new ideas. I hope we can count on your continued support and understanding in the years ahead.



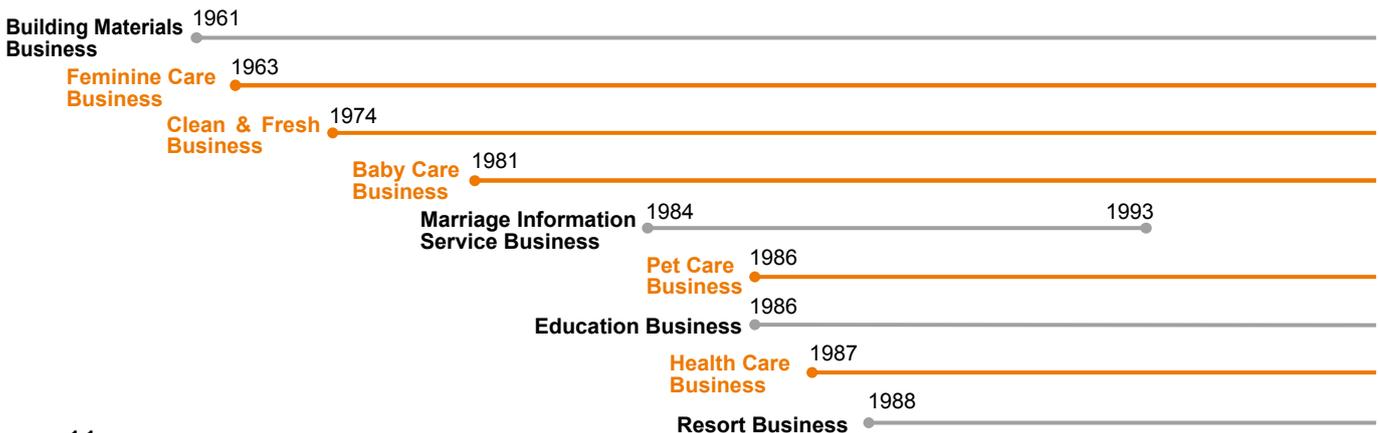
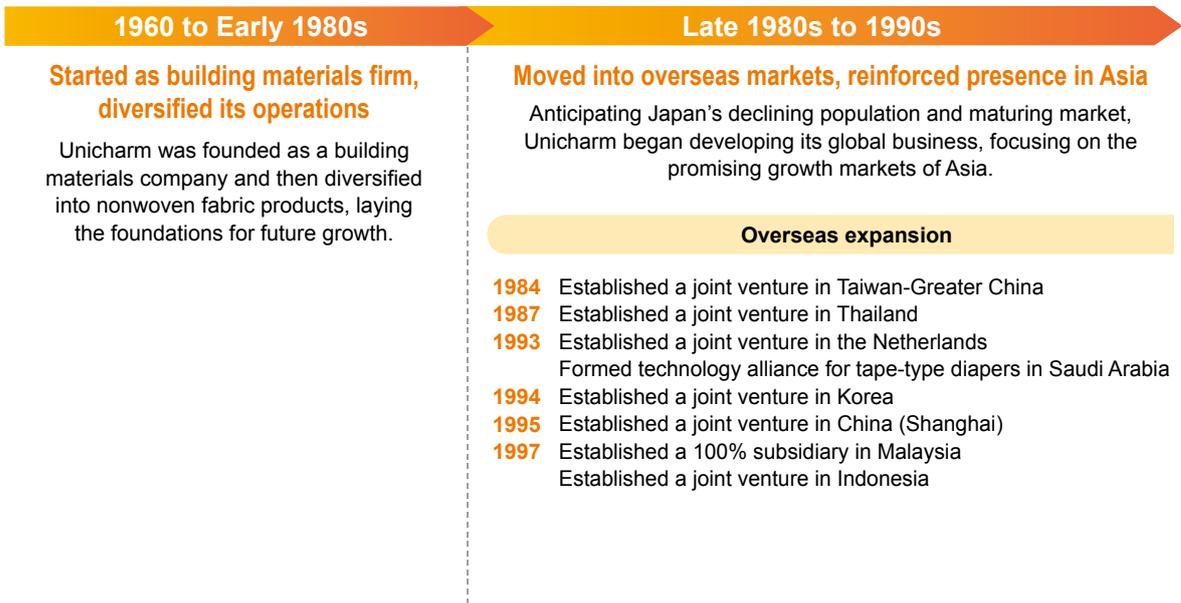
## Unicharm's Growth Story

Since becoming a manufacturer of feminine care products in 1963 with the start of sanitary napkin production and sales, Unicharm has led the industry as a pioneer, developing numerous innovative technologies and products. In addition to Unicharm's original business of building materials, we moved into a range of other business fields, including early childhood education, wedding services and holiday resorts. In the 2000s we started overhauling that diverse business portfolio, focusing on areas where we could harness our nonwoven fabric and absorbent material processing and

Long-term sales trends (¥ billion)

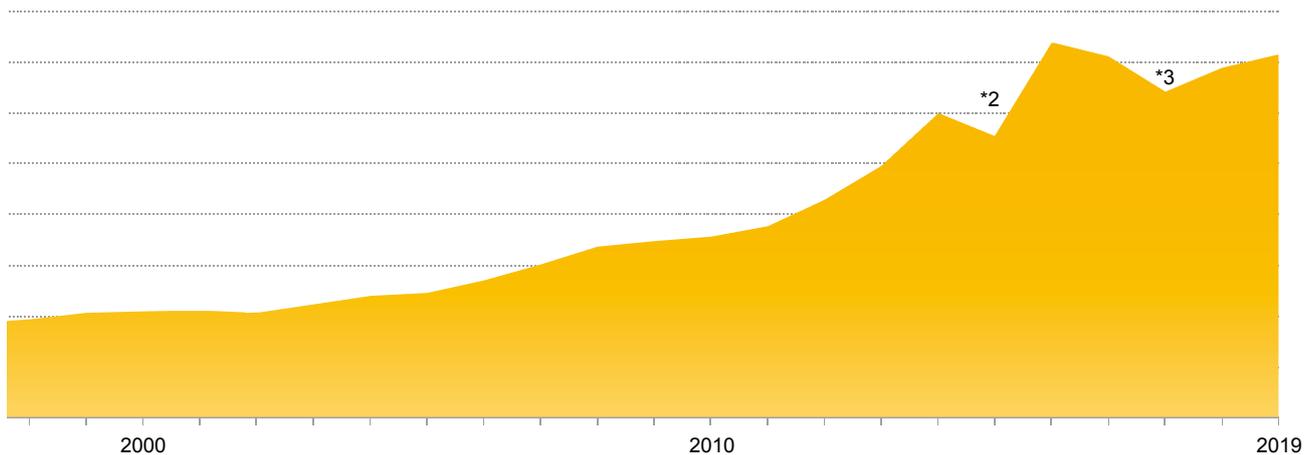


\*1 The fiscal period ended March 1988 was a six-month transitional period due to a change in fiscal year-end.



molding technologies developed for feminine care products. Unicharm has also moved into baby care products, health care products and household products, extending its reach into a wider range of everyday areas to support people involved in childcare, nursing care and housework. Anticipating Japan's maturing market, Unicharm also actively started developing its overseas operations in the 1980s. Unicharm now has a presence in roughly 80 countries and regions around the world.

Corporate History  
<http://www.unicharm.co.jp/english/about/history/index.html>



\*2 The fiscal period ended December 2014 was a nine-month transitional period due to a change in fiscal year-end.  
 \*3 Unicharm adopted International Financial Reporting Standards (IFRS) from fiscal 2017, ended December 31, 2017.

### 2000s

#### Tightened business focus, rebuilt foundations for growth

Unicharm channeled business resources into nonwoven fabric and absorbent material products and rebuilt its foundations for growth, while also accelerating business expansion in Asia.

### 2010s

#### Stepping up growth through further globalization

Unicharm is accelerating growth, driven by dramatic expansion in the Asia market. It is also moving into Africa and South America.

#### Overseas expansion

- 2002** Established a joint venture in the Philippines
- 2005** Gulf Hygienic Industries of Saudi Arabia was made a subsidiary
- 2006** Established a 100% subsidiary in Vietnam  
Established a joint venture in Korea
- 2008** Acquired Australian Pacific Paper Products and made it a wholly owned subsidiary  
Established a wholly owned subsidiary in India  
Wholly owned subsidiary established in Russia by joint venture Unicharm Mölnycke Rus LLC
- 2009** Wholly owned subsidiary established in U.S. by joint venture Unicharm Mölnycke Rus LLC

- 2010** Established a consolidated subsidiary in Egypt
- 2011** Acquired Sumitomo Corporation's 51% stake in U.S. pet-care products supplier, The Hartz Mountain Corporation  
Acquired Diana Joint Stock Company, a manufacturer and supplier of hygiene products in Vietnam
- 2013** Acquired Myanmar Care Products Limited, a manufacturer and supplier of hygiene products in Myanmar
- 2014** Established a joint venture in Brazil
- 2018** Acquired DSG International (Thailand) Public Company Limited, which has business sites in Thailand, Malaysia, Indonesia and Singapore

2002

2008

2004

## Unicharm's Business Expansion

Unicharm operates businesses in roughly 80 countries and regions around the world. The types of products we sell are indispensable for hygienic and healthy lives, and demand for them is expanding in many regions worldwide. Thanks to our position as a specialist manufacturer, we can supply high value-added products that are popular with consumers in Japan and overseas.

### Personal Care Business

#### Baby Care Business

Major products

Disposable baby diapers



Market share in key regions



#### Feminine Care Business

Major products

Feminine care products

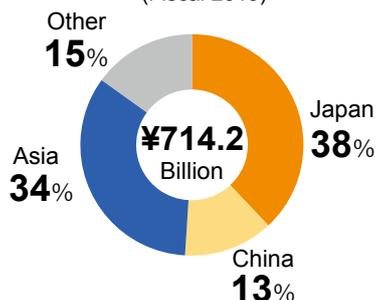


Market share in key regions



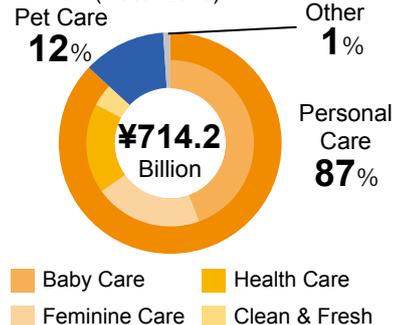
#### Net sales by geographic area

(Fiscal 2019)



#### Net sales by business segment

(Fiscal 2019)





### Health Care Business

Major products

Adult incontinence care products



Market share in key regions

Japan  
**No. 1**

Indonesia  
**No. 1**

Thailand  
**No. 1**

Vietnam\*  
**No. 1**

Taiwan-Greater China  
**No. 1**

\*6 major cities: Hanoi, Hai Phong, Danang, Nha Trang, Ho Chi Minh City and Cantho

### Clean & Fresh Business

Major products

Home care products



Market share in key regions

Japan

Wet tissue  
**No. 1**

Cosmetic puffs  
**No. 1**

### Pet Care Business



Major products

Pet food and pet toilet care products



Market share in key regions

Japan

Pet toiletry  
**No. 1**

Pet food  
**No. 1**

U.S.  
Dog toiletry  
**No. 1**

(Unicharm research, 2019)

## Unicharm's Business Model and Six Types of Capital

Unicharm makes maximum use of its own business resources, combining them in organic ways. We channel business resources into nonwoven fabric and absorbent material-related businesses – Unicharm's strength – while high-achieving personnel are sent overseas to develop highly competitive products tailored to the needs of each market and region worldwide. Cash flow generated by those products is reinvested in growth businesses, creating a positive cycle.

### Utilizing nonwoven fabric and absorbent material technology to the fullest

#### Focusing on nonwoven fabric and absorbent material businesses + $\alpha$



Our goal is to help solve issues faced by society by offering new value to consumers ahead of competitors. Specifically, we want to create value by adding services to our existing lineup of high value-added products that incorporate our nonwoven fabric and absorbent material processing and molding technologies. We also plan to protect and leverage our intellectual property and increase patent applications in overseas markets as part of global expansion, based on our industry-leading rates for patent application and registration.

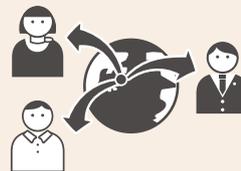
R&D costs  
in fiscal 2019  
¥7,584 million

Intellectual capital

Natural capital

### Training highly skilled staff to develop products for consumer needs

#### Appointing "resonant personnel" to overseas positions



To ensure our expansion into overseas markets has a greater chance of success, we are actively appointing internationally minded "resonant personnel" with a deep understanding of Unicharm's DNA, corporate culture and strategies to positions overseas. Those personnel are increasing our chances of success overseas by transferring our winning patterns from Japan and adapting them to the cultures and needs of overseas markets. To retain those employees, we communicate closely with them through frontline on-the-job (OJT) training and train up the next generations of "resonant personnel."

#### Actively using the insights of Millennials

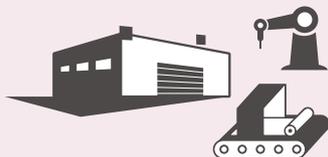


The Millennial generation is a demographic cohort born between 1982 and 2000 and is seen as having distinctly different values. Also known as Millennials, this group is increasingly driving consumption in markets today. In response to that trend, we have selected a group of Unicharm employees in their 20s and 30s and are reflecting their unique insights in management strategy.

Human capital

## Supplying products and forging close links with consumers in around 80 countries and territories worldwide

### Building a production framework to meet rising demand



We are expanding our production sites and optimizing our manufacturing framework to address rising demand for our products. We are also pushing ahead with the development of smart factories, which will combine Unicharm's unique technologies and know-how with the latest advances in AI, IoT and robotics.

Capital outlay  
in fiscal 2019  
¥47,350 million

### Empowering women and increasing brand value



In countries and regions where there is poor understanding about menstruation and a lack of social infrastructure, we are working with governments and local NGOs to help women play a greater role in society. Those efforts also help to increase recognition of the Unicharm name overseas and improve our brand image.

Social capital

### Teaming up with leading wholesalers overseas



We are rapidly expanding our sales areas overseas by building strong networks with leading wholesalers in local markets and promoting early uptake of our products.

Production capital

## Maximizing stable cash flow

### Actively investing in growth and paying stable returns to shareholders



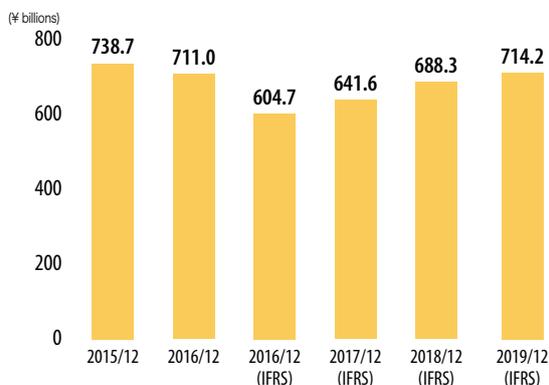
To ensure Unicharm regularly captures major business opportunities, we actively allocate management resources to growth business. Also, by improving profitability, we aim to increase return on equity (ROE) to 15% or higher by 2020 and consistently increase shareholder returns, aiming for a total return ratio of 50%.

Financial capital

# Financial and Non-Financial Highlights

## Financial Highlights

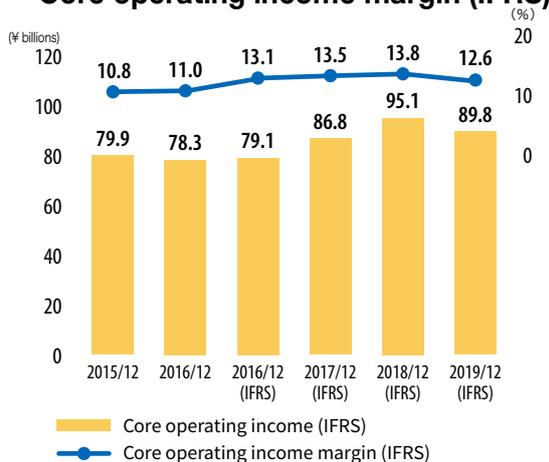
### Net sales



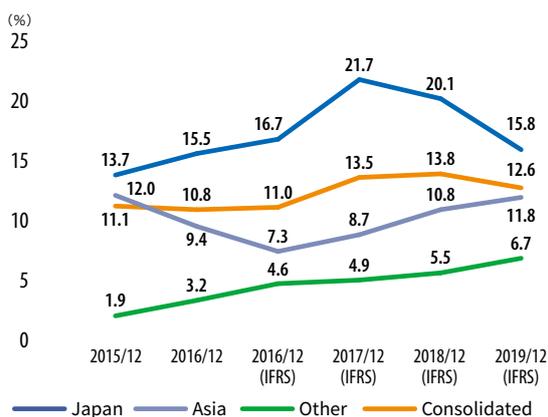
### Net sales by geographic area



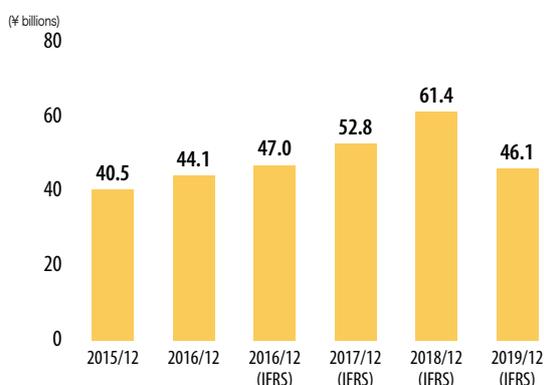
### Core operating income (IFRS)/ Core operating income margin (IFRS)



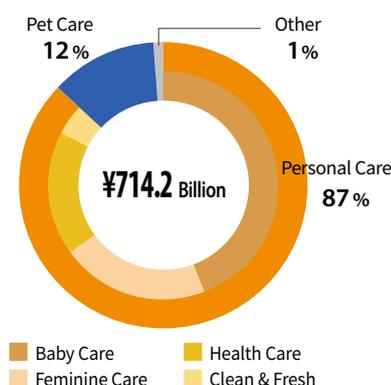
### Core operating income margin by geographic area (IFRS)



### Profit attributable to owners of parent (IFRS)



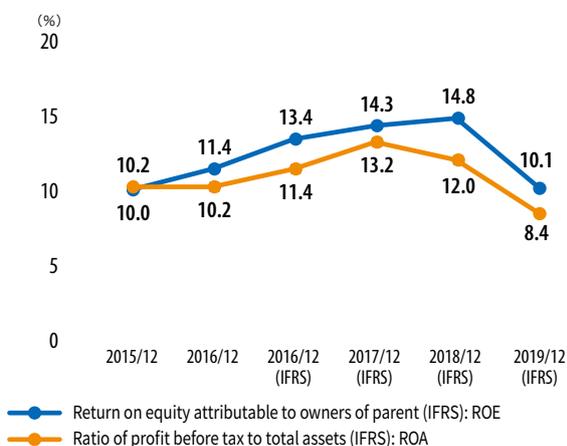
### Net sales by business segment



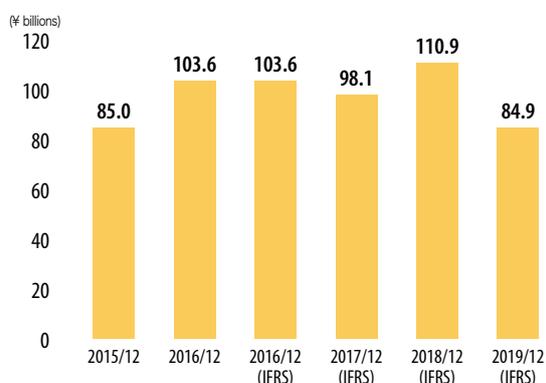
Notes:

1. Unicharm adopted IFRS from fiscal 2017, ended December 31, 2017.
2. Core operating income is gross profit after deducting selling, general and administrative expenses.

