Consolidated Financial Results for the First Quarter of the Fiscal Year Ending December 31, 2017 (January 1, 2017 through March 31, 2017); Flash Report [IFRS]

May 12, 2017

Listed Company Name: **Unicharm Corporation**
Listing: **First Section, Tokyo Stock Exchange**
Code Number: **8113**
URL: **http://www.unicharm.co.jp/**
Company Representative: **Takahisa Takahara, President and Chief Executive Officer**
Contact Person: **Atsushi Iwata, Senior Executive Officer, General Manager of Accounting Control and Finance Head Office**
Telephone Number: **+81-3-3451-5111**

Planned Filing Date of Quarterly Securities Report: **May 15, 2017**
Planned Commencement Date of Dividend Payments: —
Preparation of Any Additional Explanatory Documents for Quarterly Financial Results: **Yes**
Holding of Any Briefing Session for Quarterly Financial Results: **No**

(Amounts less than one million yen have been truncated)

1. Consolidated Financial Results for the First Quarter of the Fiscal Year Ending December 31, 2017 (January 1, 2017 through March 31, 2017)

(1) Consolidated financial results (1Q cumulative)

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

	Net Sales		Profit Before Tax		Profit for the Period		Profit Attributable to Owners of Parent		Total Comprehensive Income	
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%
1Q of Fiscal Year Ending December 31, 2017	146,259	0.2	17,993	28.9	12,941	26.2	11,589	18.6	7,983	–
1Q of Fiscal Year Ended December 31, 2016	145,971	–	13,960	–	10,251	–	9,772	–	(9,219)	–

	Basic Earnings Per share	Diluted Earnings Per Share
	Yen	Yen
1Q of Fiscal Year Ending December 31, 2017	19.64	19.04
1Q of Fiscal Year Ended December 31, 2016	16.40	15.90

(2) Consolidated financial position

	Total Assets	Total Equity	Equity Attributable to Owners of Parent	Ratio of Equity Attributable to Owners of Parent
	Millions of Yen	Millions of Yen	Millions of Yen	%
As of March 31, 2017	650,009	410,334	348,274	53.6
As of December 31, 2016	668,592	414,387	352,098	52.7

2. Cash Dividends

	Annual Dividends				
	1st Q-End	2nd Q-End	3rd Q-End	Year-End	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal Year Ended December 31, 2016	–	8.00	–	8.00	16.00
Fiscal Year Ending December 31, 2017	–				
Fiscal Year Ending December 31, 2017 (projection)		9.00	–	9.00	18.00

(Note) Revision of dividend projections that have been disclosed lastly: None

3. Projected Consolidated Financial Results for the Fiscal Year Ending December 31, 2017 (January 1, 2017 through December 31, 2017)

(Figures in percentage represent increases or decreases from the corresponding period of the previous fiscal year)

	Net Sales		Core Operating Income		Profit Before Tax		Profit Attributable to Owners of Parent		Basic Earnings Per Share
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Yen
First Half	299,000	0.5	34,000	(7.0)	32,000	3.8	20,800	5.7	35.37
Full Year	630,000	4.2	84,000	6.2	77,000	1.5	49,000	4.3	83.32

(Note) Revision of projected results that have been disclosed lastly: None

*** Notes**

(1) Change in major subsidiaries during the consolidated period (or any change of specified subsidiaries accompanying a change in the scope of consolidation): None

(2) Change in accounting policies or estimates

(i) Changes in accounting policies required by IFRS: None
(ii) Change in accounting policies other than item (i) above: None
(iii) Change in accounting estimates: None

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

(i) Number of issued and outstanding shares (including treasury shares):
As of March 31, 2017: 620,834,319 shares
As of December 31, 2016: 620,834,319 shares
(ii) Number of treasury shares as of end of period:
As of March 31, 2017: 32,725,690 shares
As of December 31, 2016: 29,982,790 shares
(iii) Average number of shares during the period (accumulated total):
1Q of Fiscal Year Ending December 31, 2017: 589,949,304 shares
1Q of Fiscal Year Ended December 31, 2016: 595,733,505 shares

*The quarterly financial results summary is not part of the quarterly review.

* Explanation regarding proper use of the projections of financial results and other notes

(1) The Group adopted the International Financial Reporting Standards (IFRS) beginning with the first quarter of the fiscal year ending in December 2017.
The consolidated financial statements for the first quarter of the previous fiscal year and the full year are presented based on IFRS. Please refer to “2. Condensed Consolidated Financial Statements and Significant Notes Thereto, (5) Notes to the condensed consolidated financial statements, 8. First-time adoption” on page 22 for information on the differences between IFRS and Japanese accounting standards as they pertain to consolidated financial figures.

(2) While the core operating income disclosed by the Company is not an indicator defined in IFRS, it has been disclosed as it is believed to be a valuable benchmark for measuring the Company’s recurring business performance.

(3) Projections stated herein are based on the currently available information and the Company’s assumptions that were judged to be valid as of the announcement date hereof, and are not intended to be a promise by the Company to achieve these projections. Therefore, actual results may differ for various factors. Please refer to “1. Qualitative Information on Financial Results, (3) Explanation of future estimate information such as consolidated financial results projections” section on page 5 for more information concerning the assumptions used for projections of financial results and other notes on proper use.

Contents of Exhibit

1. Qualitative Information on Financial Results

(1) Explanation of operating results

In the first quarter of the fiscal year under review (January 1 to March 31, 2017), as the global economy overall made a gradual recovery despite uncertainties over US policies, the Group proactively carried out sales activities and promoted personal care products tailored to consumer needs.

In Japan, although inbound consumption showed signs of stabilizing, the modest economic recovery continued, and the Group continued to make proposals offering new value to stimulate demand for high value-added personal care products. These efforts resulted in stable growth.

In this environment and under the banner "we constantly provide the world's No.1 and unprecedented products and services to everybody around the globe, and deliver comfort, impression, and satisfaction," the Group and its group companies continued to develop unique non-woven fabric processing and forming technology, and products that meet the needs of consumers while working to create a "Cohesive Society" in which people from all generations can live while not feeling burdened by one another and with mutual respect for each other as people.

As a result, the Company's net sales, profit before tax, profit for the period, and profit attributable to owners of parent in the first quarter of the fiscal year under review reached ¥146,259 million (up 0.2% year on year), ¥17,993 million (up 28.9% year on year), ¥12,941 million (up 26.2% year on year), and ¥11,589 million (up 18.6% year on year), respectively.

Financial results by segment are as described below.

1) Personal Care Business

● Baby Care Products

Overseas, the Company continued to strengthen its internet sales and worked to build name recognition for the *moony* series in China, where demand for high value-added imports from Japan, which meet the needs for safety, is high, as well as to promote pants-type disposable diapers. In India, where the use of disposable diapers is still quite low even among emerging countries, the Company expanded its sales area and market share while promoting pants-type disposable diapers.

In Japan, the Company worked to reinvigorate the market by introducing packages and diapers with a special cherry blossom design just for spring in the *Mamy Poko* series, which has a charming Disney character design and superior absorbency. In addition, the Company strengthened relations in the *moony* brand, which fits comfortably on the baby's skin while preventing leakage, and has been well received by many mothers in Japan who are raising children for its functionality, simplicity, and convenience, as well as sub-category products such as pants-type products for children with bed-wetting problems, and training pants.

● Feminine Care Products

For overseas, in China the Company's high-quality products featuring charming designs remain highly popular with the younger generation. In addition, the Company has been expanding its sales area for products tailored to customer needs in emerging countries such as Indonesia, Thailand and Vietnam, further endeavoring to increase its market share.

In Japan, the Company updated the design of the package for the *SOFY Hada Omoi* series, which is gentle on sensitive skin, and launched a limited-time product that blends *SOFY Center-in Compact Fragrance* and *Kiyora Fragrance* with a scent reminiscent of cherry blossoms. With these products, the Company endeavored to free women from physical and emotional constraints while examining the structures of women's bodies and minds from a scientific perspective.

● Health Care Products

In the domestic market for healthcare products, which continues to grow as Japan's population of the elderly grows, the Company has been working to educate the public about products that enable elderly people to continue with their current lifestyle as before. In the incontinence care products line, the Company utilized its *Lifree Comfortable Pads* series of incontinence care products for men that are designed to prevent urine leakage and stains on trousers, and the *Charm Nap* series, which brings happiness to daily life with its absorbent care, as part of its continuous efforts to remove resistance to using these products by conveying that everyone has light incontinence. In nursing care products, along with the *Lifree* series, the Company has also actively promoted its products through TV commercials, on its website, during over-the-counter consultations at shops, and by creating shelf space at retailers based on daily activities to take the lead in the market for excretion care products. In addition, the Company has continued working purposefully with society to promote "Social walking*" in an aim to eliminate people who have confined themselves to their room, and commenced initiatives to support people going outside through appropriate excretion care and prevent dementia.

*"Social walking" is a coined word that means "social participation and walking," and it indicates a form of walking that helps preventing dementia in a manner that anyone can easily benefit from by walking while having a good time with other people (devised by the Company, under the supervision of Tokyo Metropolitan Institute of Gerontology).

