Unicharm Corporation

Annual Report 2013

Year Ended March 31, 2013

~ Strategy and Progress ~

Message from the President

We constantly provide the world's No.1 and unprecedented products and services to everybody around the globe, and deliver comfort, impression and satisfaction.

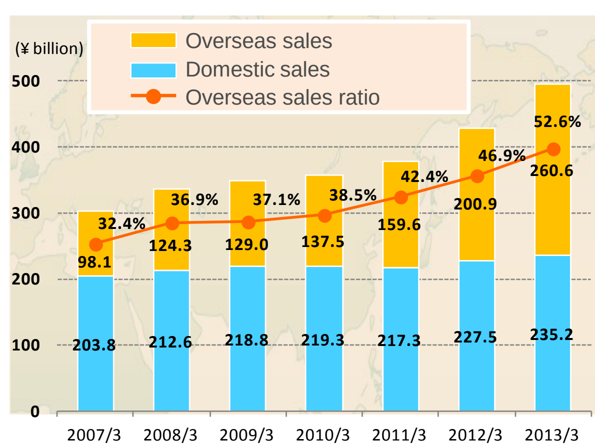
Unicharm posts another year of record sales and operating income

In fiscal 2013, ended March 31, 2013, Unicharm reported net sales of ¥495.7 billion, an increase of ¥67.3 billion from the previous fiscal year, and operating income of ¥59.4 billion, up ¥7.5 billion. We have now delivered record net sales each fiscal year for the last 11 years and record operating income for the last six years. These strong results reflect a steep rise in earnings in Asia, particularly in the Chinese and Indonesian markets, which continue to expand, and in the Middle East. This trend also supported an increase in the overseas sales ratio, which rose 5.7 percentage points year on year to 52.6%. Domestic operations also contributed to growth in consolidated earnings, with the health care business and pet care business both continuing to expand.

In fiscal 2014, ending March 31, 2014, the whole Unicharm Group will work together to deliver another year of record net sales and operating income.

Takahisa Takahara
President and CEO

Net Sales



Aiming to deliver further growth through aggressive investment focused on emerging markets

We have been carrying out aggressive strategic investment to ensure we are in a position to tap business opportunities in emerging markets.

In China, where demand from the middle class is expanding, we opened a new factory in Tianjin in August 2012, giving us a total of four manufacturing sites in China. We also plan to open a fifth factory in Yangzhou to ensure stable and efficient supplies of our products in response to rising demand and an increase in the number of cities where we have a sales presence.

In Indonesia, where demand is projected to expand further, we are constructing two new factories: one in Karawang, West Java, and another in Surabaya, East Java. This will give us a total of three manufacturing sites in the country. The Surabaya factory will allow us to speed up product distribution to the east of the country and outlying island areas, and support our efforts to boost market share.

In the markets of Asia and Middle East-North Africa (MENA), where the spread of democracy has the potential to support market expansion, we opened a new factory in December 2012 as part of efforts to build an operating base that will allow us to tap business opportunities over the medium- and long-term.

In Myanmar, which has a population of 62 million, roughly the same as Thailand's, we see prospects for economic development and growth in consumption as the country moves toward democracy and the United States and Europe lift economic sanctions. Against this backdrop, in March 2013 we acquired Myanmar Care Products Limited (Mycare), one of only a handful of local companies that manufacture and sell hygiene products in Myanmar. Mycare sells a range of feminine care and disposable baby diaper products in the local market under highly visible brands. Myanmar's hygiene product market is still in an early stage of development and has the potential to expand rapidly. Given these conditions, we plan to secure a dominant share of the market and drive even stronger growth by combining Mycare's highly visible brands with our product development capabilities, manufacturing technologies and marketing expertise.

Going forward, we will continue to put priority on strategic investment, particularly in emerging markets with potential for expansion, in order to deliver continued growth.

Domestic profits improved due to innovative new product ideas based on our unique nonwoven fabric technology

Earnings were stable at our personal care business in Japan.

Domestic sales in the health care business continue to expand at an annualized rate of more than 9%, supported by Japan's aging population. Value-added product ideas such as thinner diapers and pants-type designs also supported growth in market share, with our health care business now accounting for over 50% of the retail market.

Our domestic baby care and feminine care businesses, which face continued contraction in their target markets, expanded their market share with new high value-added products that gained acceptance among consumers, supporting an improvement in profits.

We intend to continue offering consumers innovative new product ideas that leverage our unique nonwoven fabric technology in order to energize the domestic personal care market and drive continued growth.

Returning an appropriate level of profits to shareholders

Returning profits to shareholders is one of our most important management policies. Based on this thinking, we plan to use retained earnings to reinforce Unicharm's financial structure and aggressively increase business investment to drive growth, while at the same time maintaining a policy of stable and sustainable dividend payments.
For fiscal 2013, we increased the year-end dividend by ¥2.0 year on year to ¥34.0 per share.
In fiscal 2014, based on our policy for shareholder returns, we will put priority on business investment to realize sustained growth while continuing to pay a stable dividend in line with medium- to long-term growth in consolidated earnings. Where necessary, we also intend to enhance shareholder returns by conducting share buybacks on a flexible basis.

I look forward to the continued support of all our shareholders and investors as we take on the challenges ahead.

November 2013

Takahisa Takahara
President and CEO

Strategy and Progress 2013

Progress
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Unicharm reported record sales for the eleventh straight year and record operating income for the sixth straight year.

Net sales	Operating income	Overseas sales to net sales ratio
¥495.7billion (15.7% increase↑)	¥59.4billion (14.6% increase↑)	52.6% (up5.7percentage points↑)

Main Topics in 2013

→ **Management Vision**
We constantly provide the world's No.1 and unprecedented products and services to everybody around the globe, and deliver comfort, impression and satisfaction.

→ **1 Aggressively investing in Asia to accelerate growth**

→ **2 Baby Care Business in Japan:**
Leveraging the strengths of two brands to revitalize the market

→ **3 Feminine Care Business in Japan:**
Launching high value-added products in growth segments

→ **4 Health Care Business: Strong brands supporting market-beating growth**

→ **5 Pet Care Business: Stepping up overseas expansion**

→ **6 Production framework: Upgrading our manufacturing sites worldwide to meet rising demand**

→ **7 Tackling social issues through our business activities**

→ **8 Corporate governance**

Management Vision

We constantly provide the world's No.1 and unprecedented products and services to everybody around the globe, and deliver comfort, impression and satisfaction.

Unicharm aims to help people worldwide lead richer lives by offering a wide range of products for babies through to the elderly. These products are designed to make life easier by providing support for the body and the mind.

The areas where Unicharm can make a difference continue to increase, with advanced economies facing the problem of aging societies and emerging markets needing to tackle hygiene issues. Against this backdrop, we are using the nonwoven fabric and absorbent material processing and forming technology developed since the first days of the Company to launch high-quality products that accurately meet the needs of customers ahead of our rivals, underpinned by our position as a specialist manufacturer. These products are contributing to positive changes in lifestyles for people everywhere. We are also implementing initiatives aimed at helping women secure job opportunities and become more active outside their traditional role in the home in order to support the healthy development of emerging countries.

We believe it is important to maximize Unicharm's earnings in order to contribute to society. It is vital that we respond flexibly to changes in population trends and consumer lifestyles from a long-term perspective to ensure we remain successful in today's increasingly competitive global market. In line with this thinking, we implement business strategy using three-year Medium-Term Management Plan objectives based on market forecasts ten years into the future.

Reinforcing strategy execution with SAPS Management

At Unicharm, we believe the ability to execute strategy is the key to success in our business activities. We are implementing SAPS Management in every area of our global organization to reinforce strengths in strategy execution. As an organization, we pinpoint the highest priority issues, with each division and individual selecting the top issue they need to tackle on a weekly basis. By working to solve those problems collectively and individually, the entire company heads in the same direction. This makes our organization more responsive, enabling it to react rapidly to changes in the market and consumer needs.

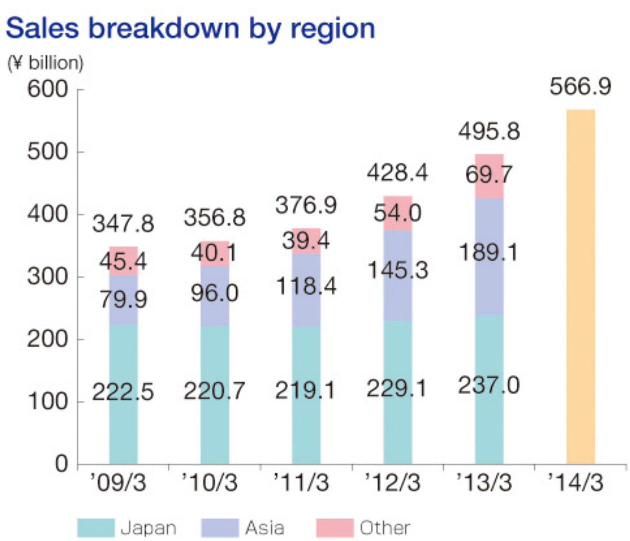
Three-year Medium-Term Management Plan

Demand for disposable baby diapers and sanitary napkins is growing rapidly on the back of rising incomes, mainly in emerging markets in Asia. We expect the global market for products in all our businesses to continue expanding strongly over the next ten years. In advanced economies, demand is growing for high value-added baby care and feminine care products. In addition, over the medium and long term, we forecast sharp growth in demand for pet care products and adult incontinence products such as disposable adult diapers, as societies age around the world.

We have positioned our new three-year Medium-Term Management Plan, which was launched in April 2011, as a key period for putting the foundations in place to support growth over the next decade. In order to benefit from sharply rising demand for baby care and feminine care products, we plan to accelerate our expansion into emerging markets. At the same time, we intend to launch innovative new products in advanced economies to revitalize these markets. In parallel, we will reinforce our business base in pet care products and adult incontinence products, where demand is expected to increase strongly over the medium and long term.

Eighth Medium-Term Management Plan (April 2011 – March 2014)

Fiscal 2014 Targets	
Net sales	¥566.9 billion
Operating margin	15%



Progress1
Aggressively investing in Asia to accelerate growth

Our main markets continue to grow at a rapid pace

The rate of market uptake for disposable baby diapers and sanitary napkins is rising rapidly in Asia on the back of economic growth. Demand for these products is emerging simultaneously in many markets across the region, so we are spending aggressively on sales promotion and stepping up efforts to extend our sales reach into new areas.

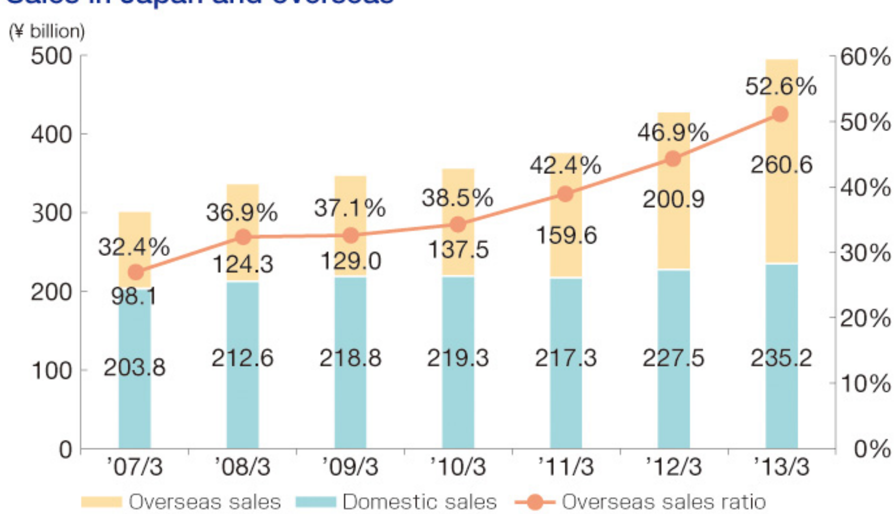
Growth remains strong in our main markets, particularly China, Indonesia and the Middle East. In fiscal 2013, ended March 31, 2013, sales in Asia increased 30.2% year on year to ¥189.1 billion. Profits in the region also continue to rise steadily on the back of sales growth, with operating income up 17.7% year on year to ¥25.7 billion. As a result, overseas sales accounted for a record 52.6% of consolidated net sales, an increase of 5.7 percentage points year on year.

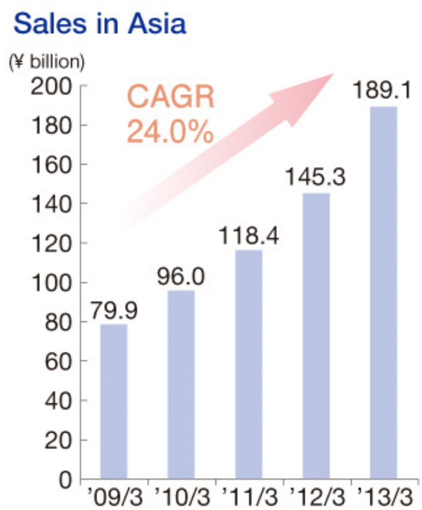
In China, currently our most important market, sales on a local currency basis continue to expand at a rate of over 30%. This reflects our move into regional inland cities, where demand is growing, coupled with continued demand in coastal cities, which have been our main growth driver until recently.