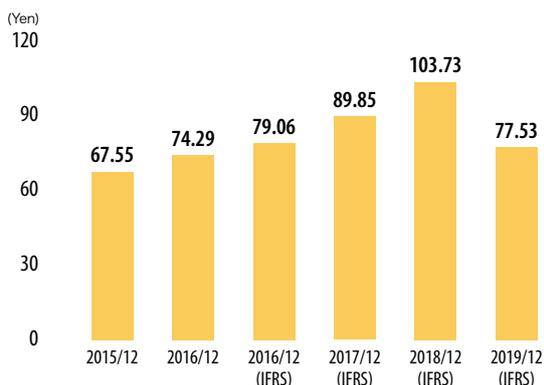
## ROE, ROA



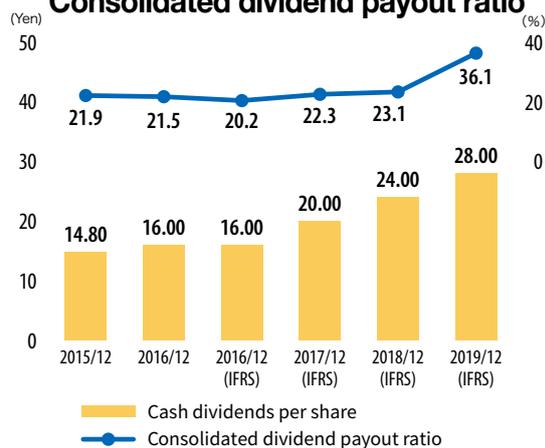
## Cash flows from operating activities



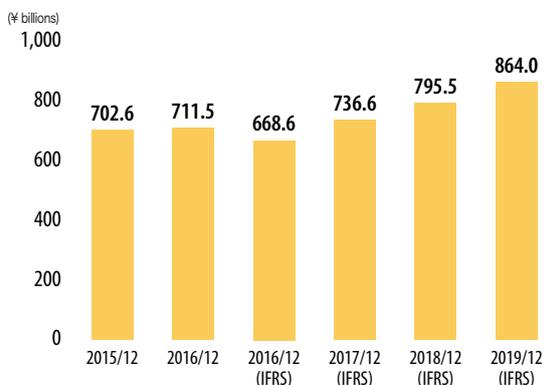
## Basic earnings per share



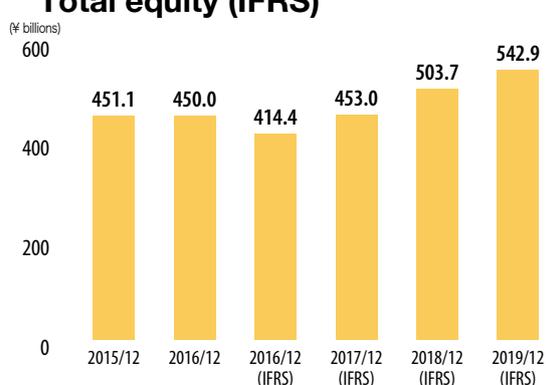
## Cash dividends per share/ Consolidated dividend payout ratio



## Total assets



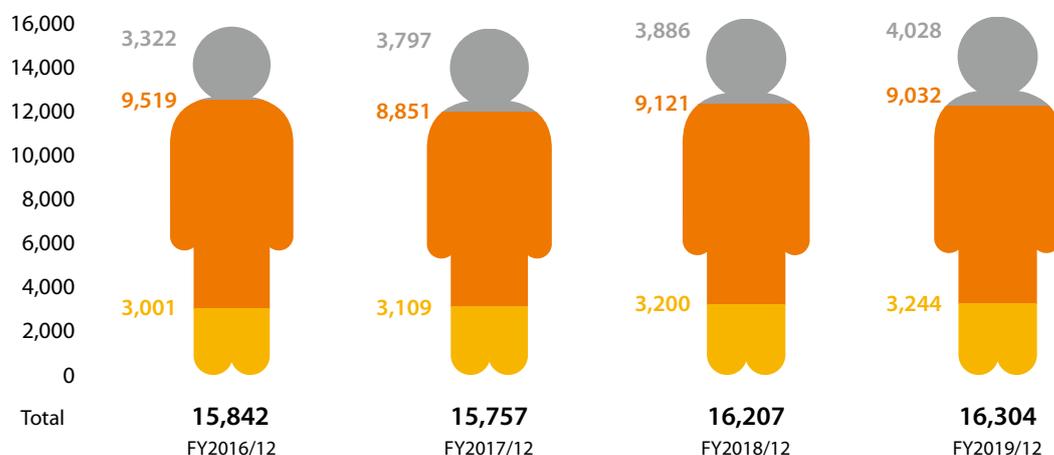
## Shareholders' equity/ Total equity (IFRS)



## Non-Financial Highlights

### Number of employees by geographic area

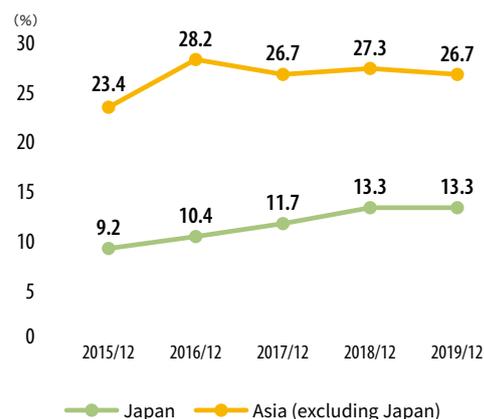
Japan Asia Other



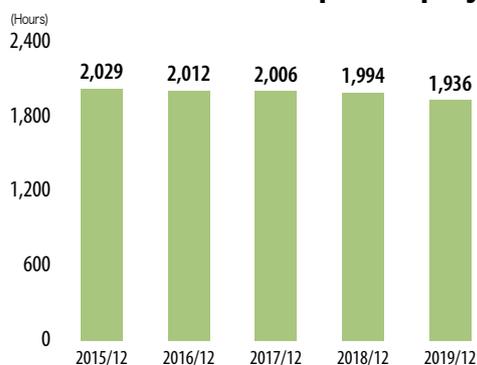
### Total Unicharm Group employees / Ratio of female employees in Unicharm Group



### Ratio of female managers



### Total hours worked per employee



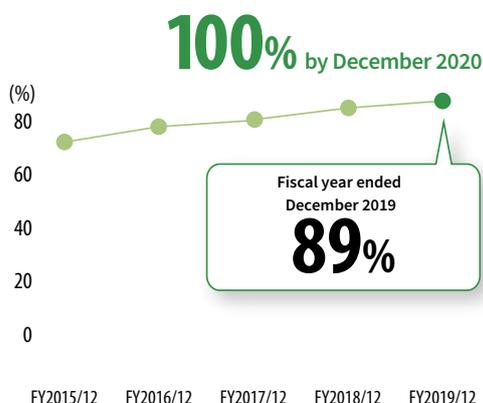
\*Employees on the pay roll of Unicharm

### Employee turnover rate



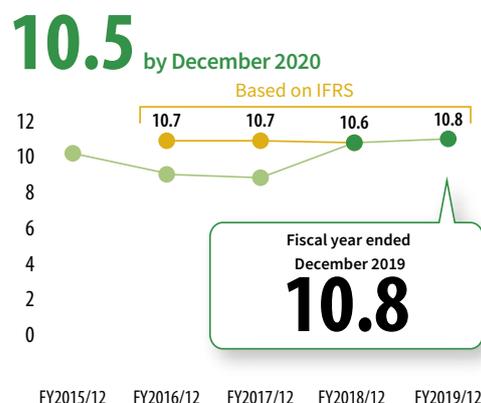
\*Employee turnover rate = Number of terminated employees (except for retirement at mandatory retirement age, death, promotion to board members or transfer within the group) / Number of employees at the end of each fiscal year

## Percentage of environmental-friendly products



## CO<sub>2</sub> emissions volume

Unit energy consumption (GJ) / sales (¥ millions)



## Eco Plan 2020

	Implementation items	2015 results	2016 results	2017 results	2018 results	2019 targets	2019 results	Evaluation	2020 targets
1 Reduction of waste	Recovery technologies for used disposable diapers <span>Japan</span>	Established technologies	Starting with local governments	Start testing	Cycle model establishment	Start cycle model	Start cycle model	○	Full-scale operations
	Recycling of product loss <span>Overseas</span>	2,000 tons	2,600 tons	2,600 tons	4,300 tons	4,000 tons	6,000 tons	○	4,000 tons
2 Procurement of sustainable materials	Third-party assurance of paper and pulp suppliers <span>Japan</span>	82%	80%	94%	95%	97%	95%	×	100%
	Third-party assurance of paper and pulp suppliers <span>Overseas</span>	-	84%	87%	90%	92%	95%	○	100%
	Third-party assurance of palm oil suppliers <span>Japan</span>	0%	Start of investigation	Ascertained	2%	10%	31%	○	100%
3 Measures for climate change	Environmental-friendly Products <span>Japan</span>	72%	78%	80%	86%	93%	89%	×	100%
	Products with the Eco Charming* label <span>Japan</span>	50%	56%	58%	66%	60%	66%	○	60%
	Products with the Eco Charming* label <span>Overseas</span>	0%	Survey	Understanding completion	Operation start delay	Operation start	Operation start	○	Operation start
	CO <sub>2</sub> emissions base unit during manufacturing compared to 2015 <span>Japan</span>	Base year	-2.4%	-4%	6%	-8%	-8%	○	-10%
	CO <sub>2</sub> emissions base unit during manufacturing compared to 2015 <span>Overseas</span>	Base year	-	-3%	6%	-8%	-8%	○	-10%
	Collection of overseas site data <span>Compared to sales</span>	73%	77%	81%	83%	85%	88%	○	80%

\* Eco Charming mark: Proprietary Unicharm certification only shown on labels of products that enhance value in areas such as convenience and comfort, while also reducing environmental impact compared with legacy products.

- Regarding reduction of waste, the above assessment was made because in 2019 we started verification testing and realized the planned implementation in the City of Shibushi and we were able to convert 6,000t/year of product loss generated during the manufacturing stage into cat continence care products, representing achievement of the planned goals.
- Regarding procurement of sustainable materials, with respect to paper pulp within Japan, the percentage remained at around the same level as in the previous year representing a failure to achieve the planned target; overseas, however, switching over to sustainable paper pulp through collaboration with suppliers enabled us to achieve the planned target, bringing the percentage up to roughly the same level as in Japan. With regard to palm oil, the above assessment was made because of a successful switch over to using the Mass Balance (MB) model, with approximately 30% of all palm oil used being RSPO certified.
- Regarding measures against climate change, although production of environmentally-friendly products has increased, there were still some product items left with respect to which progress in switching over to environmentally-friendly product specifications has been limited, and the overall objectives have not yet been met. With regard to the percentage of Eco Charming products, within Japan, the plan had been realized as of 2018 ahead of schedule and related operations had already begun overseas so, overall, the plan had been successfully implemented. The above assessment was made because we had achieved our target of reducing CO<sub>2</sub> emissions intensity at the manufacturing stage and production locations that have received third-party certification now account for 88% of the company's total sales.

\* With regard to those items where the target for 2020 has already been achieved (including product loss recycling amount, Eco Charming product ratio and sales ratio based on data collection at overseas production sites), we are continuing to promote further efforts to surpass the performance realized in 2019.

Chapter 1 Growth record and business overview

Unicharm has grown continuously since it was founded 59 years ago

We realized early on that our domestic market was maturing, prompting us to actively start developing Unicharm’s overseas operations in the 1980s, focusing primarily on markets in Asia with good prospects for growth. Since then, we have expanded our reach into a wide range of overseas markets – advanced and emerging – supporting steady growth in earnings. In the space of just 59 years since Unicharm was founded in 1961, we have grown into a company with annual sales of over ¥700 billion. Unicharm now has the leading share in its key Asian markets, where continued high rates of growth are driving the Group’s expansion.



\*1 The fiscal period ended March 1988 was a six-month transitional period due to a change in fiscal year-end.  
 \*2 The fiscal period ended December 2014 was a nine-month transitional period due to a change in fiscal year-end.  
 \*3 Unicharm adopted International Financial Reporting Standards (IFRS) from fiscal 2017, ended December 31, 2017.

A corporate culture intact from the earliest days of Unicharm From “Three DNAs” to “Three DNAs and BOP-ship”



Unicharm has achieved sustained growth while remaining true to its corporate culture and spirit from the earliest days of the Company, which have been distilled into “Three DNAs.” In recent years, Unicharm has expanded its business from Japan into Asia, the Middle East, Europe and the Americas. That expansion has led to an increase in the number of overseas employees. To make the “Three DNAs” easier to understand, they have been reframed as “BOP-ship.” The Three DNAs and BOP-ship represent Unicharm’s values, which underpin the Company’s activities and are shared by everyone from senior management down to every single employee.

## Supplying indispensable products to a wide range of customers in many regions worldwide

	Infants	Young Adults	Middle-aged	Elderly	Pets
Personal Care Business					
Baby Care	●				
Feminine Care		●	●		
Clean & Fresh	●	●	●	●	
Health Care			●	●	
Pet Care Business					●

We channel management resources into nonwoven fabric and absorbent material businesses, allowing us to launch products that accurately meet customer needs ahead of rivals, thanks to our position as a specialist manufacturer. Backed by powerful technical capabilities, we supply a balanced range of products for pet owners and people of all ages – from babies to the elderly – limiting our exposure to demographic changes and supporting Unicharm’s sustained growth.

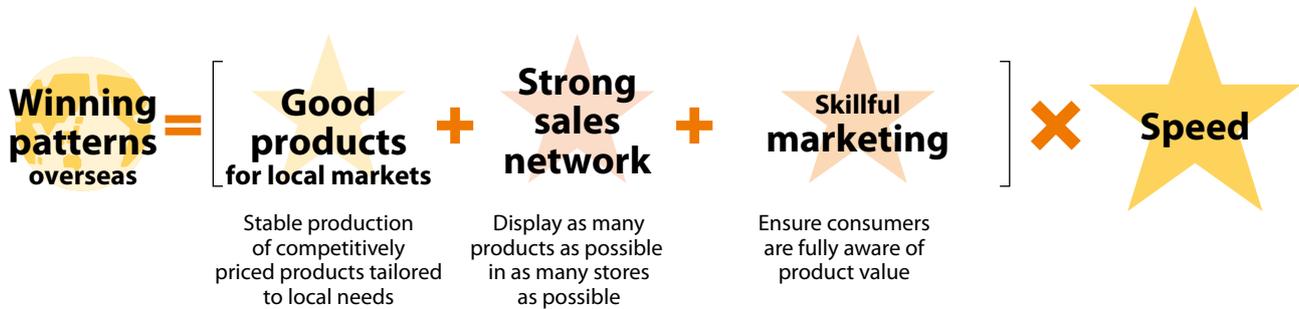
## A presence in roughly 80 countries and regions worldwide



Unicharm has expanded its business globally and now has a presence in around 80 countries and regions worldwide. We divide our markets into two main types based on the business model we use: direct market participation and technical support. We are investing heavily in regions with the potential for long-term growth, such as Asia, the Middle East, North Africa and South America. In those regions, we are setting up our own manufacturing and sales operations and transferring management authority to local subsidiaries, giving us the ability to respond rapidly to changes in local consumer needs. In contrast, in the large but maturing markets of North America and Europe, we are generating stable earnings by minimizing our investment outlay through technology licensing agreements with local partners.

**Chapter 2** Strengths that support Unicharm’s sustained growth

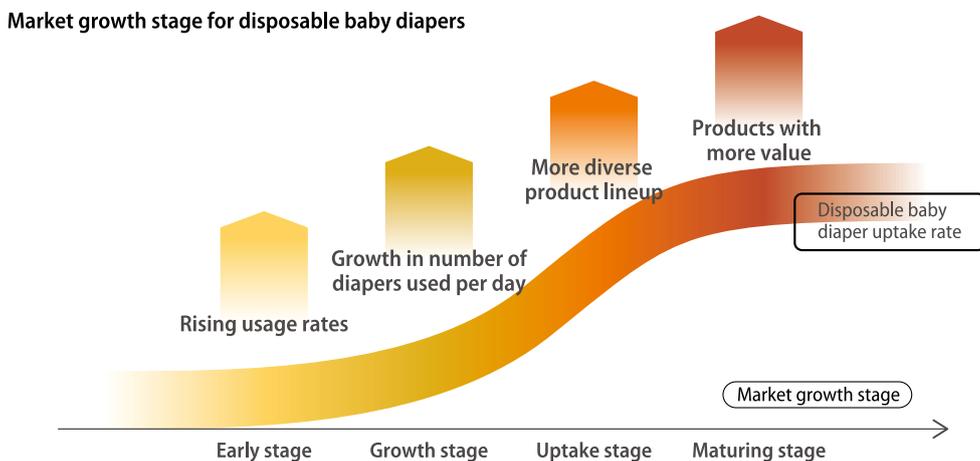
**Evolution of our “winning patterns”**



The popularity of Unicharm products in many consumer markets around the world reflects our efforts to develop products tailored to the cultures and living environments of each country and region, backed by detailed research into local lifestyles and consumption habits. At the same time, we have been working to distribute our products to as many retailers as possible and communicating the value of our product range to the fullest by working with retailers to create shopper-focused sales areas using digital technology.

To remain competitive amid rapid advances in IT and globalization, we have to think and act faster. Using a dynamic cycle of trial and error, we will adjust our “winning patterns” to match changes in the operating environment and transfer them to overseas markets.

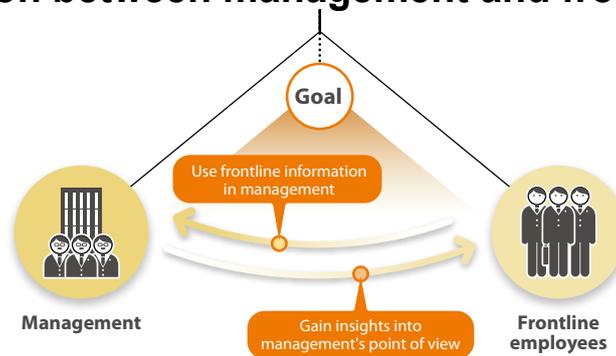
**Implementing strategies for each phase of market growth**



Unicharm implements clear strategies tailored to each stage of market growth: early stage, growth stage, uptake stage and mature stage. Based on careful analysis of these growth phases, we work to boost market uptake and maximize profits by launching the right products at the right time in each market.

There is a close correlation between market uptake rates for nonwoven fabric and absorbent material products and per capita GDP in each country. Our research shows that uptake rates for feminine care products and disposable baby diapers jump sharply when per capita GDP exceeds \$3,000. When per capita GDP rises to a high level, uptake for feminine care products and disposable baby diapers reaches a ceiling, but market uptake increases for disposable adult diapers and pet care products. Demand for feminine care products and disposable baby diapers is currently growing across many emerging markets in Asia, Africa and South America. Going forward, we also anticipate rising demand for disposable adult diapers and pet care products in Asia, as well as in advanced markets.

## Implementing our strategies using “Management with Resonance” – close cooperation between management and frontline employees

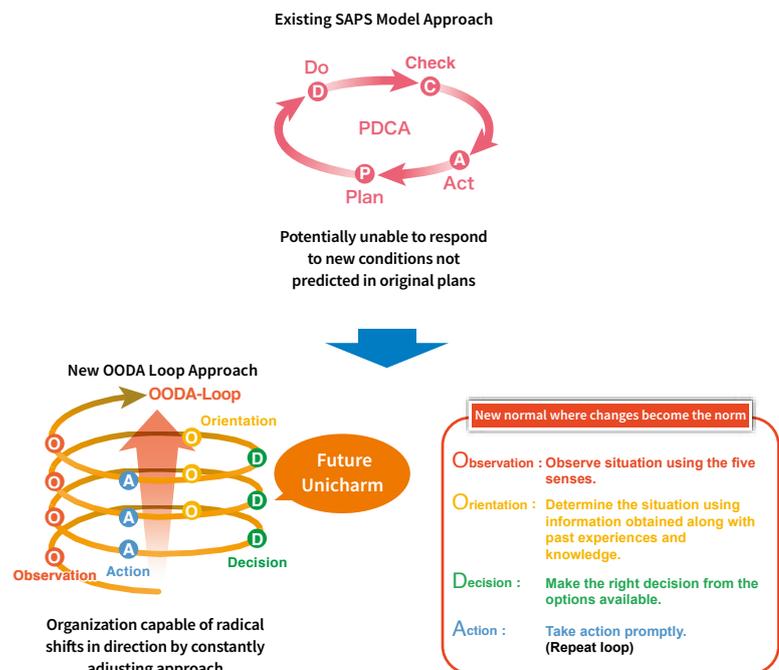


Frontline employees and management share information to ensure they are working toward the same goals

At Unicharm, management uses feedback from frontline operations to develop strategies that are carefully explained to employees, allowing our workforce to gain insights into management’s point of view and act accordingly. This balanced approach to communication significantly improves the capacity of the whole organization, helping management and frontline employees work together towards shared goals. We call this “Management with Resonance,” and it is a major factor behind the Group’s growth. To ensure our business strategies have a greater chance of success, we are also nurturing internationally minded “resonant personnel” who have a deep understanding of Unicharm’s DNA, corporate culture and strategies, and actively sending them to positions overseas.

## Introducing a new management approach to create an organization that “moves ahead while thinking”

Dramatic and unexpected change on a daily basis, spurred by advances in IT and globalization, has become the “new normal” in recent years. To generate sustained growth under those conditions, we need an organization capable of radical shifts in direction. Specifically, we have to constantly adjust our approach – identifying signs of change and improvising in response to ongoing developments in the operating environment, without sticking too much to our original plans. To create that kind of organization, we have introduced a new management approach based on the observe-orient-decide-act (OODA) loop, which is an evolution of our previous SAPS Model that emphasized the plan-do-check-act (PDCA) cycle. Our aim is to create an organization where employees use their initiative to make decisions and take actions themselves, with each frontline employee assessing the situation using first-hand information from the business frontline to understand specific situations, fine-tuning their senses and combining their intuition with business experience and expertise.

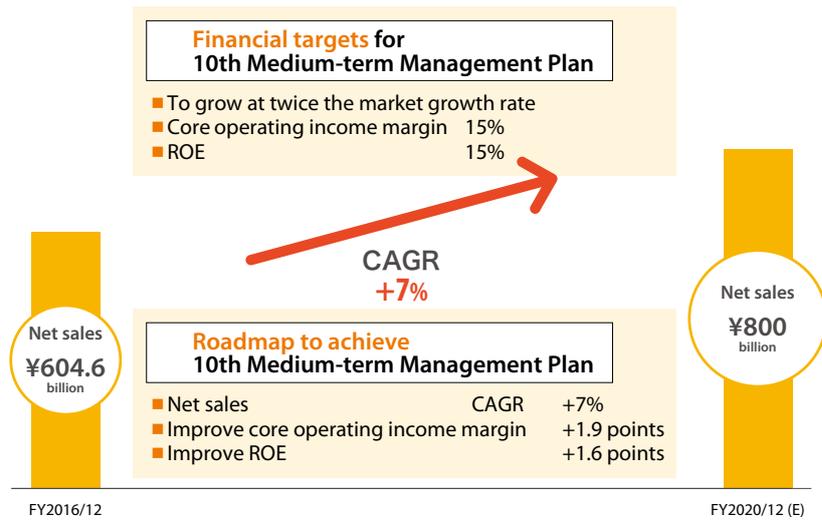


Chapter 3 Unicharm's objectives

### Medium-term Management Plan to support sustained growth

In 2016 we formulated our 10th Medium-term Management Plan, which is designed to drive rapid growth by accelerating the globalization of our business. Under the plan, we aim to create a cohesive society and help solve issues faced by society while targeting consolidated net sales of ¥800 billion, average annual sales growth of 7%, a core operating income margin of 15% and ROE of 15%.