- Clean and Fresh Products

In the domestic market for clean and fresh products, the Company launched a limited edition *Wave* product with the scent of a lush bouquet as part of its "Let's! Spring Cleaning Campaign." A single sheet of this product can clean the entire house, and even reinvigorates the customer when cleaning. In addition, the Company promoted sales in the *Silcot Wet Tissues* series that enables users to clean quickly with just one hand and made an effort to revitalize the market. The Company also revitalized the diversifying cosmetic cotton market with–*Silcot Sponge Touch Moisturizing Cotton*, which makes skin amazingly moist with 50% less lotion[*1], and *Silcot Wiping Cotton Silky Cut*, made from Japan's first superfine filament[*2], which easily removes even microscopic dirt.

*1: Compared to the Company's conventional products
*2: The outer layer touching the skin consists of extremely fine fibers that are less than 10 μm in size and the inner part is made up of coarse cellulose fibers. The survey covered cosmetic cotton from major brands in Japan. (survey by Unicharm Corporation, in October 2015)

As a result, net sales and segment profit (core operating income) for the personal care business for the period under review were ¥126,732 million (down 0.4% year on year) and ¥17,148 million (up 21.1% year on year), respectively.

2) Pet Care Business

The Company has been working to develop products ranging from sanitary goods to food and create markets to support the lives of pets in an integrated manner in order to help create a society in which humans and pets can live together in comfort for a long time and in good health.

In the domestic pet toiletry business, the Company introduced a limited edition product for spring that has a gentle cherry blossom fragrance to its *Deo Sheet Deodorizing Fragrance* series, the sheets of which have a light scent but a powerful deodorizing capacity. In addition, the Company launched a seasonal strawberry pink version of its *Deo Toilet System for Kittens to Mature Cats 5kg in Body Weight* to revitalize the market. The Company also proposed ways to create clean and comfortable living spaces where users and pets live together.

In the domestic pet food market, the Company actively promoted sales of the *Grand Deli* brand of dog food, which focuses on high-quality ingredients with a well-balanced colors and a balance of flavor, taste and nutrition, by using television commercials and the Internet. The Company also launched a limited spring edition of *Silver Spoon Three-Star Gourmet* with a seasonal fish selection that brings out the flavor of the fish that cats love with luxurious taste and smells. In addition, the Company carried out a "Delicious and Happy Photo Contest" campaign involving consumers. These initiatives are part of the Company's efforts to support the health and happiness of pets.

In the North American market, sales have remained steady in sheets for dogs with the use of Japanese technology and in wet-type snacks for cats, and preparations were made for future growth, including reinforcing Internet sales, which have grown significantly in recent years, and making overtures to pet specialty stores.

As a result, net sales and segment profit (core operating income) for the pet care business for the fiscal period under review were ¥17,988 million (up 3.7% year on year) and ¥1,843 million (up 87.0% year on year), respectively.

3) Other Businesses

In the category of business-use products utilizing its core non-woven fabric and absorber processing and forming technology, the Company focused on promoting the sales of industrial materials.

As a result, net sales and segment profit (core operating income) in other businesses for the fiscal period under review were ¥1,538 million (up 7.9% year on year) and a loss of ¥198 million yen (segment profit (core operating income) was ¥67 million in the first quarter of the previous fiscal year).

(2) Explanation of financial position

(Assets)

Total assets as of the end of the first quarter were ¥650,009 million (down 2.8% compared with the end of the previous fiscal year). The major increases were ¥4,114 million in inventories, and ¥15,419 million in other financial assets due to time deposits with deposit terms exceeding three months, and the major decreases were ¥25,785 million in cash and cash equivalents and ¥11,716 million in trade and other receivables.

(Liabilities)

Liabilities as of the end of the first quarter were ¥239,675 million (down 5.7% compared with the end of the previous fiscal year). The major decreases were ¥5,725 million in other current liabilities due to accrued consumption taxes, ¥4,629 million in trade and other payables, and ¥3,797 million in income tax payables.

(Equity)

Total equity as of the end of the first quarter was ¥410,334 million (down 1.0% compared with the end of the previous fiscal year). The major increase was ¥11,589 million in profit attributable to owners of parent, and the major decreases were a ¥7,000 million increase in treasury shares, ¥4,727 million in dividend payments and ¥3,695 million in other components of equity due to foreign currency translation adjustments.

(Ratio of equity attributable to owners of parent)

Ratio of equity attributable to owners of parent as of the end of the first quarter was 53.6%.

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

Regarding full-year financials results projections, there were no changes from the announcement made on February 15, 2017.

2. Condensed Consolidated Financial Statements and Significant Notes Thereto

(1) Condensed consolidated statement of financial position

(Millions of Yen)

	Notes	Date of transition to IFRS (January 1, 2016)	Fiscal Year Ended December 31, 2016 (as of December 31, 2016)	1Q of Fiscal Year Ending December 31, 2017 (as of March 31, 2017)
Assets				
Current assets				
Cash and cash equivalents		101,966	138,043	112,258
Trade and other receivables		98,576	90,637	78,921
Inventories		64,029	57,403	61,517
Other current financial assets		36,589	38,938	54,357
Other current assets		13,509	14,615	15,205
Total current assets		314,669	339,637	322,258
Non-current assets				
Property, plant and equipment		239,692	236,629	236,131
Intangible assets		51,734	48,595	47,079
Deferred tax assets		13,067	8,955	8,395
Investments accounted for using equity method		204	705	700
Other non-current financial assets		25,615	25,388	27,159
Other non-current assets		11,218	8,684	8,287
Total non-current assets		341,531	328,955	327,751
Total assets		656,200	668,592	650,009

(Millions of Yen)

	Notes	Date of transition to IFRS (January 1, 2016)	Fiscal Year Ended December 31, 2016 (as of December 31, 2016)	1Q of Fiscal Year Ending December 31, 2017 (as of March 31, 2017)
Liabilities and equity				
Liabilities				
Current liabilities				
Trade and other payables		131,737	129,206	124,577
Bonds and borrowings		3,847	6,753	5,420
Income tax payables		7,668	9,337	5,540
Other current financial liabilities		174	65	66
Other current liabilities		26,199	31,600	25,875
Total current liabilities		169,624	176,962	161,478
Non-current liabilities				
Bonds and borrowings		59,623	61,190	61,037
Deferred tax liabilities		3,091	2,873	4,223
Retirement benefit liabilities		5,296	7,649	7,404
Other non-current financial liabilities		2,349	2,391	2,408
Other non-current liabilities		2,900	3,141	3,125
Total non-current liabilities		73,258	77,243	78,197
Total liabilities		242,883	254,205	239,675
Equity				
Equity attributable to owners of parent				
Capital stock		15,993	15,993	15,993
Retained earnings		358,875	391,800	398,671
Treasury shares		(41,101)	(53,652)	(60,652)
Other components of equity		15,947	(2,042)	(5,737)
Total equity attributable to owners of parent		349,714	352,098	348,274
Non-controlling interests		63,604	62,289	62,059
Total equity		413,317	414,387	410,334
Total liabilities and equity		656,200	668,592	650,009

(2) Condensed consolidated statement of income

(Millions of Yen)

	Notes	1Q of Fiscal Year Ended December 31, 2016 (January 1, 2016 - March 31, 2016)	1Q of Fiscal Year Ending December 31, 2017 (January 1, 2017 - March 31, 2017)
Net sales	6	145,971	146,259
Cost of sales		(94,317)	(90,575)
Gross profit		51,654	55,685
Selling, general and administrative expenses	7	(36,438)	(36,892)
Other income		359	260
Other expenses		(359)	(585)
Financial income		5,270	1,190
Financial costs		(6,526)	(1,666)
Profit before tax		13,960	17,993
Income tax expenses		(3,709)	(5,052)
Profit for the period		10,251	12,941
Profit attributable to			
Owners of parent		9,772	11,589
Non-controlling interests		479	1,352
Profit for the period		10,251	12,941
Earnings per share attributable to owners of parent			
Basic earnings per share		16.40	19.64
Diluted earnings per share		15.90	19.04

Reconciliation of changes from gross profit to core operating income

(Unit: million yen)

Gross profit	51,654	55,685
Selling, general and administrative expenses	(36,438)	(36,892)
Core operating income (*)	15,216	18,793

* Core operating income refers to gross profit less selling, general and administrative expenses. Although it is not defined in IFRS, the Company's Board of Directors assesses the performance of business segments based on core operating income, and this provides useful information as an indicator measuring the Company's recurring business performance. Accordingly, the Company voluntarily discloses this in the Condensed Consolidated Statement of Income and Note "6. Segment information."