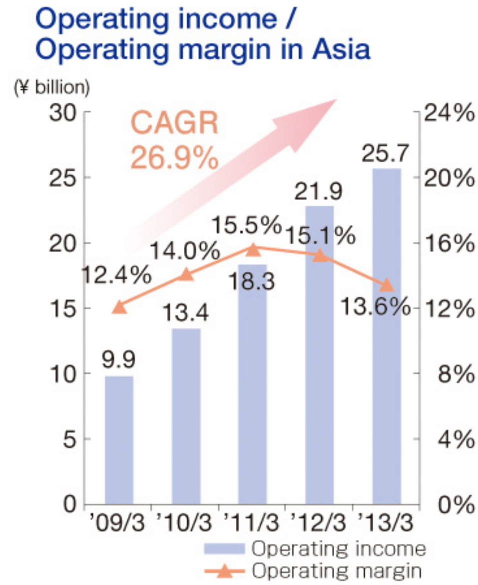
In Indonesia, where we have built a dominant market share, sales are growing by more than 40% year on year on a local currency basis.

In other markets in Asia, we are steadily laying the foundations to support future growth. In Vietnam, we acquired Diana, a leading local maker and distributor of baby and feminine care products, in September 2011, and in Myanmar, we acquired MYCARE, another leading maker and distributor of baby and feminine care products in the region, in March 2013. In India, which has a population of around 1.1 billion, our share of the disposable baby diaper market continues to expand after we began full-scale sales there in 2009.

Sales in Japan and overseas

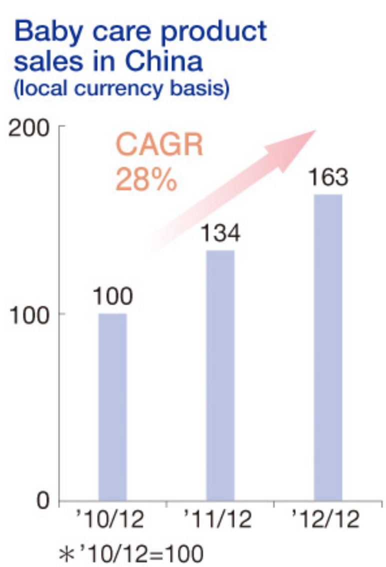


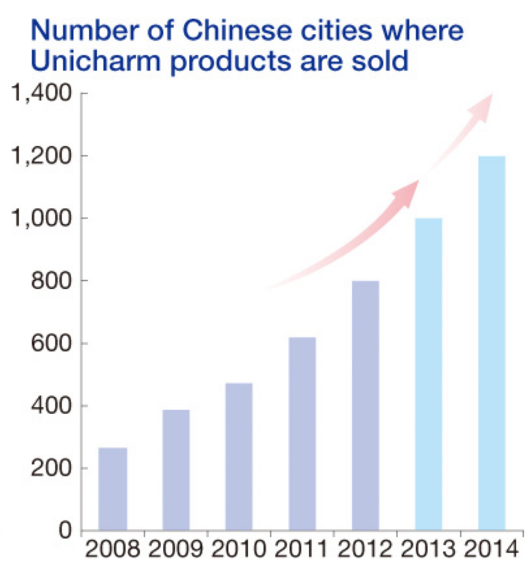




China: Extending our sales reach into inland regional cities

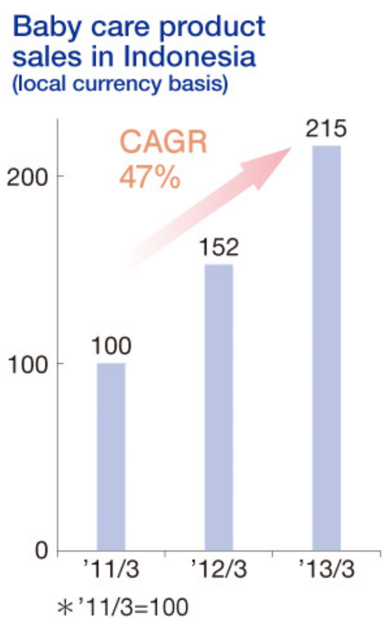
Sales in China have risen at an average rate of more than 30% in the last five years and the market now accounts for over 10% of consolidated sales. We had been concerned about the backlash in China against Japanese products since summer 2012, but sales have been firm, partly due to the fact that our products are daily household essentials and they are recognized by consumers for their quality. Intensifying competition due to new market entrants is another risk, but the emergence of these companies is spurring uptake in the baby and feminine care product markets, which is also likely to benefit Unicharm.
Demand for baby disposable diapers and sanitary napkins is emerging in China's regional inland cities as well, supported by rising income levels. We are therefore stepping up the expansion of our sales areas into these cities. As of December 2012, we had a sales presence in over 800 Chinese cities, but we are aiming to increase this to over 1,000 cities by the end of December 2013.





Indonesia: Using our first-mover advantage to move into outlying island areas

In Indonesia, our Mamy Poko Pants Standar range of disposable baby diapers, which are aimed at middle-class consumers, have proven to be very popular and now account for over 60% of the market. As more companies move into the Indonesian market, we plan to use our first-mover advantage to further expand our market share. Indonesia is estimated to have around 3,000 inhabited islands. To ensure people in these areas have access to our products, we will need to extend out distribution channels to the traditional small local shops in Indonesia called Warung, as well as the major supermarket chains. We are therefore stepping up efforts to extend our distribution network from Jakarta, currently the focus of the market, into regional cities in the East and outlying island areas, in order to deliver further growth.
In feminine care products, we have already launched a number of products designed for local preferences and skincare needs, helping us to secure the leading share in the market. We are aiming to increase our market share further by leveraging the sales network we have already built for the baby care business.



One of Indonesia's small local shops (Warung)

Thailand: Creating a new market for daytime disposable baby diapers

Unicharm has already captured a dominant share of Thailand's baby disposable diaper and sanitary napkin product markets.
In the baby care business, we have seen success in creating a new market for daytime disposable baby diapers. Use of these diapers has increased significantly after we launched products specifically designed to address market needs for daytime use.
We are also working to expand our share in the feminine care products market by offering new value propositions for sensitive skin.

Mamy Poko Happy Pants

Sofy Extra Dry

Vietnam: Targeting further growth in market share with pants-type diapers

Vietnam is the ASEAN region's third largest country, with a population of around 86 million. We see potential in the market from continued strong economic growth and rising consumption. In September 2011, we acquired local company Diana, which has the second largest market shares for disposable baby diapers and sanitary napkins in Vietnam. Since the acquisition, both these businesses have increased their market shares further, and the baby care business is now the market leader in Vietnam’s two main cities. We are targeting further growth in market share and faster business expansion by combining our capabilities in product development and manufacturing technology with Diana’s sales network and understanding of local consumers. Specifically, we plan to roll out sales campaigns that tie-in TV commercials with in-store promotions and expand our lineup by introducing more pants-type diapers.

India: Stepping up efforts to create a market for pants-type diapers

Since launching disposable baby diapers in India on a full-scale basis in 2009, our market share has risen rapidly to 15%. Sales in India are growing faster than in all our other overseas markets. India has a vast population with a high number of young people. We think this will support growth that could exceed the rates seen in China. Our goal is to rapidly create a market for pants-type diapers, while also upgrading our business infrastructure in India.

Progress2

Baby Care Business in Japan: Leveraging the strengths of two brands to revitalize the market

We have been working to revitalize the market in Japan by leveraging the strengths of our two brands – Moony, which offers the highest levels of quality in our disposable baby diaper range, and Mamy Poko, which offers an excellent balance between quality and price.

Our Moony diapers have proved popular because they are kind on sensitive skin. We have now improved the range further with Moony Airfit diapers, which feature curve-shaping technology that matches the unique body shape of each baby. Together with the use of stretchy soft fabric, this reduces tightness around the waist and leg areas. In addition to preventing leakage, these upgraded diapers are also more absorbent and even kinder on sensitive skin than our existing products.

Our Mamy Poko range is also popular with consumers thanks to their cute Disney character designs, attractive price point and excellent absorbency. We have also recently launched designs to mark the 110th anniversary of Walt Disney's birth. These designs create an even stronger connection with the Disney world and are available for a limited time only.

We will continue to pursue improvements in the basic non-leak, stay-dry qualities of our diapers. We will also work to create a healthier market by developing sub-categories such as pants for children with bed-wetting problems.

Moony Pants Softretch

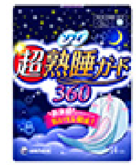
Moony Airfit

Mamy Poko Pants
©DISNEY

Mamy Poko Pants – Special packaging to mark the 110th Anniversary of Walt Disney's birth
©DISNEY

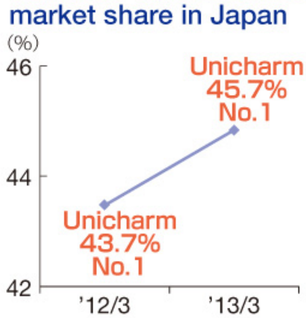
Progress3

Feminine Care Business in Japan: Launching high value-added products in growth segments



At Unicharm, we have been working to revitalize the market by offering new value propositions in three main categories: sensitive skin, absorbency with peace of mind, and design / compactness.
In the sensitive skin category, we offer Sofy Hada Omoi Ultra Super Slim, which is kind on the skin but also offers excellent absorbency. New products with floral designs have been added to the range.
In the absorbency with peace of mind category, we launched Sofy Body Fit Super Long Absorbency Slim, which is a slim product but offers women peace of mind even on heavy days. We also introduced an upgraded version of Sofy Super Sound Sleep Guard with improved protection to give even greater peace of mind during the night.
In the design / compactness category, we have adopted new pastel and heart designs for the outer and individual packaging of our Center-in Compact Slim products.
We also launched Sofy Kiyora Flushable in March 2013. Using our unique nonwoven fabric technology, we have succeeded in developing a product that breaks down in water, but that is also durable and kind on the skin.
Unicharm has been producing and selling sanitary napkins for fifty years. During that time, we have consistently adapted our products to match women's changing needs in terms of value and function. Amid the shrinking feminine care market in Japan, we will continue to offer new value propositions in response to the increasingly diverse lifestyles of our customers in order to expand the feminine care business's market share. Our recent product initiatives helped to boost the feminine care business's overall market share in fiscal 2013.

Feminine Care Business market share in Japan



Sofy Super Sound Sleep Guard

Sofy Hada Omoi Ultra Super Slim

Center-in Compact Slim

Sofy Kiyora Fragrance

Sofy Kiyora Flushable

Sofy Body-Fit Long-Time Absorption Slim

Progress4

Health Care Business: Strong brands supporting market-beating growth

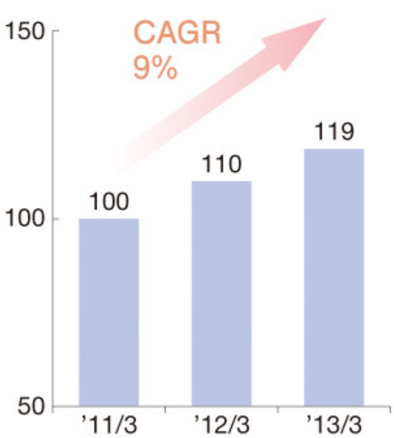
Our health care business continues to grow strongly

Since moving into the disposable adult diaper market in 1987, Unicharm has built dominant shares in both the moderate and light adult incontinence markets and led the industry in promoting wider use of adult incontinence products for nursing care. The domestic health care product market is growing, but our health care business has expanded even faster, growing at an average annual rate of 9%. It now accounts for over 50% of the retail market.

In Japan, the target market for our products is likely to grow further as society ages. Given this outlook, we will work to strengthen our already dominant position in the market and ensure we remain on the path to growth by reinforcing our product supply and marketing systems and by expanding our product lineup to benefit from market expansion.

In light incontinence products, demand is rising for products with even greater absorbency. In response, we have added a new product to our Lifree Sawayaka Pad range with a capacity of 270cc for longer use. We have also updated packaging to make it easier to understand the absorbency of each product.

Unicharm's health care product sales in Japan



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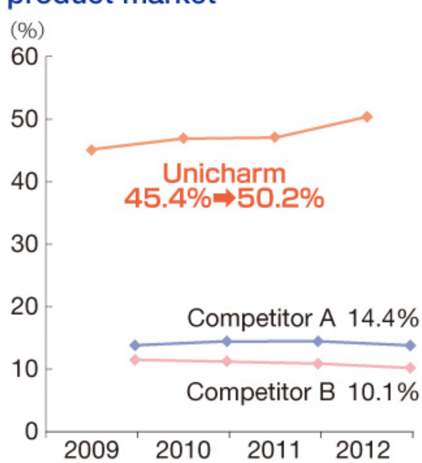
Japan's health care product market



Source: Unicharm

Lifree Sawayaka Pads: offering peace of mind for longer use on heavy days

Initiatives to encourage wider use

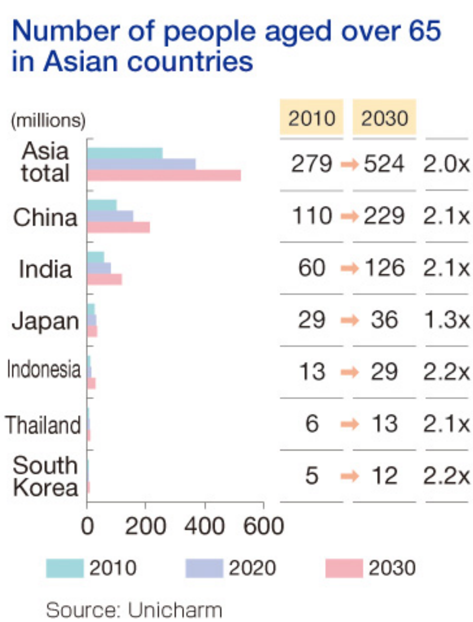
To encourage wider user of disposable adult diapers, we have been working with retailers to create sales areas that make it easier for shoppers to select products. We have also introduced something called light counseling, where stores provide advice to shoppers to help them choose the best product for the level of care required.