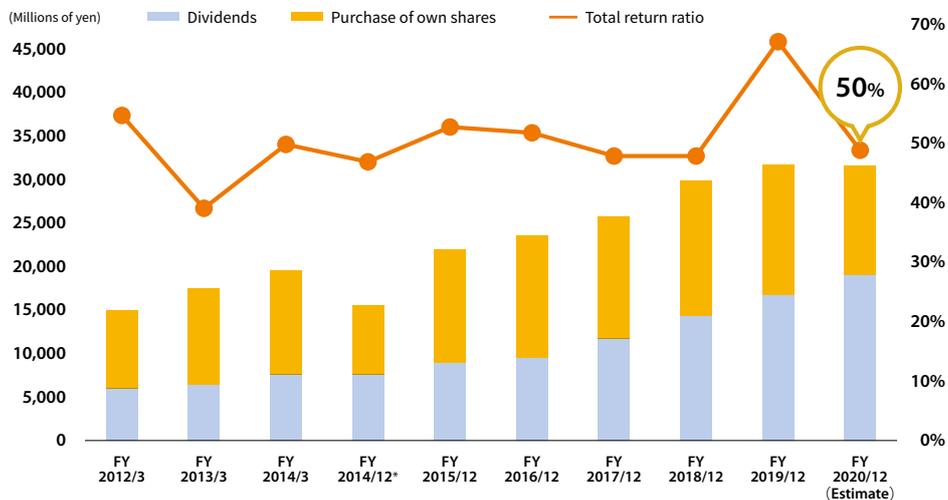
10th Medium-term Management Plan (Based on IFRS)



\* CAGR (compound annual growth rate) excludes exchange rate fluctuation.  
 \* Businesses with already high market share grow at average market growth rate.

### Maintaining our policy of paying stable returns to shareholders

As part of our Beliefs and Pledges and Corporate Principles of Action, which form the Unicharm Group's Action Guidelines, we have made a clear commitment to shareholders to operate the business in a way that meets their expectations for growth and delivers industry-leading returns to shareholders. Our basic policy on shareholder returns, which is anchored by the Action Guidelines, emphasizes two key points: the need to invest in our business to support growth over the medium to long term, and paying stable dividends to shareholders. As a result of that policy, we have raised the dividend for 18 consecutive fiscal years through to fiscal 2019, ended December 31, 2019.



\* Fiscal 2014, ended December 31, 2014, was a nine-month transitional period due to a change in fiscal year-end.

## Creating a brand that is trusted around the world

# NOLA & DOLA

Necessity of Life with Activities & Dreams of Life with Activities

### Eliminating discomfort

(transformative change from negative to zero)

Changing from no discomfort to

### + feeling good

(transformative change from zero to plus alpha)

Guided by our corporate slogan, NOLA & DOLA, we have been working to make life more comfortable for people world-wide. Looking back over the years since Unicharm was founded in 1961, we have achieved a measure of success in eliminating some of the issues people face in their lives every day – discomfort, inconvenience and unsanitary conditions – as expressed by the NOLA part of our slogan. However, we have really only just begun to address DOLA – supplying products and services that give our customers greater enjoyment and pleasure.

As IT becomes more advanced and consumers' buying habits become more diverse, digital technology will play a vital role in helping us accurately respond to the needs of customers. Instead of relying on our gut feelings or past experience, we will analyze buying history to visualize shopping habits and tailor marketing strategies to individual needs. Through that process, we aim to make Unicharm a trusted brand around the world.

Going forward, we will continue to provide world-first and world-leading products and services and deliver comfort, impression and satisfaction, aiming to create a cohesive society where people everywhere lead independent lives and support each other.

## Change in Business Environment and Unicharm's Approach

Unicharm's businesses play a vital role in society by supporting healthy, hygienic lives. Societies worldwide face many challenges, such as aging populations, the need for hygienic environments, and global environmental issues. We aim to help solve those challenges through our business activities, while also increasing the Group's corporate value.

### Megatrends

Aging societies  
in advanced markets

Economic growth  
in emerging markets,  
rising global population

Resource depletion,  
global warming

Advances in AI,  
IoT and other technologies

Increasingly diverse values

Globalized society

### Impact on Unicharm

#### Opportunities

Increase in spending per child

Rising demand for products and services that  
make life easier for women

Increase in elderly people aiming  
for healthy retirement

More people seeking comfort from pets

Growth in middle-class consumers  
seeking more hygienic lifestyles

Rising demand for safe products  
that offer peace of mind

Greater pressure on companies  
to help solve social issues

#### Risks

Risks related to sales environment in competition

Risks related to the population structure

Overseas business risk

Raw materials price fluctuation risks

Risks related to the reliability of products

Risks related to legal and regulatory compliance

Risks related to intellectual property including  
patents and trademarks

Risks related to environmental problems

Risks related to climate change

Risks related to disasters and accidents

Risks related to acquisition, partnership,  
business consolidation, etc.

Information leakage risks

## Business Strategies

- Baby Care Business**  
 Improving the childcare experience
- Feminine Care Business**  
 Creating more freedom for women by harnessing the science of comfort
- Health Care Business**  
 Helping people get more pleasure from life
- Clean & Fresh Business**  
 Creating a comfortable and clean environments
- Pet Care Business**  
 Creating comfortable lives for pets based on health and cleanliness

## Financial Goals

<b>Net sales</b>	
Fiscal 2019 result	¥714.2 billion
Fiscal 2020 target	¥800 billion
<b>CAGR (compound annual growth rate)</b>	
Fiscal 2017-2020 target	7%
<b>Core operating income margin</b>	
Fiscal 2019 result	12.6%
Fiscal 2020 target	15%
<b>ROE</b>	
Fiscal 2019 result	10.1%
Fiscal 2020 target	15%

## ESG Initiatives

- E** Reduce environmental impact  
 Cut waste in manufacturing
- S** Exist in harmony with local communities  
 Supply chain management
- G** OODA loop approach  
 Management with resonance  
 Compliance  
 Quality management

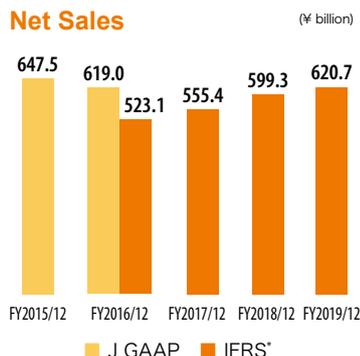
## Environmental and Social Goals

<b>Percentage of environmental-friendly products (Japan)</b>	
Fiscal 2019 result	89%
Fiscal 2020 target	100%
<b>Unit energy consumption (GJ) / sales (¥ millions)</b>	
Fiscal 2019 result	10.8
Fiscal 2020 target	10.5
<b>Support for education about menstruation (persons)</b>	
Fiscal 2019 result	342,166
Fiscal 2020 target	601,500
<b>Taking part in a social walking® program (persons)</b>	
Fiscal 2019 result	1,508
Fiscal 2020 target	1,500

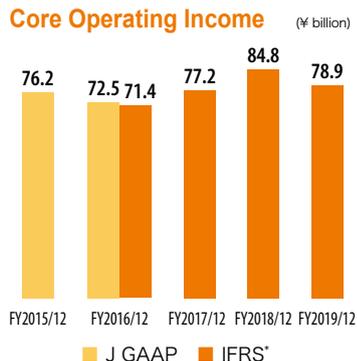
## Personal Care Business Segment

In Japan, sales and profits rose year on year, supported by continued strong growth for moderate and light adult incontinence care products in the *Lifree* range and *Cho-kaiteki* and *Cho-rittai* face masks. However, the spike in demand ahead of the increase to consumption tax in October 2019 fell slightly short of projections and profitability deteriorated due to several factors, including a slow recovery in demand after the consumption tax hike, higher distribution costs, the opening of a new factory in Kyushu and a decline in capacity utilization, which reflected slower demand from China in cross-border e-commerce channels.

### Net Sales



### Core Operating Income



\* Unicharm adopted IFRS from fiscal 2017, ended December 31, 2017.

### SWOT Analysis

#### Strengths

- Leading position in Asia market
- Nonwoven fabric and absorbent material processing and molding technologies
- Product range targeting a wide range of users, from babies and the elderly to pet owners
- Product development capabilities that anticipate consumer needs
- Rapid strategy implementation
- Overseas business development capabilities
- Geographical risk hedging with operations in many regions, from emerging markets to developed economies
- Industry-leading patent application and registration rates

#### Weaknesses

- Responsibility for resource depletion (Disposable products)
- High ratio of materials derived from crude oil
- Lack of personnel skilled in digital technologies

#### Opportunities

- Rising income levels and emerging needs for improved hygiene in emerging markets
- Rising demand for safe products that offer peace of mind, and demand for high value-added products
- Increase in elderly people aiming for healthy retirement (extended healthy life expectancy)

#### Threats

- Risks related to the population structure
- Overseas business risk and forex risk
- Risks related to the reliability of products
- Risks related to intellectual property including patents and trademarks
- Risks related to environmental problems
- Risk of market entrants from other sectors



## Baby Care Business Improving the childcare experience

### Basic business strategy

#### Japan

As Japan's diaper market matures and the birthrate declines, we will continue to offer innovative value proposals and raise awareness about hygiene and comfort issues, aiming to make childcare easier and more enjoyable.

#### Asia

Amid growing demand for disposable baby diapers, which is being spurred by rising incomes, we will play our part in creating healthy, hygienic environments for raising children by launching products tailored to local needs.

#### – Regions with high market uptake rates for disposable diapers

We will roll out high value-added products already sold in Japan to help make life more comfortable and reduce the burden of raising children.

#### – Regions with low market uptake rates for disposable diapers

We will expand our sales areas, mainly for economy-type products that offer a good balance between quality and price, aiming to improve hygiene conditions and reduce the burden of raising children.

## Japan

### Revitalizing the market by offering innovative, high-value-added products and creating customer experience value

In the mature domestic market, Unicharm continued to gain market share, retaining its leading position by offering new value proposals backed by ongoing technological innovation.

In the *Moony Air Fit* and *Natural moony* ranges, which offer high levels of safety and comfort, we drew on origami techniques and mechanical principles to design new products that make diaper changing easy and less stressful for carers, regardless of ability. In the *MamyPoko Pants* range, which offer a good balance between price and functionality, we expanded the product range with new designs featuring *Doraemon*, a popular children's character. Unicharm also works to make childcare more enjoyable by reducing the burden on the growing number of dual-career households. Specifically, in sub-brands *Trepanman* and *Oyasumiman*, we added a new night-time mode to our toilet training app to help children overcome bedwetting and establish a habit of going to the toilet before bedtime and when they get up in the morning. The free-to-download Moony-chan toilet training app is designed to give children independence and confidence when they start toilet training, an important development milestone for encouraging awareness and building trust. In addition, we launched a new fixed-price baby diaper supply service for preschools.



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TV-Asahi,  
Shin-ei, and ADK

Toilet training with  
the Moony-chan  
<http://www.unicharm.co.jp/trepanman/toitore/index.html>



## Asia

### China

#### Spending heavily on marketing to reinforce the moony and Unicharm corporate brands

To meet demand for reliable, safe and high-quality products, we sell our premium *moony* brand in China, mainly through e-commerce channels. We have also launched other products to address the increasingly diverse values of local consumers, helping to drive a recovery in sales in the baby care business in China. However, we booked an impairment loss in fiscal 2019, as the business is unlikely to see a large increase in sales volume in the near term due to declining births and increasing competition from local manufacturers. Going forward, we aim to stabilize earnings in China by using digital data to develop and launch products in response to changes in consumer behavior.



### Indonesia

#### Still the market leader thanks to products that satisfy diverse consumer needs

Unicharm has retained its leading market share in Indonesia by improving the product lineup and offering a wider choice of high value-added products. We are using TV commercials linked to in-store promotions to develop our brands. We also sell products for a broad range of customer categories, from economy-type disposable diapers to standard and premium-type products.



### India

#### Targeting strong, steady growth and improved profitability by investing in marketing to expand sales areas

Since entering the India market in 2008 with pants-type disposable baby diapers – one of Unicharm’s strengths – we have steadily expanded sales areas. That has supported double-digit growth, outpacing market growth. Unicharm has taken second spot in India with a market share of roughly 38% and sales of pants-type products have grown to account for around 97% of total diaper sales. With the uptake rate for disposable diapers in India lower than in other emerging markets, we aim to encourage wider uptake of pants-type products, while also targeting strong, steady sales growth and an improvement in profitability.

### Thailand

#### Launch of high value-added products behind top position in the market

Sales are growing steadily in Thailand, supported by synergies with DSG International (Thailand) Public Company Limited, which was acquired in September 2018. That has helped Unicharm retain its dominant market position in Thailand, with a share of roughly 87%. By offering two brands – *MamyPoko*, with its wide choice of products, and the competitively priced *Baby Love* range – we can meet the diverse needs of consumers. We aim to maintain steady growth by offering new value proposals and harnessing synergies with DSG.



### Vietnam

#### Stepping up brand promotion to retain the leading market share

Unicharm has retained its leading market share in Vietnam by expanding distribution areas and driving wider uptake of pants-type diapers, one of our strengths. Unicharm’s leading market share is roughly 42% and pants-type diapers now account for about 70% of total diaper sales. We also continue to offer free samples to maternity hospitals and spend heavily on other ways to build our brands, particularly those aimed at newborns and very young infants. Amid intensifying competition, we are targeting further growth by offering products that are distinct from those of our competitors by launching value-added products developed with a deeper understanding of local consumers.



### Saudi Arabia

#### Leading market position supported by sales channel expansion and aggressive sales activities

Unicharm has captured the leading position in Saudi Arabia with a market share of roughly 47%, supported by strong sales on the back of aggressive sales activities. Our local business is also increasing exports to neighboring countries. Cultural and religious factors mean women in Saudi Arabia face many restrictions, including in workplaces. Unicharm is helping local women to become more independent by offering job opportunities, while also respecting local cultural norms. Those efforts are also improving Unicharm’s brand image in Saudi Arabia, contributing to strong growth.



### Brazil

#### Aiming to be profitable in 2020, using pants-type products to expand sales areas

In Brazil, where disposable diapers are used to a relatively late age, we have actively promoted the functionality of our pants-type products and expanded our sales areas since entering the market in 2014. Those efforts have translated into growth in market share. Recently, sales have been rising at a rapid pace of more than 20% and we aim to make the business profitable in fiscal 2020.





## Feminine Care Business

Creating more freedom for women by harnessing the science of comfort

### Basic business strategy

#### Japan

Backed by scientific research, we will provide products and services that empower women, allowing them to lead normal, comfortable lives without physical and mental barriers.

#### Asia

Demand for feminine care products is growing in Asia on the back of rising incomes. In response, we will launch products designed for local needs and provide information about periods to help women play a more active role in society and support the region's economic development.

#### – Regions with low market uptake rates for feminine care products

We will launch feminine care products designed for local needs and expand sales areas, as well as provide ongoing education programs about first periods to help women secure job opportunities and take a more active role in society.

#### – Regions with high market uptake rates for feminine care products

We will launch high value-added products designed for local needs and build sales channels to make our products more accessible, aiming to make periods easier for women.

## Japan

### Maintaining the leading market position by supplying products and services designed to help women overcome psychological barriers

Feminine care is now a mature market in Japan due to the shrinking target demographic. Despite that, our domestic business remains highly profitable, backed by high value-added products that are in tune with women's increasingly diverse lifestyles. Unicharm also remains the market leader in Japan with a share of roughly 49%. We offer a growing choice of products to meet various needs. With consumers increasingly focusing on health and safety, we have launched high value-added products that incorporate organic cotton and our unique nonwoven fabric technology, as well as products with improved designs to match the lifestyles and fashions of girls at junior and senior high schools. We also provide various information to help alleviate some of the concerns that women and girls have about periods. For example, our *Sofy* brand #NoBagForMe project is aimed at encouraging a more open public attitude to periods and feminine care products, rather than something that should be hidden. Also, our free *Sofy* app for girls approaching their first period aims to give them independence to manage their periods, while also helping mothers predict the timing of their daughter's menstrual cycle so they can provide the best support.



*Sofy* app to manage the timing of first periods – easy to use for mothers and daughters  
[https://jp.sofygirls.com/ja/girls/after\\_period/app\\_girls\\_05.html](https://jp.sofygirls.com/ja/girls/after_period/app_girls_05.html)



### Asia

#### China

##### Building brands by offering innovative, high value-added products for young women

Unicharm brands continue to enjoy strong support from young women in China, thanks to our high-quality products and cute packaging designs. We are now the leader in major cities, with a market share of roughly 28%. Sales also continue to grow at a double-digit rate, outpacing market growth. We aim to sustain that growth by using highly original products to develop markets in priority areas.



#### Indonesia

##### Generating strong growth and improving profitability by continuing to launch high value-added products

Unicharm is the market leader in Indonesia with a share of roughly 39%. We are maintaining a high rate of growth by investing heavily in marketing and by launching high value-added products matched to the needs of local consumers. Sales continue to rise at a double-digit rate, outpacing market growth, and the average sales price has increased by roughly 10%. We aim to sustain that growth and improve profitability by continuing to offer high value-added products.



#### Thailand

##### Leading the market by consistently launching products with new value

Unicharm is the dominant market leader in Thailand with a share of roughly 58%. We are achieving strong growth by expanding our lineup of products in the “cool and fresh” segment and by launching new products such as shorts-type sanitary napkins for nighttime use, which were developed in China. Sales growth is outpacing the market and profitability is improving. We plan to continue investing in effective marketing campaigns to support stable growth.



#### Vietnam

##### Rolling out a steady stream of high value-added products to drive strong growth

Sales continue to rise at a double-digit pace, outstripping market growth, supported by demand for products in the “cool and fresh” segment and by new products such as shorts-type sanitary napkins for nighttime use, which were developed in China. Sales promotion activities to reinforce brands and expanded distribution areas have helped Unicharm retain its dominant position in Vietnam, where it has a market share of roughly 51%.



#### India

##### Upfront investment in marketing to drive uptake

Aggressive marketing activities and the launch of products in the “cool and fresh” segment are supporting continued strong growth in India, but uptake rates for feminine care products remain low due to a lack of education and understanding about periods. To address that issue, Unicharm launched an awareness program about first periods in 2013 to educate young women about the mechanism of menstruation and provide accurate information about feminine care products. The aim is to improve understanding and lift uptake rates, which will also help Unicharm maintain strong growth in India.





## Health Care Business

Helping people get more pleasure from life

### Basic business strategy

#### Japan

Our goal is to ensure our loved ones can live their lives with dignity. We will supply products and develop new ideas such as exercise programs to prevent dementia, aiming to help extend healthy life expectancy and reduce the burden on people being cared for and their carers.

#### Asia

In Asia, where demand for adult incontinence care products is growing, we are introducing our Japanese care model to reduce the burden on people being cared for and their carers.

### Japan

#### Growing the market by launching products that extend healthy life expectancy and by making a sustained contribution to society

Since moving into the disposable adult diaper market in 1987, Unicharm has led the industry in promoting wider uptake of adult incontinence care products in Japan. We have developed products that address consumer needs in the heavy, moderate and light adult incontinence categories and worked to create new markets. As a result, the health care business has built a dominant position in Japan with a market share of over 50%. The business continues to generate strong growth by focusing on existing hospital and care facility channels and by developing new channels.

In the light incontinence category, we offer a range of products to ease concerns about urinary incontinence, such as a new product that feels more natural and comfortable thanks to the use of natural organic cotton, and a wider choice of products for men that are specially designed to be discreet and prevent staining. To encourage even wider uptake of urinary incontinence products, we are working with retail stores to create sales areas that make it easier for shoppers to select the right products. We also offer advice about how best to use our products. As a result, sales in retail channels are growing strongly, helping the health care business retain its dominant market position in Japan with a share of more than 60%.

In the moderate and heavy category, our aim is to help seniors maintain and recover their ability to perform daily tasks and gain control over their incontinence. For example, we launched a pants-type incontinence product with patented technology on both sides of the waist to make the diaper easy to be taken off with minimal effort, which eases the burden on people being cared for and their carers and helps to extend healthy life expectancy. We also offer more economic and eco-friendly options that allow users to combine pads or flat-type absorbent inserts with pants-type diapers to suit their lifestyle or health condition.

In addition, we are providing support for the emotional and physical well-being of our customers. In a first for the industry, we launched an online Disposable Adult Diaper Selection Guide that uses an artificial intelligence-powered virtual assistant<sup>\*1</sup> to provide 24-hour support throughout the year to answer any questions about incontinence care. Also, as Japan's society ages, more seniors face issues such as loneliness and dementia. To help address those problems, we started an initiative in 2016 called Lifree Social Walking<sup>\*2</sup>, which helps to prevent dementia and creates more opportunities for seniors to interact with society and other people. Meanwhile, amid growing use of disposable adult diapers, there is rising concern about the environmental impact of disposable diaper disposal and the associated high costs for local governments. In response, we are developing commercial recycling technology for used disposable diapers to reuse raw materials and raising awareness about our diaper recycling model to support wider uptake.

\*1 A type of computer program or system that conducts conversations instead of people

\*2 As the name suggests, the program is about socializing while walking, which is seen as a fun, easy and effective way of preventing dementia disease (Unicharm project run under the supervision of the Tokyo Metropolitan Institute of Gerontology).



Disposable Adult Diaper Selection Guide  
<https://jp.lifree.com/ja/product/adult/choose/navi.html>



### Continued strong growth supported by a wider choice of face masks for diverse needs

Unicharm's *Cho-kaiteki* and *Cho-rittai* face masks are reliable, comfortable and help to protect everyday health. We continue to expand our product range in response to increasingly diverse uses and changing needs, while also working to energize the market and show how people of all ages can use face masks comfortably throughout the year. Those efforts are driving market expansion and translating into strong growth.



## China and Southeast Asia

### Expanding our lineup and reinforcing our market position in Indonesia, where uptake is increasing

In Indonesia, where uptake of disposable adult diapers is growing steadily, many seniors are responsible for their own incontinence care. That trend is driving uptake of pants-type disposable adult diapers – a category where Unicharm has a strong position – supporting continued strong growth in our local business. A large proportion of the Indonesian population is Muslim, so we are taking every step to ensure our products can be used with confidence by as many people as possible, such as securing halal certification for our diapers to show they are manufactured in accordance with Islamic customs. We are also actively promoting our products through supermarkets and other modern retail channels. In future, we plan to secure halal certification for other products such as disposable baby diapers and feminine care products.