(3) Condensed consolidated statement of comprehensive income

(Millions of Yen)

	Notes	1Q of Fiscal Year Ended December 31, 2016 (January 1, 2016 - March 31, 2016)	1Q of Fiscal Year Ending December 31, 2017 (January 1, 2017 - March 31, 2017)
Profit for the period		10,251	12,941
Other comprehensive income, net of tax			
Items that will not be reclassified to profit or loss			
Remeasurements related to net defined benefit liabilities (assets)		(121)	14
Subtotal		(121)	14
Items that may be reclassified to profit or loss			
Changes in fair value of available-for-sale financial assets		(3,765)	1,233
Changes in fair value of cash flow hedges		(79)	(10)
Exchange differences on translation in foreign operations		(15,504)	(6,195)
Subtotal		(19,349)	(4,972)
Total other comprehensive income, net of tax		(19,470)	(4,958)
Total comprehensive income		(9,219)	7,983
Total comprehensive income attributable to			
Owners of parent		(6,521)	7,762
Non-controlling interests		(2,698)	221
Total comprehensive income		(9,219)	7,983

(4) Condensed consolidated statement of changes in equity

First quarter of the fiscal year ended December 31, 2016 (January 1, 2016 to Mach 31, 2016)

(Millions of yen)

	Notes	Equity attributable to owners of parent						Non-controlling interests	Total equity
		Capital stock	Share premium	Retained earnings	Treasury shares	Other components of equity	Total		
Balance at January 1, 2016		15,993	–	358,875	(41,101)	15,947	349,714	63,604	413,317
Profit for the period		–	–	9,772	–	–	9,772	479	10,251
Other comprehensive income		–	–	–	–	(16,293)	(16,293)	(3,177)	(19,470)
Total comprehensive income		–	–	9,772	–	(16,293)	(6,521)	(2,698)	(9,219)
Disposal of treasury shares		–	(24)	–	107	(11)	72	–	72
Dividends		–	–	(4,408)	–	–	(4,408)	–	(4,408)
Share-based payments		–	–	–	–	145	145	–	145
Transfer from other components of equity to retained earnings		–	–	(121)	–	121	–	–	–
Transfer from retained earnings to share premium		–	24	(24)	–	–	–	–	–
Total transactions with owners		–	–	(4,554)	107	256	(4,191)	–	(4,191)
Balance at March 31, 2016		15,993	–	364,094	(40,994)	(90)	339,002	60,906	399,907

First quarter of the fiscal year ending December 31, 2017 (January 1, 2017 to Mach 31, 2017)

(Millions of yen)

	Notes	Equity attributable to owners of parent						Non-controlling interests	Total equity
		Capital stock	Share premium	Retained earnings	Treasury shares	Other components of equity	Total		
Balance at January 1, 2017		15,993	–	391,800	(53,652)	(2,042)	352,098	62,289	414,387
Profit for the period		–	–	11,589	–	–	11,589	1,352	12,941
Other comprehensive income		–	–	–	–	(3,826)	(3,826)	(1,131)	(4,958)
Total comprehensive income		–	–	11,589	–	(3,826)	7,762	221	7,983
Purchase of treasury shares		–	–	–	(7,000)	–	(7,000)	–	(7,000)
Dividends		–	–	(4,727)	–	–	(4,727)	(450)	(5,177)
Share-based payments		–	–	–	–	141	141	–	141
Transfer from other components of equity to retained earnings		–	–	9	–	(9)	–	–	–
Total transactions with owners		–	–	(4,718)	(7,000)	132	(11,586)	(450)	(12,037)
Balance at March 31, 2017		15,993	–	398,671	(60,652)	(5,737)	348,274	62,059	410,334

(5) Notes to the condensed consolidated financial statements

1. Notes regarding the Company's position as going concern
None.

2. Reporting entity
The Group is engaged in the manufacture and sale of baby care, feminine care and other products of personal care business, and pet care products, which are its mainstay business lines, with core operations in the Asian markets. The Group is strengthening its global production facilities in response to growing demand for feminine napkins and disposable diapers for babies in emerging regions, notably in Asia, the Middle East, North Africa, and Latin America.

The Company is headquartered in Japan and is listed on the Tokyo Stock Exchange. The registered location of its head office is Shikokuchuo-City in Ehime Prefecture.

3. Basis of preparation

(1) Compliance with the International Financial Reporting Standards
The Group's condensed consolidated financial statements meet all of the requirements for a "Specified Company under Designated International Accounting Standards" as stipulated in Article 1-2 of the "Ordinance on Terminology, Forms, and Preparation Methods of Quarterly Financial Statements" (Cabinet Office Ordinance No. 64 of 2007, hereafter "Ordinance on Quarterly Consolidated Financial Statements"). Hence, they are prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" under the provisions of Article 93 of the "Ordinance on Quarterly Financial Statements."

The Group has adopted the IFRS starting with the first quarter ended March 31, 2017 of the fiscal year under review (January 1, 2017 to December 31, 2017). The full year consolidated financial statements for the period ending December 31, 2017, will therefore be the Group's first consolidated financial statements prepared in compliance with the IFRS. The date of transition to IFRS was January 1, 2016, and the Group has adopted IFRS 1 "First-time Adoption of International Financial Reporting Standards" (hereafter, "IFRS 1"). The effects of the transition from Japanese accounting standards to IFRS are explained in Note 8 "First-time adoption."

The Group's condensed consolidated financial statements were approved at the Board of Directors meeting held on May 12, 2017.

(2) Basis of measurement
The Group's condensed consolidated financial statements are prepared using the historical cost basis except for financial instruments and other items that are to be measured at their fair values, as noted in Note 4 "Significant Accounting Policies."

(3) Functional currency and presentation currency
Items in the financial statements of each of the Group companies are measured using the currency of the primary economic environment where the companies operate (hereafter, "functional currency"). The Group's condensed consolidated financial statements are presented in Japanese yen, which is the Company's functional currency. Amounts of less than one million yen are rounded to the nearest million yen.

4. Significant accounting policies
Significant accounting policies applied to the condensed consolidated financial statements are as follows. Unless otherwise noted, the policies are applied continuously for the entire period indicated.

(1) Basis of Consolidation

(i) Subsidiaries
Subsidiaries are entities over which the Group has control.
The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to influence those returns through its power over the entity. Decisions as to whether or not the Group has power are based on a consideration of various elements, including the existence of potential voting rights that are actually exercisable at the present point in time. Financial statements of the subsidiaries are consolidated into the Group's consolidated financial statements from the date of acquisition of control to the date of loss of control. Adjustments

to the financial statements of subsidiaries are made as necessary to bring them into conformity with the Group's accounting policies.

Changes in the ownership interests in a subsidiary are accounted for as equity transactions if control over the subsidiary is maintained, and any difference between the amount by which non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity attributed to owners of the parent.

All intra-group transactions, balances and unrealized gains are eliminated in consolidation.

(ii) Associates

An associate is an entity over which the Group has significant influence on decisions related to operational and financial policies, but does not have control. Significant influence is presumed to exist when the Group has at least 20% but no more than 50% of the voting rights of the entity concerned.

Investments in associates are initially recognized at cost on acquisition and are subsequently accounted for using the equity method from the date the Company obtains significant influence to the date such influence is lost.

(2) Business combinations

The Group applies the acquisition method for business combinations. The consideration transferred in a business combination includes the fair value of the assets transferred by the Company to former owners of the acquiree, the liabilities incurred, the equity interests issued by the Company and the liabilities resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. The identifiable assets acquired and the liabilities assumed as a result of the business combination are measured at their fair value on the acquisition date. The amount of non-controlling interest in the acquiree is recognized either at fair value or based on the proportionate share of the non-controlling interest in the identifiable net asset amounts for each business combination transaction.

(3) Foreign currency translation

(i) Transactions denominated in foreign currencies

Transactions denominated in foreign currencies are translated into the functional currency of the Group using the exchange rate as of the date of the transaction, or in cases in which items in the financial statements are to be remeasured, the exchange rate at the date of such evaluation. Exchange differences arising from the settlement of these transactions, exchange differences arising from translation of monetary assets and liabilities denominated in foreign currencies at the rates prevailing at the end of each reporting period, and exchange differences arising from translation into functional currency of non-monetary assets and liabilities carried at fair value at the rates prevailing on the date when the fair value was measured, are largely recognized in profit or loss.

(ii) Foreign operations

Assets and liabilities of foreign operations are translated into Japanese yen at the closing rate at the end of the reporting period. Revenues and expenses are translated into Japanese yen using the average rate for the reporting period unless there are significant changes in the exchange rate. Resulting exchange differences are recognized in other comprehensive income.

(4) Financial instruments

(i) Non-derivative financial assets

The Group classifies financial assets that it holds as loans and receivables, held-to-maturity investments, and available-for-sale financial assets. This classification is based on the purpose of acquiring the respective financial assets and is determined at initial recognition.

The Group recognizes financial assets on the trade date that the Group becomes a party to the contract relating to the relevant financial assets. In the initial recognition, the sum of financial assets as measured at fair value and transaction costs attributable to the acquisition of the financial assets is recorded.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment loss. Amortization based on the effective interest method is recognized in profit or loss as financial income.

(b) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates, and which the Group has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method, less any impairment loss. Amortization based on the effective interest method is recognized in profit or loss as financial income.

(c) Available-for-sale financial assets

Available-for-sale financial assets are financial assets that are designated as available-for-sale assets or not classified in any of the other categories. Subsequent to initial recognition, available-for-sale financial assets are measured at fair value, and gains or losses arising from changes in fair value are recognized in other comprehensive income. When there is objective evidence of impairment on available-for-sale financial assets, previously recognized accumulated other comprehensive income is transferred to profit or loss. Foreign exchange gains and losses arising from monetary financial assets classified as available-for-sale financial assets, interest income and dividend income relating to available-for-sale financial assets based on the effective interest method, are both recognized in profit or loss. When available-for-sale financial assets are derecognized, accumulated other comprehensive income is transferred to profit or loss.

(d) Derecognition of financial assets

The Group derecognizes financial assets when the contractual rights to the cash flows from the financial assets expire, or when the contractual rights to receive the cash flows from the financial assets are assigned and substantially all the risks and rewards of ownership of the financial assets are transferred.