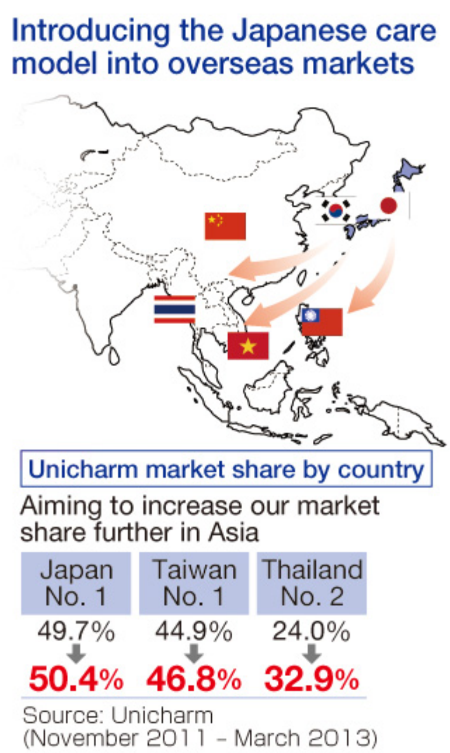
In the hospital and nursing home category, our health care business is using its leading position in the market to help the elderly live with greater dignity and reduce the workload of staff that care for them. Specialist Unicharm personnel with nursing care qualifications visit nursing care facilities and hospitals that use our products to provide advice about which products to use, explain how best to use them, and offer ideas about improving the care of patients with incontinence. Our aim is to do whatever we can to make life easier for these patients by providing ongoing support to help them lead more independent lives.

Transferring our Japanese care model to other Asian markets

Japan has a higher proportion of elderly people than elsewhere, but many countries around the world are also expected to see a rapid increase in the number of elderly. The Asia region is currently aging at a faster rate than Japan and the region’s elderly population is projected to roughly double over the next two decades.

Leveraging our strengths in the domestic market, we plan to extend our Japanese care model across Asia.



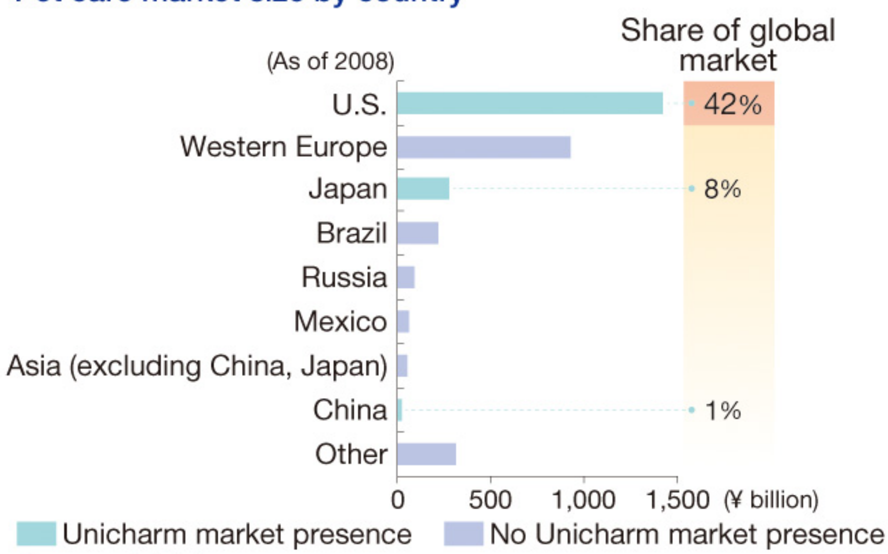


Progress5
Pet Care Business : Stepping up overseas expansion

The pet care market is growing worldwide

The pet care market continues to expand worldwide. We forecast growth in advanced economies, but also in emerging markets in Asia, particularly China, and in South America, where rising incomes and aging societies are likely to drive market expansion. We estimate the market will be worth around ¥14 trillion in sales by 2020, comparable in size to the personal care market (retail sales basis).

Pet care market size by country



Source : Unicharm

Japan: Focusing resources on five main trends

In Japan, we have been focusing resources on five main trends in the Japanese pet market—caring for pets indoors, small-sized dogs, aging pets, overweight pets, and a growing focus on pet health. This has helped us secure the top domestic market shares in both the pet toiletry and pet food categories.

In pet toiletry products, we have increased our market share by creating the male dog diaper sub-category. Also, amid growing public interest in saving energy and resources since the Great East Japan Earthquake in March 2011, we introduced more economical pet toilet sheets that do not have to be changed as often as previous products. Our nonwoven fabric and absorbent material processing and forming technology developed since the first days of the Company, has helped us to create new products that stand out in the market for their performance.

In pet food, we have worked to create more categories by actively launching new products. Our lineup now includes pet food tailored to different dog breeds and products that address the increasingly diverse tastes of cats and a growing awareness of pet health among owners.

Aiken Genki
Best Balance

Silver Spoon Premium
Mitsuboshi Gourmet
Fur Ball Care

Neko Genki
Fur Ball Care

Male Dog Diapers

Zero Wan

North America: Targeting significant expansion through synergies with Hartz

Pet ownership in the U.S. is seeing similar trends to those we have identified in Japan, such as rising ownership of small-sized dogs and caring for pets indoors. We are therefore targeting rapid expansion in our U.S. pet care business by combining Unicharm's technological and product development capabilities in pet toiletry products and pet food products, which have already proved popular with Japanese consumers, with the brand power, marketing expertise and sales network of Hartz, which we acquired in December 2011. In March 2013 Hartz launched an improved version of its Dog Pad toilet sheets using Unicharm's nonwoven fabric technology. These Hartz UltraGuard Pro dog pads, which are infused with an anti-flea and tick solution, are selling well, helping to drive expansion in our pet care business in the U.S.

Progress6

Production framework: Upgrading our manufacturing sites worldwide to meet rising demand

Optimizing our manufacturing network

Demand for our products is emerging simultaneously in many markets. We are therefore actively adding production capacity at key sites and optimizing manufacturing network.

In China, currently our most important market, we opened a fourth factory in 2012 and began building a fifth factory in Yangzhou, which is scheduled to come on stream at the end of 2013. This new site will boost the reliability and efficiency of product supply.

In the rapidly growing market of Indonesia, demand is currently concentrated in Jakarta, but is also expanding in regional cities in the East and in outlying island areas. We plan to step up the distribution of products to these new areas in order to boost our market share. To achieve this goal, we are currently constructing a third factory in Indonesia. The new facility, due to come on stream in 2013, is located in Surabaya in East Java.

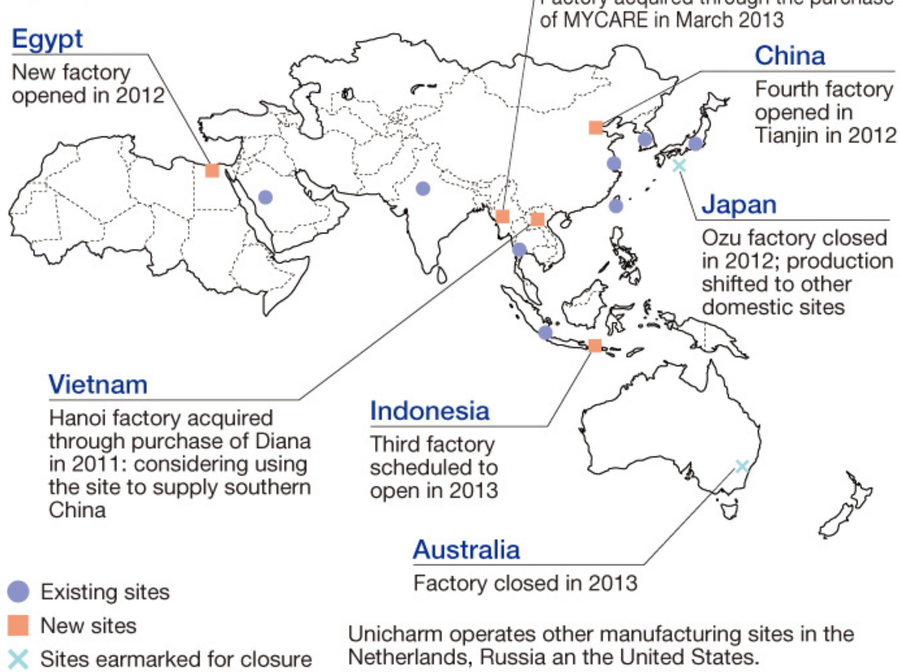
In Vietnam, where there is potential for strong economic growth and rising consumption, we acquired Diana, a leading local maker and distributor of baby disposable diapers and sanitary napkins, in September 2011.

In Myanmar, which offers prospects for economic growth and has a population of around 62 million, roughly the same as Thailand's, we acquired MYCARE, another leading local maker and distributor of baby disposable diapers and sanitary napkins, in March 2013.

In the Middle East and North Africa (MENA), where we see potential for market growth over the medium and long term, we opened our first manufacturing facility in Africa with the start up of our factory in Egypt in December 2012.

We are also optimizing our manufacturing network in other markets. In Japan, we closed our Ozu factory in 2012 and shifted production to other domestic sites. In Australia, we will close our disposable diaper manufacturing facilities in fiscal 2014 and switch to imports from neighboring countries to supply the market.

Building an optimum manufacturing network



Unicharm operates other manufacturing sites in the Netherlands, Russia an the United States.

Progress7

Tackling social issues through our business activities

At Unicharm, we believe our business activities make a significant contribution to society. The fact that our products and services bring comfort, excitement and joy to people in Asia and around the world, not just in Japan, gives us immense pride and satisfaction. We are actively involved in a range of activities related to our business. Through our work in these areas, our goal is to make a difference to society in each country and win the support and trust of the public.

Overseas: Supporting the healthy development of emerging markets

We are actively helping women in emerging markets to take a more dynamic role in society and move into the workplace, which we believe will contribute to the development of their countries and the region as a whole. As part of overseas business development, we are working to improve the position of women in society across Asia, reduce poverty and achieve other targets in line with the United Nation's Millennium Development Goals.

● Increasing job opportunities for women

After establishing a joint venture in Taiwan in 1984, we helped women move into the workplace by offering them job opportunities and by promoting wider use of sanitary napkins and baby disposable diapers. We also applied the principles of our NOLA & DOLA corporate philosophy in Taiwan and gradually introduced them into other countries in Asia and the Middle East, such as South Korea, Thailand, Saudi Arabia, China and Indonesia.

As a result, women now make up a high proportion of the workforce on our production lines. Also, through visits to retail stores, our female sales personnel make a significant contribution to improving understanding about our products and to ensuring customers are accurately informed. A large number of women also work in managerial positions.

We encourage all our employees, wherever they work, to share the principles of our corporate philosophy and to make a meaningful contribution through their jobs in order to help women become more independent.

● Empowering women in Asia and the Middle East

In emerging countries in Asia and elsewhere, the use of hygiene products such as baby disposable diapers and sanitary napkins is still in its early stages. Women in some countries and regions still face limits in their everyday lives due to poor understanding about menstruation and a lack of social infrastructure. At Unicharm, we are working to improve understanding about menstruation and hygiene as part of wider efforts to help women in emerging markets take a more active role in society.

・Initiatives in India

In some rural areas of India, there is no custom of using sanitary napkins. Old clothes are often used instead and many women have not heard of sanitary napkins. Working with local NGOs, we have launched a program to educate Indian women about the process of menstruation and the type of products that are available to them. By raising awareness about sanitary napkins and providing better education about menstruation, we believe we can encourage more women, who may be reluctant to leave the home, to attend school and take a more active role in society, while also improving understanding about hygiene.

・Initiatives in Saudi Arabia

In Saudi Arabia we opened a new factory in the capital Riyadh in May 2012. The factory is unusual in that it only employs women. Under Islam's strict rules in Saudi Arabia, only men who are personally related to a woman are allowed to see her face and skin. Unrelated men and women are also forbidden from being in the same room together and from socializing. Women are permitted to work, but only in cases where these strict rules are implemented at the workplace. Consequently, we have put elaborate measures in place that allow men to indirectly come into contact with women at our factory in order to hand over documents or products. These measures include special areas with screens that allow items to be exchanged between men and women without direct contact. We believe these efforts are creating more opportunities for women in the workplace in Saudi Arabia.

We are also working to improve the position of women in other countries where Unicharm has a market presence. In October 2012, we signed up to the Business Call to Action (BCtA)* initiative being promoted by the United Nations Development Program, which recognized our commitment to actively encouraging job opportunities for women by aiming to double the number of female employees in our business, as well as our goal to produce 40% of our sanitary products in MENA and Asia and sell them to low-income consumers in those regions.
Our aim is to continue providing world-first, leading products and services that bring comfort, excitement and joy to people throughout the world.


Educating women about menstruation in schools and communities in Northern India


Our factory in Saudi Arabia employs only female workers

*Business Call to Action is a joint initiative launched in 2008 with a global network of members made up of companies, governments and development assistance agencies. The goal of the initiative is to evaluate and promote global efforts to reduce poverty and achieve sustainable development through business models that create employment, products and services for the world's poor, whether they be producers, consumers or workers.

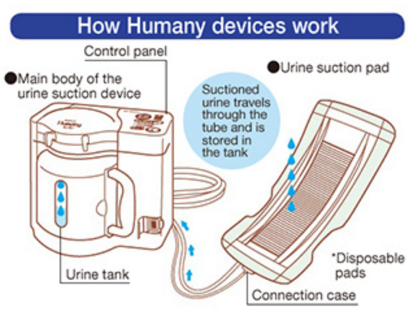
Japan: Contributing to society at a local level

Unicharm is grateful of the support it receives from customers. It therefore works to give back to the community in addition to generating profits.