### Targeting faster growth by actively investing management resources

In China, which is a more promising growth market than Japan, we are working to drive uptake of adult incontinence care products by launching products designed for local consumer needs and by investing heavily in marketing. The high-growth markets of Taiwan-Greater China, Indonesia, Thailand, Vietnam and other countries in Southeast Asia, all face aging populations, which is set to spur demand for adult incontinence care products. We are rolling out our Japanese care model across the region to prepare for the pickup in demand. Targeting faster global expansion and a step-change in growth, Unicharm acquired DSG (Cayman) Limited (DSGCL) in September 2018. DSGCL is a manufacturer and supplier of baby and adult disposable diapers with operations in Thailand, Malaysia, Indonesia and Singapore.



The company is building a dominant position in the disposable adult diaper market, supported by its *Certainty* brand of adult incontinence care products. The brand has a powerful market share and high visibility in Southeast Asia. We are targeting various synergies with DSGCL, particularly in its markets of Thailand and Malaysia. In addition to implementing measures to accelerate uptake, we are working with the company to enhance the product lineup, build a stronger market position, expand business scale, and reduce costs by integrating logistics and other operational functions. In the growth markets of China and Southeast Asia, we plan to continue actively investing management resources to accelerate growth.



### Expanding sales areas for face masks and raising awareness

Demand for face masks is emerging in India, China, Southeast Asia and other countries with serious air quality problems. We aim to help people lead healthier lives by continuing to expand sales areas for face masks and raise awareness of the benefits of our products.



## Clean & Fresh Business

Creating a comfortable and clean environments

### Basic business strategy

#### Japan

Our goal is to help make everyday life more productive and comfortable by offering products in tune with changing living environments and lifestyles.

#### Asia

Amid growing demand for home care products, spurred by rising incomes, we will move into new markets and help create more hygienic environments.

### Japan

#### Energizing the market with high-performance products for changing home environments and lifestyles

To address growing needs from people who want to keep their living environments clean but lack the time for housework, we are promoting our “one-stop” innovative *Wave* brand cleaning products that can be used for all types of cleaning around the home, helping to make everyday life easier and more comfortable. Demand for our *Silcot Wet Tissue* range of wet wipes and our *Silcot* cosmetics cotton products continues to grow strongly on the back of aggressive investment in digital communication-based marketing and the launch of products for different applications. The range includes *Silcot Uruuru Sponge Facial Cotton Sheets*, which feel incredibly soft<sup>\*1</sup> even with only half the skincare lotion volume of previous products. The product has won a prize in the annual @cosme best cosmetics awards for three straight years<sup>\*2</sup> and has been inducted into the cosmetics hall of fame. *Silcot Uruuru Sponge Facial Cotton Sheets* and our other products in the category are helping to energize the increasingly broad market for cosmetics cotton products. In the kitchen care product category, we sell *Cook Up*, a convenient paper towel that can be used for a wide range of applications, from food preparation and storage to cleaning. Also, *Fresh Master* is a range of breathable absorbency sheets that reduce fresh food losses by absorbing water to maintain freshness and prevent discoloring.

\*1 Compared with previous Unicharm products.

\*2 Winner of best beauty product in the 2016 and 2017 @cosme best cosmetics awards, inducted into the @cosme best cosmetics awards hall of fame in 2018.



Advice on effective use of *Wave* products  
<http://www.unicharm.co.jp/wave/house/index.html>



Surprising uses for cotton – see some secret tips from beauty researchers  
<http://www.unicharm.co.jp/silcot/skincare/howto.html>



### Asia

#### Emerging demand driven by rising awareness about cleanliness

Supported by a digital communications strategy, we are seeing continued strong growth in the clean & fresh business in Asia by tapping into rising demand for our *Silcot* brand cosmetics cotton products, *Silcot Wet Tissue* range and *Wave* brand cleaning products in China, Taiwan-Greater China, Vietnam and other markets. Going forward, we will continue to expand sales areas and product lineups to meet rising demand.

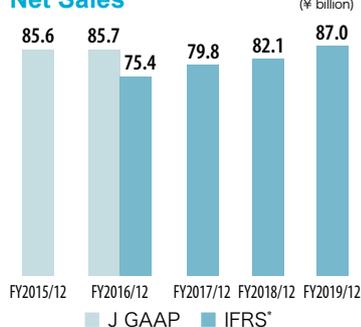
# Pet Care Business

Creating comfortable lives for pets based on health and cleanliness



Sales and profits increased year on year, supported by aggressive investment in marketing and the ongoing launch of high value-added products in the Japanese market, and by an emphasis in the North America market on high value-added businesses incorporating Japanese technology.

## Net Sales



## SWOT Analysis

### Strengths

- Nonwoven fabric and absorbent material processing and molding technologies
- Broad range of products from pet food to pet toiletries
- Product development capabilities that anticipate consumer needs
- Rapid strategy implementation
- Overseas business development capabilities

### Weaknesses

- Responsibility for resource depletion (Disposable products)
- High ratio of materials derived from crude oil
- Lack of personnel skilled in digital technologies

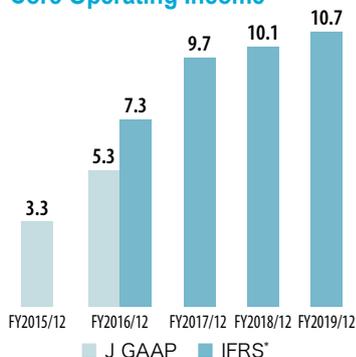
### Opportunities

- Growth in number of pets due to rising income levels in emerging countries
- Rising demand for safe products that offer peace of mind, and demand for high value-added products
- More people seeking comfort from pets
- Rising demand for pet toiletries due to growing trend of raising pets indoor

### Threats

- Overseas business risk and forex risk
- Risks related to the reliability of products
- Risks related to intellectual property including patents and trademarks
- Risks related to environmental problems
- Risk of market entrants from other sectors

## Core Operating Income



\* Unicharm adopted IFRS from fiscal 2017, ended December 31, 2017.

## Basic business strategy

### Japan

**Aging is a growing issue for pets, as well as people. To increase healthy life expectancy and create a cohesive society where pets and people can live long and rich lives together, we will work to create new markets and develop products that support all aspects of pets' lives.**

### Overseas

**We supply a wide range of high value-added pet food and pet toiletry products incorporating Unicharm technologies from Japan, helping to improve health and hygiene for people living with pets.**

## Japan

### Revitalizing the market by reinforcing our brands and continuing to launch high value-added products

Our goal is to increase healthy life expectancy and create a cohesive society where people and their pets can live long and rich lives. To realize this goal, we are creating new markets and developing new products that provide support for all aspects of pets' lives, from hygiene through to food. Despite a downward trend in dog and cat pet ownership in Japan, we aggressively invested in marketing and continued to launch high value-added products, lifting sales roughly 5% year on year. Unicharm also retained the leading share in the domestic pet food and pet toiletries market.



In pet food, we are offering more healthy pet food choices for specific segments based on requirements such as breed, age and health condition. In particular, as pets become older, we are expanding our lineup of products aimed at pets aged 15 and older.

In pet toiletry products, we are using the nonwoven fabric and absorbent material processing and molding technologies developed since the earliest days of Unicharm to actively develop new markets, aiming to create clean and hygienic environments for owners and their pets whenever and wherever they need them. For example, in our range of *Manner Wear* pet toilet care products with clothing-style designs, which allow owners to always take their pets with them when they go out, we have launched new products that significantly reduce diaper slippage and swaying. We have also improved the odor absorption capacity of our *Deotoilet* cat toilet system, which makes it easier to hygienically care for cats indoors. These and other products designed to realize our vision for a cohesive society where pets and people live in harmony, are enjoying strong demand, driving earnings in our pet care business in Japan.

To address growing demand for nursing care for aging and immobile pets, we launched *Unicharm Pet Pro*, Japan's first-ever pet nursing care system\* aimed at veterinary hospitals. This product fits with our broader range of pet care products designed to reduce the burden on both pets and their owners.

We are taking other steps to create a cohesive society for people and pets and increase healthy life expectancy. One example is our support for Panel for Life, a campaign group that raises awareness of rescue dogs and cats, aiming to make them the natural choice for families when choosing a pet.

Going forward, we will continue to use technologies developed since the first days of Unicharm to develop new products with unique functionality that give pleasure to owners by extending the healthy lives of their pets.

\* In major pet nursing care product categories in Japan (Unicharm research, October 2016)



## Overseas

### North America

#### Creating new markets and targeting business expansion with products incorporating Japanese technology

Since acquiring The Hartz Mountain Corporation in 2011, Unicharm has achieved stable growth in the US by launching products that incorporate technologies developed since the first days of the Company. We are seeing rising sales of key products, such as flea and tick control products, toilet sheets for dogs incorporating Japanese technology, and wet-type snacks for cats – a new concept in the US market that Unicharm brought over from Japan. In recent years we have shifted our sales focus to high value-added products, while also reinforcing our presence in the fast-growing online retail channel, pet specialty stores, and dollar stores (flat-price variety stores in the U.S.), supporting profit growth.

Going forward, we will continue to improve profitability and expand our pet care business in the US by combining our technical and product development capabilities in pet toiletry and pet food products with the brand power, marketing expertise and selling power of Hartz.



### Emerging markets

#### Promoting hygienic, comfortable lifestyles with pets in urban markets

The pet care market continues to expand worldwide. Demand for pet care products is also gaining momentum in emerging markets in Asia, particularly China, along with rising incomes and aging populations. Leveraging our leading position in the domestic pet food and pet toiletry markets, we are targeting further growth in the emerging market pet care business by selling products that help pet owners lead hygienic, comfortable lifestyles with their pets, primarily in urban markets.

# Unicharm Group's Sustainability

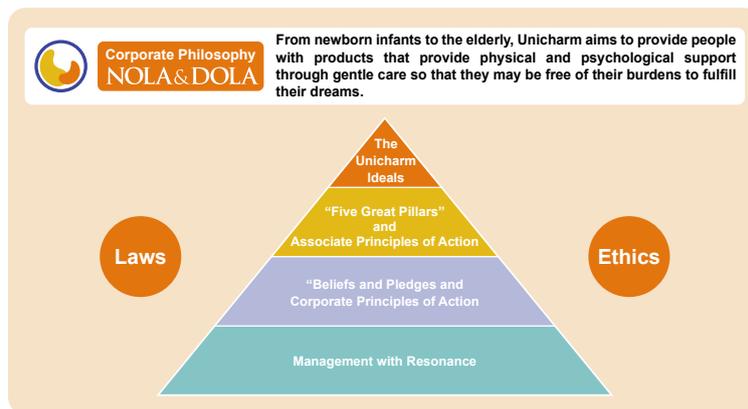
## Our basic approach and strategy

Unicharm's corporate philosophy is "NOLA & DOLA" (Necessity of Life with Activities & Dreams of Life with Activities). Our concept of NOLA & DOLA: Necessities of Life with Activities & Dreams of Life with Activities, contains our hope that "from newborn infants to the elderly, Unicharm aims to provide people with products that provide physical and psychological support through gentle care so that they may be free of their burdens to fulfill their dreams." Our corporate social responsibility (CSR) is embodied by our commitment to achieve this aspiration through our business activities and to help resolve social issues in the process. In order to make this aspiration even more effective, Unicharm has established CSR Key Topics and Key Performance Index (KPI).

### Unicharm Group's Value Creation

#### Philosophy

The Unicharm Ideals aim to realize our corporate philosophy and we have established the Beliefs and Pledges and Corporate Principles of Action along with the Five Great Pillars and Associate Principles of Action in order to implement the Unicharm Ideals.



## The world Unicharm aims to reach and Important CSR Themes



#### Important CSR themes

1. Lengthening healthy life expectancy

2. Supporting women's independence and improving hygiene

3. Contributing to global environment

4. Contributions to the community and respecting people

5. Strengthen the company's organization and ensure fair business practices

## Unicharm Group's ESG

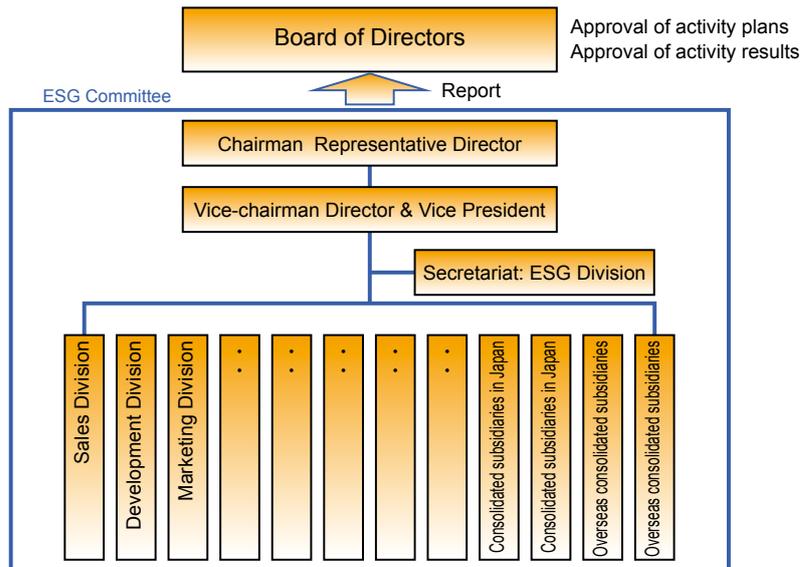
### Unicharm Group's ESG Important Issues and Activities

Important Issues	Activities	Policy	Management Structure	Practice and Implementation
<b>E</b> Reduce environmental impact Cut waste in manufacturing	Climate Change	●	●	●
	Pollution Prevention and Resource Utilization	●	●	●
	Supply Chain (Environment)	●	●	●
	Biodiversity	●	●	●
	Water Resources	●	●	●
<b>S</b> Exist in harmony with local communities Supply chain management	Labor Standards	●	●	●
	Health and Safety	●	●	●
	Local Community	●	●	●
	Responsibility to Customers	●	●	●
	Quality	●	●	●
	Supply Chain (Society)	●	●	●
	Human Rights	●	●	●
<b>G</b> OODA loop approach / Management with resonance Compliance / Quality management	Corporate Governance	Our Basic Approach		●
		Management Structure		●
		Implementation Status of the Board of Directors		●
		Policy on Determining the Remuneration of Directors and Other Officers		●
	Compliance	Our Basic Approach		●
		Management Structure		●
		Compliance Helpline		●
		Action Guideline		●
	Risk Management	Our Basic Approach		●
		Management Structure		●
		Information Security		●
		Implementation of Risk Assessments		●
	Tax Compliance	Our Basic Approach		●

## Management structure

### ESG promotional structure

Unicharm has established a structure to implement and promote smooth ESG activities in order to meet our stakeholders' expectations. Our "ESG Committee" is a cross-organizational structure for the support of ESG, chaired by the Representative Director. The committee meets four times a year to discuss and share information about ESG-related activities, which in turn is utilized in management.



## Reference framework for Unicharm's CSR strategy

At Unicharm, we operate our global business activities in awareness of the voices of our stakeholders and by referring to various international guidelines. We support the ten principles of the "UN Global Compact", and have participated in the compact since May 2006.

### UN Global Compact

	<b>Human Rights</b> Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and Principle 2: make sure that they are not complicit in human rights abuses.	<b>Environment</b> Principle 7: Businesses should support a precautionary approach to environmental challenges; Principle 8: undertake initiatives to promote greater environmental responsibility; and Principle 9: encourage the development and diffusion of environmentally friendly technologies.
	<b>Labour</b> Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining; Principle 4: the elimination of all forms of forced and compulsory labour; Principle 5: the effective abolition of child labour; and Principle 6: the elimination of discrimination in respect of employment and occupation.	<b>Anti-Corruption</b> Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

The Ten Principles of the UN Global Compact

ISO26000



GRI Guidelines



Sustainable Development Goals (SDGs)



COSO  
 ISO9001  
 ISO14001  
 ISO10002  
 ISO13485  
 ISO14971

## Important CSR themes

# 1. Lengthening Healthy Life Expectancy

### Our basic approach and strategy

The aging of the population has proceeded more rapidly in Japan than in any other country in the world. In 2007, Japan became a “super-aging society” with over 21% of the population aged 65 or older which is forecasted to reach 30% by 2025. Improvements in medicine have led to an increased average life expectancy and a growing focus on “healthy-life expectancy” - the length of time for which people stay physically and mentally healthy and are able to live independently. Everyone wants to be able to maintain their own preferred lifestyle and a high level of well-being as they get older. Unicharm’s mission is to contribute to the lengthening of healthy-life expectancy by offering support for the maintenance of active lifestyles through the provision of continence care products, including lightweight continence pads, rehabilitation pants, etc.

#### Social issues recognized

Social issues	Our activities
<ul style="list-style-type: none"> <li>• A shortage of carers</li> <li>• Increased healthcare costs due to the increasing number of senior citizens in the population</li> <li>• Isolation of senior citizens in regional communities</li> </ul>	<ul style="list-style-type: none"> <li>• Provision of incontinence care products to support senior citizens’ independent living</li> <li>• Dementia prevention activities</li> <li>• Building an environment in which people and pets can live in harmony</li> </ul>

#### Contributing to the realization of the SDGs



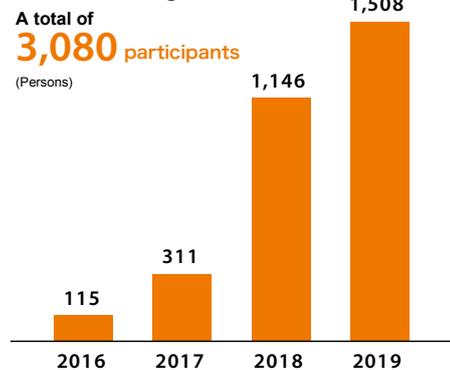
### Our activities

#### Lifree Social Walking® helps to lengthen healthy life expectancy

Unicharm’s *Lifree* Social Walking® program is designed to prevent dementia and stop senior citizens from becoming housebound and isolated. Unicharm helps to lengthen healthy life expectancy by providing incontinence care products so that senior citizens can continue to go out as much as they want, even if they have incontinence issues. We launched the *Lifree* Social Walking® program to encourage senior citizens who use Unicharm’s incontinence care products to go for walks while enjoying social interaction in a purposeful way, thereby fostering exercise and social participation and helping to prevent dementia. In September 2019, we held a Social Walking® experience event and factory tour at the Unicharm Products Kyushu Plant. After a talk on dementia and a lecture on methods of preventing and dealing with incontinence problems, the participants took part in Nordic Walking within the plant grounds.



#### No. of people participating in “Social Walking®”



#### Lifree Walking Assist Underwear supports the torso to help people walk independently

Unicharm’s *Lifree Walking Assist Underwear* incorporates technology that exerts pressure on the pelvic girdle to enhance abdominal muscle pressure, thereby providing support for the torso and helping the wearer maintain their balance, which in turn gives them more confidence when walking. In addition, the pants do not restrict leg movement, enabling the wearer to take longer strides, making it easier to walk. By helping people to walk independently – which is a key factor in activities of daily living (ADL) – we aim to contribute to longer healthy life expectancy.



## 2. Supporting Women's Independence and Improving Hygiene

### Our basic approach and strategy

Unicharm has pursued manufacturing and selling of sanitary products and disposable diapers in the emerging markets in fast-growing Asia since the 1980s. Our never-changing hope is that we continue to deliver products and services to more women in the world that change their "discomfort" into "comfort." We aim to make a contribution unique to Unicharm through helping women living in all regions to shine even more.

#### Social issues recognized

Social issues	Our activities
<ul style="list-style-type: none"> <li>Hygiene problems in developing nations</li> <li>Loss of educational opportunities for schoolgirls due to constraints on school attendance affecting them during their periods</li> <li>Economic stagnation due to restrictions on female employment opportunities</li> <li>Work-life balance issues affecting women</li> </ul>	<ul style="list-style-type: none"> <li>Reducing the burden of childcare by promoting the widespread use of baby diapers</li> <li>Organizing menarche and menstruation education activities to strengthen knowledge and promote the widespread use of sanitary products, thereby encouraging women to become more active outside the home</li> <li>Raising income levels by providing a good working environment for women</li> </ul>

#### Contributing to the realization of the SDGs



### Our activities

#### Menarche and maternity education in Myanmar

Since 2017, Unicharm has been distributing pamphlets in Myanmar that provide information about menstruation and correct menstrual care. Also, more recently, we have been providing opportunities for expectant mothers to acquire useful knowledge about managing their health during pregnancy and about how to use diapers.

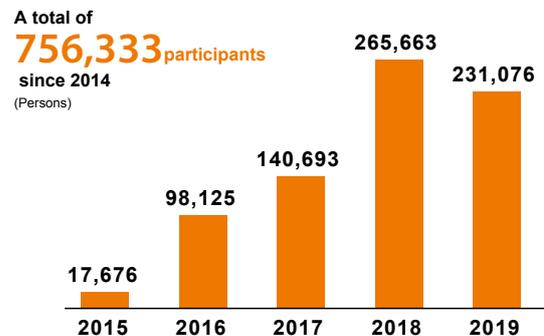


#### Menarche and menstruation education in India

In 2013, in cooperation with the Japan International Cooperation Agency (JICA) and local NGOs, Unicharm began promoting a menarche educational program called "Managing Menstruation: My Pride," which provides information about the menstrual cycle and appropriate care.



#### Number of people in emerging economies attending menarche education activities



#### Support for female employment in Saudi Arabia

We established a women-only factory in Saudi Arabia in 2012 to provide more job opportunities for women. Since 2018, we have also been hiring female product development staff and female sales promoters to visit small stores and retail outlets to give product presentations and run promotions.



# 3. Contributing to Global Environment

## Our basic approach and strategy

As a manufacturer of disposable products such as diapers and sanitary products, Unicharm recognizes that the achievement of environmentally-friendly manufacturing is a vitally important issue that we cannot afford to neglect. Focusing on the utilization of paper pulp, which is made from wood, and on addressing the CO<sub>2</sub> emissions associated with the disposal of used products by incineration, we are taking steps to realize a recycling system for diapers. By establishing a cyclical model that covers the entire product lifecycle, we are contributing towards the realization of a sustainable society that is able to maintain economic growth while also safeguarding the global environment.