(e) Impairment of financial assets

The Group assesses financial assets individually and collectively for any objective evidence of impairment at the end of each reporting period. Impairment loss is recognized when, as a result of one or more events (hereafter “loss event(s)”) that occurred subsequent to initial recognition of the financial assets individually or collectively, there is objective evidence of impairment and the negative effect on estimated future cash flows from the relevant financial asset individually or collectively can be reasonably anticipated. The Group assesses the following conditions in judging whether or not objective evidence of impairment loss exists:

- Significant financial difficulty of the issuer or the borrower;
- Breach of contract, such as a default or delinquency in interest or principal payments;
- Increased possibilities of the issuer becoming insolvent or otherwise subject to financial reorganization;
- Disappearance of an active market for the financial assets due to financial difficulty.

With respect to loans and receivables and held-to-maturity investments that are measured at amortized cost, impairment loss amount is the difference between the relevant asset’s carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the relevant financial asset is reduced and the impairment loss is recognized in profit or loss.

If, in the subsequent period, impairment loss decreases and such decrease can be objectively attributed to an event that occurred after recognition of the impairment, the previously recognized impairment loss is reversed in profit or loss to the extent of the amortized cost had the impairment loss not been recognized in the carrying amount of the financial asset.

With respect to equity instruments classified as available-for-sale financial assets, a significant or prolonged decline in the fair value below the acquisition cost is an indication of impairment of the relevant financial assets. If such evidence exists, the previously recognized accumulated other comprehensive income is transferred to profit or loss. For equity instruments, impairment loss recognized as profit or loss will not be reversed.

(ii) Non-derivative financial liabilities

Non-derivative financial liabilities that the Group holds include interest-bearing debt and trade and other payables, which are initially recognized on the transaction date on which the Group becomes a party to the contract. These financial liabilities are initially recognized at fair value, net of direct transaction costs, and subsequent to initial recognition, are measured at amortized cost using the effective interest method.

The Group derecognizes financial liabilities when the obligation is satisfied, or when the obligation specified in the contract is discharged, canceled or expires.

(iii) Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount is presented in the consolidated statement of financial position when the Group has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

(iv) Derivatives and hedge accounting

(a) Derivatives

The Group utilizes primarily foreign currency forward contracts for hedging foreign exchange fluctuation risk. Derivatives are initially recognized at fair value on the date the derivative contracts are entered into and are subsequently measured at their fair values at the end of each reporting period. Changes in the fair value of a derivative are recognized in profit or loss immediately unless the derivative is designated or effective as a hedging instrument.

(b) Hedge accounting

The Group designates certain derivative transactions as hedging instruments and accounts for them as cash flow hedges.

At the inception of the hedge, the Group documents the hedge relationship qualifying for hedge accounting, as well as its risk management objectives and its strategy for undertaking hedge transactions. Additionally, at the inception of the hedge and on an ongoing basis, the Group evaluates whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the relevant hedged item during the underlying period.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income and accumulated in other components of equity. The amounts related to hedging instruments that are recognized in other components of equity are reclassified to profit or loss in the same period that the hedged items affect profit or loss.

When the hedged forecasted transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the associated gains or losses previously recognized in accumulated other comprehensive income are reclassified and included in measuring the cost of the non-financial asset or the non-financial liability at initial recognition.

The application of hedge accounting is discontinued in cases where the Group cancels designation as hedging instrument, in cases where the hedging instrument expires, is sold, terminated or exercised, or in cases where the hedge ceases to meet the hedge effectiveness requirement. When hedge accounting is discontinued, any gains or losses recognized in accumulated other comprehensive income remain in equity and are reclassified to profit or loss when the forecasted transaction is ultimately recognized in profit or loss. When a forecasted transaction is no longer expected to occur, the amount related to hedging instrument recognized in other components of equity is immediately recognized in profit or loss.

(v) Compound financial instruments

Compound financial instruments that the Group issues are convertible bond-type bonds with stock acquisition rights, which is a type of bond that may be converted into shareholders' equity at the option of the bondholders. The number of shares to be issued will not change even if the fair value of the relevant bonds changes.

The liability component of the compound financial instrument is initially posted at the fair value of similar liabilities without equity conversion options. The equity component is initially recognized as the total fair value of the instrument less the fair value of the liability component. Costs directly related to bond issuance are prorated according to the ratio of the initial carrying amounts of liability and equity components.

Subsequent to initial recognition, the liability component of the instrument is measured at amortized cost using the effective interest method. The equity portion of the instrument is not remeasured subsequent to initial recognition, except on conversion or due date.

(5) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, demand deposits and other highly liquid short-term investments with original maturities of three months or less.

(6) Inventories

Inventories are stated at the lower of cost or net realizable value. Costs are calculated by the gross average method for merchandise, finished goods, work in process and supplies, and by the moving-average method for raw materials. The cost of finished goods and work in process is comprised of costs of raw materials, direct labor and other direct costs and related manufacturing overhead (based on normal capacity of production facilities). Net realizable value is the estimated selling price in the ordinary course of business less related estimated selling expenses.

(7) Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses. Cost includes costs directly attributable to the acquisition of qualifying assets and borrowing costs directly attributable to acquisition, construction and production of qualifying assets.

Expenses subsequent to acquisition is included in the carrying value of the relevant asset or is separately recognized as an asset where appropriate, if it is highly probable that associated future economic benefits will flow into the Group and if such expenditure can be estimated reliably. The carrying amount of the replaced item is derecognized.

Except for land and other assets that are not depreciated, depreciation is calculated using the straight-line method, with the depreciable amount, which is the cost less its residual value, allocated over the asset’s useful life as given below.

Buildings and structures	2 – 53 years
Machinery, equipment and vehicles	2 – 20 years

The depreciation method, the residual value and the useful life of an asset are reviewed at the end of each fiscal year and revised as necessary.

(8) Goodwill and intangible assets

(i) Goodwill

Goodwill is the excess of the cost of acquisition over the fair value, on the acquisition date, of the Group’s share of the identifiable net assets of the acquiree. Goodwill arising from acquisition of subsidiaries is included in intangible assets and is recorded at cost less accumulated impairment losses. Goodwill is not amortized and is allocated to each cash-generating unit that is identified based on the region or category of operation.

(ii) Intangible assets

Intangible assets acquired separately are measured at cost at initial recognition.

Development expenditure directly related to designing and testing of identifiable original software products managed by the Group is recognized as an intangible asset if, and only if, it can be reliably measured, it is technically and commercially feasible to complete the product or the process, it is highly probable that future economic benefits will be generated, and the Group has the intention and adequate resources to complete the development and to use or sell the asset.

Intangible assets acquired in a business combination and recognized separately from goodwill at initial recognition are measured at fair value on the acquisition date.

Major intangible assets with finite useful lives are amortized using the straight-line method over the estimated useful lives as given below.

Software	5 years
Trademarks (with finite useful lives)	10 – 30 years

Amortization methods, residual values and useful lives are reviewed at the end of each fiscal year and amended where necessary.

(9) Leases

Leases are classified as finance leases whenever all the risks and rewards of the ownership are substantially transferred to the Group, as per the terms of the lease contract. In finance leases, leased assets are recognized as the lower of the fair value of leased assets at inception or the present value of the total minimum lease payments. Recognized leased assets are depreciated over the shorter of the lease term or their useful lives and the costs are recognized in profit or loss.

All other leases are classified as operating leases, and lease payments are recognized in profit or loss over the relevant lease term on a straight-line basis.

(10) Impairment of non-financial assets

An impairment assessment is performed for property, plant and equipment and intangible assets when there are any events or changes in circumstances indicating that the carrying amount may not be recoverable. If the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized. The recoverable amount is the higher of the fair value less costs to sell or value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects the time value of money and the risks specific to the asset. In performing impairment assessment, the assets are grouped together into the smallest identifiable group of assets that can generate cash flows (cash-generating unit).

Goodwill, intangible assets with indefinite useful lives and intangible assets that are not yet available for use are not amortized, but are tested for impairment annually or whenever there is an indication of impairment by estimating the recoverable amount of the asset and comparing it to the carrying amount.

For non-financial assets other than goodwill for which an impairment loss was recognized in prior years, a re-assessment is performed at the end of each reporting period for any possibility that the impairment loss may be reversed.

Any impairment loss for goodwill is recognized in profit or loss and is not reversed in subsequent periods.

(11) Employee benefits

(i) Short-term employee benefits

Short-term employee benefits are recognized as an expense when the employees render the related service. For bonus payments and cost of compensated absences, a liability is recognized for the amount expected to be paid under the relevant benefit plan if the Group has legal or constructive obligations to make the payments as a result of past service rendered by the employees, and if the obligations can be estimated reliably.

(ii) Retirement benefits

The Group has adopted the defined contribution plans and the defined benefit plans for its current and retired employees.

Defined contribution plans are retirement benefit plans under which an employer pays fixed contributions into an independent entity and will have no legal or constructive obligations to pay further contributions. For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans. As long as the contributions are paid, the Group will not be subject to any additional obligations. Contributions are recognized as employee benefit expenses during the period in which the employees render the related service.

Defined benefit plans are retirement benefit plans other than defined contribution plans. The liability recognized in respect of the defined benefit plans is the present value of the defined benefit obligation less the fair value of plan assets at the end of each reporting period. The defined benefit obligation is calculated each year using independent actuaries and the projected unit credit method. The discount rate used in the calculation is determined by reference to market yields of high quality corporate bonds at the end of each reporting period consistent with the discount period. The discount period is determined based on the estimated term of the retirement benefit obligations through the estimated dates of future benefit payments.