● Helping people affected by disasters through a matching donation fund

After the Great East Japan Earthquake in March 2011, Unicharm donated products such as disposable diapers, face masks, sanitary napkins and pet care products to the disaster-affected area. We also donated products through a matching donation fund supported by employees and worked to reduce energy consumption. In fiscal 2012, we established a second matching donation fund. Employees who donate to the fund receive specially designed Cool Biz and Warm Biz clothing for the office, such as polo shirts and jumpers with badges. Money raised through the fund has been used to buy Humany automatic continence-processing devices for hospitals in three prefectures affected by the earthquake: Iwate, Miyagi and Fukushima. In the two years since the fund was set up, we have donated a total of 39 Humany devices to care facilities and hospitals in the disaster-affected region.

Employees wearing Cool Biz polo shirts and Warm Biz jumpers in the office



Benefits of the Humany device

Reduction in number of nighttime diaper changes	Reduction in nighttime visits to the toilet	Reduction in people using nighttime welfare visitors
1.8 times → 0	89%	46%

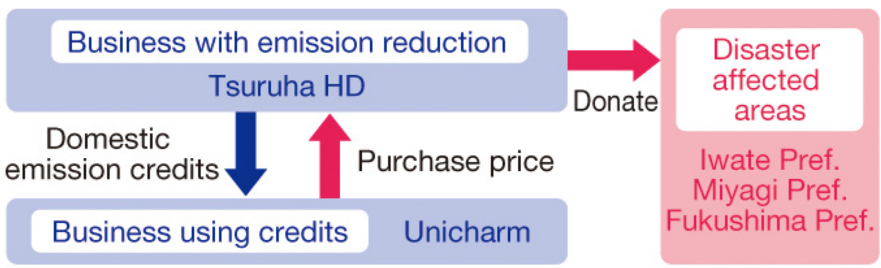
Source: Humany Usage Survey, based on responses from 187 people nationwide (100 women, 87 men)

Japan's society is aging, but there is a shortage of carers and a growing need for resources to help care for the elderly at home. In response, Unicharm launched the Humany automatic continence-processing device across Japan in 2009 to help alleviate the burden of those being cared for and their carers. Humany is increasingly being used in the nursing care environment.

Joint carbon offset plan with Tsuruha Holdings receives the Minister of Economy, Trade and Industry Prize

Unicharm and drugstore chain operator Tsuruha Holdings, Inc. have donated wheelchairs to the Japan National Council of Social Welfare every year since 2000. Building on this cooperation, we have teamed up with Tsuruha to develop a carbon offset plan. Using part of the proceeds from the sale of Unicharm products at Tsuruha drugstores, we bought emission credits generated by Tsuruha to offset one month of CO_2 emissions from our Fukushima Factory, which is located within the area affected by the Great East Japan Earthquake. Tsuruha also donated part of the proceeds from the product sales to the disaster-affected area. Our joint initiative and the assistance provided through the carbon credit utilization scheme was recognized for its contributions to the promotion of carbon offsetting and was awarded the Minister of Economy, Trade and Industry Prize at the 2nd Carbon Offset Awards.

Utilization of domestic emission credit scheme in support of disaster reconstruction



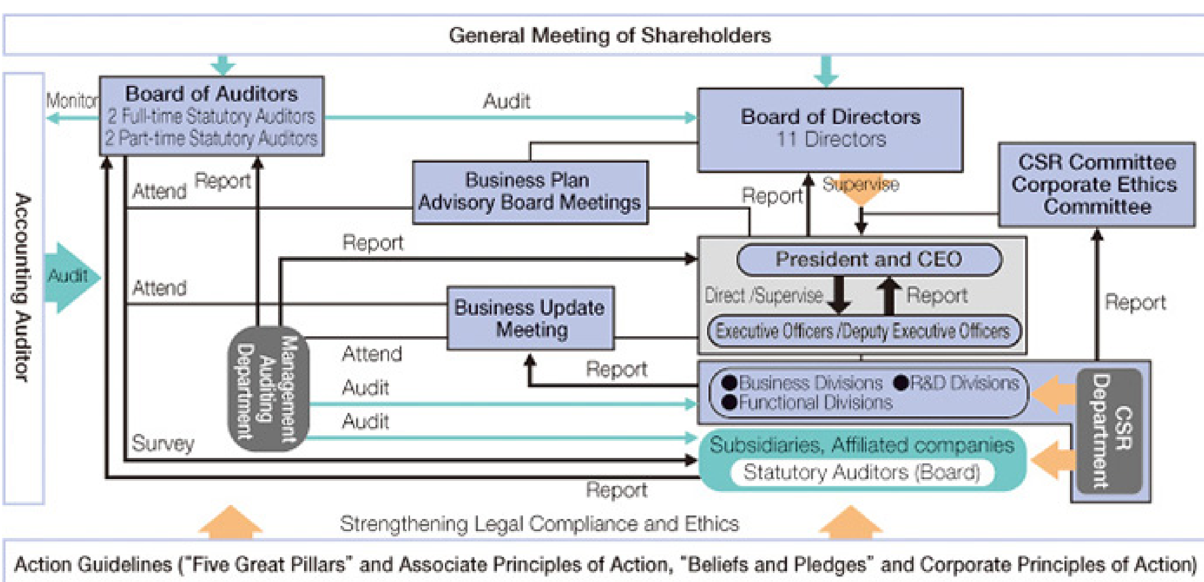
Progress8
Corporate governance

Basic stance on corporate governance

We strive to pursue proper corporate management principles through our Unicharm corporate ideals. We recognize the importance of achieving a sustainable balance between increasing corporate value and fulfilling our social responsibilities through business activities undertaken by the management and executive divisions. Based on this principle, we are reinforcing our corporate governance system as we further strengthen our executive officer structure through our corporate auditor system.

Reasons for selecting the current corporate governance system

In June 1999 we introduced an executive officer system to complement our director and corporate auditor structure. With this system, we have separated the management decision-making and oversight functions of the Board of Directors from the executive functions of the Executive Officers. In addition, we have appointed two external Corporate Auditors to our four-member Board of Corporate Auditors. This has strengthened oversight of the Board of Directors and increased management transparency. Under this business management structure, we believe it is important to select directors from inside the Company who have a detailed knowledge of our business, in order to leverage the Group's strengths in frontline-focused management. Consequently, we have not appointed any external directors to the Board of Directors.



Creating a corporate culture to support autonomous corporate governance

In 2004 we launched the Schedule-Action-Performance-Schedule (SAPS) Plan, which emphasizes the principles of respecting human life and dignity and personal achievement. Every Monday at 8:00am Japan time, all Unicharm sites in Japan and overseas link up in a SAPS Management Meeting using a video conference system. The Group's executive officers, department heads and business site heads participate in the meeting, which is led by Unicharm's president. The president uses the meeting to communicate his management ideas and pass on the essence of his thinking to all employees as part of wider efforts to build a corporate culture that supports the autonomous functioning of the Group's corporate governance system. Based on management policy laid out in the meeting, department heads and managers at business sites attached to all Unicharm's domestic and overseas companies hold small SAPS team meetings every week. During these meetings, participants report their progress toward weekly targets, share information and implement their own changes and improvements.

Policy on remuneration for senior managers and methods used to calculate remuneration

In accordance with Unicharm's corporate ideals, we seek to pay an appropriate level of remuneration to Directors and Corporate Auditors in order to realize value for stakeholders. Taking into account factors such as the need to attract and retain highly capable individuals, offer incentives to expand earnings, and promote strategic planning capabilities, as well as ensure compliance, the Company sets remuneration levels based on job responsibilities in accordance with limits determined by the 47th Annual General Meeting of Shareholders on June 26, 2007. Remuneration is also adjusted in line with changes in the operating environment.

Following the enforcement of the Corporation Law, the Company's shareholders approved a resolution to abolish the retirement benefit system for Directors and Corporate Auditors at the 47th Annual General Meeting of Shareholders on June 26, 2007. Retirement bonuses for Directors and Corporate Auditors are now included in annual remuneration. However, at the 50th Annual General Meeting of Shareholders on June 24, 2010, shareholders approved a resolution to pay remuneration to Directors in the form of stock options, in addition to the amounts approved at the 47th Annual General Meeting of Shareholders on June 26, 2007.

Introduction of stock option system

Directors are entrusted by shareholders with the responsibility of increasing shareholder value, as the success of their management strategies has a direct impact on shareholder profits through changes in the Company's market capitalization. In order to provide Directors with the incentive to effectively apply this principle to their duties, the Company has introduced an incentive-based stock option system to link remuneration with shareholder profits.

In addition, the Company operates a separate stock option system for Directors and employees of the Company and its subsidiaries, aimed at further leveraging and combining the individual strengths of the Group's personnel in order to realize Unicharm's corporate ideals. Boosting the motivation of every executive and employee encourages them to achieve targets and leads to an increase in corporate value, ultimately enabling the Group to meet the expectations of consumers, shareholders and employees. Consequently, in order to mobilize the combined strengths of the Group's personnel, we grant stock options to senior managers and employees to reward them when corporate value (share value) increases significantly due to the achievement of the Group's medium-term management targets.

Cooperation between the corporate auditors, accounting auditor and internal audit reporting

The Corporate Auditors work closely with the Accounting Auditor to inspect operations and assets at the head office and the Group's main business sites. They also request reports about the status of operations at subsidiaries, and as needed, conduct inspections of operations and assets at major subsidiaries. Also, in order to improve the reliability of financial statements, the Corporate Auditors and Accounting Auditor hold regular meetings every six months and additional meetings as needed. At these meetings, they share information about their respective audit plans and results, while also aiming to increase the effectiveness and efficiency of audits.

Full-time Corporate Auditors attend monthly Internal Audit Report Meetings. At these meetings, the Corporate Auditors receive the results of internal audits of executive business divisions, examine the effectiveness of the internal control system, and implement remedial measures and recommendations to improve the system. In addition, the Management Audit Department includes items in its audit plans that are deemed necessary for Corporate Auditors. Based on these plans, the department conducts audits and shares information with the Corporate Auditors in order to increase the effectiveness and efficiency of audits.

Upgrading the internal control system

The Group formulated a Basic Policy for Establishing an Internal Control System to comply with the Corporation Law and established an Internal Control Committee in response to the Internal Control and Reporting System (J-SOX) requirements of the Financial Instruments and Exchange Act.

The Internal Control Committee conducts annual risk assessments of each company in the Unicharm Group and reviews the countries and business processes that should be included in the scope of J-SOX assessments, while also working to improve the reliability of financial reporting by upgrading and improving the efficiency of the Group's internal reporting system.

Unicharm will continue to make improvements to its internal control system.

Consolidated Balance Sheet
Unicharm Corporation and Subsidiaries
March 31, 2013 and 2012

ASSETS	Millions of yen 2013	Millions of yen 2012	Thousands of U.S. dollars (Note 1) 2013
Current Assets:			
Cash and cash equivalents (Note 17)	¥ 68,212	¥ 75,926	$ 725,658
Marketable securities (Notes 3 and 17)	-	3,400	-
Notes and accounts receivable (Notes 9 and 17):			
Trade	60,349	50,405	642,014
Allowance for doubtful accounts	(85)	(87)	(908)
Inventories (Note 4)	44,786	33,661	476,442
Deferred tax assets (Note 13)	13,918	12,751	148,063
Other current assets (Note 17)	23,549	14,582	250,526
Total current assets	210,729	190,638	2,241,795
Property, Plant and Equipment:			
Land (Note 5)	17,776	11,905	189,110
Buildings and structures	81,394	66,149	865,890
Machinery and equipment	207,017	174,334	2,202,313
Furniture and fixtures	14,164	10,350	150,682
Leased assets	753	482	8,011
Construction in progress	15,011	9,429	159,693
Total	336,115	272,649	3,575,699
Accumulated depreciation	(172,986)	(155,828)	(1,840,281)
Net property, plant and equipment	163,129	116,821	1,735,418
Investments and Other Assets:			
Investment securities (Notes 3 and 17)	19,494	14,143	207,380
Investments in affiliates	171	157	1,821
Goodwill	76,686	78,905	815,812
Intangibles	20,708	18,636	220,295
Deferred tax assets (Note 13)	36,617	45,147	389,542
Prepaid pension cost (Note 8)	5,616	5,747	59,742
Other assets	2,070	2,495	22,023
Allowance for doubtful accounts	(165)	(191)	(1,751)
Total investments and other assets	161,197	165,039	1,714,864
Total	¥ 535,055	¥ 472,498	$ 5,692,077

The accompanying notes are an integral part of these financial statements.