### Social issues recognized

Social issues	Our activities
<ul style="list-style-type: none"> <li>Global warming and climate change resulting from increased CO<sub>2</sub> emissions</li> <li>Resource depletion</li> <li>Destruction of marine ecosystems by plastic waste in the oceans</li> </ul>	<ul style="list-style-type: none"> <li>Development of disposable diaper recycling technology</li> <li>Reduction of energy consumption and waste at our business locations</li> <li>Development of environmentally-friendly products</li> </ul>

### Contributing to the realization of the SDGs



## Our activities

### Product-focused initiatives to reduce CO<sub>2</sub>

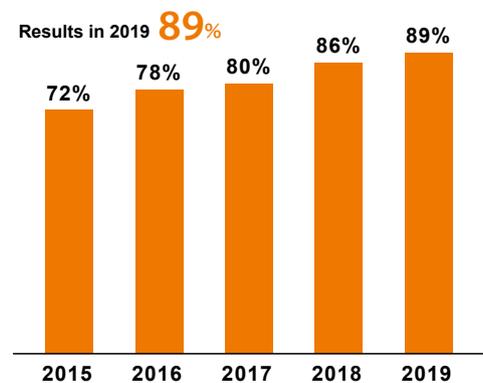
Unicharm has set a target ratio for eco-friendly products as part of its environmental goals and is working to develop new products that take into account environmental factors. Products with improved environmental performance are defined as eco-friendly products\* based on whether environmental impact has been reduced during the product life cycle compared with baseline figures for fiscal 2005. Certification is based on Life Cycle Assessment (LCA) CO<sub>2</sub> volume calculated by the ESG Division, which is independent from product development departments. In 2019, eco-friendly products accounted for 89% of our product line up and we aim to increase the ratio further in 2020.

Eco Charming products are an evolved version of our eco-friendly products, defined as top-tier products that contribute to the creation of a sustainable society. A total of 161 items currently meet that definition (in addition to personal care products, certification was extended to pet care products and institutional-use products in 2017).

Going forward, we will continue to launch eco-friendly products in order to lower CO<sub>2</sub> emissions from procured materials and reduce CO<sub>2</sub> emissions during disposal of used products.

\* Products sold in Japan (excluding products listed in general catalogues, OEM products and imported products).

### Change in the ratio of environmental-friendly products



### Framework of environmental-friendly products



## Initiatives to recycle raw materials from used disposable diapers

### • Release of prototype products created using our unique recycling system

Under our used disposable diaper recycling program launched in 2015, we have succeeded in creating a recycling system that produces recycled pulp with the same quality as pulp made from virgin material. During the course of the project, we have improved the efficiency of recycling processes while keeping costs at the same level as the cost of incineration. Our recycling system applies a unique ozone treatment to pulp from used disposable diapers, which is extracted through cleaning and separation. The ozone destroys any bacteria contained in the waste, resulting in high-quality pulp that is just as hygienic and safe as virgin pulp. We also recycle the waste water generated in the cleaning and separation process, thereby making processing more efficient and reducing the amount of waste water that needs to be discharged. In addition, we undertook collaborative research with Hiroshima University to develop technology that generates electricity from the purification of recycled, concentrated waste water. In 2017, Unicharm was awarded a core patent for this microbial fuel cell (MFC) process. By 2019, four years since the start of the project, we were able to announce the successful creation of prototype disposable diapers made from recycled materials. We have also been creating a number of other prototype products made with recycled material, such as toilet paper, memo pads and file folders. In addition, in October 2019, we established the Recycling Business Preparatory Office within the CSR Division (now the ESG Division) with the aim of commercializing our used disposable diaper recycling technology.



Pulp prior to ozone treatment



Pulp after ozone treatment

### • Implementation of verification testing in collaboration with local government authorities, to help realize large-scale recycling

In order to be able to realize the recycling of used disposable diapers, it is vitally important to arrange collaboration with local government authorities and recycling firms on the collection and recycling of used diapers. Starting in May 2016, Unicharm has been collaborating on used disposable diaper recycling system verification testing with Shibushi City, Kagoshima Prefecture. The goal is to achieve full-scale separated collection and recycling of used diapers in Shibushi City by 2020. Aiming to build a recycling system that can be adopted widely both within and outside Japan, besides fostering collaboration with other municipalities located near Shibushi City, we are also strengthening our efforts to realize the separated collection and recycling of used disposable diapers throughout Japan.

### • Verifying the impact on the environment and hygienic safety

We examined from multiple aspects what actual effects employing the recycling system would have. The results showed that the amount of greenhouse gases emitted could be reduced by 87%, compared to burning used disposable diapers and creating new ones from virgin pulp. We were also able to confirm that the safety and sanitation level of recycled pulp was also maintained at a high level similar to that of virgin pulp.

If adult diapers from 100 users are recycled over a one-year period, this would reduce the quantity of waste generated by an amount approximately equivalent to the waste contained in 23 2-ton refuse collection vehicles and would save an amount of wood equivalent to 100 trees\*.

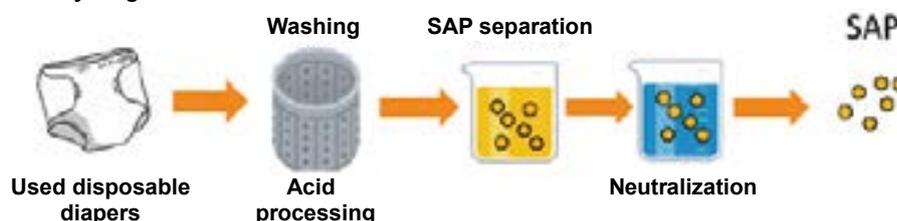


\*Based on a survey conducted by Unicharm

### • Successful implementation of SAP recycling

In order to recycle used disposable diapers, moisture absorbed by super absorbent polymer (SAP) must be completely expelled so that the SAP is returned to a state in which it can absorb moisture again. Unicharm has been conducting research on how to return SAP to a reusable quality level in collaboration with Hokkaido University. The research results showed that if, rather than using calcium as in the past, the SAP is inactivated using an organic acid aqueous solution and neutralized, it can successfully be restored to the condition of SAP with outstanding absorbency. In verification testing, it was found that approximately 70% of the original material could be reused. Having succeeded in developing this fundamental SAP recycling technology (for which a patent application has already been made), we are now undertaking technology development aimed at its commercialization.

#### ■ SAP recycling



## 4. Contributing to the Community

### Our basic approach and strategy

Unicharm's approach to "contributing to society" aims to help solve social issues through business development. Besides striving to make a contribution on a global scale, Unicharm is also serious about tackling problems that affect local communities that have a close relationship with Unicharm's business activities; as a good corporate citizen, we aim to make a positive contribution to these communities by making effective use of our company's unique strengths. In addition, when the community is in a difficult situation due to sudden disasters etc., we would like to help in any way possible to support the minds and bodies of everyone who has been affected by the disaster. Since immediately after the Great East Japan Earthquake, Unicharm has delivered supplies and continually used the Matching Fund, set up to receive charitable donations from employees, to provide relief support. Through these activities, we will continue to deepen our interaction with local residents and make contributions to local communities.

#### Social issues recognized

Social issues	Our activities
<ul style="list-style-type: none"> <li>The need to provide continuing support for areas affected by natural disasters</li> <li>The need to provide support for community-building</li> </ul>	<ul style="list-style-type: none"> <li>Activities to provide support for areas affected by natural disasters</li> <li>Activities that address the diverse issues affecting regional communities</li> </ul>

#### Contributing to the realization of the SDGs



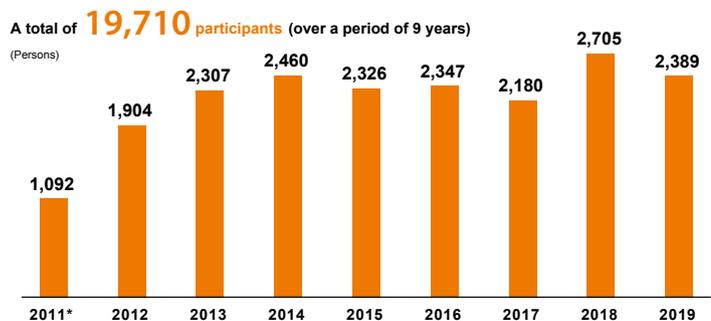
### Our activities

#### Continuing with our Matching Fund combining disaster relief support with electricity conservation

Our "Matching Fund" and "Super Cool Biz and Warm Biz" employee dress code activities which were launched to provide "disaster relief assistance" and to "reduce the burden on the environment through eco-friendly activities that employees can undertake themselves and through electricity conservation" are now in their ninth year. The "Matching Fund" is an employee-participation type initiative that provides a matching donation equivalent to the price paid by Unicharm employees for original Unicharm polo shirts, jumpers etc. that can be worn at work; the money is used to provide support for areas affected by natural disasters. Donations made through the "Matching Fund" have been used to provide care products to hospitals and other facilities located in areas affected by natural disasters and also for donations to the "MICHINOKU Future Fund" which aims to help children orphaned by natural disasters to realize their dream of continuing with their studies, as well as for providing support to disaster-affected areas in the form of financial assistance and emergency supplies. In the future, we will continue to promote disaster area relief activities and activities aimed at reducing the burden on the environment in collaboration with our employees.

In 2019, Unicharm began providing employees with the opportunity to purchase "Fukushima Shiome Brown Cotton Hand-towels" made by "Iwaki Otento SUN Enterprise Cooperative" in Iwaki City in Fukushima Prefecture, in association with Unicharm's "Super Cool Biz" initiative, with the Matching Fund providing donations that match the amount that employees pay for these goods.

#### Total number of persons participating in the Super Cool Biz and Super Warm Biz activities to provide continued support to disaster-affected areas



\* In 2011, only the Super Cool Biz activity was implemented.



Fukushima Shiome Brown Cotton Hand-towels



Cotton fields in Iwaki City

## Unicharm Group's important issues

**E** Environment

Important issues

Reduce environmental impact  
Cut waste in manufacturing

### Environmental Management

#### Our basic approach and strategy

Most of Unicharm's products are consumables essential to a clean and healthy lifestyle, which closely relates to the global environment through our use of resources and emission of waste. As we have expanded our operations globally centered on Asia in order to provide better products to consumers around the world, our role and responsibility for reducing our environmental impact has also increased with each passing year. All of our employees are committed to environmental activities following the Basic Environmental Policy and the Environmental Action Guidelines developed based on our corporate philosophical framework (Unicharm Ideals, "Beliefs and Pledges" and Corporate Principles of Action"). We carefully monitor the impact our business activities have on the environment, and we are promoting initiatives to realize "Twin Eco Goals" by reducing our environmental impacts and improving our economic efficiency, with the aim of achieving a sustainable society.

#### Basic Environmental Policy

##### Unicharm Group Basic Environmental Policy:

As a company that engages in the manufacture and sale of disposable products, we recognize the extent of our responsibility to the global environment. Through our corporate activities we strive to create environmentally-friendly products so that we may in the future pass on a beautiful earth to future generations.

We are committed to providing goods and services that bring comfort, excitement, and joy to people throughout the world and we are determined to realize the sustainable development of a society that achieves a balance between environmental conservation and economic growth.

##### Unicharm Group Environmental Action Guidelines

- Abide by all laws and regulations
- Eliminate waste
- Enhance productivity
- Reduce the use of natural resources
- Make sound choices for the environment
- Learn more about environmental issues
- Share efforts for helping to improve the environment

#### Management structure

Our environmental activities are collectively managed and overseen by the ESG Committee which is chaired by the Representative Director.

The integrated implementation of ISO14001 and ISO9001, which is closely linked to our day-to-day operations, is promoted proactively by each business location with the implementation of gate-control based on pre-set management items and key performance indicators (KPIs) and of a PDCA cycle. The ESG Division handles monitoring etc. of environment-related activity status in the value chain as a whole and reports to the ESG Committee which meets four times a year. Unicharm's "Eco Plan 2020" which was formulated in 2016 is positioned as embodying the company's key environmental targets that are translated into the targets of each individual division and in turn provide a basis for more finely-tuned activities through linkage to targets set for individual employees and weekly action plans.

As 2020 is the final year of implementation of "Eco Plan 2020", Unicharm has formulated a new "Eco Plan 2030" which embodies the key environmental targets for the whole company.

# Climate Change

## Our basic approach and strategy

### Background and approach of TCFD initiatives

The impact of climate change which is increasing every year is becoming more serious and is being recognized as the biggest risk in human history by the international community. Under the Paris Agreement reached at the 21st Conference of the Parties to the United Nations Framework Convention on Climate Change (COP21) in December 2015, it was agreed to keep the increase in global average temperature to well below 2°C above the pre-Industrial Revolution level.

The Task Force on Climate-related Financial Disclosures (TCFD) disclosed its final report in June 2017 as recommendations to encourage disclosure of climate-related financial information by corporations to allow investors to make appropriate investment decisions. The content of the report is globally recognized as an important framework for disclosure of information on climate change. Under TCFD, corporations need to consider the risks and opportunities of climate change and make disclosures in the areas of “Governance,” “Strategy,” “Risk Management,” and “Metrics and Targets.” “Strategy” also requires disclosure of results of analysis including climate scenarios that keep the increase in temperature to below 2°C.

Unicharm recognizes that climate change is an issue to be worked on as a priority. Therefore, in order to contribute to achieving the 2°C scenario in the Paris Agreement, we received certification under the Science-Based Targets (SBT) initiative for our CO<sub>2</sub> reduction plans up to 2050 in June 2018. We also expressed our endorsement of TCFD in May 2019 and will continue to report in accordance with the TCFD framework going forward.

To achieve a “zero-CO<sub>2</sub> emissions society by 2050,” top management will take the lead on setting targets and managing progress which each and every member of the Group will pursue through business activities. As well as striving to reduce CO<sub>2</sub> emissions associated with the diverse business activities of our own company, we will continue actively encouraging all those involved in the supply chain to reduce emissions throughout the product life cycle. We will also continue to pursue these activities in partnership with all stakeholders.

## Management structure

### Governance

The Representative Director is responsible for evaluating risks and opportunities related to climate change and for setting and formulating CO<sub>2</sub> reduction targets. The ESG Committee chaired by the Representative Director and with the inside directors and main executive officers as the members meets four times a year, once in each quarter, to report and deliberate on environmental activities overall including climate change, the response to social issues and the important issues for governance. Specific plans are reported based on “Eco Plan 2020” up until 2019 and “Eco Plan 2030” from 2020 under the recommendations of the TCFD.

### Strategy

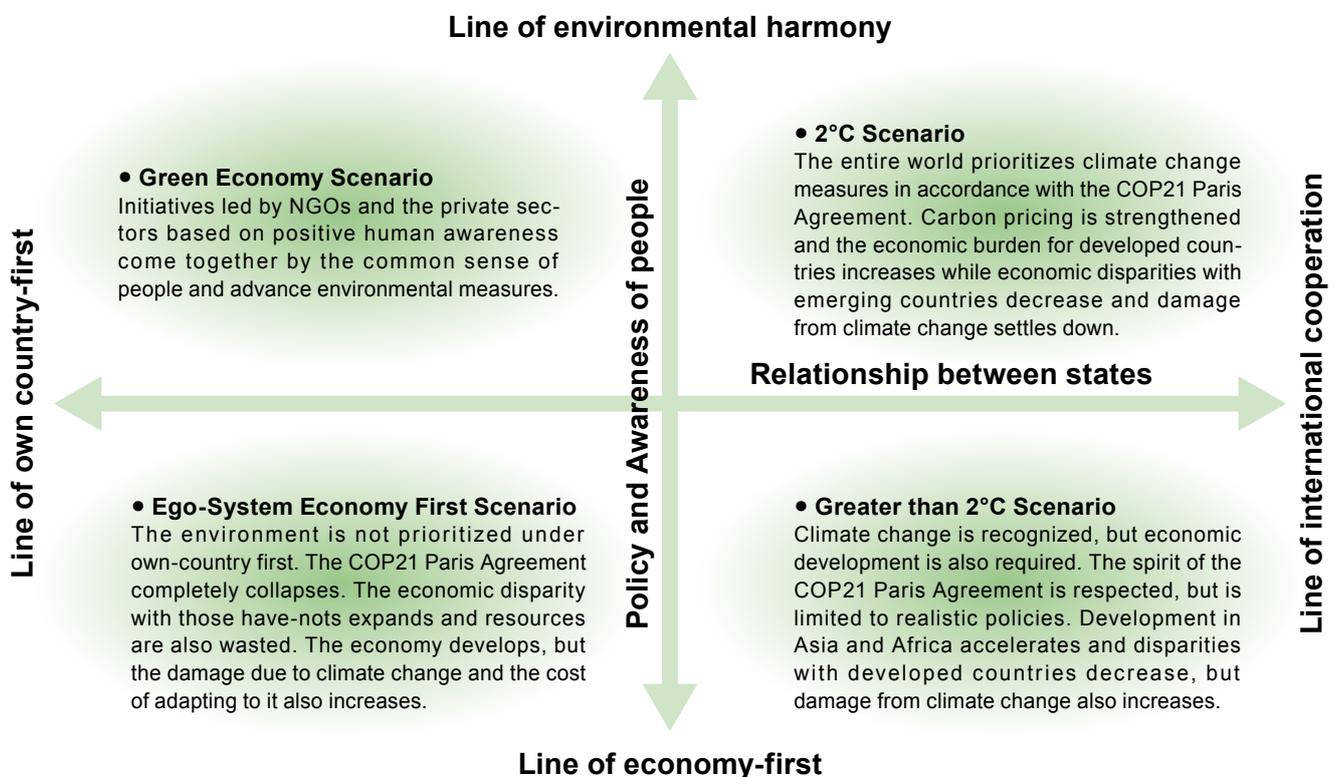
Unicharm regards risks and opportunities related to climate change as important elements in business strategy. In particular, researchers have pointed out that the Asian region, where our company focuses its business activities, will be affected most if climate change mitigation and adaptation measures are not implemented. In one example, a joint research team from Stanford University and the University of California in the United States pointed to this impact in a report of research results published in the “MIT Technology Review” in 2017.

Given this, in 2018, Unicharm independently estimated the financial impact of energy based on the “450 Scenario” of the International Energy Agency (IEA) and the operational impact due to physical risk based on the “RCP2.6 Scenario” of the Intergovernmental Panel on Climate Change (IPCC).

When planning the scenarios, we selected two axes with high levels of uncertainty,

- "Relationships between nations" in which there is ongoing international cooperation or there is no international cooperation as each country follows its own country first policy
- "Policy and human awareness" in which people's environmental awareness increases with the impact of climate change and environmental policies are implemented or economic growth is prioritized over the environment in both people's awareness and policy

and drew up four different scenarios (important driving forces considered to have a major impact on the scenarios are assumed to be women's participation, urban concentration, waste issues, ESG investment, use of renewable energy, etc.) From these, we have selected three scenarios which are the "2°C Scenario", "Greater than 2°C Scenario" and "Ego-System Economy First Scenario" and examined the challenges for 2030/2050 in each scenario.



\* The above diagram was created at a workshop held by "The Frontier Network" which is organized by E-Square Inc., and was modified by Unicharm. Including Unicharm, 13 companies participated in the workshop.

### 2°C Scenario

Prices of forest-derived raw materials will rise moderately and energy prices will rise sharply. The GDP of the Asian region will grow moderately and Unicharm's ROE will stay at current position and we will be able to maintain CAGR 7%. Markets will also expand over the ultra-long term and our performance will also increase (sustainable growth and expansion outside of Asia).

### Greater than 2°C Scenario:

Prices of forest-derived raw materials will rise quickly, but increases in energy prices will be curbed. Costs will rise relatively, but GDP growth in the Asian region will also accelerate and Unicharm's ROE will also rise with upturn in CAGR 7%. Over the ultra-long term, the market will contract due to extreme weather (not sustainable).

### Ego-System Economy First Scenario:

Climate change will be further amplified, so restrictions will be imposed on procurement of forest-derived raw materials. However, there will be economic development with increases in both sales prices and volumes. Over the ultra-long term, major revisions of business strategy will be required due to very extreme weather.

Global warming not only impacts the global environment, but also deeply affects Unicharm's business. Unicharm will continue to work in partnership with diverse stakeholders to implement actions in compliance with the Paris Agreement. We believe that our "technology for recycling used disposable diapers" can be more widely used in the face of severer global warming. We will continue contributing to forest protection and decarbonization by means of this technology.

### Risk Management

Unicharm has positioned appropriately identifying various risks, including climate change, and developing and operating a comprehensive management system for risks, including prevention of such risks, minimization of their impact and prevention of their recurrence, as an important management theme. Therefore, as well as developing and implementing a Group-wide risk management system, we continually review and improve the ESG system.

The Board of Directors regularly analyzes and evaluates the various risks surrounding the Group, gives directions within the company to take measures as necessary and supervises improvements. The ESG Committee also analyzes and examines various important risks and implements improvements in partnership with business and functional divisions. In particular, as it is necessary to understand climate change risks from a long-term perspective, we are working to enhance organizational capacity to deal with high levels of uncertainty including the scenario planning described previously.

### Metrics and Targets

As stated previously, with regard to the setting of CO<sub>2</sub> reduction targets, Unicharm received certification under the Science-Based Targets (SBT) initiative for our reduction plans up to 2050 in June 2018. To this end, we set specific long-term reduction targets for both "Scope 1" (direct emissions: own plants, offices, vehicles, etc.) and "Scope 2" (indirect emissions from energy sources: energy consumed by the Group such as electricity).

CO <sub>2</sub> Emissions	As our management indicators, we will aim for a 90% reduction to Scope 1 (direct emissions: own plants, offices, vehicles, etc.) and a 30% reduction to Scope 2 (indirect emissions from energy sources: energy consumed by the Group such as electricity), both compared to 2016 by 2030.
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Based on the goals for 2020 established in the "Eco Plan 2020", which was instituted in 2016, we are promoting activities for achieving annual 2% reductions to Scope 1 and 2, and, for Scope 3, we are aiming in our supply chain to reduce environmental impacts within the life cycle compared to the baseline figures of 2005 and for a 100% introduction of upgraded environmentally-friendly products.