Of retirement benefit costs, the service cost and net interest on the net defined benefit liabilities (assets) are recognized in profit or loss. Remeasurements, which include actuarial gains and losses in experience adjustments as well as actuarial gains and losses due to changes in actuarial assumptions, are recognized in other comprehensive income for the period of occurrence and are transferred to retained earnings immediately from other components of equity. Past service cost is recognized in net profit or loss at the earlier of the date when a plan amendment or curtailment occurs and when the Group recognizes any termination benefits or related restructuring costs.

(12) Share-based payments

The Group operates an equity-settled share-based compensation scheme. Under this scheme, the Group receives services from its directors and employees in return for the Group's equity instruments (share options). Options are estimated at the fair value as of the grant date, and are recognized as expenses over the vesting period. The fair value of stock options is calculated using the Black-Scholes model.

(13) Equity

Ordinary shares are classified as equity.

Costs directly attributable to the issuance of new shares (ordinary shares) or stock options, net of tax consequences, are recognized as a deduction from equity.

In case of purchasing treasury shares, the consideration paid, including any directly attributable transaction costs (net of tax), is deducted from equity until disposal or cancellation of the shares. The difference between the carrying amount and the consideration on sale is recognized as share premium.

(14) Revenue recognition

The Group measures revenues at the fair value of consideration received or receivable less trade discounts, rebates and value-added tax and other taxes.

Revenues from the sale of products are recognized, normally at the time of product delivery, when significant risks and rewards of ownership of the goods have been transferred to the customer, neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold is retained, it is probable that the economic benefits associated with the transaction will flow to the Group, and such economic benefits along with associated costs can be measured reliably.

(15) Income tax

Income tax expenses comprise current tax expense and deferred tax expense. These are recognized in consolidated statements of income except for those related to business combinations, items recognized in other comprehensive income or directly in equity.

Current income tax expenses are measured at the amount expected to be paid to or recovered from the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of each reporting period in the country in which the Company and its subsidiaries operate and in which taxable income is generated.

Temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and their tax bases, based on the asset liability approach, and tax loss and tax credit carry-forwards, are recognized as deferred tax assets and liabilities.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period. A deferred tax asset is recognized if, and only if, it is considered probable that there will be sufficient future taxable profit. However, deferred tax assets and liabilities are not recognized in the following circumstances.

- Temporary difference arising from the initial recognition of an asset or liability in a transaction other than a business combination which, at the time of the transaction, affects neither the accounting profit and loss nor the taxable profit (loss);
- Taxable temporary difference arising from the initial recognition of goodwill;
- Taxable temporary difference associated with investments in subsidiaries and associates in which the Group is able to control the timing of the reversal of the temporary difference and it is probable that the reversal will not occur in the foreseeable future;

- Taxable temporary difference associated with investments in subsidiaries and associates with respect to which it is improbable that there will be sufficient future taxable profit against which the temporary difference will be utilized or it is improbable that the temporary difference will reverse in the foreseeable future

Deferred tax assets and liabilities are offset if the Group has a legally enforceable right to offset current tax assets against current tax liabilities, and that the same taxation authority levies income tax either on the same taxable entity, or on different taxable entities that intend to settle current tax assets and liabilities on a net basis.

Quarterly income tax is calculated based on the estimated annual average effective tax rate.

(16) Earnings per share

Basic earnings per share are calculated by dividing income attributable to owners of parent by the weighted-average number of ordinary shares outstanding for the period, after adjusting for treasury shares. Diluted quarterly earnings per share are calculated by adjusting for the impact of all dilutive potential ordinary shares.

5. Significant accounting estimates and judgments

In preparing the Group’s condensed consolidated financial statements, the management makes judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. However, actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Impacts of the revisions to accounting estimates are recognized in the period in which the estimate is revised and the future periods affected by such revisions.

Estimates and judgments made by the management as having a significant effect on the amounts reported in the Group’s condensed consolidated financial statements are as follows:

(1) Impairment of non-financial assets

The Group performs an impairment assessment of non-financial assets where there are indications of impairment.

The impairment assessment is performed by comparing the carrying amount of an asset with its recoverable amount. If the recoverable amount is less than the carrying amount, an impairment loss is recognized.

In the calculation of the recoverable amount, estimates are conducted on future cash flows to be generated from use of the asset and estimated future cash flows from final disposal, discounted to the present value. While these estimates are made using the management’s best judgment, they may differ from actual results due to changes in economic conditions given future uncertainties.

(2) Income tax

The Group is engaged in business operations in many countries around the world. Amounts that are estimated to be paid to the respective country’s tax authorities are assessed reasonably in accordance with the related laws and regulations, and are recorded as income tax payables and income tax expenses.

In the calculation of income tax payables and income tax expenses, estimates and judgments are required on various factors, including interpretation of the provisions of tax statutes by both the entities subject to taxation and the tax authorities, as well as circumstances of past tax examinations.

Consequently, the amounts of income tax payables and income tax expenses that have been recorded may differ from the actual payment amounts.

Also, deferred tax assets are provided within the extent of taxable income likely to be generated against which temporary differences may be used. In the judgment on the possibility of taxable income, the amount of and timing at which such taxable income will be generated is estimated based on the business plans. Whilst these estimates are made using the management’s best judgment, they may differ from actual results due to changes in economic conditions given future uncertainties.

(3) Retirement benefits

The Group operates defined contribution plans and defined benefit plans for its current and retired employees. The present values of defined benefit obligation, service cost and other items are calculated based on various actuarial assumptions. The actuarial assumptions include estimates based on many different factors, such as the discount rate, future payments, future plan leavers, and the average life expectancy of plan participants.

While these estimates are made using the management’s best judgment, they may differ from actual results due to such factors as changes in economic conditions given future uncertainties, and amendments to and publication of related laws and regulations.

6. Segment information

(1) Overview of reportable segments

The Group’s reportable segments are part of its organizational units whose financial information is individually available, and are subject to regular review by its Board of Directors for the purpose of deciding the allocation of its managerial resources and evaluating its business performance.

The Group is composed of three businesses, namely the personal care business, the pet care business and other businesses as its basic units, and has been engaged in its business activities by comprehensively developing domestic and overseas strategies by business unit.

Therefore, the “personal care business,” the “pet care business,” and “other businesses” constitute the Group’s reporting segments.

The personal care segment comprises the four core businesses of baby care products, feminine care products, health care products, and clean-and-fresh products, but is reported collectively given the similarities in the nature of the products, manufacturing processes and shipping methods and similarities also of the market characteristics of their respective marketing areas. In the pet care business, the Group manufactures and sells pet food products and pet toiletry products. In other businesses, the Group manufactures and sells business-use products, etc.

The accounting policies for the reportable segments are the same as for the condensed financial statements. The segment profit is the core operating income (comprising total sales net of selling, general and administrative expenses), which is the key performance indictor based on which the Board of Directors evaluates the performance of each business segment.

(2) Sales and results by reportable segment

(Millions of Yen)

	1Q of Fiscal Year Ended December 31, 2016 (January 1, 2016 – March 31, 2016)				Adjustments	Amounts reported in condensed consolidated statements
	Personal care	Pet care	Other	Total		
Sales to external customers	127,200	17,346	1,425	145,971	–	145,971
Sales across segments (Note)	–	–	9	9	(9)	–
Total segment sales	127,200	17,346	1,435	145,980	(9)	145,971
Segment profit (Core operating income)	14,163	985	67	15,216	–	15,216
Other income						359
Other expenses						(359)
Financial income						5,270
Financial costs						(6,526)
Profit before tax						13,960

(Millions of Yen)

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

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

7. Selling, general and administrative expenses

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

(Millions of Yen)

	1Q of Fiscal Year Ended December 31, 2016 (January 1, 2016 – March 31, 2016)	1Q of Fiscal Year Ending December 31, 2017 (January 1, 2017 – March 31, 2017)
Freight-out expenses	9,021	9,229
Promotion expenses	5,057	4,540
Advertising expenses	5,462	4,990
Employee benefits expense	7,898	8,404
Depreciation and amortization expense	1,209	1,231
Research and development expense	1,460	1,656
Others	6,332	6,841
Total	36,438	36,892

8. First-time adoption

These condensed consolidated financial statements are the Group's first set of condensed financial statements prepared in conformity with International Financial Reporting Standards. The most recent consolidated financial statements prepared in accordance with accounting standards generally accepted in Japan (hereafter "JGAAP") are for the fiscal year ended December 31, 2016. The date of transition to IFRS is January 1, 2016.

Accounting policies described in Note 4 "Significant Accounting Policies" are applied in preparing the condensed consolidated financial statements for the first quarter of the fiscal year ending December 31, 2017, the first quarter of the fiscal year ended December 31, 2016, the consolidated financial statements for the fiscal year ended December 31, 2016, and the consolidated statement of financial position on the date of transition to IFRS.

(1) Exemptions under IFRS 1

IFRS 1 requires that, in principle, an entity adopting IFRS for the first time must apply the procedures required by IFRS retrospectively. However, IFRS 1 also provides that first-time adopters may apply optional exemptions to certain procedures required by IFRS. Stated below are the exemptions under IFRS 1 that the Group has elected to apply in the transition from JGAAP.