LIABILITIES AND NET ASSETS	Millions of yen 2013	Millions of yen 2012	Thousands of U.S. dollars (Note 1) 2013
Current Liabilities:			
Short-term bank loans (Notes 6 and 17)	¥ 4,020	¥ 5,439	$ 42,762
Current portion of long-term debt (Notes 6 and 17)	2,209	2,828	23,503
Notes and accounts payable (Notes 9 and 17):			
Trade	53,186	45,779	565,808
Others	37,207	29,742	395,821
Income taxes payable (Notes 13 and 17)	3,235	4,348	34,412
Accrued expenses	19,473	16,779	207,157
Other current liabilities	2,217	1,447	23,592
Total current liabilities	121,547	106,362	1,293,055
Long-Term Liabilities:			
Convertible bonds (Notes 7 and 17)	53,333	80,585	567,373
Long-term debt (Notes 6 and 17)	23,000	35,220	244,681
Provision for retirement benefits (Note 8)	2,926	2,754	31,124
Deferred tax liabilities (Note 13)	1,576	1,365	16,768
Other long-term liabilities	3,472	3,005	36,937
Total long-term liabilities	84,307	122,929	896,883
Commitments (Note 15):			
NET ASSETS			
Shareholders' equity (Note 19):			
Common stock, authorized: 827,779,092 shares in 2013 and 2012 issued: 206,944,773 shares in 2013 and 2012	15,993	15,993	170,135
Capital surplus	29,782	18,802	316,832
Retained earnings	275,610	238,568	2,932,018
Treasury stock—at cost, shares held: 16,531,662 in 2013 and 22,697,728 in 2012 and	(43,030)	(52,926)	(457,766)
Accumulated other comprehensive income			
Net unrealized gains on available-for-sale securities, net of tax (Notes 3 and 17)	7,636	4,180	81,232
Net deferred losses on derivatives under hedge accounting, net of tax	(21)	(14)	(220)
Land revaluation surplus, net of tax (Note 5)	(157)	(157)	(1,674)
Foreign currency translation adjustments	3,955	(11,372)	42,079
Total	289,768	213,074	3,082,636
Stock acquisition rights (Note 10)	677	959	7,205
Minority interests	38,756	29,174	412,298
Total net assets	329,201	243,207	3,502,139
Total	¥ 535,055	¥ 472,498	$ 5,692,077

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Income
Unicharm Corporation and Subsidiaries
Years Ended March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Net Sales	¥ 495,771	¥ 428,391	$ 5,274,163
Cost of Sales (Note 10)	268,743	233,936	2,858,969
Gross profit	227,028	194,455	2,415,194
Selling, General and Administrative Expenses (Notes 10, 11, 14 and 21)	167,540	142,554	1,782,337
Operating income	59,488	51,901	632,857
Other Income (Expenses):			
Interest and dividend income	1,211	1,014	12,888
Foreign exchange gain (loss)	7,631	(464)	81,176
Interest expense	(284)	(460)	(3,024)
Sales discount	(3,728)	(4,190)	(39,658)
Gain on sale of property, plant, and equipment (Note 12)	42	8	448
Loss on disposal of property, plant, and equipment (Note 12)	(617)	(1,335)	(6,561)
Loss on disaster	-	(554)	-
Business restructuring cost	(95)	(617)	(1,011)
Other—net	635	270	6,752
Other income (expenses)—net	4,795	(6,328)	51,010
Income Before Income Taxes and Minority Interests	64,283	45,573	683,867
Income Taxes (Note 13):			
Current	9,763	7,551	103,864
Deferred	5,608	7,324	59,660
Total income taxes	15,371	14,875	163,524
Net Income Before Minority Interests	48,912	30,698	520,343
Minority Interests In Net Income	5,790	3,716	61,602
Net Income	¥ 43,122	¥ 26,982	$ 458,741

	Yen		U.S. dollars (Note 1)
	2013	2012	2013
Per Share of Common Stock (Note 19):			
Net income	¥ 233.75	¥ 144.95	$ 2.49
Diluted net income	209.56	130.05	2.23
Cash dividends applicable to the year	34.00	32.00	0.36

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Comprehensive Income
Unicharm Corporation and Subsidiaries
Years Ended March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Net Income Before Minority Interests	¥ 48,912	¥ 30,698	$ 520,343
Other Comprehensive Income (Note 16):			
Net unrealized gains on available-for-sale securities, net of tax	3,456	903	36,760
Net deferred gains (losses) on derivatives under hedge accounting, net of	11	(8)	126
Foreign currency translation adjustments	19,603	(2,056)	208,542
Total other comprehensive income	23,070	(1,161)	245,428
Comprehensive Income	71,982	29,537	765,771
Total Comprehensive Income Attributable to:			
Shareholders of the Company	¥ 61,898	¥ 25,734	$ 658,489
Minority interests	10,084	3,803	107,282

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Changes in Net Assets
Unicharm Corporation and Subsidiaries
Years Ended March 31, 2013 and 2012

	Thousands	Millions of yen											
	Outstanding number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized gains on available-for-sale securities, net of tax	Net deferred gains (losses) on derivatives under hedge accounting, net of tax	Land revaluation surplus	Foreign currency translation adjustments	Total	Stock acquisition rights	Minority interests	Total net assets
Balance, April 1, 2011	186,422,805	¥15,993	¥18,802	¥217,112	¥(43,925)	¥3,277	¥(13)	¥(90)	¥(9,221)	¥201,935	¥289	¥17,409	¥219,633
Net income	-	-	-	26,982	-	-	-	-	-	26,982	-	-	26,982
Cash dividends, ¥30.00 per share	-	-	-	(5,593)	-	-	-	-	-	(5,593)	-	-	(5,593)
Purchase of treasury stock	(2,175,760)	-	-	-	(9,001)	-	-	-	-	(9,001)	-	-	(9,001)
Land revaluation difference	-	-	-	67	-	-	-	-	-	67	-	-	67
Net change in the year	-	-	-	-	-	903	(1)	(67)	(2,151)	(1,316)	670	11,765	11,119
Balance, April 1, 2012	184,247,045	¥15,993	¥18,802	¥238,568	¥(52,926)	¥4,180	¥(14)	¥(157)	¥(11,372)	¥213,074	¥959	¥29,174	¥243,207
Net income	-	-	-	43,122	-	-	-	-	-	43,122	-	-	43,122
Cash dividends, ¥33.00 per share	-	-	-	(6,080)	-	-	-	-	-	(6,080)	-	-	(6,080)
Purchase of treasury stock	(2,064,916)	-	-	-	(11,001)	-	-	-	-	(11,001)	-	-	(11,001)
Disposal of treasury stock	8,230,982	-	10,980	-	20,897	-	-	-	-	31,877	-	-	31,877
Net change in the year	-	-	-	-	-	3,456	(7)	-	15,327	18,776	(282)	9,582	28,076
Balance, March 31, 2013	190,413,111	¥15,993	¥29,782	¥275,610	¥(43,030)	¥7,636	¥(21)	¥(157)	¥3,955	¥289,768	¥677	¥38,756	¥329,201

		Thousands of U.S. dollars (Note 1)											
Balance, April 1, 2012		$170,135	$200,024	$2,537,960	$(563,041)	$44,472	$(147)	$(1,674)	$(120,979)	$2,266,750	$10,195	$310,367	$2,587,312
Net income		-	-	458,741	-	-	-	-	-	458,741	-	-	458,741
Cash dividends, $0.35 per share		-	-	(64,683)	-	-	-	-	-	(64,683)	-	-	(64,683)
Purchase of treasury stock		-	-	-	(117,036)	-	-	-	-	(117,036)	-	-	(117,036)
Disposal of treasury stock		-	116,808	-	222,311	-	-	-	-	339,119	-	-	339,119
Net change in the year		-	-	-	-	36,760	(73)	-	163,058	199,745	(2,990)	101,931	298,686
Balance, March 31, 2013		$170,135	$316,832	$2,932,018	$(457,766)	$81,232	$(220)	$(1,674)	$42,079	$3,082,636	$7,205	$412,298	$3,502,139

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Cash Flows
Unicharm Corporation and Subsidiaries
Years Ended March 31, 2013 and 2012

		Millions of yen				Thousands of U.S. dollars (Note 1)
		2013		2012		2013
Operating Activities:						
Income before income taxes and minority interests	¥	64,283	¥	45,573	$	683,867
Adjustments for:						
Income taxes—paid		(11,871)		(7,322)		(126,290)
Income taxes—refunded		1,393		3,063		14,824
Depreciation		16,814		13,257		178,876
Amortization of goodwill		4,240		3,899		45,102
Foreign exchange gain		(6,117)		(16)		(65,079)
Net loss on disposal and sales of property, plant and equipment		566		1,327		6,026
Increase in trade receivables		(4,437)		(2,070)		(47,197)
Increase in inventories		(7,344)		(4,922)		(78,131)
Increase in trade payables		5,690		3,989		60,533
Increase in other current liabilities		3,152		6,520		33,531
Other—net		2,389		(3,727)		25,412
Total adjustments		4,475		13,998		47,607
Net cash provided by operating activities		68,758		59,571		731,474
Investing Activities:						
Proceeds from sale and redemption of marketable securities		10,199		10,084		108,498
Proceeds from sale of property, plant and equipment		170		866		1,809
Payment for purchase of marketable securities		(6,799)		(12,299)		(72,329)
Payment for acquisition of a property, plant and equipment		(47,875)		(26,137)		(509,312)
Purchase of time deposits		(20,543)		(6,300)		(218,545)
Proceeds from withdrawal deposits		12,361		4,312		131,496
Payment for purchase of investment securities		(11)		(1,041)		(119)
Payment for purchase of investments in affiliates		-		(28,345)		-
Increase in other assets		(806)		(2)		(8,567)
Net cash used in investing activities		(53,304)		(58,862)		(567,069)
Forward	¥	15,454	¥	709	$	164,405
Financing Activities:						
Decrease in short-term bank loans		(2,030)		(6,822)		(21,592)
Repayments of long-term debt		(12,875)		(13,831)		(136,963)
Cash dividends paid		(6,079)		(5,585)		(64,668)
Purchase of treasury stock		(11,001)		(9,001)		(117,036)
Cash dividends paid to minority shareholders		(1,078)		(1,148)		(11,470)
Paid-in capital from minority shareholders		520		-		5,531
Proceeds from execution of stock option		4,049		-		43,074
Others		(159)		(126)		(1,697)
Net cash used in financing activities		(28,653)		(36,513)		(304,821)
Foreign Currency Translation Adjustments on Cash and Cash Equivalents		5,485		(1,278)		58,350
Net Decrease in Cash and Cash Equivalents		(7,714)		(37,082)		(82,066)
Cash and Cash Equivalents, Beginning of Year		75,926		113,008		807,724
Cash and Cash Equivalents, End of Year	¥	68,212	¥	75,926	$	725,658

The accompanying notes are an integral part of these financial statements.

Notes to Consolidated Financial Statements

Unicharm Corporation and Subsidiaries
Years Ended March 31, 2013 and 2012

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications have been made to the consolidated financial statements issued domestically in order to present them in a form that is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2012 consolidated financial statements to conform to the classifications used in 2013.

The consolidated financial statements are expressed in Japanese yen, the currency of the country in which Unicharm Corporation (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥94 to $1, the approximate rate of exchange at March 29, 2013. Such translations should not be construed as representation that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation

The consolidated financial statements include the accounts of the Company and its 43 (40 in 2012) subsidiaries (together, the "Group"). A subsidiary is excluded from the scope of consolidation for the year ended March 31, 2013 as mentioned below.

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

The changes to the consolidation scope at March 31, 2013, compared with the scope applicable at March 31, 2012 are as follows:

Unicharm Nonwoven (Tianjin) Co., Ltd., Unicharm Packaging Material (Tianjin) Co., Ltd. and Unicharm Consumer Products (Jiangsu) Co., Ltd. were newly incorporated and included in the consolidation scope at March 31, 2013.

Hartz-B2E LLC is excluded from the scope of consolidation, because it is a small sized company and the effect on the accompanying consolidated financial statements would not be material in terms of total assets, net sales, or net income and retained earnings corresponding to the Company's share of the Company.

Investment in two affiliates is accounted for by the equity method.

The reporting period of other consolidated subsidiaries and equity method affiliates is the same as the Company's reporting period. However, twenty-two overseas subsidiaries and one domestic subsidiary close accounts on December 31 and one affiliate accounted for by the equity method close accounts on September 30. In the consolidated financial statements, therefore, the Company uses the financial statements of these subsidiaries as of December 31, and adjusts for material transactions that occurred during the three month period between December 31 and March 31. For UBS Corporation, which is an affiliate accounted for by the equity method, pro forma financial statements as of March 31 are used.

The difference between the cost of the Company's investments in subsidiaries and affiliates accounted for by the equity method and its equity in the net assets at the respective dates of acquisition, goodwill or negative goodwill, is amortized over the effective investment period, calculated on an individual basis, using the straight-line method up to a maximum of 20 years.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

All assets and liabilities of the consolidated subsidiaries are measured at fair value as of the acquisition date.

b. Cash Equivalents

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value.

Cash equivalents include time deposits, certificates of deposit, commercial papers and bond funds, all of which mature or become due within three months of the date of acquisition.

c. Inventories

Inventories held for sale in the ordinary course of business are measured at the lower of cost determined mainly by the average method, or net selling value, which is defined as the selling price less additionally estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate.

d. Allowance for Doubtful Accounts

The allowance for doubtful accounts is determined based on the historical experiences of the Company and its subsidiaries as well as our best estimate of the amount of probable credit losses in the outstanding receivables.

e. Marketable and Investment Securities

Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: (1) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity, are reported at amortized cost, and (2) available-for-sale securities, which are not classified as the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of net assets.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method.

For other than temporary declines in fair value, investment securities are adjusted to net realizable value through income.

f. Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its domestic subsidiaries is computed by the straight-line at rates based on the estimated useful lives of the assets.

The range of useful lives is principally from 2 to 60 years for buildings and structures and from 2 to 40 years for machinery and equipment.

Capitalized lease assets are depreciated over their respective contract periods using the straight-line method assuming no residual value.

g. Software

Software is carried at cost less accumulated amortization, which is calculated using the straight-line method. The useful lives are principally 5 years.

h. Long-lived Assets

The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

i. Retirement and Pension Plans

The Company and certain consolidated subsidiaries have contributory funded defined benefit pension plans and unfunded retirement benefit plans for employees. Certain overseas consolidated subsidiaries have defined contribution pension plans.