The percentages of life cycle CO<sub>2</sub> emissions come, in the order of, approximately 47% from purchased materials under Scope 3, approximately 33% from disposal of products after use and approximately 11% from the manufacturing stage under Scope 1 and 2 (and 9% from other transport and business activities) (all figures are for Japan).

For Scope 1 and 2, we carry out energy reduction working activities with the EMS activity promoters at each location four times a year, implement annual plans and check progress to plan. Regarding CO<sub>2</sub> emissions from materials, which make up the major part of Scope 3, LCA (Life Cycle Assessment) is calculated for each material from the design stage and product designers consider measures for climate change from the standpoint of product function and CO<sub>2</sub> emissions in consultation with ESG Committee members.

Furthermore, at the Quality Policy Briefing Session held with suppliers in November 2017, we explained our CO<sub>2</sub> emissions status and its importance and requested their cooperation.

## Unicharm Group's important issues

**S** Society

Important  
issues

Exist in harmony with local communities  
Supply chain management

### Unicharm Group Basic Social Contribution Policy and Management Structure

#### Our basic approach, strategy and management structure

Unicharm believes that its business activities have a highly positive impact on society. We feel a strong sense of pride and joy in providing comfort, emotion and pleasure to people not only in Japan, but also in Asia and other parts of the world. By making a positive contribution in terms of addressing a wide range of societal issues and creating employment opportunities, through expanded provision of products and services suited to the unique characteristics of each country and region, we are working to become a company that is welcomed and trusted by people in these societies.

In Japan, each division conducts autonomous activities to fulfill our corporate social responsibility, with the ESG Division playing a central role. Overseas, local subsidiaries in each country lead community-focused social contribution activities.

### Supply Chain Management

#### Approach to materials procurement

Unicharm has operated the business in line with the Unicharm Group CSR Procurement Guidelines which were established in 2009 for the purpose of maintaining fair and impartial relationships with all suppliers. The guidelines incorporate provisions relating to applicable laws, human rights, industrial relations, environment and product safety such as “the abolition of child labor,” “the elimination of discrimination” and “the promotion of measures against global warming” as stated in the U.N. Global Compact.

By working closely together through mutual communication with suppliers, we are sharing and establishing an understanding of Unicharm's responsible procurement approach, philosophy, specific activities and requests for cooperation towards safety and the environment.

At our overseas locations, only rolling out best practices from Japan is not sufficient given more dramatic changes in awareness and regulations on safety and the environment. So we are also gathering information from the local market and promoting materials procurement closely in tune with local market conditions as well, and thus aiming to build business relationships that fulfill the quality, functionality, safety, environmental and service requirements of product lines in overseas markets. In addition, we are promoting procurement activities with a particular emphasis on crisis management. When starting new business transactions overseas, we make efforts to establish a sound understanding and dissemination of Unicharm's stance and approach toward procurement including compliance with laws and social imperatives and due consideration to human rights and labor and thus call for the cooperation of the partners in environmental and ethical areas.

In October 2017, we established the Basic Policy of Procurement promoted from the Unicharm Group CSR Procurement Guidelines in response to increased expectations towards the sustainability initiatives of global companies and to prevent human rights and labor problems throughout the supply chain. At the same time, the Unicharm Group Sustainable Procurement Guidelines were established as a subdivision of this Basic Policy of Procurement to express our intentions towards the prevention of child labor and forced labor, the prohibition of discrimination, the right to the freedom of association, the right to collective bargaining, reductions in excessive working hours, minimum wages, health and safety standards and the prevention of corruption. These policy and guidelines cover all business partners that conduct business with the Unicharm Group around the world, and we have worked to ensure awareness, primarily through the International Labor Standards (ILS) Promotion Group established at production subsidiary Unicharm Products Co., Ltd. However, this group changed its name to the ESG Promotion Group in 2019 with the aim of including all social difficulty issues, including the environment, and will continue promoting initiatives so that social responsibilities can be fulfilled throughout the supply chain. We will work towards safe and secure procurement based on legal compliance going forwards so that suppliers can understand the intent of these policy and guidelines.

## Management structure

Although Unicharm avoids various risks by closely communicating with business partners, it also implements procurement activities with a focus on crisis management in addition to communication in supply chains throughout the world in response to dramatic changes in awareness and regulations relating to human rights and the environment. In addition, Unicharm conducts a supplier risk assessment when starting new business transactions overseas to determine in advance whether it is an appropriate business partner. While regularly monitoring labor environment after business transactions are commenced, we are ready to establish a sound understanding and dissemination of Unicharm's stance and approach toward procurement including compliance with laws and social imperatives and due consideration to human rights and labor and thus call for the cooperation of the partners in environmental and ethical areas.

## Implementation of human rights and labor monitoring

The Unicharm Group regularly conducts monitoring on suppliers regarding ESG using the Sustainable Procurement Guidelines for the purpose of identifying risks. It assesses the status of compliance, the labor environment (safety and health, fire safety, harassment, and discrimination), working hours, wages and employment, child labor, and environmental protection. Improvement activities are conducted together with suppliers if any risks are identified.

### Unicharm Group Policy on Human Rights

Since the founding of Unicharm, we have always believed in respecting "human rights," as seen in the prominent mention respect for human rights and a mutually respectful human perspective in The Unicharm Way Action Guidelines and our Human Resource Philosophy. Various human rights issues exist throughout the world and because special attention must be paid to protecting human rights in global business based on international human rights standards, we uphold the Universal Declaration of Human Rights adopted in 1948 by the United Nations General Assembly, and in 2017 we enacted the Unicharm Group Policy on Human Rights and demonstrate our continued efforts to fulfill our responsibility to respect human rights in all of our activities. Furthermore, we distribute our human rights policy to all Group employees as part of the Unicharm Group Action Guidelines. We will not tolerate child labor and forced or compulsive labor and we will never discriminate against people based on nationality, race, religion, gender, sexual preference, age, family background, disability or any other factors. We will guarantee freedom of association and freedom of collective bargaining and we confirm reduction of excessive work hours and uphold the right to minimum wages.

# Unicharm Group's important issues

<b>G</b>	Governance	<b>Important issues</b>	OODA loop approach / Management with resonance Compliance / Quality management
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## Corporate governance

### Our basic approach and strategy

Unicharm believes that working towards sustainable growth and creation of medium-to-long term corporate value through efforts to cooperate appropriately with stakeholders and become a company supported and trusted by society leads to the “promotion of sound corporate management” through the Unicharm Ideals. In order to achieve these targets, the basic policy towards corporate governance is to achieve transparent, fair, prompt and bold management through frank and proactive engagement that will gain the support of various stakeholders, initiatives in response to ESG issues and the further development of an environment that enables appropriate decision-making by directors without missing an opportunity.

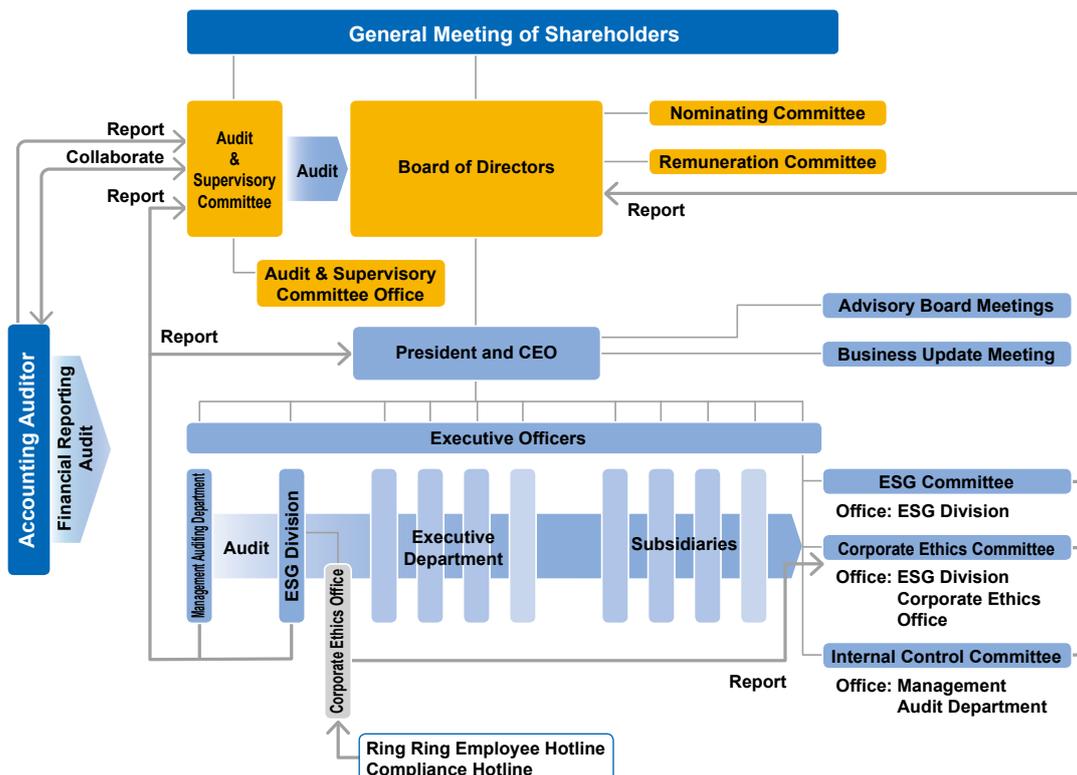
See below for corporate governance report.

[http://www.unicharm.co.jp/english/about/corporate-governance/Corporate\\_Governance\\_Report-20200326.pdf](http://www.unicharm.co.jp/english/about/corporate-governance/Corporate_Governance_Report-20200326.pdf)



### Management structure

In May 2015, we moved to a “company with audit and supervisory committee governance structure” to meet the expectations of all our stakeholders in Japan and overseas from a global perspective by strengthening the oversight function of the Board of Directors toward management and bringing outside directors into the management process to increase transparency and efficiency. Members of the independent Audit and Supervisory Committee have voting rights on the Board of Directors and the committee actively uses the Company's internal control system to carry out audits. This has helped to create a corporate culture and spirit based on compliance, appropriate collaborative relationships with stakeholders and sound business ethics.



### Development of our internal control system

Unicharm formulated its Basic Policy for Establishing an Internal Control System in accordance with the Companies Act and established an Internal Control Committee to respond to the Internal Control and Reporting System (J-SOX) of the Financial Instruments and Exchange Act.

The Internal Control Committee conducts an annual reassessment of risks for each Unicharm Group company, reviews target countries for J-SOX assessment and revises the scope of business processes requiring evaluation. At the same time, the committee works to improve the reliability of financial reporting by promoting the establishment and operation of an internal control system and effective assessments.

We are making ongoing improvements to this internal control system from a global perspective by taking into account regulatory developments in countries overseas where the Group operates.

### Directors' remuneration

#### Basic policy

Unicharm's policy on compensation for directors (excluding directors who are Audit & Supervisory Committee members) and executive officers is to ensure appropriate remuneration for each role and the level of responsibility. Decisions on compensation take into account a wide range of factors, such as motivating directors and executive officers to increase the Company's earnings and corporate value and the need to attract talented individuals.

To promote proactive management and ensure business strategy is executed and business targets are reached, Unicharm applies the basic principles below to compensation for directors and executive officers.

Following the enforcement of the Companies Act, the Company's shareholders approved a resolution at the 47th Annual General Meeting of Shareholders on June 26, 2007 to abolish retirement benefits and include bonuses in remuneration for directors and executive officers. Directors and executive officers now receive only annual compensation.

In addition, at the 55th Annual General Meeting of Shareholders on March 27, 2015, the maximum amount of remuneration (total amount) for directors (excluding directors who are Audit & Supervisory Committee members) was approved at ¥1,000 million, and a proposal was presented to the 60th Annual General Meeting of Shareholders on March 25, 2020 to grant restricted shares as remuneration of up to ¥250 million per year (as a component of the total amount of ¥1,000 million).

< Basic principles on compensation for directors and executive officers >

1. Compensation that contributes to sustainable growth and an improvement in corporate value over the medium and long term
2. Results-linked compensation structure that motivates directors and executive officers to complete business plans and attain earnings targets
3. Compensation levels that help the Company attract and retain talented personnel for senior management roles
4. Compensation determined through a highly transparent and objective decision-making process

< Basic principles on compensation levels >

1. To rapidly respond to changes in the external environment and market conditions, Unicharm sets compensation based on benchmarks for director and executive pay at domestic and overseas companies of similar size in the same industry and other industries, and on the Company's financial position.
2. Unicharm's target for cash-based remuneration is the top 25%, and including medium-to-long-term share-based remuneration, the top 10%.

< Process for determining director remuneration and related policies and activities in the current fiscal year >

To ensure transparency and objectivity in the process for determining remuneration, the Compensation Committee deliberates and makes decisions on remuneration. The committee comprises one representative director, one non-executive director and two independent outside directors, with independent outside directors making up half of the committee and an independent outside director in the role of chairperson.

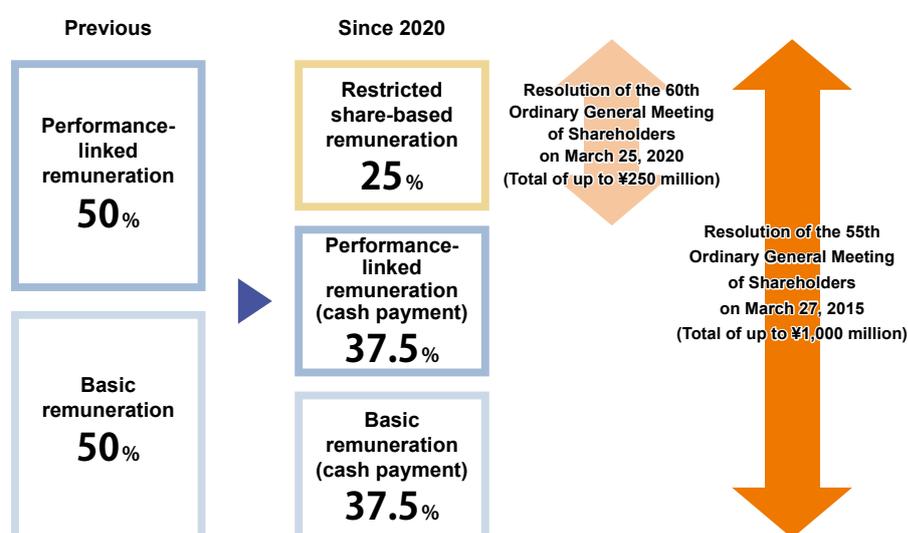
In fiscal 2019, the committee held a total of two meetings, on February 25, 2019 and December 19, 2019, to discuss matters such as the design of the remuneration system for directors, including the introduction of share-based remuneration, remuneration levels, and verification of the performance evaluation and remuneration decision-making process. In addition, remuneration amounts for directors for fiscal 2019 were discussed and determined at a meeting of the Compensation Committee on February 21, 2020.

## Composition of remuneration and key performance indicators

Remuneration for directors (excluding directors who are Audit & Supervisory Committee members) and executive officers consists of basic remuneration (cash payment) and performance-linked remuneration. Performance-linked remuneration consists of cash-based remuneration as a short-term incentive and restricted share-based remuneration as a medium-to-long-term incentive. In addition, the amount of basic remuneration is determined for each position in accordance with responsibilities.

Independent outside directors and directors who are Audit & Supervisory Committee members, who are independent of business execution, receive only fixed remuneration, given their role in conducting management oversight and providing advice from an objective standpoint.

### ■ Composition of remuneration



- Basic remuneration Fixed remuneration will be determined for each position in line with responsibilities.
- Performance-linked remuneration As a short-term incentive, to be set in the range of 0% to 200% of the basic remuneration amount depending on performance results for one year.
- Restricted share-based remuneration As an incentive to increase corporate value over the medium to long term, the Company will allocate restricted shares equivalent to 33% to 100% of the basic remuneration amount according to the performance results

### < Key performance indicators and policy for director remuneration, and targets and results for fiscal 2019 >

Key performance indicators for determining performance-linked remuneration (cash payment) and restricted share-based remuneration for directors (excluding directors who are Audit & Supervisory Committee members) and executive officers, and targets and results for fiscal 2019, are shown below.

Weightings for performance indicators are assigned to each position in line with responsibilities. For example, performance weightings for representative directors are set at 50% for consolidated earnings and 50% for company strategy. For executive directors responsible for line function departments, the weightings are 30% each for consolidated earnings and department earnings, and 20% each for company strategy and department strategy.

No.	Standard	Accountability	Performance weighting	Target	Result	Performance
1	Consolidated earnings (business plan)	1-1 Consolidated net sales	20-50%	¥730,000 million	¥714,233 million	97.8%
		1-2 Consolidated core operating income		¥100,000 million	¥89,779 million	89.8%
		1-3 Profit attributable to owners of parent		¥63,500 million	¥46,116 million	72.6%
2	Earnings in applicable business division	2-1 Sales in applicable business division	0-40%	(Each dept.)	(Each dept.)	—
		2-2 Profits in applicable business division		(Each dept.)	(Each dept.)	—
3	Company strategy	3-1 Priority strategies for each role	20-50%	(Each officer)	(Each officer)	—
		3-2 ESG performance (specialist rating agency evaluation, etc.)		(Added from fiscal 2020)	—	—
4	Business division strategy	4 Priority strategy in applicable business division	0-40%	(Each dept.)	(Each dept.)	—

\*Policy on key performance indicators

1. Earnings-based performance indicators for company efforts
2. Earnings-based performance indicators for individual director and executive officer efforts
3. Performance indicators for priority company strategies (including qualitative evaluation)
4. Performance indicators for individual director and executive officer priority strategies (including qualitative assessment)

#### Breakdown of compensation for directors

Role	Total compensation (millions of yen)	Totals for each type of compensation (millions of yen)	Number of directors receiving compensation
		Basic pay	
Directors (excluding audit committee members) (excluding outside directors)	392	128	7
Directors (audit committee members) (excluding outside directors)	36	—	2
Outside directors and audit committee members	21	—	3

- (Notes) 1. Above includes directors who left office during the fiscal year.  
2. Following the enforcement of the Companies Act, the Company's shareholders approved a resolution to abolish the retirement benefit system for directors and executive officers at the 47th Annual General Meeting of Shareholders on June 26, 2007. Directors and executive officers now only receive annual compensation.

#### Implementation status of the Board of Directors and Committees

In FY2019, the Board of Directors met 10 times and the Audit & Supervisory Committee met 13 times. The attendance rate was 98% for meetings of the Board of Directors and 100% for meetings of the Audit & Supervisory Committee. The attendance rate for Outside Directors and for Outside Audit & Supervisory Committee Members was 100% in both cases.

#### Selection Standards for Independent Directors

The selection standards for Independent Directors are indicated below.

<http://www.unicharm.co.jp/english/csr/governance/cg/pdf/eligibilitycriteria.pdf>



## Management with Resonance and OODA-Loop

### Unicharm's unique management method

In order to realize the corporate philosophy, the industriousness of each and every employee becomes the epicenter of change, increasing the resonance of individuals who then reverberate together to effect change across the entire company and allow each employee to realize their vision. We call this business practice and creation of such corporate culture "Management with Resonance." Through the implementation of this management method, we believe that management-level staff are able to come in first-hand contact with front-line information and share viewpoints. Meanwhile, through dialogue with management-level staff, front-line employees are able to learn "management viewpoints, standpoints and time horizons" to develop mutual understanding while still working to solving conflicts. In this way, both management and the front line work towards a shared goal, fostering a sense of comfortable unity even under strict conditions in the company. Daily ingenuity and wisdom therefore swings resonates between the front line and management like a "pendulum." This is indeed the "Management with Resonance" in which the wisdom of the front line is utilized by management and the front line learns about management perspectives.

### Toward an organization that can respond to environmental changes quickly and flexibly using "OODA-Loop"

Unicharm has set the medium-term targets based on underlying megatrends and translated action plans for achieving these targets into plans that employees on the frontlines of our operations can well be convinced. We then have turned PDCA cycle on a weekly basis to monitor progress of strategy. In recent years, however, a "new normal" has emerged where changes become the norm. In order to achieve sustainable growth in such circumstances, we need to establish a system that constantly reviews "approaches" and makes fundamental changes in order to catch the signs of change and to respond ad hoc to a constantly changing environment, without overly focusing on initial plans. As a result, we introduced "OODA-Loop," a new management method that represents an evolution in our conventional "SAPS method" that focused on PDCA cycle. Our goal is to become an organization where "primary information" from the frontlines is used to understand the fundamental essence of individual situations so that individual employees use their own senses to harness past experiences and knowledge to determine the best course of action autonomously based on situational awareness.

### Building a healthy and active workplace environment

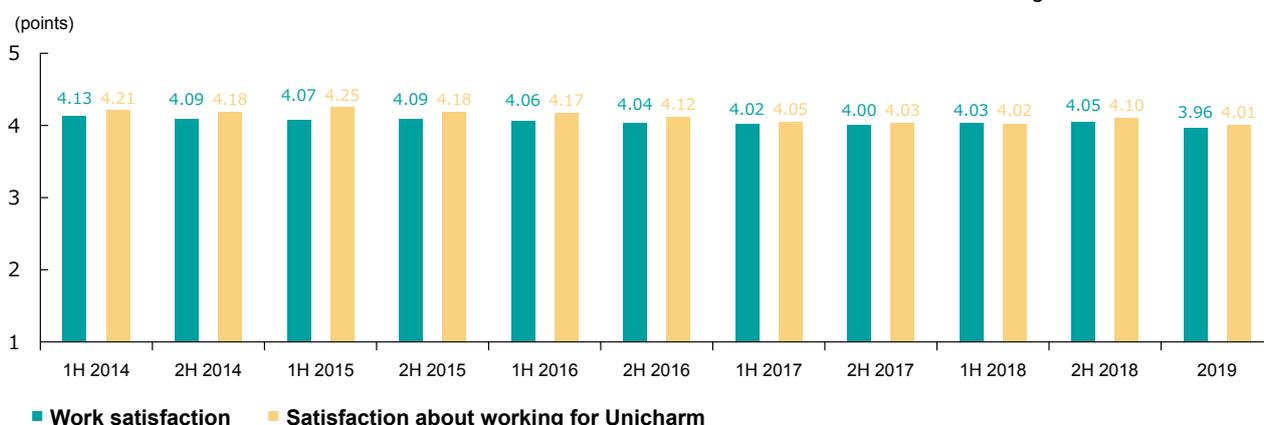
Unicharm is committed to be a company where employees can fully experience purpose in their work based on fulfillment in all aspects of their life including career, home life and health. Based on this commitment, we are working to usher in work-style reforms. We are promoting an active workplace environment where employees can be both physically and mentally healthy by using telework, communication considerate of others such as prohibiting work calls and emails on holidays and encouraging employees to take at least five days of paid leave systematically each year. The goal of this is to ensure all employees have the required at least eight hours off between shifts and a work-life balance where employees can satisfy their childcare or family care obligations. In addition, we are designing and building a fair compensation evaluation system so that our diverse workforce with its varied employment formats is highly motivated to play an active role at the company.