(i) Business combinations

IFRS 1 allows IFRS 3 "Business Combinations" (hereafter "IFRS 3") provisions to be applied to previous business combinations from a certain date prior to the transition to IFRS to all later combinations. The Group has elected to apply IFRS 3 retrospectively to business combinations that occurred on or after September 1, 2010. IFRS 3 therefore is not applied to business combinations that occurred on or before August 31, 2010.

(ii) Cumulative exchange differences on translation in foreign operations

IFRS 1 allows cumulative exchange differences on translation in foreign operations to be reset to zero as of the date of transition to IFRS. The Group has elected to reset the cumulative exchange differences on translation in foreign operations to zero as of the date of transition to IFRS.

(iii) Leases

IFRS 1 allows first-time adopters to determine whether an arrangement contains a lease as of the date of transition to IFRS. The Group has elected to determine whether an arrangement contains a lease based on the facts and conditions that exist on the transition date.

(iv) Deemed cost

IFRS 1 allows first-time adopters to use the fair value of property, plant and equipment at the date of transition to IFRS as a deemed cost. The Group uses the fair value at the date of transition to IFRS as the deemed cost for certain items of property, plant and equipment.

(2) Reconciliation from JGAAP to IFRS

In preparing the consolidated financial statements in conformity with IFRS, the Group has made the necessary adjustments to amounts previously reported in its consolidated financial statements prepared in accordance with JGAAP. The effect of the transition from JGAAP to IFRS is presented in the following reconciliation charts.

(i) Reconciliation of equity as of the date of transition to IFRS (January 1, 2016)

(Millions of Yen)

J-GAAP	J-GAAP	1) Reclassifi-cations	2) Adjustments of recognition and measurement	IFRS	Notes	IFRS
Assets						Assets
Current assets						Current assets
Cash and deposits	138,503	(36,537)	–	101,966		Cash and cash equivalents
Notes and accounts receivable – trade	95,476	3,100	–	98,576		Trade and other receivables
Merchandise and finished goods	30,169	(30,169)	–	–		
Raw materials and supplies	32,499	(32,499)	–	–		
Work in process	1,360	(1,360)	–	–		
	–	64,029	–	64,029		Inventories
Deferred tax assets	17,024	(17,024)	–	–		
	–	36,589	–	36,589		Other current financial assets
Other	16,809	(3,300)	–	13,509		Other current assets
Allowance for doubtful accounts	(148)	148	–	–		
Total current assets	331,693	(17,024)	–	314,669		Total current assets
Non-current assets						Non-current assets
Property, plant and equipment	247,808	(5,670)	(2,446)	239,692	G	Property, plant and equipment
Intangible assets	89,828	–	(38,094)	51,734	A, J	Intangible assets
Investment securities	23,611	(23,611)	–	–		
Deferred tax assets	2,195	17,024	(6,153)	13,067	E	Deferred tax assets
Net defined benefit asset	2,160	(2,160)	–	–		
	–	204	–	204		Investments accounted for using equity method
	–	25,254	361	25,615	C	Other non-current financial assets
Other	5,393	5,893	(68)	11,218		Other non-current assets
Allowance for doubtful accounts	(91)	91	–	–		
Total non-current assets	370,907	17,024	(46,401)	341,531		Total non-current assets
Total assets	702,601	–	(46,401)	656,200		Total assets

(Millions of Yen)

J-GAAP	J-GAAP	1) Reclassifi-cations	2) Adjustments of recognition and measurement	IFRS	Notes	IFRS
Liabilities and net assets						Liabilities and equity
Current liabilities						Current liabilities
Notes and accounts payable – trade	93,799	37,937	–	131,737		Trade and other payables
Short-term loans payable	3,846	–	–	3,847		Bonds and borrowings
Accounts payable – other	40,683	(40,683)	–	–		
Income taxes payable	7,667	–	–	7,668		Income tax payables
Provision for bonuses	5,514	(5,514)	–	–		
	–	174	–	174		Other current financial liabilities
Other	17,117	7,944	1,138	26,199	B	Other current liabilities
Total current liabilities	168,630	(144)	1,138	169,624		Total current liabilities
Non-current liabilities						Non-current liabilities
Convertible bond-type bonds with subscription rights to shares	54,421	(54,421)	–	–		
Long-term loans payable	10,757	54,421	(5,557)	59,623	I	Bonds and borrowings
Deferred tax liabilities	8,160	144	(5,214)	3,091	E	Deferred tax liabilities
Net defined benefit liability	5,295	–	–	5,296		Retirement benefit liabilities
	–	2,349	–	2,349		Other non-current financial liabilities
Other	4,243	(2,349)	1,006	2,900	B	Other non-current liabilities
Total non-current liabilities	82,878	144	(9,764)	73,258		Total non-current liabilities
Total liabilities	251,509	–	(8,627)	242,883		Total liabilities
Shareholders' equity						Equity attributable to owners of parent
Capital stock	15,992	–	–	15,993		Capital stock
Capital surplus	6,858	49,074	(55,933)	–	A	Share premium
Retained earnings	366,777	(49,074)	41,173	358,875	J	Retained earnings
Treasury shares	(41,101)	–	–	(41,101)		Treasury shares
Valuation difference on available-for-sale securities	11,164	(11,164)	–	–		
Deferred gains or losses on hedges	(6)	6	–	–		
Revaluation reserve for land	(157)	157	–	–		
Foreign currency translation adjustment	33,804	(33,804)	–	–		
Remeasurements of defined benefit plans	(6,136)	6,136	–	–		
Subscription rights to shares	276	(276)	–	–		
	–	38,945	(22,998)	15,947	C, D F, I	Other components of equity

(Millions of Yen)

J-GAAP	J-GAAP	1) Reclassifi-cations	2) Adjustments of recognition and measurement	IFRS	Notes	IFRS
	387,472	–	(37,759)	349,714		Total equity attributable to owners of parent
Non-controlling interests	63,619	–	(16)	63,604		Non-controlling interests
Total net assets	451,091	–	(37,775)	413,317		Total equity
Total liabilities and net assets	702,601	–	(46,401)	656,200		Total liabilities and equity

(ii) Reconciliation of equity as of the end of the first quarter of the fiscal year ended December 31, 2016 (March 31, 2016)

(Millions of Yen)

J-GAAP	J-GAAP	1) Reclassifi-cations	2) Adjustments of recognition and measurement	IFRS	Notes	IFRS
Assets						Assets
Current assets						Current assets
Cash and deposits	140,473	(38,129)	–	102,344		Cash and cash equivalents
Notes and accounts receivable – trade	83,019	1,878	–	84,898		Trade and other receivables
Merchandise and finished goods	30,494	(30,494)	–	–		
Raw materials and supplies	27,959	(27,959)	–	–		
Work in process	1,240	(1,240)	–	–		
	–	59,695	–	59,695		Inventories
	–	39,606	–	39,606		Other current financial assets
Other	34,354	(19,448)	–	14,907		Other current assets
Allowance for doubtful accounts	(141)	141	–	–		
Total current assets	317,400	(15,951)	–	301,449		Total current assets
Non-current assets						Non-current assets
Property, plant and equipment	241,324	(5,363)	(2,446)	233,515	G	Property, plant and equipment
Intangible assets	85,854	–	(37,337)	48,518	A, J	Intangible assets
Investment securities	17,734	(17,734)	–	–		
Deferred tax assets	2,275	15,951	(4,521)	13,705	E	Deferred tax assets
Net defined benefit asset	2,501	(2,501)	–	–		
	–	211	–	211		Investments accounted for using equity method
	–	19,276	368	19,645	C	Other non-current financial assets
Other	5,099	6,019	(200)	10,919		Other non-current assets
Allowance for doubtful accounts	(91)	91	–	–		
Total non-current assets	354,697	15,951	(44,136)	326,512		Total non-current assets
Total assets	672,097	–	(44,136)	627,961		Total assets

(Millions of Yen)

J-GAAP	J-GAAP	1) Reclassifi-cations	2) Adjustments of recognition and measurement	IFRS	Notes	IFRS
Liabilities and net assets						Liabilities and equity
Current liabilities						Current liabilities
Notes and accounts payable – trade	82,776	36,429	354	119,559		Trade and other payables
Short-term loans payable	6,432	–	–	6,432		Bonds and borrowings
Income taxes payable	3,233	–	–	3,234		Income tax payables
Provision for bonuses	3,583	(3,583)	–	–		
	–	596	–	596		Other current financial liabilities
Other	57,741	(33,582)	1,138	25,298	B	Other current liabilities
Total current liabilities	153,766	(140)	1,492	155,119		Total current liabilities
Non-current liabilities						Non-current liabilities
Convertible bond-type bonds with subscription rights to shares	54,176	(54,176)	–	–		
Long-term loans payable	10,577	54,176	(5,251)	59,503	I	Bonds and borrowings
Deferred tax liabilities	–	6,800	(4,195)	2,605	E	Deferred tax liabilities
Net defined benefit liability	5,320	–	(3)	5,317		Retirement benefit liabilities
	–	2,372	–	2,372		Other non-current financial liabilities
Other	11,164	(9,032)	1,006	3,139	B	Other non-current liabilities
Total non-current liabilities	81,239	140	(8,444)	72,935		Total non-current liabilities
Total liabilities	235,006	–	(6,952)	228,054		Total liabilities
Shareholders' equity						Equity attributable to owners of parent
Capital stock	15,992	–	–	15,993		Capital stock
Capital surplus	6,834	49,098	(55,933)	–	A	Share premium
Retained earnings	370,886	(49,098)	42,306	364,094	J	Retained earnings
Treasury shares	(40,994)	–	–	(40,994)		Treasury shares
Valuation difference on available-for-sale securities	7,387	(7,387)	–	–		
Deferred gains or losses on hedges	(47)	47	–	–		
Revaluation reserve for land	(157)	157	–	–		
Foreign currency translation adjustment	21,510	(21,510)	–	–		
Remeasurements of defined benefit plans	(5,947)	5,947	–	–		
Subscription rights to shares	309	(309)	–	–		
	–	23,055	(23,145)	(90)	C, D, F, I	Other components of equity
	375,774	–	(36,773)	339,002		Total equity attributable to owners of parent
Non-controlling interests	61,316	–	(411)	60,906		Non-controlling interests
Total net assets	437,091	–	(37,184)	399,907		Total equity
Total liabilities and net assets	672,097	–	(44,136)	627,961		Total liabilities and equity