The Company and certain consolidated subsidiaries account for the provision for retirement benefits based on projected benefit obligations and plan assets at the balance sheet date.

j. Research and Development Costs

Research and development costs are charged to income as incurred.

k. Leases

All finance leases are capitalized and related lease assets and lease obligations are recognized in the balance sheets.

l. Income Taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

m. Foreign Currency Transactions

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated income statement to the extent that they are not hedged by forward exchange contracts.

n. Foreign Currency Financial Statements

The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the exchange rates in effect as of the balance sheet date except for equity, which is translated at the historical rate.

Differences arising from such translation were presented as "Foreign currency translation adjustments" in a separate component of net assets.

Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rates prevailing during the year.

o. Derivatives and Hedging Activities

The Group uses derivative financial instruments to manage its exposure to fluctuations in foreign exchange. Foreign exchange forward contracts and currency options are utilized by the Group to reduce foreign currency exchange risks. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: (a) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statements of income and (b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

The foreign currency forward contracts and currency options are utilized to hedge foreign currency exposures in procurement of raw materials from import purchases. Trade payables denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting. Forward contracts applied for forecasted transactions are measured at fair value, and the unrealized gains/losses are deferred until the underlying transactions are completed.

p. Per Share Information

Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

The weighted-average number of common shares used in the computation was 184,479,315 shares for 2013, and 186,144,881 shares for 2012.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock (including subsidiaries' common stock). Diluted net income per share of common stock assumes full conversion of the outstanding convertible notes and bonds at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding warrants.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

q. Provision for Bonuses

Provision for bonuses is stated at the estimated amount of the bonuses to be paid to employees based on their services provided for the fiscal year.

r. New Accounting Standard Not Yet Adopted

Accounting Standard for Retirement Benefits

On May 17, 2012, the ASBJ issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000, and the other related practical guidance, which was amended from time to time through 2009.

To meet the objectives of improving on the quality of existing financial reporting disclosures and maintaining consistency with international convergence trends, those revisions are focused on 1) the accounting treatment of actuarial gains and losses and prior service costs, 2) the calculation method for the projected retirement obligation and service costs; and 3) improvement of the related disclosure.

The Company will apply the revised accounting standard from the end of the fiscal year 2014, except for the revision of the calculation method for retirement benefit obligations and service costs which will be adopted from the beginning of the fiscal year 2015.

The Company is currently in the process of measuring the effects of applying the revised accounting standard.

3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities at March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Current:			
Government and corporate bonds	¥-	¥900	$-
Negotiable certificates of deposit	-	2,500	-
Non-current:			
Marketable equity securities	¥16,813	¥11,487	$178,859
Government and corporate bonds	2,452	2,428	26,083
Trust fund investments and other	230	228	2,446
Total	¥19,494	¥14,143	$207,380

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2013 and 2012 were as follows:

	Millions of yen			
March 31, 2013	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	¥4,383	¥11,294	¥54	¥15,623
Debt securities and other	12,212	191	-	12,403
Held-to-maturity	2,452	34	30	2,455
Total	¥19,046	¥11,519	¥84	¥30,481

	Millions of yen			
March 31, 2012	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	¥4,401	¥6,124	¥53	¥10,472
Debt securities and other	20,008	16	-	20,024
Held-to-maturity	3,327	-	183	3,144
Total	¥27,736	¥6,140	¥236	¥33,640

	Thousands of U.S. dollars			
March 31, 2013	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	$46,622	$120,153	$573	$166,202
Debt securities and other	129,918	2,023	-	131,941
Held-to-maturity	26,074	362	317	26,119
Total	$202,614	$122,538	$890	$324,262

Available-for-sale securities and held-to-maturity securities whose fair value is not readily determinable as of March 31, 2013 and 2012 were as follows:

	Carrying Amount		
	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Available-for-sale:			
Equity securities	¥401	¥385	$4,267
Held-to-maturity (Commercial paper)	-	400	-
Total	¥401	¥785	$4,267

Proceeds from sales of available-for-sale securities for the years ended March 31, 2013 and 2012 were ¥30 million ($316 thousand) and ¥38 million, respectively. Gross realized gains and losses on these sales, as determined by the moving-average cost, were ¥6 million ($64 thousand) and ¥8 million ($90 thousand) respectively for the year ended March 31, 2013. Gross realized gains and losses on these sales, as determined the moving average cost, were ¥9 million and ¥0 million, respectively, for the year ended March 31, 2012.

The carrying amounts of debt securities by contractual maturities for securities classified as available-for-sale and held-to-maturity at March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars	
March 31, 2013	Available-for-sale	Held-to maturity	Available-for-sale	Held-to maturity
Due in one year or less	¥-	¥-	$-	$-
Due after one year through five years	-	452	-	4,807
Due after five years through ten years	-	1,000	-	10,638
Due after ten years	-	1,000	-	10,638
Total	¥-	¥2,452	$-	$26,083

	Millions of yen	
March 31, 2012	Available-for-sale	Held-to maturity
Due in one year or less	¥-	¥900
Due after one year through five years	-	-
Due after five years through ten years	-	1,427
Due after ten years	-	1,000
Total	¥-	¥3,327

4. INVENTORIES

Inventories at March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Merchandise and finished products	¥26,255	¥18,068	$279,306
Work in process	862	682	9,167
Raw materials and supplies	17,669	14,911	187,969
Total	¥44,786	¥33,661	$476,442

5. LAND REVALUATION

Under the "Act on Revaluation of Land," promulgated on March 31, 1998 and revised on March 31, 1999 and 2001, the Company elected a one-time revaluation of its own-use land to real estate appraisal value as of March 31, 2001.

The resulting "land revaluation difference" represents unrealized appreciation of land and is stated, net of income taxes, as a component of net assets. There is no effect on the consolidated statements of income.

As of March 31, 2013 and 2012, the carrying amount of the land, net of the above one-time revaluation exceeded the market value by ¥283 million ($3,010 thousand) and ¥267 million, respectively.

6. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans at March 31, 2013 and 2012 consisted of notes to banks and bank overdrafts. Short-term loans were made under general security agreements with banks. Loans from banks and municipal corporations are due serially to 2015 with interest rates ranging from 0.26% to 2.0% in 2013 and 0.4% to 13.5% in 2012, respectively.

Long-term debt at March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Loans from banks and municipal corporations, due serially to 2015	¥25,209	¥38,047	¥38,047
Obligations under finance leases	560	310	5,953
Total	25,769	38,357	274,137
Less current portion	(2,351)	(2,945)	(25,010)
Long-term debt, less current portion	¥23,418	¥35,412	$249,127

Annual maturities of long-term debt, excluding finance leases (see Note 15), at March 31, 2013 were as follows:

Years Ending March 31	Millions of yen	Thousands of U.S. dollars
2014	¥2,209	$23,503
2015	2,000	21,277
2016	21,000	223,404
Total	¥25,209	$268,184

7. CONVERTIBLE BONDS

The Company has issued the bonds as follows:

	Issuance date	Interest rate	Security	Maturity date	Millions of yen 2013	Millions of yen 2012	Thousands of U.S. dollars 2013
Convertible bonds due in 2013	September 24, 2010	-	Unsecured	September 10, 2013	¥16,233	¥34,585	$172,692
Convertible bonds due in 2015	September 24, 2010	-	Unsecured	September 10, 2015	37,100	46,000	394,681
Total		-	-	-	¥53,333	¥80,585	$567,373

(Note 1) The details of convertible bonds issued are as follows:

Bonds and notes	Convertible bonds due in 2013	Convertible bonds due in 2015
Type of stock	Common stock	Common stock
Issue price of acquisition rights	No cost	No cost
Issue price of stock	¥3,883.3	¥3,883.3
Number of stocks subject to acquisition rights	8,884,196	11,845,595
Total amount of issue	¥34,672,500,000	¥46,000,000,000
Total amount of stock acquisition rights exercised	-	-
Percentage of stock acquisition right granted	100.0	100.0
Exercisable period	October 8, 2010 – September 10, 2013 (at local time where the request for exercise will be received)	October 8, 2010 – September 10, 2015 (at local time where the request for exercise will be received)

* Exercise of a stock acquisition right causes the corresponding bond to be cancelled in lieu of a cash payment of purchase of shares, and the amount of the convertible bonds with stock acquisition rights is the same as the amount of issuance.

During the fiscal year ended March 31, 2013, stock acquisition rights were executed and the related convertible bonds were converted to common stock without any cash settlement. As a result, the convertible bond balance decreased by ¥27,196 million ($289,323 thousand), consisting of ¥17,928 million ($190,731 thousand) of disposal of treasury stock and ¥9,267 million ($98,592 thousand) of gain on disposal of treasury stock, which was recorded as capital surplus.

(Note 2)
Repayment schedule of convertible bond:

	Millions of yen				
March 31, 2013	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years
	¥16,233	-	¥37,100	-	-

	Thousands of U.S. dollars				
March 31, 2013	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years
	$172,692	-	$394,681	-	-

8. RETIREMENT AND PENSION PLANS

The Company and domestic subsidiaries have severance payment plans for employees, directors and corporate auditors.

Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Company or from certain subsidiaries and annuity payments from a trustee. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, by death, or by voluntary retirement at certain specific ages prior to the mandatory retirement age.

The provision for employees' retirement benefits at March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Projected benefit obligation	¥38,803	¥35,340	$412,797
Fair value of plan assets	(31,983)	(27,288)	(340,242)
Unrecognized prior service cost	(131)	(155)	(1,390)
Unrecognized actuarial loss	(9,379)	(10,890)	(99,783)
Prepaid pension cost	5,616	5,747	59,742
Provision for retirement benefits	¥2,926	¥2,754	$31,124

The components of net periodic benefit cost for the years ended March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Service cost	¥1,800	¥1,633	$19,147
Interest cost	588	614	6,254
Expected return on plan assets	(779)	(600)	(8,286)
Amortization of prior service cost	50	21	534
Recognized actuarial loss	1,459	1,109	15,524
Net periodic benefit cost	¥3,118	¥2,777	$33,173

Assumptions used for the years ended March 31, 2013 and 2012 were set forth as follows:

	2013	2012
Discount rate	1.4%	1.4%
Expected rate of return on plan assets	3.0%	3.0%
Amortization period of prior service cost	5 years	5 years
Amortization period of actuarial gain/loss	10 years	10 years
Amortization method of projected benefit obligation	The straight-line method	The straight-line method

9. NOTES RECEIVABLE AND PAYABLE

March 31, 2013 and 2012 fall on bank holidays. The following notes receivable and payable matured on that date were accounted for as if they were settled on that date:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Notes receivable	¥156	¥214	$1,664
Notes payable	380	423	4,046

10. STOCK OPTIONS

The Company recognized and allocated share-based compensation costs for the years ended March 31, 2013 and 2012 as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Cost of sales	¥105	¥217	$1,114
Selling, general and administrative expenses	235	424	2,500
Total	¥340	¥641	$3,614

The stock options at March 31, 2013 were as follows:

Unicharm Corporation

Meeting date	Persons granted	Number of options granted	Date of grant	Conditions for vesting	Service period	Exercisable period
September 16, 2010 (2010 Stock Option)	9 company's directors 1 subsidiaries' director 1,651 company's employees 1,397 subsidiaries' employees	Common stock 2,594,700 shares (*1)	November 1, 2010	(*2) (*3)	From November 1, 2010 to September 30, 2012	From October 1, 2012 to September 30, 2016

(*1)The number of stock options is converted into the number of shares.

(*2) The market price of the Company's common stock at the time of stock option exercise must be at least ¥4,800 (In the event that it becomes necessary to adjust this value, the adjustment shall be conducted in a uniform and predetermined manner).

(*3) A Stock option rights holder must, at the time of the stock option exercise, hold a position within Unicharm or its affiliates as a director or employee. However, Unicharm's Board of Directors may approve the exercise of stock options by directors who have resigned due to the expiration of one's term or employees who have retired due to reaching the mandatory retirement age.