## Employee survey

We conducted “employee surveys” twice a year at all group companies in Japan and overseas, in order to verify employees’ satisfaction/fulfillment and sense of accomplishment. This sequential surveying enables us to implement various measures in management and human resources, and also encourages employees and organizational operations to be more proactive.

### ■ Changes in results of employee awareness survey on “motivation at work” and “satisfaction”

Employee survey  
\* Average score on a scale of 5



## Quality

### Our basic approach and strategy

In keeping with Unicharm’s corporate philosophical framework (“Beliefs and Pledges” and Corporate Principles of Action), we always strive for continual improvement with customer-oriented ideas.

Since many of our products come into direct contact with skin, we strive to enhance quality and safety and ensure proper labelling so that customers can use our products with confidence.

### Management structure

As quality assurance is aligned to the quality policies in our mid-term management plan, the Chief Quality Officer (CQO) who is responsible for the conformity and effectiveness of the company's quality management system is assigned to promote internal and external audits mainly through the ESG Division and Global Quality Assurance Department. While taking corrective and preventive measures, the ESG Division periodically reports to the ESG Committee chaired by the president on quality management so that the entire company can carry out quality enhancement activities on an ongoing basis.

All our business offices have obtained ISO 9001 and ISO 14001 certification, on which our quality management systems (QMS) and environmental management systems (EMS) are based. In 2017, the QMS and EMS were merged in hopes of strengthening the activities that encompass both quality and environmental managements. By integrating the operation of the two management systems, we are now addressing both quality and environmental tasks via a centralized structure.

Outside Japan, in order to keep current with updated regulations in the countries of import and marketing, we are working to obtain certification in each country. We acquired ISO13485, the international standard of quality management system for medical equipment, in Indonesia and Thailand in 2014 followed by ISO9001 in India in 2016 and ISO14001 in Egypt in 2018.

### Safety initiatives

We carry out gate-checks in accordance with the Unicharm Management System Basic Regulations during every process, from materials procurement to product development, manufacturing, sales, and disposal so that customers can use products that directly contact their skin with greater peace of mind.

The Safety Assessment Committee has established a gate function during the stage of product development to conduct risk assessment based on various product uses and disposal. Products for which safety is confirmed receive Safety Assessment Confirmation Sheet.

In addition, we implement product use tests with products that use the safety-checked materials.

#### Animal Testing

Unicharm does not conduct experiments involving animals for its safety checks, including outsourced testing, nor will we in the future. (Not applicable in any cases where UC is held accountable toward society for safety issues or is met with demands from local administrations in certain countries.)

### Management of chemical substances

We strive to minimize any direct or indirect (environmental) impacts on people from chemical substances used in manufacturing diapers and sanitary pads using the Unicharm Material Safety Guideline. This forms part of our efforts to ultimately eliminate all harmful impacts found in the raw materials we use. To achieve this, we have defined harmful substances, developed a substance list of approximately 3,600 materials and determined target substances for reduction. At the same time, we receive disclosures from each supplier on the complete materials list and conduct toxicity risk assessment. In determining target substances for reduction, we strive to broadly collect the global information on harmful chemical substances and identify and manage the prohibited and restricted substances based on the reference literatures and standards. In addition, with the implementation of a management system for chemical substances contained in products or materials in 2017, we have been able to strengthen our collaboration with material suppliers in more efficiently managing chemical substances.

## Global safety initiatives

Safety-related initiatives are necessary in all locations where Unicharm runs business, so we operate a global safety-check framework. We have been operating a safety-check framework in each country of operation since April 2007. Currently, our local subsidiaries in China, Korea, Taiwan-Greater China, Thailand, Indonesia and Vietnam are spearheading efforts. We strive to share experiences and information through general meetings involving all persons in charge of safety, tele-conferences and regular individual meetings. In addition, we visit our suppliers, testing partners and government institutions in each country to step up communication in order to deliver safe and reliable products to our customers.

Also, we steadily rolled out the chemical management system mentioned above at our overseas locations beginning in 2018. This rollout has been completed in five countries, including Japan, as of December 31, 2019. We will continue to roll out the system in 2020 as well to ensure a system is in place for local persons in charge of the growing volume of imports and exports are able to comply with the regulations of the country where products will be marketed, swiftly conduct investigations on chemicals used in products and deliver even greater peace of mind to customers.

## Quality management initiatives for manufacturing

As an initiative for quality management, Unicharm Products uses the Unicharm Total Management Strategic System (UTMSS) at all its plants together with information from consumers relating to problems with products in order to make continuous improvements. Working together as a whole, we work to address customer feedback on problems with products which is essential to improving product quality and safety.

## Initiative for appropriate product labeling

Since 2010, Unicharm has continued to maintain its track record of zero product labelling issues based on its own consumer-oriented labelling code.

In order to provide correct information to customers, our marketing communications (product packaging and advertising) are checked for compliance with applicable laws such as the Law for Ensuring the Quality, Efficacy and Safety of Pharmaceutical and Medical Devices, the Premiums and Representations Act and the Containers and Packaging Recycling Law and for compliance with industry standards set out by the Japan Hygiene Products Industry Association and our own proprietary evidence-based standards. We also confirm compliance from a customer perspective to ensure that the information provided does not invite false assumptions or mistaken use. In accordance with changes in the environment inside and outside the company including diversification of advertising medium, market changes and changes in consumer awareness, Unicharm updates its own standards and works thoroughly to ensure its application by providing trainings to the relevant divisions. Additionally, at the product design stage, we have established a Communication Guarantee Meeting as a gate-check on labelling that is based on scientific evidence. Members from the Customer Communication Center also participate in the package design to lend a customer-focused perspective so that the company as a whole provides labelling that is optimal and accurate.



Communication Guarantee Meeting



# Compliance

## Our basic approach and strategy

### Our attitude towards compliance

Our management policy is expressed in the Unicharm Ideals which state “we strive to pursue proper corporate management principles which combine corporate growth, associate well-being and the fulfillment of our social responsibilities”. Unicharm has created a booklet called The Unicharm Way which includes the Group's Code of Conduct and other important compliance documents. Having been approved by the Board of Directors, The Unicharm Way has been distributed to and shared with everyone working at Unicharm Group companies, both within and outside Japan. It forms the basis of our compliance system and is designed to remind all directors and employees to hold themselves to the highest ethical standards and comply with all rules and regulations and the Articles of Incorporation. In addition, Unicharm works to prevent acts that would lead to corruption including bribery, excessive entertainment and gifts through corporate activities, improper political contributions and insider trading, and to ensure compliance with labor standards. The President & CEO and executives continue to communicate the spirit set forth in The Unicharm Way to employees around the world in an effort to improve and instill an awareness of corporate ethics and ensure that all corporate activities are based on compliance.

### Management structure

The “CSR Committee,” established by Unicharm in 2005 for the purpose of monitoring all activities related to social responsibility centered around a framework of quality, safety and the environment, has been restructured and renamed the “ESG Committee” as of January 2020. The “ESG Committee” ensures the legality, fairness and soundness of corporate activities. The “Compliance Hotline” has been established as a consultation and whistle-blowing contact point for violations of laws and regulations, internal regulations and major corporate ethics while the “Ring-Ring Employee Hotline” has been established for problems in the workplace such as internal harassment acts and human relationship issues as part of efforts to develop and enhance the compliance structure. A Corporate Ethics Office has been established within the ESG Division as the contact point for the management of these bodies and, when a serious problem occurs, the Representative Director who serves as the chairman convenes a “Corporate Ethics Committee” with the standing members of the deputy chairman (Director & Vice President) and members of the Audit and Supervisory Committee to resolve the issue; the “Corporate Ethics Committee” reports annually to the Board of Directors on the action that it has taken and the Committee's effectiveness is periodically assessed. In addition, in order to conduct audits on whether business execution in each division is being conducted appropriately in accordance with laws, regulations, etc. and to provide advice as necessary, an Internal Audit Division that is independent from each business execution division and directly supervised by the President & CEO has been established and it conducts internal audits on all Group companies.

In addition, the Board of Directors has established policies and is promoting efforts to prevent all forms of corruption including demands and bribery and such efforts are also being conducted at related departments. In addition, the Sustainable Procurement Guidelines that aim to maintain fair relationships and prevent acts of corruption in transactions with suppliers clearly indicate the necessity of compliance with laws, regulations and social norms and fair trade as well as the prohibition of bribery and kickbacks, and promote the comprehensive prevention of corruption in transactions.

### Whistle-blowing system

The “Compliance Hotline” has been established for Group employees, both within and outside Japan, including contract employees, as a consultation and whistle-blowing contact point in anonymity for violation of laws and regulations, violation of internal regulations and acts of corruption such as the taking and receiving of bribes etc. or major corporate ethics violations, while the “Ring-Ring Employee Hotline” has been established for problems in the workplace such as internal harassment acts and human relationship issues. Unicharm has also put in place a system that makes it easy for employees and their families to consult with external organizations. The privacy of employees who use this system is respected and every effort possible is made to ensure that whistle-blowers are protected from harm; in addition, if it becomes necessary to involve a third party, the whistle-blower's consent to this will be sought.

51 consultations (none of these related to compliance violations; there were four consultations regarding labor standards) were responded to in FY2019.

We also set up and operate similar hotlines at our local subsidiaries in China and Thailand.

## Initiatives to raise compliance awareness

The Unicharm Group Action Guidelines in The Unicharm Way that is distributed to all Group employee states the laws and regulations that should be taken into consideration in order to achieve our pledge to each stakeholder and aims to improve awareness of compliance in relation to issues such as corruption prevention. In addition, monitoring is conducted every year through an employee awareness survey.

### From the Unicharm Group Action Guidelines

#### To achieve our pledge to business partners (excerpt)

##### Prevention of unfair competition

We will always respond sincerely to business partners as we cooperate towards mutual growth in mutually prosperous relationships with them.

1. We will not acquire or use the business secrets of other companies through unauthorized methods for whatever reason.
2. In addition to not using any slanderous or fictitious expressions towards competitors, we will not use any expressions that could cause a misunderstanding.
3. We will provide entertainment and gifts to business partners within the scope of the general common sense. Entertainment and gifts will not be provided to any public officials or equivalent parties. We will not provide payments (facilitating payments) to facilitate public procedures.

In addition, an ESG executive responsible for legal affairs will be specified at the insider information management administrator in the Insider Trading Prevention Regulations in an effort to prevent illegal acts. Transactions with a high level of risk that are similar to insider trading are prohibited as a general rule. In addition, it is obligatory to submit a trade notice for Unicharm's shares, etc. every time treasury shares are sold and cautionary information is released as appropriate that sets specific limits on trades of Unicharm's shares in consideration of circumstances including the positions and departments of executives and employees.

## Compliance training and education

In order to raise the awareness of executives and employees towards compliance with laws and regulations, etc. and prevent the occurrence of compliance problems, compliance themes are incorporated into the learning curriculum in trainings for new employees and employees posted overseas and the Legal Department and Accounting Control & Finance Division hold compliance study session for directors and executive officers several times a year. Through this training, efforts are made to thoroughly instill awareness on matters such as prohibitions on the taking and receiving of bribes and facilitating payments to public officials and the importance of compliance with antitrust laws. In addition, compliance-related courses have been incorporated into e-learning targeting all employees. The status of participation in these courses is monitored in an effort to ensure participation and instill understanding.

Furthermore, quizzes related to legal knowledge are regularly posted on the internal intranet in an effort to spread awareness to ensure that employees do not unintentionally violate the law by introducing cases that can lead to misunderstandings.

## Risk Management

### Our basic approach and strategy

Unicharm pledges to continuously improve corporate value through global business activities and to sincerely conduct business activities in order to gain the trust of all stakeholders including customers, shareholders, business partners and local communities. In order to achieve this, Unicharm has established the Unicharm Ideals, the Five Great Pillars and Associate Principles of Action, the Beliefs and Pledges and Corporate Principles of Action and the Unicharm Group's Action Guidelines.

Gaining an appropriate understanding of the various risks that could have an effect to the realization of these objectives and preventing and minimizing the impact of such risks when they occur are positioned as important management issues. The Group has established a risk management system for the entire group that is implemented while continuously reviewing and improving ESG risk management.

In addition to overseeing the code of conduct and code of ethics, the Board of Directors also analyzes and evaluates major ESG risks that are reported from each unit leader in order to deliberate and decide on improvement measures, while members on the Audit and Supervisory Committee fulfill their roles by implementing various audits during their statutory term of office.

In addition, the ESG Committee learns about the importance of crisis management based on the theme of risk management. The main items that could become a business risk have been defined as follows and are deliberated by the ESG Committee.

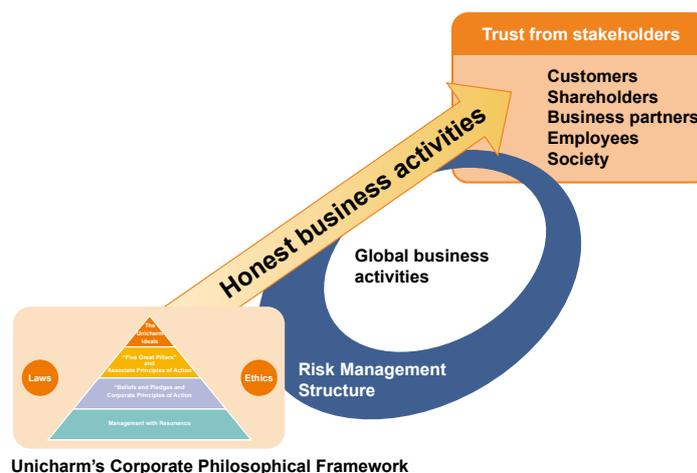
### Major risks

1. Risks related to the sales environment in conditions of intense competition
2. Risks related to the population structure
3. Overseas business risk
4. Raw materials price fluctuation risks
5. Risks related to the reliability of products
6. Risks relating to legal compliance violations
7. Risks related to intellectual property including patents and trademarks
8. Risks related to environmental problems
9. Risks related to climate change
10. Risks related to disasters and accidents
11. Risks related to acquisition, partnership, business consolidation, etc.
12. Information leakage risks

For the management of these risks, Unicharm uses the ISO framework that also incorporates quality and environmental risks as important business risks as a manufacturer. In addition, individual management is conducted for risks including business continuity at the time of disasters.

Primary reference frameworks

·COSO ·ISO 9001 ·ISO 14001 ·ISO 10002 ·ISO 13485 ·ISO 14971



### Response to the occurrence of ESG risks

If a major crisis occurs, a Crisis Management Response Committee will be established and endeavor to respond quickly and appropriately and achieve a prompt recovery based on the Crisis Communication Manual established as a regulation related to crisis management.

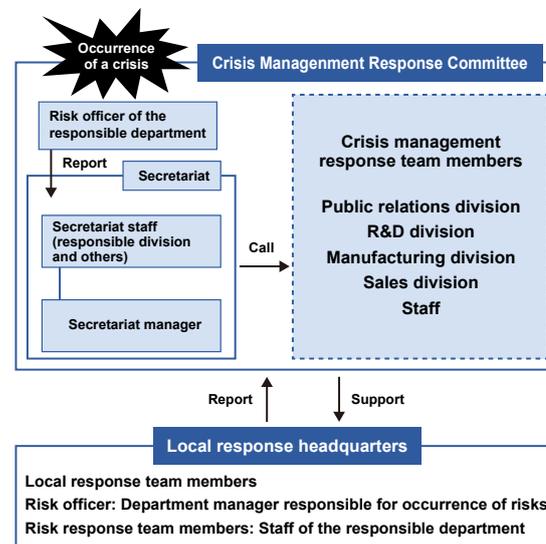
An emergency in which the above risks are realized is considered a crisis and Unicharm positions the 12 items below as major crises. When such a crisis occurs, Unicharm fulfills its social responsibility by assessing the situation swiftly and accurately in accordance with the Crisis Communication Manual, working to prevent the expansion of damage and communicating appropriately with stakeholders.

A handy manual has been distributed to every employee for the purpose of responding promptly when an ESG risk has emerged and a crisis has occurred. In addition, a structure has been established to respond to risks by the Crisis Management Response Committee in cooperation with internal related departments.

#### Major crises

1. Quality
2. Environment
3. Representations
4. Occupational safety
5. Human rights
6. Supplier/vendor related
7. Top/executives related
8. Disaster
9. Information accidents
10. Reputational damage
11. Pandemics
12. Disputes/political changes

#### Crisis Response Organization



## Rigorous information security

To ensure rigorous information security, Unicharm has set out information security principles and procedures such as the Information Security Policy and the Information Management Security Rules. We also have Personal Information Protection Rules and Specific Personal Information Handling Rules in place to safeguard personal information provided by our customers and we strictly manage this information and take precautions to prevent information leaks. To ensure these rules are strictly observed and to prevent information leaks, Unicharm has established an Information Management Security Committee which develops groupwide information management security initiatives and carries out employee education and ongoing monitoring. One day every month has been earmarked as an information management day when we highlight a different security topic each month to remind employees about the risk of specific information leaks.

Meanwhile, as a physical measure to prevent against information leaks through the loss or theft of devices, we completed the adoption of PCs that cannot store data, the development of a cloud environment in which data and systems can only be used on a server and the creation of an environment in which systems can be used anywhere, at any time, without needing to take office PCs out of company premises, thereby making it possible to impose restrictions on taking office PCs out of the office.

## Protecting intellectual property

The Intellectual Property Division centralizes the management of the Unicharm Group's intellectual property assets and formulates and executes intellectual property strategies linked to Unicharm's business and development strategies in an aim to put in practice an IP landscape in which intellectual property is useful for management decision making.

As a patent application strategy, we intend to protect and utilize business and development results, along with reinforcing overseas patent applications in line with the global development of our business. As a result, we have captured a top-class share in the industry with the application rate for global patents at 72.3% (2016) and the registration rate for Japanese patents at 96.8% (2018) (data taken from the "Patent Administration's Annual Report 2019"). In addition, as Unicharm is focusing on the development of environment-friendly products and technologies, we have acquired patents related to technologies for ozone treatment in obtaining sanitary and safe high-quality pulp from used disposable diapers and patents related to treatment for cleaning used disposable diapers in reducing environmental impact in FY2019. Going forward, Unicharm will work to protect and use intellectual property at the same time as the development of technologies for practical application.

Meanwhile, Unicharm has applied for and secured trademarks that protect the Group's brands in more than 160 countries around the world and we are also protecting our rights to proprietary packaging.

As part of our efforts to build and strengthen our intellectual property portfolio in Japan and overseas, we actively use the Japan Patent Office's "Patent Prosecution Highway Program" in order to raise the quality of our intellectual property rights, as well as work on acquiring rights such as sound trademarks in China, Taiwan-Greater China, Korea and Thailand.

Unicharm also takes a firm stance on protecting its intellectual property rights, including filing lawsuits against their infringements or unauthorized use. Its IP division closely cooperates with business and product development divisions as well as overseas subsidiaries and works with local governments to eliminate unauthorized and counterfeit products in Japan and overseas such as Asia, the Middle East and Africa and online in e-commerce.

Unicharm is committed to cultivating a corporate culture that promotes the respect and protection of intellectual property rights of Unicharm and other companies, as articulated in the Unicharm Action Guidelines, by conducting employee training through a combination of on-the-job training, off-the job training and e-learning to ensure that employees in Japan and overseas are fully aware of internal compliance issues related to such things as patents, trademarks and misleading representations, etc.

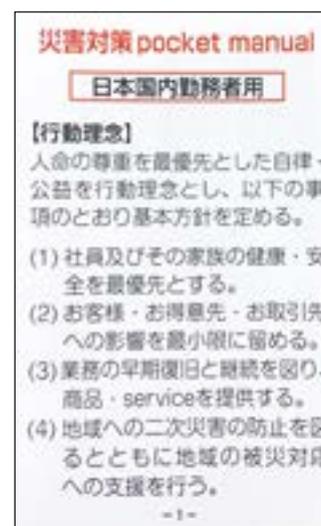
As part of our public activities, we seek to provide advice on and influence international policy with respect to intellectual property by actively exchanging opinions with patent offices in Japan and Asia.

### Business continuity plan (BCP\*)

Unicharm has been strengthening risk management since fiscal 2005. We have formulated a business continuity plan (BCP) to help us prepare for a major emergency that could occur in Japan such as an earthquake directly underneath Tokyo or a large-scale interconnected earthquake involving the Tokai, Tonankai and Nankai plates. We have assumed the scenario of an earthquake (intensity of approximately upper 6) with an epicenter under the Tokyo metropolitan area in an area that includes the head office, adjacent plants and sales offices, and we have prepared impact assessments and damage assumptions, etc., considered alternative measures and established organization structures and backup structures to ensure the safety of employees and their families and continue business if an actual emergency occurs, and conducted ongoing evacuation drills assuming the occurrence of such an emergency based on this scenario.