(iii) Reconciliations of equity as of the end of the fiscal year ended December 31, 2016 (December 31, 2016)

(Millions of Yen)

J-GAAP	J-GAAP	1) Reclassifi-cations	2) Adjustments of recognition and measurement	IFRS	Notes	IFRS
Assets						Assets
Current assets						Current assets
Cash and deposits	175,742	(37,700)	–	138,043		Cash and cash equivalents
Notes and accounts receivable – trade	88,484	2,152	–	90,637		Trade and other receivables
Securities	29	(29)	–	–		
Merchandise and finished goods	30,792	(30,792)	–	–		
Raw materials and supplies	25,881	(25,881)	–	–		
Work in process	728	(728)	–	–		
	–	57,403	–	57,403		Inventories
Deferred tax assets	12,613	(12,613)	–	–		
	–	38,938	–	38,938		Other current financial assets
Other	18,651	(4,036)	–	14,615		Other current assets
Allowance for doubtful accounts	(674)	674	–	–		
Total current assets	352,250	(12,614)	–	339,637		Total current assets
Non-current assets						Non-current assets
Property, plant and equipment	244,325	(5,250)	(2,446)	236,629	G	Property, plant and equipment
Intangible assets	83,082	–	(34,487)	48,595	A, J	Intangible assets
Investment securities	23,675	(23,675)	–	–		
Deferred tax assets	2,843	12,614	(6,502)	8,955	E	Deferred tax assets
Net defined benefit asset	276	(276)	–	–		
	–	705	–	705		Investments accounted for using equity method
	–	24,847	540	25,388	C	Other non-current financial assets
Other	5,178	3,559	(54)	8,684		Other non-current assets
Allowance for doubtful accounts	(90)	90	–	–		
Total non-current assets	359,290	12,614	(42,949)	328,955		Total non-current assets
Total assets	711,541	–	(42,949)	668,592		Total assets

(Millions of Yen)

J-GAAP	J-GAAP	1) Reclassifi-cations	2) Adjustments of recognition and measurement	IFRS	Notes	IFRS
Liabilities and net assets						Liabilities and equity
Current liabilities						Current liabilities
Notes and accounts payable – trade	93,257	35,948	–	129,206		Trade and other payables
Short-term loans payable	6,753	–	–	6,753		Bonds and borrowings
Accounts payable – other	40,573	(40,573)	–	–		
Income taxes payable	9,337	–	–	9,337		Income tax payables
Provision for bonuses	6,090	(6,090)	–	–		
	–	65	–	65		Other current financial liabilities
Other	19,982	10,438	1,179	31,600	B	Other current liabilities
Total current liabilities	175,994	(213)	1,179	176,962		Total current liabilities
Non-current liabilities						Non-current liabilities
Convertible bond-type bonds with subscription rights to shares	53,441	(53,441)	–	–		
Long-term loans payable	12,084	53,441	(4,336)	61,190	I	Bonds and borrowings
Deferred tax liabilities	9,093	213	(6,433)	2,873	E	Deferred tax liabilities
Net defined benefit liability	7,648	–	–	7,649		Retirement benefit liabilities
	–	2,391	–	2,391		Other non-current financial liabilities
Other	3,304	(2,391)	2,227	3,141	B	Other non-current liabilities
Total non-current liabilities	85,572	213	(8,542)	77,243		Total non-current liabilities
Total liabilities	261,567	–	(7,362)	254,205		Total liabilities
Shareholders' equity						Equity attributable to owners of parent
Capital stock	15,992	–	–	15,993		Capital stock
Capital surplus	5,586	50,648	(56,235)	–	A	Share premium
Retained earnings	401,388	(50,648)	41,059	391,800	J	Retained earnings
Treasury shares	(53,652)	–	–	(53,652)		Treasury shares
Valuation difference on available-for-sale securities	7,047	(7,047)	–	–		
Deferred gains or losses on hedges	4	(4)	–	–		
Revaluation reserve for land	(157)	157	–	–		
Foreign currency translation adjustment	19,378	(19,378)	–	–		
Remeasurements of defined benefit plans	(8,286)	8,286	–	–		
Subscription rights to shares	345	(345)	–	–		
	–	18,333	(20,375)	(2,042)	C, D, F, I	Other components of equity
	387,648	–	(35,551)	352,098		Total equity attributable to owners of parent
Non-controlling interests	62,325	–	(36)	62,289		Non-controlling interests
Total net assets	449,974	–	(35,587)	414,387		Total equity
Total liabilities and net assets	711,541	–	(42,949)	668,592		Total liabilities and equity

(iv) Adjustment to comprehensive income for the three-month period of the fiscal year ended December 31, 2016 (January 1, 2016 to March 31, 2016)

(Millions of Yen)

J-GAAP	J-GAAP	1) Reclassifi-cations	2) Adjustments of recognition and measurement	IFRS	Notes	IFRS
Net sales	173,065	–	(27,095)	145,971	H	Net sales
Cost of sales	94,077	3	238	94,317	B, D	Cost of sales
Gross profit	78,988	(3)	(27,332)	51,654		Gross profit
Selling, general and administrative expenses	63,949	165	(27,676)	36,438	A, B, D, H	Selling, general and administrative expenses
	–	359	–	359		Other income
	–	788	(429)	359		Other expenses
	–	5,515	(245)	5,270		Financial income
	–	6,469	57	6,526		Financial costs
Non-operating income	2,203	(2,203)	–	–		
Non-operating expenses	7,295	(7,295)	–	–		
Extraordinary income	3,670	(3,670)	–	–		
Extraordinary losses	129	(129)	–	–		
Profit before income taxes	13,488	–	471	13,960		Profit before tax
Total income taxes	4,129	–	(421)	3,709	E	Income tax expenses
Profit	9,358	–	892	10,251		Profit for the period
						Profit attributable to
Profit attributable to non-controlling interests	841	–	(362)	479		Non-controlling interests
Profit attributable to owners of parent	8,517	–	1,254	9,772		Owners of parent

(Millions of Yen)

J-GAAP	J-GAAP	1) Reclassifi-cations	2) Adjustments of recognition and measurement	IFRS	Notes	IFRS
Profit	9,358	–	892	10,251		Profit for the period
Other comprehensive income						Other comprehensive income, net of tax
Valuation difference on available-for-sale securities	(3,777)	–	12	(3,765)	C	Changes in fair value of available-for-sale financial assets
Deferred gains or losses on hedges	(79)	–	–	(79)		Changes in fair value of cash flow hedges
Foreign currency translation adjustment	(15,405)	–	(98)	(15,504)		Exchange differences on translation in foreign operations
Remeasurements of defined benefit plans, net of tax	195	–	(316)	(121)	D	Remeasurements related to net defined benefit liabilities (assets)
Total other comprehensive income	(19,067)	–	(403)	(19,470)		Total other comprehensive income, net of tax
Comprehensive income	(9,708)	–	490	(9,219)		Total comprehensive income

(v) Adjustment to comprehensive income for the previous fiscal year (January 1, 2016 to December 31, 2016)

(Millions of Yen)

J-GAAP	J-GAAP	1) Reclassifi-cations	2) Adjustments of recognition and measurement	IFRS	Notes	IFRS
Net sales	710,965	–	(106,313)	604,653	H	Net sales
Cost of sales	376,510	2	329	376,842	B, D	Cost of sales
Gross profit	334,455	(2)	(106,642)	227,811		Gross profit
Selling, general and administrative expenses	256,178	676	(108,160)	148,695	A, B, D, H	Selling, general and administrative expenses
	–	1,855	(24)	1,832		Other income
	–	6,011	(1,769)	4,242		Other expenses
	–	9,545	(980)	8,565		Financial income
	–	9,194	242	9,436		Financial costs
Non-operating income	6,176	(6,176)	–	–		
Non-operating expenses	12,605	(12,605)	–	–		
Extraordinary income	5,223	(5,223)	–	–		
Extraordinary losses	3,277	(3,277)	–	–		
Profit before income taxes	73,794	–	2,041	75,835		Profit before tax
Total income taxes	25,092	–	(515)	24,577	E	Income tax expenses
Profit	48,702	–	2,556	51,259		Profit for the year
						Profit attributable to
Profit attributable to non-controlling interests	4,568	–	(281)	4,288		Non-controlling interests
Profit attributable to owners of parent	44,134	–	2,837	46,971		Owners of parent

(Millions of Yen)

J-GAAP	J-GAAP	1) Reclassifi-cations	2) Adjustments of recognition and measurement	IFRS	Notes	IFRS
Profit	48,702	–	2,556	51,259		Profit for the year
Other comprehensive income						Other comprehensive income, net of tax
Valuation difference on available-for-sale securities	(4,116)	–	142	(3,974)	C	Changes in fair value of available-for-sale financial assets
Deferred gains or losses on hedges	24	–	–	25		Changes in fair value of cash flow hedges
Foreign currency translation adjustment	(17,845)	–	(25)	(17,871)		Exchange differences on translation in foreign operations
Remeasurements of defined benefit plans, net of tax	(2,130)	–	(845)	(2,975)	D	Remeasurements related to net defined benefit liabilities (assets)
Total other comprehensive income	(24,068)	–	(727)	(24,795)		Total other comprehensive income, net of tax
Comprehensive income	24,634	–	1,829	26,463		Total comprehensive income

(vi) Notes on reconciliation of equity and comprehensive income

1) Reclassifications

Reclassifications are made to comply with IFRS provisions. The main reclassifications are as follows.