The activities of the stock option during the year ended March 31, 2013 were as follows:

	Unicharm Corporation 2010 Stock Option
	(Shares)
Non-vested:	
April 1, 2012—Outstanding	2,561,100
Granted	-
Forfeited	9,000
Vested	2,552,100
March 31, 2013—Outstanding	-
Vested:	
April 1, 2012—Outstanding	-
Vested	2,552,100
Exercised	1,231,800
Forfeited	-
March 31, 2013—Outstanding	1,320,300
Exercise price	¥3,287 ($35)
Average stock price at exercise	¥5,179 ($55)
Fair value price at grant date	¥513 ($5)

11. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Sales promotion	¥70,137	¥57,409	$746,143
Advertising	15,796	13,705	168,047
Shipping and storage expenses	24,337	21,468	258,900
Employees' salaries	16,536	13,807	175,912
Depreciation and amortization	2,050	1,464	21,814
Other	38,684	34,701	411,521
Total	¥167,540	¥142,554	$1,782,337

12. GAIN ON SALE OR LOSS ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT

Gain on sale of property, plant and equipment for the years ended March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Gain on sale of property, plant and equipment			
Buildings and structures	¥21	¥—	$220
Machinery and equipments	13	8	144
Others	8	0	84
Total	¥42	¥8	$448

Loss on disposal and sale of property, plant and equipment for the years ended March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Loss on disposal of property, plant and equipment			
Buildings and structures	¥24	¥64	$250
Machinery and equipments	530	753	5,644
Removal costs	2	43	17
Others	46	59	488
Loss on sale of property, plant and equipment			
Buildings and structures	3	30	34
Machinery and equipments	11	3	113
Others	1	383	15
Total	¥617	¥1,335	$6,561

13. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes, which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 38.0% and 40.7% for the years ended March 31, 2013 and 2012, respectively. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

The tax effects of significant temporary differences, which resulted in deferred tax assets and liabilities at March 31, 2013 and 2012, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Deferred tax assets:			
Accrued bonuses	¥1,296	¥1,288	$13,788
Valuation loss on inventory	339	345	3,612
Accrued sales promotion expense	2,499	1,947	26,588
Undeductible account payable	828	814	8,806
Devaluation of securities	373	388	3,965
Pension and severance costs	2,227	2,139	23,692
Tax-deductible goodwill	20,617	28,998	219,333
Tax loss carryforwards	31,369	35,166	333,711
Other	2,309	2,356	24,561
Less valuation allowance	(1,267)	(8,612)	(13,482)
Total	60,590	64,829	644,574
Deferred tax liabilities:			
Net unrealized gain on available-for-sale securities	3,795	1,906	40,371
Undistributed earnings of subsidiaries	1,005	680	10,691
Prepaid pension cost	2,038	2,085	21,679
Valuation difference due to application of purchase method	1,483	1,310	15,780
Depreciation of overseas subsidiaries	1,753	1,446	18,655
Other	1,658	926	17,634
Total	11,732	8,353	124,810
Deferred tax assets—current	¥13,918	¥12,751	$148,063
Deferred tax assets— non-current	¥36,617	¥45,147	$389,542
Deferred tax liabilities—current	¥(101)	¥(57)	$(1,073)
Deferred tax liabilities—non-current	¥(1,576)	¥(1,365)	$(16,768)

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2013 and 2012 was as follows:

	2013	2012
Normal effective statutory tax rate	38.0%	40.7%
Amortization of goodwill	2.0	2.7
Lower income tax rates applicable to income in certain foreign countries	(7.7)	(10.3)
Dividends	0.6	0.1
Valuation allowance	(10.8)	(14.8)
Income tax – refunded	(0.3)	(0.7)
Effects of the merger	−	−
Sale of investment in an affiliate	−	−
Corporate income tax credit	(0.6)	0.5
Effects of corporate income tax rate changes	3.0	12.7
Other	(0.2)	1.7
Actual effective tax rate	23.9%	32.6%

On December 2, 2011, the “Act for Partial Revision to the Income Tax Act, etc. for the Purpose of Creating a Taxation System Responding to Changes in Economic and Social Structures” (Act No. 114 of 2011) and the “Act on Special Measures for Securing Financial Resources Necessary to Implement Measures for Reconstruction following the Great East Japan Earthquake” (Act No. 117 of 2011) were promulgated. Consequently, the corporate tax rate will be reduced and a special recovery tax will be imposed. In accordance with this tax reform, the effective statutory tax rate, which is used to measure deferred tax assets and deferred tax liabilities, has been reduced from 40.7% to 38.01% for temporary differences that are expected to be eliminated during the period from April 1, 2012 through March 31, 2015 and 35.64% for temporary differences that are expected to be eliminated on or after April 1, 2015.

14. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥5,098 million ($54,235 thousand) and ¥4,734 million for the years ended March 31, 2013 and 2012, respectively.

15. LEASES

Obligations under non-cancellable leases accounted for as operating leases subsequent to March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Due within one year	¥874	¥524	$9,294
Due after one year	2,944	1,981	31,323
Total	¥3,818	¥2,505	$ 40,617

16. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Net unrealized gains on available-for-sale securities:			
Gain arising during the year	¥5,369	¥1,477	$57,114
Reclassification adjustment to net income	0	(13)	2
Amount before income tax effect	5,369	1,464	57,116
Income tax effect	(1,913)	(561)	(20,356)
Net unrealized gains on available-for-sale securities	3,455	903	36,760
Net deferred gains (losses) on derivatives under hedge accounting:			
Gain (loss) arising during the year	103	(21)	1,091
Reclassification adjustment to net income	(2)	6	(15)
Amount before income tax effect	101	(15)	1,076
Income tax effect	(90)	7	(950)
Net deferred gains (losses) on derivatives under hedge accounting	12	(8)	126
Foreign currency translation adjustments:			
Gain (loss) arising during the year	19,603	(2,056)	208,542
Amount before income tax effect	19,603	(2,056)	208,542
Foreign currency translation adjustments	19,603	(2,056)	208,542
Total other comprehensive income (loss)	¥23,070	¥(1,161)	$245,428

17. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

1. Disclosure on Financial Instruments

(1) Policy for financial instruments

With respect to fund management, cash surpluses, if any, are invested in low risk financial assets. The Company determines which way to fund through reviewing financial conditions and market circumstances and, based on these, puts them into practice. Derivatives are used, not for speculative purposes, but to avoid the market risk of fluctuation in foreign exchange rates associated with forecast transactions in foreign currencies and receivables and payables denominated in foreign currencies.

(2) Nature and risk of financial instruments and risk management system

Receivables such as trade notes and trade accounts are exposed to customer credit risk. With regard to such risk the sales administration department monitors major customers periodically and controls the collection dues and outstanding balances per customer in order to identify doubtful receivables resulting from deterioration of customers' financial positions at an early stage.

Furthermore trade receivables denominated in foreign currency due from overseas subsidiaries are exposed to currency risk. The Company hedges the position, net of payables, using foreign exchange forward contracts, if necessary.

Investment securities held by the Company and certain consolidated subsidiaries, which consist of equity securities held for the purpose of business or capital alliances and debt securities classified as available-for-sale securities, are exposed to the market risk due to fluctuation in market prices.

With regard to the equity securities held for the purpose of business alliance, fair values are periodically reported at the board meetings. The Company limits the debt securities included in marketable and investment securities to the highly rated bonds in accordance with the Company's fund management policy; therefore, the credit risk associated with those securities is limited.

Payables—notes payable, accounts payable trade and accrued income taxes—mostly have payment due dates within one year. A portion of the trade payables denominated in foreign currencies that is stemmed from importing of raw materials is exposed to foreign currency exchange risk, while it is hedged through using forward foreign currency contracts when necessary. Long-term debt and Convertible bonds are taken out principally for the purpose of investment and facilitation of funds. Debt with variable interest rates is exposed to interest rate fluctuation risk. The Group manages its liquidity risk by holding adequate volumes of liquid assets along with adequate financial planning made by Accounting Control & Finance Division based on reports from relevant departments.

Derivative contracts employed by the Company and certain consolidated subsidiaries are foreign exchange forward contracts for the purpose of hedging the market risk due to fluctuation in foreign exchange rates associated with the trade receivables and payables denominated in foreign currencies. The derivative transactions are executed and controlled in accordance with the internal rule and used for hedging actual transactions. For hedging instruments, hedged items, hedge method and hedge effectiveness of hedge accounting, please see Note 18 “DERIVATIVES.”

(3) Supplementary explanation about fair value of financial instruments

Where no market price information is available, management uses certain assumptions to determine the fair value of those financial instruments. Accordingly, the value of these instruments would vary if different assumptions were used. Note that contract amounts of derivatives presented in Note 18 “DERIVATIVES” do not represent volume of underlying market risk of the derivative transactions.

2. Fair Value of Financial Instruments

Carrying amounts and fair values of financial instruments and their net differences as of March 31, 2013 and 2012 were as follows:

Note that the following table does not include fair values for financial instruments for which the fair value is difficult to determine.

	Millions of yen		
March 31, 2013	Carrying amount	Fair value	Difference
Cash and cash equivalents	¥68,212	¥68,212	¥−
Notes and accounts receivable	60,349		
Allowance for doubtful accounts (*1)	(85)		
	60,264	60,264	−
Deposit	17,322	17,322	−
Marketable and investment securities	19,264	19,268	4
Total assets	¥165,062	¥165,066	¥4
Short-term bank loans	¥4,020	¥4,020	¥−
Current portion of long-term debt	2,209	2,209	−
Notes and accounts payable:			
Trade	53,186	53,186	−
Others	37,207	37,207	−
Income taxes payable	3,235	3,235	−
Convertible bonds	53,333	76,391	23,058
Long-term debt	23,000	23,000	−
Total liabilities	¥176,190	¥199,248	¥23,058
Derivative transactions			
Hedge accounting is not applied	¥3	¥3	¥−
Hedge accounting is applied	80	80	−
Total derivative transactions	¥83	¥83	¥−

	Millions of yen		
March 31, 2012	Carrying amount	Fair value	Difference
Cash and cash equivalents	¥75,926	¥75,926	¥−
Notes and accounts receivable	50,405		
Allowance for doubtful accounts (*1)	(87)		
	50,318	50,318	−
Deposit	7,539	7,539	−
Marketable and investment securities	17,315	17,132	(183)
Total assets	¥151,098	¥150,915	¥(183)
Short-term bank loans	¥5,439	¥5,439	¥−
Current portion of long-term debt	2,828	2,828	−
Notes and accounts payable:			
Trade	45,779	45,779	−
Others	29,742	29,742	−
Income taxes payable	4,348	4,348	−
Convertible bonds	80,585	95,666	(15,081)
Long-term debt	35,220	35,220	−
Total liabilities	¥203,941	¥219,022	¥(15,081)
Derivative transactions (*2)			
Hedge accounting is not applied	¥(2)	¥(2)	¥−
Hedge accounting is applied	(19)	(19)	−
Total derivative transactions	¥(21)	¥(21)	¥−

	Thousands of U.S. dollars		
March 31, 2013	Carrying amount	Fair value	Difference
Cash and cash equivalents	$725,658	$725,658	$−

Notes and accounts receivable	642,014		
Allowance for doubtful accounts (*1)	(908)		
	641,106	641,106	—
Deposit	184,279	184,279	—
Marketable and investment securities	204,933	204,978	45
Total assets	$1,755,976	$1,756,021	$45
Short-term bank loans	$42,762	$42,762	$—
Current portion of long-term debt	23,503	23,503	—
Notes and accounts payable:			
Trade	565,808	565,808	—
Others	395,821	395,821	—
Income taxes payable	34,412	34,412	—
Convertible bonds	567,373	812,674	(245,301)
Long-term debt	244,681	244,681	—
Total liabilities	$1,874,360	$2,119,661	$(245,301)
Derivative transactions			
Hedge accounting is not applied	$37	$37	$—
Hedge accounting is applied	851	851	—
Total derivative transactions	$888	$888	$—

(*1) Allowance for doubtful accounts corresponding to notes and accounts receivable is deducted.
(*2) Receivables and payables arising from derivative transactions are shown in net amount.

(Note 1) Calculation method of the fair value of financial instruments and securities and derivative transactions

Asset:

"Cash and cash equivalents" and "Notes and accounts receivable"

The carrying amount is presented as the fair value since these balances are routinely settled in the short term, and as such the fair value is considered to approximate the carrying value.

"Marketable and investment securities"

The fair values of equity securities are estimated based on quoted market prices for these instruments, and the fair values of debt securities are determined based on the prices obtained from the financial institutions with which they are transacted.

For further information, please see Note 3 "MARKETABLE AND INVESTMENT SECURITIES."

Liabilities:

"Short-term bank loans," "Notes and accounts payable" and "Income taxes payable"

The carrying amount is presented as the fair value since these balances are routinely settled in the short term, and as such the fair value is considered to approximate the carrying value.

"Convertible bonds"

The fair value of bonds issued by the Company is measured at the quoted market price.

"Long-term debt"

The fair value of long-term debt is based on the present value of the total of principal and interest discounted by the interest rate to be applied if similar new loans were entered into. However, the fair value of long-term debt with variable rates is based on the book value, since the variable rates are renewed periodically, so the carrying amounts approximate the fair value.

Derivative transactions:

Please see Note 18 “DERIVATIVES.”

(Note 2) Carrying amounts of financial instruments for which fair value cannot be reliably measured were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Unlisted equity securities	¥401	¥385	$4,267

These items are not included in above “Marketable and investment securities” since no market price is available and it is extremely difficult to identify the fair value.

(Note 3) Repayment schedule of monetary receivables and securities with contractual maturities is as follows:

	Millions of yen			
March 31, 2013	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and cash equivalents	¥68,212	¥―	¥―	¥―
Notes and accounts receivable	60,349	―	―	―
Marketable and investment securities:				
Held-to-maturity debt securities:				
Debt securities	―	452	1,000	1,000
Total	¥128,561	¥452	¥1,000	¥1,000

	Millions of yen			
March 31, 2012	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and cash equivalents	¥75,926	¥―	¥―	¥―
Notes and accounts receivable	50,405	―	―	―
Marketable and investment securities:				
Held-to-maturity debt securities:				
Commercial paper	400	―	―	―
Debt securities	500	―	1,427	1,000
Total	¥127,231	¥―	¥1,427	¥1,000

	Thousands of U.S. dollars			
March 31, 2013	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and cash equivalents	$725,658	$―	$―	$―
Notes and accounts receivable	642,014	―	―	―
Marketable and investment securities:				
Held-to-maturity debt securities:				
Debt securities	―	4,807	10,638	10,638
Total	$1,367,672	$4,807	$10,638	$10,638

18. DERIVATIVES

The Group enters into foreign exchange forward contracts and currency options to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies.

Most derivative transactions are entered into to hedge foreign currency exposures incorporated with its business. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of hedged assets or liabilities. The Group does not hold or issue derivatives for trading purposes.

It is also the Group's policy to use derivatives only for the purpose of mitigating market risks associated with investment securities.

Because the counterparties to these derivatives are limited to major international financial institutions, the Group does not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Group have been made in accordance with internal policies which regulate the authorization and credit limit amounts.