Main overview of the business continuity plan (BCP)

- (1) Basic requirements
  - Basic policy
  - Assumed risks
  - Impact assessment
  - Assumed damage
  - Main elements
- (2) Confirmation of safety and well-being of employees and their family members
  - Ensuring and saving lives
- (3) Concrete measures for business continuity
  - Organizational structure and command structure
  - Securing important bases
  - External information dissemination and information sharing
  - Backup
  - Provision of products and services
- (4) Important items that should be supported along with business continuity
  - Cooperation with and contributing to the community
- (5) Measures necessary for implementing the business continuity plan (BCP)
  - Education and training
  - Inspections, corrective action and reviews



\* BCP: Plan for the continued operation and rapid recovery of core business activities after an emergency

Disaster response pocket manual

Our BCP Manual describes steps to ensure the safety of our employees and their families, deliver Unicharm products that are necessities for daily living to people in disaster-affected areas as well as to those people who require them as soon as possible and recover important corporate operations of Unicharm, particularly head office functions. We are working to further enhance workplace safety through various initiatives.

Specifically, we conduct e-learning sessions for all employees to raise awareness and encourage proactive responses and we distribute a disaster response pocket manual for immediate reference during an emergency to all employees. We have put systems in place that allow us to contact employees using smartphones, which they must carry at all times, to help us to confirm their safety and maintain business continuity during emergencies. In addition, we conduct disaster training drills at each business site, hold basic survival courses and provide training that is tailored to the function of each division and we carry out first response drills with an emphasis on confirming employee safety and the capabilities of disaster response headquarters including checking the safety of all Unicharm employees in Japan.

Since 2017, we have conducted ongoing training and drills including drills assuming the nighttime evacuation of production bases. Going forward, we will develop systems for responding to all incidents that can be assumed by strengthening risk countermeasures on a global level that incorporate risks such as uprisings or terrorism overseas.



Crisis response training



Drills assuming the nighttime evacuation (Shizuoka Plant)



Survival course at the head office

## Officers (As of March 25, 2020)

### Directors



**Takahisa Takahara**

President & CEO

#### Reasons for Appointment

Mr. Takahara has steered Unicharm's global strategy since 2001, when he was appointed representative director. In that time, the Unicharm Group has seen dramatic growth in earnings, underscoring his capabilities as a business leader. In addition, as Chairman of the Board of Directors, he has enhanced the decision-making capabilities of the Board. As such, Mr. Takahara is deemed to be a suitable person for supporting sustained growth in corporate value.



**Eiji Ishikawa**

Director, Vice President in charge of Production & Development

#### Reasons for Appointment

Drawing on his experience as the Director responsible for production departments, Mr. Ishikawa conducts appropriate oversight of management by providing his opinion on matters related to global supply chains and quality control. As such, Mr. Ishikawa is deemed to be a suitable person for supporting sustained growth in corporate value.



**Shinji Mori**

Director, Vice President in charge of Marketing

#### Reasons for Appointment

Drawing on his experience gained from restructuring sales divisions and developing Unicharm's online sales channels, Mr. Mori conducts appropriate oversight of management by providing his opinion on matters related to global sales strategy. As such, Mr. Mori is deemed to be a suitable person for supporting sustained growth in corporate value.



**Takashi Mitachi**

Director, Audit & Supervisory Committee Member (Outside Director)

#### Reasons for Appointment

Mr. Mitachi has a deep understanding of corporate management strategy due to an extensive track record of 24 years in corporate finance, accounting and management support. As such, Mr. Mitachi is deemed to be a suitable person for improving management audit functions to support the Group's further global development.

#### Main Activities

Mr. Mitachi has attended all nine meetings of the Board of Directors and all 13 meetings of the Audit & Supervisory Committee, providing appropriate advice and oversight about management strategy, financial strategy and other matters.



**Hiroko Wada**

Director, Audit & Supervisory Committee Member (Outside Director)

#### Reasons for Appointment

Ms. Wada has a diverse track record in international business and experience in marketing. Based on that experience, Ms. Wada is deemed to be a suitable person for providing appropriate insights about management strategy, finance, governance and marketing to support the Group's further global development.

#### Main Activities

Ms. Wada has attended all six meetings of the Board of Directors and all 10 meetings of the Audit & Supervisory Committee held since her appointment, providing appropriate advice and oversight about marketing and moves to strengthen the Group's financial position.

*\*Activity records since Ms. Wada's appointment on March 27, 2019.*



**Gumpei Futagami**

Director, Audit & Supervisory Committee Member

#### Reasons for Appointment

Mr. Futagami has extensive knowledge about business management through his role as Executive Vice President of the Company and Chairman of The Hartz Mountain Corporation. Based on that know-how and experience, Mr. Futagami is deemed to be a suitable person for providing oversight of management activities.

#### Main Activities

Mr. Futagami has attended all nine meetings of the Board of Directors and all 10 meetings of the Audit & Supervisory Committee, conducting management audits as a standing member of the Audit & Supervisory Committee.

## Executive Officers

President and Chief Executive Officer	<b>Takahisa Takahara</b>	Executive Officer	<b>Chikara Oka</b>
Senior Executive Officer	<b>Kenji Takaku</b>	Executive Officer	<b>Eijun Sato</b>
Senior Executive Officer	<b>Yukihiro Kimura</b>	Executive Officer	<b>Hideo Kato</b>
Senior Executive Officer	<b>Atsushi Iwata</b>	Executive Officer	<b>Toru Morita</b>
Senior Executive Officer	<b>Toshifumi Hikosaka</b>	Executive Officer	<b>Tsutomu Watanabe</b>
Senior Executive Officer	<b>Tadashi Nakai</b>	Executive Officer	<b>Hirotatsu Shimada</b>
Senior Executive Officer	<b>Tetsuya Shite</b>	Executive Officer	<b>Hiroe Inaba</b>
Senior Executive Officer	<b>Masayuki Daiyo</b>	Executive Officer	<b>Masanori Murakami</b>
Executive Officer	<b>Seichi Motoi</b>	Executive Officer	<b>Takumi Terakawa</b>
Executive Officer	<b>Toshiro China</b>	Executive Officer	<b>Toru Fujita</b>
Executive Officer	<b>Shinobu Seki</b>	Executive Officer	<b>Masahiro Kashiwagi</b>
Executive Officer	<b>Tetsuo Ukai</b>	Executive Officer	<b>Takeshi Oda</b>
Executive Officer	<b>Satoru Kiuchi</b>	Executive Officer	<b>Shigeto Yamanaka</b>
Executive Officer	<b>Takahiro Batou</b>	Executive Officer	<b>Masanori Yano</b>
Executive Officer	<b>Tsutomu Kido</b>		

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[http://www.unicharm.co.jp/  
english/about/overview/index.html](http://www.unicharm.co.jp/english/about/overview/index.html)

## Key Financial and Non-Financial Data for the Last 10 Years

	2011/3 (JGAAP)	2012/3 (JGAAP)	2013/3 (JGAAP)	2014/3 (JGAAP)
<b>For the Fiscal Period:</b>				
Net sales (IFRS)	376,947	428,391	495,771	599,455
Overseas sales to net sales ratio (IFRS)	42.4%	46.9%	52.6%	57.7%
Cost of sales	203,394	233,936	268,743	331,807
Selling, general and administrative expenses	126,991	142,554	167,539	200,407
Operating income/Core operating income* <sup>5</sup> (IFRS)	46,561	51,900	59,488	67,240
Profit attributable to owners of parent (IFRS)	33,560	26,981	43,121	38,216
Basic earnings per share* <sup>1</sup> (yen)	59.37	48.32	77.92	64.1
Cash dividends per share* <sup>1</sup> (yen)	9.33	10.67	11.33	12.67
Consolidated dividend payout ratio	31.4%	22.1%	14.5%	19.8%
Cash flows from operating activities	-17,239	59,570	68,758	95,659
Cash flows from investing activities	-69,527	-58,861	-53,304	-58,220
Free cash flows	-86,766	709	15,454	37,439
Capital expenditures	82,655	69,498	52,340	51,908
Depreciation* <sup>3</sup>	14,620	13,257	16,814	22,101
Amortization of goodwill	2,760	3,899	4,239	9,203
Research and development expense	4,953	4,733	5,098	5,265
<b>Fiscal Year-end:</b>				
Total assets	444,015	472,497	535,055	620,419
Property, plant and equipment	98,389	116,821	163,129	204,417
Long-term debt—less current maturities	47,354	35,219	23,000	21,000
Shareholders' equity/Total equity (IFRS)	219,632	243,207	329,201	432,152
Equity ratio/Ratio of equity attributable to owners of parent (IFRS)	45.5%	45.1%	54.2%	60.3%
Number of employees	7,317	10,287	10,855	12,795
(including overseas employees)	4,297	7,260	7,846	9,801
<b>Ratios:</b>				
Operating income to net sales ratio/Core operating income to net sales ratio (IFRS)	12.4%	12.1%	12.0%	11.2%
Net income to net sales ratio/Profit attributable to owners of parent to net sales ratio (IFRS)	8.9%	6.3%	8.7%	6.4%
Gross profit to net sales ratio	46.0%	45.4%	45.8%	44.6%
SG&A expenses to net sales ratio	33.7%	33.3%	33.8%	33.4%
ROE: Profit attributable to owners of parent to net assets/ Return on equity attributable to owners of parent (IFRS)	17.4%	13.0%	17.2%	11.5%
ROA: Ordinary income to assets/ Ratio of profit before tax to total assets (IFRS)	11.5%	10.6%	12.9%	11.8%
<b>Stock Prices:</b>				
High* <sup>1</sup> (yen)	1,148	1,473	1,877	2,230
Low* <sup>1</sup> (yen)	897	997	1,345	1,683
<b>Environment-related Ratios:</b>				
Reduction in CO <sub>2</sub> emissions volume* <sup>6</sup>	11.4	11	10.8	11
Recycling rate in industrial waste at three main plants* <sup>7</sup>	99.2%	99.2%	99.1%	99.4%
Percentage of environmental-friendly products	55%	55%	56%	62%

(Note) JGAAP amounts have been rounded down, IFRS amounts have been rounded off.

\*1 The Company conducted 1-for-3 stock splits on October 1, 2010 and on October 1, 2014.

Per share data have been adjusted retroactively to reflect the impact of the stock splits.

\*2 Fiscal 2014, ended December 31, 2014, was a nine-month transitional period due to a change in fiscal year-end.

\*3 Depreciation includes goodwill amortization costs.

\*4 Unicharm adopted IFRS from fiscal 2017, ended December 31, 2017.

\*5 Core operating income is gross profit after deducting selling, general and administrative expenses.

\*6 Energy usage (GJ) / net sales (yen millions)

\*7 From fiscal 2019, ended December 31, 2019, the recycling rate is for four main plants due to the addition of the Kyushu Plant.

(Millions of yen)

2014/12 (JGAAP)*2	2015/12 (JGAAP)	2016/12 (JGAAP)	2016/12 (IFRS)*4	2017/12 (IFRS)*4	2018/12 (IFRS)*4	2019/12 (IFRS)*4
553,661	738,707	710,965	604,653	641,647	688,290	714,233
64.4%	61.4%	57.7%	58.4%	58.9%	59.8%	62.1%
308,421	406,521	376,510	376,842	393,101	423,005	447,495
183,892	252,250	256,178	148,695	161,707	170,178	176,959
61,347	79,934	78,277	79,116	86,838	95,107	89,779
32,731	40,511	44,134	46,971	52,772	61,353	46,116
54.33	67.55	74.29	79.06	89.85	103.73	77.53
12.73	14.80	16.00	16.00	20.00	24.00	28.00
23.4%	21.9%	21.5%	20.2%	22.3%	23.1%	36.1%
68,892	85,009	103,604	103,604	98,086	110,867	84,936
-36,741	-68,166	-42,612	-42,612	-38,778	-113,400	-69,235
32,151	16,843	60,992	60,992	59,308	-2,533	15,701
41,756	47,993	39,436	39,437	33,397	73,688	56,022
20,393	27,343	26,750	27,598	29,345	30,353	38,676
3,769	4,640	4,519	—	—	—	—
4,248	5,993	6,070	6,071	6,554	6,621	7,584
699,108	702,601	711,541	668,592	736,644	795,483	864,003
240,082	247,808	244,325	236,629	228,521	240,628	284,105
5,420	10,757	12,084	61,190	59,623	21,428	27,601
492,844	451,091	449,974	414,387	453,029	503,670	542,900
60.0%	55.1%	54.4%	52.7%	52.6%	55.5%	54.8%
13,901	15,500	15,843	15,843	15,757	16,207	16,304
10,907	12,526	12,842	12,842	12,648	13,007	13,060
11.1%	10.8%	11.0%	13.1%	13.5%	13.8%	12.6%
5.9%	5.5%	6.2%	7.8%	8.2%	8.9%	6.5%
44.3%	45.0%	47.0%	37.7%	38.7%	38.5%	37.3%
33.2%	34.1%	36.0%	24.6%	25.2%	24.7%	24.8%
8.2%	10.0%	11.4%	13.4%	14.3%	14.8%	10.1%
9.9%	10.2%	10.2%	11.4%	13.2%	12.0%	8.4%
3,010	3,398	2,668	2,668	3,078	3,892	3,787
2,359	2,045	2,001	2,001	2,436.50	2,767.50	2,905
10.5	10.3	9.5	10.7	10.7	10.6	10.8
99.5%	99.5%	99.5%	99.5%	99.5%	99.4%	99.3%
67%	72%	78%	78%	80%	86%	89%

## Consolidated statement of financial position

(Millions of yen)

	Fiscal Year Ended December 31, 2018 (as of December 31, 2018)	Fiscal Year Ended December 31, 2019 (as of December 31, 2019)
<b>Assets</b>		
Current assets		
Cash and cash equivalents	135,065	128,787
Trade and other receivables	100,159	121,784
Inventories	71,939	65,240
Other current financial assets	53,520	86,418
Other current assets	23,758	24,891
<b>Total current assets</b>	<b>384,441</b>	<b>427,120</b>
Non-current assets		
Property, plant and equipment	240,628	284,105
Intangible assets	100,121	94,162
Deferred tax assets	9,418	13,141
Investments accounted for using equity method	778	939
Other non-current financial assets	49,991	42,342
Other non-current assets	10,106	2,193
<b>Total non-current assets</b>	<b>411,042</b>	<b>436,882</b>
<b>Total assets</b>	<b>795,483</b>	<b>864,003</b>

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(Millions of yen)

	Fiscal Year Ended December 31, 2018 (as of December 31, 2018)	Fiscal Year Ended December 31, 2019 (as of December 31, 2019)
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	153,494	150,007
Bonds and borrowings	18,834	10,264
Income tax payables	13,579	7,041
Other current financial liabilities	633	5,998
Other current liabilities	44,959	43,557
Total current liabilities	231,498	216,868
Non-current liabilities		
Bonds and borrowings	21,428	27,601
Deferred tax liabilities	21,084	20,682
Retirement benefit liabilities	11,358	10,173
Other non-current financial liabilities	1,212	40,500
Other non-current liabilities	5,233	5,279
Total non-current liabilities	60,316	104,234
Total liabilities	291,813	321,102
Equity		
Equity attributable to owners of parent		
Capital stock	15,993	15,993
Share premium	13,058	14,960
Retained earnings	480,457	513,066
Treasury shares	(52,776)	(58,769)
Other components of equity	(15,276)	(12,177)
Total equity attributable to owners of parent	441,456	473,073
Non-controlling interests	62,214	69,827
Total equity	503,670	542,900
Total liabilities and equity	795,483	864,003

## Consolidated statement of income

(Millions of yen)

	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)	Fiscal Year Ended December 31, 2019 (January 1, 2019 – December 31, 2019)
Net sales	688,290	714,233
Cost of sales	(423,005)	(447,495)
Gross profit	265,286	266,738
Selling, general and administrative expenses	(170,178)	(176,959)
Other income	1,783	2,324
Other expenses	(4,364)	(22,358)
Financial income	3,310	3,385
Financial costs	(4,275)	(3,593)
Profit before tax	91,561	69,538
Income tax expenses	(24,295)	(16,900)
Profit for the period	67,265	52,638
Profit attributable to		
Owners of parent	61,353	46,116
Non-controlling interests	5,913	6,521
Profit for the period	67,265	52,638
Earnings per share attributable to owners of parent		
Basic earnings per share (Yen)	103.73	77.53
Diluted earnings per share (Yen)	101.44	77.05

## Consolidated statement of comprehensive income

(Millions of yen)

	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)	Fiscal Year Ended December 31, 2019 (January 1, 2019 – December 31, 2019)
Profit for the period	67,265	52,638
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	120	766
Remeasurements related to net defined benefit liabilities (assets)	(2,208)	958
Subtotal	(2,089)	1,724
Items that may be reclassified to profit or loss		
Changes in fair value of cash flow hedges	50	(15)
Exchange differences on translation in foreign operations	(19,916)	2,737
Subtotal	(19,866)	2,722
Total other comprehensive income, net of tax	(21,955)	4,446
Total comprehensive income	45,311	57,083
Total comprehensive income attributable to		
Owners of parent	43,016	52,458
Non-controlling interests	2,294	4,625
Total comprehensive income	45,311	57,083

## Consolidated statement of changes in equity

Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)

(Millions of yen)

	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	–	–	61,353	–	–	61,353	5,913	67,265
Other comprehensive income	–	–	–	–	(18,336)	(18,336)	(3,618)	(21,955)
Total comprehensive income	–	–	61,353	–	(18,336)	43,016	2,294	45,311
Purchase of treasury shares	–	–	–	(15,500)	–	(15,500)	–	(15,500)
Conversion of convertible bond-type bonds with share acquisition rights	–	10,250	–	30,376	(3,057)	37,569	–	37,569
Dividends	–	–	(13,585)	–	–	(13,585)	(8,162)	(21,747)
Change of scope of consolidation	–	–	–	–	–	–	179	179
Equity transactions with non-controlling interests	–	2,388	–	–	–	2,388	2,442	4,830
Transfer from other components of equity to retained earnings	–	–	(1,609)	–	1,609	–	–	–
Total transactions with owners	–	12,637	(15,193)	14,876	(1,448)	10,872	(5,542)	5,330
Balance at December 31, 2018	15,993	13,058	480,457	(52,776)	(15,276)	441,456	62,214	503,670

Fiscal Year Ended December 31, 2019 (January 1, 2019 – December 31, 2019)

(Millions of yen)

	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	–	–	(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	–	–	46,116	–	–	46,116	6,521	52,638
Other comprehensive income	–	–	–	–	6,341	6,341	(1,896)	4,446
Total comprehensive income	–	–	46,116	–	6,341	52,458	4,625	57,083
Purchase of treasury shares	–	–	–	(15,001)	–	(15,001)	–	(15,001)
Conversion of convertible bond-type bonds with share acquisition rights	–	867	–	9,008	(745)	9,130	–	9,130
Dividends	–	–	(15,475)	–	–	(15,475)	(2,211)	(17,686)
Equity transactions with non-controlling interests	–	1,036	–	–	–	1,036	5,222	6,257
Transfer from other components of equity to retained earnings	–	–	2,497	–	(2,497)	–	–	–
Total transactions with owners	–	1,902	(12,978)	(5,993)	(3,242)	(20,310)	3,011	(17,299)
Balance at December 31, 2019	15,993	14,960	513,066	(58,769)	(12,177)	473,073	69,827	542,900

# Consolidated statement of cash flows

(Millions of yen)

	Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)	Fiscal Year Ended December 31, 2019 (January 1, 2019 – December 31, 2019)
<b>Cash flows from operating activities</b>		
Profit before tax	91,561	69,538
Depreciation and amortization	30,353	38,676
Impairment losses	2,182	19,654
Interest and dividend income	(3,309)	(3,380)
Interest expenses	2,280	2,296
Foreign exchange loss (gain)	728	265
Loss (gain) on sale and retirement of fixed assets	598	626
Decrease (increase) in trade and other receivables	(85)	(20,264)
Decrease (increase) in inventories	(9,872)	6,700
Increase (decrease) in trade and other payables	15,994	(6,763)
Increase (decrease) in other current liabilities	4,434	50
Other, net	(3,281)	3,469
Subtotal	131,582	110,866
Interest and dividends received	3,224	3,489
Interest paid	(571)	(1,540)
Proceeds from insurance income	–	2,025
Income taxes refund	1,283	13
Income taxes paid	(24,652)	(29,919)
Net cash provided by (used in) operating activities	110,867	84,936
<b>Cash flows from investing activities</b>		
Payments into time deposits	(21,697)	(66,717)
Proceeds from withdrawal of time deposits	28,607	34,092
Purchase of property, plant and equipment, and intangible assets	(43,303)	(44,017)
Proceeds from sale of property, plant and equipment, and intangible assets	313	760
Purchase of financial assets measured at amortized cost	(1,004)	–
Purchase of financial assets measured at fair value through profit or loss	(8,500)	–
Purchase of equity instruments measured at fair value through other comprehensive income	(13,931)	(4,015)
Proceeds from sale and redemption of financial assets measured at fair value through profit or loss	1,500	4,000
Proceeds from sale and redemption of equity instruments measured at fair value through other comprehensive income	802	6,850
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(56,606)	–
Proceeds from sale of investments in subsidiaries resulting in change in scope of consolidation	411	–
Other, net	7	(188)
Net cash provided by (used in) investing activities	(113,400)	(69,235)
<b>Cash flows from financing activities</b>		
Net decrease (increase) in short-term borrowings	7,434	(6,869)
Proceeds from long-term borrowings	1,223	23,000
Repayments of long-term borrowings	(3,530)	(9,503)
Repayments of lease liabilities	(49)	(5,933)
Proceeds from sale of investments in subsidiaries not resulting in change in scope of consolidation	4,746	–
Payments for purchase of treasury shares	(15,500)	(15,001)
Dividends paid to owners of parent	(13,592)	(15,482)
Dividends paid to non-controlling interests	(8,455)	(2,179)
Proceeds from share issuance to non-controlling interests	–	8,904
Net cash provided by (used in) financing activities	(27,723)	(23,062)
Effect of exchange rate changes on cash and cash equivalents	(4,582)	1,083
Net increase (decrease) in cash and cash equivalents	(34,837)	(6,278)
Cash and cash equivalents at beginning of period	169,903	135,065
Cash and cash equivalents at end of period	135,065	128,787