- Under JGAAP, time deposits with maturities over three months were presented as “Cash and deposits.” Under IFRS, they are presented as “Other current financial assets.”
- Under JGAAP, “Allowance for doubtful accounts” was presented as a separate component and accounts receivable-other was included in “Other (current assets).” Under IFRS, they are included in “Trade and other receivables.”
- Under JGAAP, “Merchandise and finished goods,” “Raw materials and supplies,” and “Work in process” were presented as separate components. Under IFRS, they are all presented as “Inventories.”
- Under JGAAP, “Deferred tax assets” and “Deferred tax liabilities” were classified as current items. Under IFRS, they are presented as non-current items.
- Under JGAAP, land was presented as “Property, plant and equipment.” Under IFRS, a portion of land is presented as “Other non-current assets.”
- Under JGAAP, “Accounts payable - other” was presented as a separate component. Under IFRS, this is presented as “Trade and other payables.”
- Under JGAAP, “Convertible bond-type bonds with subscription rights to shares” and “Loans payable” were presented as separate components. Under IFRS, they are presented as “Bonds and borrowings.”
- Under JGAAP, “Provision for bonuses” was presented as a separate component. Under IFRS, this is presented as “Other current liabilities.”
- Under IFRS, “Other financial assets” and “Other financial liabilities” are presented as separate components.
- For items that were presented as “Non-operating income,” “Non-operating expenses,” “Extraordinary income” and “Extraordinary losses” under JGAAP, reclassification under IFRS entails finance related items to be presented as “Financial income” or “Financial costs,” and all other items as “Other income” or “Other expenses.”
- Adjustments to IFRS resulted in a negative balance in share premium, hence the transfer was made from “Retained earnings” to “Share premium.”

2) Adjustments of recognition and measurement

A. Goodwill

Under JGAAP, goodwill was amortized over the periods in which the economic benefits of the goodwill were reasonably expected to be realized. Under IFRS, goodwill is not amortized and impairment assessments are performed periodically.

Under JGAPP, transaction costs related to business combinations that occurred prior to the early adoption, on December 31, 2015, of “Accounting Standards for Business Combinations” (Corporate Accounting Standards No. 21 of September 13, 2013; hereafter “Accounting Standards for Business Combination”) were recorded as assets for any portion for which consideration was recognized.

As the Group elected to apply IFRS 3 retrospectively to business combinations that occurred on or after September 1, 2010, transaction costs directly attributable to such business combinations are expensed as incurred.

With respect to the additional acquisition of equity in subsidiaries, under JGAAP before early adoption of Accounting Standard for Business Combinations, the difference between additional investment and additional equity was recorded as goodwill. Under IFRS, the difference is recorded as share premium.

As a result, goodwill decreased by ¥43,635 million on the date of transfer to IFRS, by ¥42,325 million during the first quarter of the fiscal year ended December 31, 2016, and by ¥38,926 million in the fiscal year ended December 31, 2016. Selling, general and administrative expenses decreased by ¥1,146 million during the first quarter of the fiscal year ended December 31, 2016, and by ¥4,519 million in the fiscal year ended December 31, 2016.

B. Liabilities related to compensated absences etc.

Under JGAAP, unused compensated absences and long-term employee benefits were not recognized. Under IFRS, estimated amounts of liabilities related to these items are recognized as other current liabilities or other non-current liabilities.

As a result, other current liabilities increased by ¥1,138 million at the date of transition to IFRS, by ¥1,138 million during the first quarter of the fiscal year ended December 31, 2016, and by ¥1,179 million in the fiscal year ended December 31, 2016, while other non-current liabilities increased by ¥1,006 million at the date of transition to IFRS, by ¥1,006 million during the first quarter of the fiscal year ended March 31, 2016, and by ¥2,227 million in the fiscal year ended December 31, 2016.

C. Evaluation of unlisted shares

Under JGAAP, unlisted shares were measured based on their historical costs and declare impairment as necessary. Under IFRS, these are measured at their fair values.

D. Defined benefit liabilities

Under JGAAP, actuarial gains and losses were recognized at the time of occurrence in other comprehensive income, amortized by the straight-line method over a period within the average remaining service years of employees and allocated proportionately, and recognized in profit or loss from the fiscal year following the respective fiscal year of occurrence. Under IFRS, these are immediately transferred to retained earnings through other comprehensive income.

Under JGAAP, past service cost was recognized in other comprehensive income when incurred, amortized by the straight-line method over a period within the average remaining service years of employees and allocated proportionately, and recognized in profit or loss from the fiscal year of occurrence. Under IFRS, these are recognized in profit or loss when incurred.

As a result, the cost of sales and selling, general and administrative expenses combined decreased by ¥307 million during the first quarter of the fiscal year ended December 31, 2016, and by ¥1,206 million in the fiscal year ended December 31, 2016.

E. Tax effects

Changes in deferred tax amounts reflecting tax effects show the impact of adjustments made to deferred tax amounts that were required in the transition to IFRS. Under JGAAP, tax effects on elimination of unrealized gains were calculated based on the effective tax rates of selling entities. Under IFRS, these are calculated based on the effective tax rates of acquiring entities. Furthermore, following a review of the recoverability of deferred income tax assets on the basis of IFRS, additional deferred tax assets are recognized.

F. Cumulative exchange differences on translation in foreign operations

By applying the exemptions as a first-time adopter of IFRS as mentioned above, the Group has transferred the total amount of cumulative exchange differences on translation in foreign operations (¥33,723 million) to retained earnings on the date of transition to IFRS.

G. Deemed cost

By applying the exemption as a first-time adopter of IFRS as mentioned above, the Group uses the fair values, as of the date of transition to IFRS, of a portion of property, plant and equipment (land) as deemed costs. The fair values are assessed based on appraisal valuations, etc., performed by third parties and evaluated using a method judged to be appropriate by the management. It is classified as Level 3.

The fair value of property, plant and equipment using deemed cost at the date of transition to IFRS is ¥2,870 million, while the carrying amount under JGAAP was ¥5,449 million.

H. Net sales

Under JGAAP, part of rebates, etc., were presented as selling, general and administrative expenses. Under IFRS, the amount is deducted from net sales.

As a result, net sales decreased by ¥27,095 million during the first quarter of the fiscal year ended December 31, 2016, and by ¥106,313 million in the fiscal year ended December 31, 2016.

I. Convertible bond-type bonds with subscription rights to shares

Under JGAAP, consideration was not separately recognized for corporate bonds and the subscription rights embedded in such bonds, which were recognized as a whole. Under IFRS, they are presented separately as compound financial instruments for the liability component and the equity component. Accordingly, of the amount that was recognized as liabilities under JGAAP, the amount related to the subscription rights is recognized in equity under IFRS. As a result, bonds and borrowings decreased by ¥5,557 million on the date of transfer to IFRS, by ¥5,251 million during the first quarter of the fiscal year ended December 31 2016, and by ¥4,336 million in the fiscal year ended December 31, 2016.

J. Retained earnings

The effect on earnings surplus arising from the transition to IFRS is as follows.

(Millions of Yen)

	Date of transition to IFRS (as of January 1, 2016)	End of the Previous 1Q (as of March 31, 2016)	End of the Previous Fiscal Year (as of December 31, 2016)
Adjustments related to amortization of goodwill (Refer to Note A)	18,854	19,999	23,373
Adjustments related to cumulative exchange differences on translation in foreign operations (Refer to Note F)	33,723	33,723	33,723
Adjustments related to unused compensated absences, etc. (Refer to Note B)	(2,144)	(2,144)	(3,407)
Adjustments related to tax effects on elimination of unrealized gains and losses (Refer to Note E)	(202)	(197)	(241)
Adjustments related to defined benefit liabilities (Refer to Note D)	(6,024)	(5,921)	(7,799)
Adjustments related to deemed cost of property, plant and equipment (Refer to Note G)	(2,578)	(2,578)	(2,578)
Transfer from retained earnings to share premium	(49,074)	(49,098)	(50,648)
Others	(455)	(576)	(2,011)
Total adjustments to retained earnings	(7,902)	(6,793)	(9,589)

The above adjustment items are based on the impact before the consideration of tax effects. The impact of tax effects is included in Others.