Contract amounts, fair values, and gains and losses on derivative transactions were as follows:

a. Derivatives to which hedge accounting is not applied:

	Millions of yen			Thousands of U.S. dollars		
	2013			2013		
	Contract amount	Fair value	Unrealized gain/loss	Contract amount	Fair Value	Unrealized gain
Foreign exchange forward contracts—						
(Exchange-traded) Selling USD	¥200	¥(3)	¥(3)	$2,126	$(30)	$(30)
(Exchange-traded) Buying USD	906	6	6	9,641	63	63
(Exchange-traded) Buying DKK	66	0	0	701	4	4
Total	¥1,172	¥3	¥3	$12,468	$37	$37

	Millions of yen		
	2012		
	Contract amount	Fair value	Unrealized gain/loss
Foreign exchange forward contracts—			
(Exchange-traded) Selling USD	¥150	¥0	¥0
(Exchange-traded) Buying USD	615	(2)	(2)
Total	¥765	¥(2)	¥(2)

The fair value is determined based on the prices presented from the financial institutions with which derivatives are transacted.

b. Derivatives to which hedge accounting is applied:

At March 31, 2013

Hedge accounting method	Type of derivatives	Millions of yen			
		Major hedged item	Contract amount	Contract amount due after one year	Fair value
Deferred hedging accounting method	Foreign exchange forward contracts: Selling CAD	Accounts payable	¥585	¥—	¥20
Deferred hedging accounting method	Currency option contracts: Buying USD	Accounts payable	763	—	67
Deferred hedging accounting method	Currency option contracts: Buying EUR	Accounts payable	1,105	—	134
Deferred hedging accounting method	Foreign exchange forward contracts: Buying Yen	Accounts payable	1,078	—	(141)
Total			¥3,531	¥—	¥80

At March 31, 2012

Hedge accounting method	Type of derivatives	Millions of yen			
		Major hedged item	Contract amount	Contract amount due after one year	Fair value
Deferred hedging accounting method	Foreign exchange forward contracts: Selling CAD	Accounts payable	¥338	¥—	¥4
Deferred hedging accounting method	Foreign exchange forward contracts: Buying Yen	Accounts payable	90	—	(1)
Deferred hedging accounting method	Currency option contracts: Buying USD	Accounts payable	263	—	4
Deferred hedging accounting method	Currency option contracts: Buying EUR	Accounts payable	990	—	(26)
Total			¥1,681	¥—	¥(19)

At March 31, 2013

Hedge accounting method	Type of derivatives	Thousands of U.S. dollars			
		Major hedged item	Contract amount	Contract amount due after one year	Fair value
Deferred hedging accounting method	Foreign exchange forward contracts: Selling CAD	Accounts payable	$6,224	$—	$218
Deferred hedging accounting method	Currency option contracts: Buying USD	Accounts payable	8,115	—	709
Deferred hedging accounting method	Currency option contracts: Buying EUR	Accounts payable	11,758	—	1,421
Deferred hedging accounting method	Foreign exchange forward contracts: Buying Yen	Accounts payable	11,466	—	(1,497)
Total			$37,563	$—	$851

The fair value is determined based on the prices presented from the financial institutions with which derivatives are transacted.

19. PER SHARE INFORMATION

a. Basis for the computation of net asset per share at March 31, 2013 and 2012 was as follows:

	Millions of yen	Thousands of shares	Yen	U.S. dollars
At March 31, 2013	Net asset	Number of shares of common stock	Asset per share	
Net asset	¥329,201	206,945		
Stock acquisition rights	677	-		
Minority interests	38,756	-		
Number of treasury stock	-	16,532		
Net asset attributable to common stock	289,768	190,413	¥1,522	$16.19

	Millions of yen	Thousands of shares	Yen
At March 31, 2012	Net asset	Number of shares of common stock	Asset per share
Net asset	¥243,207	206,945	
Stock acquisition rights	959	-	
Minority interests	29,174	-	
Number of treasury stock	-	22,698	
Net asset attributable to common stock	213,074	184,247	¥1,156

b. A reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2013 and 2012 was as follows:

	Millions of yen	Thousands of shares	Yen	U.S. dollars
Year Ended March 31, 2013	Net income	Weighted-average shares	EPS	
Basic EPS—Net income available to common shareholders	¥43,122	184,479	¥233.75	$2.49
Effect of dilutive securities—Adjustment of warrants of company	(35)	21,128		
Diluted EPS—Net income for computation	¥43,087	205,607	¥209.56	$2.23

	Millions of yen	Thousands of shares	Yen
Year Ended March 31, 2012	Net income	Weighted-average shares	EPS
Basic EPS—Net income available to common shareholders	¥26,982	186,145	¥144.95
Effect of dilutive securities—Adjustment of warrants of company	(58)	20,884	
Diluted EPS—Net income for computation	¥26,924	207,029	¥130.05

20. SUBSEQUENT EVENTS

(1)Appropriations of Retained Earnings

The following appropriations of retained earnings at March 31, 2013 were approved at the Board of Directors of the Company meeting held on May 31, 2013:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥17 ($0.18) per share	¥3,237	$34,436

(2)Execution of stock acquisition rights
a.Convertible bonds due in 2013
On April 8, 2013, the Company executed 120% call options stipulated in the issue conditions of the convertible bonds with stock acquisition rights (the "Convertible Bonds") due in 2013 which were issued on September 24, 2010 and decided to make an advance-redemption of all the remaining Convertible Bonds by May 10, 2013.

The Convertible Bonds remaining at March 31, 2013 in the carrying amount of ¥16,233 million ($172,692 thousand) were fully converted into shares by May 7, 2013, which was the final due date for conversion and consequently 4,176,874 treasury stock shares were disposed of.

b.Convertible bonds due in 2015
On September 24, 2013, the Company executed 120% call options stipulated in the issue conditions of the convertible bonds with stock acquisition rights (the "Convertible Bonds") due in 2015 which were issued on September 24, 2010 and decided to make an advance-redemption of all the remaining Convertible Bonds by October 25, 2013.

21. RELATED PARTY TRANSACTIONS

(1) Transactions of the Company with related parties for the years ended March 31, 2013 and 2012 were as follows:

a. Takahara Kosan K.K.
Takahara Kosan K.K. is directly owned 20.0% share by Mr. Takahisa Takahara, President and Chief Executive Officer of the Company, 1.0% by Mr. Keiichiro Takahara, Founder &Director of the Board of the Company, 44.5% directly owned by their close relatives, and another 34.5% indirectly owned by their close relatives.

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Insurance premium	¥46	¥40	$485
Prepaid expenses	1	0	12

b. Unitec Corporation
Unitec Corporation is directly owned 0.7% share by Mr. Takahisa Takahara, 1.5% by Mr. Keiichiro Takahara's close relatives, and another 97.8% indirectly owned by Mr. Keiichiro Takahara's close relatives.

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Rental expenses	¥11	¥11	$120

(2) Transactions of the consolidated subsidiaries of the Company with related parties for the year ended March 31, 2013 and 2012 were as follows:

Takahara Kosan K.K.

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Rental expenses	¥119	¥119	$1,266

22. SEGMENT INFORMATION

1. Overview of reportable segments

The Group's reportable segments are components for which separate financial information is available, and whose operating results are reviewed regularly by the Board of Directors in order to determine allocation of management resources and assess segment performance.

The Group's reportable segments consist of Personal care business, Pet care business, and Other business. Each business segment operates its own business with the comprehensive strategies including Japan and overseas business by segments.

Therefore, the Personal care business, the Pet care business and Other business constitute the Company's reportable segments.

The Personal care business manufactures and sells baby care products, feminine care products, health care products and clean-and-fresh products. The Pet care business manufactures and sells pet food products and pet toiletry products. The Other businesses manufacture and sell industrial materials.

2. Methods of measurement for the amounts of sales, profit (loss), assets, and other items for each reportable segment

The accounting policies for the reportable segments are basically the same as policies described in "Summary of Significant Accounting Policies." Intersegment sales and transfer prices are mainly based on current market price.

3. Information about sales, profit (loss), assets, liabilities and other items is as follows.

	Millions of yen					
	2013					
	Reportable segment					
	Personal care	Pet care	Others	Total	Eliminations or Corporate	Consolidated
Sales to customers	¥417,187	¥73,183	¥5,401	¥495,771	¥-	¥495,771
Intersegment sales	-	-	24	24	(24)	-
Total sales	¥417,187	¥73,183	¥5,425	¥495,795	¥ (24)	¥495,771
Segment profit (Operating profit)	¥55,478	¥3,618	¥361	¥59,457	¥31	¥59,488
Segment assets	¥417,923	¥83,708	¥23,819	¥525,450	¥9,605	¥535,055
Other:						
Depreciation	¥14,453	¥2,183	¥178	¥16,814	¥-	¥16,814
Amortization of goodwill	1,370	2,870	-	4,240	-	4,240
Increase in tangible fixed assets and intangible fixed assets	50,920	1,325	95	52,340	-	52,340

	Millions of yen					
	2012					
	Reportable segment					
	Personal care	Pet care	Others	Total	Eliminations or Corporate	Consolidated
Sales to customers	¥362,885	¥59,558	¥5,948	¥428,391	¥-	¥428,391
Intersegment sales	-	-	21	21	(21)	-
Total sales	¥362,885	¥59,558	¥5,969	¥428,412	¥ (21)	¥428,391
Segment profit (Operating profit)	¥48,215	¥3,173	¥487	¥51,875	¥26	¥51,901
Segment assets	¥332,205	¥96,878	¥25,147	¥454,230	¥18,268	¥472,498
Other:						
Depreciation	¥11,920	¥1,213	¥124	¥13,257	¥-	¥13,257
Amortization of goodwill	833	3,066	-	3,899	-	3,899
Increase in tangible fixed assets and intangible fixed assets	42,588	26,785	126	69,499	-	69,499

	Thousands of U.S. Dollars					
	2013					
	Reportable segment					
	Personal care	Pet care	Others	Total	Eliminations or Corporate	Consolidated
Sales to customers	$4,438,165	$778,539	$57,459	$5,274,163	$-	$5,274,163
Intersegment sales	-	-	253	253	(253)	-
Total sales	$4,438,165	$778,539	$57,712	$5,274,416	$ (253)	$5,274,163
Segment profit (Operating profit)	$590,194	$38,493	$3,837	$632,524	$333	$632,857
Segment assets	$4,445,990	$890,512	$253,389	$5,589,891	$102,186	$5,692,077
Other:						
Depreciation	$153,759	$23,221	$1,896	$178,876	$-	$178,876
Amortization of goodwill	14,567	30,535	-	45,102	-	45,102
Increase in tangible fixed assets and intangible fixed assets	541,703	14,100	1,009	556,812	-	556,812

Note:
Corporate assets included in "Eliminations or Corporate" amount to ¥47,272 million ($502,890 thousand) and ¥55,591 million for the years ended March 31, 2013 and 2012, respectively. Such assets consist of cash and cash equivalents, marketable securities and investment securities held by the Company.

(Related Information)

1. Information on Products and Services

Information on products and services is omitted since the similar information is disclosed in above segment information.

2. Geographical Information

(1) Sales

Millions of yen			
2013			
Japan	China	Others	Total
¥236,993	¥72,287	¥186,491	¥495,771

Millions of yen			
2012			
Japan	China	Others	Total
¥229,083	¥56,346	¥142,962	¥428,391

Thousands of U.S. dollars			
2013			
Japan	China	Others	Total
$2,521,207	$769,011	$1,983,945	$5,274,163

Note: Sales are divided to each country on areas based on the customer's location.

(2) Tangible fixed assets

Millions of yen			
2013			
Japan	China	Others	Total
¥44,494	¥43,328	¥75,307	¥163,129

Millions of yen			
2012			
Japan	China	Others	Total
¥40,766	¥25,337	¥50,718	¥116,821

Thousands of U.S. dollars			
2013			
Japan	China	Others	Total
$473,343	$460,938	$801,137	$1,735,418

3. Information about Major Customers

Information about major customers is omitted, since there is no particular customer to whom sales exceeds 10% of the total sales recorded in the consolidated statements of income.

(Information about impairment loss on fixed assets by reportable segment)

There was no significant impairment loss to be reported for the years ended March 31, 2013 and 2012.

(Information about amortization and unamortized balance of goodwill by reportable segment)

	Millions of yen					
	2013					
	Reportable segment					
	Personal care	Pet care	Others	Total	Eliminations or Corporate	Consolidated
Amortization	¥1,370	¥2,870	¥-	¥4,240	¥-	¥4,240
Unamortized balance at end of the year	24,369	52,317	-	76,686	-	76,686

	Millions of yen					
	2012					
	Reportable segment					
	Personal care	Pet care	Others	Total	Eliminations or Corporate	Consolidated
Amortization	¥833	¥3,066	¥-	¥3,899	¥-	¥3,899
Unamortized balance at end of the year	24,274	54,631	-	78,905	-	78,905

	Thousands of U.S. dollars					
	2013					
	Reportable segment					
	Personal care	Pet care	Others	Total	Eliminations or Corporate	Consolidated
Amortization	$14,567	$30,535	$-	$45,102	$-	$45,102
Unamortized balance at end of the year	259,248	556,564	-	815,812	-	815,812

(Information about gain on negative goodwill by reportable segment)

There was no applicable matter for the years ended March 31, 2013 and 2012.

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Independent Auditor's Report

To the Board of Directors
of Unicharm Corporation

We have audited the accompanying consolidated financial statements of Unicharm Corporation ("the Company") and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2013, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in net assets and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the purpose of the financial statements audit is not to express an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers Aarata
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To the Board of Directors
of Unicharm Corporation
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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its consolidated subsidiaries as at March 31, 2013, and their financial performance and cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2013 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1. to the consolidated financial statements.

PricewaterhouseCoopers Aarata

September 30, 2013